Module 1

FISCAL FEDERALISM INTRODUCTION
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WHAT THIS MODULE WILL COVER

1. What is federalism?
2. What is fiscal federalism?
3. What do fiscal arrangements look like in Myanmar today?
DECENTRALIZATION
The transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations.

DEVIAITON BASIS
When revenues are shared according to the State/Region where they were collected.

ECONOMIC UNION
A form of economic integration among political jurisdictions, with various degrees of harmonization.

EQUAL WEIGHTING
Each component counts equally in the calculation.

FEDERALISM
A federal form of government (as opposed to the ‘Unitary State’), which has a subnational structure, with all orders of government having some independent, as well as shared, decision-making responsibilities.
FISCAL FEDERALISM
The determination of state expenditure and taxation powers and the system of revenue sharing, grants and transfers between federal and state governments.

GRANTS
A grant is a voluntary current or capital transfer between government units, or between a multinational organization and a national government. In addition, a voluntary transfer to a private organization or person is also called grant. Grant are treated as expenditure by the granting institution and revenue by the recipient institution.

SOCIAL UNION
The set of social programs—health, education, social assistance, social insurance—available to all citizens.
SPENDING POWER
The use of the federal government’s superior revenue capacity to promote national goals at the state level.

SHARED TAX BASES
Where federal and state (and local) governments have the ability to tax the same base, e.g., personal income, sales.

TAX HARMONIZATION
Consistency in definition of tax bases and rates across states.

REVENUE SHARING
The sharing of a portion of revenues (tax and non-tax) among federal, state and local governments.

REVENUE TRANSFERS
The amount of revenue (tax or non-tax) transferred between orders of government.
WHAT IS FEDERALISM?

FEDERALISM
A federal form of government (as opposed to the ‘Unitary State’), which has a subnational structure, with all orders of government having some independent, as well as shared, decision-making responsibilities.
COMMON FEATURES OF A FEDERAL SYSTEM

- At least one order of government for the whole country and another for the regions.
- A written Constitution.
- Formal distribution of legislative and fiscal powers between the orders of government.
- Bicameral legislatures; one is usually dedicated to representatives of the regional units or states, to ensure that they have a voice in the formulation of national policy.
- Existence of a system to settle disputes between and among the orders of government.

LEVELS OF GOVERNMENT:

- A federal state has at least the central or federal government and regional or state governments.
- Some federal states include local governments as a third level. A recent example is Nepal, in which separate powers are vested in them by the Constitution.
FISCAL FEDERALISM is about much more than decentralized powers and responsibilities. Rather, it is about the FISCAL ARRANGEMENTS between different levels of government.
...in most federations the spending power of each order of government has not been limited strictly to the enumerated legislative and administrative jurisdiction. Governments have usually been taken to possess a general spending power. Thus, federal governments have used their general spending power to pursue certain objectives in areas of state jurisdiction by providing grants to regional governments that otherwise could not afford to provide the services being demanded of them.

WHAT IS FISCAL FEDERALISM?

PILLARS OF FISCAL FEDERALISM

TAX BASES
Exclusive tax bases and shared tax bases

REVENUE SHARING ARRANGEMENTS
Tax revenues and natural resource revenues

HARMONIZATION
Taxes and expenditures

TRANSFERS & GRANTS
Equalization and use of the ‘federal spending power’
DECENTRALIZATION IN MYANMAR

Myanmar has an evolving system of government that is slowly being decentralized.

KEY FEATURES OF DECENTRALIZATION:

LEGISLATIVE
- State Legislatures
- Legislative responsibilities according to the 2008 Constitution, Schedule II, as amended in 2015

EXECUTIVE
- Chief minister and cabinet
- Executive responsibilities also from Schedule II (also basis for expenditure responsibility)
- Schedule V outlines State/Region government taxation rights/revenue sources

JUDICIARY
- State and Regional judiciary subordinate to Union.

No provision for ‘local government.’ Myanmar currently has a local administration but no local government.
THE CONSTITUTION OF THE REPUBLIC OF THE UNION OF MYANMAR

SCHEDULE

1. Union government list of powers and responsibilities by sector:
   - Economic sector
   - Social sector
   - Energy, electricity and mining sector
   - Management sector (general administration)

2. State and Region list of powers and responsibilities by sector (as above)

5. State and Region list of taxes and fees

Source: Intergovernmental Fiscal Relations In Myanmar. 2016. CESD & JICA.
SCHEDULE II & V AMENDMENTS (2015)

Key points:
- Transfer of administrative function including tax collection.
- Sharing of tax bases (income tax, commercial tax).
- Creates potential for revenue sharing if acted on by the Union government.
- Unclear language and some of it may be ‘placeholder’ text, opening up the possibility of future laws.
EXERCISE

Step 1: See handouts and review Constitution Schedules I, II, and V, including the 2015 Amendments.

Step 2: GROUP DISCUSSION - 10 minutes
Are the 2015 Amendments substantive? If yes/no why?

Step 3: PRESENTATION BY GROUPS - 10 minutes
Nominate a speaker to present back in plenary.
The 2008 Constitution formally established the state and region parliaments, assigning state and region government legislative responsibilities and providing states and regions the right to collect and spend revenues.
STRUCTURE OF GOVERNANCE IN MYANMAR

UNION BUDGET

Union financial transfers, grants and foreign aid.

STATE AND REGION BUDGETS

OWN-SOURCE ‘SCHEDULE 5’ REVENUE

UNION LINE MINISTRIES

Subnational input

SUBNATIONAL DEPARTMENTS WITH ONLY UNION BUDGET (including SEE under union ministries)

More than 30 departments, including health and education

SUBNATIONAL DEPARTMENTS WITH BOTH UNION AND STATE AND REGION BUDGETS

Approximately 20 departments including agriculture, fishers, mining, electricity, roads, and construction

SUBNATIONAL DEPARTMENTS WITH ONLY STATE AND REGION BUDGETS

DAOs, government offices and the courts
CURRENT FISCAL ARRANGEMENTS IN MYANMAR

STATE/REGION OWN-SOURCE REVENUES
- Negligible amounts in most cases
- The 2015 Constitutional amendment adds further opportunities for increasing own source revenues

TAX REVENUE SHARING
- New arrangements beginning 2016-17
- The 2015 Amendments make reference to commercial and income taxes being available to States and Regions

GENERAL GRANT
- Transition from previous deficit grant to formula based beginning 2015-2016
- The basis for actual allocation remains elusive and the grant is as yet not fully effective
CURRENT FISCAL ARRANGEMENTS IN MYANMAR

FINANCIAL AND BUSINESS
- Excise revenue and custom duties
- Profits from state/region investment
- Income taxes
- Tax on investment and insurance
- Commercial taxes and tax on industrial activities

MUNICIPAL
- Revenue from Development Affairs Organizations

TRANSPORT
- Toll fees from using roads and bridges managed by state/region
- Taxes collected in vehicles on road transport and vessels on inland waterway transport
- Tax on shipbuilding, repair, and maintenance
- Tax on air transport

FISHERIES AND FORESTS
- Tax on all woods except teak and other restricted hardwoods
- Tax on fresh water fisheries
- Tax on coastal fisheries

LAND AND WATER
- Land revenue
- Water tax and embankment tax

MINING AND EXRACTIVE INDUSTRIES
- Tax on minerals and mining
- Tax on oil and gas
- Salt tax

HOTELS AND TOURISM
- Tax on hotels and lodging houses
- Tax on tourism

SOCIAL
- Tax on private schools and training
- Tax on private hospitals and clinics
- Tax on housing and buildings
- Tax on arts, music, cinema

COURTS
- Fines imposed by courts
- Taxes collected on service provision

UNION GOVERNMENT
- Revenue received from the Union Fund account

OTHER
- Treasure trove
- Unclaimed cash and property
Tax revenue sharing appears to relate to the 2015 Amendments of the 2008 Constitution concerning income and commercial taxation.

- 9 percent of total revenues of State and Region governments (2016-2017)
  - 15 percent of (non-import) commercial and special goods tax revenues
  - 5 percent of individual income tax (originally shared with DAOs) by Township
  - 2 percent of stamp duties (previously shared with DAOs) by Township

- Tax revenues are shared on origin basis or derivation basis
CURRENT FISCAL ARRANGEMENTS IN MYANMAR

CONSTITUENCY DEVELOPMENT FUND (CDF)

- Established 2013-14
- 1% of overall fiscal transfers
- 100 million MMK to each Township
  - Unequal per capita
- Annual grants for small infrastructure and other investment projects at the constituency level
  - CDF is managed by the legislative branch
  - Selected through a planning process managed under the various Township committees
Fiscal transfers from the Union to State/Region governments take three forms: general grant transfers, tax-revenue sharing, and development funds. Fiscal transfers from central government are not unique to Myanmar.

The general grant transfer is the largest transfer from Union to subnational governments. The second largest type of fiscal transfer is tax revenue sharing, whereby a portion of taxes are returned to the constituency where they were collected.
Significant disparity in per capita revenues from the general grant.
STATE/REGION SHARED TAX REVENUE PER CAPITA

FY 2016/2017

Significant disparity in per capita revenues from shared taxes.

Source: Data from the Budget Department, MOPF
STATE/REGION OWN SOURCE REVENUE PER CAPITA
FY 2016/2017

Significant disparity in per capita own-source revenue across states and regions.

Source: Data from the Budget Department, MOPF
• Fiscal federalism is the about the fiscal arrangements between different levels of government. It is the ‘glue’ that binds both the economic union and the social union.

• Fiscal federalism is an evolving process in Myanmar.

• The 2008 Constitution and its 2015 amendments offer some scope for increasing the fiscal responsibilities of States and Regions.

• State and Region own-source revenue is negligible in most cases.

• States and Regions remain primarily dependent on revenue transfers from the Union government (general grant).

• There is considerable disparity in revenues per capita across States and Regions.

• On the whole, States get larger transfers per capita via the general grant when compared with Regions. States also have higher total revenue per capita.
**EXERCISE**

**Step 1**  
Review slides on per capita revenues.

**Step 2**  
**GROUP DISCUSSION** - 10 minutes  
Is fiscal disparity a problem? If yes/no, why?

**Step 3**  
**PRESENTATION BY GROUPS** - 10 minutes  
Nominate a speaker to present back in plenary.