

Intergovernmental Fiscal Transfers

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The outline of presentation

- A brief about the role of the states and related issues
- Division of responsibilities among governmental levels
- Principles for intergovernmental fiscal transfers
- Examples from developing countries, Vietnam and Myanmar

Functions of The State

	Addressing market failure			Improving equity
Minimal functions	<i>Providing pure public goods:</i> Defense Law and order Property rights Macroeconomic management Public health			<i>Protecting the poor:</i> Antipoverty programs Disaster relief
Intermediate functions	<i>Addressing externalities:</i> Basic education Environmental protection	<i>Regulating monopoly:</i> Utility regulation Antitrust policy	<i>Overcoming imperfect information:</i> Insurance (health, life, pensions) Financial regulation Consumer protection	<i>Providing social insurance:</i> Redistributive pensions Family allowances Unemployment insurance
Activist functions	<i>Coordinating private activity:</i> Fostering markets Cluster initiatives			<i>Redistribution:</i> Asset redistribution

Source: World Bank (1997)

Fundamental Issues

- Two key questions
 - Who makes the decision about the programs?
 - Who pays for them?
- Fiscal imbalances
 - Vertical
 - Horizontal
- Types of transfers
 - General transfers
 - Specific transfers
 - Special transfers

Types of Transfers

- **General transfers.** These serve to provide general revenue to an agency's budget to fund basic operations where own revenue would not be sufficient to fulfill the agency's responsibilities.
- **Specific transfers.** Specific transfers are paid so that one public agency provides particular services on legal, bureaucratic, or contractual grounds, as required by another (funds-providing) agency.
- **Special transfers.** Special transfers are neither pure general budget resources nor do they compensate for interjurisdictional externalities, including the spillover of political benefits and costs.

Funding of Transfers

- Tax sharing
- Budgetary resources
- Matching grants

Purposes

- **ECONOMIC**

- Allocative Efficiency
- Tax Efficiency

- **SOCIAL**

- Horizontal Equity
- Income Redistribution

- **POLITICAL/INSTITUTIONAL**

- Good Governance
- National Stability

Allocation Principles

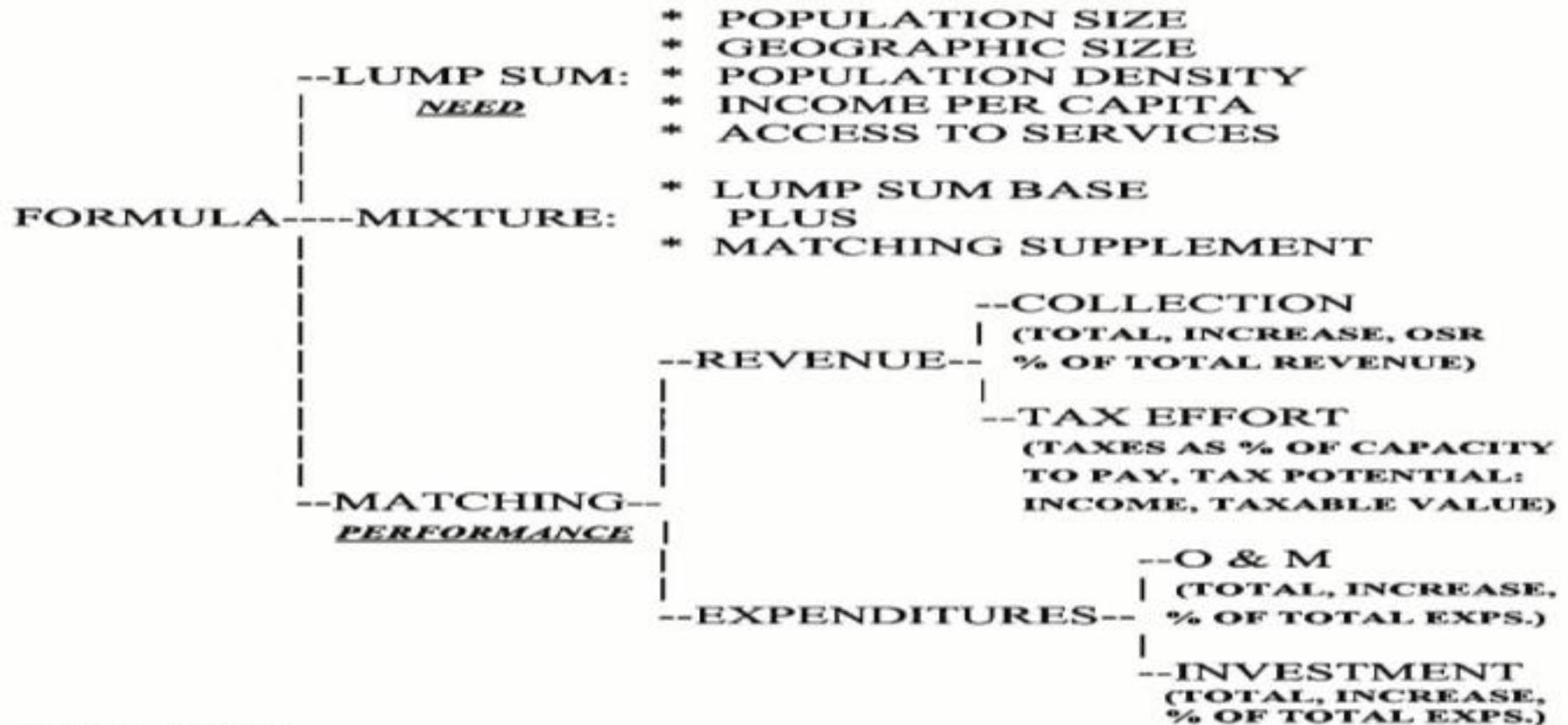
- Horizontal equity: Localities with the same status should have the same budget allocation
- Vertical equity:
 - Allocation: Disadvantaged localities get priority
 - Efficiency: High potential growth provinces get higher budget expenditure to make the “cake” bigger.

TYPES OF GRANTS

I. CONDITIONS ON USE:

CATEGORICAL (EARMARKED) (SPECIFIC) (TIED)	<----- BLOCK -----> DISCRETION WITHIN BROAD RESTRICTIONS	UNRESTRICTED (GENERAL PURPOSE) (GENERAL USE) (DISCRETIONARY)
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II. ALLOCATION METHOD:



III. CEILING:

CLOSE-ENDED (LIMITED) VS. OPEN-ENDED (UNLIMITED)

- | | |
|-----------------|----------------------------------|
| * INSTITUTIONAL | * INDIVIDUAL |
| * SECTORAL | * SOCIAL SAFETY NET/ENTITLEMENTS |

EFFECTIVE GRANT FORMULAS

- Simple and transparent
- Predictable and stable
- Fit needs and objectives
- Administratively feasible
- Adequate revenue
- Minimal ancillary effects

General Guidelines

Increase expenditures on specific functions

→ *Categorical, Matching, Open-Ended Grant*

Redistribute resources among subnational jurisdictions

→ *General, Lump-Sum, Close-Ended Grant*

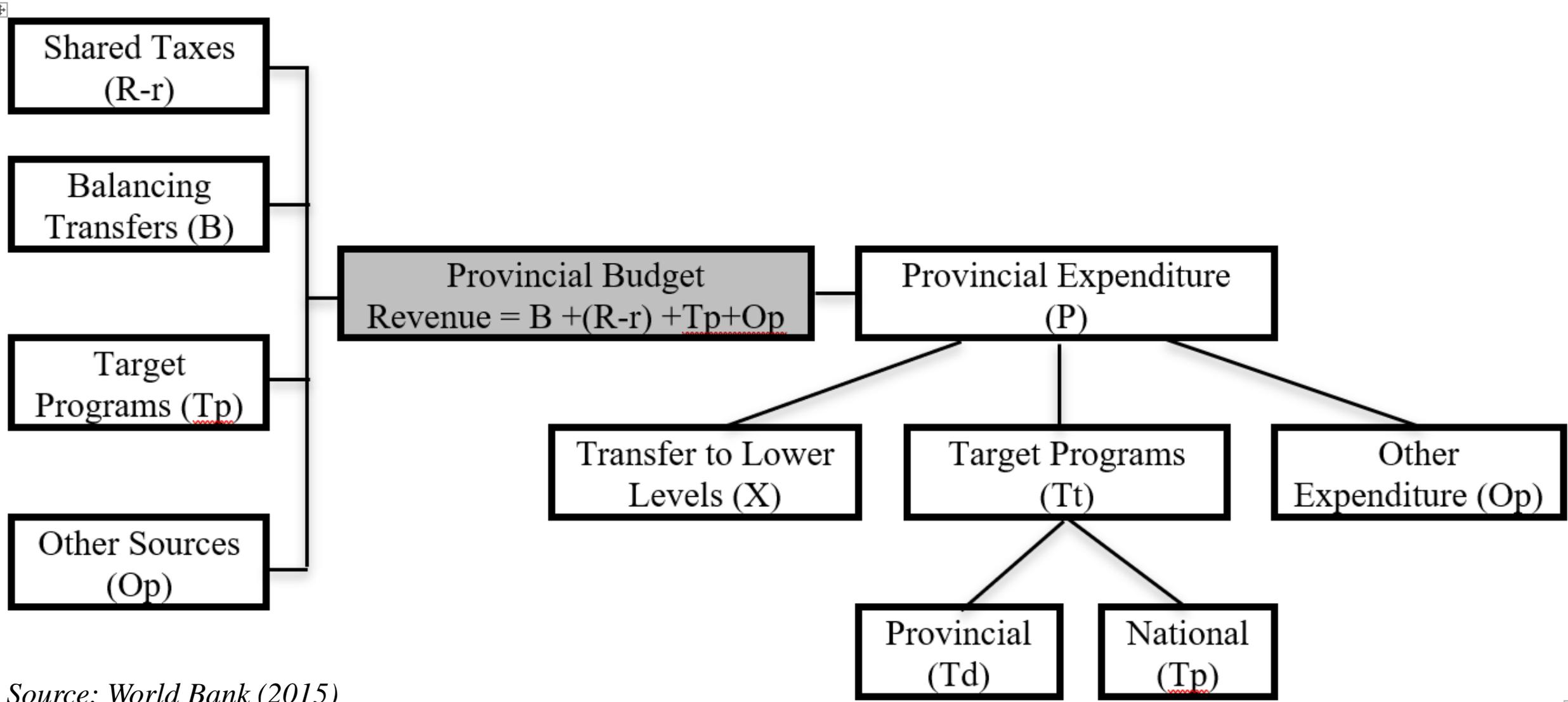
Annex Two: Criteria for Making Subnational Tax Choices

Criteria/Objective	Comment	Taxes that Satisfy the Objective	...And Those That Fail
Accountability: Local policymakers responsive to citizen preferences. Those taxed have political redress	Local officials determine “own” tax rates; tax burdens borne locally; transparency	Local Personal Income Taxes (may conform to higher level tax base with rate set locally). User Charges	General Business taxes Visitor (tourist) Natural resource taxes (petroleum, minerals)
Revenue Productivity: Taxes that promote “adequacy” in order to finance an agreed flow of public services.	As a system, recognizes a balance between a bases responsive to changes in economic conditions growth (elasticity or buoyancy) and stability (certainty)	<i>Ad valorem</i> property tax (distinguish between land and improvements) & or Area-base property tax Personal Income Tax General Broad Based Business Tax (e.g., gross receipts/turnover) Single stage sales taxes Some terminal taxes (e. g., octroi) and market taxes	Corporate profits Many user charges Low- effort Property taxation
Benefits-Received: To extent possible taxes should function as a “price” for flow of services that accrue to the taxpayer/citizen	Taxes perform tax price <i>quid-pro-quo</i> and may be tailored to local and regional variations and benefit areas. Service spillovers (+ or -) may call for (i) special districts; (inter-local cooperation); (ii) middle tier governments.	Whenever possible charge Visitor Taxes Business taxes (generalized benefits; e.g., value added)	Non-resident based income tax (assumes non-residents are subject to alternative taxes for services received: e.g., user charges, sales taxes, visitor taxes, general business tax)
Non-Distortion: taxes should not unintentionally interfere with private decisions of consumers, factor suppliers and producers; they should be “neutral”	Variability in tax rates possible; Immobile tax bases rate high as do taxes with relatively high price inelasticity of demand; case for uniform tax bases; certainty in taxation	Taxes on immoveable property Land value tax plus charges User Charges Resident based Personal Income Sumptuary Taxes Taxation of “bads” Poll and communal taxes	Non-resident based income tax Gross receipts taxes Severance Taxes (if high rate) Octroi
Tax Equity: Tax burden should be reasonable and fair	Vertical equity (differential treatment unequal as usually measured by income or wealth—“gresssivity”); Horizontal (equal treatment of those in equal circumstances as measured by income, consumption, or wealth)	Progressive Resident Personal Income Taxes Ad valorem property taxes Some local sales taxes; excises	Poll and communal taxes Area-based property taxes Gross receipts taxes
Simplicity: administration & compliance	Citizens should be able to understand and control the system; cash flow preferable to accruals; standardized tax bases	Piggyback Personal income Single stage sales and excise (market tax) Wage taxes Turnover/receipts taxes Some user charges Market taxes	Multi-rate taxes Potentially broad based taxes narrowed by exemptions, deductions & tax preferences Property tax

Concurrent and Capital Transfers

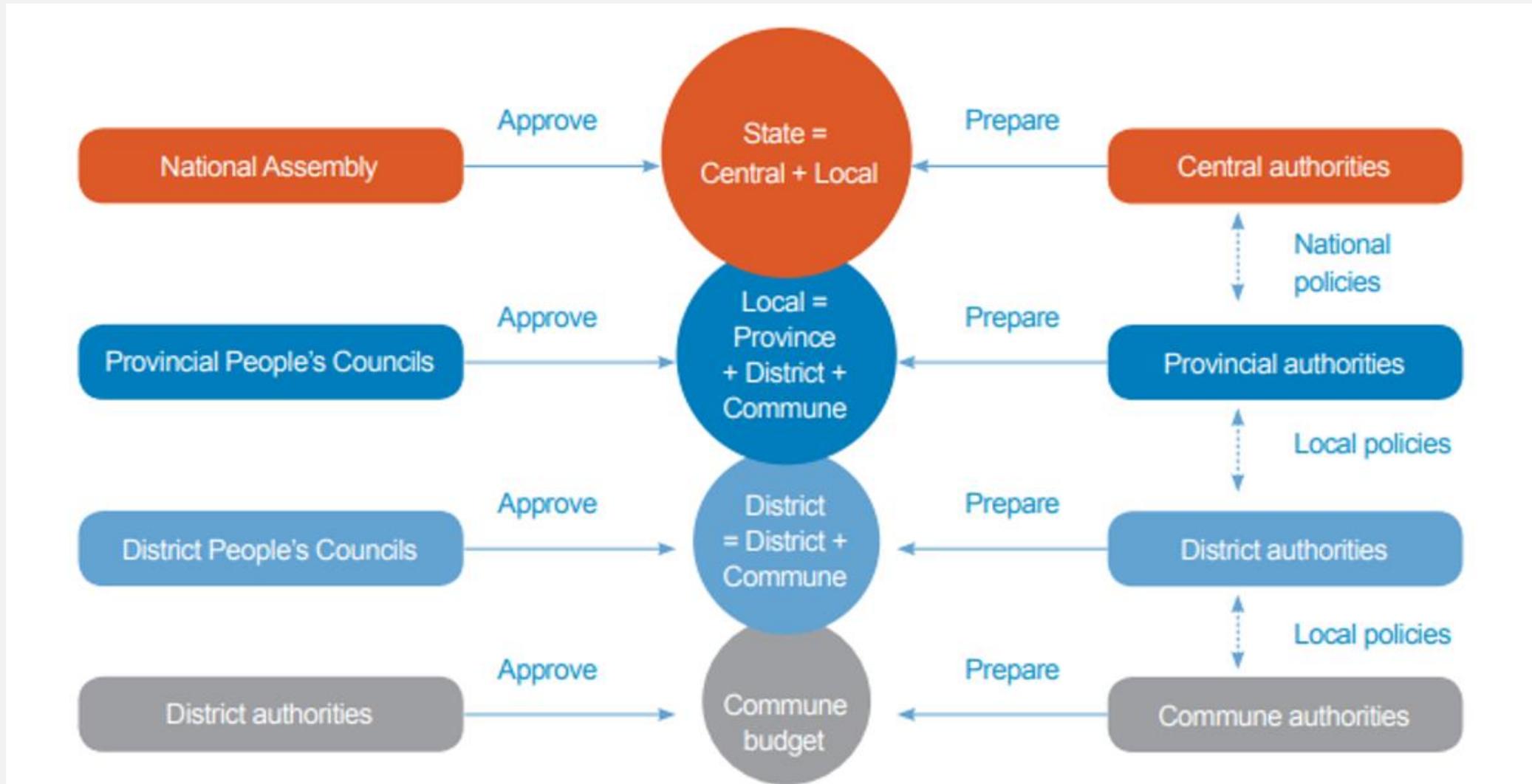
- Concurrent transfers
- Capital transfers

Fiscal Transfers Map in Vietnam



Source: World Bank (2015)

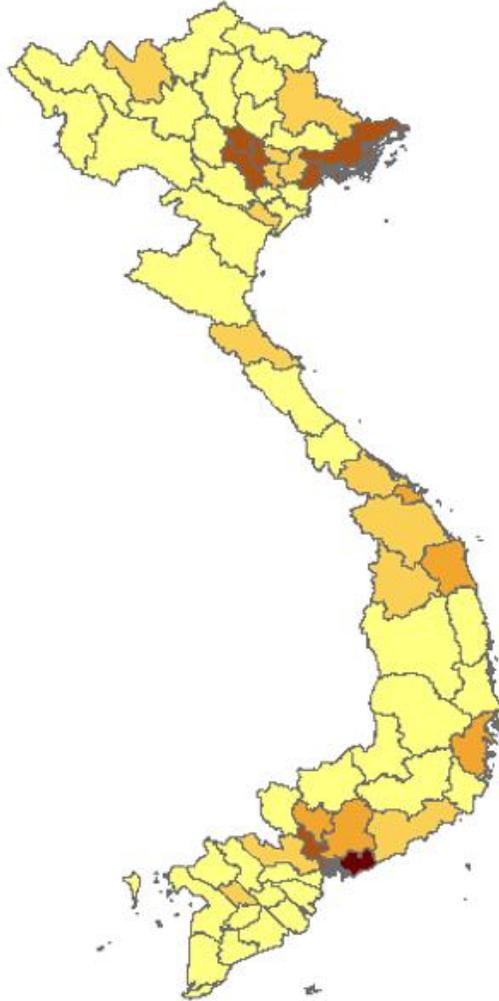
Budget Approval Process in Vietnam



Source: World Bank (2015)

Revenue and Expenditure per Capita and Poverty Rate by Provinces in Vietnam

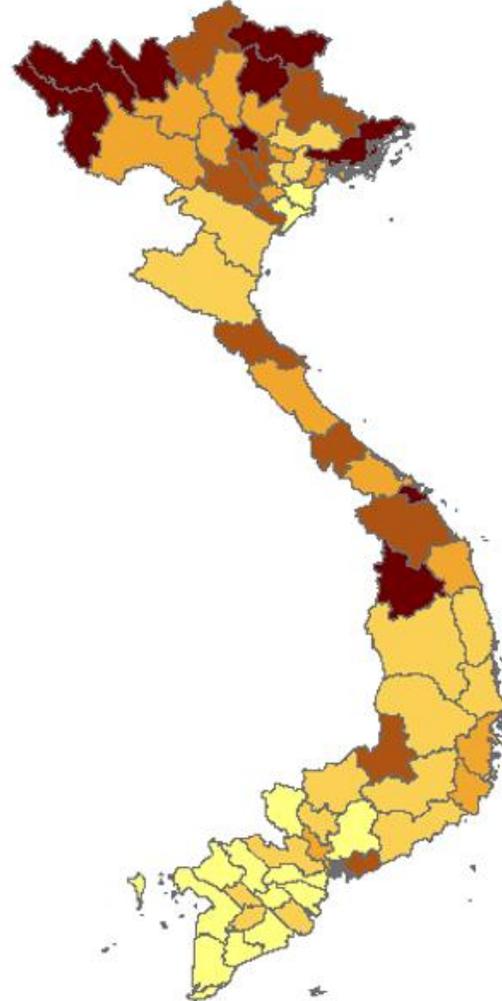
Revenue (2006-16)



Paracel Islands

Spratly Islands

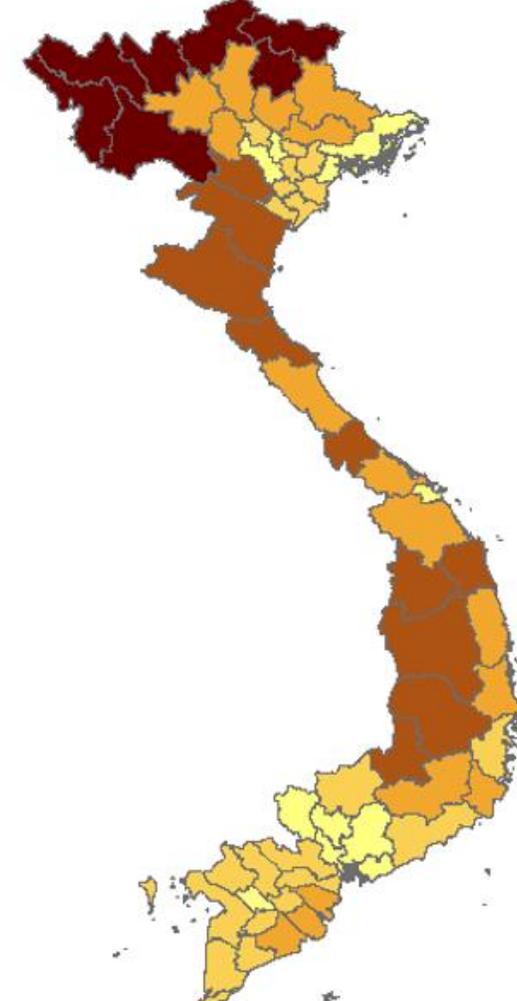
Expenditure (2006-16)



Paracel Islands

Spratly Islands

Poverty Rate in 2006



Paracel Islands

Spratly Islands

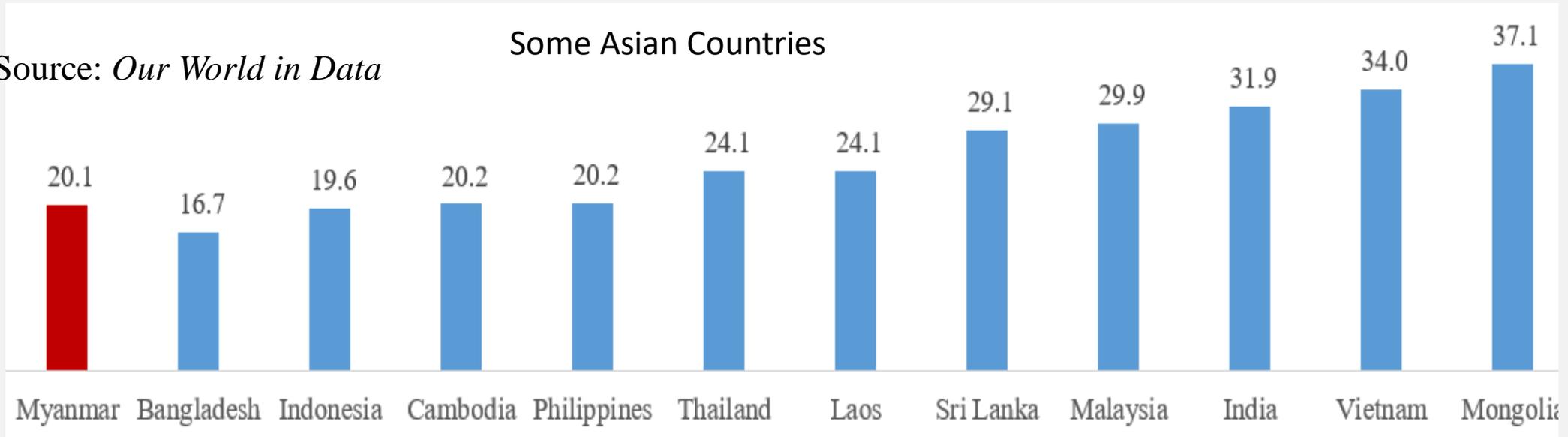
Expenditure Assignments by in Myanmar

Sector	Responsible by	Remarks
Foreign Affairs	CG	
International Trade	CG	
Defense	CG	
Police	CG	
Monetary Policy	CG	
Immigration	CG	
Education	CG	progress on deconcentration
Health	CG	progress on deconcentration
Social Welfare	CG	
Border Area Development	CG	
Fiscal Policy	CG, S&RGs	
Planning and Budgeting	CG, S&RGs	
Environmental and Natural Resources	CG, S&RGs	merely assignment to S&RGs
Electricity	CG, S&RGs	
Highways	CG, S&RGs	
Industry and Agriculture	CG, S&RGs	
Municipal and Urban Management	S&RGs	

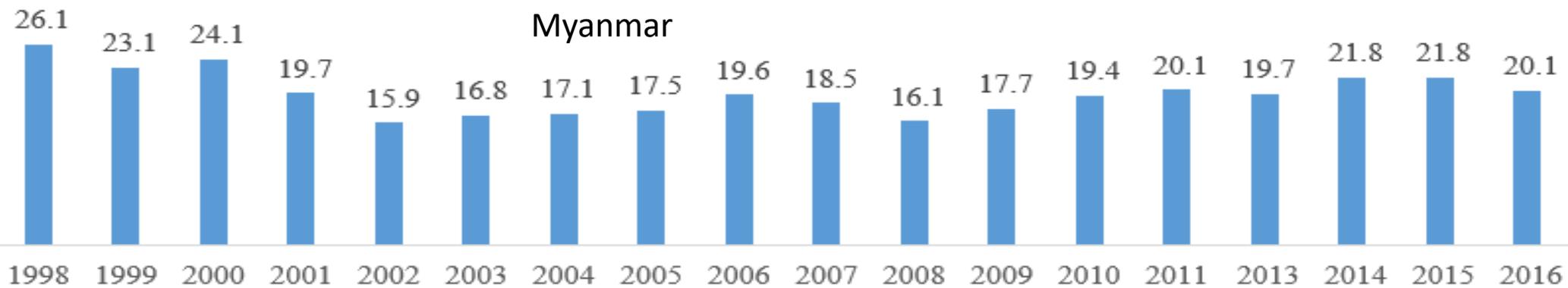
Budget Expenditure to GDP (%)

Source: *Our World in Data*

Some Asian Countries

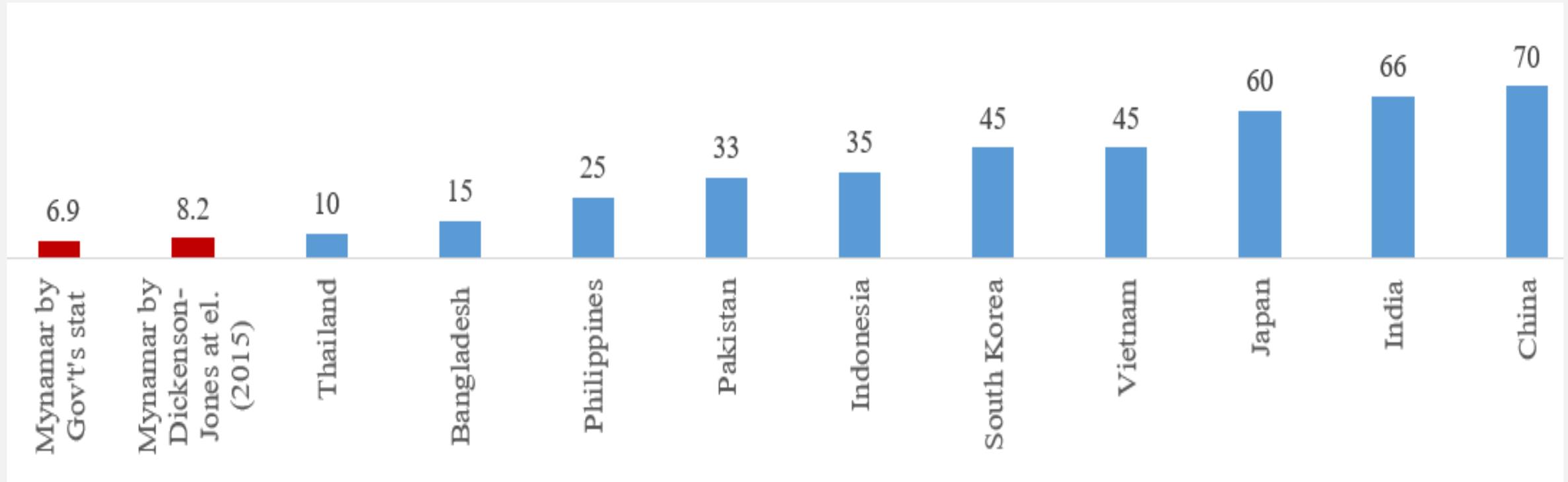


Myanmar



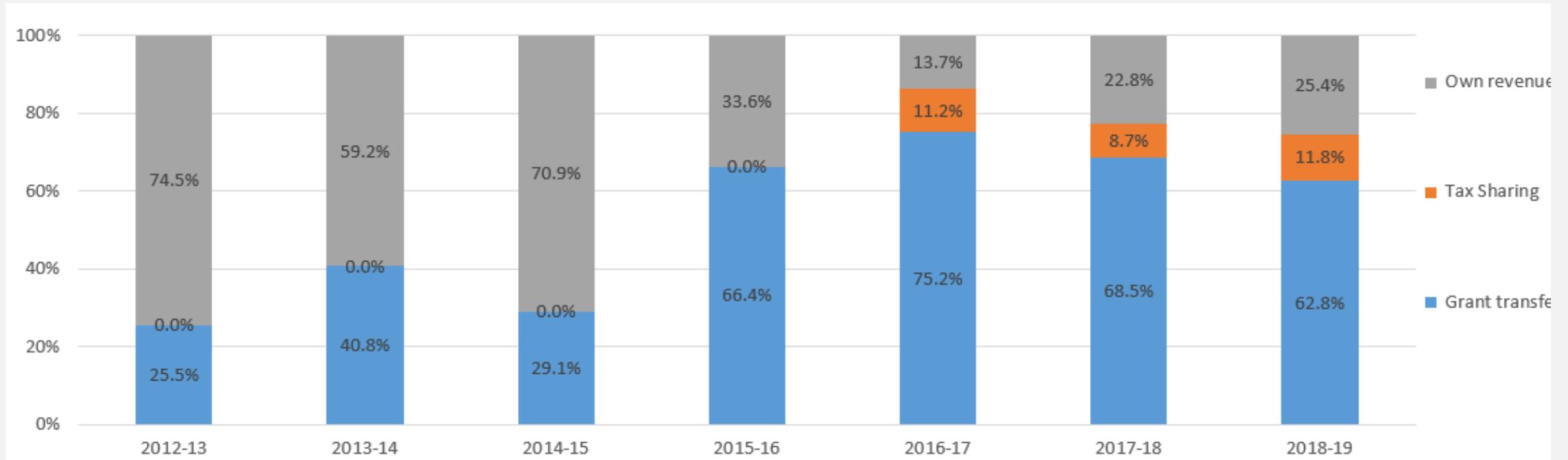
Source: *Our World in Data* from 1998-2011 and *World Bank (2017)* from 2013-2016

Budget Decentralization



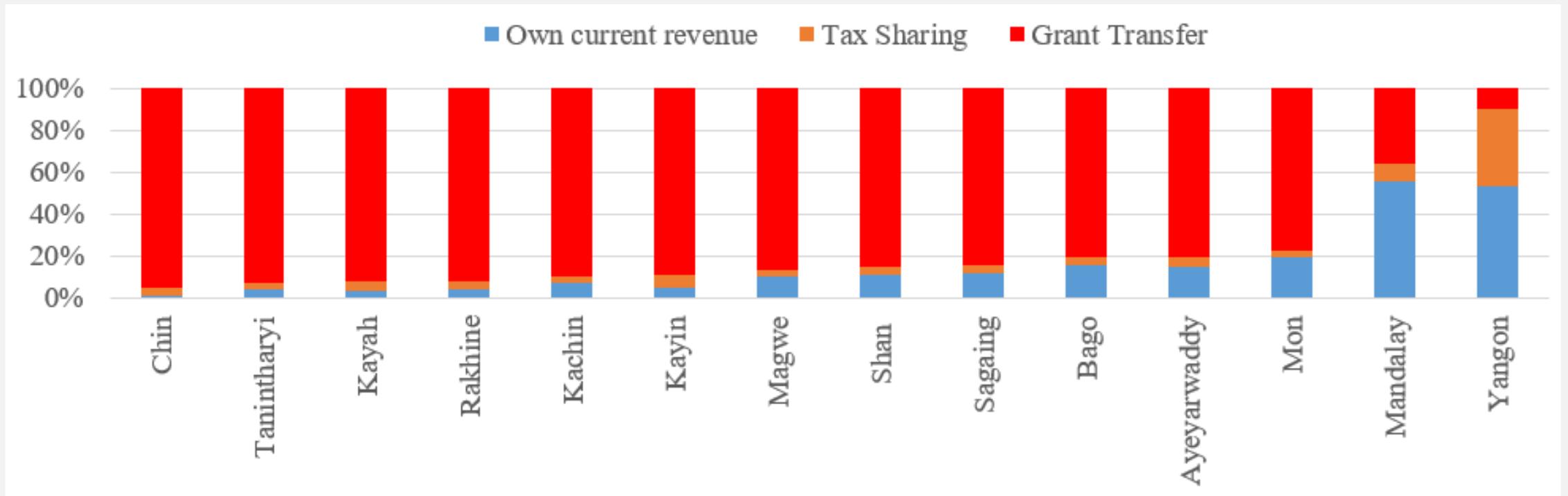
Source: Jorge Martinez-Vasquez (2011) and Myanmar Government for the data of Myanmar

Shares of the Subnational Revenues

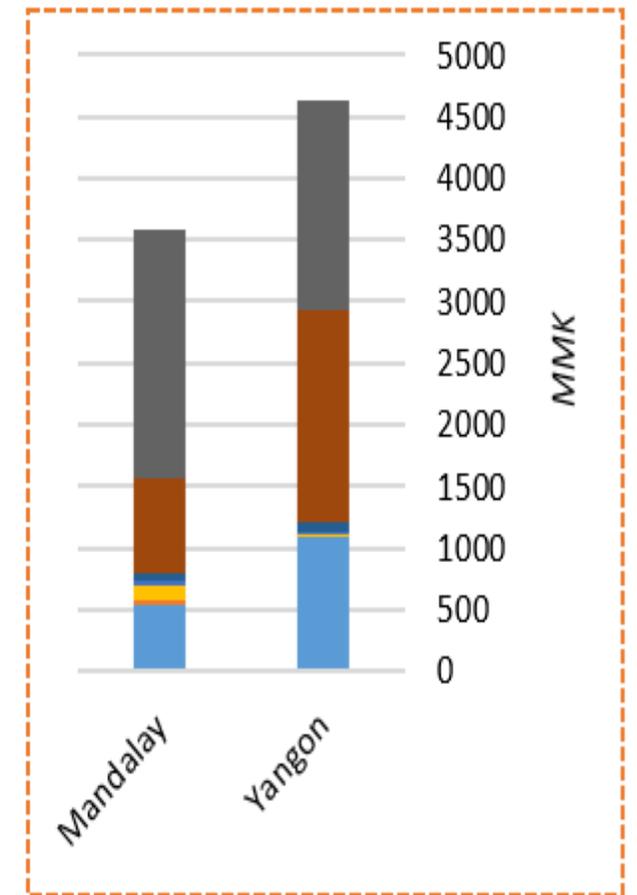
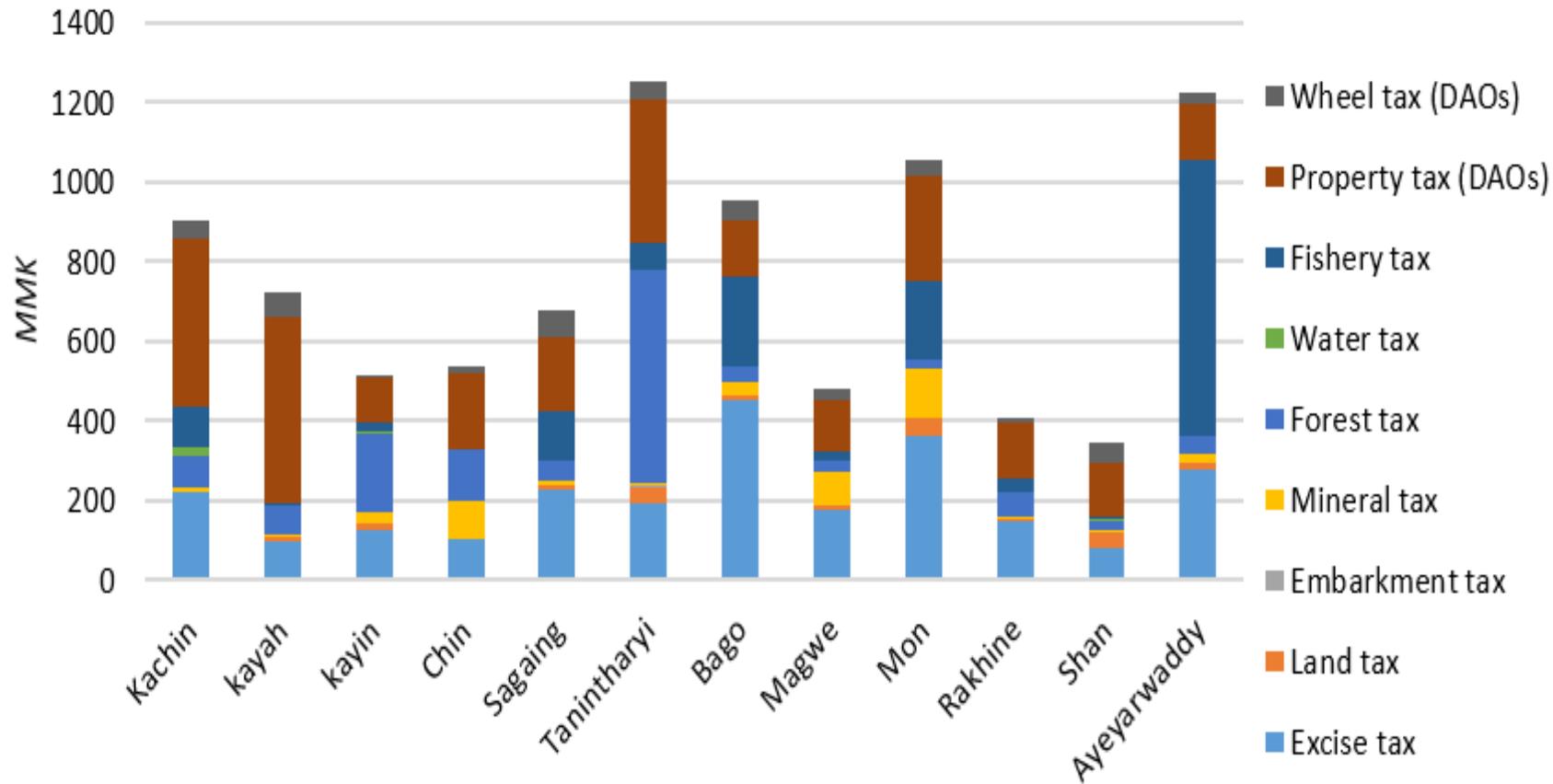


Source: Shan's policy brief

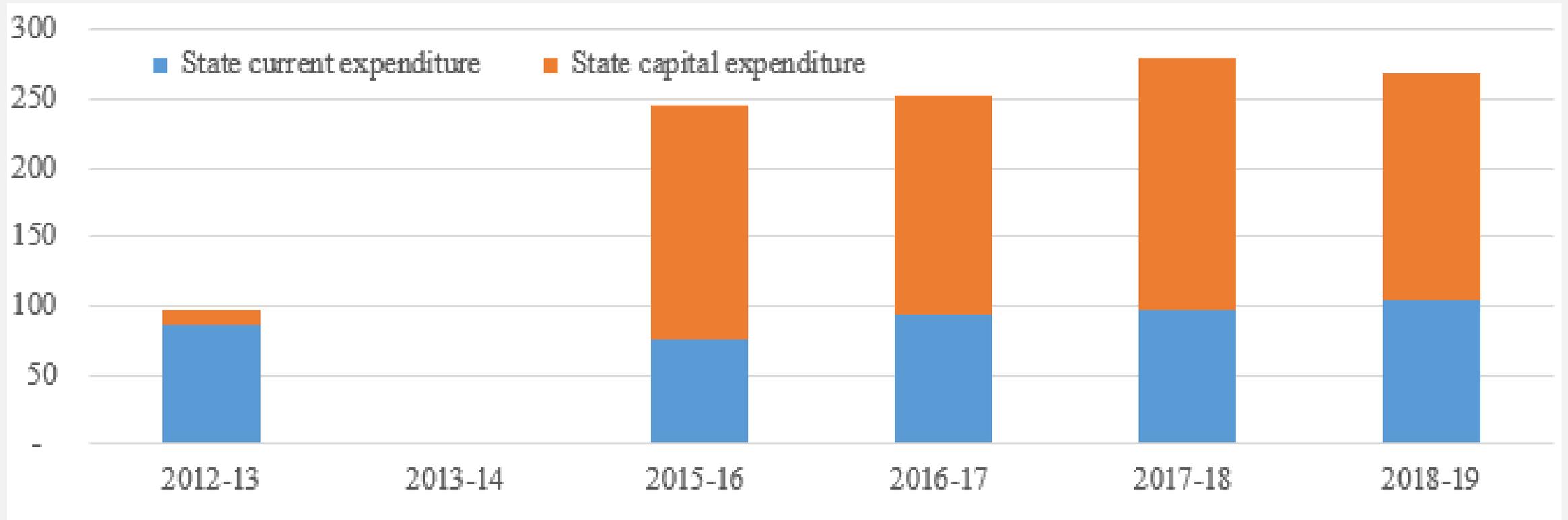
Compositions of Revenue by States and Regions in Myanmar



Tax Revenue by types (2016-17) in Myanmar

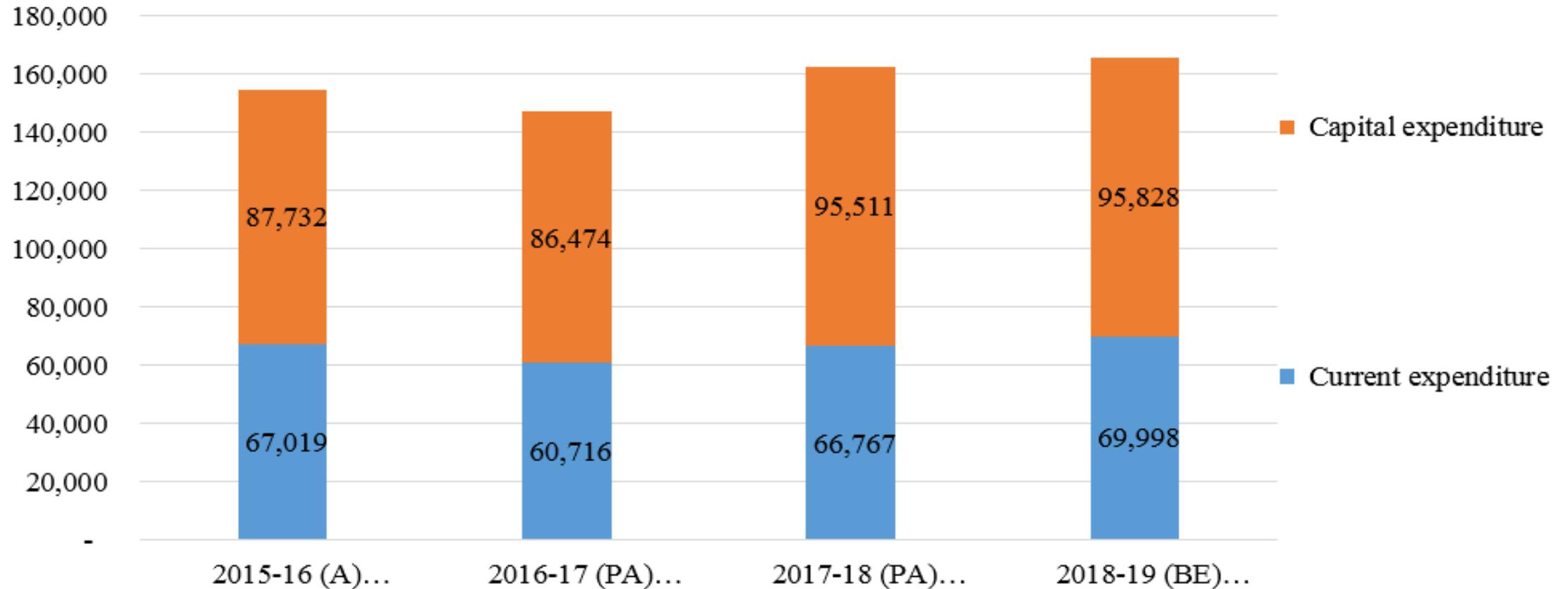


Shan's Expenditure Structure (billion MMK)



Source: Shan's policy brief

Expenditure Structure in Bago Region (Million MMK)



Source: Bago's policy brief

Discussion

- Principles of intergovernmental fiscal transfers
- Experiences from other countries
- The situation of Myanmar



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Thank you for your attention!

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