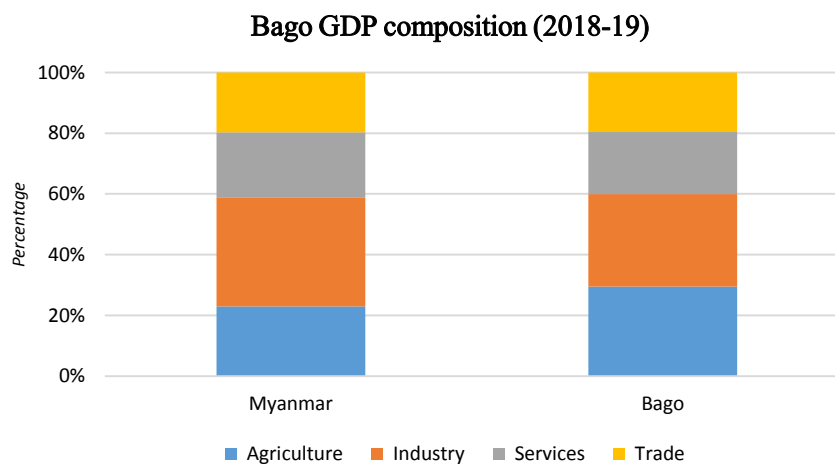


## Introduction

**1. Public finance management will play an essential role in Bago’s development, as well as the development of other States and Regions.** Governments have to make difficult choices about how to allocate scarce resources to achieve societal goals for economic growth and poverty alleviation. Healthy public finance management is essential to ensure effective prioritisation of government targets, efficiency and equity of spending. Currently, state and region governments in Myanmar are not responsible for providing public services like education and health but they are partly responsible for some other essential public services such as infrastructure development and municipal services. Consequently, improving the efficiency of state and region public finance management is vital to enhancing the quality of public spending and maximising its impact on growth, equity and poverty reduction. The aim of this policy note is to encourage continuous debate on budget decisions, revenue generation and overall state of public finance as well as to promote budget transparency and accountability.

## Bago Region’s fiscal environment

**2. Bago Region GDP will reach 8.57 Trillion MMK in 2018-19, equivalent to 8% of Myanmar’s GDP.** This represents a GDP per capita of 1.74 Million MMK in 2018-19, which is lower than the average GDP per capita across Myanmar. However, it appears Bago Region is converging with the Union as a whole, as it expected to experience 7.8% growth rate in 2018-19. Industry is the largest sector in Bago Region accounting for 30.5% of GDP and is expected to see strong growth of 11.2% in 2018-19. Growth is expected in all sectors in Bago Region, although growth in agriculture which accounts for 29.5% of GDP is relatively modest at only 3.8% in 2018-19. Services and Trade account for 20.4% and 19.6% of GDP respectively, which are expected to see growth rates of 9.1% and 7.8%.



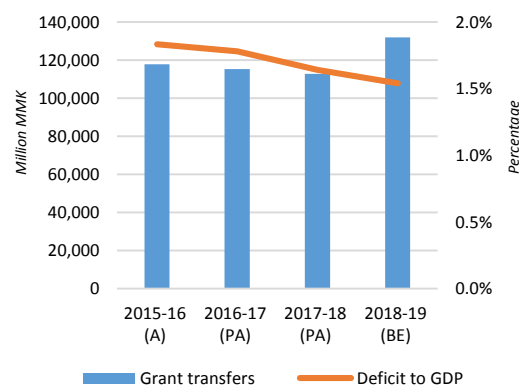
**3. Under Bago regional budget, deficit to GDP ratio is declining while the total deficit financing grant transfer is increasing partly due to the fast growing size of regional GDP in nominal term.** Total revenue without grant transfer is estimated at 33.9 Billion MMK and Total expenditure 165.8 Billion MMK results 132 Billion MMK deficit in 2018-19, which equals to 1.5 percent of regional GDP. In Myanmar, State and Region governments are relying on fiscal grant transfer; and as a result, the grant transfer influences on the budget ceiling for expenditure. The

major contributing factor for declining of fiscal deficit to GDP ratio is the faster growing GDP value of Bago region while the grant transfer is increasing with the slower rate.

#### Fiscal positions of regional government

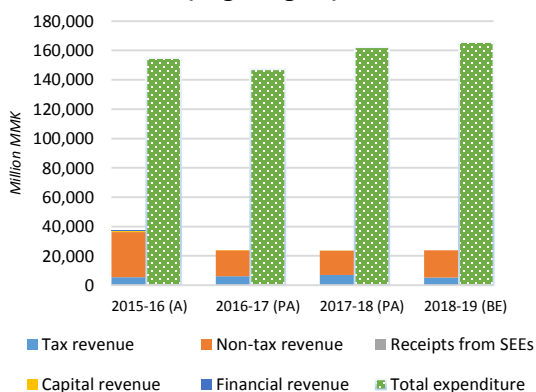
	2015-16 (A)	2016-17 (PA)	2017-18 (PA)	2018-19 (BE)
	<i>Million MMK</i>			
Current revenue	45,392	27,463	36,561	33,897
Capital revenue	727	128	38	
Financial revenue	63			
<b>Total revenue</b>	<b>46,182</b>	<b>27,591</b>	<b>36,599</b>	<b>33,897</b>
Total expenditure				
Current expenditure	67,019	60,716	66,767	70,213
Capital expenditure	87,732	86,474	95,511	95,613
Financial expenditure	63			
<b>Total expenditure</b>	<b>154,815</b>	<b>147,190</b>	<b>162,278</b>	<b>165,826</b>
Deficit	108,633	119,599	125,679	131,928
GDP (current price)	5,930,000	6,719,000	7,663,000	8,572,000
Deficit to GDP	1.8%	1.8%	1.6%	1.5%

#### Grant transfer and Deficit to GDP ratio (Bago Region)



**4. Aggregate expenditure and revenue have remained relatively constant in Bago Region.** Total expenditure by Bago Region Government in 2018-19 is estimated to be MMK 166 Billion, this equates to expenditure per capita<sup>1</sup> of MMK 33,717 (Fig.1). The expenditure in 2018-19 will see only a modest 2% increase from the previous 12-month fiscal year in 2017-18. However, this represents a real term decrease in expenditure. After a decline in 2016-17, own revenue has also remained relatively stable in Bago Region.

#### Own revenue and expenditure (Bago Region)



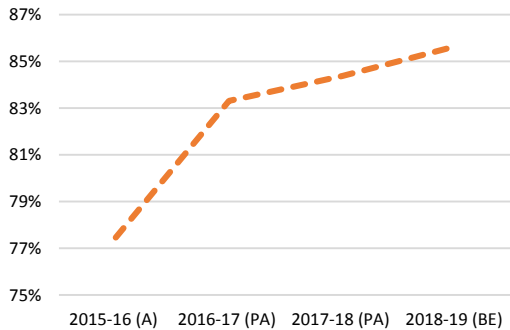
**5. Bago Region's own revenue is declining while the government expenditure is growing especially investment outlays on infrastructure.** Own revenue for 2018-19 is 36 percent less than it was in 2015-16 with relying on the non-tax current revenue. As shown in figure, Bago regional government expenditure is largely financed by Union transfers; namely, (i) grant transfer, (ii) tax sharing and (iii) transfers to parliament members for small infrastructure development works, and total of those transfers amounts 142 Billion MMK, which equivalents to 80 percent of total expenditure in 2018-19.

**6. The growing expenditure is largely financed by the transfers. Comparing to 2015-16, when total transfers accounted for 77 percent to total expenditure, 86 percent of expenditure is being forecasted to receive from transfers.** Hence, although the own revenue is modestly growing, after a decreasing in 2016-17 compared to its previous year, in last 3 fiscal periods, its share in total expenditure is declining, from 23 percent to 14 percent. As a result, total size of Union transfers is six times bigger than the own available resources in Bago region. In own

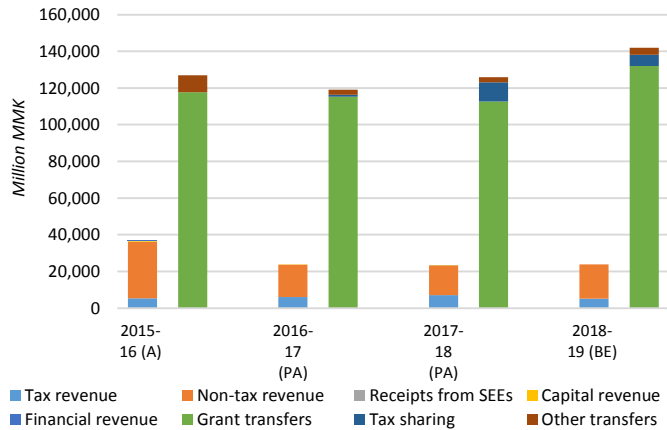
<sup>1</sup> Population data from Bago Region General Administration Department (GAD).

revenue, which consists of local tax revenue and non-tax current revenue, is estimated at 24 Billion MMK while the Union transfers at 142 Billion MMK. As this policy note is intended to highlight on the revenue performance and potential for the regional government budget, the transfers system will be discussed in brief.

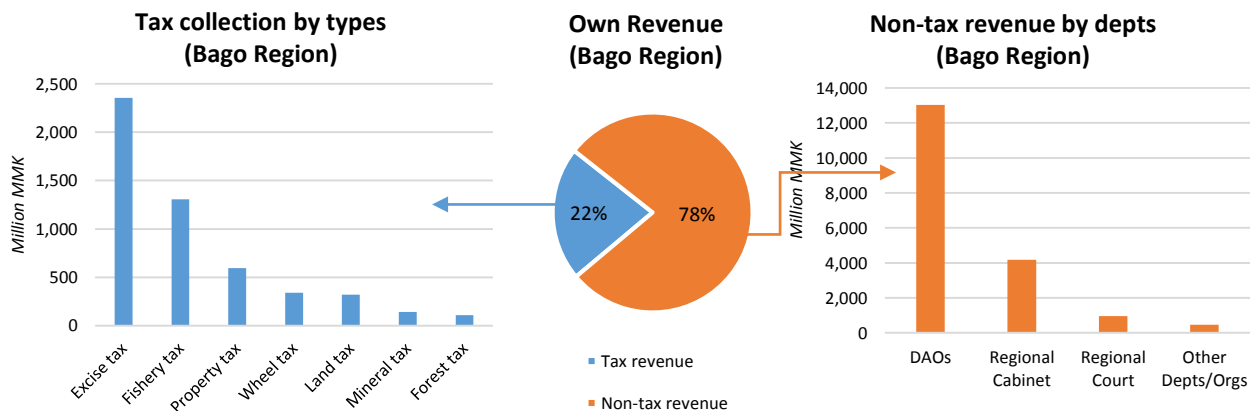
**Percentage of Transfers in total expenditure (Bago Region)**



**"Own revenue" versus "Transfers" (Bago Region)**



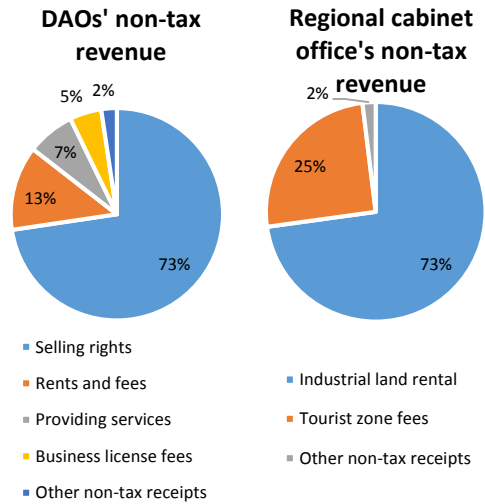
**7. Bago region’s own revenue is composed with tax revenue and non-tax revenue, 22 percent and 78 percent each in 2018-19, and there is no projection for capital and financial revenue for that fiscal period.** Excise tax, collected by General Administration Department, and Fisher tax, by Fishery Department, accounts for over 70 percent of tax receipts in Bago region<sup>2</sup>. For non-tax (current) revenue side, Development Affairs Organizations, who are accountable for urban service delivery, and regional Cabinet Office make 13 and 4 Billion MMK in 2018-19 FY, combine of these two representing 92 percent of aggregate non-tax (current) revenue. Since its nature of miscellaneous sources of revenue, sources of non-tax revenue will be discussed in following paragraph and potential for increasing tax revenue will be presented in paragraph 6.



<sup>2</sup> Embankment tax is excluded in figure for its small receipts make difficult to compare with other tax collections.

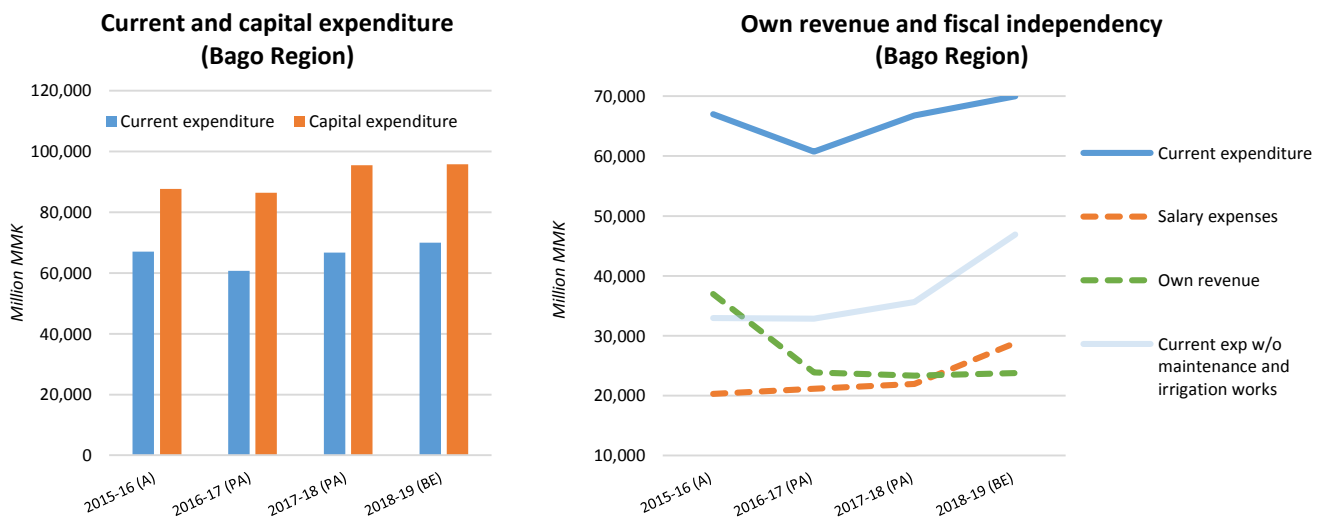
**8. Income from monopoly license fees makes 50 percent of non-tax revenue and 40 percent of own revenue under regional budget.**

Although the license incomes are important for the regional fiscal autonomy, its impacts of preventing market competitiveness on life and opportunities for local citizens are equally important to reconsider. There are other revenue potential for the Development Affairs Organizations (DAOs) such as property tax, which is currently 16 times less than DAOs' income on selling rights. Since the urban areas in Myanmar are developing fast, the recognition on revenue potential from property tax will benefit not only to local governments also to the property owner by reinvesting on Urban infrastructure development and service delivery using property tax receipts. Under the regional cabinet office's non-tax revenue, 73 percent from renting industrial land and 25 percent from tourist zone fees are received.



**9. Bago regional government current and capital investment spending is increasing; however, recent salary hike results further declining in regional fiscal autonomy.**

Capital expenditure under Bago region's budget has increased to 96 Billion MMK in 2018-19 from 88 Billion MMK in 2015-16. Current expenditure has also grew slightly from 67 Billion MMK to 70 Billion MMK between 2015-16 and 2018-19 underpinning by the salary rise in 2018. Consequently, salary expense for departments and organizations under regional government has risen to 29 Billion MMK, about 40 percent of current expenditure. As a result, regional own revenue no longer affordable to finance the wage bills, and it limits the fiscal independency of the regional government. The figure below also show the region's own revenue considerable falls under the total current expenditure which fundamentally represents the administrative expenses for running a government.<sup>3</sup>



<sup>3</sup> In figure, light blue line represents the current expenditure without maintenance expenditure and expenses on irrigation development works of the regional government. The latter expense is treated as current expenditure in regional budget.

## Brief look at the legal perspective on revenue mobilization

**10. The 2008 Constitution provides the basic parameters that guide the decentralization of responsibilities to the State and Regional level.** Section 254 of constitution mentioned that “The Region or State shall collect the taxes and revenues listed in Schedule Five in accord with law and deposit them in the Region or State fund” and “The Region of State has the right to expend the Region or State fund in accord with the law”.

**11. Specifically, Schedule Two of the Constitution lists the legislative and administrative responsibilities of the State and Region governments that in some instances, overlap, and in others, depart from those of the Union government, as outlined in Schedule One.** Such responsibilities that are constitutionally assigned to State and Region budgets under Schedule Two are thus covered by State and Region budgets. And the departments and organizations within the State and Region budgets has to undertake the responsibilities of the local governments while accountable to line ministries except Development Affairs Organizations which are solely responsible to State/Region governments.

**12. Also, Schedule 5 of the Constitution allows the state and region governments revenue generation power, but with some ambiguities.** Even though some complexities and overlapping functions of revenue mobilization exist, 2008 Constitution is much clearly stated on the partitions between Union and State and Region governments in contrast to its Amendment in which newly permitted fiscal mobilization authorities are attached to Union Laws enacted prior to Constitution.

### Schedule 5 : Taxes collected by Region or States according to 2008 Constitution

1. \* Land revenue
2. \* Excise revenue
3. \* Water tax and embankment tax based on dams and reservoirs managed by the Region or State and tax on use of electricity generated by such facilities managed by the Region or State.
4. \*\*\* Toll fees from using roads and bridges managed by the Region or State.
5. \* - Royalty collected on fresh water fisheries.  
- Royalty collected on marine fisheries within the permitted range of territorial water.
6. Taxes collected on vehicles on road transport and vessels on inland waterway transport, in accord with law, in a Region or a State.
7. Proceeds, rent fees and other profits from those properties owned by a Region or a State.
8. Fees, taxes and other revenues collected on services enterprises by a Region or a State.
9. Fines imposed by judicial courts in a Region or a State including Region Taya Hluttaw or State Taya Hluttaw and taxes collected on service provision and other revenues.
10. Interests from disbursed by a Region or State.
11. Profits returned from investment of a Region or State.
12. \* Taxes collected on extraction of the following items from the forests in a Region or a State:
  - Taxes collected on all other woods except teak and other restricted hard woods;
  - Taxes collected on firewood, charcoal, rattan, bamboo, bird nests, catch, thanetkha, turpentine, eaglewood and honey-based products.
13. \* Registration fees.
14. Taxes on entrainments.
15. \*Salt tax.
16. \* Revenue received from the Union Fund Account.
17. \*Contributions by development affairs organizations in a Region or State concerned.
18. Unclaimed cash and property.
19. Treasure trove.

*Note:* \* Types of receipts budgeted in state and region budgets.

\*\* Collection of fees for the use of Union highways are collected by Union Department of Highways. Roads under State or Region governments are collected by State and Region Department of Highways, under Ministry of Construction. Vehicle registration fees is also collected by Road Administration Department, which under Ministry of Transportation and Communication.

**Schedule 5 : Taxes collected by Region or States according to 2015 Constitution Amendment**

1. Capital taxes
2. Insurance taxes
3. Income taxes
4. Commercial taxes
5. Custom duties
6. Taxes on hotels and lodging houses
7. Taxes on tourism
8. Taxes on registration of documents
9. Taxes on inshore fisheries
10. Taxes on petroleum and natural gas
11. Taxes on mineral and mining
12. Taxes on gems
13. Taxes on woods other than teak and thityar, ingyin, pyingadoe, paduak, thingannet and tamalan included in group (1)
14. Industrial taxes
15. Taxes on building repairing and maintaining motor-boats and small ships
16. Taxes on air transport
17. Taxes on housings and buildings
18. Taxes on private schools and trainings
19. Taxes on private hospitals and clinics
20. Taxes on literature, dramatic arts, music, traditional arts and crafts, cinematographic films and videos

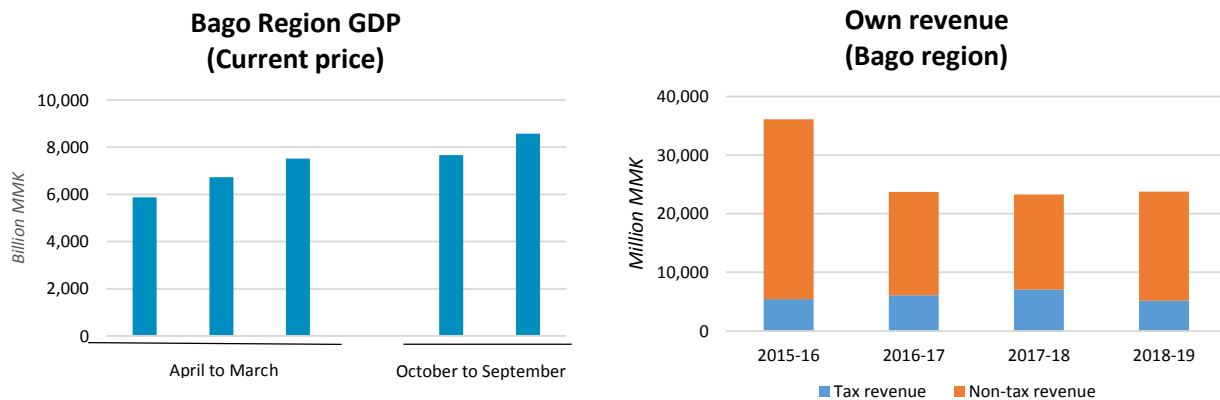
having the right to be undertaken in the Region or State in accord with the Law enacted by the Union

**13. For providing the appropriate level of revenue for local expenditure needs, there are some important considerations (World Bank, 2008).** First consideration is Sub-national revenue sources should be linked to the services that the respective sub-national government provides. In other words, sub-national governments are permitted to levy own taxes as long as these taxes burden on local beneficiaries only. Funding for other fundamental public services such as health care and education, the sectors mostly prefer to decentralize as information advantages of local, comes directly from central government as transfers. Secondly, the degree of sub-national government's authority which includes decisions making power on tax base, tax rates, valuation, revenue and taxation legislation, and tax administration has to be considered. Lastly, the tax administrative capacity of the relative level of government and economies of scale (tax administrative costs and outcomes) is required to examine.

<b>Sub-national taxes in selected countries and Myanmar</b>			
<b>China</b>	<b>India</b>	<b>Philippines</b>	<b>Myanmar</b>
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	Stump 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	Property tax
Agriculture related tax	Property tax	Property tax	Wheel tax
Tax on contracts	Entertainment tax	Entertainment tax	
Tax on use of arable land	Toll tax	Tax on property transfers	
Vehicle purchasing tax		Franchise	

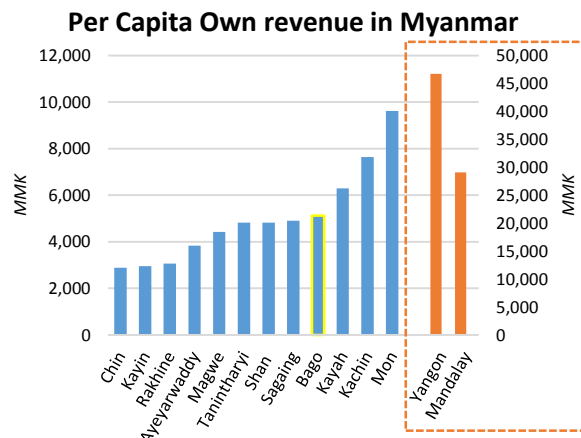
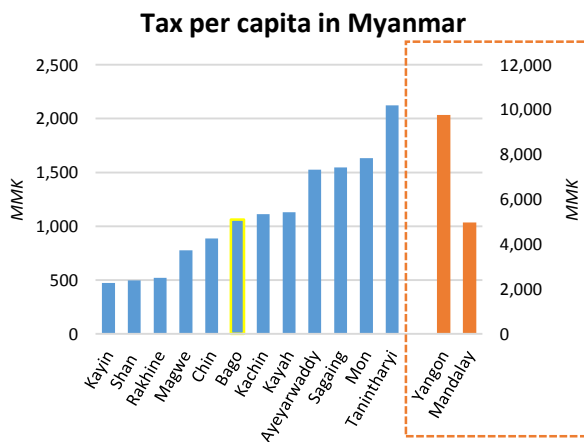
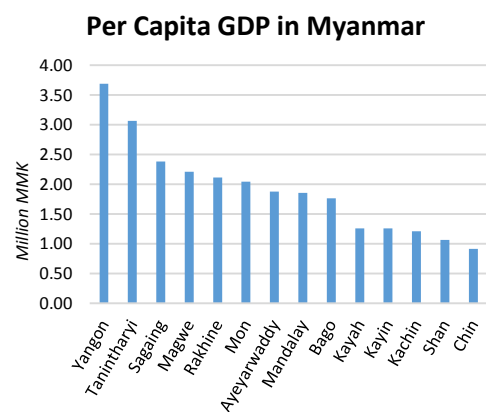
## Revenue performance

**14. Bago regional GDP is considerably growing in recent year in nominal term; however, the tax performance is not increasing together with the economic growth.** Non-tax current revenue and tax revenue remains unchanged in last 3 fiscal year. Tax revenue is estimated at 5171 Million MMK for 2018-19 which equivalent to just over 1000 MMK per residing person in region. Non-tax current revenue which is the major source of own revenue is budgeted at 18622 Million MMK in this fiscal year. Consequently Bago region's own revenue to GDP ratio is less than 0.3 percent significantly less than Union's tax to GDP ratio 6 percent.



**15. According to Union Planning Law for 2018-19, Bago's per capita GDP is forecasted at 1,761,179 MMK which is lower than the Union's per capita GDP forecast 1978486 MMK.** Even though Bago region is close to Yangon region and higher economic opportunities, it has the lowest per capita GDP amongst regions. In terms of tax revenue collection per capita; as a result, Bago is one of the lowest tax receiving regions in Myanmar while the overall

own revenue performance is better. That also highlights Bag revenue than tax revenue for its own revenue sources.



**16. Low tax performance is more visible when tax administrative cost and potential tax base are taking into account.** 8 kind of local taxes are collected by 4 different departments. Property tax and wheel taxes are collected by municipal offices. General Administration Department collects 4 taxes: land tax, excise tax, embankment tax and mineral tax. Tax on extraction of forest products except teak and other precious hard woods and tax on fisheries are collected by Department of Forestry and Department of Fishery, respectively. Tax collection of around 1000 MMK per person appear even smaller when one considers that it's collected by 4 different administrations. Figure below also shows that Bago region is less rely on property tax although this could become as major source of revenue as faster urbanization in country. Per capita property collection in Bago region is comparable to Kayah State which has only 7 townships while Bago has 28 townships in its region. Similarly, property tax collection per capita in Kayah State and Tanintharyi Region, where 7 and 10 township consist of, are 3 times higher than that of in Bago. Awfully, per capita revenue from excise tax in Bago is highest in the country after Yangon and Mandalay.

