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Master's Thesis of Public Administration

**A Study of Fiscal Decentralization in Myanmar:
From a Perspective of Intergovernmental Fiscal Relation**

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Abstract

A Study of Fiscal Decentralization in Myanmar: From a Perspective of Intergovernmental Fiscal Relation

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The more demanding on decentralized public services among today citizens is becoming considerable issue for reforming intergovernmental fiscal relations in the forming of federal democratic nation. As a former military administrated country, Myanmar had highly centralized governmental structure for long time period. However, previous Myanmar government could introduce a number of decentralized measures since 2011 by the mix of top down and bottom up relation according to 2008 Constitution. Although it had some extends of fiscal relation changes relatively with before condition, examining on this study indicates that Myanmar has less improvement in terms of allocation on fiscal responsibilities and so it became de-concentrated state with striving into process toward the more ideal form of decentralization. In addition, by analyzing fiscal capacity of state/region using with the data series from FY 2012-2013 to FY 2016-2017 of 14 states/regions in order to reforming period, it is found that states/regions are generating with poor own revenues to spend their expenditure needs. So, intergovernmental transfers from union to states/regions play an important role to reduce fiscal disparities in Myanmar, however it is not consistent allocation in order to basic needs and population size of each states/regions. Thus a proper transfer formula

system which can relieve disparities of states/regions should be implemented for providing minimum public services as a sequencing reform of fiscal decentralization in Myanmar.

Keyword: Fiscal Decentralization, Union Government, State/Region Governments

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Chapter 1 : Introduction

1.1 Background

Balance and proportionate growth among all regions is an essential point in building the federal democratic nation with the force of public trust for country development. In this regard, sub-national governments' role and fiscal capacity should be considered to be more responsive in basic requirements of all citizens than the central government. So, effective intergovernmental fiscal relation among different levels of governments in order to decentralization system became an important topic in today. Although there is no strong theory of relationship between decentralization and country development, some optimists pointed out that decentralizing government's fiscal functions can bring about local tastes and preferences by improving allocation efficiency.¹

Also in practically, today citizens more perceive that sub-national governments can effort for their real needs and priorities than the central government. That is why; many countries have developed fiscal decentralization as a strategy to bring effective public service and also economic development. But, it couldn't conclude yet perfect degree of fiscal decentralization in each country till today. Even in industrialized countries level, they still effort to reach well and right degree of fiscal decentralization. Thus, each country has adopted by just their own specific model of fiscal decentralization with relevant intergovernmental fiscal relation in order to their political structure and institutional background.

In Southeast Asian, Myanmar has also initiated significant fiscal decentralization since the previous administration period on 2011. The introduction of parliamentary oversight of public finances and the constitutional separation of state and region budgets have been started under

¹Wallace E. Oates, " On the Theory and Practice of Fiscal Decentralization" May 2006, IFIR Working Paper No. 2006-05

the 2008 Myanmar Constitution.²Now, state and region governments have enabled the latter to propose their own annual and supplementary budgets, receive require grants from union government, collect revenues and manage expenditures in certain areas.³

Basically, the main reason of these changes was intend to get quick wins in public needs and regional development according to the agenda framework of economic and social reform (2012-2015) as a nationwide. Moreover, the previous government emphasized people-centered development as a provision of public service such as education, health, social welfare at district, township and village tract levels. It also ordered that state and region level civil servants to coordinate with state and region governments in serving responsibilities and increased the budgets available for development projects.

Although these situation of fiscal relations changes with undergoing fiscal decentralization process was to encourage as a first step to develop fiscal autonomy of sub-nations in Myanmar, there are some critical issues come into consideration as well as poor situation of state/region taxation and spending power to fulfill necessary public services, controversial intergovernmental transfers which needs to be consistent fiscal capacity in all states and regions. So, current assignments in Myanmar reflect that dual subordination in fiscal administration and inconsistent allocation transfer from union to states/regions.

Without clear responsibilities and sufficient fiscal capacity of state and region in order to fiscal decentralization, public service cannot be supported efficiently and it will never hope for achieving peaceful nation. For those issues, Myanmar needs to consider for the sequencing reforms of fiscal decentralization with harmonizing effective cooperation and allocation fiscal responsibilities to be sufficient fiscal capacity that enable by state/region governments to support minimum public service as a nation-wide.

²In fact, 2008 Constitution was drawn since military ages although it had no chance to adopt in line with amended laws

³State and region mean sub-national areas of Myanmar that divided by 7 states and 7 regions

1.2 Importance of the Study

Although implication for fiscal decentralization have still policy debate in the world today in order to lack of formalized theory, state/region institutions and intergovernmental fiscal relation with significant change are critical to the future of Myanmar. The reason is that Myanmar has strived to achieve federal democratic nation especially from peace building by sharing relevant autonomy to all states/regions. So, it needs to ensure proper and consistent fiscal relation with undertaking decentralization processes of Myanmar in order to theoretical and practical point of view. The result from this study aims to undertake sequencing reforms of fiscal decentralization which may be harmonize fiscal capacity of state/regions with the investigation on fiscal relationship between union and state/region governments in Myanmar.

1.3 Objective

This study aims to undertake better movement of fiscal decentralization by examining on the reform of intergovernmental fiscal relation that initiated by previous Myanmar government. In order to examine intergovernmental fiscal relation in Myanmar, firstly this study analyzes revenue and expenditure assignments, fiscal transfers from union to state/region governments by discussing on the condition of before and after decentralization with figuring out some issues. Secondly, this study investigates the more detailing on the status of fiscal capacity that recently generated in each state/region according to changes of intergovernmental fiscal relation by using the data series from FY 2012-2013 to FY 2016-2017 of 14 states/regions to develop better ways for the sequencing reform of fiscal decentralization. The results from this analysis may provide government leaders and policy makers with more information and suggestions for promoting dialogue on the opportunities of fiscal decentralization in Myanmar.

1.4 Research Question

In order to undertake fiscal decentralization in Myanmar, this study asks; which governments have fulfilled public tasks with which revenue administration level and which intergovernmental transfer structure should have to achieve the better degree of fiscal relation between union and state/region governments?

1.5 Methodology

The approach of this study will be qualitative by using secondary data together with quantitative analysis. The qualitative study will be used by concluding the reliability of some deep primary information about fiscal decentralization from Ministry of Planning and Finance to help the required analysis. The quantitative study will be undertaken by using necessary statistical tools. Within this study, the deductive approach is used based on FY 2012-2013 to FY 2016-2017 data of 14 states/regions and union. In addition, some required data sources are collected from other publications that different scholars and experts including published articles, academic journals, authorized documents which provided by the government and other information sources.

1.6 Scope and Limitations

In order to analyze fiscal responsibilities between union and state/regions government to examine fiscal decentralization of the previous Myanmar government, this study have many limitations to achieve fiscal data of townships and districts. Thus why this study has to emphasize just the status on intergovernmental fiscal relation between union and state/region government level and it will not cover district and township levels. Also to achieve state/region's deep fiscal information, this study refers on the report; state and region public finance of Myanmar which was interviewed surveyed (2013) with authoritarians of state/regions by MDRI-CESD and state/region governance by UNDP report.

1.7 Organization of the study

This paper is divided into five chapters including introduction and conclusion. The first chapter is the introduction which is the problem statement and study objective, methodology, scope and limitation and expected outcome of this research. The second chapter reviews the relevant theoretical concept from other scholars and researchers. Third chapter examines the scope of intergovernmental fiscal relation in order to the conditions of before and after implementation which is focused on expenditure assignment, revenue assignment and fiscal transfers and also sub-national borrowing together with figuring for some issues. And the fourth chapter provides better ways to improve fiscal relation in Myanmar by detail investigating on fiscal capacity of state/region in order to recent status. Finally some policy suggestions are made for the sequencing reform of fiscal decentralization in Myanmar together with conclusions drawn on this thesis.

Chapter 2 : Literature Review

2.1 Definition and Rationale for Decentralization

The notion of decentralization involves the transfer of decision-making or management roles and functions from the central government to subordinate units of government, and local development units (Rondinelli 1981). This notion is based on an assumption that sub-national governments are better than the central government in terms of providing service delivery. So, the main rationale for decentralization is that central governments failed on providing delivery of services with resulting long delays due to overloading and congestion of the communication channels and facilities in many countries.

Although there are many arguments of decentralization, the wave of decentralizing government is seen as the latest fashionable idea of 21st century in the world (Hutchcroft2001).In order to decentralizing idea, today residents in sub-nations are also more demand elected officials who can implement for their welfare with sharing autonomy by central government. Thus, many industrialized and developing countries decentralized their governmental powers and functions from central to sub-national governments together with enhancing the level of local participation since 1970s (OECD-2002, 2003).

2.2 Forms and Dimensions of Decentralization

Actually, decentralization can take into three main forms which are de-concentration, delegation and devolution in order to the degree of independent decision making of sub-national governments (Prud'homme, 1994). De-concentration refers to the dispersion of responsibilities from central government to sub-national administrative units by full or partly legislative sovereignty. Delegation means to a situation in which sub-national governments acts as an agent for administrative sovereignty in their regions according to legislative sovereignty of central government. Finally, devolution

is a situation for shifting legislative and administrative sovereignties from central government to the hands of the sub-national governments for both implementation and authority (Petersen, 2008).

In addition, Silverman (1992) and Bird (1998) also defined top-down and bottom-up decentralized systems together with the above three main forms. Top-down system refers to sub-national governments exercise responsibility on behalf of central governments with high supervision. Under the bottom-up system, various levels of government act as agents of government with greater participation of people. According to each system has different benefits and costs, some countries adopt by the mix of both to be advantages of encompassing a larger class of systems with allowing more flexibility.

Concerning with the perspectives of decentralization, (Litvack and Seddon, 1999) distinguished that there are three key dimensions namely: political, administrative, fiscal decentralization. Political decentralization means that citizens or their elected officials have the power to influence on the formulation and implementation of laws and policies at the sub-national level. Administrative decentralization is the hierarchical and functional transfer of executive powers between different levels of government. Fiscal decentralization refers to sub-national authorities become more responsible for the expenditure and revenue assignment to meet the local needs of public services.⁴

By these ways, the three forms of decentralization together with its dimensions may determine the extent of decentralization efforts in each countries depending on the real performance of central government in order to institutional background, political conditions and underlying policy.

Forms and Dimensions of Decentralization

⁴Some scholars mentioned that economic decentralization also for the transfer of certain functions from the public to the private sector



2.3 Fiscal Decentralization

One of the important forms of decentralization that will focus in this study is fiscal decentralization which involves fundamental problem of allocating expenditure and revenue responsibilities among different levels of government. Fiscal decentralization is generally interpreted as the devolution of fiscal autonomy that associated with decision making from central to sub-national governments to be efficient public services in order to close communities. So, (Akai and Sakata, 2002) mentioned that fiscal autonomy is allocated on the basis of legal relationships between higher and lower-level governments.

In fact, sub-national governments should get a position to exercise their mandate such as legally access revenues, own tax collection and transfer from the central authority or a combination of the two in order to fiscal decentralization process (Litvack, 1996). In this way, the number of benefits for sub-national people can be efficiently enhanced by sufficient fiscal capacity under the management of sub-national governments. Thus why, (Bahl2008) provided that fiscal decentralization enable to achieve public trusts with the better management of sub-national governments. In order to do that, central government should sacrifice some or most of budgetary, spending and revenue collection powers to its sub-national governments to be exercised within their respective jurisdiction.

In reality, it has some conflicts in order to differences of resident preferences for providing necessary public goods. To facilitate these differences of public needs with the best matching between providing and

demanding, sub-national governments are the most responsible level (Oates, 1999). So, fiscal decentralization allows sub-national governments to set up frameworks for expenditures, revenue collection and legal discretion within their operation for providing services (Davey 2003). By this scene, providing power for sub-national governments to manage the allocation of fiscal resources is the main theme for fiscal decentralization. Therefore, the degree of fiscal decentralization can be measured by the level of sub-national autonomy and discretion on expenditure and revenue affairs for enough fiscal capacity (Ebel and Yilmaz, 2002).

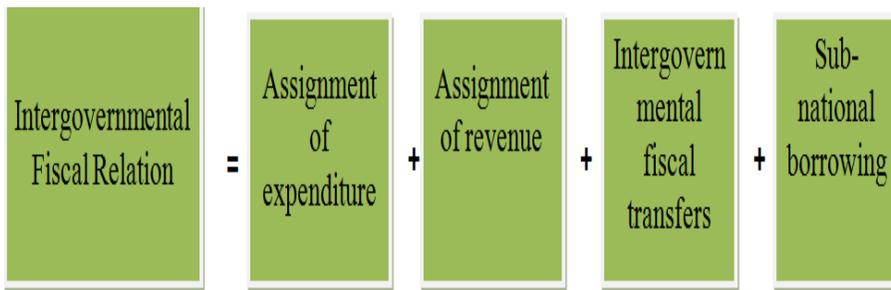
To be ensuring well degree of fiscal decentralization, institutional background is a core considerable factor because it can determine the nature of intergovernmental fiscal systems which can affect the outcome of the fiscal decentralization process. Regarding the institutional factors, Wildasin (cited in Ebel and Yilmaz, 2002) identified that critical elements such as economic development, the nature of the legal system, ongoing processes of political and economic reform, the operation of monetary and fiscal institutions, tensions emanating from ethnic, and economic disparities conditions largely influence on fiscal decentralization. In order to those disparities, expenditures and taxes may significantly differentiated among sub-national jurisdictions by individuals for voting with their feet and locate in the community which needs of services and taxes they like best (Tiebout -1956).

Obviously, most of financial institutions like World Bank, International Monetary Fund have supported to undertake for better reforming fiscal decentralization process in most countries according to the assumption based on strengthen participatory decision-making at local government levels (Grewal, cited in Amagoh, 2012). Hence, fiscal decentralization is becoming one of the key dimensions of decentralized governance system.

According to fiscal decentralization system, effective intergovernmental fiscal relation is the critical role to ensure balancing and consistence situations between central and sub-national governments. In general, there are four key elements of intergovernmental fiscal relation which

comprises assignment of expenditure, assignment of revenue, union fiscal transfers and borrowings in order to fiscal decentralization process (UNDP 2005). The assignment of revenue largely involves the autonomy to set tax rates and tax bases by local governments and the share of sub-national government taxes in the total national taxes.

Four Main Pillars of Intergovernmental Fiscal relation in Fiscal Decentralization System



The assignment of expenditure authorities can be measured by the share of sub-national government expenditures in total national expenditures. Intergovernmental transfer consists of fiscal transfer from central to local governments for the arrangements of coordinating and sharing particular bases. Borrowings allow for undertaking the large scale infrastructure investments for local governments. Although some industrialized countries have borrowing for local governments, most developing countries concern only three elements of intergovernmental fiscal relation.

2.3.1 Relevant Expenditure Assignment

There is no doubt that sub-national governments well understand what their resident’s needs and priorities. In order to this condition, sub-national governments are more responsible to be satisfied from their taxpayers for the provision of public services efficiently. Hence, adopting decentralization is the best way by setting clear line of responsibility and accountability in the functions and expenditure obligations. In addition, setting expenditure responsibilities in practically is a fundamental step for the design of the revenue assignment and central transfer in fiscal decentralization process.

According to subsidiarity principle, efficient expenditure assignment should be set to the lowest level of government to be effective provision of public service in order to linking of costs and benefits. However, most of sub-national governments are unable to carry out the responsibility efficiently (Rodden, 2003). Therefore, the central government should fix the specific functions and activities without overlapping for expenditure responsibilities. Despite there is no best optimal assignment for effective expenditure in order to concerns about many jurisdictions, three main criteria are important which are redistribution, stabilization and allocation to be efficient results (Musgrave, 1959).

So, Musgrave mentioned that central government should responsible for stabilization and redistribution function while allocation expenditure responsibilities should be assigned by both central and sub-national government following the categories of public goods and services. For instance, although there are certain efficiency advantages to supply of primary education and preventive health care together with sub-nation supervision, setting the policy on that service may be more warranted by centralized control (Hewitt and Ruggiero 1997). This point out that centralized decision making and control is often necessary for providing some services. Therefore, setting relevant expenditure assignment as mentioned by Musgrave is suited for providing services depending on the changes in costs and preferences to avoid conflicts between central and sub-national governments.

2.3.2 Proper Revenue Assignment

The logic of the theoretical appeal for fiscal decentralization concerns supplying services with proper self financing of each level of governments that can be match and efficient for the welfare of society (Ebel and Yilmaz, 2002). In order to Tiebout literature, fiscal decentralization can create the benefit of people by influencing governments' proper tax decision despite it has some risk cost. Thus, taxation assignment and decision to achieve sufficient revenues is a main character in fiscal decentralization system in practically.

Of course, sub-national governments should empower self financing capabilities to provide regional public services. So, tax assignment problems rise with some debates like which taxes should be assigned to sub-national governments and which should remain with the central government. Ideally excises, retail sales taxes, property and land taxes, motor vehicles and user charges suit to possess for sub-national tax. However, property tax collections are meager in most developing countries due to the problems with its application (Dillinger, 1994).

Basically, value added tax, international trade tax, corporate and personal income taxes are most appropriately assigned to the central government (Musgrave, 1983). In practice, most sub-national governments are not enthusiastic to levy high tax rates in order to avoid competitive disadvantage with each sub-nations which may lead to lower tax and less provision for services (Brueckner, 2004). Thus, exporting from some rich region's tax to other regions can effort to fulfill the fiscal gap with higher services provision (McLure, 1967). Although there are three main sources of sub-national revenue which comprises taxes, grants and non-taxes revenue, some few taxes are allowed as own source revenue for sub-national governments in most developing countries and so vertical and horizontal fiscal imbalance issues has occurred in always.

According to the theory of Economist Richard Musgrave (Musgrave, 1959, 1961), he pointed out that the role of fiscal and monetary policies are mainly concerned in managing the overall level of economic activity in order to stabilization function. In order to this function, the central government must have a broad-based suitable tax for this role to maintain national economy. To be benefit from taxes by stabilization effects, he suggests that corporate and personal income taxes should be assigned to the central government and taxes that are not effect on macroeconomic conditions such as consumption taxes, general sales taxes, excises and property taxes are suit to sub-national governments.

Secondly, Musgrave's distribution function concerns the role of government in changing the distribution of income and wealth to make more equal in nationwide. In that case, central government's broad taxing powers can more easily redistribute income according to wealthy residents and businesses might move out of a jurisdiction by practicing redistribution due to the distortions in the geographic allocation of the resources that might be benefit for poor people. In this way, distribution functions should be more assigned to the central government and hence it is suit to collect corporate income taxes and personal income taxes which cannot effective for sub-national distributional assignments.

Finally, allocation function should be the core function of sub-national governments since their prime task is to provide public goods and services in accordance with residents' preferences. In this allocation way, sub-national governments have to conduct to be satisfied from their taxpayers by the delivery of public services with proper tax assignment such as motor vehicle and fuel. Likewise, central government has to undertake central level services such as defense, foreign affairs, international trade, immigration, etc. By doing so, each level of governments may be more efficient in delivering certain public goods and services with proper revenue assignment.

In fact, effective intergovernmental fiscal relation in fiscal decentralization process is largely depend on tax autonomy and collection of sub-national governments, however it still just poor condition in the allocation of tax assignments for sub-national governments in most developing countries. So, it is not enough to cover all the cost by sub-national tax and central government has to support annually to sub-national governments as transfer grants to accomplish their necessary public service programs.

2.3.3 Consistent Fiscal Transfers

In decentralized implementation, central governments allow the need of fiscal transfer to sub-national governments to meet its national objectives such as infrastructure development programs (Shah, 1991). Basically the transfer system is implemented by revenue sharing and forms of grants for the

provision of the sub-national services. So, appropriate revenue sharing approach should be considered to solve the cost of sub-national governments by some parts of central taxes (McLure,1999). However, this approach has many restrictions on sub-national fiscal autonomy in practice in order to the issues of vertical and horizontal fiscal imbalance by the differences of fiscal abilities and costs of the public services.

Occasionally, vertical fiscal imbalance may ensure if sub-national governments cannot administered well on their tax assignment or a large fiscal gap occur between central and sub-nations. Particularly, if the resources and economic activities are highly concentrated in few regions within a nation, then horizontal disparities become by natural resource taxes and corporate income taxes assignments. So, central government has to adjust to close those revenue gaps by relevant fiscal equalization transfer to relieve sub-nation's disparities.

In order to achieve matching and consistent grants in most countries, the central government uses three methods which are fix transfers; formula transfer and distributive formula depend on the needs of respective level. Although these three methods have each challenges to satisfy for sub-national governments, formula transfer that follows by population size and fiscal needs to provide minimum public service may relevant by transparency in most developing countries. In fact, the use of transfer grants is one of the main ways in which the central government can influence the sub-national governments for spending in order to achieve national objectives (Roberts and Shah 1994).So, transfers should be designed to be match and consistent for actual fiscal needs of sub-nations that can provide necessary public services and avoid conflicts by transparently and accountability.

2.3.4 Sub-national Borrowing

To enhance intergovernmental fiscal capabilities, borrowing is a key role to undertake large scale infrastructure investments for sub-national governments. In most cases, sub-national governments are unable to finance their capital investment responsibilities and hence they need to borrow the

necessary funds for large investments. However, most developing countries have imposed many restrictions on borrowing because of insufficient revenue capacity of sub-region governments.

2.4 Provision of Public Services

The nature of public service is to enjoy for all citizens without too much cost for consumption of services that have been provided by only governments such as education, health, drinking water and park for recreation etc as a minimum standard of provision. Because of no private institutions are unable completely in providing such services in order to less profit. In addition, it should be considered that different regions have different needs and preferences in order to their location. Despite central government try to provide overall public services by spending from tax receipts, geographical limitation may lead to unequal and inefficient provision. So, government needs to consider that how to provide minimum public services efficiently on each region to meet different residents' needs.

According to the above discussion of Economist Richard Musgrave, government should intervene to be correct for market failure with three functions of stabilization, redistribution and allocation function. Thus, the main decisions for public services provision should be made at the sub-national level and financed from their own taxation while central government solve national level policy and services in order to fiscal decentralization system. By allocating appropriate responsibilities in order to better intergovernmental fiscal relation to be achieving successful decentralization, each government level will achieve public trust thoroughly efficient necessary service supporting.

2.5 Previous Studies and research

It has some research concerns with the subject of fiscal decentralization in Myanmar because of unreliable fiscal data especially for townships and districts level. Even for state and regions level, it has few records and reports for fiscal situation that made by some institutions. Some

studies reports that published by World Bank, Myanmar Development Research Institute (MDRI), the Asia Foundation and United Nations Development Program (UNDP) lead to support to understand about fiscal information of Myanmar as a nationwide situation.

Also the study of “State and Region Government in Myanmar”, “State and Region Public Finance in Myanmar”, “Mapping the State of Local Governance in Myanmar” are also good sources to know about finance and administration of states and regions but all are focused only on the special detail of governance and well understanding for fiscal process of Myanmar. And the report of “Fiscal Decentralization and National Reconciliation in Myanmar” (Paul Minoletti), “Fiscal decentralization in Myanmar, Towards a roadmap for reform” (MDRI and Asian Foundation) and the study of “Intergovernmental fiscal relation in Myanmar, Current process and future priorities for Public Finance Management” (JICA and CEDS) are lead to understand to some extends for fiscal conditions like planning and budgeting themes to reform public finance management in Myanmar.

In fact, those studies too much focused on the condition of Myanmar peace process by fiscal decentralization, some perspectives of public finance management deal with states/regions and so they didn't emphasize on the detail scope of intergovernmental fiscal relation which is focused on the previous implemented by five years data series to enforce for better fiscal decentralization. Thus why, this study is analyzing the reform of intergovernmental fiscal relation in terms of before and after condition and also investigates on fiscal capacities of 14 states/regions by using the data series of reforming period from FY 2012-2013 to FY 2016-2017 and figure out some issues and develop better ways to reform fiscal decentralization of Myanmar.

Chapter 3 : Fiscal Decentralization in Myanmar

3.1 Long Way toward Decentralization

Myanmar is a Southeast Asian nation and bordering India, Bangladesh, China, Laos and Thailand with huge territorial area. With diverse ethnic, cultural groups and different development level of seven states and seven regions, Myanmar possesses enormous resources endowments by naturally. In order to possessing large natural resources, many ethnic groups who lived in each state/region was significantly struggling to lead for their regional development since its independence gained from British's colonial administration in 1948. Thus why, long time civil war in Myanmar has evidenced as the hungry of federal nation by respective ethnic people.

Actually, Myanmar attempted to shift decentralization through different eras by long way period. However, it could not implement well in order to entrenchment habits of top-down decision-making with poor accountability and transparency by the feature of highly centralized system under steel frame of British rule since colonial era. But, the need for decentralizing government function has long been recognized whatever varying intensity.

Generally, Myanmar had five significant eras with different administrative system in the history of governance which are namely by Democratic Governments period (1948 to 1962), the Revolutionary Council period (1962 to 1974), Burma Socialist Party period (1974 to 1988), the Military Regime (1988 to 2011) and Transformation to Democratic Government period (2011 until to date).⁵ Following these different eras of administrative system, different fiscal management and responsibilities has also been adopted in line with the existing rules and regulations.⁶

⁵David Hook Tin Maung Than and Kim N. B. Ninh, *Conceptualizing Public Sector Reform in Myanmar* (2015)

⁶Public Finance Management Reform, Ministry of Planning and Finance

In order to past effort, Myanmar tried to introduce federal system with structuring sub-national governance bodies in some urban centers and district level since colonial period. However, these bodies were not efficient in order to high corruption. After gaining independence in 1948, the new democratic government was elected in 1951 with the strong legal framework for democratic government by 1947 Constitution. Soon, democratic government established a township welfare committee in each township with relevant social departments and public representative by the leading of township officers to further the devolution of administrative powers for regional development. These township welfare committees were invited to submit a plan with a budget estimate to inform preparation of divisional development plans.

Then it was submitted to the cabinet for consideration and inclusion in the national budget. Once Parliament had approved the budget, discretionary grants were made to the divisional committees which disbursed funds to the township welfare committees without further reference to the Ministry of Finance. The divisional welfare committee supervised the implementation of regional development works and accounted for expenditure. So, intergovernmental relation at that time was consistent to be support for sub-nation's needs and people enjoyed as a remarkable democratic age in history of Myanmar even though federal administration was seriously demanded by ethnic people.

Unfortunately, starting the divisive tendencies among administrators since 1962 led to plague to following 50 years. In the period of 1962 after Revolutionary Council took over power, internal security and administrative committees was seriously focused by the leading of military officers in each states and regions, districts, townships, wards and village tracts. Later, the descent civil war started with the long process of warping in shaping administration of Myanmar.

Then in 1974, security and administrative committees that initiated by Revolutionary Council was transformed as people's councils according to

1974 Constitution. Particularly, People's Council Act of this age allowed for the participation of workers' and peasants' councils in administration although the leading role of military officers continued. So, generally say that this era allowed for a measure of popular participation in regional welfare as lower government level with limited opportunity.

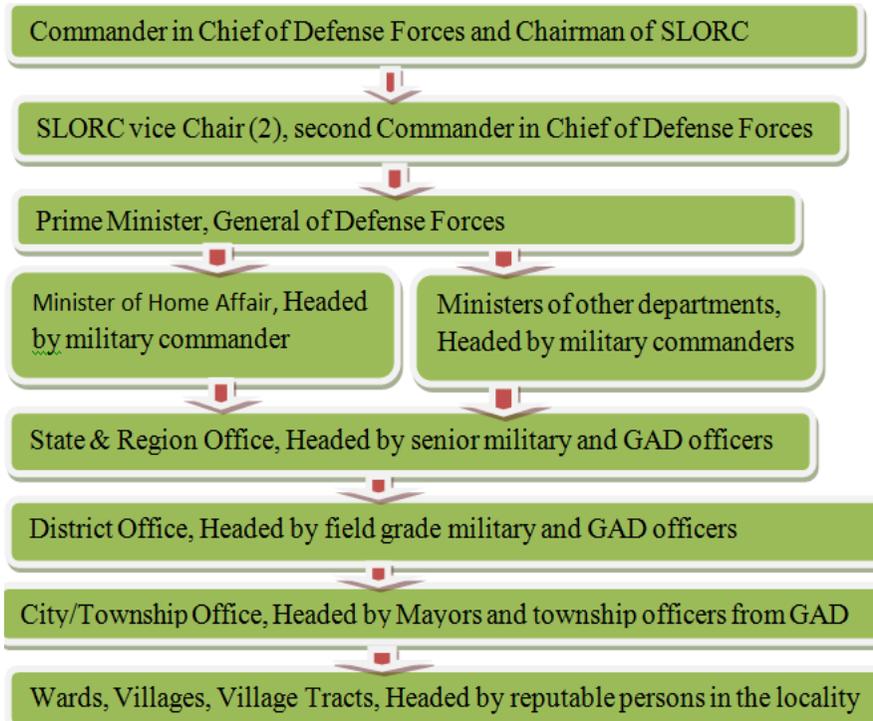
Thereafter, military takeover power in 1988, the people's councils were abolished and replaced with state peace and development council. Military regime recreated an administrative structure like the colonial state and attempted to assert control from the center down to village in Myanmar. Soon, state peace and development council was changed by state law and order restoration council which led by military officers. A re-formed General Administration Department was integrated into the Ministry of Home Affairs to support the council and ordered to lead for sub-national welfare at each state and region, division, district, township. In many ways, military structures influenced the period from 1989 to 2010 like the Revolutionary Council model in 1962.

According to figure (1), it is clear that highly centralized order and hierarchical structure had been adopted by military government in Myanmar. By exploiting this, military government could control all government agencies by top-down approach from union to state/region, from state/region to districts, from districts to township/city and from township/city to till ward or village and village tracts. Even though state/region and district heads proposed welfare functions for their areas, final decisions were determined only by Commander in Chief of Defense Forces.

So, state/region heads received tasks and implemented all programs as delegations in line with the order of Commander in Chief. These were then further delegated downwards to the district level which finally delegated to the village/ward level. Even though military government amended 2008 Constitution in later which include power separation between union and sub-national governments, it couldn't implement during their 20 years. Thus, only the Minister of Home Affairs which was the military government

representative controlled all regional affairs and activities with the guidance of Commander in Chief of Defense Forces.

Figure(1); Myanmar’s Government Structure in the Military Regime(1989-2010)



Source; Based on mapping the State of Local Governance in Myanmar-UNDP 2015

Furthermore, sub-national governors had great stature as the heads of territorial units and they had the authority to control, manage, lead, supervise as well as coordinate with subordinates in order to the dictation of laws and regulations. Although small portion of tax collection at that period was allowed by general administration department in every state/region, most tax revenue had to been contributed to the central account according to the lack of state/region account. So, central mostly collected as a nation-wide taxation and spent for public development programs by central budget account. As a result, most public spending didn’t match with public needs and preferences

in order to different locations. Therefore, it was really silent people voice in military regime for more than 20 years in Myanmar.

However, 2008 Constitution has introduced a new decentralized system through creating new institutions at the union and state/region level after 2010 election. At the union level, the executive, legislative and judicial branches were established according to article 12 of 2008 Constitution. Also states/regions were empowered with their own parliaments by their executive, legislative and judicial branches through article 12.⁷

3.2 Objective and Status of Fiscal Decentralization

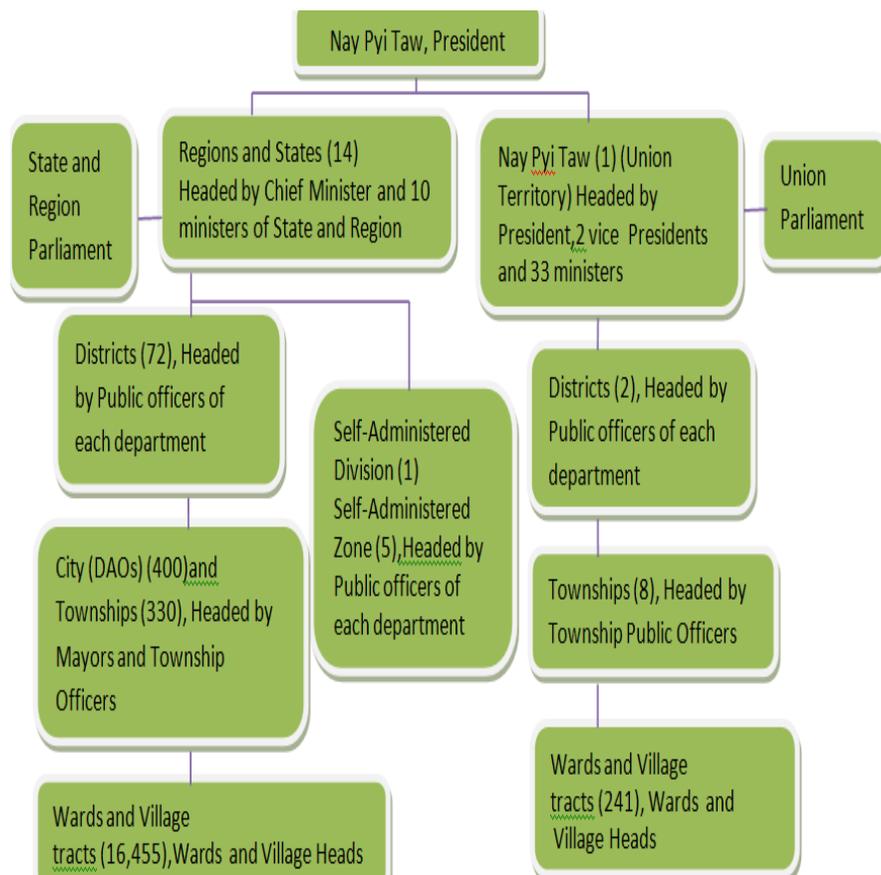
In Myanmar, the main objective of fiscal decentralization was intended to get quick wins in public needs and regional development according to the agenda of previous government, to improve management and administrative performance of government agencies, to reflect people-centered development with cooperating top-down and bottom-up approaches which take into account the request made by communities for providing public service delivery and to balance financial capacity across states/regions. Starting from FY 2012-2013, separate budget account system between union and state/region was adopted by stipulating a federal structure in order to 2008 Constitution. Moreover, financial Commission was formed by the heading of President including state/region Chief Ministers. So, these new structural arrangements had significant changes on financial management and administration in Myanmar.

With these changes, state/region governments are more authority to govern their own areas. Union government makes nation-wide decisions and planning for required policy and guidance while state/region governments undertake more basic planning, management and delivery for regional development. The following figure (2) and table (1) describes government structure and population condition at the previous reform period (2011-2015). As shown in figure (2), township/city plays a more important role for basic

⁷The more details are been provided by appendix(1)

planning and development in order to proximity of their people populace by cooperating with head of village and village tracts. Above the township/city, district/self-administrative division level serve as a median coordinating level between township/city governments and state/region government under the supervision of Chief Minister. Each state/region has each Parliament to consult and solve for people needs.

Figure(2): Myanmar’s Government Structure according to 2008 Constitution after 2011



Source: Based on mapping the State of Local Governance in Myanmar-UNDP 2015

Likewise, union territory is under the direct administration of President and day-to-day functions are being carried out by the Nay pyi daw Council Chairperson. The national-level legislation of Myanmar is operated by Union Parliament which made up of two houses including national and

people representatives. In Myanmar, Yangon region is the highest population and Kayah state is the smallest one as shown in table (1).

Table (1): Population condition of State/Region in Myanmar

Region and State	Population	Population Density per square kilometer	Total Household	Rural (%)	Urban (%)
Kachin State	1689441	19	269365	64	36
Kayah State	286627	24	57274	75	25
Kayin State	1574079	52	308041	78	22
Chin State	478801	13	91121	79	21
Sagaing Region	5325347	57	1096857	83	17
Tanintharyi Region	1408401	32	283099	76	24
Bago Region	4867373	124	1142974	78	22
Magway Region	3917055	87	919777	85	15
Mandalay Region	6165723	200	1323191	65	35
Mon State	2054393	167	422612	72	28
Rakhine State	3188807	87	459772	83	17
Yangon Region	7360703	716	1582944	30	70
Shan State	5824432	37	1169569	76	24
Ayeyawady Region	6184829	177	1488983	86	14
Union	1160242	164	262253	68	32
Total	51486253				

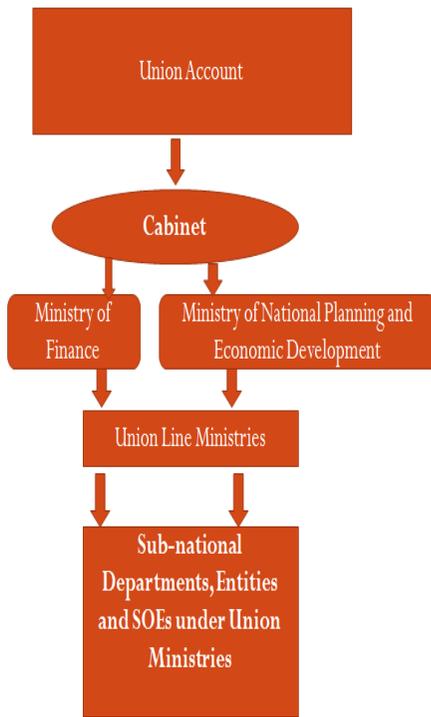
Source: 2014 Myanmar Population and Housing Census – The Union Report

In order to fiscal relation process before decentralization, union line ministries have been allowed to propose for required current expenditure to Ministry of Finance and necessary capital spending has reviewed by Ministry of National Planning and Economic Development as shown in figure (3)(a). After reviewing those two proposals by those two ministries, it had been taken approval by Cabinet. As soon as the approval from Cabinet, union line ministries have to manage the required spending for state/region departments, entities and state-own enterprises.

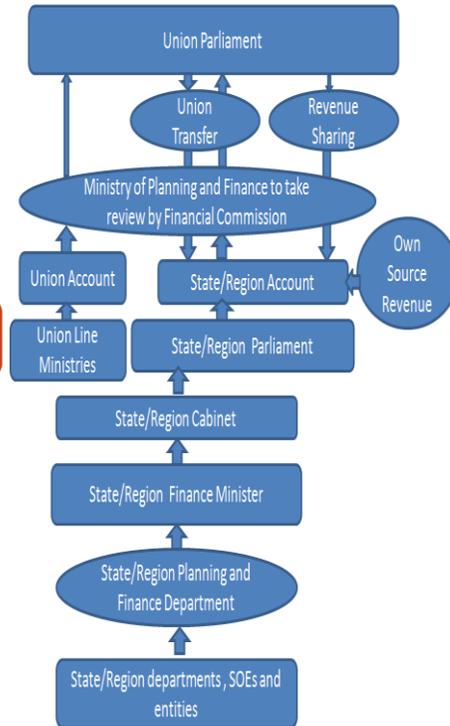
However, with the shifting process of decentralization after 2011, also fiscal autonomy has been shared to some extents by the previous government (2011-2015) with separately responsibilities between union and state/region

level. So, state and region governments had the right to enact laws, tax collection responsibilities that defined by 2008 constitution, receive grant transfers from union and manage entities in their state/region.

Figure (3) (a) Fiscal Relation Process before decentralization



(b) Fiscal Relation Process after decentralization



Source: Based on the information of Ministry of Planning and Finance

In order to figure (3)(b), state/region departments and institutions are allowed to develop proposals and submit to respective Planning and Finance Department within their regions. After reviewing state and region Finance Minister to all proposals that submitted from Planning and Finance Department, it has to submit again to state/region Cabinet headed by Chief Minister. Thereafter endorsements for reviewing are taken by state/region Parliament. If endorsed by state/region Parliament, these all proposals have to be sent again to the union Ministry of Planning and Finance to take review from Financial Commission headed by president. Particularly, union proposal are annually undertaken by union level ministries. Then, both union and

state/region proposals are taken from the permission of union Parliament. Once approval from union Parliament, respective public investment laws have been separately amended for union and state/region to initiate implementation programs.

Concerning with revenue autonomy, 2008 Constitution allowed Department of Fishery, Forestry, General Administration Department and Development Affairs Organizations (DAOs) in state/region to collect tax and spending autonomy by their own revenue. For the insufficient state/region public investment, union government support transfers as conditional matter and ad hoc programs. Since FY 2016-2017, revenue sharing has implemented to fulfill the fiscal capacity of state/region.

3.2. Expenditure Assignment in Myanmar

The expenditure assignment in Myanmar was adopted by highly centralized system for long time period as mentioned in figure (3)(a). However, it was reformed to decentralized expenditure system which shared responsibilities for spending decisions to state/region level by the mix of bottom-up planning and top-down budgeting since FY2012-2013. Generally, the legislative and executive responsibilities which assigned from union to state/region governments according to 2008 Constitution include eight sectors namely by Finance and Planning Sector, Economic Sector, Agriculture and Livestock Breeding Sector, Energy, Electricity, Mining and Forestry Sector, Industrial Sector, Transport, Communication and Construction Sector, Social Sector, Management Sector. Those each sector includes a broad range of organizations and departments with the leading of each state/region minister.⁸

Table (2): Assignment of Expenditures between union and state/region in Myanmar

⁸State and Region Legislative List according to Schedule 2 of the Myanmar 2008 Constitution

Functions	Role and responsibilities by government level		
	Defining	Financing	Providing
General public services			
Union Parliament	Union	Union	Union
State/Region Parliament	Union	Union / S&R	S&R
Union Government	Union	Union	Union
State/Region Government	Union	Union / S&R	S&R
Foreign relation	Union	Union	Union
Defense	Union	Union	Union / S&R
Public order and safety	Union	Union / S&R	Union / S&R
Education			
Kindergarten	Union	Union	Union / S&R
Primary school	Union	Union	Union / S&R
Secondary school	Union	Union	Union / S&R
Tertiary School	Union	Union	Union / S&R
Universities	Union	Union	S&R
Vocational	Union	Union	S&R
Health			
Hospitals	Union	Union	Union / S&R
Dispensary	Union	Union	Union / S&R
Social protection and social welfare			
Social protection	Union	Union	Union / S&R
Social assistance	Union	Union	Union / S&R
Housing and community service			
Housing	Union	Union / S&R	Union / S&R
Water supply	Union / S&R	Union / S&R	Union / S&R
Sanitation and disposal	Union / S&R	Union / S&R	Union / S&R
Sewage	Union / S&R	Union / S&R	Union / S&R
Recreation	Union / S&R	Union / S&R	Union / S&R
Sport, Culture and Information			
Sports	Union	Union	Union / S&R
culture	Union	Union	Union / S&R
Information	Union	Union	Union / S&R
Economic affairs			
Fuel and energy	Union	Union	Union / S&R
Finance and economic activities	Union	Union / S&R	Union / S&R
Agriculture	Union	Union	Union / S&R
Livestock and Fishery	Union	Union / S&R	S&R
Construction and road	Union	Union / S&R	Union / S&R
Mining and mineral resource	Union	Union	S&R
Forestry	Union	Union / S&R	Union / S&R
Transportation and communication	Union	Union	Union / S&R
Industry	Union	Union / S&R	Union / S&R
Cooperative	Union	Union / S&R	Union / S&R
Unclassified Services	Union	Union / S&R	Union / S&R
Environmental protection	Union	Union / S&R	Union / S&R

Source: Estimation based on budget law of 2012 to 2017

With sharing assignments, three main themes for expenditure responsibilities which include administrative organizations and departments, development affairs organizations and state economic enterprises are divided in each state and region. State administrative organizations and departments in all state/region operate their financial matters on an administrative basis whereas state economic enterprises conduct on a commercial basis.

Also, city and township development committees namely by development affair organization (DAOs) operate on the basis of self-financing and financial viability in line with the City and Township Development Laws to resolve independently a range of municipal services issues such as sanitation, road construction, sewage and recreation on the respective capital city, township, district through levying of taxes and fees.

In fact, public finance spending in Myanmar has been managed by public finance principle and so each level of government has to follow for their expenditure responsibilities in accord with existing rules. Most expenditure account of state and region government is very similar with union government expenditure namely by current, capital and financial. Table (2) reflects that the decisions on expenditure responsibilities are being estimated by three important dimensions such as defining, financing, and providing the services based on the existing budget laws.

Providing services such as defense, foreign relation, energy, mining, union level services provision, education, health, social welfare are taken by union government. The services that required for both state and region's benefit and union level such as sanitation, sewage and other municipal services, etc are shared to state/region governments. So, most responsibilities on defining and financing public services are obviously assigned to the union government and only municipal service and basic service provisions are shared to state/region level.

3.2.1.1 Determining a degree of expenditure assignment in Myanmar

Contribution share of state/region expenditure in total consolidated expenditure is the best measurement to examine the degree of expenditure assignment in terms of most financial institution. In order to these measurement, share of state/region expenditure accounts by only less than 5% of overall government expenditure before decentralization period as shown in table (3). However, as soon as achieving expenditure power in 2012-2013,

state and region government could sharply spend by both their tax income and grants from union government even though it has relatively limited expenditure responsibilities.

This increasing trend can be observed respectively by 8.05% in FY 2013-2014 and 13.96% in FY 2014-2015 in order to initiation of decentralization. So, generally saying that state and region expenditure share for public service provision was significantly increased compared with before sharing responsibilities periods in Myanmar.

Table (3): State and Region Expenditures as Percentage of total Expenditures

States and regions	Before decentralization(%)			After decentralization(%)		
	2010-2011	2011-2012	Average	2013-2014	2014-2015	Average
Yangon and Mandalay region	1.17	1.20	1.19	1.91	2.67	2.29
Expenditure of other states/regions	2.85	3.03	2.94	6.14	11.29	8.72
Total state and region	4.02	4.23	4.13	8.05	13.96	11.01

Source: Calculation based on the data of Ministry of Planning and Finance

Table (4): Average State and Region Expenditures according to the condition of before and after Decentralization

(MMK million)

States and regions	Before decentralization				After decentralization				Average growth(%)
	2010-2011	2011-2012	Growth(%)	Average	2013-2014	2014-2015	Growth(%)	Average	
Yangon and Mandalay region	90348	101289	12.1	95819	309275	543371	75.7	426323	344.9
Expenditure of other states/regions	193509	233161	20.5	213335	931714	2159080	131.7	1545397	624.4
Total state and region	283857	334450	17.8	309154	1240989	2702451	117.8	1971720	537.8

Source: Calculation based on the data of Ministry of Planning and Finance

It also increased obviously in terms of nominal expenditure of all state and region by comparing before decentralization period. As shown in table (4), average expenditure was MMK 309 billion before decentralization. However, this amount sharply increased to MMK 1971 billion after decentralization period. So, average expenditure of all state and region increased by 537%. Although all state and region nominal expenditure growth was only 17.8 % before decentralization, it increased to 117% after decentralization.

Table (5): Expenditures as Percentage of GDP according to the condition of before and after Decentralization

States and regions	Before decentralization(%)			After decentralization(%)		
	2010-2011	2011-2012	Average	2013-2014	2014-2015	Average
State and Region Expenditure % of GDP	0.71	0.73	0.72	2.14	4.14	3.14
Union Expenditure as % of GDP	17.54	17.45	17.50	25.70	26.99	26.35
Total Expenditure as % of GDP	18.25	18.18	18.22	27.84	31.13	29.49

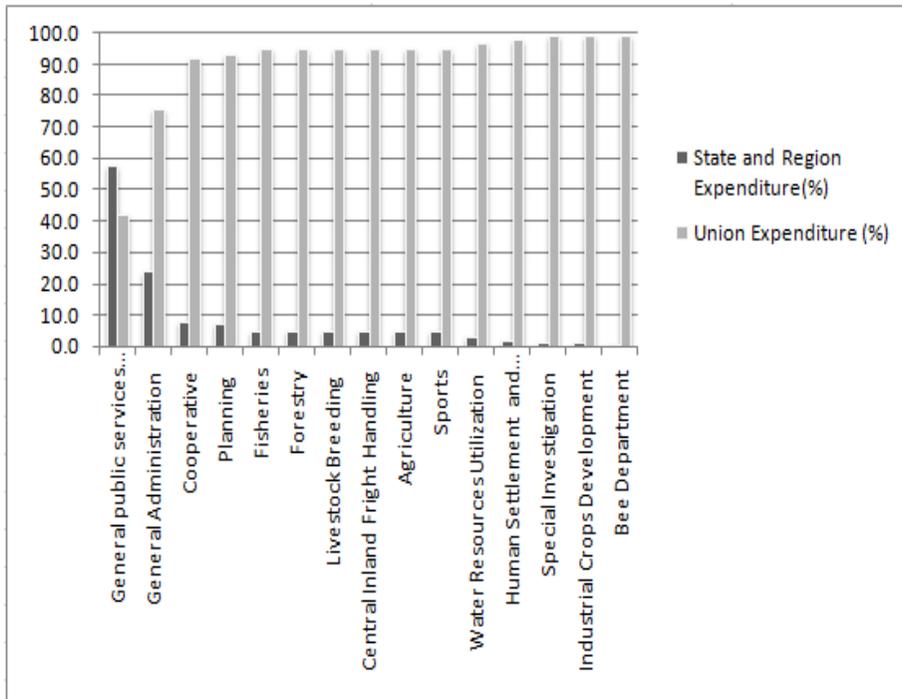
Source: Calculation based on the data of Ministry of Planning and Finance

According to table (5), although average state and region expenditures as a proportion of GDP had only from 0.72% before sharing responsibilities, it sharply increased 3.14% after decentralization. So, it was obvious that Myanmar government could more spend public investment for state/region public services. However, it still small portion on sharing state/region expenditure relatively with union expenditure as an early stage of implementation.

Figure (4) illustrates that proportion of states/regions expenditure relatively with union spending on each function after allocating spending responsibilities in FY 2013-2014. In fact, state and region governments financed capital investment more than half of their expenditures for overall public works such as road, bridges, airports, buildings construction, municipal and other small social services than current spending. Secondly, general administration expenditure was used as 24.0%. Hence, state and region

governments could spend with just small part for other functions such as education, health, agriculture, livestock, forestry, industry, sports, and etc.

Figure (4): State and Region Expenditure as Percentage of Union Expenditures by function in 2013-2014



Source: Based on State and Region Public Finance in Myanmar Report

According to 2008 constitution, previous Myanmar government assigned some expenditure responsibilities that associated with legislative and executive power to the respected state and region government levels. Since involving of state/region administration, it was potentially allowed the greatest benefits in decision making for public service provision by bottom-up planning approach although it has not enough for adequate finance. So, devolved expenditure responsibilities in Myanmar are obviously needed to continue with better fiscal relation according to decentralization process for public service provision.

In fact, provision for social services including education, health, and social welfare in state/region is mainly responsible by state/region government, however spending for these services are too much control from union. In order

to that condition, state and region governments have operated with low degree of expenditure assignment for funding, regulating and implementing programs.

Hence, state and region governments have done as a de-concentrated expenditure responsibilities in order to insufficient spending which leads to inefficient service delivery. Although there is no strange as an early stage of fiscal decentralization in many countries, Myanmar requires the reassignment of the expenditure responsibilities without overlapping between union and state/region governments to be more clarity.

3.2.2 Revenue Assignment in Myanmar

The important concept for the effectiveness of decentralization is the linkage between revenue raised and services that enabled by the sub-national level. In order to achieve real revenue right, sub-national governments must have a substantial autonomy for the best of favorable tax rate. In Myanmar, the majority of tax revenue has administrated by Internal Revenue and Customs Department under of Ministry of Planning and Finance. For own source revenue of state and region governments, it has assigned to operate with tax revenue and user fees in order to tax autonomy which allowed by 2008 Constitution.

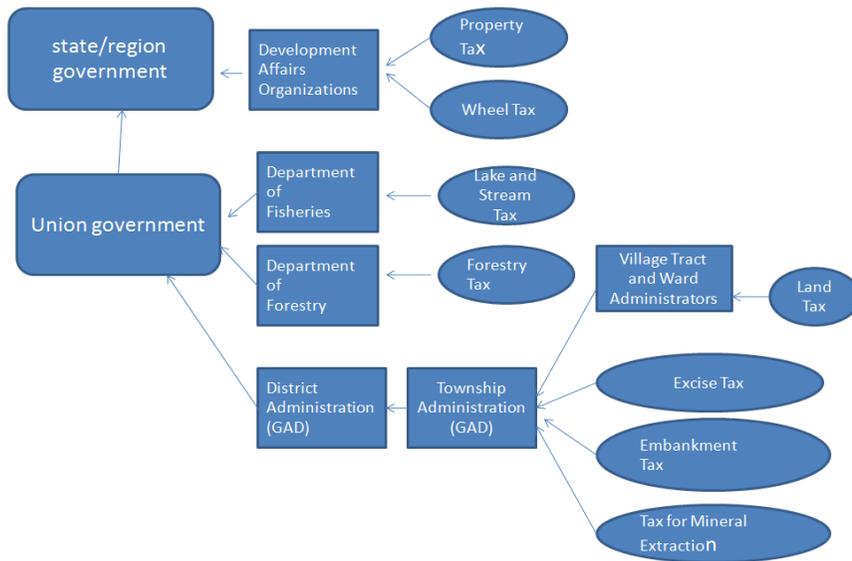
Table (6): Current Legislative Condition of State/Region Own Revenues

Taxes and Fees	Determining tax base	Determining tax rate	Which tax revenues go
Lake and Stream(Fishery)Tax	Union	Union	Union/State and Region
Extraction of Forest Produce (Forestry) Tax	Union	Union	Union/State and Region
Land Tax	Union/State and region	Union/State and region	Union/State and region
Excise Tax	State and Region	State and Region	State and Region
Embankment(Water and Irrigation)Tax	State and Region	State and Region	State and Region
Tax for Mineral Extraction	Union	Union	Union/State and Region
Property Tax	Union/State and region	Union/State and region	Union/State and Region
Wheel and toll Tax	State and Region	State and Region	State and Region
Rent fees	State and Region	State and Region	State and Region
Services enterprises taxes	State and Region	Union	State and Region
Judicial courts Fine Fees	State and Region	Union	State and Region
Custom Tax	Union	Union	Union
Commercial Tax (net of tax on all imported goods)	Union	Union	Union/State and Region
Lottery taxes	Union	Union	Union
Income and profit Tax	Union	Union	Union/State and Region
Stamp Duties	Union	Union	Union/State and Region
Special goods Tax (tobacco, alcohol, timber, fuel, vehicles, etc.)	Union	Union	Union/State and Region

Source: Evaluation based on Schedule 5 of the 2008 Constitution

But in practice, state and region governments have little autonomy on the bases and rates for the vast majority of taxes (see in table 6). Generally, commercial tax, special good tax, income tax, lottery tax and stamp tax are set by union's tax rate and bases while some rent and user fees are based on state/region level by the administration of respective entities. So, state and region governments have more right to control mostly on usage of the municipal services, local roads and bridges.

Figure (5): State and region own revenue collection point

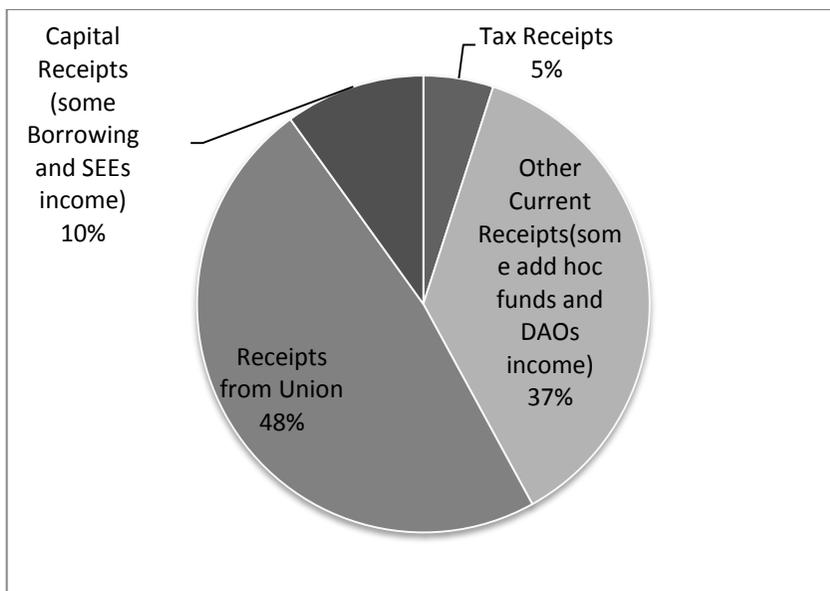


Source: Based on Schedule (5) of 2008 Constitution

Revenue collection of most taxes in state/region level of Myanmar is undertaken by three main agencies which are general administration department, development affairs organization and some departments like fishery and forestry. Taxes which are collected by the general administration department include the Land Tax, Excise Tax, Embankment Tax and Taxes for the Extraction of Minerals.⁹ Also Lake, Stream Taxes and Forestry Taxes are collected by the Department of Fisheries and Department of Forestry. Especially, development affairs organizations are responsible to collect as well as transportation tax, municipal fees and other fees in state and region. Although development affairs organizations in each state/region are allowed to spend directly from their revenue, general administration, fishery and forestry department's revenues are eventually managed by union to use in respective state/region. A picture of state/region own revenue key point is provided by figure (5).

Figure (6): State and Region Revenue Sources

⁹Excise tax based on tax rate and auction system and also most extraction of mineral tax include cutting and polishing of gemstones within the Region or State, see in Annex (1)



Source: Based on State and Region Public Finance in Myanmar Report

Like other decentralized countries, the main distinctions of revenue assignments of state/region in Myanmar include own revenue and shared revenue from union. Tax receipts, other current receipts, capital receipts like borrowing and some earning from state economic enterprises and receipts from union are main sources of state/region revenue. As shown in figure (6), union government support has a large portion of revenue in state/region account and second one is taxes from development affairs organization including some add hoc funds like constitutional development fund, poverty reduction fund and rural development funds.¹⁰ Thus why, 5% taxes as own source and 0.2% earnings from state economic enterprises could be collected by state/region governments.

Table (7) Tax Sharing in Myanmar

¹⁰Starting from FY 2013-2014 to FY 2015-2016, 330 townships were provided by MMK 330 million as constitutional development fund, also poverty reduction fund for all state and region was supported by MMK 16 billion in FY 2013-2014 and MMK 50 billion in FY 2014-2015 and finally rural development fund for all state and region was provided by MMK 254.5 million in FY 2011-2012 and MMK 329.5 million in FY 2012-2013 and consider other funds like providing by union level Ministry of livestock, fishery and rural development and national people centered program that supported by international organization occasionally.

Type of taxes	Share of union	Share of state and region
	government, %	government,%
Commercial Tax	85	15
Special Goods Tax	85	15
Income Tax	95	5
Stamp Tax	98	2

Source: 2016 Union tax law, Ministry of Planning and Finance

For sharing taxes, as illustrated in table (7), 15% of commercial tax and special good taxes are being shared from union to state and region governments starting from FY 2016-2017 as a new policy initiative and it can be used as they wish in line with their legal expenditure mandates. Also, 5% of income tax which is not business and 2% of stamp duty which is levied on specific transaction such as conveyances, gifts and mortgages deeds have been shared to state and region.¹¹

3.2.2.1 Determining a degree of revenue assignment in Myanmar

According to decentralization system, sub-national own revenue must be increase over time with the relevant assignment of sub-national taxing power. Table (8) reflects that the significant increasing of average state and region own revenue contribution as the beginning period of decentralization.

Table (8); State and Region Own Revenue Contribution in Total Revenues

States and regions	Before decentralization(%)			After decentralization(%)		
	2010-2011	2011-2012	Average	2013-2014	2014-2015	Average
Yangon and Mandalay region	1.56	1.17	1.37	1.66	2.43	2.05
Revenue from the other states/regions	1.63	2.06	1.85	2.62	4.33	3.48
Total state and region	3.19	3.23	3.21	4.28	6.76	5.52

Source: Calculation based on the data of Ministry of Planning and Finance

¹¹This sharing of stamp duty has distant origins starting with Rangoon Development Trust Act which mandated such sharing, then Rangoon Municipal area. This was extended to Mandalay in 2009 and across all DAOs nation-wide in 2014.

Overall condition of state/region's own revenue, the contribution before decentralization was only 3.21% from total revenue while after decentralization reached 5.52%. It means that there happened 2.31% increase in state and region own revenue contribution to fund expenditures as the beginning period of decentralization.

Table (9); Average State and Region Own Revenue before and after Decentralization

(MMK million)

States and regions	Before decentralization				After decentralization				Average growth(%)
	2010-2011	2011-2012	Growth(%)	Average	2013-2014	2014-2015	Growth(%)	Average	
Yangon and Mandalay region	65000	77752	19.6	71376	246238	437923	77.8	342081	379.3
Revenue from the other states/regions	116784	137790	18.0	127287	388729	781404	101.0	585067	359.6
Total state and region	181784	215542	18.6	198663	634967	1219327	92.0	927147	366.7

Source: Calculation based on the data of Ministry of Planning and Finance

By analyzing with the nominal amount of all state and region average own revenue, it also obviously increased compared to before decentralization period. Although average own revenue before decentralization was MMK 198 billion, this amount changed to MMK 927 billion after decentralization period. That means average growth rate of own revenue increased by 367%. Before decentralization, all state and region nominal own revenue growth was only 18.6% while in decentralization period was 92% (see in table 9).

This facts show that all state and region governments have done significant efforts to find out revenue sources seriously. Among them, Yangon and Mandalay region showed higher efforts than other states and regions by high population and business employment in order to better infrastructures and human resources to support economic activities. Here, Nay Pyi Taw is assumed as union government region and it cannot comparable with other state and region in order to large deviation for both revenue and expenditure side.

Table (10): State and Region Own Revenue Components before and after Decentralization

(MMK million)

States and regions	Before decentralization			After decentralization		
	2010-2011	2011-2012	Growth(%)	2013-2014	2014-2015	Growth(%)
Yangon and Mandalay region						
Taxes	2150	3888	80.84	12500	22896	83.17
DAOs charges	54250	66089	21.82	208738	372235	78.33
Others	8600	7775	-9.59	25000	42792	71.17
Revenue from the other states/regions						
Taxes	5839	6900	18.17	19436	41071	111.31
DAOs charges	99267	117111	17.98	330420	664193	101.01
Others	11678	13779	17.99	38873	76140	95.87
Total state and region						
Taxes	7989	10788	35.04	31936	63967	100.30
DAOs charges	153517	183200	19.34	539158	1036428	92.23
Others	20278	21554	6.29	63873	118932	86.20

Source: Calculation based on the data of Ministry of Planning and Finance

Before decentralization, all state and region tax growth was 35.04% with 19.34% Development Affair Organization's charges growth. However, this growth changed to 100.3% with 92.23% of DAOs charges after initiating decentralization. In order to that, DAOs charges reflect that the main source of own revenue in state and region (see in table 10).

According to the above statistical data, one can conclude that state and region own revenue growth was gradually increased relatively with before decentralization. It means that there is obvious condition for tax assignment to state and region governments to support more public services against centralization. However, it is found that there was limited own source tax in order to the existing revenue assignment by schedule (5) of 2008 Constitution. Concerning with tax administrative organization, most state and region departments operate under each union ministry than state/region control. The reason is that legislative sovereignty for the most taxes depends on union government. In addition, tax collection is still weak as a nation-wide and it need more transparent in collection for tax revenue.

In practice, most taxes have managed as nation-wide tax policy by the Ministry of Planning and Finance under union government and so union possesses a large portion of tax revenue. Then union transfers as a grant to all state and region to fulfill fiscal needs. For instance, although 19 points of tax revenue assignments is being assigned by schedule (5) of 2008 Constitution to states and regions, union still manages these taxes partially through general administration and other respective departments in each state/region. Allowing for direct spending on own revenue have been right by only DOAs to use small scale public services. So, some rural areas in state/region have not enough in terms of fiscal capacity compared to high urban regions for spending DAOs revenue. Consequently, they have to rely on union grants in annually.

By reviewing tax sharing, it is a positive initiation by sharing commercial, special good, income and stamp taxes since FY 2016-2017. However, these sharing are more favor for commercial regions and it should more consider sharing on non-commercial taxes for other states/regions. Besides, individual income tax is largely deals with high populated regions and it has lost for poor many ethnic regions because it is levied from people who are earned more than US\$ 2000 in per year and public staffs who got above US\$ 4800 their annual earning according to union tax reform. And also, the case of commercial tax revenue as a nation-wide is still too small in order to business tax evasion even in commercial city. So, it comes to consider about sufficient fiscal capacity of low populated and hilling states/regions to be fair tax sharing.

Overall, there are too much dependent on other revenue than own revenue to support for state/region spending in Myanmar according to current assignment. As a result, state/region governments have no incentives to increase revenue collection with a lot of fiscal deficits to finance for their constituencies affairs under tax administration of union government. Generally, it can be say that revenue assignment in Myanmar is just small degree of allocation to state/region in terms of decentralization. Hence, it

needs to redefine proper and clear tax responsibilities for sufficient fiscal capacity that can provide minimum services in order to ensure better intergovernmental fiscal relation with decentralization movement.

3.2.3 Intergovernmental Transfer

The system of intergovernmental transfers in Myanmar comprises mainly three types of transfer schemes. These are annual grant for general purpose, grant for constituency fund and tax revenue sharing which is started in FY 2016-2017. In fact, the previous government occasionally supported some special grants such as poverty alleviation and rural development fund, township development and management fund, green emerald fund from 2012 to 2015, some adds hoc funds like natural disaster rehabilitation and development for conflict regions; however all are not stable situation to support for long-term. The main objective of intergovernmental transfers in Myanmar is to help fiscal needs that faced by state and region governments in providing public services of their regions.

3.2.3.1 General Deficit Grant

This is the most important source of revenues for state and region governments in Myanmar. Concerning with general grant, union government decides how much grant have to provide annually for each state/region governments according to available national revenue by reviewing annual submission of expenditures plans that projected from state/region governments. Although some grants are directly supported from union Parliament to townships level, state and region governments are the main channel to enter for grants. As mentioned in table (11), general deficit transfers are representing average about 60.18% of state and region total revenues before decentralization, and then the ratio dropped down to 58.12% after the initiation of decentralization, later it increased again to 79.33% in FY 2016-2017. Therefore, these deficit grants seem fair consistent year by year allocation by totally in order to relative share of each state/region governments, but it is really poor condition to equalize by per capita angle.

Table (11): Share of Transfers in Total State and Region Revenue, 2011-2017

State/Region	Before decentralization			After decentralization				
	2011-2012	2012-2013	Average	2013-2014	2014-2015	2015-2016	2016-2017	Average
Kachin State	77.93	49.45	63.69	52.41	57.20	90.63	90.63	72.72
Kayah State	91.61	60.24	75.93	60.01	79.15	86.69	86.69	78.13
Kayin State	72.82	51.79	62.31	55.28	62.87	89.20	89.20	74.14
Chin State	74.72	50.99	62.86	69.28	67.73	94.42	94.42	81.46
Sagaing Region	73.67	56.48	65.08	58.19	68.10	86.39	86.39	74.77
Tanintharyi Region	90.25	53.24	71.75	60.31	66.00	93.97	93.97	78.56
Bago Region	56.73	47.96	52.34	57.31	60.85	76.78	76.78	67.93
Magway Region	58.00	60.70	59.35	71.99	66.15	87.08	87.08	78.07
Mandalay Region	31.75	26.71	29.23	28.77	29.91	44.11	44.11	36.72
Mon State	56.57	43.73	50.15	43.40	54.01	84.47	84.47	66.59
Rakhine State	39.01	68.87	53.94	72.62	75.05	91.82	91.82	82.83
Yangon Region	41.24	38.30	39.77	16.32	15.71	22.45	22.45	19.23
Shan State	49.05	53.24	51.14	52.55	60.08	82.49	82.49	69.40
Ayeyawady Region	29.22	49.95	39.59	46.36	50.94	80.11	80.11	64.38
Average Total	60.18	50.83	55.51	53.20	58.12	79.33	79.33	67.50

Source: Calculation based on data from the Ministry of Planning and Finance

3.2.3.2 Tax Sharing to State and Region

As described in revenue assignment, 15% commercial tax, 15% special good tax, 5% of income tax revenue and 2% of stamp duty are shared to state and region governments starting from FY 2016-2017. In fact, this tax sharing is just small part of state and region revenue compared with general deficit grant transfers. However, with this projection of high tax share in Yangon region, grant transfers could be reduced by a great deal of commercial, special goods and income taxes that generating in Yangon region. Obviously, Kayah state (lowest population) is the smallest portion of sharing in tax revenue in terms of poor infrastructure to do business (see in table 12).

Table (12): Tax Sharing with State and Regions MMK million FY 2016-2017

State/Region	Commercial Tax Sharing (15%)	Special Goods Tax Sharing (15%)	Income Tax 5 %	Stamp Tax 2%	Total	% share of total S/R revenue
Kachin State	1065.000	0.540	155.390	55.000	1275.930	0.771
Kayah State	71.075	0.000	32.820	16.950	120.845	0.229
Kayin State	357.500	0.695	78.390	20.300	456.885	0.577
Chin State	1035.000	0.000	16.000	0.975	1051.975	0.787
Sagaing Region	2397.732	1059.000	369.003	12.326	3838.061	1.904
Tanintharyi Region	819.324	51.225	278.823	91.120	1240.492	0.812
Bago Region	1211.517	52.500	265.104	93.160	1622.281	1.078
Magway Region	2741.963	15.250	235.596	70.735	3063.544	1.927
Mandalay Region	4195.334	382.236	6452.101	1512.886	12542.557	5.391
Mon State	325.711	5.800	297.120	138.400	767.031	0.957
Rakhine State	985.238	0.880	60.364		1046.482	0.705
Yangon Region	115896.762	76922.193	18960.526	6100.000	217879.481	39.289
Shan State	2031.000	330.000	1077.606	455.553	3894.159	1.532
Ayeyawady Region	1050.000	461.755	355.000	115.448	1982.203	1.426

Source: Calculation based on the data of Ministry of Planning and Finance

3.2.3.3 Constituency Development Grant

One of the specific inter-governmental grant transfers in Myanmar is constituency development fund which is established since FY 2013-2014 by the authority of the union Parliament. This aims to provide for annual Constituency Development to all townships through the channel of state/region Parliament. CDGs are more focus on small infrastructure and other investments selection through a planning process that managed under various township committees. The annual volume of the CDGs is MMK 33 billion or only about 2% of the overall fiscal transfers as equal allocation by MMK 100 million grants to each of the 330 townships. As a ground situation, CDGs reflects that small amount in highly populated townships while large portion in the small townships in terms of per capita allocations measure. Because of Myanmar has different population size in different townships that lived from 2000 persons to over 400000.

3.2.3.4 Discussion on intergovernmental transfers

By analyzing transfer grants, growth rate has increasing trend after decentralization but it has been flattening in later as mentioned in table (11). So, it comes to consider that union grants are uncertain condition with the fluctuation over time follow by union norms in order to political condition.

The reason is that Myanmar has not developed by any steady union transfers like using formula system. Fortunately, union government has become considering some norms to allocate grants such as population, poverty index, per capita GDRP of each states/regions since FY 2015-2016. Besides, starting from FY 2016-2017, land area, urban population percentage, per capita tax collections of each states/regions have been added with considering FY 2015-2016 norms.

Despite these norms have been used for allocation in recently, it is reflecting inconsistent in terms of per capita receiving for each states/regions. Of course, the more populated states/regions like Yangon and Mandalay regions have been allocated with lowering union transfers by the estimation of higher own revenue including tax sharing while lowest population states are accepting high share of grants. According to this condition, the rest of other states and regions have seriously faced by unequal grants allocation. So, it needs to consider as an equity perspective in annual grants allocation.

Regarding to annual Constituency Development Grants (CDGs), fixing system that based on the number of townships without considering fiscal needs and regional priorities has reflected to favor dispute condition in allocating among states/regions. Therefore, one can be concluded that recent union transfer is allocated on a constant basis with narrow norms year by year and so better transfer system that might be ensure effective and stable intergovernmental fiscal relation should be changed properly.

3.2.4 Borrowing

The fourth pillar of fiscal relation under fiscal decentralization is sub-national governments' borrowing. Borrowing needs in most sub-nations because large amount of sub-national budget deficits and the incurrence of debt when sub-national government's expenditures exceed on their revenues. However, there is no develop in borrowing for state and region in Myanmar because annual large deficit of states and regions that will have to consider for debt repayment. Even for general deficit, state and region governments have to rely on annual union transfer to operate their activities and so they are not

too much allowed to borrow in order to difficulties for repayment. In addition, there is no clear rule for repayment expectation in Myanmar. Only if sufficient fiscal capacities of state and region by clear revenue and expenditure responsibilities, sub-national borrowing should be more considered together with appropriate rule based on debt control in Myanmar.

To sum up this chapter, the role of state/region governments in the decentralized system has obviously changed compared to the previous centralized system. Some state/region governments who administer in high populated regions are becoming more roles to manage their regional welfares like Yangon and Mandalay region. However, it has many limited on fiscal autonomy of states/regions according to small sharing of revenue and expenditure portions relatively with union.

Even though every municipality called development affair organizations (DAOs) has become more autonomy to collect revenue, it is not allowed to share for spending to others departments by DAOs revenue. This leads to unequal fiscal capacity which is not sufficient to provide necessary public services for minimum living standard among state and regions. Consequently, most of state/region funding is much dependent on unsteady union transfer. By this fact, one can observe that state and region governments is still dominated by a top-down management and it generates as de-concentrated state in order to early states of decentralization process in Myanmar.

Chapter 4

: Analyzing Fiscal Capacity of States/Regions

4.1 Index Method Analysis

In order to investigate the fiscal condition of each state/region after reforming of intergovernmental fiscal relation in Myanmar, index of fiscal ability method will be used based on FY 2013-2014 fiscal data. In doing so, some measures such as elasticity (E), share (S) and growth (G) of each state/region are being focused to represent fiscal ability of each state/region in order to current revenue assignment.

To represent the ratio between own revenue growth which is the growth of own revenue on the respective year i from year $i-1$ and gross domestic regional product (GDRP) growth which is the growth of gross domestic product of state and region on respective year i from year $i-1$, elasticity measure is being used by the following formula.

$$E = \frac{OR_i - OR_{i-1}}{OR_i} / \frac{GDRP_i - GDRP_{i-1}}{GDRP_i}$$

Secondly, the ratio between own revenue and total spending is measured as a sharing percent.

$$S = (OR / \text{total spending}) * 100\%$$

The third one, to obtain the growth percent of own revenue on respective year i from year $i-1$ is calculated by the following growth formula.

$$G = \frac{OR_i - OR_{i-1}}{OR_i} * 100\%$$

Then, the above all measures are changed as the index number by using the following formula.

$$\text{Index } X = \frac{X - X_{\min}}{X_{\max} - X_{\min}}$$

Lastly, Index of Fiscal Ability (IFA) has been derived by the following formula.

$$IFA = \frac{X_g + X_e + X_s}{3}$$

Where:

X_g = Growth Index

Xe = Elasticity Index

Xs = Share Index

From this index analysis, it is found that Yangon, Mandalay Regions and Shan, Kachin states are the highest IFA than the rest of others. Even considering for the elasticity of GDRP growth over own revenue growth, Rakhine, Kayah states and Magway, Tanintharyi regions are the lowest IFA (see in table 13). So, these lowest IFA states/regions should be more provided union transfers or sharing effective revenue than others. The more detail calculations are being provided by Appendix (5).

Table (13): Index of Fiscal Ability (IFA) of each State/ Region

No	State and region	IFA
1	Yangon Region	0.99
2	Shan State	0.98
3	Kachin State	0.83
4	Mandalay Region	0.78
5	Bago Region	0.65
6	Sagaing Region	0.61
7	Ayeyawady Region	0.55
8	Kayin State	0.53
9	Chin State	0.52
10	Mon State	0.48
11	Rakhine State	0.32
12	Magway Region	0.17
13	Tanintharyi Region	0.15
14	Kayah State	0.08

4.2 Per Capita Analysis

In fact, the system of tax assignment should design in accordance with the principles of public finance and subsidiarity principle for balancing fiscal availability among various levels of governments. However, most countries which started to shift fiscal decentralization have always faced imbalance fiscal situation among central and sub-national levels. According to above IFA method, it reflects that some states/regions fiscal ability was low for a particular year in order to current revenue assignment. As a next step, it will investigate revenue conditions in terms of per capita by five years data to verify IFA method and examine state/region fiscal disparities according to the changes of fiscal relation by the implementation of fiscal decentralization.

In doing so, the overall revenue and expenditure levels of each state and region will be analyzed firstly. As described in table (14), total state and region revenues accounted for 0.91% of national GDP with 3.70% of the consolidated revenues by equivalent to 54.06% of total state and region expenditures in FY 2012-2013 as the starting time of decentralization. Later, the ratio of state and region own revenue to their expenditure slightly decreased in order to reorganization of public construction enterprise in all state and region at 2015. Overall, these statistical data prove that less decentralized trend for both expenditure and revenue assignment which lead to vertically fiscal imbalance in Myanmar.

Table (14): Overall Revenue and Expenditure of State/Region governments, FY 2012-2013 to FY 2016-2017, in %

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
State and region revenue as % of GDP	0.91	1.09	1.87	1.07	0.67
State and region expenditures as % of GDP	1.69	2.14	4.14	3.41	2.67
State and region revenue as % of state and region expenditure	54.06	51.17	45.12	31.31	24.96
State and region revenue as % of consolidated government revenue	3.70	4.28	6.76	4.17	3.20

Source: Calculation based on data from the Ministry of Planning and Finance

According to table (15), it reflects that expenditure needs for state/region always exceed their revenue capacities. Obviously, Chin state, Tanintharyi region and Rakhine state have covered less than 10% of its expenditure needs with their own revenues which is the lowest value among all states and regions as examined by IFA method. In contrast, the ratios of per capita revenue and per capita expenditure are highest by more than 50% for union region, Yangon and Mandalay regions. Therefore, union government needs to provide transfers to poor fiscal ability of states/regions which has lower ratios than 50% to reduce vertically fiscal imbalance, otherwise taxes from Yangon and Mandalay region and revenue from natural resource should be more shared to facilitate minimum public service.

Table (15): Share of Per Capita Revenue in Per Capita Expenditure, FY 2012-2013 to FY 2016-2017, in %

State/Region	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Kachin State	53.71	49.31	44.00	9.46	7.15
Kayah State	42.04	40.92	20.15	13.73	4.17
Kayin State	52.36	46.72	34.65	23.40	6.00
Chin State	49.59	30.28	31.54	5.59	1.29
Sagaing Region	45.91	42.95	31.19	13.50	11.07
Tanintharyi Region	51.73	41.16	33.53	5.99	3.98
Bago Region	55.81	42.92	38.89	23.44	14.97
Magway Region	41.33	28.51	32.92	12.75	9.07
Mandalay Region	72.87	71.45	70.93	57.08	51.22
Mon State	60.47	59.41	45.96	15.69	10.48
Rakhine State	31.54	27.17	24.44	8.14	4.66
Yangon Region	63.53	84.49	85.22	68.85	87.85
Shan State	50.27	47.99	39.44	17.75	13.33
Ayeyawady Region	53.30	53.55	50.24	19.96	15.02
Union Region	90.67	95.26	95.56	83.01	83.78

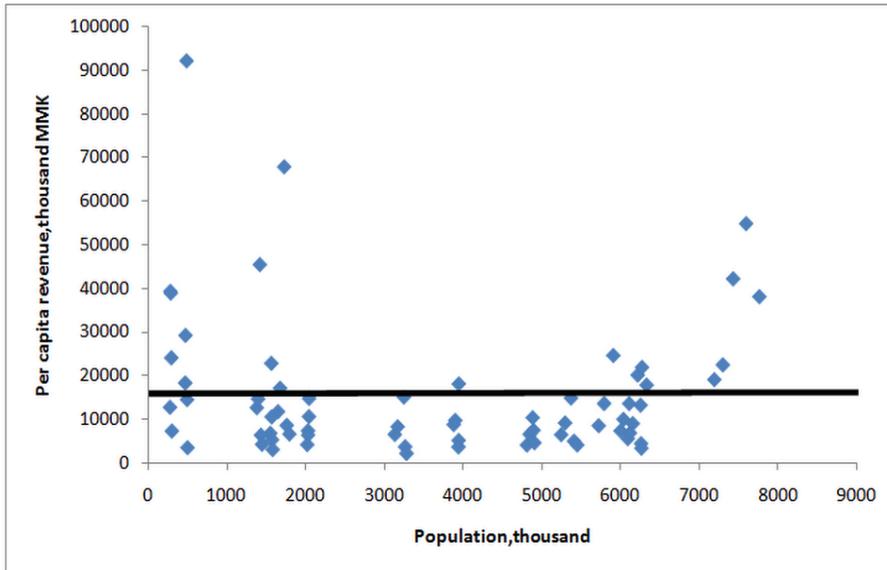
Source: Calculation based on data from the Ministry of Planning and Finance

Figure (7) illustrates that the distribution of per capita revenue across state and region by FY 2012-2013 to FY 2016-2017 data without considering on union data to reduce large deviation. Per capita revenue is indicated in the vertical axis while population size is in the horizontal axis. Here, one should be noticed that per capita revenue is concern with population size of state and region. So, some states/regions which have poor revenue collections are showing high per capita revenue. However, comparisons over time on per capita own source revenue across states/regions can provide to be more comprehensive sense.

Per capita revenue is very high in Yangon region because the most businesses and population are concentrated in commercial city. There also some rich states and regions with high per capita revenue (Mandalay region,

Kachin state, Shan state, Chin state, Tanintharyi region and Kayah state). In order to this condition, the national median average line for per capita revenue of states/regions can be estimated by 15,330 MMK as shown in figure (7).

Figure (7): Per Capita Revenue across state and region, FY 2012-2013 to FY 2016-2017



Source: Calculation based on data from Ministry of Planning and Finance

According to figure (7), it is found that there are seven states and regions with per capita revenue below the national average which are Bago region, Rakhine state, Ayayewady region, Mon state, Magway region, Sagaing region and Kayin state. Hence, seven states and regions with union region are per capita revenue above the national average line and other states and regions are poor fiscal ability.

Besides, there are large disparities in per capita revenue across states and regions and these disparities are illustrated in table (16). The highest per capita revenue in FY 2014-2015 was above 40 times higher than the lowest by FY 2016-2017.

Table (16): Measures of state and region fiscal disparities: Per capita Revenue, FY 2012-2013 to FY 2016-2017, (thousand of MMK)

	Mean	Minimum	Maximum
2012-2013	9916	4013	19017
2013-2014	15209	6487	39263
2014-2015	31415	10295	92151
2015-2016	12427	3600	54811
2016-2017	7655	2089	38042

Figure (8): Distribution of Per Capita expenditure across state and region, FY 2012-2013 to FY 2016-2017

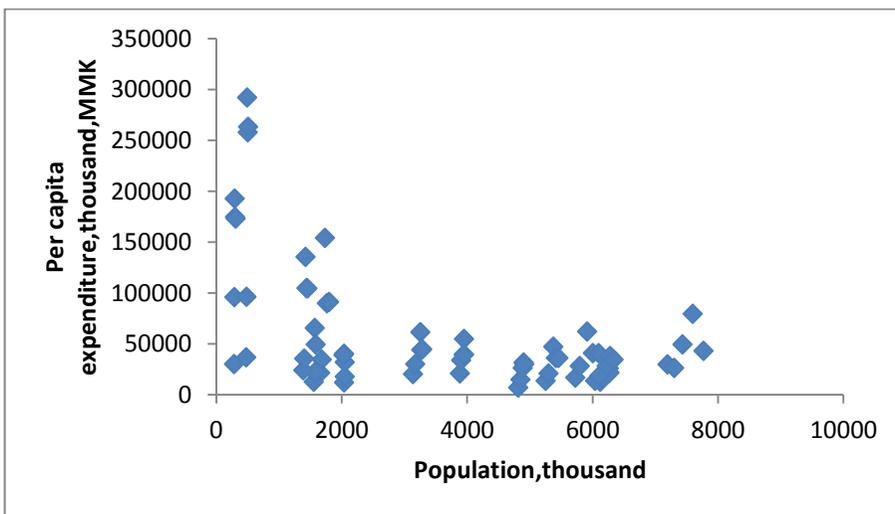
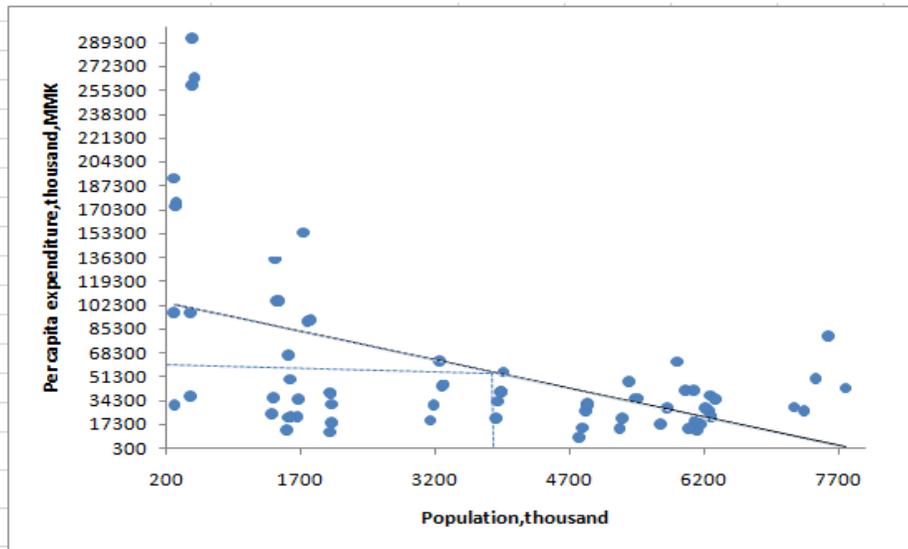


Figure (8) show that there is a tendency that smaller states and regions with low population are higher per capita expenditure than high population states and regions. For instance, Kayah state is the smallest population with per capita expenditure of 173132 thousand MMK with a population of 304 thousand people. Secondly, Chin state is 263322 thousand MMK as a population of 503 thousand people. In contrast, Yangon is the biggest population represented by per capita expenditures of 43305 thousand MMK with a population of 7764 thousand people in 2017.

Hence, the larger the population, the lower per capita expenditure in order to decreasing economies of scale by high fixed costs for public services supply. So, the fiscal needs that considered for the minimum level of per capita expenditures in each states/regions except union region in order to FY

2012-2013 to FY 2016-2017 data can be estimated by the median average data basis as linear function. As shown in figure (9), estimated average per capita expenditure should have by 58000 thousand MMK with a population of 3420 thousand people for all states and regions.

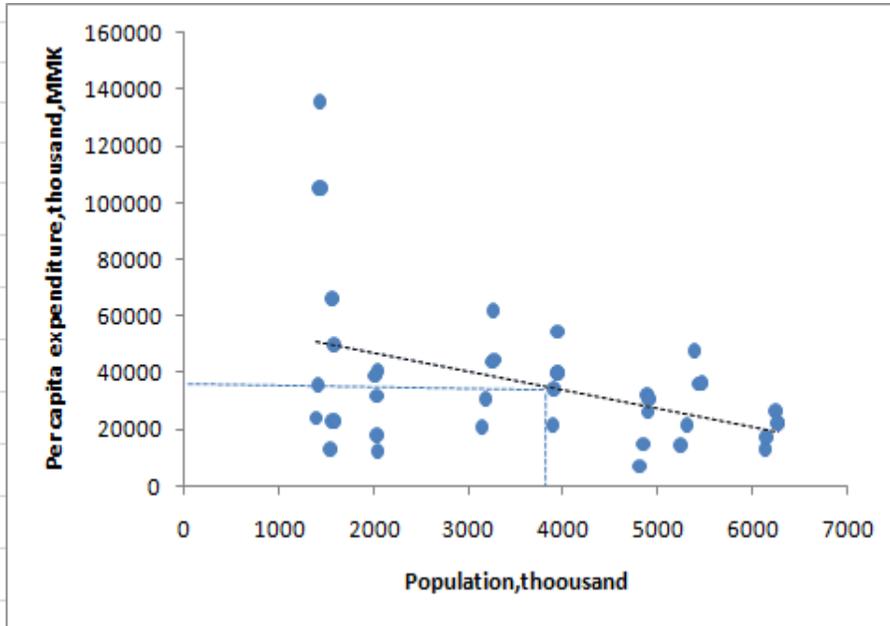
Figure (9) Estimated Average Per Capita Expenditures for all states and regions



Source: Calculation based on data from Ministry of Planning and Finance

As a next step, it can be considered only poor fiscal ability states/regions which are already examined by figure (7) and exclude 4 high own revenue states/regions and 2 lowest population states, so the minimum average per capita expenditures should be 39000 thousand MMK with a population of 3700 thousand people (see in figure 10). Of course, these eight states and regions should get more union transfer than other states and regions. The reasons to be equalize fiscal capacity because some states and regions are poor fiscal ability even though they have rich in natural resources and border gate. So, union government needs to share more tax assignment like natural resource, income and commercial taxes to favor better fiscal relation.

Figure (10) Estimated Average Per Capita Expenditures excluding high fiscal ability of states and regions and lowest population states

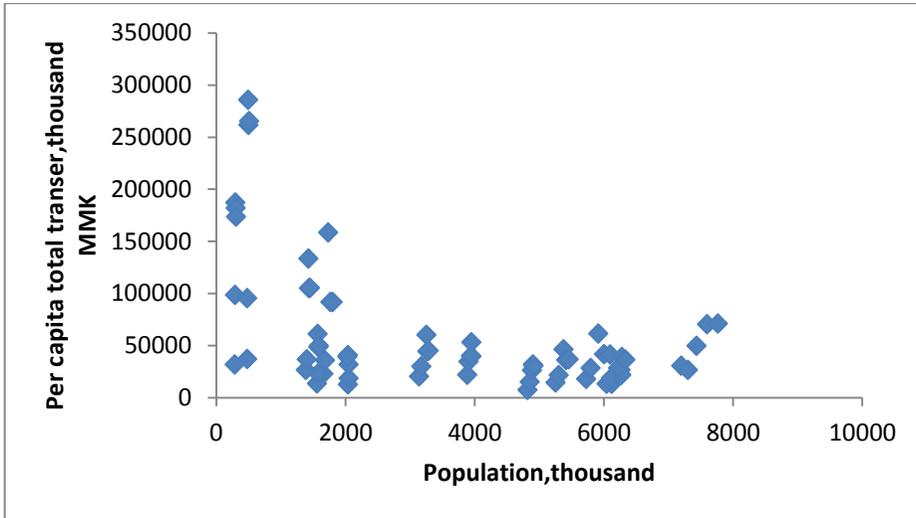


Source: Calculation based on data from Ministry of Planning and Finance

4.3 Analysis of Union Transfers

Basically, the demand for basic public goods and services such as education, health, water and roads are more needed as large as population. On the other hand, infrastructure and livelihood development of many ethnic regions should be aware as the basic role in building for federal nation. So, per capita allocation for transfers is the standard considerable measurement to facilitate those necessary of basic service as a nation-wide in Myanmar. Figure (11) illustrates the distribution of per capita total transfers across state and region which included general grant transfer, tax sharing and constituency development grant for the period of FY 2012-2013 to FY 2016-2017. It reflects that the more populated regions has the lower union transfers and it has negative correlation between population size and level of per capita transfer. By these receiving grants, Chin state has been the highest per capita total transfer recipients with 286145 thousand MMK followed by Kayah state with 187605 thousand MMK which are the lowest population and poor.

Figure (11): Distribution of per capita total transfer across state and region, FY 2012-2013 to FY 2016-2017



Although these regions have achieved highest per capita transfer according to the lowest own revenue, it still needs to allocate more grants in terms of minimum level of public services relatively with high population regions. In constraint, Yangon and Mandalay regions receive the lowest amount by 26857 thousand MMK and 19060 thousand MMK respectively. Of course, these two regions are high population with large own source revenue. Although lowest and highest population states/regions are reasonable in recent allocating for transfer grants, the rest of other middle population states/regions have lost in terms of equal share for receiving. Besides, large per capita revenue among states/regions has led large regional disparities as discussed above in table (16). Thus why, it often becomes some disputable conditions regarding with allocation of union transfers among state/regions governments in order to transparency and unequal issues in Myanmar.

To avoid these dispute and unequal issues, union transfers should be considered by proper formula system to reduce regional disparities based on the fiscal needs that can provide minimum level of public services and population of states/regions. In fact, it doesn't need to be equal share of transfer grant across states/regions; however it should consider for stable and consistent allocation to be efficient intergovernmental fiscal relation.

So, as discussed in figure (10), the minimum level of states/ regions for public service supply is fixed at the per capita expenditure of 39000 thousand MMK without considering 4 high own revenue states/regions and 2 lowest population states. Then, the minimum level of expenditure can be estimated by focusing on population size to support union transfer. Hence, the minimum standard of average per capita expenditure multiplied by the number of population can be derived as transfer formula.

$$\text{psr E} = 39000 \times \text{Npsr}$$

where psr indicates all states and regions with poor own revenue, Npsr is the population at these states and regions and E means estimated minimum expenditures of these states and regions for union transfer.

Secondly, there are four states and regions which are highest own revenue than others as discussed in figure (7). Then, it can consider that their own revenue should be subtracted from transfers to more raise own revenue. So, the transfer formula for four high own revenue states and region can be estimated by the following way:

$$\text{TRrsr} = (39000 - R) \times \text{Nrsr}$$

where rsr indicates high own revenue states and regions, Nrsr is the population of each these states and regions and TRrsr means estimated transfer for these high own revenue states and regions.

In addition, Chin and Kayah states which are the two lowest population states should be considered by more than 80 times of the first formula to provide equal services in order to lack of natural resource and hilling geographic location.

By considering with this formula system, fiscal disparities between states/regions will be reduced and it will be more consistent in providing union transfers to all states/regions that can be support for sequencing fiscal decentralization reform

Chapter 5 : Conclusion and Recommendation

As a long history of military administration, Myanmar had highly centralized governmental structure without considering people voice. However, the previous government could introduce a number of decentralization measures by the mix of top down and bottom up approach by 2008 Constitution after 2010 election. After five years of decentralization, many international communities criticize that there is a slow movement in Myanmar decentralization process. The main reason is that fiscal decentralization in Myanmar is still into process as a beginning period with a lot challenges in order to recent intergovernmental fiscal relation. So, recent status of Myanmar is only forming as a de-concentrated fiscal relation with centralized control and it needs to take time to move toward the more ideal form of decentralization.

Basically, a sound allocation of responsibilities between union and state/region is an important foundation for the effective system of intergovernmental fiscal relations. So, firstly the clear role of expenditure assignment of state/region governments should upgrade for the efficient service provision to be satisfies and preferences for taxpayers in line with subsidiarity principle. Analyzing expenditure assignment in Myanmar demonstrated that it doesn't relevant to the subsidiarity principles by the small role of state/region governments to deliver public services. Especially, too small portion of states/regions expenditure cannot afford for regional development with anyway. In addition, overlapping and duplications of responsibilities between union and states/regions create unclear assignments that led to inefficient supply of public services.

To address these deficiencies, it needs to reset expenditure responsibilities that mandated in 2008 constitution or should replace by the new law to be clear for the role of state/region governments. On the other hand, collecting the comprehensive survey for the actual expenditure needs of state/region governments should be started to be more clarify on expenditure

responsibilities between union and state/region. Besides, it needs to build capacity training program that can enhance for work skill of state/region governments. Furthermore, annual planning and budgeting should be reformed by setting better ways in decision making process of union Parliament.

Secondly, sharing proper revenue autonomy for state/region governments is a core important point to be better degree of fiscal decentralization. Without enough own revenue, state/region governments cannot fulfill public services for their residents needs. Recent revenue assignment of Myanmar reflects that it is poor revenue collection of state/region relatively with union government and most revenue decisions are managed by union legislation. Especially, the tax bases for commercial, income and natural resource taxes are put under the administration of union government that lead to improper revenue allocation in Myanmar. Therefore the current revenue assignment less of incentives to increase own revenue collections for state/region governments to spend their expenditures needs.

In order to address these issues, union government should introduce to share some natural resource tax to states/regions to ensure sufficient revenues by defining the shares of state/region revenues in national GDP. Another way is that natural resource allocation law as a new considering for fairness situation between union and all states/regions should be amended. Besides, tax assignments for state/region governments in order to schedule (5) of 2008 Constitution should be clarified to avoid union intervening. Commercial tax and income tax sharing to state/region governments should be more developed with the highly supervision on tax evasion. By this way, state/region governments can finance minimum level of their resident services.

The problem of union transfers doesn't consider actual fiscal needs that can solve minimum services and population size of each states/regions in annual allocation. The amount of transfers to state/region governments is mostly considered by planning and budgeting proposals of previous years and ad hoc basis. Despite some standard conditions of states/regions have been

considered in recent allocation, it still reflect less of transparency and unstable situations. In fact, grants should be allocated to be match with the basis of simple population or improving on baseline service that can benefit directly by citizen customers.

In addition, as discussed in the current tax assignment part, revenue disparities in state/region are occurring by income and commercial tax sharing. Thus appropriate transfer formula system which based on the fiscal needs of each state/region with considering the existing norms should be implemented by conducting poverty measurement survey including update population collection to eliminate non-formula allocation bias. By doing so, it may be offset the disparities of each state/region and enable by state/region governments to provide necessary public goods.

Actually, there is no wrong as many critics of international organizations that Myanmar still very weak in actual implementation for decentralization. Because of Myanmar is striving along the decentralization movement that led to take lesson to be better reform. So, the first point to be considered is 2008 Constitution that reformed to decentralization measure in Myanmar. Although it has proper principle by 2008 Constitution like other decentralized countries, but decentralized substance is too weak especially in sharing autonomy to union to state/region level. In fact, implementation of fiscal decentralization doesn't need to be perfect degree; but it should be harmonized in order to the condition of Myanmar.

Secondly, there is really less for encouragement for decentralization process by current government to continue the previous government's initiation. Third, poor coordination among the levels of government is a main constraint to move forward for the successful sequencing reform. Therefore, Myanmar should try to revise some weak laws for sharing responsibilities in order to 2008 Constitution by the strong interest of union government, state/region governments, public and other respective stakeholders. As the recent public government, it should undertake to increase more encouragement to perform on the initiation of previous government to ensure

better reform for public interest. Finally, it needs to strong for the spirit of coordination to adjust for decentralized environment between central and state/region governments that can design the integrated decentralization strategy considering specific characteristics and implement reform with right sequencing.

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Appendices

Appendix 1

Schedule One of Union Legislative List

SCHEDULE ONE

Union Legislative List

(Refer to Section 96)

1. Union Defence and Security Sector

- (a) Defence of the Republic of the Union of Myanmar and every part thereof and preparation for such defence;
- (b) Defence and Security industries;
- (c) Arms, ammunition and explosives including biological and chemical weapons;
- (d) Atomic energy, nuclear fuel and radiation and mineral resources essential to its production;
- (e) Declaration of war and conclusion of peace;
- (f) Stability, peace and tranquility of the Union and prevalence of law and order; and
- (g) Police force.

2. Foreign Affairs Sector

- (a) Representatives of the diplomatic, consular and other affairs;
- (b) United Nations;
- (c) Participation in international, regional and bilateral conferences, seminars, meetings, associations and other organizations and implementation of resolutions thereof;
- (d) Conclusion and implementation of international and regional treaties, agreements, conventions and bilateral agreements and treaties;
- (e) Passports and identification certificates;
- (f) Visas, admission into the Republic of the Union of Myanmar, stay, departure, immigration and deportation; and
- (g) Extradition and request for extradition.

3. Finance and Planning Sector

- (a) The Union Budget;
- (b) The Union Fund;
- (c) Currency and coinage;
- (d) The Central Bank of Myanmar and financial institutions;
- (e) Foreign exchange control;
- (f) Capital and money markets;
- (g) Insurance;
- (h) Income tax;
- (i) Commercial tax;
- (j) Stamp duty;
- (k) Customs duty;
- (l) Union lottery;
- (m) Tax appeal;
- (n) Services of the Union;
- (o) Sale, lease and other means of execution of property of the Union;
- (p) Disbursement of loans from the Union Funds;
- (q) Investment of the Union Funds;
- (r) Domestic and foreign loans;
- (s) Acquisition of property for the Union; and
- (t) Foreign aid and financial assistance.

4. Economic Sector

- (a) Economy;
- (b) Commerce;
- (c) Co-operatives;
- (d) Corporations, boards, enterprises, companies and partnerships;
- (e) Imports, exports and quality control thereon;
- (f) Hotels and lodging houses; and
- (g) Tourism.

5. Agriculture and Livestock Breeding Sector

- (a) Land administration;

- (b) Reclamation of vacant, fallow and virgin lands;
- (c) Settlements and land records;
- (d) Land survey;
- (e) Dams, embankments and irrigation works managed by the Union;
- (f) Meteorology, hydrology and seismic survey;
- (g) Registration of documents;
- (h) Mechanized agriculture;
- (i) Agricultural research;
- (j) Production of chemical fertilizers and insecticides;
- (k) Marine fisheries; and
- (l) Livestock proliferation, prevention and treatment of diseases and research works.

6. Energy, Electricity, Mining and Forestry Sector

- (a) Petroleum, natural gas, other liquids and substances declared by the Union Law to be dangerously inflammable;
- (b) Production and distribution of electricity of the Union;
- (c) Minerals, mines, safety of mine workers, and environmental conservation and restoration;
- (d) Gems;
- (e) Pearls;
- (f) Forests; and
- (g) Environmental protection and conservation including wildlife, natural plants and natural areas.

7. Industrial Sector

- (a) Industries to be undertaken by the Union level;
- (b) Industrial zones;
- (c) Basic standardization and specification for manufactured products;
- (d) Science and technology and research thereon;
- (e) Standardization of weights and measures; and
- (f) Intellectual property such as copyrights, patents, trademarks and industrial designs.

8. Transport, Communication and Construction Sector

- (a) Inland water transport;
- (b) Maintenance of waterways;
- (c) Development of water resources and rivers and streams;
- (d) Carriage by sea;
- (e) Major ports;
- (f) Lighthouses, lightships and lighting plans;
- (g) Shipbuilding, repair and maintenance;
- (h) Air transport;
- (i) Air navigation, control and airfields construction;
- (j) Land transport;
- (k) Railways;
- (l) Major highways and bridges managed by the Union;
- (m) Posts, telegraphs, telephones, fax, e-mail, internet, intranet and similar means of communication; and
- (n) Television, satellite communication, transmission and reception, and similar means of communication and housing and buildings.

9. Social Sector

- (a) Educational curricula, syllabus, teaching methodology, research, plans, projects and standards;
- (b) Universities, degree colleges, institutes and other institutions of higher education;
- (c) Examinations prescribed by the Union;
- (d) Private schools and training;
- (e) National sports;
- (f) National health;
- (g) Development of traditional medicinal science and traditional medicine;
- (h) Charitable hospitals and clinics and private hospitals and clinics;
- (i) Maternal and child welfare;
- (j) Red Cross society;

- (k) Prevention from adulteration, manufacture and sale of foodstuffs, drugs, medicines and cosmetics;
- (l) Welfare of children, youths, women, the disabled, the aged and the homeless;
- (m) Relief and rehabilitation;
- (n) Fire Brigade;
- (o) Working hours, resting-hours, holidays and occupational safety;
- (p) Trade disputes;
- (q) Social security;
- (r) Labour organizations;
- (s) Managements by the Union, the following:
 - (i) Ancient culture or historical sites, buildings, monuments, records, stone inscriptions, ink inscriptions on stucco, palm-leaf parabaiks, hand writings, handiworks, inanimate objects and archaeological works;
 - (ii) Museums and libraries.
- (t) Literature, dramatic arts, music, traditional arts and crafts, cinema to graphic films and videos; and
- (u) Registration of births and deaths.

10. Management Sector

- (a) General administration;
- (b) Administration of town and village land;
- (c) Tenants;
- (d) Narcotic drugs and psychotropic substances;
- (e) Union secrets;
- (f) Associations;
- (g) Prisons;
- (h) Development of border areas;
- (i) Census;
- (j) Citizenship, naturalization, termination and revocation of citizenship, citizenship scrutiny and registration; and
- (k) Titles and honours.

11. Judicial Sector

- (a) Judiciary;
- (b) Lawyers;
- (c) Criminal Laws and procedures;
- (d) Civil Laws and procedures including contract, arbitration, actionable wrong, insolvency, trust and trustees, administrator and receiver, family laws, guardians and wards, transfer of property and inheritance;
- (e) Law of Evidence;
- (f) Limitation;
- (g) Suit valuation;
- (h) Specific relief;
- (i) Foreign jurisdiction;
- (j) Admiralty jurisdiction; and
- (k) Piracies, crimes committed in international waters or in outer space and offences against the international law on land or in international waters or in outer space.

Appendix 2

Region or State Legislative List (Schedule Two)

1. Finance and Planning Sector

- (a) The Region or State budget;
- (b) The Region or State fund;
- (c) Land revenue;
- (d) Excise duty (not including narcotic drugs and psychotropic substances);
- (e) Municipal taxes such as taxes on buildings and lands, water, street lightings and wheels;
- (f) Services of the Region or State;
- (g) Sale, lease and other means of execution of property of the Region or State;
- (h) Disbursement of loans in the country from the Region or State funds;
- (i) Investment in the country from the Region or State funds;
- (j) Local plan; and
- (k) Small loans business.

2. Economic Sector

- (a) Economic matters undertaken in the Region or State in accord with law enacted by the Union;
- (b) Commercial matters undertaken in the Region or State in accord with law enacted by the Union; and
- (c) Co-operative matters undertaken in the Region or State in accord with law enacted by the Union.

3. Agriculture and Livestock Breeding Sector

- (a) Agriculture;
- (b) Protection against and control of plants and crop pests and diseases;
- (c) Systematic use of chemical fertilizers and systematic production and use of natural fertilizers;
- (d) Agricultural loans and savings;
- (e) Dams, embankments, lakes, drains and irrigation works having the right to be managed by the Region or State;
- (f) Fresh water fisheries; and

(g) Livestock breeding and systematic herding in accord with the law enacted by the Union.

4. Energy, Electricity, Mining and Forestry Sector

(a) Medium and small scale electric power production and distribution that have the right to be managed by the Region or State not having any link with national power grid, except large scale electric power production and distribution having the right to be managed by the Union;

(b) Salt and salt products;

(c) Cutting and polishing of gemstones within the Region or State;

(d) Village firewood plantation; and

(e) Recreation centers, zoological garden and botanical garden.

5. Industrial Sector

(a) Industries other than those prescribed to be undertaken by the Union level; and

(b) Cottage industries.

6. Transport, Communication and Construction Sector

(a) Ports, jetties and pontoons having the right to be managed by the Region or State;

(b) Roads and bridges having the right to be managed by the Region or State; and

(c) Systematic running of private vehicles within the Region or State.

7. Social Sector

(a) Matters on traditional medicine not contrary to traditional medicine policies prescribed by the Union;

(b) Social welfare works within the Region or State;

(c) Preventive and precautionary measures against fire and natural disasters;

(d) Stevedoring;

(e) Having the right of management by the Region or State, the following:

(i) Preservation of cultural heritage;

(ii) Museums and libraries.

(f) Theatres, cinemas and video houses; and

(g) Exhibitions such as photographs, paintings and sculptures.

8. Management Sector

(a) Development matters;

(b) Town and housing development; and

(c) Honorary certificates and awards.

Appendix 3

Schedule 5 of the Myanmar Constitution – Taxes and Fees Collected By Region or State

- (1) Land revenue.
- (2) Excise revenue.
- (3) Water tax and embankment tax based on dams and reservoirs managed by the Region or State and tax on use of electricity generated by such facilities managed by the Region or State.
- (4) Toll fees from using roads and bridges managed by the Region or State.
- (5) Royalty collected on fresh water fisheries; (b) Royalty collected on marine fisheries within the permitted range of territorial water.
- (6) Taxes collected on vehicles on road transport and vessels on inland waterway transport, in accord with law, in a Region or a State.
- (7) Proceeds, rent fees and other profits from those properties owned by a Region or a State.
- (8) Fees, taxes and other revenues collected on services enterprises by a Region or a State.
- (9) Fines imposed by judicial courts in a Region or a State including Region Taya hluttaw or State Taya hluttaw and taxes collected on service provision and other revenues.
- (10) Interests from disbursed by a Region or State.
- (11) Profits returned from investment of a Region or State.
- (12) Taxes collected on extraction of the following items from the forests in a Region or a State:
 - Taxes collected on all other woods except teak and other restricted hardwoods;
 - Taxes collected on firewood, charcoal, rattan, bamboo, birdnests, catch, thanetkha, turpentine, eaglewood and honey-based products.
- (13) Registration fees.
- (14) Taxes on entrainments.

- (15) Salt tax.
- (16) Revenue received from the Union Fund Account.
- (17) Contributions by Development Affairs Organisations in a Region or State concerned.
- (18) Unclaimed cash and property.
- (19) Treasure trove.

Appendix 4

Yangon City Development Committee Property Tax Schedule Excerpt

Property Tax

A Tax collected on government-owned and privately-own immoveable land and buildings within the Yangon City Development Committee. Based on the percentage of the yearly estimated value and contains general tax, lighting tax, water tax, and cleansing tax.

(a) General Tax

A tax collected to cover the cost of construction and conserving the public streets, bridges, drains, gardens, bazaars, and playgrounds.

(b) Lighting Tax

A levy collected to cover the cost of lighting at public streets, bridges, bazaars, gardens, playgrounds, and municipal buildings.

(c) Water Tax & Cleansing Tax

These taxes are collected by the relevant departments as charges.

Adapted from: Yangon City Development Committee

<http://www.ycdc.gov.mm>

Appendix 5

Excel Calculating for Index of fiscal ability (IFA) of each states/regions

State/Region	2013-2014(OR)	Total Spending	S %	Min	Max	X-Xmin	Xmax-Xmin	Xs
Kachin State	28597	1240989	2.3043602	0.901734	13.18277	1.402626151	12.281036	0.114210735
Kayah State	11190	1240989	0.9017338	0.901734	13.18277	0.000000000	12.281036	0.000000000
Kayin State	16434	1240989	1.3242812	0.901734	13.18277	0.422547198	12.281036	0.034406478
Chin State	13921	1240989	1.1217542	0.901734	13.18277	0.220020182	12.281036	0.017915441
Sagaing Region	48114	1240989	3.8770846	0.901734	13.18277	2.975350567	12.281036	0.242271952
Tanintharyi Region	20429	1240989	1.6461876	0.901734	13.18277	0.744453597	12.281036	0.060618143
Bago Region	31443	1240989	2.5336942	0.901734	13.18277	1.631960175	12.281036	0.132884569
Magway Region	37686	1240989	3.0367349	0.901734	13.18277	2.135000895	12.281036	0.173845341
Mandalay Region	82641	1240989	6.6593174	0.901734	13.18277	5.757583367	12.281036	0.46881903
Mon State	21549	1240989	1.7364612	0.901734	13.18277	0.834727161	12.281036	0.06796879
Rakhine State	26072	1240989	2.1009115	0.901734	13.18277	1.199177531	12.281036	0.09764466
Yangon Region	163597	1240989	13.182772	0.901734	13.18277	12.28103797	12.281036	1.000000016
Shan State	78365	1240989	6.3147336	0.901734	13.18277	5.412999571	12.281036	0.440760826
Ayeyawady Region	54929	1240989	4.4262144	0.901734	13.18277	3.524480414	12.281036	0.286985594

State/Region	2012-2013(OR)	2013-2014(OR)	OR growth %	Min	Max	X-Xmin	Xmax-Xmin	Xg
Kachin State	19318	28597	0.324460808	0.104953	0.681507	0.219507808	0.576554	0.38072
Kayah State	3564	11190	0.681506686	0.104953	0.681507	0.000000000	0.576554	0.00000
Kayin State	10424	16434	0.36570900	0.104953	0.681507	0.260756	0.576554	0.45227
Chin State	8649	13921	0.378703349	0.104953	0.681507	0.273750349	0.576554	0.47480
Sagaing Region	33437	48114	0.305043441	0.104953	0.681507	0.200090441	0.576554	0.34705
Tanintharyi Region	17389	20429	0.148815016	0.104953	0.681507	0.043862016	0.576554	0.07608
Bago Region	19315	31443	0.385696965	0.104953	0.681507	0.280743965	0.576554	0.48693
Magway Region	33730	37686	0.104952519	0.104953	0.681507	-4.80538E-07	0.576554	0.00000
Mandalay Region	59810	82641	0.276270745	0.104953	0.681507	0.171317745	0.576554	0.29714
Mon State	14799	21549	0.313240964	0.104953	0.681507	0.208287964	0.576554	0.36126
Rakhine State	20164	26072	0.226611025	0.104953	0.681507	0.121658025	0.576554	0.21101
Yangon Region	136767	163597	0.1640003	0.104953	0.681507	0.0590473	0.576554	0.10241
Shan State	48398	78365	0.382407593	0.104953	0.681507	0.277454593	0.576554	0.48123
Ayeyawady Region	41377	54929	0.246712628	0.104953	0.681507	0.141759628	0.576554	0.24587

State/Region	2012-2013 GDRP	2013-2014 GDRP	(13&14-12&13)/13&14	2012-2013 OR	2013-2014 OR	(13&14-12&13)/13&14
Kachin State	909451	916234	0.007403131	19318	28597	0.324460808
Kayah State	165211	175386	0.058014893	3564	11190	0.681506686
Kayin State	857991	903568	0.05044114	10424	16434	0.365709000
Chin State	158511	170332	0.06939976	8649	13921	0.378703349
Sagaing Region	5340002	5790428	0.077788032	33437	48114	0.305043441
Tanintharyi Region	1634390	1731499	0.056083775	17389	20429	0.148815016
Bago Region	3907201	4227165	0.075692338	19315	31443	0.385696965
Magway Region	4462870	4787350	0.067778625	33730	37686	0.104952519
Mandalay Region	4882047	5406923	0.097074806	59810	82641	0.276270745
Mon State	1966123	2042990	0.037624756	14799	21549	0.313240964
Rakhine State	1724029	1875111	0.080572297	20164	26072	0.226611025
Yangon Region	10319446	11315723	0.088043601	136767	163597	0.164000300
Shan State	3130563	3272015	0.043230853	48398	78365	0.382407593
Ayeyawady Region	4791769	5154878	0.070439882	41377	54929	0.246712628

State/Region	E	Xmin	Xmax	X-Xmin	Xmax-Xmin	Xe	IFA(Xs+Xg+Xe)/3
Kachin State	43.82751346	1.54846	43.82751	42.27905346	42.27905	1.0000001	0.82827
Kayah State	11.74709892	1.54846	43.82751	10.19863892	42.27905	0.2412220	0.08041
Kayin State	7.250212825	1.54846	43.82751	5.701752825	42.27905	0.1348600	0.53163
Chin State	5.456839424	1.54846	43.82751	3.908379424	42.27905	0.0924425	0.52353
Sagaing Region	3.921470081	1.54846	43.82751	2.373010081	42.27905	0.0561273	0.60803
Tanintharyi Region	2.653441505	1.54846	43.82751	1.104981505	42.27905	0.0261354	0.14541
Bago Region	5.095587981	1.54846	43.82751	3.547127981	42.27905	0.0838980	0.64778
Magway Region	1.548460441	1.54846	43.82751	4.41464E-07	42.27905	1.044E-08	0.17384
Mandalay Region	2.845957222	1.54846	43.82751	1.297497222	42.27905	0.0306889	0.77619
Mon State	8.325395255	1.54846	43.82751	6.776935255	42.27905	0.1602906	0.48266
Rakhine State	2.812517876	1.54846	43.82751	1.264057876	42.27905	0.0298980	0.31862
Yangon Region	1.862716856	1.54846	43.82751	0.314256856	42.27905	0.1374329	0.98524
Shan State	8.845710066	1.54846	43.82751	7.297250066	42.27905	0.1725973	0.97952
Ayeyawady Region	3.502456561	1.54846	43.82751	1.953996561	42.27905	0.0462167	0.54827

국문초록

미얀마 재정분권화에 관한 연구: 정부 간 재정관계 관점에서

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글로벌행정전공

오늘날 분권화된 공공 서비스에 대한 시민들의 요구가 증가하면서 연방 민주주의 국가의 정부간 재정 관계 개혁이 상당한 문제가 되고 있다. 군사독재국가였던 미얀마는 오랜 기간 강력한 중앙집권체제를 유지했다. 그러나 이전 미얀마 정부는 2008년 헌법에 의거해 2011년 이래로 다양한 상향식-하향식 방식의 분권화 정책을 도입할 수 있었다. 연구 결과, 이러한 정책은 재정 관계에서 일정한 변화를 가져왔으나 재정 책임의 배분 측면에서는 큰 진전이 없어 결과적으로 이상적인 분권화 형태와는 다른 분권화 형태가 나타났다. 게다가 개혁기간인 2012-2013 회계연도부터 2016-2017 회계연도까지 지방정부 재정력에 대한 분석에 따르면, 각 지방정부가 필요한 예산보다 더 적은 재원이 충당되었음을 알 수 있다. 이로 인해 연방에서 지방정부로의 정부 간 전출액이 미얀마의 재정 격차를 줄이는데 중요한 역할을 하고 있으나, 각 지방정부의 기본 수요와 인구 규모에 따라 일관되게 분배되지는 않고 있다. 따라서 미얀마의 지방 분권화에 대한 순차적인 개혁으로서 최소한의 공공 서비스를 제공하기 위해서는 지방정부 간 불균형을 해소할 수 있는 적절한 재정지원 시스템을 구축해야 한다.

주제어: 재정분권화, 연방정부, 지방정부

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