Dear Trainers and Facilitators,
This guide provides you with additional information to support the use of the Fiscal Federalism in Myanmar curriculum. The following tools are available for you:

- **Fiscal Federalism in Myanmar Workbooks for participants with note sections**
  (available in English, Myanmar, Kachin, Karen and Shan languages)

- **Fiscal Federalism in Myanmar PowerPoint slide decks**
  (available in English, Myanmar, Kachin, Karen and Shan languages)

- **The Fiscal Federalism in Myanmar curriculum consists of the following modules:**
  
  1. **Fiscal federalism introduction**
  2. **Decentralization, revenue transfers, and social development**
  3. **Fiscal federalism and equalization**
  4. **Fiscal federalism and natural resources**
  5. **Fiscal federalism: public infrastructure, public services, and human capital**
  6. **Fiscal federalism and Myanmar’s peace negotiations**

You can download the above items per module or the six modules together in different languages. All material is downloadable from The Asia Foundation’s website: [www.asiafoundation.org/where-we-work/myanmar/](http://www.asiafoundation.org/where-we-work/myanmar/)

The notes below do not comprehensively cover all parts of the curriculum. Rather, they draw out key parts and specific sections requiring explanation. They also offer guidance in the facilitation of group sessions and tips to encourage group discussion.

If you have any questions or require support please do not hesitate to contact staff at The Asia Foundation:

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These particular modules focus on how to manage public finances in a federation. Debates around money are perpetual in a federal system. Therefore, understanding how ‘fiscal federalism’ works is key to understanding how to run a federal system of government.

These modules analyze current intergovernmental fiscal arrangements in Myanmar and the core economic building blocks of fiscal federalism, such as: revenue sharing, tax harmonization, transfers and grants, and equalization.
MODULE 1
FISCAL FEDERALISM
INTRODUCTION

HIGHLIGHT THE CHALLENGES AHEAD FOR PARTICIPANTS:

- This early module will introduce a lot of new terminology. It can be quite daunting and technical at first.
- Please use the terminology section of your toolkit and refer to it often. Terminology is at the start of the module and at the end of the curriculum.
- As you go through the modules, it will get easier.
- We will work together to debate and apply these concepts and relate them to the Myanmar context.
Ask participants to read the section on terms used. They will likely need an explanation for some of the below terms.

This includes deviation basis. After reading out the definition emphasize that it is revenue sharing with the place of origin where revenues were collected.

For an economic union highlight this is about different administrative levels of government working together for country-wide economic integration.

For a social union highlight this focuses on the harmonisation of social programs across different administrative levels of government (national, state, to local) to ensure the most comprehensive access to services for citizens.

It is worth distinguishing that a Grant can be directly from government and delivered to government. For instance, a grant from the Union to a State or Region government. A grant, or rather a transfer, is not just revenue received from donors or international organisations. These are all grants, but there are different types of grants. This module and others will focus on government to government grants.

Share extended explanations of tax harmonization and spending power.

Tax harmonization is a process of adjusting taxes among different authorities in the pursuit of a common policy.

Spending power is the authority granted by a legislature to an administration (government) to spend public funds in accordance with an approved budget.

After explaining a few key terms ask if there are any questions or points of clarification before proceeding with the module.
Provide examples of powers often held by national and/or subnational levels of government:

- Decision making powers often delegated to the national government include:
  - Defence services
  - Border security
  - Foreign affairs

- Decision-making powers often delegated to the State/Local governments:
  - Health care services
  - Education services
  - Local road construction

- Shared decision-making powers between:
  - Highway road construction across states
  - Disaster rehabilitation

In addition to slide bullet points, it can be highlighted that while Myanmar has emerging characteristics of a federal system, the level of power-sharing currently allowed for remains a contested issue among different parties in the peace process.

As opposed to a federal system, a unitary form of government is one in which a central government wields supreme power over all territorial divisions within the nation.

Most states have this form of government in which subnational governments are often viewed as administrative units tasked to carry out national policies.

Of the 193 nations comprising the United Nations, approximately 29 have a federal system of governance. More than 45 percent of the world’s population is governed through federal systems.

Read out the diagram, highlight that fiscal arrangements are the dotted line between a social and economic union. Fiscal federalism is the glue which brings them both together.
Emphasize that in most federations the **spending power** of each order of government has not been limited strictly to the enumerated legislative and administrative jurisdiction.

**Spending power** is the authority granted by a legislature to an administration (government) to spend public funds in accordance with an approved budget.

There are four pillars in fiscal federalism. This concept has been developed with economics Professor Paul Hobson to help frame what is fiscal federalism.

I. **Tax bases**: *Exclusive tax bases and shared tax bases*. Which levels of government have the right to tax which resources? Do different levels of government have the right to tax the same tax base (i.e. shared tax bases)?

II. **Revenue sharing arrangement**: *Tax revenues and natural resource revenues*. What arrangements are in place to share revenues between different levels of government?

III. **Harmonization**: *Taxes and expenditures*. To what extent do taxes and expenditures vary, across different states? And to what extent may they vary?

IV. **Transfers & Grants**: *Equalization and use of the “federal spending power”*. How is money transferred between different levels of government? To what extent does federal government equalize revenues of different states and promote equity?

**TALK THROUGH KEY FEATURES OF THE LEGISLATIVE, EXECUTIVE, AND JUDICIARY. EMPHASIZE THE FOLLOWING:**

- The 2008 Constitution created a new tier of government, and thus represents a step towards decentralization.
- State/Region governments, created by the 2008 Constitution, have three branches: legislative, executive and judiciary, as detailed in the bullets.
- While Myanmar has provision for two levels of government, it has no provision for a third tier or local government in the 2008 Constitution.
- Myanmar has a local administration but no local government.
- There is greyness in the 2008 Constitution on local administration, and aspects which could be held to define a local government. Local government will be discussed more in another section.
Encourage participants to look over the handouts provided (Schedule II and V).

Highlight the core parts of Schedule I, Union government list of powers, Schedule II State and Union list of powers and responsibilities, and Schedule V on State and Region list of taxes and fees.

Highlight that the four sectors in Schedule I are just examples. There are many more in the Constitution.

Ask participants to read through the 2015 Amendments to the 2008 Constitution which is a handout.

Go over key points in the slide.

Highlight that there are numerous tax bases for collection including many areas one might not expect: mining and minerals, oil and gas etc.

In terms of the ‘unclear language’ there is a consistent reference to “in accordance with the law enacted by the Union.” It is not clear what this phrase means in practice in the absence of Union laws to clarify responsibilities. However, this greyness can be seen as an opportunity given that the Constitution is still being interpreted.

Get the participants to break into small groups at their tables or in different parts of the room.

Share the discussion questions. Ask them to read over their handouts before discussing the question.

Other leading questions during the discussion may include:

Were you aware of the 2015 Amendments?

Are you surprised by any content in the 2015 Amendments? If so what?
The 2008 Constitution formally established the State and Region governments, including parliaments, assigning State and Region government legislative responsibilities and providing States and Region executives the right to collect and spend revenues.

Talk through the diagram highlighting the different levels of government and structure of the state.

As the visual shows, State/Region governments have their own budgets, which are partially funded by own-source revenues and partially by the Union government. The state/region budget includes expenditure on government departments.

A wide number of government departments operating sub-nationally also receive some of their funding directly from the union level.

Highlight the three lower level boxes when explaining the above.

The ‘own source’ revenues collected by States and Regions are negligible amounts in most cases. For instance, Kayin’s own source revenues are approximately 4 percent of total revenues.

The 2015 Constitutional amendment adds further opportunities for increasing own source revenues. However, these have not yet been fully utilized by States and Regions.

The transition from previous deficit grant to formula-based beginning 2015-2016 is a positive step. There are ongoing efforts to build capacity around use of the formula.

Understanding the general grant formula is an important part of understanding fiscal arrangements for subnational government in Myanmar.
Encourage the participants to read the handouts including Schedule V and the 2015 Amendments relevant to Schedule V.

Schedule V outlines the revenue sources of State/Region governments.

Schedule V includes a broad range of potential revenue sources for State/Region governments, which are not yet being utilised. To do so, may likely require Union laws to be passed that outline the different responsibilities between levels.

This includes mining and extractive activity, fisheries and forests, hotels and tourism, and land and water.

Go over key points. Highlight that:

- Income tax is a personal tax levied on annual income.
- Commercial tax is sales tax on various commercial transactions (i.e. meals and services).
- Derivation basis means tax revenues returned to the origin of collection.

Constituency Development Funds (CDF), are ubiquitous across Myanmar given that they are provided to all constituencies. The township and village tract committees play an important role in needs identification and project implementation for the CDF.

Other local development funds used by the government (current/former) include The Poverty Reduction Fund (PRF) and Rural Development Fund (RDF). The RDF is much smaller than the other two funds and primarily managed under the General Administration Department (GAD).
Highlight the states and regions on the left-hand side of the slide.

The breakdown of the revenues is per capita, meaning revenues broken down per person. This does not mean each person has access to these revenues, rather it is broken down on a per person basis in that geographical area.

Focus on the general grant and its significance compared to other revenue sources highlighted in the Key.

Go over the findings in the green box.

Highlight the MMK axis, States and Regions (S/R), and the national average. Point to S/R under and over the national average.

The graph shows Chin and Kayah get a significantly higher per capita amount compared with others S/Rs, particularly Yangon.

The grant transfers are counted based on formula. This formula accounts for differences in “need” and equalises for differences in capacities to collect taxes.

Highlight the MMK axis, States and Regions, and the national average. Highlight the level of disparity between Yangon and other S/R. Point to the fact that all other S/R are under the national average.

Shared tax bases are when federal and state (and local) governments have the ability to tax the same base, e.g. personal income, sales.
There is significant disparity in per capita own-source revenue across States and Regions. As expected Mandalay and Yangon Regions are the highest for own source revenues given that they are the business centers and have larger tax base wealth.

Ask participants to go to the slides with page numbers 22 to 24.

Consider the question: Is fiscal disparity a problem? Why?

To illustrate: in Myanmar, Yangon and Mandalay regions have larger tax base wealth. As a consequence, they are able to generate higher own source revenues, and receive greater shared tax revenues.
This module will cover aspects of fiscal federalism already present in Myanmar.

It will consider fiscal decentralisation and revenue transfers already taking place. It will look at social development, or rather levels of poverty and human development, considering the relationship between fiscal transfers and development levels.
LET THE PARTICIPANTS READ THROUGH FIRST. HIGHLIGHT THE FOLLOWING TERMS:

- **CAPITAL EXPENDITURE**
  
  Put shortly capital expenditure is infrastructure spending - roads, bridges, highways, bus lines etc. It may include repair and maintenance expenses for buildings and roads.

- **CAPITAL REVENUE**
  
  For example, capital revenues can be made up of duties (such as charging tourists to land at an airport or import duties to bring in goods to a country), and/or corporate and payroll taxes (for instance, if you have more than a specific number of employees at a business, the business may get charged a ‘payroll tax’ in some countries).

- **DECONCENTRATION**
  
  The transfer of responsibility from central ministries to lower level offices giving them more managerial decision authority, and thereby becoming closer to citizens while remaining part of central government. Instances of deconcentration in Myanmar include services such as health and education which in effect remain centralized in terms of policy and decision making albeit delivered through subnational government entities.

EMPHASIZE THE FISCAL DECENTRALIZATION DEFINITION PROVIDED AND HIGHLIGHT FURTHER DETAILS FOR THE FOLLOWING TERMS:

- **EQUALIZATION PAYMENTS**
  
  Payments made from the federal government to subnational governments with the objective of balancing differences in available revenue or in the cost of providing services. Many federal systems use fiscal equalization programs to reduce the inequalities. At the State or Region level inequalities may arise from differences in natural endowments, subnational economies, and geography. Equalization measures can be taken by central governments in a federal system. Horizontal sharing may also take place. The level of equalization sought can vary among federations.

- **PER CAPITA REVENUES**
  
  Highlight again that the breakdown of revenues is per capita, meaning revenues broken down per person. This does not mean each person has access to this revenue as if it is an income. Rather, that it is broken down on a per person basis in that geographical area.
2012-13 was the first year States and Regions had separate budgets from the Union. Expenditure has grown since their creation from 864,122 million MMK in 2012-13 to 2,474,942 million MMK in 2017-18, from 6.4 percent to approximately nearly 12 percent of total government expenditure.

Spending by subnational governments equates to about 50,000 MMK/person on average across 14 States/Regions.

Increases in expenditure at the subnational level provide more opportunities for states and regions to meet the needs of citizens.

Despite these increases, spending at the subnational level remains modest as a proportion of total government spending.

Let the participants review the slides first. Highlight Myanmar compared with other countries.

Go over key findings in the light green box.

States and Regions’ share of government expenditure is significantly below that of many other Asian countries. There are also systems which are not ‘federal’, such as in Vietnam, which has extremely high levels of subnational expenditure. China would likely be even higher than 45 percent.

Capital spending, as a share of total expenditure by States and Regions, shows considerable variation (40 percent in Mon and 70 percent in Kayah).

The available budget data suggests that State governments are prioritizing investment in infrastructure, compared with Region governments.

There may be a greater need for capital investment in conflict affected areas that have experienced an underinvestment in recent decades.
Highlight the Ministry of Construction and subnational government’s expenditure. Also highlight the Municipal expenditure in Yangon and Mandalay.

Review text on the subsequent slide to highlight some key findings.

- The proportion of spending by the Ministry of Construction, mostly on trunk roads (highways) and bridges, has fallen from 54 percent of total State and Region expenditure in FY 2013/14 to 38 percent in FY 2016/17.
- The share of spending on electricity provision at the subnational level has risen from none in 2013-14 to 5% in 2016-17, across 12 States/Regions: up to 16% in Tanintharyi Region.

Present other information in the slide.

- Spending by State/Region government bodies has increased from 9 percent of total State/Region government expenditure, to over 20 percent.
- Most of this spending is budgeted under the State/Region Cabinet Office and could suggest an increase in discretionary spending of public resources. Through the use of these funds, State and Region governments exercise power over a wider range of activities than might be assumed. For example, in Bago, 70 percent of the cabinet’s recurrent budget or 17 percent of the total region budget is spent on irrigation, drainage, and agriculture.

Highlight the difference in the vertical axis in the first and second diagram. Yangon and Mandalay are in a separate chart due to their higher revenues, which are a consequence of their higher rates of urbanization.

- Kachin is also significantly higher than other States and Regions. Indeed, Myitkyina has a very well-known DAO office with strong capacity.

Compare the lowest and highest tax collection in States and Regions.
Present as information provided in the slide and highlight diversity of tax collection per capita.

Compare the lowest and highest tax collection by items. Highlight some of the definitions below:

- **Wheel tax** is a tax levied on drivers, such as registration to drive a car or motorbike.
- **Property tax** is the government take on any sale of a property. Governments generally have a tax on every transaction for a property. In Myanmar, property taxes are levied at the municipal level. They are based on an estimate of the value of the property. This area of tax offers considerable opportunities for reform and improvement.
- **Exercise tax** is on certain goods. For instance, a tax on alcoholic beverages.
- **Tax on Production of Forest** is a tax taken by a State or Region government on companies milling timber.
- **Tax on Fisheries** is basically State or Region governments ensuring people have licences to fish.
- **Tax on Production of Materials** is a manufacturing tax.
- **Tax on Water and Embankment** is a tax on the use of water by households and businesses.
- **Land Tax** is a tax levied on land owners, particularly in wealthy areas or commercially viable properties.

There is quite a lot of variance between these taxable items. E.g. In Ayeyarwaddy, fisheries taxes are the greatest revenue source, whereas wheel tax is the greatest in Mandalay, for example.

The Township Development Index synthesizes indicators of living standards (household assets, household conditions), health, and education drawing on the 2014 Census.

The Township Development Index and the sub-township Index is the average of three sub-indices:

- The standard of living sub index, which combines indicators of household living conditions and assets:
- The health sub index, which combines infant mortality and aging index scores: and
- The education sub index, which draws on four indicators: literacy rates, school enrolment, and elementary school and middle school attainment rates.

The map on the right shows the ranking of townships in Myanmar based on the township development index scores.
Highlight that the per capita revenue index is the State and Region revenue divided by average revenues for all States and Regions.

Highlight that the standard of living index combines indicators of household conditions, such as access to clean water and electricity, and household assets including possession of a radio or bicycle.

Encourage the participants to compare the two charts.

Ask the group: when we look at both charts together, does it appear that revenues match the development needs of States and Regions?

Present as information provided in the slide.

Highlight that the answer to the above question is ‘No, not exactly’: per capita revenues do not fully reflect or respond to development needs.

Emphasize that in terms of per capita revenues for States and Regions, there does not appear to be discrimination against States.
The restructuring of Myanmar’s governance observed over the past five years seem to fall much more under the definition of deconcentration rather than devolution, with subnational entities being strongly dependent on resources transferred from the Union, while subnational departments and SOEs represent subnational agencies of Union ministries.

Development Affairs Organisations (DAOs) or municipalities should be considered as going against this trend - decentralized, but small budgets etc.

Although it is suggested that many of the reforms to date suggest deconcentration rather than decentralization, this does not mean efforts in the latter direction should not be welcomed. These steps might be instrumental to deeper reforms in the future, as they will allow central institutions to gradually empower subnational entities and develop capacity at lower levels of government.

In the process, subnational governments and local stakeholders might see their degree of participation in the work of deconcentrated units increase, leading to improved expenditure targeting.

However, this process might fail to generate the stronger accountability mechanisms that would come through a more concrete decentralization of decision-making power.

Given this, deconcentration should be considered only a preliminary step in the right direction.

In an plenary session, ask participants to review slides on development and revenue averages, namely page 41.

Open up the discussion with a question: could further decentralisation address development disparities? What else can be done to target development needs?
This module will introduce a core concept to fiscal federalism: equalization.
Introduce new terms:
- **EQUALITY**: The condition of being equal, especially in status, rights, and opportunities.
- **EQUITY**: The quality of being fair and impartial.
- **EQUALIZATION PAYMENTS**: Payments made from the federal government to subnational governments with the objective of addressing inequities.
- **NET FISCAL BENEFITS**: The difference between per capita benefits received and per capita taxes paid.
- **REVENUE SHARING**: The dispensing of a portion of federal tax revenue to state and local governments.

**HIGHLIGHT THAT:**
- Equality is the condition of being equal, especially in status, rights, and opportunities.
- Equity is the quality of being fair and impartial.
- Highlight diagram.

**NET FISCAL BENEFITS (NFB)**
- The word ‘net’ means total. Thus, the concept ‘Net Fiscal Benefits (NFBs)’ are about the total benefits received.
  - To understand benefits received, this is developed through essentially the difference between per capita (per person) benefits received and per capita (per person) taxes paid in a specific geographic area.
- Highlight in the slide picture that taxes are paid by the ‘citizen’ and the delivery of services is provided by the government.
Differences in net fiscal benefits across states can arise from differences in:

- State tax capacities
- The cost of providing state public services
- The need for particular public services within the state

Equalization grants can eliminate these differences in net fiscal benefits across states. Based on relative tax capacity and on relative need for and cost of providing state public services.

**EQUALIZING FOR DIFFERENCES IN ‘NEEDS’**

- Formula based on needs indicators are often used. See the slide examples.

**EQUALIZING FOR DIFFERENCES IN TAX CAPACITIES**

- Formula based on equalization of per capita tax revenues
  - National average
  - Top state
  - Representative group of states

Go over the three examples.

Highlight that both Germany and Canada have equalization principles in their Constitutions. This is, however quite rare, and mostly revenue sharing arrangements are articulated in laws and policies.
Encourage participants to go back to some of the early parts of the module to review slides on equity, equality and equalization.

Consider the group work question: Why is equalisation needed in Myanmar? What can be the benefits?

Following the presentations by groups, highlight that we will be applying this concept of equalisation in the session on natural resources.

REVENUE SHARING TRANSFERS

- Specific purpose grants often delivered as a lump sum, can include the targeting of groups based on specific needs. For instance, use of a specific purpose grant to respond to a natural disaster or the needs of IPDs due to conflict.

- Cost-sharing arrangements in federation often include matching grants tied to health, education and social assistance programs delivered by states, as well as shared support for infrastructure development.

- Block grants are direct transfers of funds to states in support of expenditure in key areas. This could include primary education for instance, with a block grant based on the number of students.

ASK PARTICIPANTS TO CONSIDER:

What can happen in the case of a devolution of tax powers to state governments? (e.g., personal income tax, corporate income tax, sales tax)

- There is a potential for fiscal disparities across states which needs to be addressed.

In a centralized tax collection system, there is a defined share of taxes returned to states on an origin basis i.e. a proportion of revenues collected in a state are returned to the state

- In these types of systems there are often complementary equalization payments required.

Centralized tax collection, equal per person distribution to states

- In this type of system the per capita revenues are equalized to national average.

On page 63 we will go through this in more detail considering the current levels per person revenue across Myanmar.
The general grant, the main source of revenue provided to States and Regions in Myanmar, has some aspects of ‘equalizing’ measures. For instance, it considers needs, such as poverty, and constraints to collect taxes.

As highlighted ‘need criteria’ and ‘fiscal constraint’ are equally weighted at 50 percent each.

This formula was introduced in 2015-2016 by the central government with support from the World Bank.

It is not yet a fully functioning equalisation measure, but it is a positive step.

The formula itself is important in order to understand how this grant to States and Regions works.

Go over the criteria of the general grant in the slide.

Highlight that these criteria are weighted together in the formula. These items outlined are equally weighted and the fiscal constraint and needs are 50/50 in the total weighting.

While this is one method to approach the general grant, it is not the only way to utilize criteria and apply weighting for grant allocations.

Things you might consider in becoming more familiar with the general grant: Are these the right criteria? What else could be included/excluded? Should these items be equally weighted or should specific items be weighted differently?

Previously, general grant transfers were conceived as ‘deficit financing’ which involved annual State and Region government budget submissions which were reviewed by the Union government. Since 2015/16, the formula-based approach is being phased in using the mentioned criteria.

One issue which may be occurring in the formula’s use is that it is only applied to annual increments for the grant pool. Thus, the increasing amount from year to year, not the total grant pool amount, is what the formula is applied to.
This slide summarizes some of the key issues in the application of the general grant.

- Go over all points in the slide.
- Also emphasize that the step towards having a formula-based grant is a good one. It will take time to improve the quality of data inputs and fully apply the formula.
- We also know that some areas, such as Chin, which do benefit significantly from the grant, are indeed poor.

Highlight the MMK axis, and States and Regions. This graph shows some of the average levels of revenues per capita (per person) across the different lines.

- The green is the average for Yangon and Mandalay, obviously much higher than the rest. The next line is the national average. This combines all States and Regions per person revenue. Below this is the average for all States and Regions, excluding the top two and the bottom two States/Regions in the graph. For the latter this includes Kayin and Ayeyawady.
- Given this significant drop down for many areas from the national average, this highlights significant fiscal disparity and the need for equalisation to have more States and Regions closer to the national average for per person/per capita revenues.

Ask participants what trends they see in the chart before going into the key findings in the light green box.

Divide participants into small groups. Encourage participants to review slides and then answer the question in the context of Myanmar: Should an equalization system take from the revenue rich states and give to the revenue poor states?
This module will focus on fiscal federalism and natural resources: a key issue relevant to Myanmar’s reform agenda, its economic growth, and the peace process.

In federations natural resources are often a source of tension as to who benefits. This involves horizontal tension between states and vertical tension between states and the central government. It is important to note, that there is no one federation that manages its natural resources perfectly. Even in developed nations they are contentious.

This module will look at natural resources in the context of fiscal federalism.

In no way is this module meant to offer a recommendation on how Myanmar should manage its resource base and revenues. Rather, it provides an overview of options for discussion.
HIGHLIGHT NEW TERMS IN THIS MODULE:

- **NATURAL RESOURCE RESPONSIBILITY**
  - The ownership and management of natural resources.

- This module will apply concepts covered in this curriculum including Net fiscal benefits, and equalization. It will look at different approaches for both revenue sharing and management.

- Many participants may not be directly aware of Section 27 of the 2008 Constitution. Read it out slowly.

- Highlight what this actually means: there is a strong articulation of the Union government ownership. This has some implications for how resources are managed. However, there is no mention of revenue sharing.

- For the most part, in other federal countries, natural resource revenue sharing is based on laws and policies rather than provisions within a constitution.

- In Myanmar, increasing natural revenue sharing, from the central government to States and Regions, is possible within the confines of the 2008 Constitution.

- Highlight that Schedule V is the legislative list for the revenues and fees which shall be levied by the Region or State.

- Read Schedule V provisions in the green box.

- Additional items for the legislative list for revenues and fees were added via the 2015 Amendments to the 2008 Constitution. This includes provisions for State and Region level tax collection against industries such as oil and gas, and minerals and mining. However, these have not been fully utilised.

- Ask participants: Are you aware of these provisions? What is the best way to interpret them to allow for more own-source revenue collection?
Natural resource endowments in a federal system are typically allocated unevenly across the country.

There is a lot of disparity in the distribution of natural resources and extractive activity across Myanmar’s States and Regions.

Explain the legend: the mining sites are collected via satellite imagery. The legend shows three dots which indicate small to larger amounts of mining sites. The largest dot represents between 44-163 mines. The triangles represent hydropower sites - planned, existing, and under construction.

The next section of this presentation will focus on options for natural resource responsibility.

Four are outlined here (refer to slide) and will be explored.

There are different ways to share revenues from natural resources. This can be done directly and indirectly.

Indirect sharing could potentially involve the financing of infrastructure projects. Direct revenue sharing can be both vertical (State/Region to Union: Union to State/Region) and horizontal (State/Region to State/Region).
An important qualification is that it is natural resource rents (all costs, including extraction costs, environmental costs, compensation payments, etc.) not gross revenues from sales that are subject to revenue sharing: the portion of resource revenues subject to revenue sharing is less than 100%.

An important consideration is the wider costs and revenues.

Where natural resource ownership is centralized, such as is the case in Myanmar, there is nothing to prevent sharing of natural resource rents with state/region levels of government through the fiscal arrangements.

This can be done on a derivation basis, or rather an origin basis.

Where there is potential for revenue sharing to create fiscal disparity equalization measures should be considered.

Another approach to revenue sharing can be on a ‘needs’ basis through cost-sharing arrangements. For instance, where there is economic disparity.

Outline the three areas for revenue sharing.

This diagram shows Citizen A and Citizen B, one from a resource rich state and the other a resource poor state. This demonstrates how Citizen A receives services, through a combination of paying taxes and living in an area contributing a natural resource income. To allow for comparable levels of services, Citizen B, pays more in taxes to receive comparable benefits.

In some countries, to ensure equalisation and promote national fairness, a ‘maximum’ benefit is used to balance the federal transfers (i.e. the general grant in Myanmar) with the resource revenues held by states. Going over the ‘maximum’ benefit can lead to a detraction from the federal transfer to balance both of these sources of revenues.

This diagram also highlights the issue of needing to equalize resource rich and poor areas within a tax system.

Other issues of concern when balancing all benefits received are negative environmental impacts where extraction takes place.
Emphasize that where natural resources are a sub-national responsibility, significant fiscal disparity can emerge which raises the issue of the need for equalisation. This could happen through horizontal, state to state revenue sharing from resource rich areas to a resource poor area.

Outline all three revenue sharing options.

The horizontal sharing of resource revenues to allow for equalisation of natural resource poor areas to the national average could be equivalent to central government ownership with equal per capita distribution. This needs to be considered in debates around state and central level ownership.

Emphasize that a central government without direct access to the natural resource base will potentially face a major fiscal burden if it is to fund a country-wide equalisation program.

It is important to not just look at resource revenues. Also consider wider rents: commercial and income taxes in connection to resources to fully understand who benefits from what and where money flows.
Emphasize that natural resource management and revenue sharing is always a contentious topic, even in functioning
democratic federal states.

Ask people to join into groups to consider the questions.

For the longer-term and short-term question on what can be done, reflect on earlier parts of the session. For instance,
that there are no constitutional restrictions on revenue sharing between the central government and States/regions.
Suggest the short to long term approach could consider what can be done now within the 2008 Constitution and what
can be done later through constitutional reform?
This module considers how public infrastructure and services can be supported through fiscal arrangements in a federal system. The module will focus on building a social union and an economic union to promote development and the role of subnational government.

In building a social union it emphasizes the role of subnational governments in providing healthcare, education, and social assistance. These are core functions of subnational governments in federal systems.
HIGHLIGHT ALL DEFINITIONS TO RECAP.

- **EQUITY AND EFFICIENCY GOALS**
  The dual goals of providing all citizens with similar provision of public services (the social union) and promoting a prosperous economy (the economic union).

- **INTERGOVERNMENTAL FISCAL RELATIONS**
  The fiscal arrangements between orders of government—revenue sharing, grants, transfers.

- **REVENUE SHARING**
  The dispensing of a portion of federal tax revenue to state and local governments.

- **SOCIAL UNION**
  The set of social programs—health, education, social assistance, social insurance—available to all citizens.

Go over key points in the slide.

- Turn to the map. The density of roads, as collected via satellite imagery, is shown here across Myanmar’s townships. Highlight the legend which includes a ranking of all 330 townships based on road density. Show how in Yangon and middle parts of the country there is higher road density. Highlight an area such as Muse Township in Northern Shan, a trade route to China, which has higher road density than surrounding areas.

- The map also highlights the disparity in road density with low levels in parts of Kachin, Shan, Rakhine, Chin and Sagaing.

Go over key points in the slide.

- Present points in the slide. Emphasize at the end that national standards are not mandatory but are regularly used federal systems to set standards for health and education provision.

- Highlight that State/Regions need to negotiate these arrangements with the Union government.
Building a social union requires a strengthened role of States and Regions in Myanmar in areas beyond road building. There are provisions in the 2008 Constitution Schedule II which potentially allow for a broader role of States and Regions which haven’t been fully utilized.

Highlight that the constitution has a ‘university’ provision within it for health.

There have been many positive steps forward with the 2017-2012 Myanmar National Health Plan. Importantly it recognises a diversity of different health providers, including ethnic health organisations operating in some of the hardest to reach places affected by conflict.

Emphasize it is normal to have health departments in federations that provide health services at the state level.

It is important to remember the cost of these types of services. Health care is extremely expensive.

Ask participant if they believe health care should be delivered at the State/Region level. If yes, what fiscal arrangements are needed?

Go to the ‘cost sharing arrangements’ section of the slides and highlight two points and the use of matching grants between a State/Region and Union to respond to need.
Present key points.

Highlight that who provides education and in what language is obviously a contentious issue in Myanmar. Subsequent slides will consider both government and non-government education providers.

In areas affected by conflict it is particularly important there is coordination between States/Regions and non-government education providers to reach the most vulnerable populations.

Highlight how the 2008 Constitution refers to education as a right and the role of the Union government.

In addition to the above provisions, the 2015 Amendments to the 2008 Constitution allow for States and Regions to play a role in basic education. This reference includes the regular language ‘in accord with law enacted by the Union’.

While these provisions appear to allow for an increased level of engagement in basic education services, this has not been acted upon by Union or State/Region governments.
→ Present the slide and emphasize the cost-sharing arrangements in a federal system between a central and subnational government to support education.

→ Emphasize that an inclusive education system needs to respond to subnational diversity. Share the Mon example in the green box.

→ Highlight what is the Education index: it combines school enrolment, primary school education, middle school attainment, and literacy rate. The source is the 2014 Myanmar Census.

→ Highlight the township map and diversity of education levels across 330 townships. Show the low levels in Shan where it is light pink.

→ Go over the bullet points.

→ Highlight that to target education needs, data on education can be used at the township level by States/Regions, or even as low as the ward and village tract level. Point to the graph on urban/rural education at the sub-township level.

→ Emphasize that the 2015 Amendments of the 2008 Constitution (Schedule II) concerning social assistance and that relief and rehabilitation are able to be carried out by States and Regions.

→ Ask the group: How do you interpret these provisions and the role of States/Regions in social assistance?
Present slide and then emphasize the need for the central government to play a role in equalizing the ability of States/Regions to provide comparable levels of development and poverty alleviation programs.

Highlight the potential areas for assistance, particularly rehabilitation support for both victims of disasters and conflict.

Explain the map legend and then highlight that a ‘Standard of Living’ index includes 12 data points of household assets and household conditions. This includes factors such as access to electricity for cooking and clean drinking water, the floor quality (bamboo to dirt), and assets including motorbikes and phones.

This is an important measure of how people live and their quality of life.

To effectively target poverty levels and household conditions evidence on living standards can be employed.

The final graph shows a significant disparity in urban and rural areas. This raises the question: how can local level development disparity be addressed? What supporting fiscal arrangements are needed? Is this a role best played by the central government or are States/Regions better equipped to respond?

Emphasize that increased devolution of social services potentially allows for improved targeting of populations.

Highlight the graphic showing human development levels across Kayah State.
Highlight that the graph shows even lower levels of development down to the ward and village tract level. Even in one township, such as Loikaw, there can be significant diversity among village tracts and wards.

Being a man, boy, women or girl influences our opportunities in life. Men and women in Myanmar and elsewhere have different social, economic, political, and cultural status.

These factors need to be understood by governments, as the impacts of policy on men and women will be different. Understanding the specific needs of women or men can allow for improved service provision.

To target inequalities and promote women’s empowerment there are measures which can be applied. This includes the use of specific purpose grants.

Speak to the graphic and highlight that this breaks down men and women’s education levels across State and Regions.

Go over slide bullet points.

Ask the audience: do they know of government programs which target women or girls’ empowerment?
- Ask participants to break into groups.
- Review slides on building a social union.
- Highlight the purpose of the exercise is not just to list what responsibilities or powers States and Regions should have. It is also to demonstrate ways to finance these responsibilities.

While negotiations for peace continue, efforts can be made to increase local decentralization and work towards building a third tier of government.

- There are provisions in the 2008 Constitution which can be interpreted as features of a local government. For instance:
  - 288. Administration of district and township level shall be assigned to the Civil Services personnel. (chapter 5, section 288)
  - This provision places districts and townships under the administrative authority of the ‘civil service’. This could potentially be interpreted as civil service personnel of ministries run by the civilian government.

The 2008 Constitution does not characterize an expansive role mandated role of the GAD for local government, nor does it outline that the GAD must remain entirely under the Ministry of Home Affairs across all administrative levels.
FISCAL FEDERALISM AND MYANMAR’S PEACE PROCESS

MODULE 6

Peace process debates on revenue sharing are often too heavily focused on finite natural resources. A more balanced approach considering wider sources of taxes (property, commercial and income taxes, stamp duty etc.) and revenue sharing arrangements is necessary.

Fiscal federalism is central to debates on creating an equitable federal system, building a social union, and developing models for tax harmonization and revenue sharing.

This module therefore focuses on fiscal federalism in the peace process.
Read over all bullet points.

Explain diagram: fiscal federalism intersects with different working groups in the peace process. Highlight that the circles represent a working group in the government-led peace talks.

Refer to Module One where the Pillars of Fiscal Federalism were introduced.

These core concepts remain important to improving the technical depth of issues discussed in the peace process, particularly economic affairs and natural resources.

Introduce slide. Ask the group: Is equalisation an important tool to use in a federal system? Yes/No and Why?
Highlight the examples on shared tax bases and tax harmonisation presented here as principles.

Present slide.

Emphasize that: a grant is a voluntary current or capital transfer between government units, or between a multinational organization and a national government. This slide is referring to a government to government grant.

Present slide.

Highlight the maps representing IDPs as collected by humanitarian organizations. This type of information could potentially be used to help target special purpose grants for conflict affected IDPs.

Also highlight it is not unusual for peace processes to have victim assistance type provisions. In the case of the Colombia peace process the Victim Assistance Law for persons affected by armed conflict came before the final peace agreement was signed.

- Peace process stakeholders can consider the use of specific purpose grants to address multiple issues, including the targeting of conflict-affected populations.
Present slide.

Ask question to participants: How important are budget transparency issues?

If there is time discuss SOE reform: What can be done outside (reforms) or within negotiations? What is the best way to address this agenda?

Emphasize that it is uncommon for federal countries to have economic issues in their constitutions. These measures are mostly pursued by policy and laws.

Constitutional reform may not be needed to address many of the economic issues outlined in this curriculum.

An rare example of a provision being incorporated in a constitution is the Canadian constitution which has a provision on equalisation.
Present slide options outlined.

Ask participants: What do you think are feasible options in the short term? What can be done now?

Present slide.

Ask participants: What are specific priorities for long-term change?

This exercise can be done in plenary or in groups. If several discussions have already taken place in plenary, make this a group session.

Consider the discussion question.

If the group are not so concerned about the ‘peace process’, ask them to consider what are key short and long-term objectives to pursue fiscal federalism in Myanmar?