Fiscal Decentralization in Myanmar:
An Analysis of Localities for Fiscal Years from 2017-2018 to 2020-2021

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Abstract

Fiscal decentralization has been conducted in Myanmar for over a decade. However, the role of subnational governments is still modest and there has been no improvement for the last four fiscal years (2017-18 FY to 2020-21 FY). Myanmar is just at initial stage of fiscal decentralization. Subnational governments only spent about a tenth of total public expenditure. There are only two localities (Yangon and Mandalay) whose own revenues accounts for over a half of their expenditures while others were just less than a quarter. Subtracting these two localities, total revenue of 12 localities in the 2020-21 FY just accounts for 1.2 percent of total public revenue in Myanmar. Thus, most localities rely almost solely on transfers from central or Union government. Tax revenues just accounted for less than a fifth of total revenues of subnational governments. The rest is non-tax revenues that are usually not stable and sustainable. Moreover, tax revenue is collected from a few sources including excise, property, and wheel taxes although there are 8 types of taxes. Other taxes have just had modest roles, except some types in specific localities such as forestry in Tanintharyi and fishery in Ayeyarwaddy. Regarding expenditure, current expenditure accounted for only a quarter and the rest is capital expenditure. There is usually some current expenditure in capital expenditure, but the data still reflects modest roles of subnational governments. In addition, there is no clear sign that budget allocation from the Union government is based on efficiency and equity criteria. We propose three recommendations. First, criteria for budget allocation based on efficiency and equity should be designed. Second, Myanmar can consider experience from other countries, especially China and Vietnam for the last three decades and Indonesia under and post- Suharto's regime, and the Philippines after Marcos's regime to assign subnational governments more expenditure responsibilities based on national policies decided by central government. Thus, operational activities are at the lower levels, but policy prerogative is still at the central government. Third, improving own source revenue by focusing on property tax reform. To avoid complication, it should be piloted in a large city with revenue potential like Mandalay instead of Yangon.

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အနှစ်ချုပ်ဖော်ပြချက်

ဘဏ္ဍာရေးဆိုင်ရာ ဗဟိုချုပ်ကိုင်မှု လျှော့ချရေးကို မြန်မာနိုင်ငံတွင် ဆယ်စုနှစ် တစ်ခုကျော်ကြာအောင် ပြုလုပ်ခဲ့ပါသည်။ သို့သော် ဒေသန္တရအစိုးရများ၏ အခန်းကဏ္ဍမှာ နည်းပါးနေဆဲဖြစ်ပြီး လွန်ခဲ့သော ဘဏ္ဍာရေးနှစ် (၂၀၁၇-၁၈ ခု၊ ဘဏ္ဍာရေးနှစ်မှ ၂၀၂၀-၂၀၁၁ ခု၊ ဘဏ္ဍာရေးနှစ်) ၄နှစ်တာ ကာလများတွင် တိုးတက်မှုမရှိခဲ့ပါ။

မြန်မာနိုင်ငံသည် ဘဏ္ဍာရေးဆိုင်ရာ ဗဟိုချုပ်ကိုင်မှု လျှော့ချရေး၏ ကနဦး အဆင့်တွင်သာရှိသည်။ ဒေသဆိုင်ရာ အစိုးရများသည် ပြည်သူ့အသုံးစရိတ်၏ ဆယ်ပုံတစ်ပုံခန့်သာ သုံးစွဲခဲ့သည်။ ကိုယ်ပိုင်အခွန်အကောက် ရငွေများသည် တိုင်းဒေသကြီးနှစ်ခုဖြစ်သည့် (ရန်ကုန်နှင့်မန္တလေး)တွင်သာ အသုံးစရိတ်၏ ထက်ဝက်ကိုကျော်လွန်ပြီး အခြားပြည်နယ်နှင့် တိုင်းဒေသကြီးများမှာမူ အသုံးစရိတ်၏ လေးပုံတစ်ပုံ အောက်သာရှိသည်။ ၍ဒေသနှစ်ခုကို နုတ်လိုက်ပါက ကျန်ဒေသ ၁၂ ခု၏ ၂၀၂၀-၂၁ ခု၊ ဘဏ္ဍာရေးနှစ်၏ စုစုပေါင်းဝင်ငွေသည် မြန်မာနိုင်ငံရှိ ပြည်သူ့ဘဏ္ဍာ ရငွေစုစုပေါင်း၏ ၁.၂ ရာခိုင်နှုန်းသာရှိသည်။ ထို့ကြောင့် ဒေသအများစုသည် ဗဟို (သို့မဟုတ်) ပြည်ထောင်စုအစိုးရထံမှ လွဲပြောင်းမှုများအပေါ်တွင်သာ မှီခိုနေရသည်။ ပြည်နယ်နှင့် တိုင်းဒေသကြီးအစိုးရများ၏ အခွန်အကောက်ရငွေသည် ပြည်နယ်နှင့် တိုင်းဒေသကြီးများ၏ ရငွေစုစုပေါင်းရငွေ၏ ၅ ပုံ ၁ ပုံအောက်သာရှိသည်။ ကျန်ရငွေများသည် တည်ငြိမ်မှုနှင့် ရေရှည် တည်တံ့မှုမရှိသည့် အခွန်မဟုတ်သော ဝင်ငွေများဖြစ်သည်။

ထို့ပြင် ပြည်နယ်နှင့် တိုင်းဒေသကြီးတို့မှ ကောက်ခံနိုင်သော အခွန်အခမျိုးအစား (၈) ခုရှိသော်လည်း ယစ်မျိုး၊ ပစ္စည်းခွန်နှင့် ဘီးခွန်များအပါအဝင် အရင်းအမြစ်အနည်းငယ်မှသာ ကောက်ခံနိုင်ခဲ့ပါသည်။ အထူးသဖြင့် တနသၤာရီတိုင်းဒေသကြီးတွင် သစ်တောနှင့် ဧရာဝတီတိုင်းဒေသကြီးတွင် ငါးလုပ်ငန်း စသည့် အမျိုးအစားများမှလွဲ၍ အခြား အခွန်အခများမှာ နည်းပါးနေပါသေးသည်။ အသုံးစရိတ်နှင့်စပ်လျဉ်းပြီး သာမန်အသုံးစရိတ်သည် အသုံးစရိတ်၏ လေးပုံတစ်ပုံသာရှိပြီး ကျန်ငွေများမှာ ငွေလုံးငွေရင်း အသုံးစရိတ်များဖြစ်သည်။ များသောအားဖြင့် ငွေလုံးငွေရင်း အသုံးစရိတ်တွင် သာမန်အသုံးစရိတ် အချို့ရှိသော်လည်း ဒေသန္တရ အစိုးရများ၏ အခန်းကဏ္ဍနည်းပါးနေမှုကို အချက်အလက်များက ထင်ဟပ်ပြနေဆဲ ဖြစ်ပါသည်။ ထို့အပြင် ပြည်ထောင်စုအစိုးရမှ ဘတ်ဂျက်ခွဲဝေမှုသည် ထိရောက်မှုနှင့် သာတူညီမျှမှ စံနှုန်းများအပေါ် အခြေခံမှုနှင့်ပတ်သက်ပြီး ရှင်းလင်းသောလက္ခဏာ မတွေ့ရပါ။

ကျွန်ုပ်တို့အနေဖြင့် အကြံပြုချက်သုံးခု အဆိုပြုထားပါသည်။ ပထမအချက်အနေဖြင့် ဘတ်ဂျက် ခွဲဝေချထားပေးသည့် စံနှုန်းများသည် ထိရောက်မှုနှင့် သာတူညီမျှမှုအပေါ် အခြေခံ၍ ပုံဖော် ရေးဆွဲသင့်သည်။ ဒုတိယအချက်အနေဖြင့် မြန်မာနိုင်ငံသည် အခြားနိုင်ငံများ၏ အတွေ့အကြုံများဖြစ်သည့် အထူးသဖြင့် လွန်ခဲ့သော ဆယ်စုနှစ်သုံးခုအတွင်း တရုတ်နှင့် ဗီယက်နမ်နိုင်ငံတို့၏အတွေ့အကြုံများ ထို့အပြင်အင်ဒိုနီးရှား၏ ဆူဟာတို အုပ်ချုပ်မှု ကာလအလွန် နှင့် ဖိလစ်ပိုင်တွင် မားကို(စ်) အစိုးရကာလအလွန်ကာလများတွင် ဗဟိုအစိုးရမှ နိုင်ငံတော်အဆင့်မူဝါဒအနေဖြင့် ဆုံးဖြစ်ပြီး ဒေသအစိုးရများကို အသုံးစရိတ်များနှင့် ပတ်သက်သော တာဝန်များ ပိုမိုပေးအပ်ခြင်းများကိုလည်း စဉ်းစားနိုင်ပါသည်။ ထို့ကြောင့် လုပ်ငန်းဆောင်ရွက်မှုများသည် အောက်ခြေအဆင့်တွင်ရှိသော်လည်း မူဝါဒအရ အခွင့်အာဏာကို ဗဟိုအစိုးရတွင် ဆက်လက်ထားရှိသည်။ တတိယအနေဖြင့် ပစ္စည်းခွန် ပြုပြင်ပြောင်းလဲမှုအပေါ် အာရုံစိုက်ခြင်းအားဖြင့် ကိုယ်ပိုင်ဝင်ငွေအရင်းအမြစ် တိုးတက်လာစေနိုင်ပါသည်။ ရှုပ်ထွေးမှုများကို ရှောင်ရှားရန်အတွက် ရန်ကုန်အစား မန္တလေးကဲ့သို့ ဝင်ငွေအလားအလာ ရှိသောမြို့ကြီးတစ်မြို့တွင် စမ်းသပ်သင့်သည်။

Acknowledgments

I. Introduction

Assignments and responsibilities for governmental levels should be based on the principle that those closest to citizens should take charge; and issues within the boundaries of a locality should be handled by local government, and issues beyond the boundaries of localities should be handled by higher levels of governments (Stiglitz and Rosengard, 2015). The role of public sector is to improve efficiency and equity in using resources of the whole society. More specifically, the role of government is to correct market failures and improve equity (World Bank, 1997). To fulfil this role, local governments usually play significant roles. However, there are also problems of the public sector or government failures (Tullock *et al.*, 2002). Moreover, politics is a central issue of governments around the world. Therefore, balancing power and promoting roles of subnational governments are important issues.

There was a myth about the role of public sector since the October Revolution in Russia, then the formation of the socialist bloc since the early 20th century. Central governments could efficiently do everything through centralized plans. This myth was dissolved after the collapse of socialist bloc in the early 1990s. Since then, there has been a clear trend of decentralization. Local governments have been given bigger roles. Efficiency and equity are the two criteria for decentralization and equity usually have bigger weights (World Bank, 1996; Martinez-Vazquez and Searle, 2007; Stiglitz and Rosengard, 2015).

Fiscal decentralization measured by the budget proportions of local governments' revenues and expenditures to the total public revenue and expenditure are important. There is no unanimity, but the proportion of subnational expenditure to the total public expenditure in Asian countries as presented later usually ranges from a quarter to two thirds. A percentage much less than a quarter is considered low and that is the case in Myanmar.

According to official statistics, Myanmar's national revenue and expenditure to GDP increased from 18.2 percent and 22.6 percent in 2017-18 fiscal year (FY) to 22.1 percent and 27.5 percent in 2020-21 FY, respectively. It has been significantly improved from 2010-11 FY at 14.3 percent and 18.9 percent. Revenue and expenditure to GDP are heading to the upper limits of developing countries, especially those in the regions. However, Myanmar's budget includes the budget of the State Economic Enterprises (SEEs). After adjusting for incomparable components, Myanmar's budget to GDP lies in a normal range as compared to other countries in the regions. As the IMF's data, Myanmar's revenue, and expenditure to GDP in 2018 were 17.7 and 20.4 percent respectively.

However, decentralization is taking place at slow pace although it has been implemented since 2008 under the new Constitution. Subnational governments (regions, states, and lower levels) have still played a modest role. Their revenue in 2020-21 FY accounted for only 5 percent of the total public revenue, slightly increased from 4.4 percent of 2017-18 FY. The expenditure proportion even decreased to 11.2 percent from 12 percent in 2017-18 FY. The revenue and expenditure of subnational governments to GDP are just equivalent to 1.1 percent and 3.0 percent, respectively, slightly increased from 0.8 percent and 2.7 percent of 2017-18 FY, respectively. As World Bank (2019) points out: "The assignment of powers granted to the subnational level falls well short of the powers initially granted to states at independence and is narrow relative to other countries in the region."

Moreover, there are disparities among localities. In 2020-21 FY, Yangon accounted for 56 percent and Mandalay accounted for 19.3 percent of the total local government's revenue, while each of the others accounted for a few percent. In terms of revenue per capita, Yangon collected MMK 93 thousand, Mandalay MMK 41 thousand, some localities around MMK 20 thousand and the remaining half collected below MMK 10 thousand. Expenditure per capita of Chin was the highest at MMK 357 thousand, Kayah

was the second highest at MMK 270 thousand, Yangon was MMK 110 thousand and the lowest was that of Ayeyarwaddy, just MMK 32 thousand.

Decentralization in general and fiscal decentralization continue to be promoted in Myanmar, yet much remained to be done. To promote and increase the efficiency of decentralization in Myanmar, it is necessary to look deeply and specifically at local governments. It is the objective of this paper. It is better to analyse all localities; however, due to resource constraints, the paper analizes and compares three localities including: Yangon region, Bago region, and Shan State (hereafter just named Yangon, Bago and Shan for convenience). These three localities represent three typical groups. Yangon is the biggest and most developed city in Myanmar; Bago is a potential growth, but ordinary locality near Yangon; Shan State is in a remote and mountainous area. Moreover, due to availability of the data, especially specific tax sharing information, time frame of the analysis spans over four fiscal years from 2017-18 to 2020-21.

Myanmar's public finance has drawn much interest from international organizations and researchers. There are many analyses conducted by World Bank (2017, 2019), and Dickenson-Jones at el. (2015). These reports and papers provide a great deal of information and analysis. However, it is difficult to access exact figures related to the budget. For example, according to official statistics, national revenue and expenditure to GDP of 2018-19 FY are 18.8 percent and 23.3 percent respectively while they are 17.7 percent and 20.4 percent respectively in the IMF's data. For the consistency of our analysis, data from similar sources are used for calculations and comparisons. For example, official data from Myanmar is used to calculate and compare localities, while international data is used for international comparisons.

To fulfil research objectives, the paper is structured in five parts: conceptual framework and practice, fiscal decentralization in Myanmar, Yangon, Bago, Shan, comparison of three localities, disparities among localities in Myanmar, conclusions and policy recommendations.

II. Conceptual Framework and Practice

Decentralization and Fiscal Decentralization

Decentralization is the transfer of powers, resources, and responsibilities from the upper government (usually central government) down to the lower level government (e.g. regional or provincial governments). The OECD defines decentralization as measures that transfer a wide range of powers, responsibilities, and resources from central government to sub-national governments, where local governments are defined as legal entities elected by universal suffrage and have some degree of autonomy (OECD, 2019). Thus, decentralization is not only the transfer of responsibilities, but also powers and resources to concretize powers, thereby enabling lower level governments to fulfill their assigned responsibilities. The concept of decentralization is often associated with the notion of devolution or sharing of power. In turn, the concept of devolution is often tied to political and administrative aspects. In other words, the domain of decentralization is often quite broad, including political, administrative, economic, budget, market decentralization, etc.

Political decentralization is the transfer of part of political power to lower levels of government or elected institutions, social communities, or even individual citizens. Through that, local governments or elected institutions will have greater power and/or more responsibility for the interests of local people. Political decentralization is aimed at separating political decision-making power from the central government and transferring it to local government. This is due to the perception that excessive concentration of political power often causes some problems, so dividing political power will provide better checks and balances, thereby promoting democracy, and accountability, particularly regarding responsiveness to local needs and priorities.

Administrative decentralization is the transfer of operational responsibility from higher authorities to lower levels of government. In other words, administrative decentralization is the transfer of powers and responsibilities from the central government to the local/regional government in the state governance or the provision of public goods to local people. Administrative decentralization assigns responsibility and provides a budget, but not all decision-making power to lower levels. There are two levels of administrative decentralization. First, shift the responsibility for providing some public goods from the central to local level by delegating local decision-making authority in certain cases. Second, local governments are partly autonomous in terms of budget but still placed under the supervision and control of the central government. However, in this model the central government remains ultimately responsible for the provision of public goods.

Figure 1. Domains of Decentralization

Source: OECD (2019).

Economic decentralization is the partial decentralization of powers and responsibilities in mobilizing, distributing resources and managing the economy to lower government or to the SOE sector or even to private sector, and the community. This means that some powers and duties previously exercised by the central government will now be transferred to local authorities or to SOEs for implementation, or even to outside the public sectors such as private enterprises, social organizations, non-governmental organizations, etc. The transition to the non-public sector is done by privatization, deregulation, commercialization/corporatization of SOEs (a transitional step to privatization) and public-private partnerships (PPPs).

Budget decentralization is the decentralization of the powers and tasks of budget formulation, execution, and management from central government to local government. The scope of budget decentralization includes the determination of powers and responsibilities between central and local governments in tax collection, public spending, budget subsidy conditions, budget regulation, and also in borrowing and debt repayment by governments at all levels. Based on functions, fiscal decentralization may include part or all of the functions of governments at all levels in mobilizing and distributing budget resources, such as planning, budgeting, allocating, implementation, management, monitoring, auditing, and evaluation of the performance of the budget plan.

The difference in level and nature of decentralization will create different decentralization models. Modes of decentralization are quite diverse and complex, but they can be divided into four main groups:

The Reconcentration model: In simple terms this brings central government workers closer to the people they are serving by physically relocating them outside of the capital. This is the model with the least fiscal decentralization, i.e. the highest level of fiscal concentration at the central level. Accordingly,

local governments will have little or no independence in terms of budget revenues, while budget spending tasks are also very limited. The budget policymaking processes are often concentrated at the central level. Ministries play a decisive role in the allocation of budgets to departments under their management in localities. Local authorities have almost no role but to support, coordinate and monitor implementation of local policies. They often have limited authority for small decisions to facilitate implementation.

Figure 2. Models of Decentralization

Source: OECD (2019)

The Delegation Model:[1] Under this model, the government will provide fiscal frameworks, regulations, as well as rules for the allocation of resources. Local governments rely on these frameworks to develop their own local fiscal policies. In many cases, local fiscal policies that want to be implemented need to be accounted for in advance and with the consent of the central government, especially on matters outside of established framework. Local governments are usually only allowed to collect domestic taxes or local taxes on a limited basis, however, in return the central government will ensure a minimum level of spending based on local needs by subsidizing policy. Ministries and local governments have the same authority to participate in the allocation of budgets to local projects. Local governments also have authority to re-allocate budget to different areas or arbitrarily allocate resources mobilized, however this power is often limited. The delegation model is considered a form of a "principal - agent" relationship, in which the central government is the principal, and the local authorities are the agents (Dafflon, 2006).

The Devolution Model: Devolution is the transfer of powers from central government to local/regional government. This is the highest decentralized model. The central government often provides policy direction through rules or frameworks at the national level. The local government has the independent authority to generate revenue, plan and allocate budgets to different areas and sectors without being assigned or bound by the central government, except for the central government grants. The role of the ministries is to coordinate the implementation of the policies that have been decided by the local authorities to be effective.

The Mixed Models: In practice, it is very difficult to separate such models of budget decentralization in a lot of countries. Even within a country, each different sector can apply a different decentralization model.

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[1] This also includes delegation from the public sector to the private sector and the community, but this paper just focuses on the delegation to subnational governments.

For example, the decentralization model is often applied in the education sector, while the delegation model is suitable in the health sector, or subsectors like primary education or primary health.

Why should budget decentralization?

Theoretically, it is difficult for any level of government to do everything efficiently. Especially for large-scale economies with regional diversity, ethnic difference, etc., it is difficult for one level of government to put things in order and please everyone. A single local government cannot take charge of national affairs such as national security and defence. Meanwhile, the central government cannot do better than the local government in fire prevention and fighting. The problem is not the impossible, but the choice between cost and efficiency. Therefore, from the past up to now, the division of powers and responsibilities between levels of government has always been a key issue in every country and in any political institution. The Stigler's Menu Theory (1957) proposes two principles in the design of powers: (i) the representative government will do best when it is closer to its people; (ii) citizens should have the right to vote for the type and amount of public goods they need. These two principles emphasize the right of citizens to make decisions through representative bodies. However, how close the government should be to the people or how people have the right to vote on the range of public goods is another matter.

According to Oates (1972), "Public service should be provided by the level of government that best represents the area or locality to be benefited." This is called the "correspondence principle", which means that the scope of authority to choose the supply of a public good should be based on the set of choices made by the individuals using it. Meanwhile, the results of people's choice will depend on the results of a secret ballot or "voting with feet" (Tiebout, 1956), either based on the electoral process to elected bodies or on the process of forming communities (Buchanan, 1965). The question is how much choice do people have and what are the limits of the authority of the government? According to Olson (1969), the political authority and the sphere of benefit of public service must overlap in order to ensure that the marginal benefit of provision is equal to its marginal cost and does not give rise to the problem of "free riders." Olson (1969) called this as fiscal equivalency. Similarly, Oates (1972) also introduced the decentralization theorem, whereby "each public service should be provided by the jurisdiction having control over the minimum geographical area that would internalize benefits and costs of such provision." Research by the World Bank (2010) shows that transferring powers and responsibilities from central government down to local government or bringing decision-making levels closer to its people increases efficiency, fairness, transparency, and accountability of the public sector.

In practical terms, the reasons for decentralization in countries are very diverse due to the different contexts, history, culture, and political institutions. Shah (2004) summarizes seven main causes, including: (i) the collapse of countries in the model of central planning, control and collective ownership; (ii) separatist movement and elimination of vestiges of colonialism and ethnic conflicts; (iii) the failure or ineffectiveness of the central government to provide appropriate and accessible public services to communities; (iv) the central government imposes self-responsibility for local governments, reducing the burden of funding and the moral hazard on central government subsidies; (v) the basic rights of citizens are increasingly asserted in the constitutions and verifications of the courts; (vi) the trend of globalization of economic activities, where international spaces in local economic activities are also opened; and (vii) the demonstration effects of the European Union and Latin America models.

The benefits and risks of budget decentralization

The reasons for decentralization as mentioned also partly imply its benefits – both economic and political. However, analysis from different perspectives will show more clearly the benefits and potentials of budget decentralization. First, regarding economic benefits, decentralization shows improvements in

economic efficiency (see Table 1). Decentralization helps local governments to be proactive in designing, building, implementing and better monitoring local priority policies given specific characteristics of each locality. Decentralization allows localities to freely use appropriate technology, improve investment sustainability, and promote efficiency. Decentralized policies also serve as a laboratory for policy innovation. That is, it creates space for testing new ideas, new policies, and encourages trial and error. Budget decentralization also promotes local dynamism in expanding fiscal space, expanding tax base, mobilizing additional resources for tasks of providing public goods, eliminating moral hazard risks, reducing dependence on central government subsidies.

In addition to economic benefits, budget decentralization also brings political benefits, especially clear division of responsibilities, thereby improving the performance of the government. Greater autonomy of local governments results in increased shadow voting rights, creating a counterbalance for re-control of central power, promoting transparency and efficiency, and better accountability from both sides.

Table 1. Effects of decentralization

Author (year)	Sample	Period	Findings
Akai and Sakata (2002)	USA	1988–1996	Positive and significant
Baskaran and Feld (2009)	23 OECD countries	1975–2001	Negative, but not robust
Davoodi and Zou (1998)	46 countries	1970–1989	Developing: negative, but not significant OECD: no relationship
Iimi (2005)	51 countries	1997–2001	Positive and significant
Lin and Liu (2000)	China	1970–1993	Positive and significant
Rodríguez-Pose and Bwire (2004)	Germany, India, Italy, Mexico, Spain and USA	Different periods until 2001	Mostly insignificant, with the exceptions of Mexico, the US, and, partially, India, where it becomes negative
Stansel (2005)	US metropolitan areas	1960–1990	Positive and significant
Thießen (2003)	26 countries	1973–1998	Hump-shaped relationship
Thornton (2007)	19 OECD countries	1980–2000	Not statistically significant
Woller and Phillips (1998)	23 less developed countries (LDCs)	1974–1991	No relationship
Zhang and Zou (1998)	China	1980–1992	Negative and significant
Zhang and Zou (2001)	China	1987–1993	Negative and significant

Source: Rodríguez-Pose, Andres and Ezcurra, Roberto (2010)

However, decentralization, especially inadequate decentralization due to lack of synchronization and complementary conditions, can lead to political and economic risks. Firstly, decentralization runs a risk of creating political instability. Decentralization is not a quick solution to administrative, political, and economic problems. Decentralization can undermine stability, erode efficiency, and increase corruption. In some countries facing political turmoil, promoting decentralization is often not appropriate. Secondly, decentralization can also lead to risks of macroeconomic imbalances. In particular, budget decentralization without hard budget limits can lead to large and prolonged budget deficits, increasing public debt and economic costs. Ambiguous decentralization of duties, especially debt and repayment responsibilities, can lead to moral hazard risks, worsening both national and local public finances. Budget decentralization, especially when the capacities of local governments are inadequate, can lead to poor service quality, inadequate provision, and encourage greedy behaviour, undermining people's confidence in government system. Finally, budget decentralization also poses social risks, such as increasing the risk of inequality among groups, regions, and localities. Localities that have advantages may grow quickly, but underdeveloped ones may be left further behind.

The conditions for effective budget decentralization

The effects of budget decentralization are often ambiguous. It is important to consider which budget decentralization model would be more appropriate to our current reality and political economy in order to reap most of its benefits while minimizing the risks that come with it. There are many failed budget decentralization models that show improper design, with conflicting goals such as decentralization to centralize power. In terms of enforcement, decentralization is not uniform and inconsistent; power devolved may not be tied to resources and personnel. On the contrary, in some models, empowerment is not coupled with power control, leading to abuse of power and corruption.

On the other hand, evaluating decentralized performance is often difficult because there is no benchmark of decentralization models to evaluate. People's judgement of decentralization effects is based on subjective opinions. However, there are still common determinants predicting the success of decentralization models, for instance the scope of decentralization must match monitoring capacity. Initially, decentralization should be designed to align interests of central government with those of lower-level government to avoid conflicting interests and goals. It then should be developed step by step with specific and clear functions. For effective budget decentralization, it must be linked to complementary strategies, such as strengthening the capacity of subordinates, building a sound incentive mechanism, especially with a strong political commitment or strong political incentive.

Experience drawn from successful decentralization models shows:

- **Transparency**: A basic requirement of any fiscal decentralization system is transparency. Local people and communities must have rights to access to information related to public decisions in a complete, timely, and accurate manner.

- **Voice**: There should be an effective mechanism for people to convey their wishes and priorities to the government. People's voices, choices and withdrawal are crucial to the success of a decentralized decision-making process (Shah 2004). One of the benefits of decentralization is that it makes it easier for people's voice to reach the authorities. Therefore, if the voice of people cannot reach the government, it is a failed decentralization model.

- **Resources**: Tasks or functions that are decentralized to local government require resources in order to perform. In other words, resources need to go hand in hand with the mission. Lack of resources will make it difficult to perform the tasks. On the contrary, excess resources can lead to inefficiencies. There are two ways in which the central government can make resources available. One is to give the localities a certain resource associated with the assigned task, and the other is to empower the localities to mobilize resources to do the task. In the case of empowering localities to mobilize their own resources to perform public mandates, policy frameworks, monitoring mechanisms, and accountability are required.

- **Accountability**: Decentralization requires binding accountability to local authorities. This requirement is regularly fulfilled through a reporting system to superior authorities and providing explanations directly to the people or through elected bodies. Accountability is needed to ensure independence, objectivity, and substance.

- **Scale and Scope**: The scale and scope of fiscal decentralization should be large and wide enough to achieve economies of scale and economies of scope. This also increases the spread of benefits and costs, thereby internalizing externalities, creating the initiative and dynamism of the government in designing and choosing policies.

International experience

In public sector, power is what matters most. Therefore, political decentralization is the least desirable option for central governments under centralized regimes. Economic reforms usually start first and followed by political reform, granting power to lower government levels is usually far behind. Myanmar is such a case. Therefore, it is necessary to have a close look at countries under similar situations. China and Vietnam are reasonable examples.

Discussing how decentralization is done in China and Vietnam can draw important implications for Myanmar. The two countries started their economic reform along with granting more rights and responsibilities for subnational governments to conduct daily functioning activities. However, the power is mainly still on the central governments' hands. China and Vietnam are interesting cases for Myanmar to consider. Among other countries, the central governments in China and Vietnam are much more powerful than others. However, the expenditure proportions by local governments are much higher than other countries. As a result, it can be said fiscal decentralizations are indeed high in these countries. Many local assignments are aligned with national policies, but local governments are in charge of spending and management such as education, health, and social wealth fare.

China's fiscal decentralization

There have been significant shifts in fiscal decentralization in China since its reform in 1978. At the beginning, subnational government accounted for 85 percent of the revenue and around half of the expenditure. Currently, subnational governments account for just a half of the revenue and spend 85 percent of national expenditure.

If we consider the period after the reform in 1979, the process of budget decentralization in China can be divided into two phases before and after 1994. In the period of 1979-1993, a series of fiscal reforms were promoted by Chinese Government. As a result of these reforms, the ratio of national budget revenue to GDP had shrunk from 47 percent in 1978 to 13 percent in 1993, and also the share of budget revenues of central government had decreased significantly from 44 percent in 1978 to 23 percent in 1993. Under such pressure, central government had assigned more responsibility of spending to lower governments. It can be said that the fiscal reforms during this period in China focused on enhancing local fiscal autonomy, along with increasing accountability to local governments. However, the central government continued to maintain an appropriate level of fiscal control over localities.

Figure 3. Share of revenue and expenditure by subnational governments in China (%)
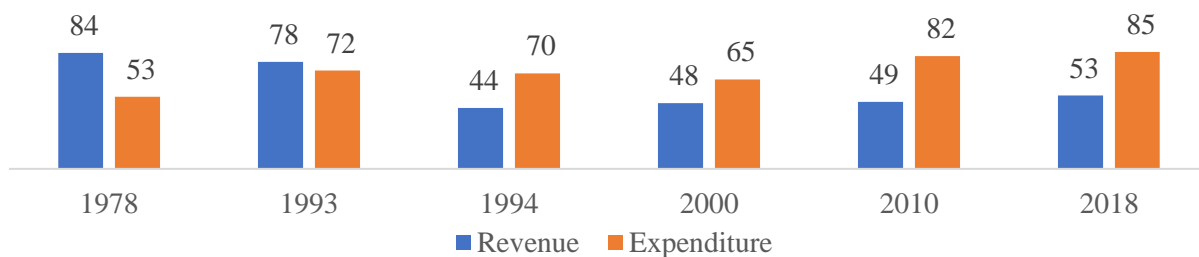
Source: Authors' rendering from China's official statistics

The most significant step is the reform in 1994 and it remains the most significant fiscal reform in China. This reform created the fiscal relations framework between the central and local governments and is considered the most extensive and comprehensive institutional restructuring in China since 1949. This

restructuring drives the revenue trend in **Figure 3** even more significant given that the total amount of revenue has grown substantially since 1994 despite subnational government's declining share. The revenue sharing mechanism and subsidy modality to localities has also been re-established on a more objective and transparent basis. Some inadequate and outdated tax systems were being converted to new tax systems. For example, the sales tax has been replaced by the VAT at the common tax rate of 17%. Corporate income tax has been applied uniformly to all domestic enterprises and the highest tax rate has been reduced from 55% to 33%. The National Tax Service was established in all localities in 1994 and 1995 to collect central government revenues and shared revenues. The tax reforms promoted in China in 1994 are considered to be of great success, in which total national budget revenue (relative to GDP) and the position of central government budget are both increasing.

Table 2. Tax Sharing Arrangement in China, 2015

	Central	Local	Share of total taxes	Share of GDP
Central taxes			9.8	2.3
Consumption tax	100	0	6.6	1.5
Vehicle purchase tax	100	0	1.8	0.4
Tariffs	100	0	1.6	0.4
Cargo tax	100	0	0.0	0.0
Intl trade-related consumption tax and VAT	100	0	-0.2	0.0
Shared taxes			55.9	12.9
Domestic VAT[a]	50	50	31.8	7.3
Corporate income tax	60	40	17.1	3.9
Personal income tax	60	40	5.4	1.3
Stamp tax on securities	97	3	1.6	0.4
Sub-national taxes			34.3	7.9
Social security contributions	0	100	21.3	4.9
Tax on deeds	0	100	2.5	0.6
Urban maintenance and development tax	0	100	2.4	0.6
Land appreciation tax	0	100	2.4	0.6
Urban land use tax	0	100	1.3	0.3
Tax on the use of arable land	0	100	1.3	0.3
House property tax	0	100	1.3	0.3
Resource tax	0	100	0.7	0.2
Stamp tax on property	0	100	0.6	0.1
Tax on vehicles and boat operation	0	100	0.4	0.1
Tobacco tax	0	100	0.1	0.0

[a] Includes receipts from Business Tax, which was replaced by the VAT in May 2016.

Sources: Wingender (2018), De Mooij, Lam and Wingender (2017).

As a result, the ratio of budget revenue to GDP has increased again after nearly two decades of decline. The ratio of national revenue to GDP increased from 12 percent in 1993 to more than 17 percent in the mid-2000s and 22 percent in 2016. Also, the share of central government revenue to total revenue increased from 22 percent in 1993 to more than 55 percent in 1994. By the mid-2000s, this proportion continued to remain approximately above 50% compared to below 40% in the decade after 1979. A larger share of the central government budget would help to improve fiscal policy implementation and income redistribution among localities. Along with that, tax administration policy was also tightened, especially for tax-free policies implemented by local governments. However, the reform also caused budgets of many localities to change from surplus to continuous and increasing deficits.

After 1994, another major fiscal reform in China took place in 2014, with the passing of a new budget law. The main reforms of this phase were to improve the budgeting process and the transparency and

accountability of local governments. Under the new rules, a multi-year budget plan is in place. The conditions for an annual budget deficit and surplus should be based on a medium term perspective. The new law also allows provincial governments to issue bonds to finance public investments but requires approval from National People's Congress.

Vietnam's fiscal decentralization

Like China, there have been significant shifts of fiscal decentralization in Vietnam since its reform in 1986. Subnational governments have been assigned bigger roles. Before the 2002 budget law effective in 2004, subnational governments spent less than a half of the national expenditure. It has reached to around 60 percent since 2004 (**Figure 4**).

Figure 4. Share of expenditure by subnational governments in Vietnam (%)*
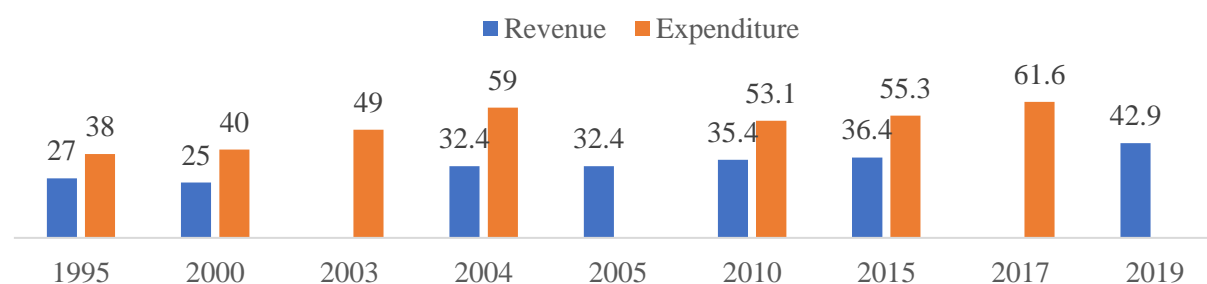
* Due to the data availability, there is missing data in some years

Source: Authors' rendering from Vietnam's official statistics

Vietnam's economic reforms, including budget reform and decentralization, are similar to China in many respects. Seven years later than China, Vietnam began to carry out its economic reforms ("Doi moi" or Renovation) in 1986. Accordingly, the centrally planned economy was gradually shifted to a market economy. The process of budget reform and decentralization in Vietnam from 1986 up to now can be divided into four phases as follows:

Phase 1 (1986-1996): This is the first stage of the renovation process, therefore many mechanisms and policies in this period were still heavily influenced by the centrally planned economy in the previous period. The remarkable feature during in this period was that state budget deficit was very large, and the budget deficit was mainly financed from money printing. Money printing only really ended in name in 1992, however, because the tax base of Vietnam in this period was limited, state-owned banks were often directed to finance budget deficits by the government. Public spending in most localities was still funded by the central government, except for Ho Chi Minh City, Hanoi and a very few localities with solid tax base thanks to the early establishment of industrial zones. SOEs played a very important role in both central and local public investment projects.

Phase 2 (1997-2002): Many important fiscal reforms had taken place during this period. In addition to the new Budget Law (1996, and the revised 1998 Law), a series of new tax laws had emerged in this period, such as the corporate income tax, value added tax (replacing the sales tax), excise tax, the income tax on people with high income, etc. Along with the new tax policy, the process of budget decentralization had also been accelerated, increasing autonomy and greater fiscal responsibility for localities. Under the 1996 Budget Law, the central and local budgets are assigned specific sources of revenue and expenditure. Some localities with good fiscal capacity were responsible for transferring part of their revenues to the central

government, while many other localities continued to receive government subsidies. This subsidy policy aims to ensure fairness, balanced development between regions and localities. In general, although the fiscal decentralization process had been accelerated than before, the management of the national budget was still centralized by the central government.

Table 3. The distribution of budget revenues between levels of government*

Revenues retained by central government (A)	Revenues shared between central and local government (B)	Revenues retained by local governments (C)
VAT on imported goods	VAT, except for (A)	Natural resources tax, except for (A)
Export and import duties	Corporate income tax, except for (A)	License tax
Excise tax on imported goods	Personal income tax	Land levies on agricultural land
Environmental protection tax on imported goods	Special excise tax, except for (A)	Levies on non-agricultural land
Natural resources tax, corporate income tax, profits distributed to home country and other revenues from petroleum exploration and extraction	Environmental protection tax, except for (A)	Rent for lease of land, water surface
Others		Revenue from lease and sale of state-owned housing
		Revenues from lottery
		Others

* There are no uniform formulas like China illustrated in Table 2 and Myanmar latter. The tax sharing varies from province to province in Vietnam.

*Source: Compiled from the 2015 Budget Law.*

Phase 3 (2004-2015): The 2002 Budget Law shows a new mindset on budget management, in which central budget plays a key role, ensures the implementation of important national strategic tasks, and support localities that have difficulty balancing their budget revenues and expenditures. Local budgets have been decentralized in terms of budget revenues to ensure proactiveness in performing assigned tasks. The provincial governments are allowed to decide the decentralization of revenue and spending tasks to lower levels of government associated with delegation of socio-economic management, national defense, and security, and in accordance with the management capacity of each level. Expenditures incurred at specific governmental levels will be covered by the budget at that level. If there is a new policy that causes budget spending to increase, it should be secured with appropriate financial sources.

Phase 4 (2017 – now): The new Budget Law enacted in 2015, but came into effect in 2017, has introduced some important changes in the budget management policy, especially the requirement for transparency in budgeting and implementation. The new Budget Law has a separate provision to provide for the right to oversee the budget of the community, including the role of the Vietnam Fatherland Front. Another very important change in this Law is that, for the first time, the concept of local budget deficit is used instead of acknowledging only budget deficits of central government as in the previous law. Specifically, the 2015 Budget Law allows for deficits at the provincial level, and debt can only be used to invest in projects under the medium-term public investment plan approved by the Provincial People's Council. Provinces with overspending are allowed to borrow domestically by issuing municipal bonds or other authorized loans. However, the conditions for overspending and financing local budget deficit are

still stipulated and approved by central government on case by case basis. In this period, a few more localities are able to balance their budgets and thus transfer part of the surplus to the central budget. Currently, 16 out of 63 provinces have transferred their surpluses to the central government. However, the stability of revenue of some localities is not high due to their dependence on a few large projects with unstable operation.

All localities, including those that have self-balanced their budgets, continue to receive budget subsidies for targeted policy beneficiaries such as the poor, people with meritorious services to the country, etc. Some localities such as Ho Chi Minh City and Hanoi are given a number of specific budget mechanisms, thereby expected to act as a lever to promote the leading role of these cities. In general, however, the fiscal decentralization policy in Vietnam still has an imprint of central planning. The budget law is decided by the National Assembly. The Government will issue a decree to guide the Law, and the Ministry of Finance has the authority to issue a circular to guide the decree. Local governments do not have any authority to issue laws or guidelines but are assigned to prepare their own local budget estimates and negotiate with the central agencies. After the estimate is approved by the central Government, the localities are responsible for the implementation of the tasks within the approved estimate.

Figure 5. Central-Local Fiscal Transfers Map
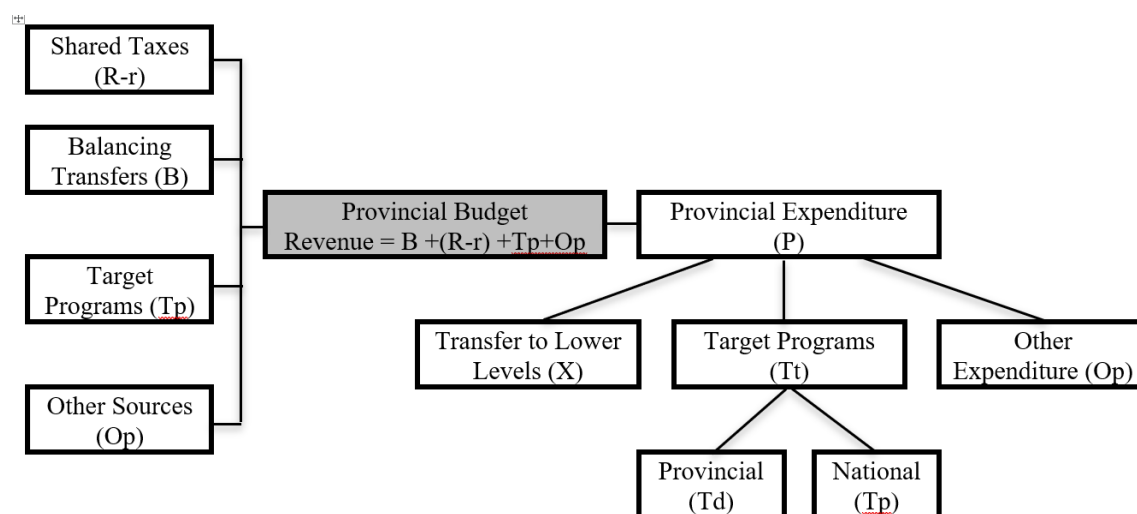
Source: World Bank (2015)

As summarized by the World Bank (2014) in **Figure 5**, provincial budget revenue and expenditures are complicated. Categories of revenue and expenditure are as follows:

Share revenue. The revenue within a province is categorized into three groups: belonging to the central government, belonging to provinces, and shared. The percentage share is as follows:

$$\text{The Percentage Share} = \frac{\text{Local Expenditure} - \text{Retained Revenue}}{\text{Shared Revenue}} \times 100\%$$

When the percentage share is over 100%, a province gets transfers from the central government. The percentage shares and additional allocations from superior budgets to subordinate budgets shall be kept stable for 3 to 5 years. The process to define the shares of surplus provinces is quite complicated and not transparent, as discussed later.

Balancing Transfers. This transfer is basically for current expenditure based on clear criteria, and it is transparent. As the World Bank (2015) points out, 'the system of balancing (or unconditional) transfers, is relatively transparent, rule-based and highly predictable.' However, the issue related to this transfer is overstating the population - the most important base to decide sizes of the transfers.

Target Programs. Target programs are decided by the central government. The problem is that too many targets and programs inevitably lead to overlapping, lack of predictability, and lower management efficiency as they have complex, fragmented and unpredictable funding allocations (World Bank and Government of Vietnam, 2017).

Other sources. These include borrowings, grants, and others. There is also ambiguity in this group.

On the expenditure side, ambiguity also matters. The issue becomes more complicated as provincial governments are rewarded for exceeded revenue (the difference between actual and planned revenues). The process to decide provincial budgets is as follows: provincial governments propose their planned budgets to the center for approval, then both sides enter in a tit-for-tat bargaining process. To increase their shares and get as much as possible, in their proposed plans the lower levels have incentives to inflate local expenditures and deflate retained and shared revenues. As a result, the total demanded plans of all lower governments are usually far higher than the possible budget. For example, the total proposed investment capital for the medium term in 2016-2020 for 63 provinces and ministries was VND 4 quadrillion, while the budget approved by the National Assembly in 2016 (Resolution 26/2016/QH14, dated 11/10/2016) was only VND2 quadrillion. The situation was even worse in previous years. Taking the advantage of vague regulations and mechanisms from the central government, many provinces for many years spent much more than allocated by their budget (Huynh, 2019).

Table 4. Revenue sharing of localities with revenue surpluses (%)

	2004-06	2007-10	2011-16	2017-20
Ho Chi Minh City	29	26	23	18
Hanoi	32	45	42	35
Binh Duong	44	40	40	36
Dong Nai	49	45	51	47
Vinh Phuc	86	67	60	53
Ba Ria – Vung Tau	42	46	44	64
Quang Ninh	98	76	70	65
Da Nang	95	90	85	68
Khanh Hoa	52	53	77	72
Hai Phong	95	90	88	78
Bac Ninh	100	100	93	83
Quang Ngai	100	100	61	88
Quang Nam	100	100	100	90
Can Tho	95	96	91	91

*Source: Authors' combination from Vietnam's regulation*

Vietnam's design for fiscal transfer is a reasonable reference for Myanmar. There are specific formular and sharing rates of localities generating revenue surpluses in Table 4. However, it is necessary to know that such mechanism causes incentive for localities to under report revenues and over report expenditure to keep more revenues.

Indonesia and the Philippines are other examples for Myanmar's reference, with economic reform under Suharto and then political reform after Suharto (under "Reformasi") and the Philippines after Marcos's regime.

Myanmar in international context

Figure 6 presents the revenue and expenditure to GDP and the portions of budget expensed by subnational governments in 2018 of selected countries in the region. Revenue ratios range from around 10 percent to nearly 30 percent and expenditure ratios range from 15 percent to 35 percent of GDP. A common range of revenue is around 18-20 percent and that of expenditure is around 20-22 percent. Deficits are around 2-5 percent of the GDP. Expenditures by local governments to the total national expenditures vary from 10 percent to 70 percent with a common range between a quarter and a third. However, it is complicated to interpret and compare data across countries, for most cases, central government transfers and tax sharing (see comment below) are subject to many restrictions in some countries listed. For example, Indonesia's figure is high in the second chart because it includes central government "balancing payments" (e.g., tax sharing and revenue sharing transfers). Apparently, similar situations are true for the other listed countries, which again indicates expenditure-led fiscal decentralization.

Figure 6. National and local budget positions in selected Asian countries in 2018*
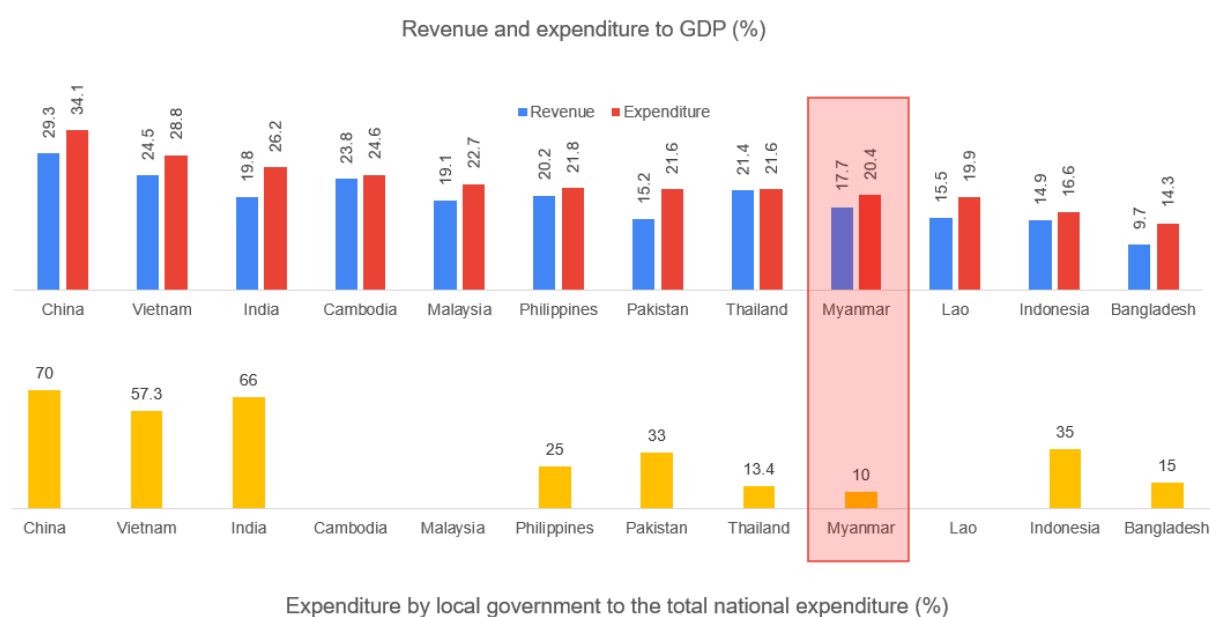
Source: Revenue and expenditure to GDP from IMF and the expenditures ratios from various sources

It is interesting to compare Myanmar with other countries. Its revenue and expenditure to GDP in 2018 are 17.7 percent and 20.4 percent, respectively, in the lower ends of the common ranges. Its deficit is 2.7 percent and also in the common range. However, the subnational expenditure as mentioned in the introduction, is just around 10 percent of the public expenditure, much lower than other countries.

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A question is where will Myanmar be in ten and twenty years from now? The ratios should increase twice or thrice the current figure to reach the range between a quarter to a third; and six to seven times to reach between two thirds and three quarters. Decentralization trend in Myanmar is obvious.

III. Fiscal decentralization in Myanmar

Country context

Myanmar is among the least developed countries in Southeast Asia. Its GDP per capita in 2019 is 1,408 dollars, higher than Timor-Leste, the lowest at 1,294 dollars, and slightly lower than Cambodia at 1,643 dollars. However, Myanmar has achieved the second highest GDP growth (after China) in Asia in the last decade thanks to reforms started from the late 2000s. The reform agenda focuses on good governance, transparency and accountability while including measures for attracting foreign direct investment, liberalizing foreign exchange market and trade, enhancing regional economic cooperation, reducing the state's economic role, relaxing controls on foreign ownership of companies, boosting productivity, balancing equity with efficiency, and separation of the Central Bank of Myanmar from the Ministry of Planning, Finance and Industry (Than, 2014). Due to the covid-19, most economies in the region growths were negative in 2020 while Myanmar along with Vietnam still achieved positive growth rates at 1.8 percent as ADB's estimates. However, there should be a concern that Myanmar's GDP growth has slowed down for the last five years. It dropped to number 8 among other countries in the region. There have been indeed improvements for over a decade. However, it is still a long way for Myanmar to achieve the middle income status and become more developed.

**Table 5. Some key indicators of Myanmar**

	2016	2017	2018	2019
Population	53.1	53.4	53.7	54.1
Real GDP growth (%)	5.75	6.40	6.75	2.89
GDP (trillions of kyats)	82.70	92.79	105.26	116.58
GDP (billion USD)	67.18	68.95	76.17	76.09
GDP Structure				
Agriculture	25.5%	23.3%	23.0%	21.4%
Industry	35.0%	36.3%	36.7%	38.0%
Service	39.5%	40.4%	40.3%	40.7%
GDP per capita (USD) in nominal value	1,267	1,292	1,418	1,408
GDP per capita (USD) in purchasing power parity	4,492	4,740	5,151	5,369

Source: World Development Indicators and Myanmar's 2020 Statistical Yearbook

Some key indicators of Myanmar are in **Table 5**. The GDP structure in 2019 are 21.4 percent for Agriculture, 38 percent for Industry, and 40.7 percent for Services. There have been large shifts in recent years. The shifts have promoted growth and development of advantagous areas, particularly Yangon and surrounding regions. However, it will take decades for Myanmar to transform the economy to be less dependent on agriculture or to reduce the share of the agriculture in GDP to be less than 10 percent. To

achieve such a goal, the subnational governments need to be more active and more assignments should be transferred to them from the central government. It is a challenging task for Myanmar's circumstance.

Figure 7. Map of localities and population densities in Myanmar
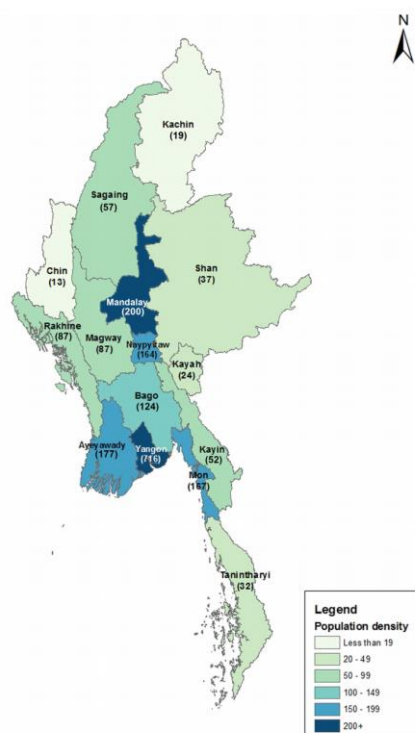
Source: Myanmar Population and Housing Census (2014)

Myanmar is divided into seven regions, seven states, and a Union territory around Nay Pyi Taw. Seven regions are Ayeyarwady, Magway, Bago, Mandalay, Sagaing, Tanintharyi, and Yangon. They are predominantly inhabited by Bamar, the largest ethnic group in the country. Chin, Kachin, Kayah, Kayin, Mon, Rakhine, and Shan are seven states which are mostly inhabited by a multitude of ethnic minorities. Nay Pyi Taw is the new capital city of Myanmar. In the 2014 Census, the population density of Myanmar is 76 persons per square kilometer. The most densely populated area is Yangon (716), followed by Mandalay (200). The least populated areas are Kachin (19) and Chin (13). The urbanization rate is just 30 percent. Yangon has the highest urbanization rate at 70 percent, followed by Kachin at 36 percent and Mandalay at 35 percent. Ayeyawady has the largest proportion of rural population at 86 percent, followed by Magway at 85 percent, and Sagaing and Rakhine at 83 percent.

It is indeed challenging for Myanmar to have a smooth decentralization process due to the disparities and diversities among regions and states in Myanmar; and conflicts inherited from the past.

Assignments and financing sources

The 2008 Constitution provides basic parameters that guide the decentralization of responsibilities to subnational governments. Regions and states shall collect taxes and revenues in accordance with law and deposit them in the region or state fund. Localities have right to expend their fund in accordance with the

law. Specifically, the legislative and administrative responsibilities of the local governments have been listed. They are in some instances overlap and in others, depart from those of the Union government. Such responsibilities that are constitutionally assigned to local budgets are thus covered by local budgets. The departments and organizations within the local budgets have to undertake the responsibilities of the local governments while accountable to line ministries except Development Affairs Organizations which are solely responsible to local governments.

Table 6. Assignments by Legislative mandate in Myanmar

No	Assignments	Responsibility
1	Central Banking	Union
2	Currency and coinage	Union
3	Foreign Affairs	Union
4	Defense	Union
5	Border Affairs	Union
6	Administration of justice, criminal law, and property rights	Union
7	Police	Union
8	Prisons	Union
9	Fire brigade	Union
10	General Administration	Union
11	Registration of births and deaths	Union
12	Census	Union
13	Postal service	Union
14	Shipping	Union
15	Airways	Union
16	Railways	Union
17	Health	Union
18	Education	Union
19	Social Welfare	Union
20	Roads and bridges	Union/subnational
21	Public transportation	Union/subnational
22	Water supply	Union/subnational
23	Electricity supply	Union/subnational
24	Agriculture forestry and fisheries	Union/subnational
25	Road transport	Union/subnational
26	Mining	Union/subnational
27	Municipal governance (Development matters)	Subnational

Source: Constitution of the Republic of the Union of Myanmar (2008)

Among 27 assignments listed in **Table 6**, only one assignment is solely responsible by local governments. Seven assignments are shared, but the central government takes charge of almost everything. As experience from other countries in transition from highly centralized governments such as China and Vietnam, local governments should take charge most of these seven assignments. Among 19 assignments solely under the control of central government, the central government should only take charge either solely or mainly of the

assignments from 1-6. The assignments from 7-16 can be shared between the central and subnational governments. Most of education (except higher education), health care (except hospitals) and social welfare should belong to the local governments.

To finance for assignments, state and region governments in Myanmar rely on three main revenue sources including own revenue, tax sharing and transfers from the central government. There are also other sources such as grants, but they are small and insignificant.

Table 7. Sub-national own source revenues

A. Sub-national taxes		B. Sub-national non-tax revenue
▪ Excise tax	General Administration Department	▪ Receipts from selling goods and services
▪ Land tax		▪ Income from rents and fees
▪ Embankment tax		▪ Business licenses
▪ Mineral tax		▪ Monopoly licenses
▪ Fishery tax	Fishery Department	▪ Renting government owned-properties
▪ Forest tax	Forest Department	▪ Fines and penalties receipts
▪ Property tax	Development Affairs Organizations	▪ Selling small office accessories
▪ Wheel tax		▪ Other miscellaneous current revenue

Source: Constitution of the Republic of the Union of Myanmar (2008)

Subnational own revenue sources are in **Table 7**. There are eight types of taxes and eight types of non-tax revenue. As illustrated in Table 8, local taxes in Myanmar are quite comparable to other countries.

Table 8. Sub-national taxes in selected countries and Myanmar

China	India	Philippines	Myanmar
Value added tax	Value added tax	Business tax	Excise tax
Business tax	Sales tax	Follow land tax	Land tax
Personal income tax	Professional tax	Professional tax	Embankment tax
Company income tax	Stamp duty	Printing and publication	Mineral tax
Resource tax	Luxury tax	Community tax	Fishery tax
Urban maintenance and development tax	Interstate trade duty	Sand, gravel, and other quarry resources	Tax on forest products except teak and hard woods
Urban land using tax	Capital gains tax	Delivery vans and trucks	Wheel tax
Agriculture related tax	Property tax	Property tax	Property tax
Tax on contracts	Entertainment tax	Entertainment tax	
Arable land tax	Toll tax	Tax on property transfers	
Vehicle purchasing tax		Franchise	

Source: Adapted from Shan State Group Analysis (2019)

The tax sharing between the Union government and subnational governments is in **Table 9**. There are four types of taxes: commercial, income, special goods, and stamp duty. Localities have been just given modest proportions of these tax revenues.

Table 9. Tax sharing between the Union government and subnational governments

Type of taxes	Union	Subnational
Commercial tax	85%	15%
Income tax	95%	5%
Special goods tax	85%	15%
Stamp duty tax	98%	2%

Source: Constitution of the Republic of the Union of Myanmar (2008)

The current responsibility structures and assignments are similar to those of China and Vietnam at initial stages of reform. At the beginning, central agencies or ministries had the upper hand or power to functional departments (finance, planning, industry, agriculture and so on) in localities (provinces). However, these two countries gradually assigned most responsibilities for local (provincial) governments. Initially, personnel of these departments belonged to central agencies; then central agencies just controlled the management or leaders; later local governments were assigned to promote leadership with consultant from the functional central agencies; eventually, everything has been assigned for local governments.

Myanmar's public finance

The World Bank (2017) points out: "General Government spending at 15 percent of GDP is much lower than what is needed to deliver these improvements, and well below countries at a similar level of development that spend over 20 percent of GDP on public services." However, budget in Myanmar also includes state economic enterprises (SEE). Thus, the aggregate budget expenditure in Myanmar is above 20 percent of the GDP, and the trend has increased in recent years.

Table 10. Some fiscal indicators of Myanmar

	2017-18	2018-19	2019-20	2020-21	Average
Percentage of national GDP					
National revenue	18.2%	18.8%	21.2%	22.1%	20.1%
National tax revenue	7.1%	7.1%	6.7%	6.8%	7.0%
National expenditure	22.6%	23.3%	26.8%	27.5%	24.9%
Local revenue	0.8%	1.0%	1.0%	1.1%	0.9%
Local expenditure	2.7%	2.7%	2.8%	3.0%	2.8%
Percentage of the total public revenue and expenditure					
Local revenue	4.4%	5.2%	4.6%	5.0%	4.4%
Local expenditure	12.0%	11.6%	10.4%	11.0%	11.2%

Source: Myanmar's statistics

According to official data of Myanmar, for the last four years, nominal annual GDP growth is 10.6 percent while those of national revenue and expenditure are 13.2 percent and 14.3 percent, respectively. As a result, total public revenue to GDP increased from 18.2 percent to 22.1 percent, and national expenditure to GDP increased from 22.6 percent to 27.5 percent **Table *10***. If these numbers are correct, the expenditure to GDP of Myanmar has been equivalent to the upper limits of developing countries in

Asia. After adjusting by IMF, Myanmar's public revenue and expenditure are in normal ranges of countries in the region as mentioned above. However, the tax revenue is just around 7 percent of the GDP or accounts less than a third of the total revenue. It means that SEEs are playing a significant role in Myanmar in terms of revenue generation. If the trend observed in other countries like China and Vietnam persists, significant reform of SEEs in a foreseeable future might be expected in Myanmar.

Yangon Region

Overview

Yangon is the largest, richest, and most developed locality in Myanmar. It had nearly 8.4 million people in 2020, accounting for 15.37 percent of the national population. Estimated GDP for 2020-21 is MMK 33.217 trillion, accounting for 26.4 percent of national GDP. GDP composition is 5 percent agriculture, 49 percent industry and 47 percent services. The annual growth of nominal GDP is 14 percent, highest of all localities and 1.25 times of the national average. GDP per capita in 2020-21 is MMK 3.96 million, 1.7 times higher than national average and 4.6 times higher than the poorest locality. As the trend of countries in the regions such as South Korea, Indonesia the Philippines and Vietnam, Yangon's economic focal position will be enhanced in at least a decade ahead.

Figure 8. The GDP composition of Myanmar and three localities in 2018-19
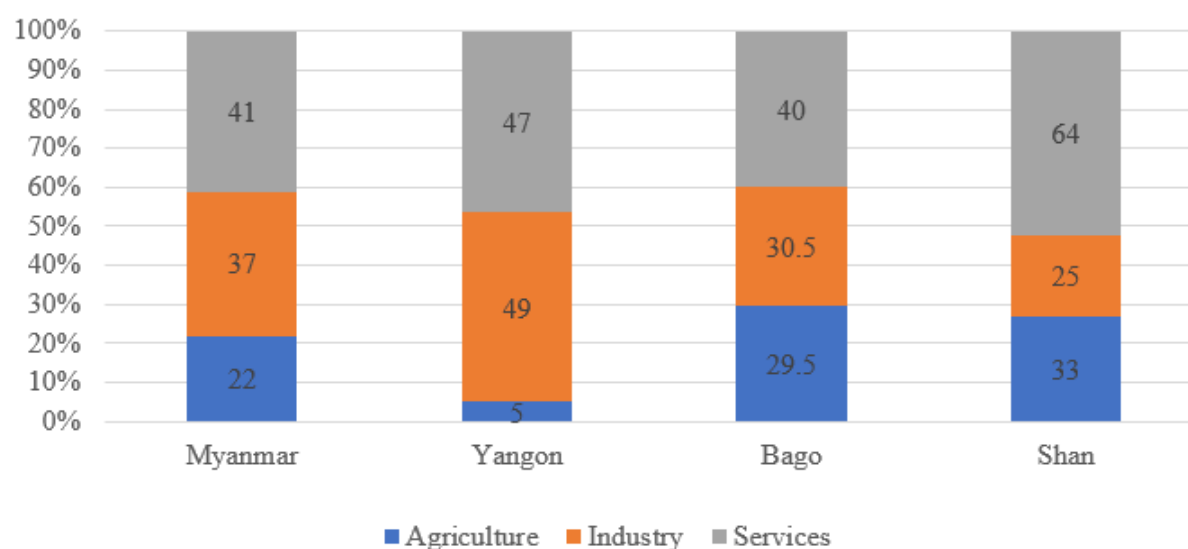
Source: Official statistics of Myanmar

Annual revenue growth is 31.6 percent, much higher than national average at 13.2 percent and more than twice as Yangon's nominal GDP growth. Growth rates of own revenue, tax sharing, and grant & transfers are 29.9 percent, 24.7 percent, and 60.8 percent, respectively. As a result, the share of own revenue has slightly decreased from 59.7 percent to 57.4 percent, tax sharing decreased from 31.7 percent to 27 percent. Transfers and grant increased from 8.7 percent to 15.5 percent. That means, Yangon has become more dependent on transfer from the central governments.

On the expenditure side, annual growth rate of current expenditure is just 16.1 percent while that of capital expenditure is 38.8 percent. As a result, current expenditure decreased from 33.4 percent to 27 percent while that of the capital expenditure increased from 65.3 to 76.7 percent. There is no sign of significant personnel expansion in Yangon in the last four years.

Table 11. Yangon's fiscal positions (Billion MMK)

No.	Types	2017-18	2018-19	2019-20	2020-21	Annual Growth
I	**Revenue**	**404**	**638**	**904**	**920**	**31.6**
1	Own revenue	241	337	521	528	29.9
2	Tax sharing	128	213	248	248	24.7
3	Transfers and grants	35	89	136	143	60.8
II	**Expenditure**	**404**	**638**	**904**	**920**	**31.6**
1	Current	137	167	211	215	16.1
2	Capital	267	472	693	706	38.3
IV	**Revenue structure**					**Average**
1	Own revenue	59.7	52.8	57.6	57.4	55.8
2	Tax sharing	31.7	33.4	27.4	27.0	30.6
3	Transfers and grants	8.7	13.9	15.0	15.5	13.6
V	**Expenditure structure**					
1	Current	33.9	26.1	23.3	23.3	27
2	Capital[2]	66.1	73.9	76.7	76.7	73
VI	**GDP**					
1	Own revenue + tax sharing	1.6	1.9	2.5	2.3	2.1
2	Expenditure	1.8	2.4	2.9	2.8	2.5

Source: Yangon's statistics

On average, own revenue is just equivalent to 1.3 percent of Yangon's GDP. It is nearly 1.3 times of the national average at 1 percent. The expenditure is equivalent to 2.5 percent of Yangon's GDP, slightly lower than national average at 2.8 percent. The good sign is that the proportion of own revenue and tax sharing to GDP has increased from 1.6 percent to 2.3 percent and the expenditure has increased from 1.8 percent to 2.8 percent for the last four years.

Revenue

Of the own revenue sources, annual growth rates of tax revenues and other revenues are 5.3 percent and 42.6 percent, respectively. As a result, tax revenue share has decreased from 15.3 percent to 7.8 percent, while that of other revenue has increased from 39.1 percent to 49.6 percent. Non-tax revenue increase is mainly attributable to financial revenue.

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[2] It is complicated to have pure capital expenditure as there is also personnel and current expenditure for investment projects. However, the most significant proportion is the actual capital expenditure.

Table 12. Yangon's budget revenues (Billion MMK)

No.	Types	2017-18	2018-19	2019-20	2020-21	Annual Growth
	Total revenue	**404**	**638**	**904**	**920**	**31.6**
1	Tax revenue	62	74	72	72	5.3
2	Other own revenue	158	238	449	456	42.4
3	Tax sharing	128	213	248	248	24.7
4	Union grant transfer	30	85	130	138	66.3
5	Other grants and transfers	5	5	6	6	6.3
	Structure					**Average**
1	Tax revenue	15.3	11.6	8	7.8	10.7
2	Other own revenue	39.1	37.3	49.7	49.6	43.9
3	Tax sharing	31.7	33.4	27.4	27	29.9
4	Union grant transfer	7.4	13.3	14.4	15	12.5
5	Other grants and transfers	1.2	0.8	0.7	0.7	0.8

Source: Yangon's statistics

It is not positive for Yangon as its tax revenue role has shrunk over time. Three types of taxes: property and land, wheel, and excise account for most of the tax revenue in Yangon. Excise tax is quite stable for the last four years. It accounted for around a sixth. The other two have switched positions. In 2017-18, property and land taxes accounted for nearly a half and wheel tax accounted for a third. The former just accounted over a quarter in 2020-21 as they decreased 12 percent annually and the latter accounted for nearly 55 percent thanks to 23.8 percent increased annually.

Figure 9. Yangon's Structure of Tax Revenues (MMK million)
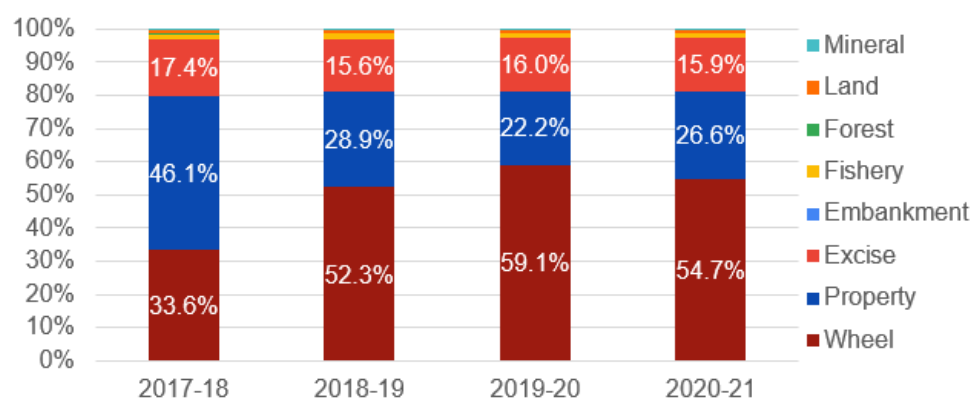
Source: Authors' rendering from Yangon's statistics

Expenditure

Annual growth rate of personnel expense was just 8.3 percent, a half of the current expenditure's growth and a quarter of the total expenditure's growth. As a result, its share decreased from 10.4 percent to 5.8 percent. Maintenance expense share decreased from 22.2 percent to 16.7 percent. Educational and social

expenses increased 19.6 percent annually. However, they just account for 0.1 percent of total expenditure in the 2020-21 FY. As discussed above, capital expenditure explains for the most part the increase in expenditure. It is good for the economy; however, regarding decentralization, there is no change for the last four years.

Table 13. Yangon's budget expenditure (Billion MMK)

No.	Types	2017-18	2018-19	2019-20	2020-21	Annual growth
	Total expenditure	**404**	**638**	**904**	**920**	**31.6**
1	Personnel expense	42	49	54	53	8.3
2	Maintenance expenses	90	112	151	154	19.7
3	Educational and social expenses	0.8	0.9	1.3	1.3	19.6
4	Other current expenditures	5	5	5	6	7.2
5	Capital expenditure	264	472	693	706	38.8
	Structure					**Average**
1	Personnel expense	10.4	7.7	5.9	5.8	7.5
2	Maintenance expenses	22.2	17.6	16.7	16.7	18.3
3	Educational and social expenses	0.2	0.1	0.1	0.1	0.1
4	Other current expenditures	1.1	0.7	0.5	0.6	0.7
5	Capital expenditure	65.3	73.9	76.7	76.7	73.2

Source: Yangon's statistics

Bago Region

Overview

Bago is an administrative region of Myanmar, located in southern central part of the country and northeast of Yangon, the economic center of Myanmar. Its population in 2020 is 4.94 million people, accounts for 9.05 percent of the country's population. Bago's GDP in 2020 is MMK 9.5 Trillion, equivalent to 8 percent of Myanmar's GDP. Nominal annual GDP growth is 10 percent, slightly lower than national's average at 11.3 percent. This represents a GDP per capita in 2020-21 FY of MMK 2.03 Million, which is slightly lower than the average GDP per capita across Myanmar at MMK 2.3 million. The GDP structures in 2018-19 are 30.5 for industry, 29.5 for agriculture, 40 percent services. Agriculture is still significantly higher than national average. If Myanmar follows trends observed in other countries during the transition periods such as China and Vietnam, Bago could learn from other localities in other countries, it would enjoy high economic growth for the next ten years or more.

Annual revenue growth is 9.3 percent, significantly lower than the national average at 13.2 percent and slightly lower than Bago's nominal GDP growth. The growth of own revenue, tax sharing, and grant and transfers are 11.7 percent, -7.7 percent, and 13.9 percent, respectively. As a result, own revenue share has slightly increased from 14.4 percent to 15.4 percent, the tax sharing share decreased from 6.4 percent to 3.9 percent. The transfers and grant share increased from 71.2 percent to 80.7 percent. However, the shares have almost been no change for the last three years.

On the expenditure side, the annual growth rate of current expenditure is just 5.0 percent while that of capital expenditure is 12 percent. As a result, current expenditure decreased from 41.1 percent to 36.5 percent while that of the capital expenditure increased from 58.4 percent to 63.5 percent. Similar to Yangon, there is no sign of the personnel expansion in Bago in the last four years.

Table 14. Bago's fiscal positions (Billion MMK)

No.	Types	2017-18	2018-19	2019-20	2020-21	Annual Growth
I	**Revenue**	**162**	**168**	**194**	**212**	**9.3**
1	Own revenue	23	33	31	33	11.7
2	Tax sharing	10	6	8	8	-7.7
3	Transfers and grants	116	135	154	171	13.9
II	**Expenditure**	**162**	**168**	**194**	**212**	**9.3**
1	Current	67	69	73	77	5.0
2	Capital	96	100	121	134	12.0
IV	**Revenue structure**					**Average**
1	Own revenue	14.4	15.8	16.1	15.4	16.3
2	Tax sharing	6.4	3.6	4.3	3.9	4.5
3	Transfers and grants	71.2	80.6	79.6	80.7	78.0
V	**Expenditure structure**					
1	Current	41.1	40.8	37.5	36.5	39.0
2	Capital	58.9	59.2	62.5	63.5	61.0
VI	**GDP**					
1	Own Revenue	0.3	0.4	0.3	0.3	0.3
2	Expenditure	2.2	2.0	2.0	2.1	2.1

Source: Bago's statistics

Own revenue is just equivalent to 0.3 percent of Bago's GDP. It is less than a third of the national average at 1 percent. Expenditure is equivalent to 2.1 percent of Bago's GDP, significantly lower than national average at 2.8 percent. Own revenue and tax sharing to GDP has been the same at 0.3 percent while expenditure has slightly decreased from 2.2 percent to 2.1 percent for the last four years.

Revenue

The tax revenue increased annually at 10.8 percent for the last four years, slightly higher than the growth rate of revenue. As a result, its share has increased from 4.4 percent to 4.5 percent. Other own revenue grew at 12.1 percent. Thus, its share increased from 10.1 percent to 11.3 percent. The transfers from the union government increased 13.7 percent. Therefore, its share increased from 69.5 percent to 78.4 percent. The other grants and transfers increased 20.1 percent annually. However, its share is quite modest as it increased from 1.8 percent to 2.4 percent.

Table 15. Bago's budget revenues (Billion MMK)

No.	Types	2017-18	2018-19	2019-20	2020-21	Annual Growth
	Total revenue	**162**	**168**	**194**	**212**	**9.3**
1	Tax revenue	7	11	9	10	10.8
2	Other own revenue	16	22	22	23	12.1
3	Tax sharing	10	6	8	8	-7.7
4	Union grant transfer	113	132	149	166	13.7
5	Other grants and transfers	3	4	5	5	20.4
	Structure					**Average**
1	Tax revenue	4.4	6.3	4.9	4.5	5.0
2	Other own revenue	10.1	13.2	11.3	10.9	11.3
3	Tax sharing	6.4	3.6	4.3	3.9	4.5
4	Union grant transfer	69.5	78.4	77.0	78.4	75.8
5	Other grants and transfers	1.8	2.2	2.6	2.4	2.2

Source: Bago's statistics

For tax revenue, excise tax plays the most important role as it accounts for 50.7 percent of tax revenue in the 2020-21 FY. It increased from 37.1 percent in the 2017-18 FY. The annual growth rate is 22.9 percent. Fishery tax proportion has decreased from 28 percent to 16.2 percent. There's almost no change with mineral tax as it accounted 10.2 percent. It is noticeable that the land and property tax annually decreased 2.5 percent. As a result, its share decreased from 17 percent to 11.6 percent. The wheel tax annually increased 25.9 percent and the share increased from 4.7 percent to 6.8 percent. This will be a potential tax revenue as it is very significant in Yangon and Mandalay.

Figure 10. Tax Revenue Structure of Bago
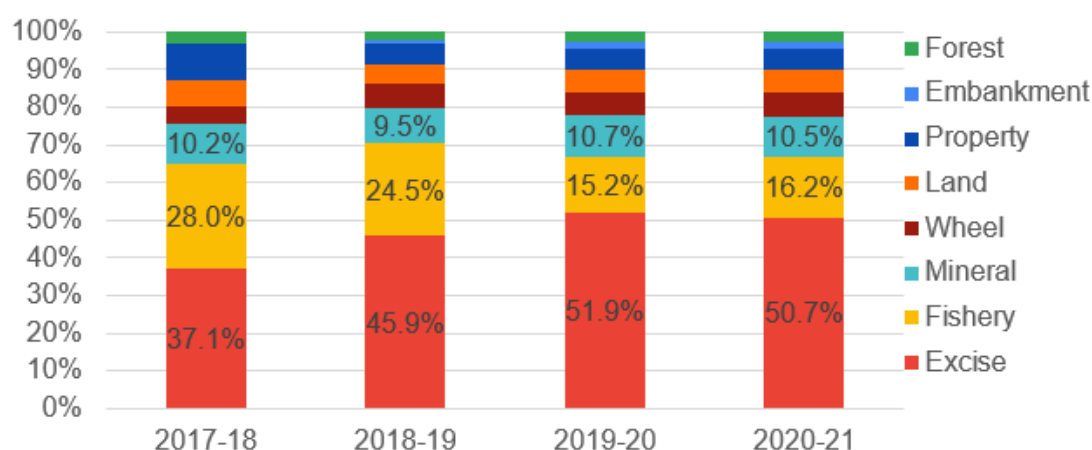
Source: Authors' rendering from Bago's statistics

Expenditure

Annual growth of personnel expense was 9.7 percent, slightly higher than overall expenditure. As a result, its share increased from 14.1 percent to 14.3 percent. Maintenance expense share decreased from 24.1 percent to 14.4 percent as it annually decreased 7.8 percent. Educational and social expenses increased 72.3 percent annually. However, they just account for 2.2 percent of total expenditure in 2020-21 FY.

Table 16. Bago's budget expenditure (Billion MMK)

No.	Types	2017-18	2018-19	2019-20	2020-21	Annual growth
	Total expenditure	**162**	**168**	**194**	**212**	**9.4**
1	Personnel expense	23	28	31	30	9.7
2	Maintenance expenses	39	34	32	31	-7.8
3	Educational and social expenses	1	1	3	5	72.3
4	Other current expenditures	3	4	6	10	52.4
5	Capital expenditure	96	100	121	134	12.0
	Structure					**Average**
1	Personnel expense	14.1	16.4	15.7	14.3	15.1
2	Maintenance expenses	24.1	20.0	16.3	14.4	18.7
3	Educational and social expenses	0.6	0.9	1.6	2.2	1.3
4	Other current expenditures	1.8	2.2	3.2	4.9	3.0
5	Capital expenditure	59.0	59.2	62.4	63.4	61.0

Source: Bago's statistics

Other current expenditure increased 52.4 percent annually. However, like education and social expenditures, the rise is modest. It accounted for only 4.9 percent in the 2020-21 FY, increased from 1.8 percent in the 2017-18 FY. As the above analysis, capital expenditure accounts for the large part of the increase in expenditure. It is good for the economy; however, regarding decentralization, there is no change for the last four years.

Shan State

Overview

Shan is a state in the Northeast of Myanmar, bordering China to the north, Laos to the east, and Thailand to the south. It is the largest of the 14 administrative divisions by land area with 155,800 km², almost a quarter of the total area of Myanmar. The population is nearly 6.43 million people in 2020, accounting for 11.8 percent of the whole country's population. Shan's GDP in 2020 is predicted to reach MMK 6.7 Trillion, equivalent to 5.6 percent of Myanmar's GDP. The GDP structure in the 2018-19 FY is 33 percent agriculture, 25 percent industry and 64 percent services. Annual growth rate of nominal GDP from 2017-18 FY to 2020-21 FY is 9.6 percent, slightly lower than the national's average at 10.6 percent. This

represents a GDP per capita of MMK 1.1 Million, less than a half of the average GDP per capita across Myanmar at MMK 2.3 million.

Annual revenue growth is just 7.5 percent, significantly lower than national average at 13.2 percent and slightly lower than Shan's nominal GDP growth. The growth rates of own revenue, tax sharing, and grant and transfers are 7.2 percent, -6.3 percent, and 11.1 percent, respectively. As a result, own revenue share has remained unchanged at 10.4 percent, the tax sharing share decreased from 6.7 percent to 4.4 percent. The transfers and grant share increased from 76.8 percent to 84.7 percent. However, like Bago, the shares have almost been no change for the last three years.

Table 17. Shan State's fiscal positions (Billion MMK)

No.	Types	2017-18	2018-19	2019-20	2020-21	Annual Growth
I	**Revenue**	**274**	**275**	**307**	**340**	**7.5**
1	Own revenue	30	32	27	37	7.2
2	Tax sharing	18	12	16	15	-6.3
3	Transfers and grants	210	233	264	288	11.1
II	**Expenditure**	**274**	**275**	**307**	**340**	**7.5**
1	Current	92	100	110	113	7.0
2	Capital	182	175	197	227	7.8
IV	**Revenue structure**					**Average**
1	Own revenue	10.9	11.6	8.8	10.9	10.5
2	Tax sharing	6.7	4.3	5.2	4.4	5.2
3	Transfers and grants	76.8	84.6	86.0	84.7	83.0
V	**Expenditure structure**					
1	Current	33.6	36.4	36.0	33.1	34.8
2	Capital	66.4	63.6	64.0	66.9	65.2
VI	**GDP**					
1	Own Revenue	0.6	0.5	0.4	0.5	0.5
2	Expenditure	5.0	4.4	4.6	4.8	4.7

Source: Shan State's statistics

On the expenditure side, the annual growth of current expenditure is just 7.0 percent while that of capital expenditure is 7.8 percent. As a result, current expenditure share decreased from 33.6 percent to 33.1 percent while that of the capital expenditure increased from 66.4 percent to 66.9 percent. Similar to Yangon and Bago, there is no sign of personnel expansion in Shan for the last four years.

On average, own revenue is just equivalent to 0.5 percent of Bago's GDP. It is a half of the national average at 1 percent. The expenditure is equivalent to 4.7 percent of Bago's GDP, significantly higher than the national average at 2.8 percent. The proportion of own revenue and tax sharing to GDP has slightly decreased from 0.6 percent to 0.5 percent and the expenditure has slightly decreased from 5.0 percent to 4.8 percent for the last four years.
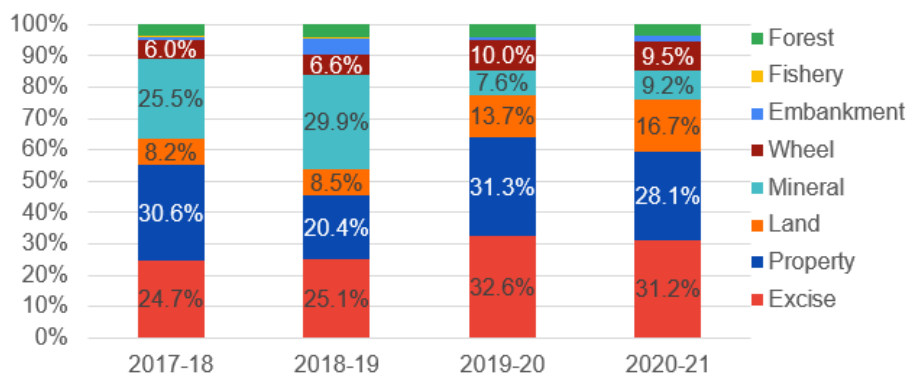
Revenue

Tax revenue decreased annually at 5.2 percent for the last four years. As a result, its share has decreased from 1.7 percent to 1.2 percent. The growth of other own revenue is 9.2 percent. Thus, its share increased from 9.3 percent to 9.7 percent. The transfers from the union government increased 11.1 percent. Therefore, its share increased from 74.8 percent to 83 percent. Other grants and transfers just increased 3.5 percent annually and its share decreased from 2.0 percent to 1.8 percent.

Table 18. Shan's budget revenue (Billion MMK)

No.	Types	2017-18	2018-19	2019-20	2020-21	Annual Growth
	Total revenue	**274**	**275**	**307**	**340**	**7.5**
1	Tax revenue	5	5	4	4	-5.2
2	Other own revenue	25	27	24	33	9.2
3	Tax sharing	18	12	16	15	-6.3
4	Union grant transfer	205	228	258	282	11.3
5	Other grants and transfers	5	5	6	6	3.5
	Structure					**Average**
1	Tax revenue	1.7	1.8	1.2	1.2	1.5
2	Other own revenue	9.3	9.7	7.7	9.7	9.1
3	Tax sharing	6.7	4.3	5.2	4.4	5.2
4	Union grant transfer	74.8	82.8	84.0	83.0	81.1
5	Other grants and transfers	2.0	1.8	2.0	1.8	1.9

Source: Shan Srate's statistics

Figure 11. Shan State's Tax Revenues Structure

Source: Authors' rendering from Shan State's statistics

Property and land, excise, and mineral taxes account for around 85-90 percent of the total tax revenues in Bago and the other taxes account for the rest. Mineral tax has plummetted significantly in two recent years, decreasing 32.4 percent annually for the last four years. In reality, mineral tax is usually limited as

natural resources can be exploited only for one time. Property and land taxes decreased 0.6 percent annually. Excise tax increased 2.5 percent annually. Wheel tax increased 10.6 percent annually and accounts for 9.5 percent in the most recent year.

Expenditure

For the current expenditure, expenses for personnel grew 10 percent annually, higher than the overall current expenditure. Maintenance expenses increased only 5.3 percent annually. However, both varied year to year. Expenses for education and social activities increased at 17.9 percent per year. However, in the most recent fiscal year, it only accounted for 0.4 percent of the total expenditure.

Table 19. Shan State's Expenditure (Billion MMK)

No.	Types	2017-18	2018-19	2019-20	2020-21	Annual growth
	Total expenditure	**274**	**275**	**307**	**340**	**7.5**
1	Personnel expense	32	38	42	42	10.0
2	Maintenance expenses	54	56	60	63	5.3
3	Educational and social expenses	0.85	1.52	1.89	1.39	17.9
4	Other current expenditures	5.0	5.0	5.0	5.0	0.0
5	Capital expenditure	182	175	197	227	7.8
	Structure					**Average**
1	Personnel expense	11.6	13.7	13.8	12.4	7.5
2	Maintenance expenses	19.7	20.3	19.6	18.5	18.3
3	Educational and social expenses	0.3	0.6	0.6	0.4	0.1
4	Other current expenditures	1.8	1.8	1.6	1.5	1.7
5	Capital expenditure	66.4	63.6	64.0	66.9	73.2

Source: Shan State's statistics

Annual growth rate of personnel expense was 10 percent, significantly than overall expenditure. As a result, its share increased from 11.6 percent to 12.4 percent. The share of maintenance expense decreased from 19.7 percent to 18.5 percent as it annually increased just 5.3 percent. Educational and social expenses increased 17.9 percent annually. However, they just account for 0.4 percent of the total expenditure in the 2020-21 FY. There is no change in other current expenditures which accounted only for 1.5 percent in the 2020-21 FY and decreased from 1.8 percent in the 2017-18 FY. As above discussion, capital expenditure accounts for the most part the increase in expenditure. It is good for the economy; however, regarding decentralization, there is no change for the last four years.

Comparison of three localities

Regarding the GDP per capita as a proxy of development, Yangon is the highest, Bago is near the median and the national average, and Shan is the second lowest. The poverty rates of Yangon and Bago are quite close and far lower than the national average. The poverty rate of Shan is slightly higher than the national average and close to the median.

For the last four years, Yangon is far ahead the rest of the Union. The growth rates of nominal GDP, revenue and expenditure are much higher than others. Thanks to high growth rates, the expenditure per capita has switched from around the national median to nearly the top. It is opposite to Bago and Shan, their growth rates of own revenues and expenditures are below national average and medians. As a result, they have lagged behind the whole country. They are in the lowest quarter of 14 localities in the 2020-21 FY.

Table 20. Comparison of three localities

No	Items	Unit	Yangon	Bago	Shan	National average	Median
1	GDP share	%	26.4	8	5.6	6.7	4.9
2	Poverty rate	%	13.7	17.4	28.6	24.8	29.7
3	GDP per capita	10^6 MMK	3.96	2.03	1.1	2.3	2.0
4	Own revenue per capita	10^3 MMK	93	8.3	8.1	25	11
5	Expenditure per capita	10^3 MMK	110	43	53	70	71
6	Revenue as % GDP	%	2.3	0.4	0.7	0.9	0.7
7	Expenditure as % GDP	%	2.8	2.1	4.7	2.8	3.6
8	Transfer as % expenditure	%	15.6	80.7	84.7	63.7	85
9	Nominal GDP growth	%	14.0	10.0	9.9	10.6	10.1
10	Own revenue growth	%	30.6	6.5	2.5	27.3	14.1
11	Expenditure growth	%	31.6	9.3	7.5	14.1	11
12	Current expenditure share	%	23.3	36.5	33.1	26.7	24.1

Source: Authors' combination from official statistics

As illustrated in Figure 12, each locality has relied on a few types of taxes. However, they vary from one to another locality. The wheel tax is the most important tax in Yangon and its share has increased in others. This is a promising tax base as the use of vehicle strongly increases along with the economic improvement. For the last four years, annual growth rate is 23.8 percent in Yangon, 25.9 percent in Bago and 10.6 percent in Shan. Excise tax plays the most important role in Bago and Shan for the 2020-20 FY. The excise tax also plays a significant role in Yangon. The annual growth for the last four years in Bago is at 22.9 percent while it is just over two percent in others.

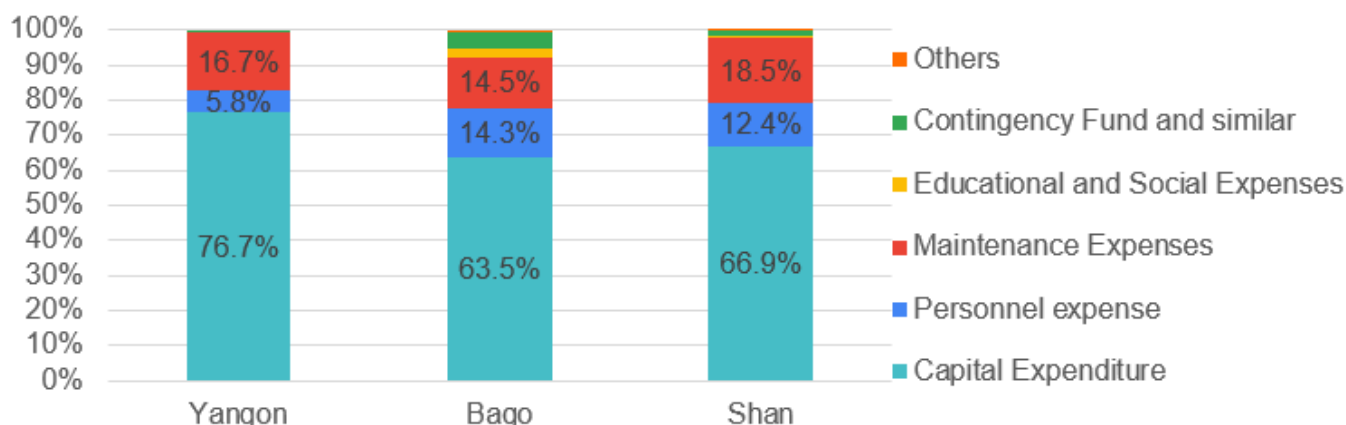**Figure 12. Tax Revenues Structure of the three Localities in 2020-21**
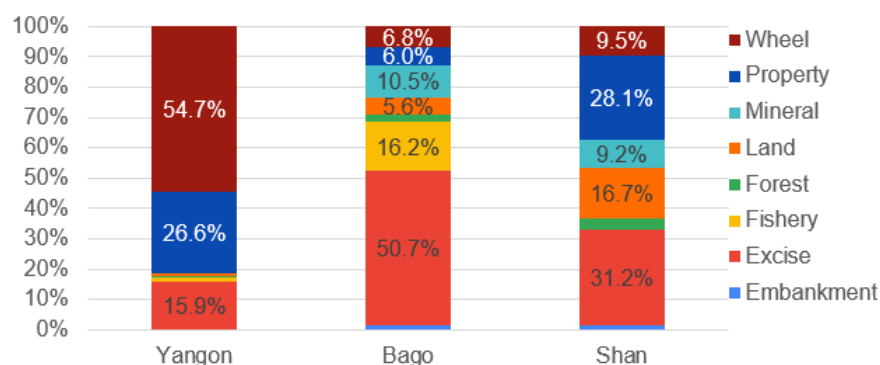
Source: Authors' rendering from official statistics of the three localities

Property tax used to be the most important source of tax revenue for subnational governments in Myanmar. However, its role has declined significantly in recent years. It still accounts the second largest share in Shan and Yangon. However, it decreased significantly in the last four years as the annual rates at 12.3 percent in Yangon, 7.9 percent in Shan and 6.7 percent in Bago. This issue needs more insightful discussion.

Mineral tax has a significant role in Bago and Shan. However, the situations in the two localities contradicts each other. The annual growth is 11.7 percent in Bago, but negative 32.4 percent in Shan. It means that this type of revenue will become less significant in this rich natural resource state.

Figure 13. Expenditure Structure of the three Localities in 2020-21

Source: Authors' rendering from official statistics of the three localities

Figure 14. Expenditure per capita of the three Localities in 2020-21 (thousand MMK)
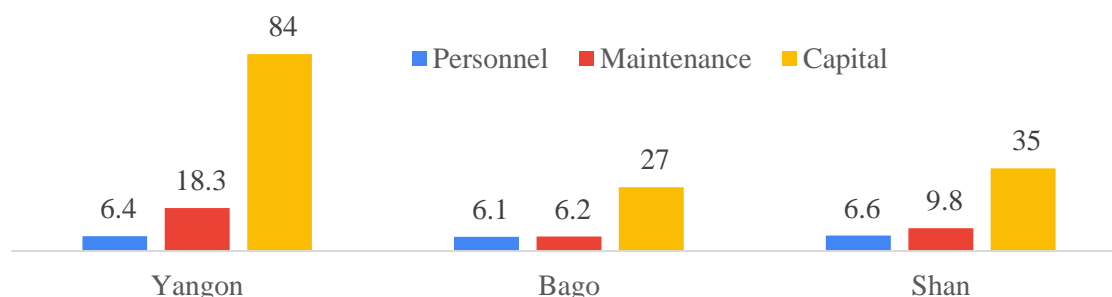
Source: Authors' rendering from official statistics of the three localities

Personnel and other daily activities are managed by the Union government as current expenditure of subnational governments just accounts for about a quarter of total expenditure while the number of the whole country is over three quarters. As budget and personnel allocations in Myanmar are based on population, expenditures for personnel in three localities are quite identical as shown in **Figure 14**. Maintenance and capital expenditure per capita vary significantly among the three localities. Maintenance cost of Yangon in the 2020-21 FY is twice as that of Shan and triple of Bago's. The capital expenditure per capita of Yangon is nearly 2.4 times of Shan and over three times of Bago.

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Disparities among localities in Myanmar

Figure *15* presents shares of population, GDP, budget revenue and expenditure of 14 localities. Only Mandalay and Yangon have revenue shares bigger than their population shares. They accounted for over 3 quarters of the whole revenues of states and regions. Yangon accounts for over a half and Mandalay accounts for nearly a fifth.

Figure 15. Shares of Population, GDP, and budget in 2020-21 of states and regions in Myanmar
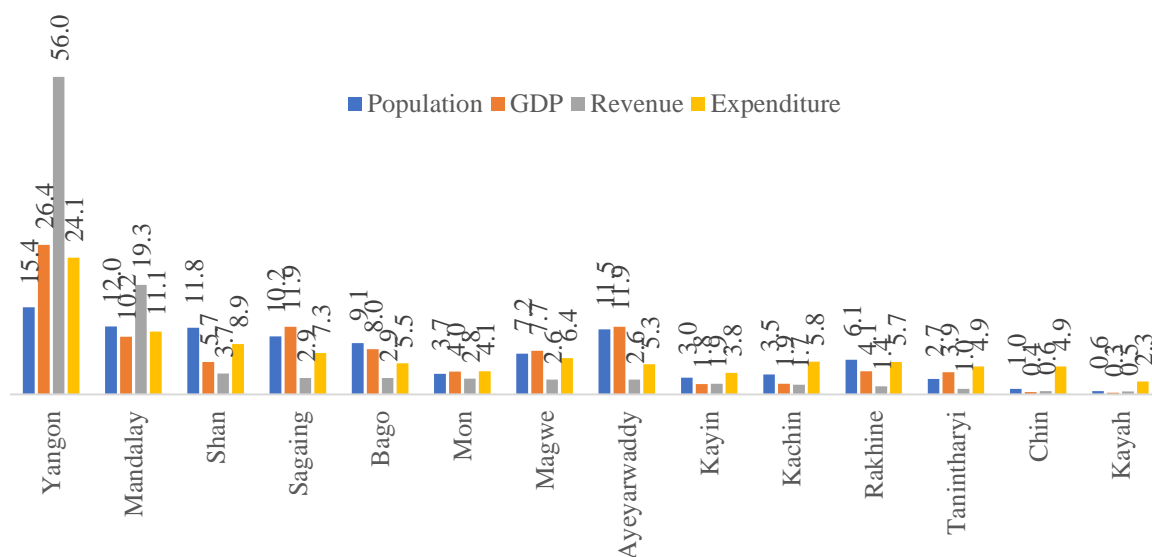
Source: Authors' rendering from Myanmar's official statistics

The proportion of revenues and expenditures to GDP by localities are in **Figure 16**. They are in a wide range. Regarding the revenues to GDP, at the higher end, Yangon and Mandalay are 2.3 and 2.1 percent. At the lower end, six localities have this ratio below 0.5 percent. The difference between the lowest and highest is 11.5 times.
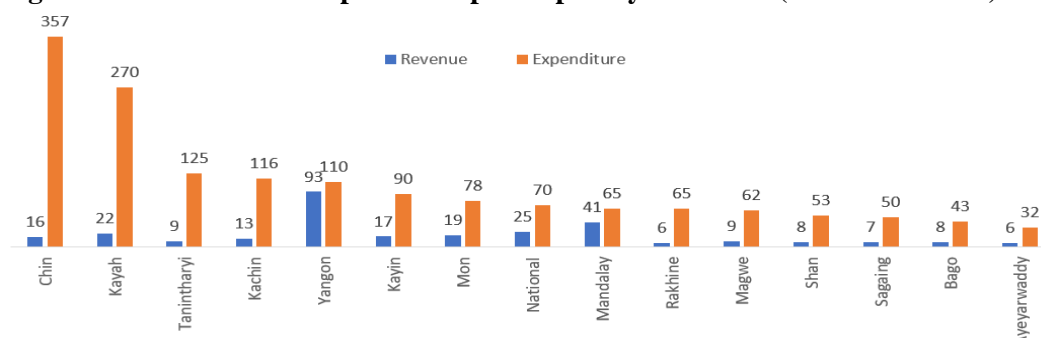
Figure 16. Revenue and Expenditure to GDP by Localities (%)
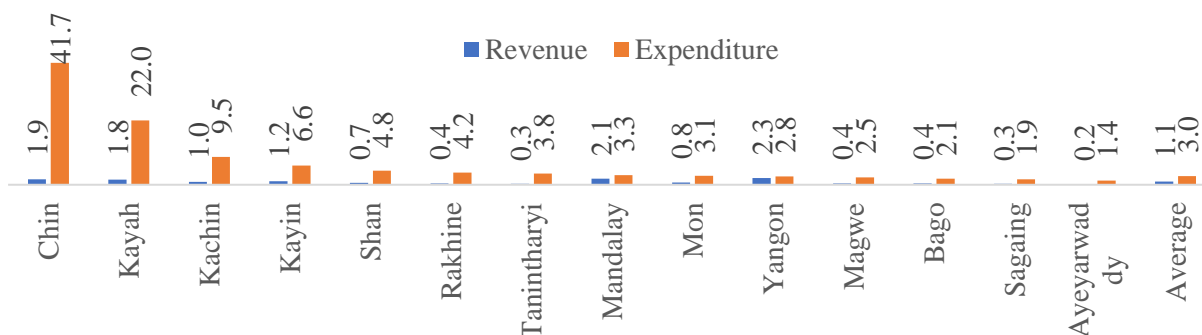
Source: Authors' rendering from Myanmar's official statistics

Regarding the expenditure to GDP, Chin and Kayah are at the higher end with 41.7 percent and 22 percent, which is very high. At the lower end, Ayeyarwaddy and Sagaing just have 1.4 and 1.9 percent, respectively. The difference between the lowest and highest is 30 times.

**Figure 17. Revenue and Expenditure per Capita by Localities (thousand MMK)**

Source: Authors' calculation from Myanmar's official statistics

Regarding revenues per capita, Yangon and Mandalay are at the higher end with MMK 93 and MMK 41 thousand, respectively. Ayeyarwaddy and Sagaing are at the high end with only MMK 6 thousand. The difference between the lowest and highest is 15.5 times.

Chin and Kayah are at the high end with MMK 357 thousand and MMK 270 thousand, and are the poorest among the 14 and have lowest population. The increase expenditure in those localities was an effort to promote their regional development and equity. Ayeyarwaddy and Bago are at the low end with MMK 32 thousand and MMK 43 thousand. The difference between the lowest and highest is 11.1 times.

Figure 18. Compositions of revenue by types across localities
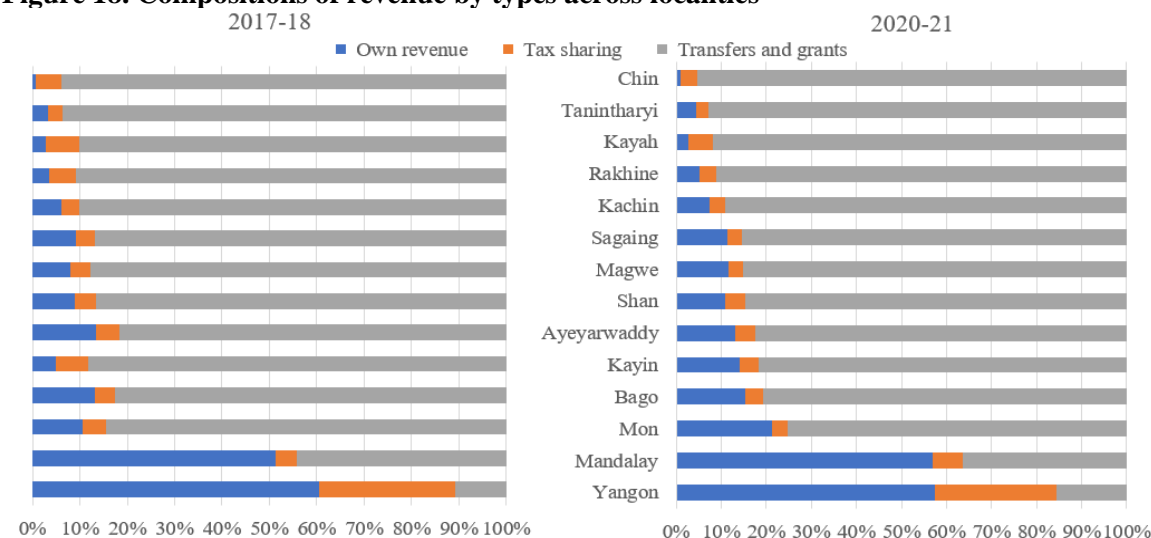
Source: Authors' rendering from the official statistics

Revenue of local governments accounts for over a third of the expenditure. It means that two thirds are the transfers from the Union government. However, there are wide disparities among localities. Own revenues and tax sharing account for over 80 percent of the expenditure in Yangon, around 60 percent in

Mandalay while the rests are just below a fifth and a half states and regions' revenues are just around 10 percent or lower.

Apart from Yangon and Mandalay, sub-national governments are heavily relying on the Union transfers. In 2020-21 FY, Union's grant transfer financed 62 percent in sub-national government outlays. Own revenue, composing of own tax and non-tax collection, is estimated at 27 percent of government expenditure and the tax sharing accounts only for nearly 10 percent of the expenditure.

Table 21. Revenue and nominal GDP growth by localities (%)

No	Locality	Nominal GDP growth	Total revenue	Own revenue			Tax sharing	Transfers and grants
				Tax	Other	Total		
1	Kachin	12.2	8.8	14.3	17.0	16.5	6.0	8.4
2	Kayah	10.2	15.5	11.1	14.3	13.7	7.1	16.1
3	Kayin	10.0	19.1	2.4	11.7	69.9	2.9	16.0
4	Chin	4.2	9.3	35.7	18.1	24.5	-5.4	9.9
5	Sagaing	11.5	10.1	15.6	20.4	19.0	1.3	9.5
6	Tanintharyi	10.2	5.9	13.7	18.0	16.3	3.1	5.5
7	Bago	10.0	10.3	23.9	13.3	16.0	8.2	9.4
8	Magwe	5.4	13.8	14.5	32.3	29.3	2.0	12.7
9	Mandalay	9.7	18.8	21.3	4.9	23.1	33.9	11.5
10	Mon	11.5	21.5	12.3	24.9	53.1	7.5	16.9
11	Rakhine	8.6	10.9	15.1	13.4	26.4	-2.9	11.0
12	Yangon	14.0	29.4	11.5	14.2	27.3	26.8	45.8
13	Shan	9.6	9.5	1.7	19.6	17.1	8.7	8.7
14	Ayeyarwaddy	14.2	11.2	12.6	8.7	10.6	7.7	11.5
15	Union	11.3	18.8	10.0				11.7*

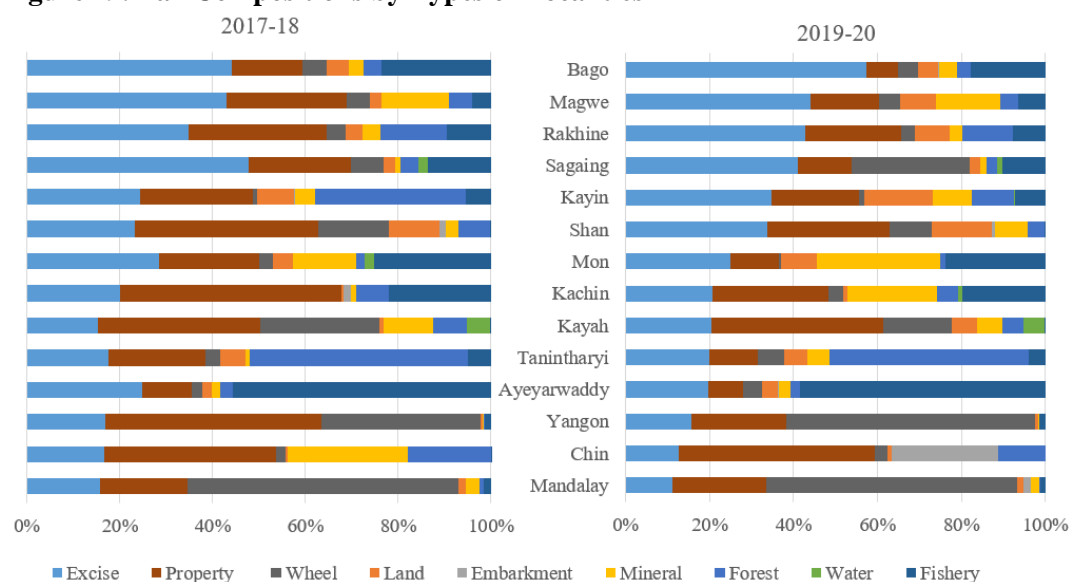*Source: Authors' calculations from the official statistics*

Only three localities have the growths of the total budget revenues (including the transfers) and expenditures are higher than the national revenue growth, one is equal and ten of them are lower. Therefore, the budget expenditure shares of most localities have shrunk for the last four years. Among three types of revenues, own revenues rapidly increased. However, their shares are small. Therefore, their impact to the total revenues is modest. The tax sharing growths are only significant in Yangon and Mandalay. The rest is either small or even negative. The growths of transfers of most localities are much lower than the growths of the national revenue and expenditure. Therefore, the shares of transfers of most localities in the national budget are relatively smaller.

Typically, tax revenues are stable and usually an important revenue source for local governments. However, they have a modest role in Myanmar. Overall, it accounted only for 4.3 percent of the total revenues (including the transfers) in the 2020-21 FY. Mandalay had the highest proportion at 9.9 percent and Yangon is the second highest at 7.9 percent. In opposite, it is almost nothing for many localities.

Like the specific analysis of the three localities above, tax revenues of all localities just rely on a few types of taxes although there are 8 types of taxes. However, they vary from one to another locality. Excise

and property are two most popular taxes in most localities. Excise tax accounted around 10 percent in Mandalay and over 50 percent in Bago. Property tax varies from around 10 percent to 40 percent. However, over the last four years, the role of this tax has diminished significantly. Wheel tax is important in localities with high urbanization rate as vehicles have increased rapidly in cities. It accounted for around 60 percent of the local tax revenue in Mandalay and Yangon. Some other taxes have important roles in different localities. Fishery tax is important in Ayeyarwaddy, Bago, Kachin and Mon. Forestry tax is important in Tanintharyi and Rakhine.

Figure 19. Tax Compositions by Types of Localities

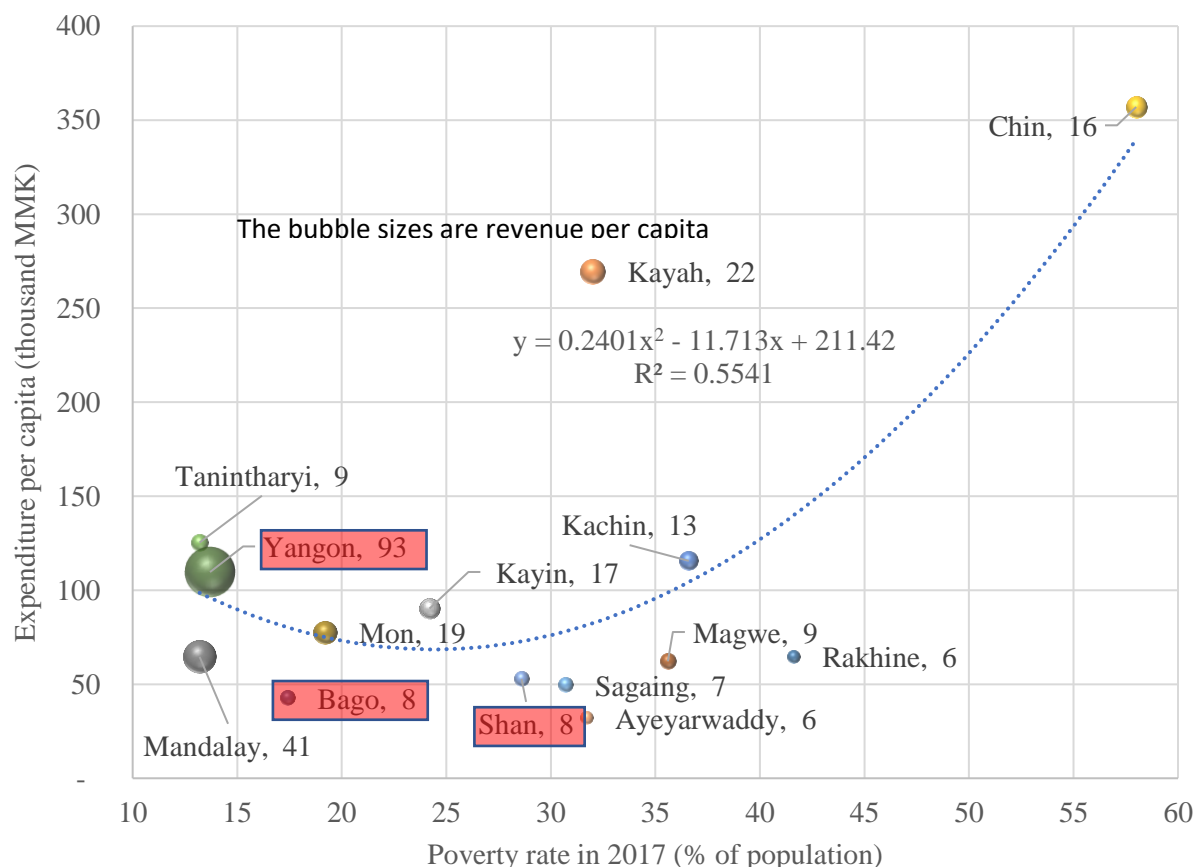*Source: Authors' rendering from the official statistics*

Figure 20. Expenditure Compositions by Types of Localities
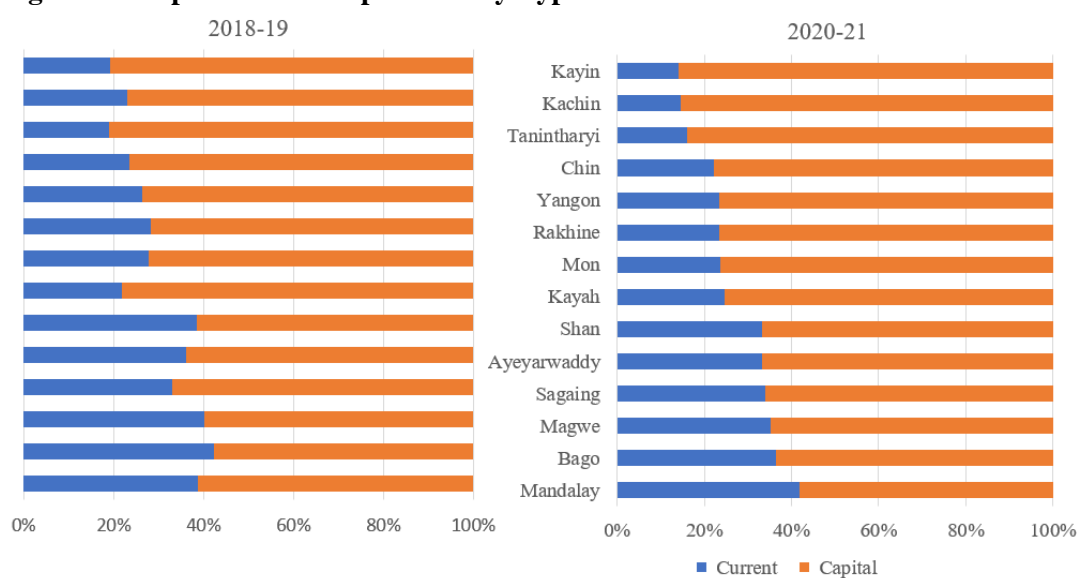
Source: Authors' rendering from the official statistics

Local expenditure in Myanmar is just equivalent to 2.8 percent of national GDP in the 2020-21 FY. It accounted for over a tenth of national expenditure. The proportion of expenditure is 27.8 percent for current expenditure and 72.2 percent of capital expenditure. Roughly, current expenditure only accounts for over a quarter and capital expenditure accounts for nearly three quarters. The proportions in the 2018-19 FY are a third and two thirds. Regarding economic development, the more capital expenditure, the better. However, regarding decentralization, it means that there has been no improvement for the last four years. Subnational governments in Myanmar have been just given a modest role in governing the economy and society.

Figure 21. Relation between poverty rates and expenditure per capita

The bubble sizes are revenue per capita

Kayah, 22

$$y = 0.2401x^2 - 11.713x + 211.42$$
$$R^2 = 0.5541$$

Chin, 16

Tanintharyi, 9

Yangon, 93

Kachin, 13

Kayin, 17

Mon, 19

Magwe, 9

Rakhine, 6

Bago, 8

Sagaing, 7

Shan, 8

Ayeyarwaddy, 6

Mandalay, 41

Expenditure per capita (thousand MMK)

Poverty rate in 2017 (% of population)

Source: Authors' rendering from the official statistics

As Myanmar is just in the early stage of decentralization, it is through case-by-case basics instead of being based on criteria of equity and efficiency. Poverty rates are a proxy to promote equity (the poorer, the higher expenditure per capita). It is not clear in Myanmar. The overall picture is in Figure 21. There is a polynomial relation between poverty rates and expenditure per capita of 10 localities. There are negative relations of localities with the poverty rates below the median and positive relations of the other localities. A common trend is that localities in the middle are usually locationally disadvantaged (Huynh, 2019) and this phenomenon is true in the case of Myanmar.

Conclusions and policy recommendations

Fiscal decentralization has been conducted in Myanmar for over a decade. However, the role of subnational governments is still modest. They only spent about a tenth of total public expenditure and the revenues of most localities just account for less than a fifth of their expenditure. There are only two localities (Yangon and Mandalay) whose own revenues accounts for the majority portions of the expenditures. Subtracting these two localities, the total own revenue (including the tax sharing) of 12 localities in the 2020-21 FY just accounts for 1.2 percent of total public revenue. It means that most localities rely nearly totally on transfers from the Union government. Subnational governments have been delegated to implement a modest range of activities on behalf of the Union government. Subnational governments' expenditures of countries in Asia usually account for a quarter or more of the total public expenditure and their own revenues accounts for a half or more of their total expenditures. Therefore, it is a long way for Myanmar to reach the common range on par with other countries in the region.

There are two components of tax and non-tax revenues of subnational governments in Myanmar. The tax revenues account only for a modest proportion. Moreover, local governments in Myanmar have relied on a few types of taxes including excise, property, wheel although there are 8 types of taxes. The other taxes have just had modest roles. However, tax revenues just accounted for a small ratio of the total revenue. Moreover, it is hard to know whether the revenues of these taxes are higher than the cost to collect them. The tax sharing even has more modest role than that of own revenue. It is perhaps too small to create incentive for local governments to invest their effort on collecting more revenues with the Union agencies.

Current expenditure of the whole nation accounts for over three quarters of the total expenditure and local government's current expenditure only accounts for less than 4 percent. It shows that the Union government manages almost all personnel and daily activities in Myanmar. Among the three localities, only Yangon has gained its position while the role of the local governments in the other localities has been comparatively diminished. National expenditure to GDP has increased significantly for the last four years while they are almost the same for most localities.

As fiscal decentralization in Myanmar is just in pilot period, there are no clear criteria on either equity or efficiency. The budget transfers or allocations are just case-by-case basis. There are two outliers or special cases: Chin and Kayah. Their expenditures per capita are exceptionally higher than the others because of high poverty or security issues. If these localities are removed from the list there is a negative relation between poverty rates and expenditure per capita. Overall, a regional comparison among the fourteen subnational entities in Myanmar, as Myint (2020) finds, a relatively higher fiscal independence driven by more commercial activities and capacity to raise local revenues to finance their expenditures are key factors for relatively better performance of these regions. However, as subnational governments in Myanmar have just spent a small portion of public expenditure and their personnel share along with assignments is even smaller. Therefore, it is quite challenging to analyze local public finance in Myanmar based on efficiency and equity criteria as there is no aggregate data of revenue and expenditure in localities.

Fiscal decentralization along with other decentralizations is a desirable trend in Myanmar. As shown in most developing countries, efficiency and equity in the economic aspect are not the top priority. Politics and political economy issues are more concerned by politicians and government officials. Therefore, it is necessary to consider choices or approaches that make the central leadership comfortable in assigning more responsibilities and budget for lower levels of governments. In such a case, China and Vietnam along with some periods in other countries such as Indonesia during and after Suharto's regime and the Philippines after Marcos's regime can be good references for Myanmar. The two countries started their economic reform along with granting more rights and responsibilities for subnational governments to conduct daily functioning activities. However, the policy prerogative is mainly still on the central

governments' hands. Among other countries in Asia, central governments in China and Vietnam are much more powerful than many others. However, expenditure proportions by local governments are much higher than other countries. Fiscal decentralizations on the expenditure side are indeed high in these countries. However, many assignments follow national policies, but local governments are in charge of spending and management in fields such as education, health, and social welfare.

We propose three main recommendations. First, criteria for allocation based on efficiency and equity should be designed. It is important to have clear criteria for budget allocations to avoid complication, bias, and un-transparency. Regarding efficiency, performance-based budgeting, a potentially long-term objective should be considered. Regarding equity, the principal objective of central government transfers is fiscal equalization. A prerequisite is therefore developing metrics for measuring need. Designing a grant allocation formula based on need (or fiscal gap) would be a good subject for future research.

Second, Myanmar can consider experience from other countries, especially China and Vietnam to assign subnational governments more expenditure responsibilities based on national policies decided by the central government. Thus, operational activities are at the subnational level, but actual power is still at the central level. This approach is reasonable for Myanmar's circumstances. This would also be consistent with global trend of expenditure-led fiscal decentralization, for example in the Philippines and Indonesia (in addition to China and Vietnam). In addition, many high-income countries (like France) also centralize revenue collection for efficiency (and politics) but decentralize public expenditure authority.

Third, policies to increase subnational governments' own revenues especially the tax revenues should be considered. A pilot property tax reform initiative in a large city with revenue potential like Mandalay should be a good start. It is best not to start in the political or commercial center because politics often doom the reform before it even begins.

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