Working Paper
July 2015

Natural Resource Governance Institute

Considerations for Natural Resource Revenue Sharing in Myanmar: Executive Summary

Andrew Bauer and Lorenzo Delesgues

Oil, gas and mineral revenues are generated in nearly every state and region in Myanmar, with the most important interests lying in Bago, Kachin, Magway, Mandalay, Sagaing, Shan and Tanintharyi. In these and other regions, petroleum and mining activities have had significant impacts on livelihoods in affected communities, and on the local environment. There is also a perceived lack of benefits from extraction accruing to local populations. Therefore, several parliamentarians and ethnic armed groups have raised natural resource revenue sharing between national and subnational authorities as a key component in national reform, fiscal decentralization, and peace processes.

Depending on how any prospective system is designed, resource revenue-sharing can help address three separate issues: improving development outcomes and the quality of public investment; attracting high quality investors to the sector; and securing a lasting peace. The 2014 census indicates that Myanmar has one of the shortest life expectancies (66.8 years) and the lowest levels of access to clean water (70 percent) in Asia. Ayeyawady, Magway, Rakhine, Shan and Tanintharyi in particular have been left behind. What's more, regional conflicts, administrative uncertainty, and lack of political stability are keeping more competent and responsible oil, gas and mining companies from investing in the well-being of affected communities and Myanmar as a whole. Furthermore, resource revenue sharing has been a key demand of several armed ethnic groups and has featured as a topic for further negotiations during the national peace process.

Resource revenue-sharing can help address three separate issues: improving development outcomes and the quality of public investment; attracting high quality investors to the sector; and securing a lasting peace.

Many countries have designed revenue sharing regimes to enhance public service delivery, improve inter-regional equity, and strengthen national unity. However success depends on matching revenues with expenditure responsibilities, predictability and stability of revenue flows, and the ability of all levels of government and relevant stakeholders to reach a consensus on a formula that can survive political transitions. In other words, any revenue sharing system must be efficient, fair and transparent.

FISCAL DECENTRALIZATION, SUBNATIONAL FINANCES AND EXTRACTIVE ACTIVITIES IN MYANMAR

Currently, approximately 99 percent of oil, gas and mining revenues are collected by the national government or state-owned entities, as prescribed by the 2008 constitution. Transfers of these and general revenues to subnational authorities are ad hoc, generally favoring conflict-prone areas. These transfers occur within the context of the ongoing fiscal decentralization and devolution processes.

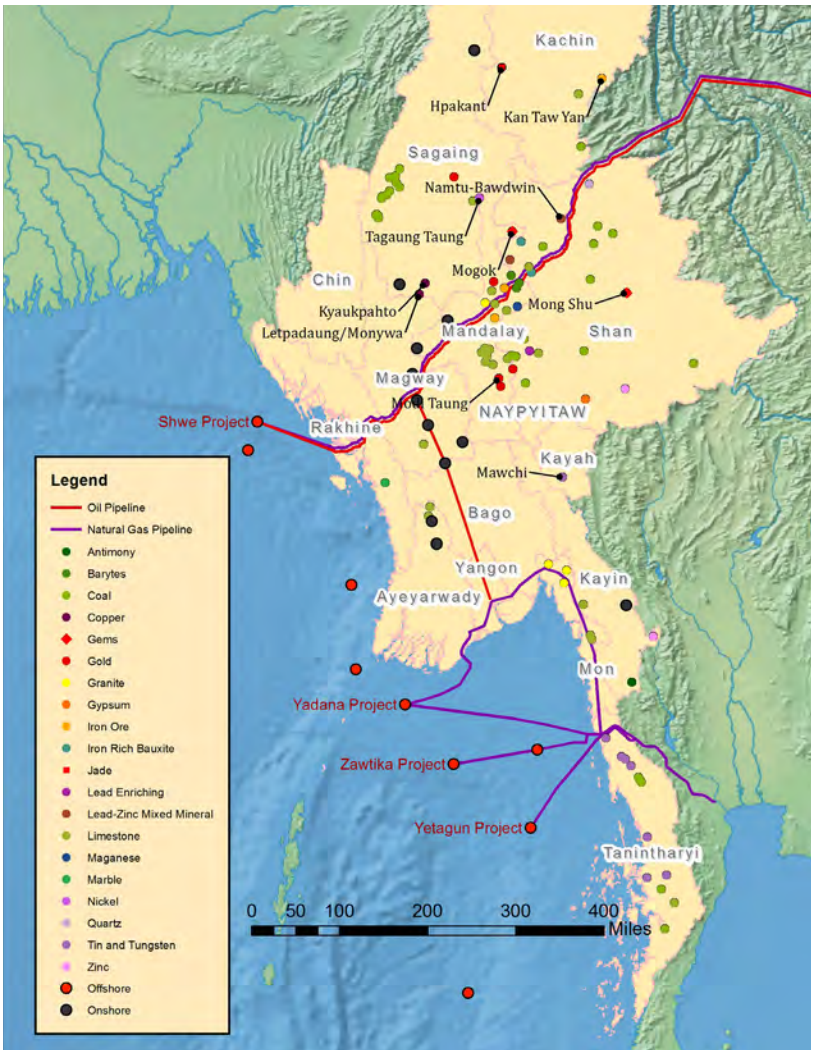
As of 2013, there were large-scale mines operating in all but two states and regions and active legal mines in all but Chin state. Among the most important of these are

the Letpadaung and Monywa copper mines in Sagaing region, Hpakant jade mines in Kachin state, ruby and sapphire mines in Mandalay region (Mogok) and Shan state (Mong Hsu), and the Kyaukpahto and Modi Taung gold mines in Sagaing and Mandalay regions respectively.

Exploration activities are also underway in nearly every state or region. Among the most promising deposits are iron ore in Kachin, Bago and Shan states; lead and zinc in Shan; and gold in Mandalay and Sagaing. The government has plans to expand copper, nickel and chromite production at a minimum.

While most oil and gas production is currently offshore, pipelines run through many states. The older gas network serving the Yadana and Yetagun fields runs through Yangon, Bago, Mon and Tanintharyi. The new Shwe oil and gas pipeline passes through Rakhine, Magway, Mandalay and Shan. As of April 2014, there were also 17 onshore blocks producing oil or gas.

Myanmar has not yet achieved its full petroleum potential. The country has 10 trillion cubic feet of proven natural gas reserves, significant oil prospects, and exploration and production are ramping up. While much of the activity is occurring offshore, there are at least 49 onshore blocks in different phases of auction, exploration or production. Oil and gas companies are active in nearly every state, especially Bago and Magway. They are noticeably less active in Chin, Shan, Kachin and Tanintharyi.



Map of major extractive activities in Myanmar

Foreign sources place the value of mineral production much higher than the officially reported USD 1.15 billion in exports in the 2013/14 fiscal year. For instance, according to UN trade data, nearly USD 12.3 billion in precious stones were exported from Myanmar to China in 2014. By our estimates, actual mineral exports were worth more than 10 times what was reported by the government.

Oil and gas currently generate more revenues for government coffers than minerals. The sale value of oil and gas in 2012/13 was estimated around USD 5 billion. In that fiscal year alone, gas exports alone were worth nearly USD 3.7 billion. It is unclear what percentage of the profit from petroleum and mineral extraction is collected in taxes and royalties by the union government, how much is exported and how much is reinvested or held in domestic companies, whether private, state-owned or military-affiliated. Information on non-renewable resource revenue collection and flows is not publicly available, though the current EITI process may improve access to information soon.

DESIGNING A REVENUE SHARING REGIME

This paper outlines eight considerations for natural resource revenue sharing in Myanmar:

- **Agreeing on revenue sharing objectives.** The three reasons that generally motivate extractive-specific revenue sharing formulas are to compensate local populations for loss of livelihoods and environmental damage, respond to local resident claims for a greater share of resource revenues, and palliate natural resource conflicts. Which objective(s) are agreed is key to devising any revenue sharing formula.
- **Deciding on vertical distribution.** Vertical distribution refers to the split in revenue shares between the national and all subnational entities. To prevent wasteful spending or poor service delivery, transferred revenues ought to match expenditures over the medium-term. While there is no one-size-fits-all system for vertical distribution, subnational expenditure assignments must be taken into account.
- **Deciding on which revenue streams to share.** Any revenue sharing formula must consider whether to cover all revenue streams or only some (e.g., royalties, signature bonuses). It must also consider whether to cover only on-shore or both on-shore and off-shore activities.
- **Deciding on horizontal distribution.** Resource revenues can be distributed between subnational entities according to a derivation principle—where a higher proportion accrues to the producing area—or using an indicator-based formula, where revenues are allocated according to needs (e.g., poverty rates; education outcomes) or revenue generating capacity (e.g., population; regional GDP). Currently, Myanmar does not produce enough accurate project-level data to implement a derivation-based formula and does not disclose enough data for us to even model such a formula. For these reasons, the working paper only models four indicator-based formulas using census data (see table below).
- **Deciding on recipients.** While region- and state-level authorities may be the most obvious recipients of resource revenues shares, governments in other countries make transfers to traditional authorities, municipalities, landowners and even directly to citizens, all possible considerations.

A fair, stable and efficient system requires stakeholder consensus on any revenue sharing formula.

- **Improving incentives for efficient spending (stabilization and earmarking).** The manner in which resource revenues are transferred—for instance if they are transferred in lump-sum or smoothed, or if they are earmarked for specific expenditure items like education—will help determine whether or not they contribute to improving development outcomes.
- **Transparency and oversight mechanisms.** One challenge many countries face is that local governments cannot verify whether they are receiving their resource revenue entitlements under the law. Transparency and oversight mechanisms can improve the chances that resource revenue sharing will reduce conflict rather than exacerbate it.
- **Negotiation process and venue for implementation.** Other countries' experiences indicate that a fair, stable and efficient system requires stakeholder consensus on any revenue sharing formula, as well as codification in the law or constitution.

The table below provides an illustration of potential horizontal allocations based on different revenue sharing objectives. We model state and regional allocations using social indicators only due to the lack of available data on extractive sector production or revenues on a subnational basis. Bago, Kachin, Mandalay, Magway, Sagaing, Shan and Tanintharyi, for instance, might be allocated higher shares under a derivation-based formula using mineral or oil production, value or impact indicators.

State/region/ territory	Current allocation (% of total fiscal transfers) (FY 2014/15)	Model 1: Population-based allocation (% of total)	Model 2: Education, electricity and water needs-based allocation (% of total)	Model 3: Education needs-based allocation (% of total)	Model 4: Weighted allocation (% of total)
Ayeyarwady	5.4	12.0	13.8	9.7	13.1
Bago	4.9	9.5	7.6	7.3	8.4
Chin	6.1	0.9	1.3	1.4	1.1
Kachin	9.8	3.3	2.8	2.9	3.0
Kayah	2.7	0.6	0.7	0.7	0.6
Kayin	4.2	3.1	4.6	5.2	4.0
Magway	8.8	7.6	6.6	6.6	7.0
Mandalay	3.5	12.0	7.6	9.3	9.4
Mon	2.3	4.0	4.2	4.5	4.1
Naypyitaw	6.3	2.3	1.3	1.7	1.7
Rakhine	9.9	6.2	9.6	7.6	8.3
Sagaing	10.7	10.3	7.9	8.3	8.9
Shan	13.8	11.3	21.2	24.1	17.4
Tanintharyi	7.9	2.7	2.9	2.3	2.8
Yangon	3.9	14.3	7.1	8.4	10.0

Current fiscal transfers per subnational government and indicator-based allocation models

Data: Myanmar Union Budget 2014/15; Myanmar 2014 Population and Housing Census.

Notes: Model 2 uses an equally weighted average of three census indicators, namely literacy rates (in any language), percentage of households whose main source of energy for lighting is electricity and percentage of households with access to "improved" water sources. "Improved water" is defined as piped tap water, tube well, borehole, protected well or spring, or bottled or purified water. Model 3 uses an equally weighted average of the literacy rates and percentage of households with internet access at home. Model 4 uses a weighted average of indicators: population (40 percent), literacy (20 percent), electricity at home (20 percent), and water (20 percent).