

INTERGOVERNMENTAL FISCAL RELATIONS IN MYANMAR

Current Processes and Future Priorities in Public Financial Management Reform

Giles Dickenson-Jones, Lauren Dunn, Cindy Joelene,
S Kanay De and Mai Betty

JULY 2016





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Acronym List

DAO – Development Affairs Organization

GAD – General Administration Department

MCDC – Mandalay City Development Committee

MOF – Ministry of Finance

MNPED – Ministry of National Planning and Economic Development

NCDP – National Comprehensive Development Plan

PFM – Public financial management

SOE – State-owned enterprise

TA – Township Administrator

TDAC – Township Development Affairs Committee

TDSC – Township Development Support Committee

TMC – Township Management Committee

VERP – Village elder and respected person

VTA – Village Tract Administrator

VTDSC – Village Tract Development Support Committee

YCDC – Yangon City Development Committee

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The research team would also like to acknowledge the Japan International Cooperation Agency for providing financial support for this research and for the accompanying workshop. Any faults in substance or analysis rest with the authors.

A Note on Names and Self-Administered Zones

In 1989, the State Law and Order Restoration Council (SLORC) Government in Myanmar (Burma) adopted new transliterations and pronunciations of key place names, including that of the country itself. For consistency with current practice in Myanmar, this report adopts these new spellings when referring to contemporary locations, while making reference to alternative usage in the first instance. In reference to earlier historical eras, it adopts the common historical usage. No position on the “correct” Anglicization of Burmese names is implied.

In order to avoid confusion, government entities are capitalized only when a specific organization, actor, administrative area, or a formal title is denoted.

Self-Administered Zones have not been reviewed as part of this research.

Research Focus and Approach

The Myanmar Centre for Economic and Social Development (CESD), in cooperation with the Japan International Cooperation Agency (JICA), undertook this research in the interest of promoting dialogue between Myanmar's Union and subnational governments on effective public financial management (PFM).

In order to help achieve this, this study was devised to examine the current state of subnational PFM, with a particular focus on Union-subnational government relationships. A key outcome envisioned for this study is better understanding of the current status of Union-subnational PFM relationships so that the challenges and opportunities identified might inspire future reforms.

A key part of this research was an interactive workshop held in Nay Pyi Taw in February of 2016 which brought together officials from across Myanmar to discuss insights from this and previous research, in order to identify how successes could be built upon and challenges might be overcome in light of recent reforms. This was complemented by conducting targeted interviews and consultations with officials and stakeholders involved in the budget process, which resulted in this study benefiting from the views of a variety of stakeholders from the village-tract level and above.

In order to encourage open discussions with respondents, interviews were conducted with the understanding that participants would be anonymous. Interviews referred to in this paper therefore exclude personally identifiable information.

A Note on the Merging of Ministries

At the time of writing, the incoming government had announced a number of ministry mergers, including one between the Ministry of Finance and the Ministry of National Planning and Economic Development. While details on the mergers were unavailable at the time of writing this report, this research retains the names of ministries as they were used when the research was conducted, which was before the merger.

Although it is not clear to what extent such mergers might impact the functional operations of intergovernmental fiscal relations, it is expected many of the existing planning and budgeting mechanisms described in this report will largely remain intact under the mergers.

A Note on Budget Data

Unless otherwise indicated, all data used in this report are those made available to the general public.

Executive Summary

The Centre for Economic and Social Development (CESD), in cooperation with the Japan International Cooperation Agency (JICA), undertook this research to study the current state of subnational public finances and intergovernmental relationships. While this has been done, in part, to help expand understanding of the current state of fiscal decentralization in Myanmar, it is also hoped that this research will be useful in promoting dialogue on the challenges and opportunities that fiscal decentralization presents to Myanmar's Union and subnational governments.

Historically, many of Myanmar's administrative and political institutions have been managed centrally, at the Union level. However, since the formal establishment of state and region governments under the 2008 Constitution, there has been greater emphasis on expanding the responsibilities and resources controlled by subnational governments, with them now having the right to collect revenue, conduct expenditure and pass legislation. **While by some measures, the speed of political and fiscal decentralization in Myanmar appears to have been significant, a legacy of central government control as well as uncertainties concerning the envisioned role of state and region governments, suggests that in practice their autonomy is still limited in many areas.**

For instance, although states and regions have a range of departments assigned to them in published budgets, practically the level of government they are responsible to is not always clear, due to constitutional assignments being vague and subnational implementing agencies typically being ultimately under the authority of Union ministries. Similarly, while subnational governments have been given the right to collect a variety of taxes and fees, their right to legislate and set policy for some assigned taxes and fees appears to be limited. At the same time state and region governments face practical challenges in managing subnational taxes with the majority of taxes and fees being collected by Union-controlled administrative infrastructure.

Subnational governments' limited capacity to draft, understand and follow financial regulations was also commonly cited by interviewed officials as an obstacle to subnational fiscal autonomy and intergovernmental fiscal cooperation. While it is likely that this lack of capacity partly reflects the fact that some financial regulations are ill-suited to local needs, the limited engagement of subnational governments in some areas of public finance has probably also constrained their development of capacity in this area. These challenges not only appear to limit the ability of subnational governments to fully manage their finances in a way that reflects local needs, but may also impede their ability to advocate effectively for more significant fiscal autonomy.

Available evidence suggests that many of the benefits that might accrue from decentralization are constrained by factors such as limited local capacity and ambiguities in legislative and institutional frameworks. **It is therefore recommended that a more detailed appraisal of the assignment of functional responsibilities of ministries, departments and state owned enterprises is undertaken in cooperation with Union and subnational stakeholders and that a comprehensive fiscal decentralization path be developed to encourage longer-term planning, resolve ambiguities and allow for efforts to build subnational capacity to be properly sequenced and targeted.**

On a functional level, many of Myanmar's budget processes are divided according to whether expenditure is classified as 'capital' or 'recurrent'. The Ministry of National Planning and Economic Development tends to manage capital expenditures such as the construction of new infrastructure, while the Ministry of Finance

manages operational or 'recurrent' expenditures such as staff salaries. This division of responsibility is also reflected administratively, **with capital projects being managed through the Department of Planning's project costing and review processes, starting at the township level until final selection is made at the state and region level.**

As a result, budgetary decisions appear to be heavily informed by the Union-led planning process, with prioritization of locally generated project proposals sometimes occurring with no reference to their financial implications or relative priority. At the same time, **with fiscal decentralization and greater efforts to solicit community input through increased local sourcing of project proposals, expectations have been raised that citizen concerns will be heard and community priorities met.** However, as several interviewees in state and region governments noted, alignment between local priorities and those of the Union government is at times still lacking.

The Ministry of Finance and the Ministry of National Planning and Economic Development both play central roles in Myanmar's public finances and planning at the township level and above. Furthermore, the recently announced merger of these two ministries presents an important opportunity for building on the strengths of both in order to encourage better planning and public financial management. For instance, **the gradual integration of Union and subnational planning processes with the budget cycle could encourage better resource allocation by moving towards the explicit consideration of the budgetary impacts of annual and medium-term plans.**

Available information suggests the community's understanding of government's role in public finances is limited, which may discourage many from being engaged with public finances. Also, many of the officials interviewed in this study admitted that while they are open to public consultation and aware of its importance, it had been difficult to manage when attempted in the past. In addition, the requirements for authoring and successfully submitting a proposal or a formal grievance likely limit the involvement of some segments of the community such as those unfamiliar with government processes or lacking access to local officials, again reducing the extent to which the full range of community needs can influence budgetary allocations.

Although bridging the divide between government and the community is likely to require longer-term efforts in Myanmar, approaches such as encouraging more active engagement with communities during consultation processes and creating transparent systems that encourage greater public accountability could be used to help bridge this divide. For instance, the recent introduction of a 'Citizen's Budget' at the Union level could be replicated at the state and region level in order to encourage community engagement in the management and allocation of subnational finances.

While efforts to engage in more 'bottom-up' planning in Myanmar are encouraging, most inputs and prioritization appear to occur at the upper levels of government, with local input and project monitoring occurring mainly through a small number of opaque mechanisms. This applies in many cases, despite subnational projects often being partially funded by community members and government entities through in-kind contributions and 'no-name taxes'. While the informality of such contributions may hold a number of advantages for local development as, typically, they are locally collected and utilized, they also present risks, not the least of which is that they operate outside of external monitoring mechanisms, such as the Audit Office. **Given this, approaches that encourage the best use of in-kind and voluntary contributions should be investigated, both as an avenue for encouraging more community inputs into the budget process and to help ensure local contributions are used to the greatest effect and do not represent an excessive burden on local households.**

While there has been an increase in resources controlled by state and region governments, subnational governments' reliance on Union resources, administrative infrastructure and executing agencies and a history of centralization, appears to result in many Union and subnational officials basing their activities and lines of communication on processes and regulations that pre-date the establishment of subnational governments. Although, on some level, this is to be expected in the early stages of a managed decentralization process, unless effective mechanisms and processes are developed to resolve these issues over time, it is unlikely that the full benefits possible from political and fiscal decentralization will materialize.

Section 1. Introduction

The Importance of Public Financial Management and Decentralization

Governments can play a number of important roles in the lives of their citizens such as providing range of 'public goods' and services that are required for ensuring peace, stability and development. Traditionally, public goods tend to be thought of as those tangible goods that are necessary, but which citizens or the private sector might not provide, such as hospitals, schools and roads. However, public goods can also be more intangible such as the rule of law, effective business and consumer regulations, a transparent and accountable public service and a stable business environment.

Although the government's role in the provision of public services tends to be generally accepted, the questions of which services to provide, how much to provide and the method of delivery can be more controversial. For example, while the construction of an additional hospital by government may seem relatively uncontroversial, questions such as where it will be built, how many patients will be treated, who will build the hospital and how the money should be raised are likely to elicit a range of responses from those in the community. As a result, effective management of government finances requires mechanisms that allow such questions to be resolved in ways that deliver the best outcomes, given the aims of the project and the needs and resources of the community.

Given the importance of making such decisions, it is unsurprising that the effective management of public finances can have a range of important implications for how government is organized. For instance, most countries have areas of governments which are provided with different areas of responsibility, requiring that the management of public finances is properly organized around this. In Myanmar, for example, the Union or 'central' government and the states and regions, or 'subnational' governments, have different areas of responsibility. As a result, an additional question is what functions should be assigned to which level and actor in government? For instance, should a particular level of government be responsible for ensuring adequate healthcare or should the responsibility be shared among all levels of government?

Although there are a number of different theories on how such responsibilities should be divided, it is generally accepted that there are some functions that make more sense for the central government to control, while others might generally be accepted as the proper responsibility of local government. While the ideal assignment of responsibilities will depend on a range of factors, generally, the principle of 'subsidiarity' is suggested. In essence, this means that responsibility should be provided to the lowest level of government that internalizes (takes into account) the benefits and costs of the goods or service [1].

One important reason for this is that it is thought that lower levels of government are more likely to be known to, and held to account by, local communities, thereby encouraging the allocation of resources in a manner which reflects community needs. In addition, it is thought that if decision makers are more likely to be confronted with the full costs and benefits of their decisions, they will be more likely to make better decisions [1].

A simple example of why this can be important would be a government proposal to divert water from a river to a dam. While the village close to the dam will likely benefit from greater access to water, the village downstream could face adverse affects such as lower fish yields. Because of differences in the balance of the benefits and costs faced by the two villages, village leaders will likely disagree on whether the project should proceed, even if it will be beneficial, overall. One reason for this is that individual decision makers may not 'internalize' all the benefits and costs of the decision. For example,

because lower fish yields are less likely to impact the upstream village, this cost is less likely to be considered (or ‘internalized’) by the community when the decision about the dam is being made, while the benefits of the dam are less likely to be considered by the downstream decision makers.

Of course, while this example suggests that authority to make the decision is provided to a decision maker who will take account of both the benefits and the costs, it may be that in doing so this also reduces the extent to which decision-makers have access to local social networks and resources. Thus, choosing the right responsibilities for each level of government is a matter of balancing a range of factors that influence the efficiency and effectiveness of government.

Figure 1: Deciding on Union and Subnational Responsibilities

Responsibility		Level of Government
Macroeconomic-stabilization		National
Income redistribution		
Providing public goods	National public goods	Subnational
	Subnational public goods	

Source: [2]

Importantly, just as how responsibilities are assigned to different levels of government can vary greatly, both across a nation and at the subnational level, funding many of these activities requires that governments can access sufficient resources through a range of sources such as taxation, returns from state-owned enterprises (SOEs), or foreign aid. Because of this, government is often focussed on the processes surrounding the acquisition and management of shared resources. This is important both for the day-to-day running of government, but also because the way government resources are used and sourced can make a tangible difference to the lives of citizens.

For instance, in Myanmar taxes and fees are currently levied on a range of economic activities such as registering a business, selling alcohol, or on individuals and businesses that earn an income. As a result, citizens can pay different amounts of tax depending on a range of factors such as what they purchase and how they earn their income. Similarly, citizens might not benefit equally from government expenditure; for example, investments in road infrastructure may more directly benefit people in close proximity to the road than those further away. Importantly, the impact of how a government manages its public finances can affect the day-to-day lives of citizens in ways that can extend beyond how much tax they pay and whether they benefit from government expenditure programmes:

“A good [public financial management] PFM system can enable a government to be transparent and accountable in its decisions, tackle corruption and deliver key services to the public more effectively and efficiently. This is why PFM reform presents an important mechanism both for reducing poverty and inequality, and for deepening social accountability.” [3]

Fiscal, Administrative and Political Dimensions of Public Finances

The process of dividing responsibilities between different levels of government has been particularly relevant in Myanmar over the years since the 2008 Constitution created state and region governments and formally granted these a range of responsibilities and legislative powers.¹ Practically, this delegation of authority from the central government to state and region governments has enabled the latter to propose their own annual and supplementary budgets, receive fiscal transfers from the Union government, collect revenues and manage expenditures in certain areas.

Figure 2: States and Regions in Myanmar

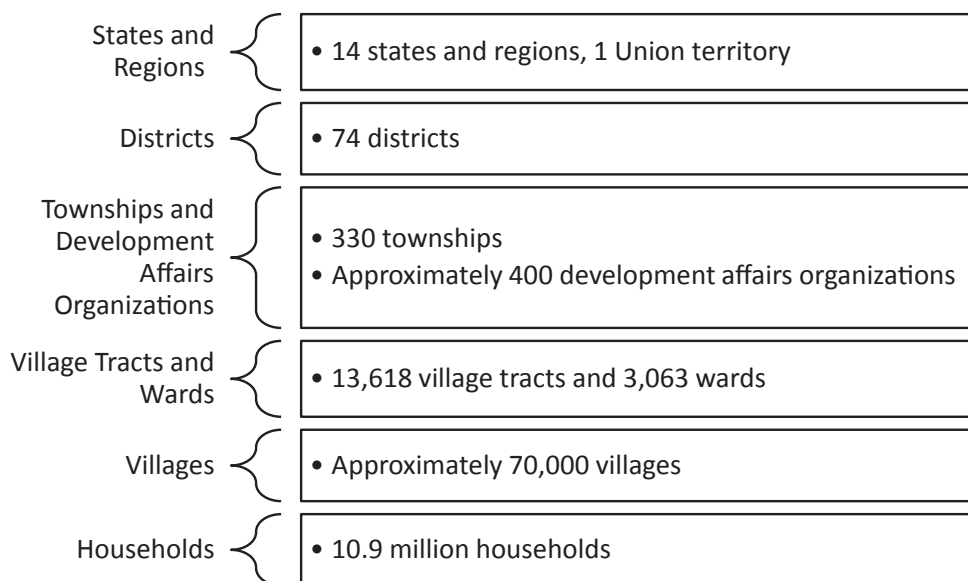


Source: Based on the Myanmar Information Management Unit's subnational boundaries, April 2014

Below the Union government are a number of administrative groupings. As shown in Figure 3, states and regions are divided into districts that, in turn, are divided into townships. Townships, in turn, are divided into village tracts, wards (the urban equivalent of village tracts) and below village tracts are villages [4]. From a public finance perspective, these groupings are particularly important as they match the administrative structure of many government ministries and departments. For instance, Union government departments that are included in the state and region budget typically have offices at the state/region, district and township levels [4] [5].

¹ Each state and region has a unicameral parliament called a 'Hluttaw' made up of two elected officials per township and military representatives equivalent to one third of each state or region's elected officials. In some circumstances States and Regions are also entitled to representatives for 'national races' [5].

Figure 3: Subnational Groupings in Myanmar (excluding self-administered zones)²



Source: Myanmar Information Management Unit Baseline Dataset and 2014 Myanmar Population and Housing Census – The Union Report [6].

Historically, since the end of British colonial rule, Myanmar’s governance systems have been highly centralized, with a top-down command structure generally having been continued by successive governments [7] [8]. As a result of this history of centralization and the relatively recent stage of reforms in Myanmar, many of the directives, procedures, laws and guidelines currently used have changed little since colonial times [9]. On a practical level, the central government also still retains control of many administrative functions, such as those undertaken by the General Administration Department (GAD), at the state/region, district and township level [5] [9].

However, recently, reforms have been introduced to end this long history of centralization. The 2008 Constitution provided a basis for decentralizing political, administrative and fiscal authority to state and region governments by providing them with the right to enact laws, conduct expenditure and collect taxes [4]. In addition, there have been moves towards greater decentralization, with major service delivery departments such as health and education, as well as the GAD accepting more inputs from sources below the Union Government [10].

The Budget Process

A budget process typically refers to the way in which a responsible authority manages money, both now and in the future. For instance, a business’ budget process usually includes steps such as ordering materials, recording sales and paying taxes. Similarly, a government authority’s budget process usually includes planning, managing and monitoring expenditures and revenues. Although how these core functions are undertaken varies, the management of public finance is generally thought to involve budget formulation, budget execution, accounting, reporting and oversight [11].

Budget formulation is the practice of planning the management of government resources and their use. For instance, budget formulation might involve projecting tax collections and the level and type

² Self-Administered Zones have not been reviewed for this study.

of expenditure that will be made over a specific period, such as a year. Because the management of a nation's budget involves deciding on the use of a country's shared resources and how these resources are collected, it can potentially involve a wide variety of stakeholders such as citizens, businesses, elected representatives and implementing agencies. Typically then, part of budget formulation involves bringing together a range of views so that agreement can be reached before a budget is formally proposed and accepted.

Box 1: Indonesia - Participatory Budgeting in Indonesia

Since the early 2000s, after a history of centralized political and fiscal processes, Indonesia has embarked on a programme of fiscal and political decentralization. Specific reforms included merging the departments responsible for recurrent and capital budgets, allowing the election of regional governments, and increasing the resources for local government. In undertaking these reforms, a key focus has been moving from a centralized fiscal system, to one in which priorities are set through wider regional consultation.

One interim step towards decentralization in Indonesia has been use of the "Musrenbang process". In Indonesia, the Musrenbang process is used at the district level to discuss and reach agreement on the work plan and budget for local governments. It also is designed to encourage wider community participation, longer-term planning, and the prioritization of development projects. The Musrenbang process can also be undertaken with multiple communities so that projects are prioritized based on the development needs of communities that are adjacent to each other.

Source: USAID, 2009, Good Governance Brief: Musrenbang as a Key Driver in Effective Participatory Budgeting – Key Issues and Perspectives for Improvements.

Once the budget is approved, its execution begins with the implementing authorities following through with the plans outlined in the approved budget. At this point, the required portions of funding agreed to in the budget are typically transferred to government agencies, such as ministries and their departments, so that planned activities can begin. Similarly, at this point, the revenue collection process begins, with any changes in taxes being applied to taxpayers.

As expenditures are made, both implementing agencies and the ministries responsible for managing government finances are typically involved in monitoring, accounting and reporting how expenditures are made in order to ensure that the approved expenditures achieve their intended outcomes. Although implementing agencies will often monitor and record expenditures to ensure that they are as planned in the budget, it is also common that external bodies, such as public auditors, check whether public expenditures have been made as intended, providing an additional, objective accountability mechanism.

Myanmar's Budget Cycle

In Myanmar, the fiscal year runs from the 1st of April to the 31st of March. Planning for the ensuing budget year begins in September and ends with the passing of the budget law sometime between January and March. If additional resources are needed beyond what was planned in the original budget, a 'supplementary' budget can be submitted approximately halfway through the fiscal year, although this is meant to be limited to emergency funding needs and additional funding needed for projects which were approved in the main budget [4], [12].

Budget planning typically begins with the Ministry of Finance (MOF) and the Ministry of National Planning and Economic Development (MNPED) issuing a budget timeline and budget ceilings to ministries, departments and other Union and subnational entities. Ministries, departments and other government institutions then draw up budget proposals, outlining their planned expenditures and revenue collections for the forthcoming financial year.³

In Myanmar, expenditure classed as 'capital', such as new construction, is typically reviewed by the MNPED, while recurrent or operational expenditures, such as staffing costs, are reviewed by the MOF. Similarly at the state and region level capital and recurrent expenditure are managed by the planning and budget departments, respectively. Both Union and subnational budgets are prepared under the leadership of the Cabinet with assistance from MNPED and MOF (or the planning and budget departments at the subnational level) before being reviewed by the Financial Commission⁴ and approved by the corresponding Hluttaw. An indicative summary of this process has been provided in Table 1.

³ Although the Union authorities interviewed suggested that state and region governments are initially provided with confirmation of the expected provision of Union transfers, some subnational authorities interviewed suggested they were typically unaware of the level of Union support until relatively late in the budget process.

⁴ The Financial Commission plays a number of important roles in the budget process such as harmonizing the Union and subnational budgets and recommending the provision of additional funding as part of the supplementary budget.

Table 1: Indicative Union and Subnational Budget Process ⁵

	Union	States and Regions
September	The initial budget schedule is released to all Union and subnational entities involved with the budget process. The MOF, in addition, sets expenditure ceilings for the ministries.	
September to November	Union budget proposals from relevant Union ministries and departments are collated and submitted via the MNPED and MOF.	State and region government entities prepare budget proposals and submit them to their budget and planning departments for checking and consolidation.
		With endorsement from the state or region Cabinet a consolidated budget is provided to the head of the Union Budget Department head office for coordination purposes. It is then submitted for checking and approval via the Ministry of Finance to Vice President 2, before submission to the Financial Commission.
November to December	The MOF and MNPED are focal points for budget submissions at the Union level. Vice President 1 is responsible for vetting the budgets of Union level Ministries and government organizations before submission to the Financial Commission.	At the state and region level the Planning and Budget Departments are focal point for capital and recurrent budget expenditure proposals. Vice President 2 is responsible for vetting state and region budget proposals before submission to the Financial Commission.
January to March	After recommendation from the Financial Commission the proposed Union budget is submitted to the Union hluttaw, via Cabinet, for checking and approval before final endorsement is sought from the President. Around the same time, state and region budgets are submitted, via state/region Cabinet, to the state/region hluttaw for endorsement.	

At the state and region level, after the release of the budget schedule, subnational departments and institutions develop budget proposals and submit these to their respective Budget Department. The Budget Department, in consultation with the state or region Finance Minister then reviews and consolidates budget proposals before submitting these to the Chief Minister who, after discussion with the state or region Cabinet, will (if necessary) amend the budget. At this time it may also be submitted to the state or region Hluttaw for initial discussion and endorsement.

⁵ Readers are referred to Annex 4 and 5 for a more detailed overview of current budget timelines. It is important to note that some current processes have only recently been adopted, such as setting budget ceilings for Ministries.

If endorsed by subnational authorities, state and region budget bills are then sent to the Ministry of Finance, who submits it to the Financial Commission, via Vice President 2. Once agreement has been reached by members of the Financial Commission, the proposed financial transfers to state and region governments are incorporated into the Union budget proposal, which is then submitted to the Union Hluttaw for approval before final signing by the President. Because of the heavy reliance on Union transfers by state and region governments, subnational budgets are typically approved at approximately the same time as the Union budget is approved.

Once the Union budget, which incorporates financial transfers to states and regions, is approved by the Union Hluttaw and signed by the President, funds are transferred to executing agencies through the Myanmar Economic Bank. Although the execution of projects is often monitored by internal auditors within executing agencies, both the Union and state or region Auditor General's Offices have the authority to check the use of public funds. Interviews for this study suggested that at the state and region level, complaints could be made to the audit office about individual projects; however, they would only have the right to review and check government expenditure and they could not review community contributions which, for many state and region government projects, are significant.

Box 2: Key Duties and Functions of the Financial Commission

Section 230 of the 2008 Constitution outlines a range of duties of the Financial Commission, including:

“(a) The budgets of the Union ministries and Union-level organizations are to be vetted by a Vice-President assigned by the President, and the estimated budgets of the Union-level organizations, including the Union ministries are to be submitted to the Financial Commission.

(b) The budgets of the Region or State are to be vetted by the other Vice-President assigned by the President, and the estimated budgets of the Region or State are to be submitted to the Financial Commission.

(c) The Financial Commission shall:

- i. Submit to the Pyidaungsu [Union] Hluttaw, with recommendations for the Union Budget, which includes the expenditure of the Union territory, supplementary finance as suitable to the Regions or States from the Union Fund, giving grants as a special matter and permitting loans;
- ii. To advise financial matters that should be undertaken;
- iii. Carry out the duties assigned by the Pyidaungsu Hluttaw through the promulgation of law for the emergence of a substantial financial system.

(d) The Financial Commission shall submit with recommendation to the President, the Bill of Union Budget, which includes Union Budget, the distribution of suitable funds from Union Fund accounts to Regions or States, the provisions or funds as a special case, and disbursing of necessary loans for submission them to the Pyidaungsu Hluttaw.”

Source: 2008 Myanmar Constitution [13]

As outlined, the Financial Commission is meant to act as a central coordinating mechanism for balancing the financial needs of state and region governments with the resources of the Union. While the Financial Commission has the authority to make amendments to state and region budgets,

discussions with officials in the MOF suggested that this rarely occurs. Although detailed information about the activities of the Financial Commission was not available at the time of this study, it is possible that in the past, amendments were not needed to state and region budgets due to coordination occurring before any revision was necessary. This would have occurred through Financial Commission members participating in the annual planning and budgeting processes and through the coordinating roles of the MOF and MNPED.⁶

Budget Planning and Procedures

One important aspect of the budget process is that it can help to provide a framework for ensuring that a nation's financial resources are used in such a way that they achieve the aims of government and by extension, the aims of the citizens, by encouraging wider consultation on government policy. In addition, as achieving aims such as economic and social development often require that policies and programmes are implemented across a range of channels and sectors, an effective budget process brings together key experts and decision makers to decide how government revenue and expenditure policies can best be coordinated in order to achieve better economic and social outcomes.

Furthermore, the budget process can also provide an important mechanism for assessing government finances and priorities over the longer term as, for example, in the case of constructing public infrastructure such as roads. Because decisions about how and where public infrastructure is built impacts citizens and businesses, both now and in the future, longer-term planning provides an important mechanism for discussing and comparing these impacts. This is necessary so that project plans take into account current as well as future needs [14].

Budget planning can also be useful for financial management through ensuring that current decisions are viewed in line with their longer-term impact on the government's expenditure commitments and revenue streams. For instance, to be useful throughout its life, a school building will require ongoing spending, including the costs of employing teachers, providing supplies and maintaining the building. Therefore, considering such longer-term costs when a school is first proposed, helps ensure that the community benefits over the life of the school, while also helping the government to anticipate the future costs that the school's construction implies.

For Myanmar, revenue and expenditure planning is also likely to be beneficial, as much of government revenue is sourced from natural resources which can be particularly susceptible to fluctuations in global prices. Engaging in longer-term budget planning can both help manage this by ensuring that government expenditure is sustainable, given likely scenarios for resource prices and also encourage consideration of future expenditures in the light of financial resource needs [10].

Longer-term budget planning can also encourage better sequencing and coordination of policies. For instance, by planning budgets beyond annual cycles policies can be properly sequenced to better achieve envisioned outcomes. For example, budget coordination across sectors may allow for longer-term disaster risk reduction policies to benefit from short-term infrastructure development policy through the immediate costs and benefits of a road's construction being considered against the longer-term benefits it might provide in reducing risks in the case of natural disasters, such as by providing alternative transport routes for the provision of emergency assistance [15].

Although many of these benefits are yet to be realized in Myanmar, previous governments have taken significant steps towards this, having made efforts to enhance citizen engagement with the budget

⁶ Membership of the Financial Commission is outlined in Section 229 of the 2008 Constitution and includes the President, the two Vice-Presidents, the Union Attorney General, the Union Auditor General, Chief Ministers of the regions and states, the Minister of Finance, and the Nay Pyi Taw Council Chairperson.

process through publishing the first 'Citizens' Budget', unifying the budget process within a medium-term framework and moving towards the implementation of funding limits so as to better manage budget resources [7]. While Myanmar's fiscal system still appears relatively centralized, it is also important to note that an improperly managed fiscal decentralization process can encourage waste, exacerbate inequality and harm macroeconomic and political stability [1], [16].

Section 2. Public Financial Management and Subnational Governments

Public Finances and the 2008 Constitution

Myanmar's 2008 Constitution created state and region, or 'subnational', governments with their own Legislature, Judiciary and Executive. The first State and Region Hluttaws were then formed in 2011, with the first state and region budgets being adopted in the 2011-12 financial year.⁷ Areas of legislative authority for government are defined by listings provided in Schedule I and II of the 2008 Constitution for the Union and state and region governments respectively (provided in Annex 1). Similarly, authority under the 2008 Constitution to undertake the day-to-day duties of government, as described by the executive powers, broadly relate to administrative matters over which the Union and subnational governments have legislative authority.⁸

While the 2008 Constitution does not explicitly assign responsibilities for expenditure, in practical terms, these are understood to be defined by the executive powers, which themselves are broadly outlined by the legislative responsibilities listed in Schedule I and II [4]. The constitutionally assigned responsibilities of state and region governments tend to be described under common 'sectors', and under these sectors, specific items are listed. For instance, both Schedule I and II of the 2008 Constitution list the "Finance and Planning Sectors" against the Union and state and region governments, while responsibilities such as the "Defence and Security Sector", "Foreign Affairs Sector" and "Judicial Sector" are only assigned to the Union under Schedule I [4] [17].

Broadly speaking, the legislative and executive responsibilities assigned to the state and region governments, as described under Schedule II of the 2008 Constitution, include:⁹

1. **The Financing and Planning Sector** – including investment in Myanmar from state and region funds, development of local plans and loans to small businesses.
2. **The Economic Sector** – including economic, commercial and cooperative matters (provided they are consistent with Union laws).
3. **The Agriculture and Livestock Breeding Sector** – such as the protection of agriculture against disease, the use and production of fertilizer, livestock breeding and fresh-water fisheries.
4. **The Energy, Electricity, Mining and Forestry Sector** – including small and medium scale electricity production and distribution, salt, salt products, gemstone cutting, village firewood plantations and recreational centres.
5. **The Industrial Sector** – which includes cottage industries and industries not prescribed by law as being the responsibility of the Union government.

⁷ Although the FY 2011-12 Union supplemental budget records the first financial transfers from the Union government, at the time of writing this report, state and region budgets were only available for FY2012-13 and FY2013-14.

⁸ The 2008 Constitution describes the Union's executive responsibilities under Sections 216 to 228, whereas state/region executive powers are described in Sections 249 to 253.

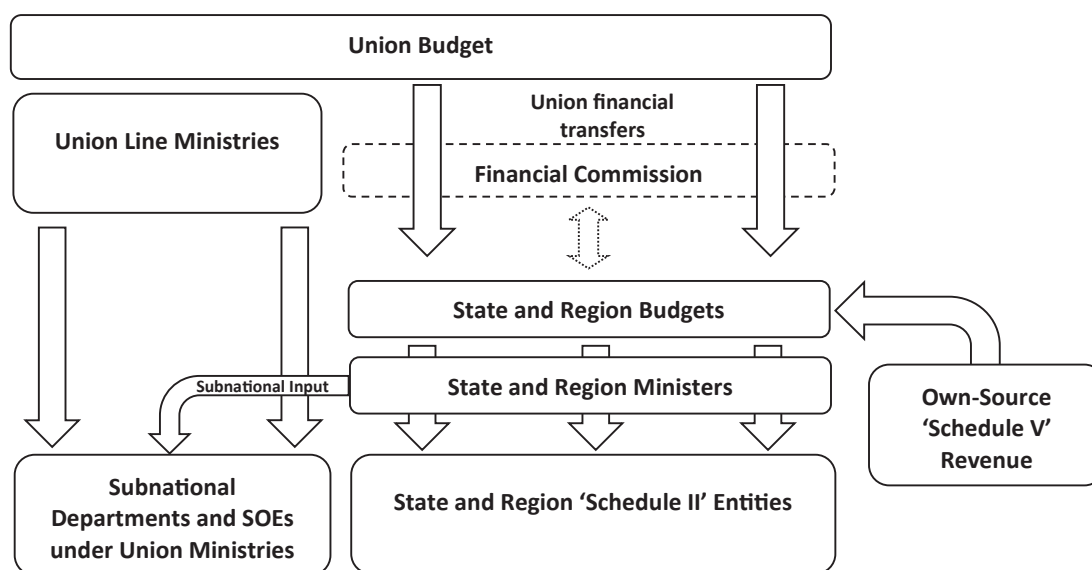
⁹ In July 2015, a number of additions were made to Schedule II of the 2008 Constitution. As a result, state and region governments now can potentially exercise authority over a number of new areas (provided these are in accord with laws enacted by the Union). A summary of these areas is listed in Annex 1.

6. **The Transport, Communication and Construction Sector** – such as ports, jetties, pontoons, roads and bridges (as managed by the region or state) and the running of private vehicles within a state or region.
7. **The Social Sector** – including traditional medicines, social welfare works, preventative measures against natural disasters, stevedoring, theatres, cinemas, museums and libraries.
8. **The Management Sector** – such as town, housing and other development matters.

Schedule V of the 2008 Constitution assigns a range of revenues to state and region governments that includes excise, toll fees, registration fees and revenue received from the Union. While the taxes and fees assigned to state and region governments seem to provide a broad range of potential sources of income, in the FY2013-14 state and region budgets, many of the revenues assigned to subnational governments do not appear and thus it is not clear whether these are currently being collected [4]. Furthermore, while a number of additions were made to Schedule V in July 2015, such as the right for states and regions to collect taxes on hotels, insurance, minerals, mining, oil and gas, it is still not clear how they will practically exercise these rights, given the need for all of them to be in accord with laws enacted by the Union (see Annex 2 and 3).¹⁰

Bringing together the previously described interactions and structures that inform state and region budgets, suggests the framework in Figure 4.

Figure 4: A Conceptual Overview of Subnational Government and Public Finance



Adapted from: Fiscal Decentralization in Myanmar by Hamish Nixon and Cindy Joelene, June 2014 and State and Region Public Finances in Myanmar by G. Dickenson-Jones, S. Kanay De & A. Smurra.

While Figure 4 provides a useful framework for discussing some of the key processes that underlie the management of taxation and expenditure by subnational authorities, the actual operations of

¹⁰ Areas of revenue not specifically listed as those for the states and regions are assigned to the Union government: Article 231 of the English translation of the 2008 Constitution states “The Union shall, with the exception of the taxes and revenues listed in Schedule V to be collected by Regions or States, collect all other taxes and revenues in accord with the law and deposit them in the Union Fund.”

Myanmar's public financial management processes (PFM) can differ, depending on a range of factors, such as the sector considered, the state or region and type of expenditure. For example, Development Affairs Organizations (DAO) are a key, and largely independent, subnational actor not under a Union ministry. Generally, DAOs independently finance their activities through the levying of taxes and fees. They then use this revenue to deliver a range of municipal services such as sanitation, road construction and animal control. The DAOs' day-to-day activities are generally managed independently, although there is some level of coordination through a state or region's DAO office and via township committees [6].

Although subnational governments have been given the right to collect a variety of taxes, both under the 2008 Constitution and recent constitutional amendments (see Annexes 1 and 3), their right to make amendments to these taxes and fees appears to be restricted to areas of legislative authority assigned under Schedule II. As a result, it is uncertain to what extent subnational governments can make changes to the revenue streams that they have been assigned [4]. Although it is not known whether this has, or will, limit subnational governments' ability to adapt these taxes to their needs, one GAD official interviewed for this study noted that while subnational governments retained the tax revenues, the rates and policies related to these were set by the Union.

Furthermore, while states and regions have a range of departments assigned to them in published budgets (Table 2), in many cases, the level of government they're ultimately responsible to under the Constitution is unclear [5].¹¹ For instance, under Schedule I, the Union government is responsible for "Livestock proliferation, prevention, and treatment of diseases and research works," while under Schedule II, state and region governments are responsible for "Livestock breeding and systematic herding in accord with the law enacted by the Union". However, for many of these responsibilities, there is likely to be a significant level of interdependence and potential for duplication. For example, disease prevention in livestock is related to livestock breeding [18].

While this paper does not argue that such interdependence can always be avoided, the overlap does provide a simple example of the importance of unambiguously assigning roles, responsibilities, and coordinating mechanisms so that roles are no longer ambiguously defined. This would also help avoid confusion and allow different levels of government to more effectively fulfil their responsibilities. Reducing ambiguity may also reduce the need for budget processes to be guided by informal relationships and practices.

¹¹ Please see Annex 1 for a comparative listing of constitutional responsibilities.

Table 2: State and Region Budget Entities and Constitutional Assignments

Departments and DAOs	Union Responsibility under Schedule I	State and Region Responsibility under Schedule II	Uncertain
Agriculture Department	x	x	
Bee Department			x
Budget Department	x	x	
Central Inland Freight Handling Committee	x		
Cooperative Department	x		
Dry Zone Greening Department	x		x
Fisheries Department			x
Forestry Department	x		
General Administration Department	x		
Human Settlement and Housing Development Department		x	
Industrial Crop Development Department	x		
Livestock Breeding and Veterinary Department			x
Mandalay City Development Committee		x	
Development Affairs Organizations		x	
Planning Department	x	x	
Public Works	x		x
Small Enterprises			x
Special Investigation Department	x		
Sports and Physical Education Department	x		
Water Resources Utilization Department	x	x	
Yangon City Development Committee		x	

Based on: Hamish Nixon, Cindy Joelene, Kyi Pyar Chit Saw and Thet Aung Lynn, "State and Region Governments in Myanmar", TAF and CESD, Yangon, 2013.

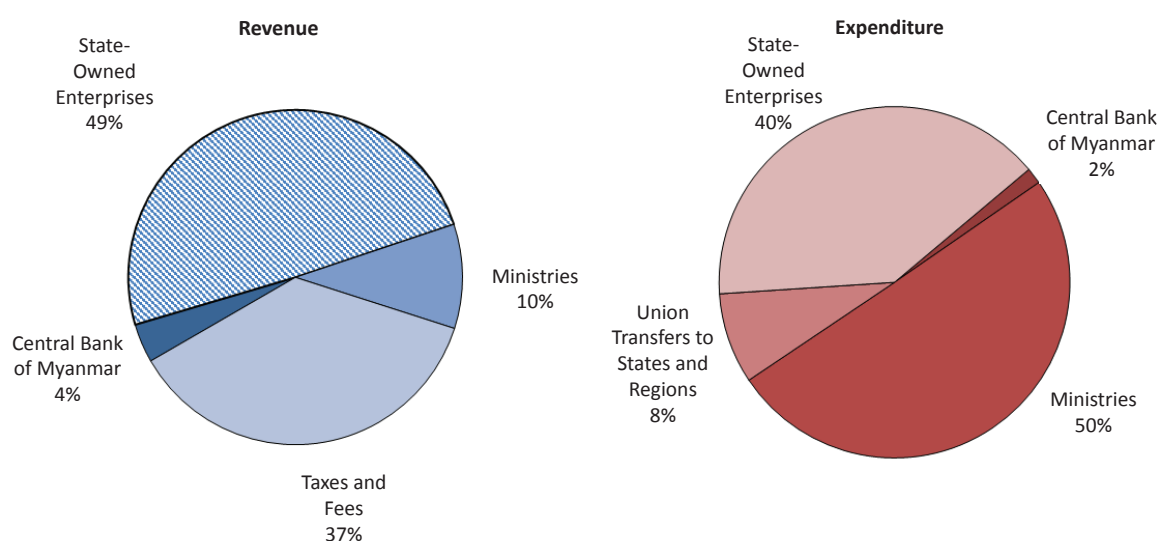
Currently, this combination of legislative ambiguity, implementing agencies being under the authority of Union ministries and many Schedule II responsibilities requiring that they are "in accord with law enacted by the Union" suggests that the Union still retains a high level of control. While, this is to be expected in the early stages of a managed decentralization process, ideally, mechanisms should be in place to resolve these issues over time. Unfortunately, key institutions such as the Constitutional Tribunal, which has responsibility under Section 322 of the 2008 Constitution to resolve constitutional disputes between different levels of government, has done little to resolve these ambiguities and consequently, its efficacy and independence have come into question.¹²

¹² "President to test new Constitutional Tribunal with eight laws" by Sandar Lwin, Myanmar Times, 30 January 2014 <http://www.mmTimes.com/index.php/national-news/9400-president-to-test-new-constitutional-tribunal-with-eight-laws.html>; "Constitutional power struggle threatens judicial independence" by i Ei Toe Lwin and Thomas Kean, Myanmar Times, 18 June 2015, <http://www.mmTimes.com/index.php/national-news/15083-constitutional-power-struggle-threatens-judicial-independence.html>

An Overview of Government Finances in Myanmar

In Myanmar, both at the Union and state/region levels, much of government expenditure is undertaken by the Union through its ministries and departments. Although at the Union level, around half of revenue is earned by government-controlled SOEs, the states and regions rely heavily on financial transfers from the Union [12]. Specifically, the Ministry of Defence and SOEs under the ministries of Electric Power and Energy, account for more than one-third of Union expenditures, whereas more than half of Union revenue is sourced from SOEs under the Ministry of Energy, the Ministry of Electric Power and taxes on income, property and trade [12].

Figure 5: Major Union Revenue and Expenditure Sources FY2016-17 ¹³



Source: Myanmar Budget Laws FY2016-17

In terms of tax administration, MOF through its Internal Revenue and Customs Department collects the majority of Union tax revenue. For instance, the Internal Revenue Department collects income tax, commercial tax, stamp duty and lottery taxes, while the Customs Department is predominantly responsible for the administration of taxes on imports and exports.¹⁴

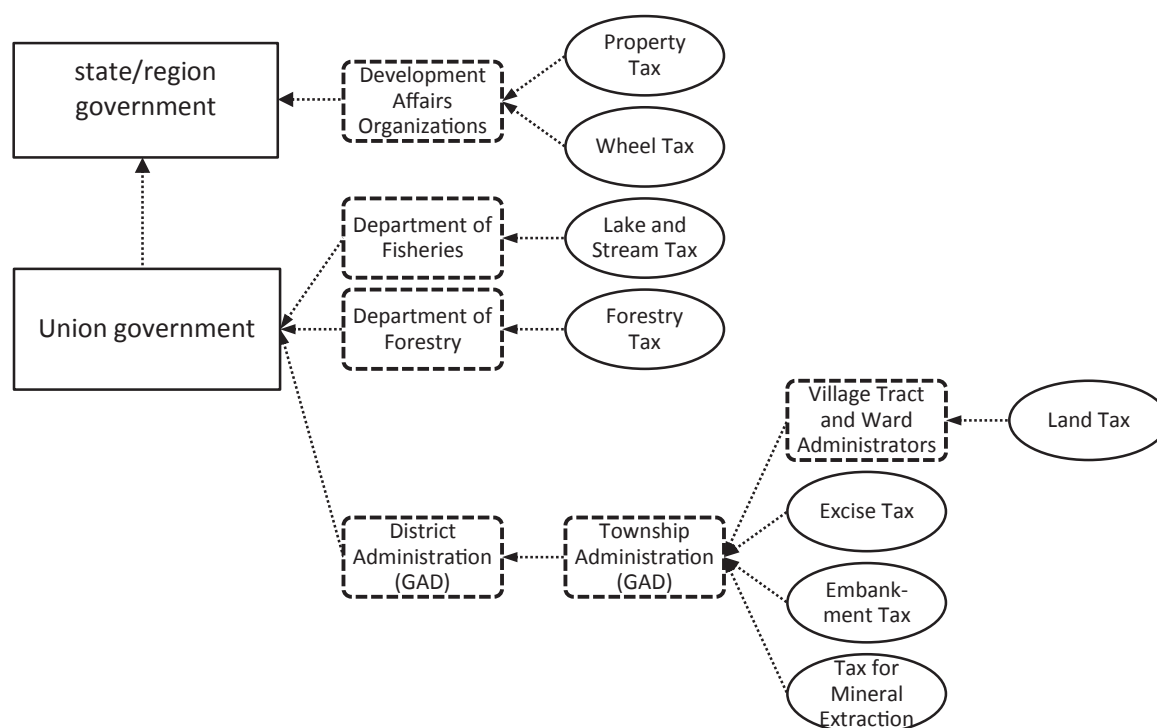
Subnational Revenue

At the subnational level, the collection of most taxes is undertaken through the GAD and DAOs. The GAD, under the Ministry of Home Affairs, is a critical subnational governance actor in Myanmar, being responsible for a range of tasks, in addition to the collection of taxes, such as coordination of the activities of a range of government actors [9]. Taxes collected by the GAD include the Land Tax, Excise Tax, Embankment Tax and the Tax for the Extraction of Minerals (sometimes called the 'sand tax' and 'brick tax') [4]. Also collected by departments of Union ministries are Lake and Stream Taxes and Forestry Taxes, which are collected by the Department of Fisheries and Department of Forestry, respectively (Figure 6).

¹³ Categories used are for illustrative purposes. Please consult the FY2016-17 budget for full details of expenditure and revenue.

¹⁴ <http://www.mof.gov.mm>

Figure 6: Key State and Region Tax Collection Points



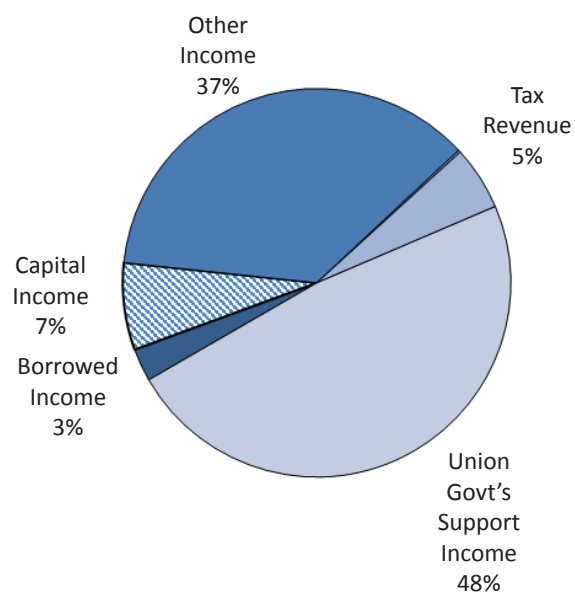
Source: [4]

As can be seen in Figure 6, although these taxes are eventually remitted to the respective state or region government, the subnational-level of government is still highly dependent on Union-controlled administrative structures, such as the GAD, to collect taxes. For instance, in FY2013-14, DAOs administered approximately 44 percent of state and region tax revenues, whereas the GAD Township Administration Offices and the Departments of Fisheries and Forestry, collected the remaining 56 percent. Although at five percent, tax revenue represents a small proportion of overall subnational resources, the fragmentation of collection points and reliance on Union infrastructure, do suggest some of the fiscal and administrative challenges that state and region governments face in independently managing revenue collection.

A more complete picture of subnational revenue is provided in Figure 7. As illustrated, around 85 percent of revenue is classified as either “Union government support income” or “other income” [4]. Of the revenue under the broad category of “other income”, around two-thirds is accounted for by the Department of Public Works.¹⁵ Although the source of these funds is not explicitly outlined in state and region budgets, it is understood that much of the income attributed to Public Works in FY2013-14 was revenue from Union grants for infrastructure development. This method of classifying Union transfers ceased when Public Works stopped operating as an SOE [4].

¹⁵ Under the Ministry of Construction, the Department of Public Works was predominantly responsible for the construction and maintenance of bridges, roads, and airports. It has recently been divided into separate specialized departments, focusing on infrastructure, roads, and bridges. Interviewees for this study suggested that one reason for this change was the greater use of public tendering for projects. In FY2013-14, Public Works was also the main source of state and region expenditures.

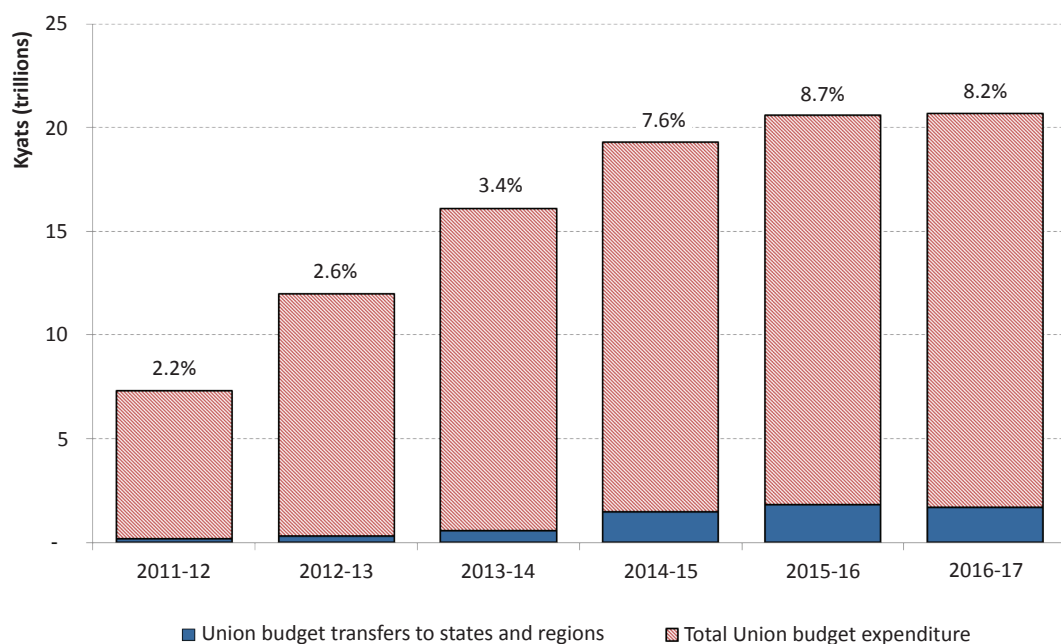
Figure 7: State and Region Revenue Sources by Budget Classification



Source: [4]

As illustrated in Figure 7, subnational governments' reliance on Union transfers and limited, self-sourced revenue makes it useful to examine Union transfers relative to total Union expenditure as a proxy for the control of resources by both levels of government. On this basis, there has been a substantial increase in total government expenditure notionally allocated to state and region governments, with the amount increasing from 160 billion Myanmar kyat (MMK) in FY2011-12 to 1.69 trillion MMK in FY2016-17. Proportionally, this has meant that the subnational share of government expenditure has increased from 2.2 percent in FY2011-12 to 8.2 percent in FY2016-17.

Figure 8: Union Budget Expenditure and State and Region Financial Transfers to States and Regions



Note: Excludes supplementary expenditure.

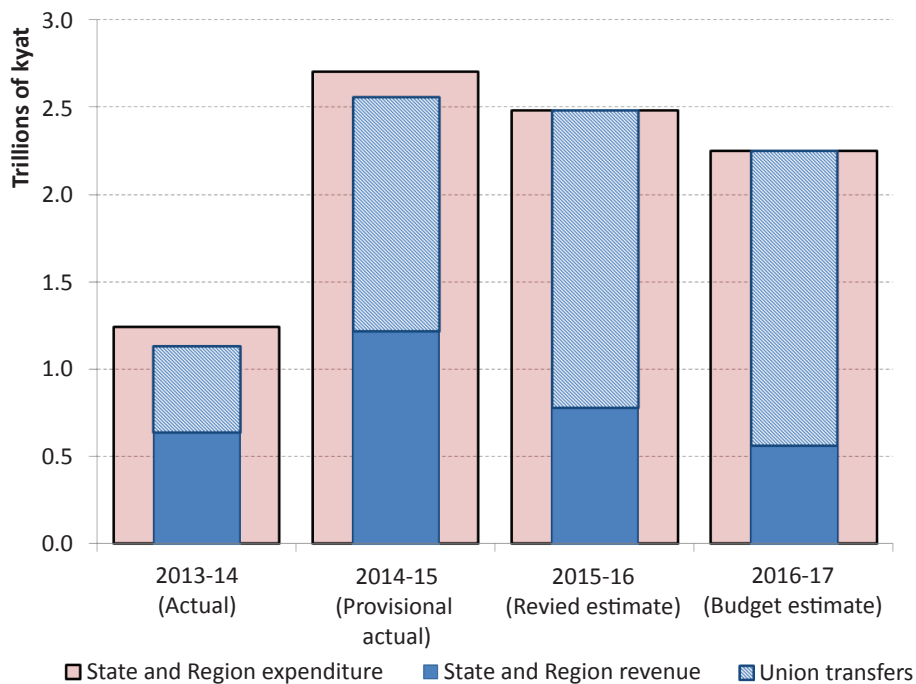
Source: Published Union budgets laws.

Previous research suggests that Union transfers have been allocated based on a range of socioeconomic characteristics, such as GDP, poverty and the number of townships [4]. Although discussions with officials from MOF confirmed that a formula for Union transfers has been used since the implementation of the Medium-term Fiscal Framework in FY2015-16, in interviews for this study, subnational officials still tended to describe Union transfers as determined by the size of subnational deficits. MOF officials stated in their interviews that the factors used to determine Union transfers included a state or region’s level of poverty, total population and its per-capita GDP. In the latest financial year, the number of indicators has been expanded to include land area, per-capita tax collections and a state/region’s urban population as a share of its total population.

Although the strong growth in Union transfers to state and region governments suggests that fiscal decentralization has progressed relatively quickly (Figure 8), it is important to recognize that these allocations do not necessarily reflect the level of control that state and region governments exercise over these funds, only that they have been notionally allocated to state and region governments in published budgets. Furthermore, when comparing published budgets with subnational budget projections (Figure 9), the contrary appears to be true, with there being a projected decrease in subnational expenditure. Although Figures 7 and 8 appear to imply a contradictory story, interviews with officials indicated this is mainly a result of state and region governments underestimating their revenue collection, with Union officials noting that provisional receipts suggest that realized revenues are higher than those in Figure 9.¹⁶ While the full explanation behind this underestimation is not known, it is possible that this partially reflects a history of ‘deficit financing’ [17].

¹⁶ It is interesting to note that from FY2014-15 to FY2015-16, a reduction in revenue was recorded for all states and regions, with the exceptions of Mandalay and Yangon Regions.

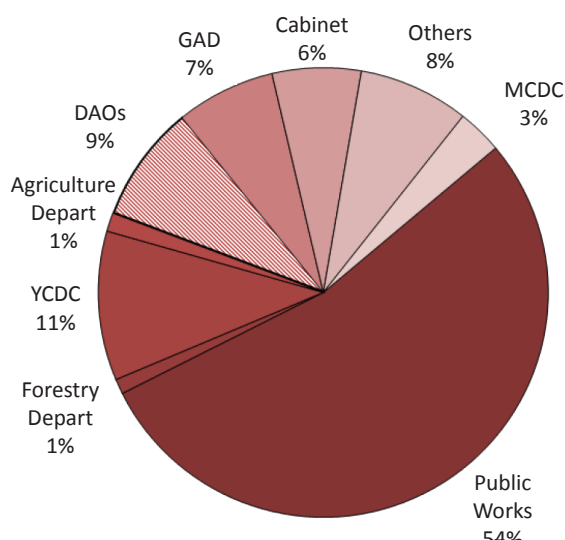
Figure 9: Subnational Budget Expenditure, Revenues and Union Transfers



Source: Based on data provided by the Ministry of Finance

The strong role of Public Works in subnational expenditure can clearly be seen upon examining the most recent public expenditure data, with the department accounting for more than half of budgeted state and region expenditure in FY2013-14. Interestingly, providers of municipal services such as the Yangon City Development Committee (YCDC), Mandalay City Development Committee (MCDC) and Development Affairs Organizations (DAOs) account for a little under a quarter of expenditure, while the next largest individual budgeted expenditure, is that for the GAD. “Governance and Administration”, which includes state and region entities such as Accounting Offices, Advocate Generals, Auditor Generals and High Courts accounted for around 9 percent, with the majority of this listed as state and region Cabinet expenditure.

Figure 10: FY2013-14 State and Region Budgeted Expenditure Shares



Source:[4]

Subnational Project Identification

Many of Myanmar's budget processes are divided based on whether expenditure is classified as "capital" or "recurrent". The Ministry of National Planning and Economic Development tends to manage capital expenditure, such as the construction of new infrastructure, while operational or "recurrent" expenditure, such as staff salaries, are streams managed by the MOF. In addition to this meaning that Myanmar's budget process tends to manage these expenditures in a separate fashion, until combined as part of the wider budget process, it also results in capital expenditure being strongly influenced by the role of the MNPED in implementing Union and subnational annual planning laws (see Box 3).

Box 3: Implementing the National Comprehensive Development Plan

The National Comprehensive Development Plan (NCDP) is a 20-year road map for 2011-2031, which was implemented by the former U Thein Sein government. It was intended to comprise four 5-year plans, the first of which was for FY2011-12 to FY2015-16. At the time of writing this paper, the second of these plans, covering FY2016-17 to FY2020-21, was being finalized.

The NCDP is meant to be a longer-term planning framework for development, with ministries and departments using it as a basis for deciding on activities and their priorities. When the NCDP was first written, it was envisioned that three key bodies would monitor it. These were the:

1. NCDP Implementation Commission (or Planning Commission) – comprising the President, Chairman, Senior Ministers, Union Ministers, and the Chief Ministers of the regions and states.
2. NCDP Inter-Ministry Committee – comprising Deputy Ministers, all Union Ministers, and Economics and Finance Ministers from the states and regions.
3. NCDP Monitoring Group – which was designed to act as a supporting team for developing a system for monitoring progress in implementing the NCDP.

Both the NCDP and the five-year plans are then used to frame discussion of the annual planning law, which operationalizes these longer-term plans by specifying more detailed objectives such as sectoral GDP targets for areas such as agriculture, livestock, fisheries, mining, and energy. Target GDP is also set in the annual planning law for the states and regions. These sectoral GDP targets are set by the Union, states and regions, with differences being reconciled through meetings of the Planning Commission. State and region plans are also based on plans submitted by District Committees, which themselves are sourced from Township Planning Committees.

States and regions also have their own five-year plans which also began in FY2011-12, and are operationalized under state and region annual planning laws. Interviews conducted for this study suggest that the state and region consultation processes used for this are broadly comparable to the Union NCDP Implementation Commission, although the equivalent process for states and regions is led by their Chief Minister.

Sources: [13], [19]–[22]

At the subnational level, this division of responsibility is reflected administratively with new "capital" projects tending to flow through the Department of Planning's budget costing and review processes from the township level, until final selection at the state and region level. For instance, capital projects are identified, costed and prioritized at the township level under a formal body that could include the head of the township planning office, the Township Administrator (TA), respected persons from the

community and key department officials. In addition, in the interest of assisting the development of townships, former President U Thein Sein established a number of committees at the township level and below.¹⁷

Box 4: Township Committees and Subnational Budgeting

Township Management Committee (TMC) – which is considered to be the most influential committee at the township level, is responsible for local development, peace, and the rule of law. The Township Administrator (TA) chairs the TMC, and committee members, none of whom are elected, include government officers from the Planning Department and Education Departments, and the police. Once a month the committee meets with the Township Development Support Committee.

Township Development Support Committee (TDSC) – which is mainly an advisory body, is responsible for coordinating and monitoring township departments, assisting the TMC, and identifying township needs. The TDSC is also responsible for assisting the TMC in a number of ways, including leading the costing of township project proposals, in cooperation with relevant department officials. Although the community is meant to elect members, it is not clear how often this happens in practice.

Township Development Affairs Committee (TDAC) – is charged with identifying, implementing, and monitoring activities, such as for development projects assigned to them by the state or region government or by the TMC. On a functional level, TDAC activities typically relate to municipal affairs. They also have the authority to mobilize the community to identify and implement projects.

The TDAC is located in the DAO in the township office and comprises an elected chairperson, a secretary (typically a DAO Executive Officer), the Deputy Township Officers from the GAD a representative from the Department of Rural Development, and a number of community representatives.

District Management Committee – which coordinates TMCs and TDSCs, is headed by the District GAD Administrator, and includes a number of district-level department heads.

Sources: [6], [9], [23]

Interviewees suggested that the process of identifying new community projects tended to be based on the assessment of needs by township officials, such as the TA, department officials and respected members of local committees such as the Village Tract Administrator (VTA).¹⁸ Once a project is selected, an estimate for its likely cost is developed, with more complex projects typically having specialized inputs from relevant local departments, such as the Department of Irrigation. In instances where no department at the state or region level is able to undertake this responsibility, the proposal is directed to the appropriate Union authority.

¹⁷ President Office Notification No. 27, 2013 established these committees, in part, to drive development in line with priorities that had been identified by former President U Thein Sein in his speech to the Rural Development Ministry and the Rural Development and Poverty Alleviation Central Committee (2011). Areas specified included: agricultural production; rural productivity and cottage industries; micro saving and credit enterprises; rural cooperative tasks; the rural socio-economy; rural energy; and environmental conservation.

¹⁸ The described responsibilities and relationships described in this study are also understood to apply to Ward Administrators.

The selection and prioritization of projects at the township level tend to occur as part of township planning meetings and then they are submitted to district authorities. The role of district planning officials thus tends to be one of avoiding duplication, ensuring projects are coordinated and making sure that proposals comply with planning regulations. One official at the Department of Planning, in his interview for this study, suggested that while the department had the authority to reject proposals, it was rare for major changes to be made at the district level. When changes were made at the district level, typically, this was when ministers requested changes to projects, duplicate projects were identified, or a project needed to be altered, such as when the proposed capacity of a dam needed to be increased.

Once project proposals at the district level have been collated, they are then discussed as part of state and region planning meetings which are chaired by the Chief Minister. Although Union-level officials suggested in their interviews that subnational authorities are provided with an estimate of the levels of Union transfers before this planning process begins, in one interview, subnational officials stated that projects were submitted to Union authorities before the amount of the planned transfers was known. The prioritization of projects would then occur in a subsequent planning meeting after the level of Union support was confirmed, with projects not selected being delayed for inclusion in the supplementary budget.

In both instances the Budget Departments bases the capital component of the budget on the projects selected, while operational expenditure are provided by budget officials from subnational government departments. Both proposed and final budgets are understood to be discussed by the Cabinet, department heads and Chief Minister, before being submitted to the state or region Hluttaw for approval and submission to the Financial Commission, via the Ministry of Finance [24].¹⁹ A summary of the key roles different levels of government play has been outlined in more detail in Figure 11.

¹⁹ Interviews in the states and regions suggested that a Budget Department representative was not always required to attend subnational planning meetings, even when the attendance of all other departments was required.

Figure 11: Administrative Groupings and Budgeting

Union Government

- Provides a key role in setting national and subnational government priorities through the National Planning Laws and the policies of individual ministries.

State and Region Government

- State and region representatives can propose projects at a range of administrative levels, depending on the nature of the project. For instance, local development funds have their own process for sourcing proposals which may include direct input from elected representatives.
- Key decision makers vary, depending on the state, region, and sector, but generally they include the Chief Minister and subnational ministers. The state and region planning and budgeting processes tend to be the key points at which decisions are made about subnational budget allocations, however, project prioritization is typically heavily influenced by ministry priorities and the national planning process.
- Although state and region ministers are provided with their own portfolio of responsibilities, such as “social affairs” their influence on the activities of subnational departments varies across states and regions, their area of focus and relationship with government officials.
- A state or region’s Chief Minister is nominated by the President, while subnational-level ministers are nominated by the Chief Minister. Both are confirmed by the state or region Hluttaw.
- Subnational activities are chiefly undertaken by departments of Union ministries.

Districts

- District planning authorities mainly collect and check capital budget proposals made at the township level for submission to the state and region planning process.
- Checking and amending proposals at the district level differs, depending on the department responsible but can range from ensuring that proposals conform with department standards, avoiding duplication, and at times, altering projects to ensure that they complement the aims of other projects within the district.

Townships

- Provide a central point for identifying, collecting, and implementing projects at the local level through local committees, Village Tract Administrators, Ward Administrators, Village Elders, and other respected persons.
- Although township officials implement and identify a large number of projects, their control over expenditures is typically limited and focussed on local development funds.
- The GAD’s Township Administrator is a key actor, sitting on local committees involved in the identification and monitoring of community projects.
- Municipal authorities or Development Affairs Organizations are responsible for a range of activities such as small-scale road construction and repair, trash collection, and other development works. While largely independent, their activities can be influenced by requests from the GAD.

Village Tracts and Wards

- Village Tract and Ward Administrators play an important role in project implementation and collecting financial and ‘in-kind’ contributions, including labor and equipment.
- Village and Ward Tract administrators also play a role in identifying new projects, as they work for the form of government which is the closest and best known to the community.
- Projects are generally managed by committees which typically include technical experts and respected members of the community. These committees can include, or be exclusively comprised of, representatives from the Township (or Village Tract) Development Support Committees

Sources: [3]–[5], [8], [21]–[24]

Budget Formulation and ‘Bottom-up’ Planning

Without information on the levels of expenditure that result at different stages of subnational project selection and prioritization, it is difficult to assess the relative influence of subnational authorities on final budgetary allocations. However, interviewees suggested that the selection of capital projects is chiefly informed by Union and state/region planning meetings, while Budget Departments and the MOF tend to have authority over recurrent expenditure. As such, although there is some level of subnational autonomy in project identification and implementation, state and region budgetary decisions appear to be made as part of the Union-led planning process by state and region ministers and senior civil servants. As a result, even in instances where there is autonomy over public finances at the state and region level, it tends to be at the ministerial level and heavily informed by Union priorities through the Union ministries and the Union-led national planning process.

Box 5: Subnational Input and School Construction

There has also been deconcentration in the implementation of the capital budget for education. The procurement and management of school construction is now with state/region education offices and these work through the state/region government procurement boards to select construction contractors, and involve the township education department in supervision.

However, these budget execution responsibilities do not correspond to the decision-making power over the numbers or types of school construction projects, or their locations. Bottom-up input is sought from township offices, and education officers reported that they have some impact on decisions. But the latter also reported that projects are sometimes poorly sited, and that the selection of new construction over their recommendations to repair unsafe or expand overcrowded schools, were still weaknesses in translating bottom-up input into real planning results.

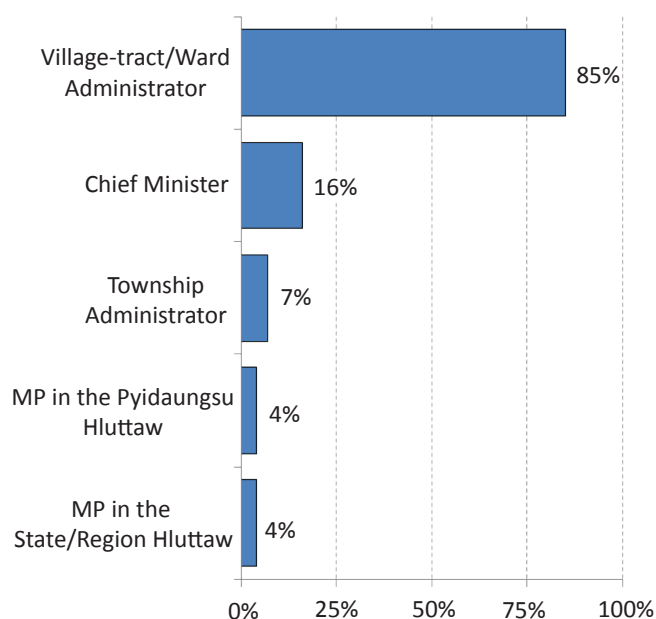
Source: [17]

While interviewed officials, Village Elders and Respected Persons (VERP) commonly noted that the move towards seeking local inputs on government expenditures is a significant improvement over how projects were selected and implemented before the reforms, much of the decision-making authority is still invested in the higher levels of government. In addition, while the term “bottom-up” was often used to describe the process, the extent to which community consultation currently occurs is not clear, nor is the extent to which projects represent community needs, particularly as few in community have the knowledge and relationships required to devise and submit proposals on their own.

Furthermore, the community’s limited knowledge of the role of state and region governments in budgeting,²⁰ when combined with limited contact with the officials involved in the selection and monitoring of projects above the VTA level (Figure 12), suggests that current processes, while an improvement, are unlikely to realize many of the benefits that “bottom-up” budgeting is intended to achieve [27]. And although existing subnational planning and consultation mechanisms exist, they also have the potential to restrict subnational government’s independence in making decisions, unless their needs are also compatible with the priorities of the Union.

²⁰ A recent survey that asked, “Do State and Region governments have the power to tax or impose fees?” resulted in less than a third of respondents answering “yes” [27].

Figure 12: Proportion of Surveyed Citizens Who Knew the Name of their Local Representative ²¹



Source: [27]

Budget Execution and Reporting

Once funding has been approved through the passing of the budget law, funds are transferred to the relevant authorities through the Myanmar Economic Bank [12]. For individual projects, funds are typically dispensed proportionally as the project progresses, with the designated authority, such as the TA, being responsible for monitoring the project's progress and approving the subsequent release of funds. It is also understood that many ministries and departments use a similar approach, with their internal budget officers typically being responsible for ensuring that actual expenditures follow what was projected.

Actual implementation is undertaken by a mix of ministries, departments, SOEs and project committees, with the choice of the implementing body depending on a range of factors such as the size and type of the project and the source of its funding. For instance, the project committees of a township, village tract, or ward often manage smaller projects. However, larger projects and those requiring specialized expertise, typically involve representatives from more formal bodies such as the Township Management Committee (Box 4), which, in addition to managing project implementation, also can seek community financial and non-financial contributions (such as labour, equipment and materials). At most levels, it is also possible for officials at the township level and above to tender projects to the private sector, which officials noted in their interviews was common when government capacity was deemed insufficient.

How state and region departments undertake their roles and interact with both Union and state/region authorities can also differ depending on their sector. For instance, one official noted his department, which is responsible to both the Union and the subnational government, was required to

²¹ Changes to regulations in 2012 require that VTAs and WTAs are selected via secret ballot, although it is unclear how widely this is currently applied [38].

fulfil two conflicting directives at the same time. In addition to this illustrating the potential weaknesses in Union/subnational coordination mechanisms, it confirms the practical issues faced by subnational authorities faced with multiple reporting lines.

Project Monitoring and Oversight

In field interviews for this study, it was generally noted that funds need to be used within the fiscal year for which they have been approved and that unused funds must be refunded. While it is not clear how widely or strictly this is applied, the requirement was commonly noted by interviewees. Township officials also mentioned that this tended to place pressure that projects be completed within the budget year, sometimes resulting in local officials mobilizing additional resources from the community to ensure that the project is completed on time. Although these “voluntary” community contributions and “no name taxes” were commonly mentioned in interviews, it is not clear what proportion of projects use these as they are not recorded as part of the budget process. These contributions are also understood to be outside the authority of formal bodies such as the Audit Office [28]. While interviewees in the field stated that community members can raise objections about projects to officials, such as the TA, it is at the discretion of the official whether action is taken. ²²

²² It is also understood that the complaint mechanism can vary according to the responsible party and source of funding. For instance, for constituency development funds, it is possible to directly submit grievances to a local member of parliament.

Section 3. Union-Subnational Public Finance Relationships

Myanmar's 2008 constitutional move away from the socialist and military-initiated, centralized mode of government saw not only the introduction of state and region governments with constitutionally prescribed legislative and taxation authority, but also a greater emphasis by then-President U Thein Sein on "bottom-up" planning. These reforms and the new policy focus sought, in part, to foster a system of governance that more closely reflects local needs and priorities and gives citizens greater participation in governing processes.

These efforts have had some positive impacts, however, significant grass-roots citizen participation is still lacking. As noted in Section 2, how responsibilities are shared between the Union and state/region governments is often vague. Field research for this report highlighted examples of this lack of clarity and how different levels of government conduct their work and interact under these challenging conditions. The continuing dominance of the Union government, out-dated regulations, a lack of alignment between central and subnational government structures and the limited capacity of state and region governments, all contribute to the country's complex public financial management (PFM) and decentralization environment.

Overlapping Mandates and Regulation Challenges

Although Schedule II of the 2008 Constitution seemingly provides a list of the departmental responsibilities that should fall under the authority of the subnational government, ambiguity persists as, despite being formally assigned to state and region governments by the 2008 Constitution, many of these departments are not stand-alone subnational ministries that correspond to the Cabinet portfolios of ministers in the state and region governments. This has occurred, in part, because many of these subnational departments pre-date the 2008 Constitution which placed them under the nominal control of state and region authorities, despite previously being local branches of the Union government [5].

State and region departments are led by a director or department head who, as a civil servant, is appointed by and accountable to, his or her corresponding Union ministry. At the same time, state and region ministers are responsible for directing the departments which fall within their portfolios. In addition to the challenges which these dual lines of accountability pose for subnational entities in aligning their priorities with local needs, the dual reporting lines also likely result in a Union-centred culture of governance persisting in subnational departments [5]. This is further complicated by a lack of alignment between Union and state/region functional responsibilities. For example, while both health and education remain under Union authority according to Schedule I of the 2008 Constitution, state and region departments of health and education have a degree of accountability to the state/region Minister of Social Affairs, who, while having limited constitutionally assigned authority over the realms of health or education, is involved in local decision making with regard to school construction and policy on ethnic language education [29].

Box 6: Forestry at the Union and Subnational Levels

One interviewee noted that despite the legislative authority of the state/region government regarding certain aspects of forestry, no legislation or policy was developed locally. It was further noted by the interviewee, that many decisions, including those regarding community forestry, are still controlled by the Union and he that the “the Township Department of Forestry makes the community forestry plan, but there is no such thing as ‘bottom-up’ polices in the departments.”

Sources: [5], [30]

In the Ministry of Agriculture and Irrigation, the Department of Agriculture is under the management of state and region governments, while the Irrigation Department remains under the direct authority of the Union [5]. Interviewees from multiple township departments commented on the challenges presented by the need to engage in planning that conforms to both the Union and the state/region governments’ requirements when these are not always aligned. While government interviewees at the Union level noted the need for national-level involvement in light of the complex and technical nature of agricultural planning, subnational representatives noted the lack of local consultation in centralized planning. The latter officials view this consultation as critically important, in light of the considerable variations in geography, agricultural resources and capacity across Myanmar, as well as the complexities of local markets [30]. It was suggested that greater investment in the research and planning capacities of subnational agricultural departments and their research centres, along with more formal consultation, could help to reduce the current challenges in aligning Union and subnational priorities.

Myanmar’s PFM Framework and Regulation Challenges

Many of the frameworks and regulations governing PFM in Myanmar pre-date decentralization reforms and therefore limit both vertical and horizontal coordination [31]. Attempts to pursue fiscal decentralization without a regulatory framework that reflects the constitutional roles of state and region governments, has also resulted in lack of standardization in applying budgetary principles, as well as challenges in reporting and monitoring [31]. Additional concerns have been raised that the lack of up-to-date and clear regulations has resulted in poor financial management and the misuse of public funds. For instance, according to the Myanmar Times in April 2013, the Mandalay Auditor General reported to relevant ministers and the Chief Minister, the misuse of over 200 million MMK in funding in FY2012-13 for projects that ranged from tourism, to universities, to hospitals [32].

Box 7: Public Financial Management Reforms and the Ministry of Finance

In the context of rapid changes in Myanmar, PFM reforms have been a central priority, with the former U Thein Sein government attempting to restructure the division of responsibilities between Union ministries and subnational departments, while also developing regulatory frameworks to support the transfer of power to subnational governments.

Unsurprisingly, the Ministry of Finance and the state and region budget departments have been crucial in achieving a number of important initiatives such as:

- More objective and predictable resource allocation to subnational governments through the use of a formula-based system for determining Union financing to state and region governments;
- Better medium-term budgeting through implementing the Medium Term Fiscal Framework; and
- Greater budget transparency with the more regular publication of budget laws and the annual publication of a ‘Citizen’s Budget’ which explains Myanmar’s budget process.

Although the extent to which such reforms will be continued under the newly elected government was unclear at the time of writing this report, it is notable that the effective use of the public financial system featured prominently in the National League for Democracy’s 2015 election manifesto, with specific references made to properly dividing financial responsibility, resources and authority between the Union and subnational governments. Furthermore, ministries central to economic planning and public financial management were among recently proposed mergers, with the Ministry of Finance and the Ministry of National Planning and Economic Development (MNPED) merging to create the Ministry of Planning and Finance.

Sources: [4], [33]–[35]

The notable increase in funding allocated to state and region governments has not been accompanied by corresponding changes in policy and legislative authority. While transfers have increased substantially, lack of clarity remains regarding the expenditure responsibilities of states and region governments. While some functions have been notionally transferred to subnational governments, they often lack sufficient control over the budget to support these activities, creating unfunded mandates and risking the under provision of essential public services.²³

This wider decentralization environment presents a number of practical challenges. First, state and region governments currently appear to have limited power and capacity to set tax policy and manage tax administration, which limits their ability to create tax structures that are compatible with their needs. Secondly, without sufficiently targeted legislative and policy authority, states and regions are unable to independently manage the resources they are allocated. In fact, Union government interviewees noted that in some instances budget allocations have had to be partially refunded to the Union government due to failure of subnational governments to adhere to procedures and projects not being completed within the fiscal year.

²³ One interviewee noted that this was possibly used as a means to manage the gradual transfer of responsibilities to subnational government by ensuring funding followed capacity.

Project Planning and Implementation Dynamics

Decentralization and greater efforts to solicit community inputs when developing project proposals and the presence of village elders and other respected persons on local committees, has raised expectations that citizens' concerns will be heard and that community priorities will be met.²⁴ However, several state and region government interviewees noted a lack of alignment between local priorities and those of the Union government. While this is unsurprising, given the history of centralized decision-making and relatively recent efforts to elicit local decision makers' inputs in the budgeting process, this suggests that subnational governments are still constrained in their abilities to genuinely influence government priorities.

Proposals and Prioritization

As discussed in Section 2, the state and region budgets that are submitted to the Union comprise proposals that are collected from their jurisdiction. This process is not well articulated and interviews with officials noted variations in different states and regions. While civil society groups and community members are granted access to the VTDCs and TDSCs, understanding how community inputs should be incorporated into government planning is still developing on both sides of the equation. While some committees host public meetings and solicit inputs widely, in other villages and townships, whether community members can influence local budgets depends on their relationships with the committee members. Furthermore, as members of the public and community organizations still have limited opportunities to submit proposals, the current dynamics of proposal submission could favour proposals from community elites [26].

Interviewees noted that township officials who have previous budgeting experience and know the current costs for labour and materials, tend to be charged with drafting project budgets. Some proposals developed at the village and township levels also require a voluntary commitment of "in kind" contributions from community members. This can be a contribution of labour and/or materials and on occasion, money. In most cases, this "in kind" contribution is estimated in the proposal as a percentage of the total project. Interviewees indicated that the amount of these "in kind" contributions varies from 30 to 50 percent of the project budget [26].

The Village and Township committees will then work with the VTA and the TA to review the proposal they have either collected or drafted themselves based on community consultations and committee discussions. Again, this process varies from place to place. Some township interviewees stated that a vote was held in order to select the top three proposals from each village tract and then these are submitted by the township to the district government. Other interviewees stated that while proposals were prioritized, there was no limit on the number that could be submitted for review by the district government. Officials from the GAD, the Planning Department and the Budget Department are typically involved in the district's selection process [30].

Upon submission of proposals from the district level to the state/region government, senior Planning Department officials liaise with other senior state and region department officials to assess and prioritize the proposals. Following a review of the proposals by the state/region Cabinet, the Chief Minister typically has the final authority to select which project proposals will be incorporated into the consolidated state/region budget proposal. Subnational government interviewees noted that the power held by the Chief Minister, can result in the proposals of some townships receiving greater priority than others [30].

²⁴ Village committees and VTAs remain the primary point of contact for most Myanmar citizens, as they are the government officials with whom citizens have the most contact.

Interviews in different states and regions, as in different townships, suggested a variety of approaches are used in submitting projects to the Union. While some states and regions prioritize projects and submit a limited number, others choose to submit every proposal [30]. Despite this, it was universally noted in interviews that it was typical that not all projects submitted by any state or region can be funded—meaning that prioritization needs to occur again, once Union funding is confirmed [31].

It was generally noted that state and region governments are not made aware of their budget ceiling until relatively late in the budget process. As a result of this and a history of ‘deficit financing’ there appears to be an incentive to submit a larger number of proposals, in an attempt to gain higher transfers from the Union. While under the current framework this is conceivably a logical approach, it has encouraged ‘bidding’ rather than ‘budgeting’ and at times, the deferral of decision-making to the Union government. While this arrangement can remove political pressure from state and region officials, it further dilutes bottom-up planning, local prioritization and governance and hinders the improvement of subnational governance capacity.

Township governments are able to submit complaints to the state and region government if they disagree with the government’s prioritization of their proposals, or if the government has chosen to submit only a partial proposal to the Union government: for example, if the township’s proposal was for 10 kilometres of road but the submission to the Union was for only five kilometres. In interviews for this study, it was noted that complaints are typically addressed by the state/region Planning Department which makes an effort to explain the decision-making process to the TA or VTA [30].

Ministry and Department Proposal and Project Management

The ambiguity surrounding expenditure and implementation responsibilities can create challenges for planning at the state and region level. Within the Ministry of Agriculture and Irrigation, the Dam Department and the Irrigation Department, which remain under the authority of the Union government, offer a pertinent example of decentralized planning. In this case, state and region governments, including their Budget, Planning and Irrigation Departments, have a key role in managing local proposals submitted by village and township governments. For example, if there are multiple villages in close proximity to each other with similar proposals, the projects might be merged, such as a single dam that can serve multiple villages.

Government officials noted the benefits of lower-level project proposal coordination, from both a planning and costing perspective given the significant expenditure and other resource requirements for infrastructure projects [30]. Yet, village and township officials noted that, at times, their state/region government’s lack of consultation about such plans, results in the perception that local priorities are not being addressed [30]. This situation highlights the complexity of larger-scale planning at the subnational level and the need for better communication. However, it also illustrates the practical challenges presented by Myanmar’s annual budget and planning cycles which likely limit the time available to plan and consult more widely.

Box 8: Project Needs Assessment Challenges

School construction provides a useful example of approaches used for “bottom-up” planning in Myanmar. Although still requiring Union-level approval, the planning and financial responsibility for school construction has been deconcentrated to the state and region governments, with the assessment and granting of funding to construct schools now being based on a needs prioritization framework that considers factors such as the local school-aged population and the proximity of other schools. As a result of this framework, villages with a large number of school-aged children who live far from an existing school, will generally receive priority [17] [30].

Although this needs assessment process appears to be well communicated between the state/region, district and township-level governments, it does not appear to be well understood at the community level. Unlike the previous example of dam and irrigation system construction, both of which are resource intensive and highly technical, the construction of schools is lower cost, often involves significant community participation, especially in rural areas, and is occasionally undertaken by communities outside the annual budget planning and allocation processes.

While this demonstrates high levels of community resourcefulness, occasionally this results in project overlap and duplication. Although townships and villages are able to decline a project such as school construction if they feel it is unnecessary, this rarely happens. Some officials noted that in order to avoid the loss of funding, this has resulted in the proliferation of small schools that are not needed and diverts funding from other, more urgent, projects.

Sources: [26], [30]

Environmental Uncertainty and Capacity Challenges

Although there have been attempts to move towards a more “bottom-up” planning and budgeting framework, many of the formal and informal processes currently employed at the subnational level are based on a history of central control, making them, in many cases, unsuited for encouraging local autonomy. In addition, while the “capacity” of local officials was often cited as a weakness, it is understood that little training has been available for subnational staff to rectify this. Furthermore, it is also possible that complaints about local “capacity” may, at times, actually reflect regulations that are unsuited to subnational needs.²⁵

Overall, it appears that at times many subnational government officials are incentivised to work around formal processes to exercise their day-to-day responsibilities, which presents a range of risks. For instance, it has been noted that Union financial transfers to the state and region governments can be delayed by a month or more into the fiscal year. As a result, subnational government actors may have to make informal agreements with private sector companies so they begin projects before funding is available-otherwise projects would not be completed, as required, within the fiscal year [30], [36].

Lack of clarity about the division of both financial and administrative responsibilities has resulted in both Union and subnational government officials acknowledging that due to such uncertainty, it is the

²⁵ Interviewees noted that state and region staff lack capacity in public financial management (PFM), as well as understanding of Union regulations. A 2014 assessment noted that while subnational staff have a good grasp of accounting principles, they are unfamiliar with the complex regulations that govern the fiscal system in Myanmar, and regulations concerning budgeting [39].

Union government that continues to exercise the greatest degree of control over financial and budgetary matters. These intergovernmental relationships are also burdened by still developing communication and consultation channels. While subnational governments have developed ad hoc project prioritization methodologies, these are not always communicated to the Union government, leaving the latter with questions about the projects that have been submitted [31]. A lack of formal guidelines and limited oversight with regard to the costing of project proposals, can also result in duplication of project assessment and analysis efforts by the Union government and compromise “bottom-up” planning [31] [37].

State and region governments also face a range of human resource challenges that potentially hamper project selection, monitoring and evaluation. For instance, many departments are required to evaluate project proposals and monitor project implementation. However, a recent study of the subnational civil service found that many government entities provide limited opportunities for advancement or promotion. They also do not offer much capacity building or many professional development opportunities to staff. At times this can result in a lack of incentives for staff to excel and low morale [8].

Addressing the previously noted challenges in PFM and reporting at the subnational level is further complicated by the volume of activity not included in published budget figures or formal budget process. The “in kind” contributions that communities make to their local development projects, though estimated, are not formally calculated, recorded, monitored, or reported on. As a result, it is possible that these “voluntary” contributions place an excessive burden on some households.²⁶ In light of this, the actual costs of implementing many of projects are currently unknown. Additionally, as audit departments do not have a mandate to monitor the use of such contributions, there appears to be narrow avenues available for their external monitoring.

Local officials also noted it is common for local departments to request and provide in-kind contributions, such as through lending equipment and machinery. For instance, DAO officials interviewed stated that if projects lack the necessary resources to be completed in time they can lend those implementing the project resources, such as equipment and personnel, to hasten its completion. It is understood that such contributions are not recorded or monitored, despite it being reported that these resources were borrowed for up to nine months at a time. In other cases, subnational governments incur expenses that they are not able to account for in their budgets such as sporting events and functions to honour or entertain high-level officials and other important guests. As a result, such an expense is either placed under a budget category for which it was not intended, or “no name” taxes are collected to cover the cost.²⁷

²⁶ It is also important to note that in some circumstances such ‘informal taxes’ may actually represent a more effective means of achieving local development than formal systems.

²⁷ The term ‘no name taxes’ was often used for revenue collected late in the fiscal year to cover expenses that could not otherwise be paid by the approved budget, but this term was also at times used for voluntary contributions.

Section 4. Conclusion, Recommendations and Further Research

Governments can play many important roles in the lives of their citizens through providing a range of public goods and services that ensure a nation's peace, stability and prosperity. However, just as questions about how public goods should be provided can be contentious, so too can the way goods and services are funded by government, with alternatives such as taxation, printing money and debt all having tangible impacts on communities and businesses. As a result, the effective management of public finances by government is an imperative consideration for economic and social development.

Myanmar's top-down command structure has a long history, resulting in many of the current rules, regulations and governance structures still being based on central control [7] [8]. However, the relatively recent creation of state and region governments in the 2008 Constitution has been followed by policies being implemented to encourage the local management of public finances through the granting of greater financial resources and responsibilities to subnational governments. Although these reforms are still relatively recent, they have enabled state and region governments to develop their own budgets, collect taxes and provide input into the activities of a number of government ministries and departments.

Formally, state and region governments in Myanmar derive much of their authority from the 2008 Constitution. Their legislative and executive authority stems mainly from Schedule II of the Constitution; while their right to collect revenue is described in Schedule V. Responsibilities tend to be described under "sectors", below which more specific items are listed. Revenue assigned to subnational governments includes items such as excise, toll fees, registration fees and revenue received from the Union.

While Schedule II of the 2008 Constitution appears to provide subnational governments with a range of legislative responsibilities, ambiguity and an expectation of "top-down" edicts persist as a consequence of regulations being unclear, constitutional responsibilities requiring formal Union clarification and many responsibilities needing to be carried out through Union-controlled entities.

Myanmar's budget year starts in April, with planning starting in September of the year before. Many of Myanmar's budget processes relating to expenditure can be divided based on whether expenditure is 'capital' or 'recurrent'. In practice, this means that the Ministry of National Planning and Economic Development (MNPED) manages capital expenditure such as the construction of new infrastructure, while the Ministry of Finance (MOF) has managed recurrent or operational expenditure. A tangible consequence of this is that much of the capital budget is based on the MNPED's role in implementing the National Comprehensive Development Plan (NCDP), which is operationalized through the Union, state and region annual plans.

In addition to the planning processes of subnational governments being heavily guided by the NCDP, state and region governments derive much of their income through Union transfers, which have increased both relative to overall government expenditure and relative to self-sourced revenue. In fact, currently subnational tax revenue, a large part of which is collected by the GAD, represents only five percent of subnational revenues. While this is not unexpected, given the early stages of fiscal decentralization, it does tend to reinforce the heavy reliance of subnational authorities on the Union government.

Recommendations:

The expected role of subnational governments in public finance should be formally clarified.

Although there has been an increase in the resources notionally allocated to state and region governments, subnational governments' reliance on Union resources, administrative infrastructure and executing agencies likely perpetuates government authorities acting on the basis of past responsibilities and informal understandings shaped by a history of centralization. Although this is not unexpected, given the current stage of decentralization, it could discourage state and region governments from being able to tailor their provision of public goods and services to the needs of their state or region.

While it is crucial that the roles of subnational governments are formally clarified, it is also important that this take into account the current institutional context. Thus, a review of the functional responsibilities of ministries, departments and state-owned enterprises (SOEs) is recommended in cooperation with subnational stakeholders. Also a longer-term decentralization path should be established to resolve current ambiguities and facilitate longer-term planning and subnational autonomy.

The channels through which subnational governments influence expenditure can vary according to the state, region and sector. Although there does seem to be some variance in the practical level of subnational decision-making authority, previous research suggests that the division of responsibilities in Schedule I and II of Myanmar's 2008 Constitution is ambiguous about much of the expenditure included in subnational budgets.

In recognition of this, a detailed review is recommended to understand the existing Union and subnational authority over these sectors and how state and region governments and parliaments could more clearly define their administrative, fiscal and legislative power. This is particularly important in light of the recent merging of key ministries so as to clearly demarcate Union and state/region functional responsibilities and coordination mechanisms.

Efforts are needed to increase the capacity of officials involved in the management of public finances and to update out-dated financial regulations that define intergovernmental fiscal relations.

While Union officials commonly cited subnational "lack of capacity" as a reason for weakness in Union/subnational PFM cooperation, this almost universally concerned the limited ability of subnational officials to draft, understand and follow financial regulations. While it is important to recognize that such reflections are likely to be partially because Myanmar's civil service has historically operated through "top-down" edicts, subnational governments' ability to understand and draft regulations independently is important for empowering subnational government to adapt regulations to reflect the needs of the communities they represent.

The annual budget cycle should be extended to allow time for greater inter-ministerial coordination, greater community consultation and better integration into national and subnational planning processes.

Generally, officials interviewed as part of this study agreed that the budget could be improved through it being better integrated into the planning process, greater community consultation taking place and better inter-ministerial coordination. However, officials commonly cited the short annual budget cycle as a practical impediment to applying such reforms. Given that for most government agencies, the time available for budget planning and preparation is six months, it is suggested that efforts are made to extend the time allocated for budget planning to ensure that budget reforms are not hindered by too short budgeting cycles and also to allow more time for inter-ministerial coordination and for key bodies such as the subnational Hluttaw and the Financial Commission to review the budget.²⁸

Annual and indicative medium-term projections of Union transfers should be provided to state and region governments at the start of the planning and budget process to encourage medium-term planning and discourage the perception that Union transfers reflect “deficit-financing”.

In interviews, Union officials suggested that there has been a concerted effort to allocate Union transfers on the basis of subnational needs through the use of indicators such as GDP, poverty, land area and population. However, in discussions with subnational authorities, they often described Union transfers as being determined on the basis of a state or region’s deficit.

While it is possible that this reflects a misunderstanding by those interviewed, or that a combination of both methods is used, project selection with the expectation of “deficit financing” encourages the submission of a large number of project proposals, rather than genuine prioritization according to a state/region needs. Additionally, uncertainty regarding the future level of fiscal transfers, likely compromises subnational governments’ ability to engage in medium-term planning, thereby compromising budget efficacy, risking the completion of multi-year projects and encouraging the excessive use of supplementary budgets.

Given this, providing medium-term projections of financial transfers to state and region governments at the beginning of the annual budget and planning cycles is recommended, both to encourage states and regions to engage in longer-term planning and to encourage the explicit consideration of the resources available as part of the subnational planning process.

Efforts should be made to more closely integrate planning processes with multi-year budgeting.

Interviewees stated that in many cases requests for funding are only made for the forthcoming budget year, even when multiple years of funding are necessary. As a result, officials noted that in order to comply with the annual budget cycle, projects sometimes must be rushed. In addition, projects requiring multiple years of funding were typically required to secure funding for each year, thereby risking its completion in the event future funding isn’t secured.

Although it is understood that some ministries and departments develop multi-year budget estimates for longer-term projects, these are typically not shared with other government bodies as part of any integrated budget planning process. While it is important to recognize that the capacity to develop medium-term budgets is not present at all levels of government, if properly carried out, better medium-term budget planning could encourage better coordination, sequencing and use of government finances.

²⁸ One interviewee noted in some cases subnational government bodies only receive their funding in June, which can hinder budget execution due to the onset of the rainy season.

Given the important roles of the MOF and the MNPED in government finances and their merger by the incoming government, the gradual integration of existing planning and budgeting processes is recommended as a potential mechanism for achieving longer-term and better budget planning. In addition, given the Planning Department's responsibilities for subnational data collection, such a policy could be complemented by the better linking of government programmes with data collection on the outcomes they are designed to achieve.

Mechanisms for responding to complaints should be improved to encourage the accountability of officials and enhance community engagement in the budget process.

Project monitoring and evaluation mechanisms at the subnational level are heavily reliant on a small number of mechanisms such as ad-hoc project teams, local committees and the Audit Office. In addition, evidence suggests that the mechanisms for making formal complaints are typically weak, especially at the township level, with there often being no obligation for officials to respond after a formal complaint is made. If structured appropriately, better complaint mechanisms could both promote greater community engagement and be used as an additional mechanism for encouraging better budget prioritization, planning, monitoring and evaluation.

Information sharing and intergovernmental communication should be improved to ensure that implementing agencies do not receive contradictory directives.

Interviewees suggest that conflicting directives from Union and subnational authorities are not uncommon, creating the potential for projects to overlap and expenditures to be inefficiently allocated. Although it is expected that the Union and state/region governments would have differing priorities, appropriate coordination and negotiation mechanisms are necessary to ensure that these are resolved before incompatible directives are provided to implementing agencies.

While the move towards "bottom-up" planning is encouraging, further efforts are needed to allow genuine community consultation and inputs into the budgeting process.

Although the current approach of more "bottom-up" planning is clearly a step in the right direction, prioritization often occurs at the upper levels of subnational government. Furthermore, while there have also been a number of important developments in local governance, such as the move towards VTAs being elected, the incentives for encouraging genuine community input into the budget process currently appear to be limited [10].

Available information also suggests that the community's understanding of government's role in public finance is limited, which may discourage many at the community level from becoming engaged with budgeting processes. At the same time, while many of the officials interviewed were open to public consultation and recognized its importance, they admitted that public consultation has been difficult to manage. In addition, many of the requirements for authoring and successfully submitting a proposal or formal grievance alone are likely to limit the involvement of disadvantaged members of the community, again reducing the extent to which community needs influence budgetary allocations.

Although bridging the divide between government and the community is likely to require longer-term efforts, a number of existing structures and reforms could provide the foundation for this. For instance, the Ministry of Finance's approach to making budget decisions and processes more accessible through releasing a 'Citizen's Budget' could also be adopted at the state and region level to enhance community knowledge about subnational finances. Efforts could also be made to encourage community consultation outside of formalized committees and to create systems that encourage the accountability of civil servants and officials to the public. It is possible as well that building on and reforming existing

budget processes, such as the common use of “voluntary contributions” to fund local development, could provide practical avenues for encouraging greater citizen engagement in public finance.

Mechanisms for inter-ministerial and intergovernmental information sharing should be expanded.

Discussions with officials at a number of levels suggested that a range of data are being collected on a regular basis as part of their day-to-day role, yet these data were rarely shared with other government ministries and departments. This presents challenges for all levels of government in planning and prioritizing projects, as well as in assessing the project submissions and funding requests made by lower-level government officials.

Furthermore, greater coordination and data sharing could also provide an opportunity for enhancing ties between a range of subnational bodies and budget processes, through better linking budget policies with outcomes. Efforts should therefore be made to standardize data collection and expand its dissemination, both within government and to the wider public, in order to improve the quality of community engagement in planning and other government processes.

Mechanisms for encouraging the effective, transparent and efficient use of in-kind and voluntary contributions should be investigated to help ensure that such contributions are used to the greatest effect and do not represent an excessive burden on households.

Interviews at the township level and below suggested that it is common for projects to be partially funded by subnational government, with the expectation that the remaining resources will be provided by community members through “in-kind” contributions that range from money and labour from community members, to equipment and fuel from local government departments.

While both the community’s closer relationship with Village Tract Administrators (VTAs) and the requirement that VTAs be elected, may provide a means of encouraging greater accountability in the use of “in-kind” contributions, their overall impact on households and local development is currently not clear [38]. Additionally, as the Village Clerk is generally responsible for village budget oversight, the discretion of the VTA over the use of both formal and informal budget funds remains unclear.²⁹ While the informality of such contributions may hold a number of advantages for local development, at the same time the existence of such informal taxes outside of external monitoring mechanisms, such as the Audit Office, may risk their effective management.

Anonymous budget coordination and monitoring mechanisms should be considered as part of “bottom-up” planning reforms.

A history of centralization impacts a range of current budgetary processes, despite recent reform efforts. For instance, interviewees suggested that people still hesitate to speak openly to higher-level authorities, while many of the processes in the civil service have not completely adapted to the establishment of state and region governments. There also appears to be limited public engagement in the budget process, with the civil service continuing to take care of most steps related to the identification, monitoring and evaluation of government activities.

While encouraging genuine community engagement with government processes will take time, many of the mechanisms for encouraging better coordination and “bottom-up” planning appear to be better at eliciting information from the “top-down” than eliciting information from the “bottom-up”. Although

²⁹ The Village Clerk is a GAD appointee and is therefore ultimately accountable to the GAD rather than the VTA. Specific local governance dynamics can also impact the level of coordination between local officials and a VTA’s decision-making authority.

it is important to recognize that civil society's involvement is not a panacea, it appears likely that some mechanisms could be improved by promoting targeted community involvement and ensuring that feedback can be provided in a manner that is sensitive to cultural norms around communicating with higher-level authorities.

Activities undertaken by ministries, departments and SOEs and their costs should be made publicly available.

Part of the successful movement to a more decentralized fiscal system requires that the community, businesses and officials have an understanding of how and where taxation revenue is being used, so that they are well-informed when discussing how and where public resources would best be directed. However, a large proportion of subnational government expenditure is undertaken by a small number of agencies, with limited data available to assess how efficiently and effectively this expenditure is being allocated across states and regions. To help address this, it is therefore recommended that the activities of government and their costs be made publicly available.

Greater access should be provided to the administrative data currently being recorded as part of preparing state and region budgets.

From interviews for this study, it was clear that as part of the budgeting process, more detailed information is collected on revenues and expenditures at the state and region level. Therefore, in the interest of encouraging researchers to shift from asking only, "how much was spent", towards asking the more fruitful question, "how well were resources used", data on revenues and expenditures should be made available so that detailed analysis of public finances can be carried out to provide the invaluable guidance necessary for the reforms ahead.

Both submitted and approved subnational budgets should be released publicly.

Although it has been suggested that government budget data be released in a timelier manner and in greater detail, it is also recommended that information be made available to improve understanding of where and how amendments are made to subnational budget proposals by the Hluttaws and the Financial Commission.

Further Research

Informal governance, in-kind contributions and “no name taxes”

Currently, a range of subnational authorities rely on voluntary and “in-kind” contributions to undertake and complete projects, however, their contribution to subnational activity and the processes governing their mobilization and use, are unclear. While it is possible that local authorities use of such informal taxes and contributions represents an important mechanism for responding to community needs and driving local development, it is not clear whether the advantage of mobilizing resources locally is outweighed by the risks that their informality poses. This is therefore recommended as a fruitful area for new research.

Questions relevant to such research could include:

- When and to what extent are informal contributions mobilized and how does this compare with current levels of subnational expenditure?
- How are voluntary and in-kind contributions managed?
- How do these contributions relate to the wider planning and budgeting processes?
- What implications do voluntary contributions have for government effectiveness and local development?

Subnational government activities and processes

Given the important role of subnational departments and SOEs play in the functioning of subnational governments, a more detailed mapping of their roles, responsibilities and relationships would be instructive for understanding the economic, administrative and political factors that inform the day-to-day activities of government in Myanmar.

This assessment could also serve as the basis for a review of the legislative, expenditure and revenue divisions of power between the Union and state/region governments, with formal consideration given to appropriate dynamics of decentralization and deconcentrating across ministries and departments

Questions relevant to such research could include:

- What are the functional responsibilities of subnational entities and what informs their day-to-day activities?
- How do these functional assignments relate to the 2008 Constitution and where do ambiguities exist?
- How have subnational departments managed recent reforms in light of the decentralization agenda?
- How do subnational entities plan and coordinate their activities with other departments, ministries, SOEs, civil society and the private sector?

Understanding relative subnational taxation endowments

Currently, total and per-capita revenue collections vary significantly across states, regions and subnational entities. While a detailed analysis of the reasons for these differences was outside the scope of this study, a more detailed investigation of the reasons for these differences is recommended as it could reveal wider lessons for subnational entities.

Questions relevant to such research could include:

- With reference to current revenue collection and related legal provisions, what are the potential taxation endowments of subnational governments in Myanmar?
- What is the state of tax compliance at the subnational taxation level in Myanmar and what factors might explain differences across states, regions, subnational entities and types of taxes?
- To what extent do subnational governments take advantage of their right to independently set taxation rates?
- What are the factors considered when subnational governments implement changes to tax schedules and structures?

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Section 6. Annexes

Annex 1: Comparative Legislative Listings – 2008 Constitution – Schedule I and II – including July 2015 Amendments

Items newly added to Schedule II have been marked with (*)

Please note although the utmost efforts have been made to ensure the accurate translation of the amendments, they do not represent the official English translations. Readers are advised to refer to the original text, as well.

Schedule I (Union)	Union Defence and Security Sector	Schedule II (State/Region)
<ul style="list-style-type: none"> a. Defence of the Republic of the Union of Myanmar and every part thereof and preparation for such defence; b. Defence and Security industries; c. Arms, ammunition and explosives including biological and chemical weapons; d. Atomic energy, nuclear fuel and radiation and mineral resources essential to its production; e. Declaration of war and conclusion of peace; f. Stability, peace and tranquility of the Union and prevalence of law and order; and g. Police force. 		

Schedule I (Union) - Foreign Affairs Sector - Schedule II (State/Region)	
<p>a. Representatives of the diplomatic, consular and other affairs;</p> <p>b. United Nations;</p> <p>c. Participation in international, regional and bilateral conferences, seminars, meetings, associations and other organizations and implementation of resolutions thereof;</p> <p>d. Conclusion and implementation of international and regional treaties, agreements, conventions and bilateral agreements and treaties;</p> <p>e. Passports and identification certificates;</p> <p>f. Visas, admission into the Republic of the Union of Myanmar, stay, departure, immigration and deportation; and</p> <p>g. Extradition and request for extradition.</p>	<p>a. The Region or State budget;</p> <p>b. The Region or State fund;</p> <p>c. Land revenue;</p> <p>d. Excise duty (not including narcotic drugs and psychotropic substances);</p> <p>e. Municipal taxes such as taxes on buildings and lands, water, street lightings and wheels;</p> <p>f. Services of the Region or State;</p> <p>g. Sale, lease and other means of execution of property of the Region or State;</p> <p>h. Disbursement of loans in the country from the Region or State funds;</p> <p>i. Investment in the country from the Region or State funds;</p> <p>j. Local plan; and</p>
Schedule I (Union) - Finance and Planning Sector - Schedule II (State/Region)	
<p>a. The Union Budget;</p> <p>b. The Union Fund;</p> <p>c. Currency and coinage;</p> <p>d. The Central Bank of Myanmar and financial institutions;</p> <p>e. Foreign exchange control;</p> <p>f. Capital and money markets;</p> <p>g. Insurance;</p> <p>h. Income tax;</p> <p>i. Commercial tax;</p> <p>j. Stamp duty;</p> <p>k. Customs duty;</p> <p>l. Union lottery;</p> <p>m. Tax appeal;</p> <p>n. Services of the Union;</p>	<p>a. The Region or State budget;</p> <p>b. The Region or State fund;</p> <p>c. Land revenue;</p> <p>d. Excise duty (not including narcotic drugs and psychotropic substances);</p> <p>e. Municipal taxes such as taxes on buildings and lands, water, street lightings and wheels;</p> <p>f. Services of the Region or State;</p> <p>g. Sale, lease and other means of execution of property of the Region or State;</p> <p>h. Disbursement of loans in the country from the Region or State funds;</p> <p>i. Investment in the country from the Region or State funds;</p> <p>j. Local plan; and</p>

<ul style="list-style-type: none"> o. Sale, lease and other means of execution of property of the Union; p. Disbursement of loans from the Union Funds; q. Investment of the Union Funds; r. Domestic and foreign loans; s. Acquisition of property for the Union; and t. Foreign aid and financial assistance. 	<ul style="list-style-type: none"> k. Small loans business. l. Investment that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*) m. Insurance that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*) n. Income tax that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*) o. Commercial tax that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*) p. Domestic and Foreign loans that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*) q. Acquisition of property that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*) r. Foreign aid and financial assistant that have the right to be undertaken for the Region or State in accordance with the law enacted by the Union; (*)
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Schedule I (Union) - Economic Sector - Schedule II (State/Region)	
<ul style="list-style-type: none"> a. Economy; b. Commerce; c. Co-operatives; d. Corporations, boards, enterprises, companies and partnerships; e. Imports, exports and quality control thereon; f. Hotels and lodging houses; and g. Tourism. 	<ul style="list-style-type: none"> a. Economic matters undertaken in the Region or State in accord with law enacted by the Union; b. Commercial matters undertaken in the Region or State in accord with law enacted by the Union; c. Co-operative matters undertaken in the Region or State in accord with law enacted by the Union. d. Hotels and lodging houses that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*) and e. Tourism that has the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*)
Schedule I (Union) - Agriculture and Livestock Breeding Sector - Schedule II (State/Region)	
<ul style="list-style-type: none"> a. Land administration; b. Reclamation of vacant, fallow and virgin lands; c. Settlements and land records; d. Land survey; e. Dams, embankments and irrigation works managed by the Union; f. Meteorology, hydrology and seismic survey; g. Registration of documents; h. Mechanized agriculture; i. Agricultural research; j. Production of chemical fertilizers and insecticides; k. Marine fisheries; and l. Livestock proliferation, prevention and treatment of diseases and research works. 	<ul style="list-style-type: none"> a. Agriculture; b. Protection against and control of plants and crop pests and diseases; c. Systematic use of chemical fertilizers and systematic production and use of natural fertilizers; d. Agricultural loans and savings; e. Dams, embankments, lakes, drains and irrigation works having the right to be managed by the Region or State; f. Fresh water fisheries; g. Livestock breeding and systematic herding in accord with the law enacted by the Union. h. Reclamation vacant, fallow and virgin lands that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*) i. Registration of documents that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*)

	<ul style="list-style-type: none"> j. Agricultural research that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*) k. Marine Fisheries that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*) and l. Agriculture and Meteorology that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*)
Schedule I (Union) - Energy, Electricity, Mining and Forestry Sector - Schedule II (State/Region)	
<ul style="list-style-type: none"> a. Petroleum, natural gas, other liquids and substances declared by the Union Law to be dangerously inflammable; b. Production and distribution of electricity of the Union; c. Minerals, mines, safety of mine workers, and environmental conservation and restoration; d. Gems; e. Pearls; f. Forests; and g. Environmental protection and conservation including wildlife, natural plants and natural areas. 	<ul style="list-style-type: none"> a. Medium and small scale electric power production and distribution that have the right to be managed by the Region or State not having any link with national power grid, except large scale electric power production and distribution having the right to be managed by the Union; b. Salt and salt products; c. Cutting and polishing of gemstones within the Region or State; d. Village firewood plantation; e. Recreation centers, zoological garden and botanical garden; f. Setting ratios on natural resources production that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union; (*) g. Small and casual mining that have the right to be undertaken by the Region or State in accordance with the law enacted by the Union (*); h. Safety of mine workers, environmental conservation and restoration that have the right to undertaken in the Region or State in accordance with the law enacted by the Union; (*) i. Small jewelry and small jewelry businesses that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*) j. Others Woods expect Teak and group (1) (where group 1 includes

	<p>Thitya, Ingyin , Pyinkado, Padauk, Thingan-net, Tamalan) that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;(*) and</p> <p>k. Environmental protection and conservation including wildlife, natural plants and natural area that have the right to be managed in the Region or State in accordance with the law enacted by the Union; (*)</p>
Schedule I (Union) - Industrial Sector - Schedule II (State/Region)	
<p>a. Industries to be undertaken by the Union level;</p> <p>b. Industrial zones;</p> <p>c. Basic standardization and specification for manufactured products;</p> <p>d. Science and technology and research thereon;</p> <p>e. Standardization of weights and measures; and Intellectual property such as copyrights, patents, trademarks and industrial designs.</p>	<p>a. Industries other than those prescribed to be undertaken by the Union level;</p> <p>b. Cottage industries; and</p> <p>c. Industrial zones that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*)</p>
Schedule I (Union) - Transport, Communication and Construction Sector - Schedule II (State/Region)	
<p>a. Inland water transport;</p> <p>b. Maintenance of waterways;</p> <p>c. Development of water resources and rivers and streams;</p> <p>d. Carriage by sea;</p> <p>e. Major ports;</p> <p>f. Lighthouses, lightships and lighting plans;</p> <p>g. Shipbuilding, repair and maintenance;</p> <p>h. Air transport;</p> <p>i. Air navigation, control and airfields construction;</p> <p>j. Land transport;</p> <p>k. Railways;</p> <p>l. Major highways and bridges managed by the Union;</p>	<p>a. Ports, jetties and pontoons having the right to be managed by the Region or State;</p> <p>b. Roads and bridges having the right to be managed by the Region or State;</p> <p>c. Systematic running of private vehicles within the Region or State.</p> <p>d. Maintenance of waterways that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*)</p> <p>e. Development of water resources and rivers and streams that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*)</p> <p>f. Shipbuilding, repair and maintenance that have the right to be undertaken by the Region or State except managed by the Union; (*)</p>

<p>m. Posts, telegraphs, telephones, fax, e-mail, internet, intranet and similar means of communication; and</p> <p>n. Television, satellite communication, transmission and reception, and similar means of communication and housing and buildings.</p>	<p>g. Air transport that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*) and</p> <p>h. Housing and buildings that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;(*)</p>
Schedule I (Union) - Social Sector - Schedule II (State/Region)	
<p>a. Educational curricula, syllabus, teaching methodology, research, plans, projects and standards;</p> <p>b. Universities, degree colleges, institutes and other institutions of higher education;</p> <p>c. Examinations prescribed by the Union;</p> <p>d. Private schools and training;</p> <p>e. National sports;</p> <p>f. National health;</p> <p>g. Development of traditional medicinal science and traditional medicine;</p> <p>h. Charitable hospitals and clinics and private hospitals and clinics;</p> <p>i. Maternal and child welfare;</p> <p>j. Red cross society;</p> <p>k. Prevention from adulteration, manufacture and sale of foodstuffs, drugs, medicines and cosmetics;</p> <p>l. Welfare of children, youths, women, the disabled, the aged and the homeless;</p> <p>m. Relief and rehabilitation;</p> <p>n. Fire Brigade;</p> <p>o. Working hours, resting-hours, holidays and occupational safety;</p> <p>p. Trade disputes;</p> <p>q. Social security;</p>	<p>a. Matters on traditional medicine not contrary to traditional medicine policies prescribed by the Union;</p> <p>b. Social welfare works within the Region or State;</p> <p>c. Preventive and precautionary measures against fire and natural disasters;</p> <p>d. Stevedoring;</p> <p>e. Having the right of management by the Region or State, the following: (i) preservation of cultural heritage; (ii) Museums and libraries.</p> <p>f. Theatres, cinemas and video houses;</p> <p>g. Exhibitions such as photographs, paintings and sculptures.</p> <p>h. Basic education school management that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*)</p> <p>i. Philanthropic hospitals and clinics, private hospitals and clinics that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*)</p> <p>j. Prevention from adulteration, manufacture and sale of foodstuffs, drugs, medicines and cosmetics that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*)</p>

<p>r. Labour organizations;</p> <p>s. Managements by the Union, the following:</p> <p>(i) Ancient culture or historical sites, buildings, monuments, records, stone inscriptions, ink inscriptions on stucco, palm-leaf parabaiks, handwritings, handiworks, inanimate objects and archaeological works;</p> <p>(ii) Museums and libraries.</p> <p>t. Literature, dramatic arts, music, traditional arts and crafts, cinematographic films and videos; and</p> <p>u. Registration of births and deaths.</p>	<p>k. Welfare of children, youth, women, disable people, the aged and homeless that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*)</p> <p>l. Relief and rehabilitation that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*) and</p> <p>m. Literature, dramatic arts, music, traditional arts and crafts , cinematographic films and videos that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;(*)</p>
Schedule I (Union) - Management Sector - Schedule II (State/Region)	
<p>a. General administration;</p> <p>b. Administration of town and village land;</p> <p>c. Tenants;</p> <p>d. Narcotic drugs and psychotropic substances;</p> <p>e. Union secrets;</p> <p>f. Associations;</p> <p>g. Prisons;</p> <p>h. Development of border areas;</p> <p>i. Census;</p> <p>j. Citizenship, naturalization, termination and revocation of citizenship, citizenship scrutiny and registration; and</p> <p>k. Titles and honours.</p>	<p>a. Development matters;</p> <p>b. Town and housing development;</p> <p>c. Honorary certificates and awards.</p> <p>d. Management of excise tax that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*) and</p> <p>e. Border Area Development and Rural Development activities that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union; (*)</p>

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

Source: *The Constitution of the Republic of the Union of Myanmar Amending Law, Pyidaungsu Hluttaw, Order No. 45/2015.*

Annex 2: Schedule V of the Myanmar Constitution – Taxes and Fees Collected By Region or State

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

Source: 2008 Myanmar Constitution (Official English Translation)

Annex 3: Additions to Schedule V made as part of the July 2015 Amendments

Please note although the utmost efforts have been made to ensure the accurate translation of the amendments, they do not represent official English translations.

20. Tax on Investment that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
21. Tax on Insurance that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
22. Tax on Income that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
23. Commercial taxes that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
24. Customs duties that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
25. Tax on Hotels and lodging houses that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
26. Tax on Tourism that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
27. Tax on Registration of documents that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
28. Tax on Marine fisheries that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
29. Tax on Oils and gas that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
30. Tax on Mineral and Mining that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
31. Tax on Jewelry that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
32. Tax on Others Woods expect Teak and group (1) including Thitya, Ingyin , Pyinkado, Padauk, Thingan-net, Tamalan that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
33. Tax on Industrial activities that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
34. Tax on shipbuilding, repair and maintenance that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
35. Tax on air transport that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;

36. Tax on Housing and Buildings that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
37. Tax on Private schools and training that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
38. Tax on Private hospitals and clinics that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;
39. Tax on Literature, dramatic arts, music, traditional arts and crafts, cinematographic and videos that have the right to be undertaken in the Region or State in accordance with the law enacted by the Union;

Source: The Constitution of the Republic of the Union of Myanmar Amending Law, Pyidaungsu Hluttaw, Order No. 45/2015.

Annex 4: Union Indicative Budget Timelines

Indicative timeline for preparing the Union budget:

No.	Particular	Timeline
1	Issuing of the budget calendar and revenue and expenditure ceilings to Union level organizations by the Ministry of Planning and Finance.	1 st week of September
2	Submission of aggregate proposals and estimates by Union level organizations to the Budget Department.	1 st week of October
3	Analysis and compilation of current expenditure by the Budget Department, the expenditure for purchasing of machinery and equipment expenditures by the Equipment Control Committee, the construction expenditure by the Coordination and Scrutiny Committee of Construction Works for the capital budget and other capital expenditure by the Planning Department.	1 st week of October – 4 th week of October
4	Scrutiny by the Deputy Minister of Planning and Finance.	4 th week of October
5	Resubmission by Union level organizations to the Budget Department after scrutiny by the Deputy Minister of Planning and Finance.	1 st week of November
6	Scrutiny by the Minister of Planning and Finance.	2 nd week of November
7	Resubmission from the Union level organizations to the Budget Department after being scrutinized by the Union Minister of Planning and Finance.	3 rd week of November
8	Scrutiny by the Vice President.	4 th week of November
9	Resubmission by Union level organizations to the Budget Department after scrutiny by the Vice President.	4 th week of November
10	Compilation by the Budget Department.	1 st week of December
11	Submission to the Financial Commission.	2 nd week of December
12	Submission to the Cabinet.	2 nd week of December
13	Provision of detailed Union budget proposals by project and township for review by parliamentarians.	3 rd week of December
14	Provision of detailed Union budget proposals by project and township to the Budget Department.	3 rd week of December
15	Drafting the Union budget proposals into a consolidated Union Budget Bill for submission to the Hluttaw.	1 st week of January
16	Submission of the Union Budget Bill to the Pyidaungsu Hluttaw by the Union Minister of Planning and Finance on behalf of the Union Government.	Before 15 th of January
17	Approval by the Pyidaungsu Hluttaw.	After 2 nd week of February
18	Signing of the Union Budget Law by the President.	Before 4 th week of March

Source: Based on information provided by the Ministry of Planning and Finance on the 29th of July 2016.

Indicative timeline for preparing the Union supplementary budget:

No.	Particular	Timeline
1	Supplementary budget calendar issued to Union level organizations.	1 st week of August
2	Submission of aggregate proposals and estimates by Union level organization to the Budget Department.	2 nd week of August
3	Analysis and compilation by the Budget Department.	3 rd week of August – 1 st week of September
4	Scrutiny by the Deputy Minister of Planning and Finance.	1 st week of September
5	Resubmission from Union level organizations to the Budget Department after scrutiny by the Deputy Minister Of Planning and Finance.	3 rd week of September
6	Scrutiny by the Union Minister of Planning and Finance.	3 rd week of September
7	Resubmission by Union level organizations to the Budget Department after Scrutiny by the Union Minister of Planning and Finance.	4 th week of September
8	Scrutiny by the Vice President.	4 th week of September
9	Resubmission from Union level organization to the Budget Department after scrutiny by the Vice President.	1 st week of October
10	Compilation by the Budget Department.	1 st week of October
11	Submission to the Financial Commission.	2 nd week of October
12	Submission to the Cabinet.	2 nd week of October
13	Provision of detailed Union supplementary budget proposals by project and township for review by parliamentarians.	3 rd week of October
14	Provision of detailed Union supplementary budget proposals by project and township to the Budget Department.	3 rd week of October
15	Drafting the Union supplementary budget proposals into consolidated Union Supplementary Appropriation Bill for submission to the Hluttaw.	3 rd week of October
16	Submission of the Union Supplementary Appropriation Bill to the Pyidaungsu Hluttaw by the Union Minister of Planning and Finance on behalf of the Union Government.	Before 31 st October
17	Approval by the Pyidaungsu Hluttaw.	3 rd week of November
18	Signing of the Union Supplementary Appropriation Law by the President.	After 4 th week of November

Source: Based on information provided by the Ministry of Planning and Finance on the 29th of July 2016.

Annex 5: State and Region Indicative Budget Timelines

Indicative timeline for preparing the state and region budgets:

No	Particular	Timeline
1	Budget calendar is released and indicative ceiling for Union transfers is provided by the Union Cabinet.	1 st week of September
2	Subsidies provided by the Union announced by the Union Minister of Planning and Finance.	2 nd week of September
3	Submissions provided from region/state level organizations to their respective region/state Budget Department.	3 rd week of September
4	Submissions provided to the Head of the Budget Department.	1 st week of November
5	Submission to the Union Minister of Planning and Finance.	2 nd week of November
6	Analyzed by the Vice President.	4 th week of November
7	Submission to the Financial Commission.	2 nd week of December
8	Submission to the Pyidaungsu Hluttaw.	Before 15 th day of January
9	Union transfers approved by the Pyidaungsu Hluttaw.	After 2 nd week of February
10	Union transfers are confirmed by the Union Cabinet.	After 2 nd week of February
11	Submission to the region/state Hluttaw.	After 2 nd week of February
12	Approval by the region/state Chief Minister.	After 2 nd week of February

Source: Based on information provided by the Ministry of Planning and Finance on the 29th of July 2016.

Indicative timeline for preparing the state and region supplementary budgets:

No	Particular	Timeline
1	Budget calendar issued.	3 rd week of July
2	Submissions from region/state level organizations to the Budget Department in the region/state.	1 st week of August
3	Submission to the Head of the Budget Department.	3 rd week of August
4	Analysis by the Minister of Finance.	1 st week of September
5	Analysis by the Vice President.	4 th week of September
6	Resubmission from region/state after scrutiny from the Vice President.	1 st week of October
7	Submission to the Financial Commission.	2 nd week of October
8	Submission to the Pyidaungsu Hluttaw through the Union Cabinet.	Before 31 st October
9	Approval by the Pyidaungsu Hluttaw.	3 rd week of November
10	Approval by the region/state Chief Minister.*	After 3 rd week of November

*The involvement of the state/region Hluttaw in the Supplementary budget process can vary across state and region.

Source: Based on information provided by the Ministry of Planning and Finance on the 29th of July 2016.

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Myanmar Centre for Economic and
Social Development

No. (27), Pyay Road, 6½ Mile,
Hlaing Township,
Yangon, Myanmar.

Tel: +95-1 654770

Fax: +95-1 654771

Web: <http://www.myanmarcesd.org>

Japan International Cooperation Agency
(Myanmar office)

701 Sakura Tower,
339 Bogyoke Aung San Road,
Kyauktada Township,
Yangon, Myanmar.

Tel: +95-1-255473

Fax: +95-1-255477

Web: <http://www.jica.go.jp>