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A STUDY ON FISCAL DECENTRALIZATION SYSTEM AMONG STATES AND REGIONS

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A STUDY ON FISCAL DECENTRALIZATION SYSTEM AMONG STATES AND REGIONS

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This is to certify that the thesis entitled **"A STUDY ON FISCAL DECENTRALIZATION SYSTEM AMONG STATES AND REGIONS"**, submitted as partial fulfillment towards the requirements for the degree of Executive Master of Development Studies has been accepted by the Board of Examiners.

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ABSTRACT

The 2008 Constitution and reforms, fiscal decentralization aims to enhance local governance through intergovernmental transfers and the Medium-Term Fiscal Framework (MTFF), which allocates resources based on population, poverty levels, and fiscal capacity. Although state and regional revenues and expenditures have increased, their share remains small compared to union revenues. Challenges include centralized control, uneven resource distribution, and limited regional capacity, all of which hinder effective fiscal decentralization. This study investigates Myanmar's fiscal decentralization, focusing on its impact on local economic development and the distribution of budgets to states and regions by using the budgeting data from 2011-2012 FY to 2024-2025 FY and use the descriptive analysis method by quantitative approach. To improve fiscal decentralization in Myanmar, several policy recommendations are proposed. These include enhancing regional revenue generation through local taxation frameworks and technical support, improving clarity in expenditure mandates, and refining the MTFF to address regional disparities. Capacity-building initiatives for regional governments, better coordination between central and regional authorities, and regular review of special grants are essential. Increased transparency and accountability in budgeting, alongside targeted training for policymakers, will also strengthen local governance. Implementing these measures can enhance decentralization, promoting equitable regional development and improving economic outcomes.

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LIST OF ABBREVIATION

CBM	Central Bank of Myanmar
DL	Drawing Limit
FESR	Framework of Economic and Social Reform
FLD	Farmland Development
FY	Fiscal Year
GDP	Gross Domestic Product
GFI	Geographic Fragmentation Index
GMM	Generalized Method of Moments
LTO	Large Taxpayer Office
MEB	Myanmar Economic Bank
MMDAs	Metropolitan, Municipal, District Assemblies
M-MPFMp	Myanmar Modernization of Public Finance Management Project
MOPF	Ministry of Planning and Finance
MPs	Member of Parliament
MTFF	Medium Term Fiscal Framework
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
OSODTF	One-stop Service Office for District/Township Fund
PEFA	Public Expenditure and Financial Accountability
RDF	Regional Development Fund
RDPAF	Rural Development & Poverty Alleviation Fund
RHP	Rental Housing Project
SAOs	State Administrative Organizations
SEEs	State-owned Economic Enterprises
SOE	State-owned Enterprises
S/R	States and Regions
TDMF	Township Development & Management Fund
UFA	Union Fund Account

CHAPTER I
INTRODUCTION

1.1 Rationale of the Study

Fiscal decentralization in Myanmar is grounded in the country's unique socio-political and economic context, as well as the potential implications of decentralization for its ongoing development and governance reforms. Myanmar, a nation undergoing a significant transition from decades of centralized military rule to a more democratic governance structure, presents a compelling case for examining the impact and effectiveness of fiscal decentralization.

On the other hand, fiscal decentralization shifts some of these responsibilities to subnational governments, giving them more autonomy in managing local finances, taxation, and public services. This decentralization can lead to more efficient resource allocation and better-tailored public services, as local governments are closer to the needs of their communities. However, it also introduces challenges, such as the risk of fiscal imbalances if local governments cannot manage their budgets effectively. Decentralized systems require robust intergovernmental coordination to maintain fiscal discipline and ensure that subnational fiscal policies align with national macroeconomic (Shah, 2006).

Fiscal decentralization can enhance local economic development by allowing subnational governments to invest in growth-enhancing sectors like infrastructure and education. However, these local efforts must be supported by national macroeconomic policies, such as favorable interest rates and investment incentives, to be truly effective. Intergovernmental fiscal transfers also play a critical role in decentralized systems by addressing regional disparities and ensuring that all regions, regardless of their wealth, can contribute to national economic goals (Filippetti & Sacchi, 2016).

During economic crises, the central government's role in stabilizing the economy through fiscal and monetary policies remains crucial. However, in a decentralized system, subnational governments also play a significant role in crisis management, particularly in delivering social services and supporting local economies. The effectiveness of these responses depends heavily on the fiscal autonomy and resources available to local governments (Smoke et al., 2023).

Therefore, the linkage between macroeconomic policy and fiscal decentralization is defined by the interplay between centralized control and decentralized autonomy. While centralization provides a stable framework for national economic management, decentralization offers the potential for more responsive and efficient governance at the local level. However, the success of this balance depends on effective coordination and capacity-building across all levels of government.

Myanmar's diverse ethnic composition and historical regional disparities have long posed challenges to national unity and equitable development. Fiscal decentralization, which involves the devolution of financial responsibilities and decision-making powers from the central government to subnational entities, offers a potential mechanism for addressing these issues. By empowering local governments with greater control over revenue generation and expenditure, fiscal decentralization can promote more responsive and regionally tailored governance, thereby enhancing public service delivery and economic development across different regions.

Moreover, Myanmar’s ongoing political reforms and peace processes underscore the need for a governance framework that accommodates the aspirations of various ethnic groups and regions. Fiscal decentralization is often viewed as a key component of such a framework, offering a means to enhance local autonomy while maintaining national coherence (Stokke, Vakulchuk, & Overland, 2018).

Myanmar's economic development strategy, which seeks to transition from a largely agrarian economy to a more diversified and market-oriented one, necessitates effective governance at all levels. Fiscal decentralization can play a pivotal role in this transformation by enabling local governments to mobilize resources and implement development policies that are closely aligned with local needs and conditions (Findlay et al., 2015b).

In the context of a developing country, the study of fiscal decentralization supports the understanding of contributing to reducing regional inequalities and fostering a more inclusive and balanced economic growth trajectory, potential to support the broader goals of political stability, peacebuilding, democratization, governance structures and implementation of decentralization in securing long-term peace, and political stability, and supporting economic modernization and sustainable development, particularly in emerging economies with similar challenges. Moreover, the term fiscal decentralization is directly affect to the state and regions in terms of freedom in autonomy, budgeting and economic activities. It is important to contribute the consideration of the status of states and regions in those sectors with the fiscal decentralization. Therefore, the findings from this study can provide valuable insights for policymakers in Myanmar and other nations facing similar challenges, thereby contributing to the ongoing discourse on governance and development in transition economies.

1.2 Objective of the Study

The objectives of the study are as follows:

(1) to describe the fiscal decentralization system of Myanmar

(2) to identify the challenges of fiscal decentralization and examine the difficulties in the practices of Myanmar.

1.3 Method of Study

This study uses the descriptive analysis method by quantitative approach. The secondary data was utilized to conduct this dissertation. The data and information will be obtained from the Budget Department, under the Ministry of Planning and Finance, Myanmar from 2011-2012 FY to 2024-2025 FY. Most of the information is acquired from both those departments and literature reviews including textbooks, publications, thesis papers, research papers, reports, articles, journals, and internet websites.

1.4 Scope and Limitation of the Study

This study mainly focuses on changes in the fiscal policy after the initiation of the macroeconomic reform measures in Myanmar since 2000. Particularly, the budget allocation between the states and regions is mainly emphasized. The study period is 2000 onwards. This study uses the revenue and expenditure data of States and Regions in terms of budget classification according to their nature.

1.5 Organization of the Study

This study is organized into five chapters. Chapter One expresses the introduction part of the study including the rationale of the study, the objective of the study, the method of study, the scope and limitations of the study, and the organization of the study. Chapter two expresses the relevant theories of fiscal decentralization and its impact on country development from the aspect of macroeconomics. Chapter three describes the background and system of fiscal decentralization in Myanmar. Chapter four will explore the status of decentralization in Myanmar to investigate the weak points of the current fiscal decentralization and examine the difficulties in practices. Chapter five discusses the findings and supports the policy recommendation of the study.

CHAPTER II
LITERATURE REVIEW

2.1 Definition and Concept of Fiscal Decentralization

Fiscal decentralization refers to the process of transferring financial authority and responsibilities from central to subnational levels of government, such as states, provinces, or municipalities. This transfer typically involves the devolution of powers related to revenue generation, expenditure allocation, and fiscal management. The core idea behind fiscal decentralization is to empower local governments to manage their resources and address the specific needs of their communities more effectively, while still aligning with broader national economic and policy objectives (Tanzi, 1995).

The basic concept of fiscal decentralization is rooted in the principle of subsidiarity, which suggests that decisions should be made at the lowest possible level of government, closest to the citizens affected by those decisions. By decentralizing fiscal responsibilities, governments aim to improve the efficiency, responsiveness, and accountability of public service delivery. Local governments, having better knowledge of regional preferences and conditions, are often better positioned to tailor public goods and services to meet the unique demands of their constituents (Drew & Grant, 2017).

Fiscal decentralization is a multifaceted process that includes various types, each contributing to the overall objective of enhancing local autonomy, efficiency, and accountability in public finance. The successful implementation of fiscal decentralization requires a careful balance of these types, tailored to the specific institutional and economic context of a country. The implementation of fiscal decentralization can vary widely depending on the political, economic, and institutional context of a country. While it has the potential to improve governance and economic outcomes by bringing decision-making closer to the people, it also presents challenges, such as the risk of fiscal imbalances, disparities in administrative capacity, and the need for strong intergovernmental coordination.

Therefore, fiscal decentralization is a complex process aimed at enhancing the effectiveness, efficiency, and responsiveness of government by distributing fiscal powers across different levels of government. Its success depends on careful design and implementation, ensuring that local governments have the necessary resources, autonomy, and capacity to fulfill their responsibilities while maintaining coherence with national fiscal and policy goals (Mullins, 2003).

Macroeconomic policy plays a critical role in ensuring sustainable economic growth and effective governance by balancing national objectives with local autonomy. Decentralization involves transferring certain fiscal responsibilities and decision-making powers from central to subnational governments, such as states, provinces, or municipalities. In this context, macroeconomic policy must be carefully designed to maintain overall economic stability while empowering local governments to foster growth and governance tailored to regional needs (Chugunov & Makohon, 2019).

The relationship between macroeconomic policy and fiscal decentralization is shaped by the balance between centralized and decentralized governance structures. In a centralized system, macroeconomic policies, such as monetary control, fiscal discipline, and resource allocation, are predominantly managed by the central government. This centralized control helps maintain national economic stability, manage inflation, control unemployment, and ensure consistent economic growth across regions. The central government also takes responsibility for maintaining fiscal discipline by managing budget deficits and public debt, which is crucial for national and international investor confidence. Additionally, centralized control over tax policies and revenue mobilization allows the central government to ensure equity across regions and avoid harmful tax competition that could erode the tax base.

2.2 Dimensions of Fiscal Decentralization

Fiscal decentralization can be categorized into several distinct types, each representing different aspects of the transfer of financial authority from central to subnational governments. These types reflect the varied mechanisms through which decentralization can occur, and understanding them is essential for analyzing the design and implementation of decentralized governance systems. The primary dimensions of fiscal decentralization are expenditure decentralization, revenue decentralization, intergovernmental transfer, tax decentralization, local borrowing, administrative decentralization, and political decentralization (Schneider, 2003).

(i) Expenditure Decentralization

Expenditure decentralization refers to the delegation of spending responsibilities to subnational governments. This type involves determining which level of government—central, regional, or local—is best suited to provide specific public goods and services. The objective is to enhance the efficiency and effectiveness of public service delivery by aligning responsibilities with the government level that can most effectively meet local needs and preferences. For instance, local governments might manage education, healthcare, and municipal services, while the central government retains control over national defense and large-scale infrastructure projects. In the case of the construction of a bridge, design, and construction should be assigned to the central government. However, maintenance should be assigned to the local government.

Successful expenditure decentralization requires a clear delineation of responsibilities and adequate resources to match these responsibilities. It involves determining which level of government is responsible for providing specific public services. The goal is to match the level of government to the services it can most effectively deliver, considering factors such as economies of scale and the ability to tailor services to local preferences (Schneider, 2003).

One way to examine the adequacy of expenditure assignments is to analyze how well the actual assignment of responsibilities fits the fundamental rules for the ideal assignment of responsibilities in a centralized system of government (McLure & Martinez-Vazquez, 2000). According to the World Bank, it is important to state expenditure responsibilities as clearly as possible to enhance accountability and to reduce unproductive overlap, duplication of authority, and legal challenges.

Bahl (2008) points out that "The assignment of an "appropriate" expenditure responsibility to the subnational governmental level is a necessary condition for fiscal decentralization. Giving the local government the autonomy to decide on how it will deliver the service and to decide on how much it will spend on the service is the sufficient condition."

(ii) Revenue Decentralization

Revenue decentralization involves granting subnational governments the authority to generate their own revenues through taxation, fees, and other means. The aim is to provide these governments with financial autonomy, allowing them to fund their assigned expenditures independently. This type of decentralization can take various forms, including the assignment of specific taxes to local governments, the power to set tax rates, and the ability to collect and retain local revenues. It includes mainly the following two things; to identify what types of tax should be collected, to clarify how to collect assigned taxes at each level of government.

The effectiveness of revenue decentralization hinges on the capacity of subnational governments to manage their tax systems efficiently and equitably, as well as the design of revenue-sharing arrangements to address disparities in revenue-generating potential across regions. It relates to the allocation of taxing powers among different levels of government. Ideally, subnational governments should have sufficient revenue autonomy to finance the services they provide. This can involve local taxes, fees, and other forms of revenue generation, allowing subnational entities to respond to local needs while maintaining fiscal discipline. For instance, fees, user charges, or property tax should be assigned at the local level. Local governments can get more information on individual or corporate taxpayers than the central government when they impose fees, user charges, or property tax (Schneider, 2003).

Tax decentralization is a subset of revenue decentralization and focuses specifically on the devolution of taxing powers to subnational governments. This type includes granting local authorities the power to levy and collect taxes, such as property taxes, local sales taxes, or income taxes. Effective tax decentralization can enhance local accountability, as governments that rely on locally generated revenues are more likely to be responsive to the needs and preferences of their constituents. However, challenges include ensuring that local tax bases are sufficient to meet expenditure needs and avoiding excessive tax competition between regions that could erode the overall tax base (Liberati & Sacchi, 2012).

The most fundamental purpose of revenue assignments is to get adequate levels of financing because sub-national governments can implement the responsibilities that have been assigned to them (Martinez-Vazquez, 2008). Moreover, Bahl (2008) mentioned that "The conditions for successful fiscal decentralization are that sub-national governments should have some autonomy in determining levels of revenue and expenditure and that they should balance their budgets."

(iii) Intergovernmental Transfers

Intergovernmental transfers are a key feature of fiscal decentralization, addressing the vertical and horizontal fiscal imbalances that may arise. Vertical imbalances occur when subnational governments' revenue-raising capacities are insufficient to meet their expenditure responsibilities, while horizontal imbalances refer to disparities in fiscal capacity across regions. Transfers from central to subnational governments, such as grants or revenue-sharing mechanisms, are designed to correct these imbalances, ensuring equitable access to public services across regions (Boadway, 2001).

Transfers can be conditional or unconditional. Conditional grants are earmarked for specific purposes, such as healthcare or education, and are often used to achieve national policy objectives. Unconditional grants provide subnational governments with greater flexibility in how they use the funds, supporting local autonomy. The design of these transfers is critical to maintaining fiscal equity and efficiency within a decentralized system with the fulfillment of objective, transparent, and stable. The well-established formula is also required because local governments need to foresee how much they receive and spend to make their budgets (Yilmaz & Bindebir, 2003).

Intergovernmental transfer refers to the allocation of fiscal resources from central government to local governments to fill the fiscal gap of local governments. Local governments cannot implement their expenditure responsibilities with their revenue assignment, so the central government transfers the fiscal resources to deliver public goods and services.

Governments have taken three basic approaches to determining the vertical share for subnational governments: (a) to share a defined percent of the revenues of the higher-level government, (b) to use an ad hoc approach that the vertical share is defined by a discretionary decision, and (c) to cover a portion of "allowable costs" of lower-level governments (Bahl, 2008).

(iv) Local Borrowing

Local borrowing means that the subnational governments may be granted the authority to borrow funds for capital investments or to manage cash flow. Effective regulation and oversight are essential to prevent excessive borrowing that could jeopardize macroeconomic stability. Local borrowing decentralization refers to granting subnational governments the authority to borrow funds to finance capital investments or manage cash flow. This type of decentralization is often crucial for enabling local governments to undertake large-scale infrastructure projects that require significant upfront investment. Local governments can borrow money (or funds) to fulfill the fiscal gap between their local revenue and their expenditure responsibilities from not only private capital markets directly but also the central government.

In subnational borrowing, a well-designed regulatory framework is necessary not to use money (or funds) in useless expenditure categories or not to exceed their ability to repay the debt which could threaten both local and national fiscal stability. Central governments often impose borrowing limits or require approval for large loans to mitigate these risks (Kehew, Matsukawa, & Petersen, 2005).

(v) Administrative Decentralization

Administrative decentralization is closely related and involves the transfer of administrative responsibilities and capacities to subnational governments. This includes the devolution of authority to implement and manage public services, collect revenues, and enforce regulations. Effective fiscal decentralization often requires corresponding administrative decentralization to ensure that subnational governments have the institutional capacity to manage their new fiscal responsibilities efficiently (Treisman, 2002).

(vi) Political Decentralization

Political decentralization plays a critical role in the success of fiscal decentralization. It involves empowering local governments through elected bodies that represent local constituencies. Political decentralization ensures that fiscal decisions at the local level are made by officials who are accountable to their electorate, thereby enhancing the legitimacy and responsiveness of fiscal policies. This type of decentralization underpins the fiscal framework by ensuring that subnational governments have the political authority and legitimacy to exercise their fiscal powers effectively (Devarajan, Khemani, & Shah, 2009).

2.3 Types of Fiscal Decentralization

Fiscal decentralization can take several forms, each representing a different approach to distributing financial responsibilities and powers among various levels of government. The types of fiscal decentralization are generally categorized into four main types: deconcentration, delegation, devolution, and fiscal autonomy. These types vary in the degree of autonomy and authority granted to subnational governments (Bahl, 2008).

(i) Deconcentration

Deconcentration is the weakest form of fiscal decentralization. It involves the redistribution of decision-making authority and responsibilities within the central government itself, often to regional or local offices. In this model, local offices or administrative units are given the responsibility to execute certain functions or manage specific budgets, but they remain under the direct control and supervision of the central government. While deconcentration can improve administrative efficiency and bring government services closer to the public, it does not provide true fiscal autonomy to local governments. The central government retains significant control over financial decisions, limiting the ability of local offices to respond to specific regional needs independently (Shah, 2004).

(ii) Delegation

Delegation involves the transfer of certain fiscal responsibilities from the central government to semi-autonomous agencies, public enterprises, or subnational governments. These entities are given the authority to manage specific functions and financial resources, often within a defined framework set by the central government. Delegation allows for more flexibility and responsiveness in managing public services, as the delegated entities can make decisions tailored to local circumstances. However, the central government retains the power to revoke or alter the delegated authority, meaning that local entities operate under conditional autonomy (Lokpriy, 2021).

(iii) Devolution

Devolution is a more comprehensive form of fiscal decentralization, where significant financial powers and responsibilities are transferred to subnational governments. This includes authority over revenue generation (taxation), expenditure decisions, and often the ability to borrow. Devolved governments have legally recognized autonomy to manage their finances and are accountable to their constituents rather than the central government. Devolution can enhance local governance by empowering subnational governments to address regional priorities and needs more effectively. It encourages local accountability and can lead to more efficient and responsive public service delivery. However, successful devolution requires strong local governance capacity and effective coordination between different levels of government to prevent fiscal imbalances and ensure macroeconomic stability (Daughters, & Harper, 2007).

(iv) Fiscal Autonomy

Fiscal autonomy is the highest degree of fiscal decentralization, where subnational governments have extensive authority to generate and manage their own financial resources with minimal intervention from the central government. This includes full control over local taxation, budgeting, and expenditure decisions, as well as the ability to borrow funds for development projects. Fiscal autonomy allows subnational governments to tailor their fiscal policies to the specific needs and preferences of their local populations, promoting efficient and responsive governance. However, it also places significant responsibility on local governments to maintain fiscal discipline and manage their resources effectively. Without adequate capacity and oversight, there is a risk of fiscal mismanagement or disparities in public service provision across regions.

Each type of fiscal decentralization offers different levels of autonomy and responsibility to subnational governments, and the choice of model depends on the political, economic, and institutional context of a country. In practice, many countries implement a combination of these types, gradually increasing the degree of decentralization as local governance structures and capacities develop. Understanding the different types of fiscal decentralization is crucial for designing effective decentralization strategies that balance the benefits of local autonomy with the need for national coherence and fiscal stability (Psycharis, Zoi, & Iliopoulou, 2016).

2.4 Role of Macroeconomic Policy in Fiscal Decentralization

Macroeconomic policy supports sustainable economic growth in a decentralized system by providing a stable national framework within which subnational governments can operate. Central governments set broad fiscal and monetary policies that create a predictable environment for investment and economic activity across the country. This stability is crucial for local governments, as it allows them to plan and implement development projects with confidence. For instance, stable inflation rates and controlled interest rates, determined at the national level, enable local governments to finance infrastructure projects and social services without the risk of macroeconomic instability undermining their efforts (Amagoh, & Amin, 2012).

Effective governance in a decentralized system relies on the alignment between national macroeconomic policies and local fiscal policies. While local governments have the autonomy to manage their budgets, raise revenue, and deliver public services, these activities must be coordinated with national economic objectives. Macroeconomic policy plays a crucial role in setting the parameters within which local governments operate, such as establishing fiscal rules that prevent excessive local borrowing or ensuring that local taxation policies do not undermine national revenue systems. By maintaining this balance, macroeconomic policy ensures that decentralization leads to more responsive and efficient governance without compromising national economic stability (Shah, 2004).

Moreover, decentralization often involves intergovernmental fiscal transfers, where the central government allocates funds to subnational governments to address regional disparities and ensure equitable public service delivery. Macroeconomic policy influences the design and effectiveness of these transfers, ensuring they support sustainable growth across all regions. For example, well-designed transfer systems can incentivize local governments to improve their fiscal management and invest in long-term development projects, contributing to overall economic sustainability. However, poor coordination or misalignment between national and local policies can lead to inefficiencies, fiscal imbalances, or even macroeconomic instability, highlighting the importance of coherent macroeconomic policy in a decentralized governance structure (Bahl, 2008).

In crises, the role of macroeconomic policy in a decentralized system becomes even more critical. National governments must use macroeconomic tools, such as fiscal stimulus or monetary easing, to stabilize the economy while ensuring that subnational governments have the resources and capacity to respond effectively at the local level. This requires strong coordination and communication between different levels of government, supported by a macroeconomic policy framework that allows for flexible and targeted interventions. In doing so, decentralization can enhance resilience and recovery, provided it is underpinned by a stable and supportive macroeconomic environment (Antal & Van Den Bergh, 2013).

Macroeconomic policy is essential for balancing the benefits of local autonomy with the need for national economic stability. It provides the foundation for sustainable economic growth by ensuring a stable environment for local governance and development. Additionally, it plays a vital role in maintaining effective governance by coordinating national and local fiscal policies, managing intergovernmental transfers, and supporting crisis management efforts, ensuring that decentralization leads to more responsive and resilient governance.

2.5 Fiscal Risk, Fiscal Responsibility and Fiscal Rules

Fiscal decentralization, a process wherein subnational governments are granted greater autonomy over their revenues and expenditures, has become an integral part of public sector reforms worldwide. The rationale behind fiscal decentralization is to enhance efficiency, accountability, and responsiveness of governments by bringing decision-making closer to the people. However, with increased autonomy, subnational governments also face significant fiscal risks, necessitating robust fiscal responsibility frameworks and well-defined fiscal rules to ensure macroeconomic stability and sustainable public finances.

Fiscal risk refers to the potential deviations from expected fiscal outcomes, which can arise due to various factors such as macroeconomic shocks, changes in policy, or unforeseen contingencies. In a decentralized system, fiscal risks are amplified as subnational governments have varying capacities to manage their finances. These risks can materialize through excessive borrowing, poor expenditure management, or revenue shortfalls, leading to unsustainable fiscal positions. The central government's role in managing these risks is crucial, as the failure of a subnational entity can have spillover effects on the national economy, potentially leading to bailouts and undermining the overall fiscal discipline (Ahmad, Albino-War, & Singh, 2006).

Fiscal responsibility in the context of decentralization involves the establishment of a framework that ensures subnational governments are accountable for their fiscal decisions. This includes the adoption of transparent budgeting practices, adherence to fiscal targets, and the implementation of mechanisms that prevent the accumulation of unsustainable debt. Fiscal responsibility frameworks often require subnational governments to maintain balanced budgets, limit borrowing, and ensure that expenditures are matched by revenues. These measures are intended to promote fiscal discipline and reduce the likelihood of fiscal risks materializing (Rodden, 2002).

Fiscal rules are legally binding constraints on fiscal policy, typically aimed at ensuring long-term fiscal sustainability and avoiding excessive deficits and debt accumulation. In decentralized systems, fiscal rules must be carefully designed to balance autonomy with responsibility. Common fiscal rules include debt ceilings, expenditure limits, and balanced budget requirements. However, the effectiveness of these rules depends on the capacity of subnational governments to comply with them and the enforcement mechanisms in place. Strong fiscal rules can mitigate fiscal risks by constraining the ability of subnational governments to engage in pro-cyclical spending or excessive borrowing, thereby supporting overall macroeconomic stability (Ter-Minassian, 1997).

The central government plays a critical role in managing fiscal risks in a decentralized system. It must provide oversight and, where necessary, intervention to ensure that subnational governments adhere to fiscal responsibility frameworks and fiscal rules. This can involve setting borrowing limits, monitoring fiscal performance, and providing technical assistance to build the capacity of subnational entities. Additionally, intergovernmental transfers should be designed to provide incentives for good fiscal management, rather than creating dependencies or encouraging fiscal indiscipline (Perry, 2010).

2.6 The Budget Process at the Subnational Level

The budget process at the subnational level is a critical aspect of fiscal governance in decentralized systems. It determines how resources are allocated, how public expenditures are planned and executed, and how financial accountability is maintained. Effective budget processes at the subnational level are essential for achieving fiscal discipline, promoting transparency, and ensuring that public resources are used efficiently to meet the needs of local populations. The intricacies of the budget process at this level involve several stages, including budget formulation, approval, execution, and oversight, each of which plays a vital role in the overall fiscal health of subnational governments.

1. **Budget Formulation** : The formulation of the budget at the subnational level typically begins with the preparation of revenue and expenditure forecasts. This stage involves estimating the financial resources available, including own-source revenues (e.g., local taxes and fees) and transfers from higher levels of government. The expenditure side of the budget is driven by the need to address local priorities, which are often outlined in development plans or policy frameworks established by subnational authorities. Budget formulation also requires the participation of various stakeholders, including local government departments, elected officials, and, in some cases, the public, to ensure that the budget reflects the priorities and needs of the community (Schroeder, 2007).
2. **Budget Approval**: Once formulated, the budget proposal is typically submitted to the subnational legislature for approval. The legislative review process is crucial for ensuring that the budget is aligned with policy priorities

and that proposed expenditures are justified. Legislators may amend the budget to better reflect local priorities or to correct imbalances between revenues and expenditures. The approval process at this level can vary significantly depending on the legal framework and institutional arrangements in place, but it generally includes public hearings, debates, and committee reviews to ensure transparency and accountability (Shah, 2007).

3. **Budget Execution**: After legislative approval, the budget enters the execution phase, where planned expenditures are implemented, and revenues are collected. Effective budget execution requires strong financial management systems, including mechanisms for cash management, procurement, and expenditure control. At the subnational level, the capacity to execute the budget efficiently can be limited by factors such as inadequate administrative capacity, delays in receiving transfers from higher levels of government, or challenges in revenue collection. Therefore, robust monitoring systems are essential to track progress and address any deviations from the budget plan (De Mello, 2001).
4. **Budget Oversight and Accountability**: Oversight and accountability are crucial components of the subnational budget process. This stage involves the review and audit of budget execution to ensure that funds are used as intended and that any discrepancies are identified and addressed. Subnational governments are typically required to produce financial reports and undergo external audits by independent bodies, such as state or regional audit offices. Effective oversight helps to prevent corruption, improve the efficiency of public spending, and enhance the credibility of the budget process (Andrews & Shah, 2003).

While the budget process at the subnational level is essential for local governance, it faces several challenges. These include limited administrative and technical capacity, inadequate data for revenue and expenditure forecasting, and political interference in budgetary decisions. However, there are also opportunities for improvement, such as the adoption of participatory budgeting practices, which involve citizens directly in budget decisions, and the use of technology to enhance transparency and efficiency in budget execution (Agranoff, 2004).

The budget process at the subnational level is a complex but crucial element of decentralized governance. By ensuring that local governments can formulate, approve, execute, and oversee their budgets effectively, subnational entities can better meet the needs of their populations and contribute to broader fiscal stability. Strengthening the budget process at this level is essential for enhancing the overall quality of public financial management in decentralized systems.

2.7 Review on Previous Studies

The relationship between fiscal decentralization and economic growth is a subject of ongoing debate, with the theoretical foundations for this link remaining largely underdeveloped.

Bahl and Nath (1986) investigate the extent and determinants of public expenditure decentralization in developing countries, using data from international and primary sources. Their analysis reveals that fiscal decentralization is more advanced in developed countries compared to developing ones. Through factor and regression analyses, they identify three key factors influencing fiscal decentralization: higher levels of economic development, larger populations, and lower defense burdens in central government budgets.

Martinez-Vazquez and McNab (2003) highlight that while fiscal decentralization may have a direct impact on economic growth, the empirical evidence supporting this relationship is inconclusive. There is still considerable uncertainty about how decentralization policies should be designed and implemented to enhance economic growth, indicating that further research is necessary before concrete policy recommendations can be made.

Iimi (2005) explores the relationship between fiscal decentralization and economic growth, addressing the mixed empirical findings from earlier studies. Using the instrumental variables (IV) technique and cross-country data from 1997 to 2001, the study finds that fiscal decentralization, particularly in fiscal expenditures, has a significant positive impact on per capita GDP growth. This suggests that fiscal decentralization played a crucial role in promoting economic growth.

Akai et al. (2007) examines how intra- and inter-regional complementarity structures influence the relationship between economic growth and fiscal decentralization by using a panel dataset of the fifty U.S. states from 1992 to 1997. Their empirical findings reveal a hump-shaped relationship between fiscal decentralization and economic growth, consistent with their theoretical model. The analysis indicates that the optimal level of fiscal decentralization for promoting economic growth is higher than the current average in some instances, suggesting that further decentralization could be beneficial for economic growth under specific conditions.

Bodman (2011) investigates the impact of fiscal decentralization (FD) on economic growth, a pertinent issue given the ongoing focus on government decentralization in OECD countries. The study incorporates various measures of fiscal decentralization to better capture the direct effects of different levels of subnational fiscal autonomy on economic growth. The findings reveal little evidence of a direct relationship between fiscal decentralization and output growth.

Faridi, Chaudhry, and Ansari (2012) examine the role of fiscal decentralization in generating employment opportunities in Pakistan, using time series data from 1972 to 2009. Applying the Ordinary Least Squares (OLS) method to estimate employment models, the study finds that expenditure decentralization has a positive and significant impact on employment creation, whereas revenue decentralization is not conducive to employment generation. The authors also note that poverty and inequality hinder employment in Pakistan. The study suggests that enhancing fiscal autonomy is crucial for creating more employment opportunities in the country.

Baskaran and Feld (2012) contribute to this discussion by examining the impact of fiscal decentralization on economic growth across twenty-three OECD countries from 1975 to 2008. Their findings suggest that when using GFS-style measures, fiscal decentralization has a negative but statistically insignificant effect on growth. However, when measures accounting for subnational tax autonomy are used, the negative impact on growth becomes larger and statistically significant. From a policy perspective, their study suggests that policymakers should carefully consider the economic trade-offs associated with increasing fiscal decentralization, particularly the importance of subnational tax autonomy in shaping outcomes.

Gemmell et al. (2013) explore the relationship between fiscal decentralization and economic growth by examining whether efficiency gains from decentralization contribute to higher growth rates in more decentralized economies. Using pooled-mean group techniques on a panel dataset of 23 OECD countries from 1972 to 2005, they find a nuanced relationship: spending decentralization tends to be associated with lower economic growth, whereas revenue decentralization correlates with higher growth. It also suggests that reducing expenditure decentralization while increasing the share of locally financed revenues could enhance economic growth in these economies.

Setiawan and Aritenang (2019) explore the impact of fiscal decentralization on regional economic performance, considering the influence of neighboring regions through trade, technology diffusion, capital flow, and political stability. The study concludes that fiscal decentralization significantly impacts economic performance with a lag of three years. This finding implies that public budgeting decisions will have a noticeable effect on economic performance three years later.

Hanif et al. (2020) investigate the impact of fiscal decentralization on economic growth in developing federations, expanding the analysis beyond the traditionally studied developed world. Using panel data from 15 developing federations between 2000 and 2015, the study employs a two-step system Generalized Method of Moments (GMM) estimation method. The results indicate that both tax revenue and expenditure decentralization have a significant and positive impact on economic growth in these countries. However, the study also finds that the effectiveness of fiscal decentralization in promoting growth is contingent upon the quality of the country's institutions and the level of perceived corruption. Specifically, the positive effects of decentralization are diminished in countries with high levels of corruption, weak institutions, or political instability. Conversely, countries with lower corruption levels, strong institutions, and stable political environments can better leverage fiscal decentralization to enhance economic growth.

Jin, J., & Rider, C. (2020) focused on the effect of fiscal decentralization on rural infrastructure in Myanmar from 2011 to 2018. It found that revenue autonomy positively affects earth road construction, indicating a bidirectional causal relationship between revenue autonomy and infrastructure development. The study suggests aligning revenue autonomy policies with infrastructure goals for improved outcomes.

CHAPTER III
FISCAL REFORM MEASURE IN MYANMAR

3.1 Brief overview on Myanmar Political Economy

Myanmar, also known as Burma, located in Southeast Asia, covers an expansive area of 676,5775 km2 and shares borders with Bangladesh, China, India, Laos, and Thailand. The country boasts abundant natural resources including arable land, forests, rivers, coastlines, and diverse mineral deposits, alongside significant reserves of oil, gas, and hydroelectric potential. Key industries such as agriculture, mining, and manufacturing, including products like petroleum, wood, metals, and gems, form vital components of its economy.

Historically, Myanmar has confronted various economic challenges rooted in political instability, economic mismanagement, and international sanctions, particularly during military rule from the 1990s to the early 2000s. These periods were marked by corruption and a lack of economic reforms that stifled foreign investment and economic growth, although the agriculture sector remained pivotal, focusing notably on rice production (Pedersen, 2005).

Myanmar's economic history, particularly concerning fiscal decentralization, is marked by significant transitions that reflect broader political and economic changes. This historical narrative can be divided into several key periods: the colonial era, post-independence, military rule, and the transition to a semi-democratic system;

1. Colonial Era (1824-1948)
2. Post-Independence (1948-1962)
3. Military Rule (1962-2011)
4. Transition to a Semi-Democratic System (2011-Present)

During the British colonial period, Myanmar (then Burma) experienced a centralized administrative structure with limited fiscal decentralization. The British implemented a system where fiscal responsibilities were primarily managed at the center, with local governance structures playing a minimal role in fiscal matters (Hlaing, 2018). The British colonial government collected taxes directly and controlled the major revenue sources, leaving local governments with limited fiscal autonomy.

Following independence in 1948, Myanmar's initial post-colonial government aimed to establish a more decentralized administrative structure. The 1947 Constitution introduced some degree of fiscal decentralization, allowing local governments to manage certain local taxes and expenditures (Win, 2014). However, this period of decentralization was short-lived as political instability and the rise of military influence soon overshadowed these early efforts.

The 1962 military coup led by General Ne Win marked the beginning of an era of centralized control. Under the military regime, Myanmar adopted a socialist economic model, which further curtailed fiscal decentralization. The government centralized economic decision-making and revenue collection, eliminating many local administrative functions (Kyaw, 2016). This centralization was accompanied by a lack of transparency and inefficiency in resource allocation, contributing to economic stagnation and underdevelopment.

The transition to a semi-democratic government in 2011 brought renewed discussions on fiscal decentralization. The 2008 Constitution and subsequent reforms aimed to increase the role of regional and state governments in economic planning and resource management. Notable reforms include the 2013 Framework for Economic and Social Reform, which emphasized decentralization as a means to promote local governance and economic development (Takahashi, 2019).

According to the 2008 Constitution, Myanmar transformed from a military governance to a civilian governance system on 30th March 2011. In other words, the political system changed from a military governance system to a democratic system in Myanmar. Administrative and fiscal systems changed together with the political system. Before the 2011-2012 fiscal year (FY), there was only a single Fund Account in Myanmar. From the 2011-2012 fiscal year, the Union Fund Account and State / Region Fund Accounts have been separated from a single Fund Account.

A new cconstitution and a new government emerged in March 2011 and state and regional governments came into being as well. Hence, administrative, judicial, and legislative powers were also conferred on them. Administrative power delegates to State/Region governments, so that fiscal responsibilities were also decentralized. That is why, Myanmar had to make fiscal decentralization. On the other hand, the government has been making so many reforms. Among them, one is fiscal reform which is necessary for sustainable economic development. To improve the economic conditions, public finance reform cannot be overlooked.

Recent developments include the introduction of the 2021 National Development Plan, which seeks to enhance fiscal decentralization by devolving more financial responsibilities and revenue sources to regional governments. However, the effectiveness of these reforms is still a matter of ongoing debate due to political instability and conflicts that have affected the implementation of decentralization policies (Soe, 2022).

Myanmar's journey towards fiscal decentralization has been shaped by its historical, political, and economic contexts. From a centralized colonial administration to a socialist military regime, and finally to a semi-democratic government, the country's approach to fiscal decentralization has evolved, reflecting broader shifts in governance and economic policy. While recent reforms hold promise for greater fiscal autonomy at the regional level, achieving effective decentralization remains a complex challenge amidst ongoing political and economic uncertainties.

3.2 Macroeconomic Reform Measures in Myanmar

Regarding the fiscal policy reform measure, the economic situation in Myanmar from 1988 to 2011 was characterized by significant shifts in policy and measures under the State Law and Order Restoration Council (SLORC) and its successor, the State Peace and Development Council (SPDC). Following the military coup in 1988, the SLORC implemented strict economic controls, which initially stifled foreign direct investment (FDI) and isolated the country from the global economy. The regime adopted a socialist model with heavy industry nationalization, limiting the scope for private enterprise and foreign involvement.

In 1996, introducing the Foreign Investment Law marked a pivotal moment in Myanmar’s approach to attracting FDL. This law aimed to incentivize foreign investors, such us tax holidays and guarantees against nationalization. However, the prevailing political repression and lack of transparency in governance undermined the law’s effectiveness. The international community remained wary, and FDI inflows were modest during this period.

In 1997, the SLORC transitioned to the SPDC, which sought to stabilize the economy and promote growth. The SPDC focused on improving the regulatory framework, leading to the establishment of Special Economic Zones (SEZs) in the early 2000s. These zones were designed to attract foreign investments in specific sectors like manufacturing and trade.

2011 the government amended the Foreign Investment Law to enhance investor protections and streamline regulatory processes. This resulted in a notable increase in foreign investments as international companies began to view Myanmar as a potential market for growth and development. Overall, the period from 1988 to 2011 witnessed a gradual transformation of Myanmar's economic landscape, moving from isolation to a more open and reform-oriented approach to foreign approach to foreign direct investment.

The 2008 Constitution introduced a modern federal structure, creating new institutions at both the Union and State/Regional levels. It established distinct budgets and funds for the 14 states and regions. According to Article 12, the Constitution set up the Executive, Legislative, and Judiciary branches at the Union level to ensure checks and balances, while Article 230 established the Financial Commission with high political authority. The Union Parliament holds the power to regulate the Union budget, significantly impacting financial arrangements and management.

The President's Office has initiated policies to support this decentralized system, focusing on improving the management and administrative efficiency of government agencies. Structural reforms were made to address community requests for a more decentralized fiscal structure. In August 2013, the President highlighted potential fiscal decentralization measures aimed at enhancing public services and empowering state and regional governments.

Fiscal decentralization involves assigning spending responsibilities and financial resources to sub-national levels (state/region). It may involve deconcentrating some discretion over resources to lower levels of central ministries or fully devolving control to local governments, including planning, budgeting, local revenue collection, central-local transfers, and borrowing. It consists of four main components:

1. Expenditure Responsibilities: Allocating spending duties across different government levels.
2. Tax and Revenue Sources: Assigning tax and revenue sources to various levels of government.
3. Intergovernmental Transfers: Providing additional resources from the Union government to regional and local governments through fiscal transfers or grants.
4. Sub-national Borrowing: Allowing local governments to borrow funds to finance their expenditures.

Since 2011, Myanmar has undergone significant reforms to enhance fiscal accountability and improve public financial management. These reforms have led to the establishment of new institutions such as the Treasury Department and the Committee on Public Accounts in the Union Parliament, as well as new practices like granting states and regions autonomy in preparing their budget laws. Increased media reporting and budget awareness programs have also contributed to improving fiscal accountability. However, challenges remain that could impede the progress of these public financial management reforms.

3.3 Fiscal Policy in Myanmar

Myanmar's fiscal policy is designed to support multiple goals, including economic recovery, long-term growth, infrastructure development, job creation, and improved living standards. The strategy follows global trends, emphasizing the efficiency of state-owned enterprises and the growth of the private sector. Managed by the Ministry of Planning and Finance (MOPF), the policy framework includes the state budget and tax laws, which are crucial for the country's economic performance.

A key focus of Myanmar's economic strategy is infrastructure development, which is considered essential for sustainable growth. Fiscal policy utilizes government spending and revenue mechanisms to pursue these objectives. On the expenditure side, Myanmar has increased funding for social sectors such as education, healthcare, and poverty reduction, reflecting a shift towards more efficient budget management. This approach seeks to cut unproductive spending while improving public services. The government has also invested heavily in infrastructure projects, such as roads, railways, and irrigation, which are vital for agricultural and economic modernization.

Addressing fiscal deficits is another priority, with reforms targeting state-owned economic enterprises (SEEs) to enhance their efficiency and financial health, which is crucial for economic stability and controlling inflation linked to public sector deficits.

The budget process was significantly reformed after constitutional changes in 2011, introducing new accounts for union and regional expenditures. Budget proposals are carefully reviewed by financial commissions before being submitted to the Pyidaungsu Hluttaw (Assembly of the Union) for approval, ensuring greater transparency and accountability in fiscal governance.

Myanmar aims to further strengthen its fiscal framework by improving tax compliance, optimizing spending, and continuing investments in critical infrastructure and social services. These efforts are key to achieving sustained economic growth, poverty reduction, and overall improvement in living standards despite ongoing economic and political challenges (Budget Department, MOPF).

3.4 Myanmar’s Budgeting System in Both Central and Local Government

Since the implementation of parliamentary and fiscal decentralization in 2011, Myanmar's governance has been restructured to include a union government, seven regional governments, and seven state governments. This decentralized system requires the creation of separate budgets for each entity: one for the union, seven for the regional governments, and seven for the state governments. To manage these budgets, the Union Fund account and fourteen regional and state fund accounts operate independently.

The Budget Department is central to Myanmar’s budgeting process, responsible for drafting the annual budget, supplementary budgets, and related laws. These documents are reviewed and approved by the Financial Commission, Cabinet, and Parliament. The Planning Department is responsible for long-term development planning and prepares the capital budget. The Internal Revenue Department handles tax collection and taxpayer services, while the Myanmar Economic Bank (MEB) provides commercial and development banking services to both public and private sectors. The State Fund Account is managed by the MEB, where all government agencies keep accounts for managing expenditures and revenues. The Treasury Department works with MEB and the Central Bank of Myanmar (CBM) to manage cash flow, debt, and financial reporting. The CBM operates independently from the Ministry of Planning and Finance (MOPF) and acts as the government’s banker, issuing currency, advising on economic policy, and overseeing financial institutions (MOPF).

In Myanmar, Fiscal Year starts from 1st April to 31st March. Starting from the later six months of 2011, Union and S/R governments prepared union and S/R budgets separately. Fund also divided into two types of fund: Union Fund and State/Region Funds. Union budget consists of union-level governments' revenue and expenditure. As like union budget, S/R budgets comprise S/R level governments' revenue and expenditure.

The government budget can be built in three frameworks: balance budget (the expenditure is equal to the revenue), surplus budget (the revenue exceeds the expenditure), and deficit budget (the expenditure is greater than the revenue). Most countries follow the form of a deficit budget, especially developing countries because they cannot fulfill the required amount of government spending even though they issue domestic bonds to the public and borrow from abroad and international organizations. Myanmar also operates with a deficit budget to encounter globally by leading government consumption to facilitate the infrastructure in terms of capital, human resources, and social.

The term of a government budget includes revenue and expenditure as the main components and there are also other sub-components to generate the term of revenue and expenditure. Myanmar budget mainly consists of current budget, capital budget and financial budget as shown in Table 3.1.

Table 3.1: Current, Capital and Financial Budget

No.	Particular	Revenue	Expenditure
1	Current	Tax, Non-tax, Income from SOE, Interest Received, Grant, etc.	Wages and Salaries, Maintenances, Fuel, Electricity, Contribution, Interest, etc.
2	Capital	Capital Income, etc.	Construction of Building, Road, Bridge, School, Hospital, Machinery, etc.
3	Financial	Loan received, etc.	Loan payment, Investment in Organizations/Institutions, etc.

Source: MOPF, Myanmar

According to Myanmar budget constraints, the revenue is constructed with (1) the tax revenue, (2) foreign aid, other revenues—including contributions from state-owned enterprises and the government as a subsidy, interest received, and capital revenue—, (3) foreign aid, (4) finance revenue including the return form loan, borrowing from domestic and foreign, and return from investment in organization, and (5) domestic bond issuing as the deficit financing internally.

Regarding tax collection, taxation serves as the primary domestic revenue source, and significant tax reforms since 2011 have impacted government revenue streams and economic dynamics. These reforms aim to enhance fiscal sustainability and responsiveness to economic challenges, reflecting the government's strategic approach to fiscal management. Tax revenue is very low compared with other countries. Most of the revenues are contribue by state-owned entreprises (SOE). There are 25 taxes collected by the central government and 18 taxes collected by the local government. Table 3.2 shows the tax imposed by the Union and State and Region.

Table 3.2: Taxes collected by Union and State and Region Government

No.	Tax collected by Union	Tax collected by State and Region
1	Excise Duty	Land Revenue
2	Taxes on Land	Excise revenue
3	Water Tax and Embankment Tax	Water tax and embankment tax based on dams and reservoirs managed by the Region or State
4	Tax on Extraction of Mineral	Royalty collected on fresh water fisheries
5	Tax on Extraction of Forest produces	Taxes collected on extraction of the forests
6	Tax lived on rubber	Contributions by development affairs organizations in a Region or State concerned
7	Taxes on Fisheries	Treasure trove
8	Taxes on Transport	
9	License fees on imported goods	
10	Commercial Tax	
11	State Lottery	
12	Sales proceeds of stamp	
13	Income Tax	
14	Custom Duty	
15	Tax on Extraction of Oil and Gas	
16	Tax on Extraction of Mineral and Gem	
17	Tax on power generation of Electricity	
18	Tax on Communication Services	

Source: 2008 Constitution, Myanmar

Government expenditures in Myanmar are funded from various sources such as current, capital, financial accounts, and reserves. The current expenditure is related to the essential expenditure for the fiscal year such as salary, allowance, office operating expenditures, small vehicle-maintained expenditure, celebration, subsidy to both government organizations and state and regions, interest payment for both domestic and foreign borrowing, and contingency fund. The capital expenditure includes the infrastructure expenditures such as the construction work while the finance expenditure includes the repayment of loans, disbursement of the domestic loan, especially to the agricultural sector, and investment in organizations.

Fiscal operations in Myanmar involve managing receipts and expenditures across different accounts, with priorities on social spending, infrastructure development, and economic stabilization. Effective fiscal policies ensure prudent management of public finances, balancing revenue generation with expenditure allocation to promote economic stability and social welfare. The structure of government accounts underscores a comprehensive budgeting approach, incorporating detailed scrutiny and approval processes to uphold transparency and accountability in fiscal governance.

(i) Budget Preparation, Scrutinizing and Approving Process

Myanmar’s fiscal year runs from April 1st to March 31st, with the budget preparation process starting at least seven months before the new fiscal year begins. This process includes various stages such as Medium Term Fiscal Framework (MTFF) forecasting, budget formulation, and the creation of a budget calendar. Key departments involved include the Budget Department, Planning Department, Treasury Department, Central Statistical Organization, Central Bank of Myanmar, and Ministry of Commerce. Strategic planning, economic goal setting, and adherence to the MTFF are crucial to aligning budget allocations with national development objectives.

The Ministry of Planning and Finance (MOPF) oversees the budget preparation, with the Budget Department responsible for drafting guidelines and budget requests based on MTFF ceilings. The budget calendar, typically released in September, gives line agencies less than a month to prepare and submit their budget proposals, creating challenges for these agencies to provide detailed justifications. This highlights the need for better time management and more streamlined procedures.

The budget scrutiny process takes about three and a half months, from October to mid-January. During this time, the Budget Department reviews recurrent budgets, and the Planning Department examines capital budgets. Line agencies engage in discussions to refine their proposals, which are then reviewed by the MOPF before being presented to the Vice Presidents and the Financial Commission for further evaluation. The Financial

Commission, composed of key government officials, is constitutionally required to review and make recommendations on the Union Budget, regional budgets, debt ceilings, and intergovernmental contributions, emphasizing the importance of institutional oversight in managing public finances.

After endorsement by the Financial Commission, the Union Budget request and draft budget law are submitted to the Pyidaungsu Hluttaw (Union Parliament) for approval. The legislative review involves seventeen budget-reviewing groups from both houses of parliament, leading to the final approval by the Pyidaungsu Hluttaw. Once approved, the budget is signed into law by the President, granting legal authorization for financial allocations.

Supplementary budgets follow a similar process, beginning with a review in September and concluding with approval by the Pyidaungsu Hluttaw. Challenges in this process include the capacity of budget review groups and time constraints faced by members to thoroughly review and amend proposals. The diverse backgrounds of parliament members and their ability to provide informed scrutiny also affect the effectiveness of budget deliberations.

Myanmar's budget preparation and approval process is complex, and designed to align fiscal allocations with national priorities and development goals. Despite procedural challenges, ongoing reforms aim to improve transparency, efficiency, and parliamentary oversight, ensuring sound fiscal management and sustainable economic growth (Budget Department, MOPF).

(ii) Budget Implementation

According to the budget law, the Budget Department issues Budget Sanctions to various ministries, specifying the amounts they can withdraw from the Union Fund Account (UFA) and State and Region Fund Account respectively. To execute their budgets, each spending unit must maintain at least one drawing account at a branch of the Myanmar Economic Bank (MEB). Upon receiving Budget Sanctions, these units open a Drawing Limit (DL) account at MEB for the fiscal year to begin withdrawals.

MEB is central to Myanmar's payment system, managing financial transactions for all government agencies, including State Economic Enterprises (SEEs), Development Committees, State Administrative Organizations (SAOs), ministries, and departments. It oversees the Union Fund Account (UFA), which is used for receipts, payments, Revolving Funds, Sub-Treasury accounts, and other essential government financial operations.

At the central level, the Treasury Department manages the Government Deposit Account at the Central Bank of Myanmar (CBM). This account consolidates government funds and handles debits and credits related to state and regional subsidies, treasury bonds and bills, and financial adjustments based on surpluses or deficits in the UFA. The Treasury Department works closely with the Budget Department, MEB, and CBM to ensure accurate accounting, reporting, and debt management across government entities.

Despite these structured financial processes, Myanmar faces challenges in budget execution due to insufficient planning and preparation by spending agencies, and the limitations of MEB's banking infrastructure. While the centralized payment system at MEB provides better operational control, the reliance on manual processes highlights the need for modernized banking systems to improve efficiency and transparency in budget implementation.

Myanmar's budget execution framework, guided by the budget law and managed through key accounts at MEB and CBM, is designed to streamline financial transactions across government entities. Addressing challenges in budget planning and upgrading banking infrastructure are essential for improving fiscal management and promoting sustainable economic growth (Budget Department, MOPF).

(iii) Budget Monitoring and Reporting

In Myanmar, every spending unit receives a hard copy of their monthly bank statement from the Myanmar Economic Bank (MEB) branch where their accounts are held. MEB aggregates this data by department and branch, then submits monthly statements of inflows and outflows to the Central Bank of Myanmar (CBM) within two weeks after the month ends. The CBM consolidates these department-level statements into comprehensive financial overviews, producing Consolidated Statements 1-6 and Statement 7 (Financial Adjustment) by the 24th of the following month.

Spending units maintain daily transaction records in Hta Sa registers, which are reconciled against MEB's monthly bank statements. By the 7th of the next month, spending units submit reconciled monthly accounting returns (Hta-Sa 6 to 12) to their overseeing departments. These departments verify and consolidate the financial information into manual registers called Oo Sa-1 to 13. Using this consolidated data, the overseeing departments prepare monthly financial reports, compiled into Sa Ya registers, which include details on current receipts, capital receipts and expenditures, and debt receipts and expenditures. These Sa Ya forms must be submitted to the Treasury Department by the 24th of the following month.

Ministerial departments, including the Minister's Office for State Economic Enterprises (SEEs), are responsible for reconciling, compiling, and submitting their spending units' monthly financial reports to the Treasury Department. These reports, which break down revenue and expenditures by major and minor budget heads, must be submitted to the Budget Department by the 7th of the following month. Additionally, quarterly, mid-year, and annual reports are prepared, detailing budget utilization percentages and providing explanations for significant variances, and are submitted to the Minister of Planning and Finance, the Union Auditor General, and the Office of the Union Government (Budget Department, MOPF).

3.5 Budget Reform in Myanmar

Since 2011, Myanmar has embarked on extensive reforms in political, economic, public administration, and private sectors, with public finance management (PFM) being a key focus. This reform effort is part of the Framework of Economic and Social Reforms (FESR) and is managed by the Ministry of Finance through the Budget Department. The goal is to ensure macroeconomic stability and make optimal use of resources through both the State Budget and the newly introduced budgets for Seven States and Seven Regions.

To tackle transitional challenges and improve PFM, Myanmar has developed a detailed Public Finance Management Reform Strategy, based on recommendations from the Public Expenditure and Financial Accountability (PEFA) assessment. A significant initiative under this strategy is the Myanmar-Modernization of Public Finance Management Project (M-MPFMp), funded by USD 30 million from the World Bank’s International Development Association (IDA) and USD 20 million in grants from the UK's DFID and AusAID. This five-year project, running from 2014 to 2019, aims to modernize PFM systems, strengthen institutional capacity, and ensure efficient and accountable public service delivery.

The M-MPFMp is organized into five components: improving revenue mobilization, enhancing planning and budget preparation, strengthening budget execution and financial reporting, promoting external oversight and accountability, and building institutional capacities. It involves collaboration among eight key agencies, including the Internal Revenue Department, Budget Department, Treasury Department, Myanmar

Economic Bank, Planning Department, Joint Public Account Committee, and the Office of the Auditor General.

As the achievement of PFM reform, tax administration has shifted to a self-assessment system, with the establishment of specialized taxpayer offices and the enactment of tax laws. Budget transparency has improved through the publication of financial reports and implementation of a medium-term fiscal framework. Third, public debt management has been strengthened with new laws and systems. Fourth, external auditing and financial reporting processes have been enhanced such as Enacting the Public Debt Management Law and Medium-Term Debt Management Strategy in 2016. Lastly, the establishment of the Public Financial Management Academy in 2020 aims to build public servant capacity through ongoing training and education programs. Moreover, the government laid down the 5-year plan from 2018 to 2022 as the PFM strategy with the 56 action plans.

Under the PFM reform, the PEFA assessment had conducted in 2013 and 2020 by using 28 and 30 indicators respectively. The result of the 2020 assessment has improved by covering the scores of A, B and C although the result in 2013 showed mostly in C and D scores. Myanmar is dedicated to using the M-MPFMp to address identified weaknesses in its PFM system. These efforts are intended to overcome challenges, enhance transparency, and improve the effectiveness of resource allocation to support national development goals (San San, 2016).

CHAPTER 4
ANALYSIS ON FISCAL DECENTRALIZATION IN MYANMAR

4.1 Budget Allocation among States and Regions

Myanmar, located in Southeast Asia, exhibits diverse demographic characteristics shaped by its complex ethnic and cultural landscape. As of the latest estimates, the country has a population exceeding 54 million people. The demographic composition is predominantly ethnic Bumar, constituting approximately 68% of the population, with significant ethnic minorities including the Shan, Karen, Rakhine, Chin, and Mon groups. This ethnic diversity is accompanied by linguistic variety, with Burmese as the official language and numerous indigenous languages spoken across different regions. The urban-rural distribution shows a significant rural majority, with approximately 70% of the population residing in rural areas.

Myanmar is administratively divided into seven states and seven regions. The states—Kachin, Kayah, Kayin, Chin, Mon, Rakhine, and Shan—are predominantly ethnic minority areas, each with distinct cultural and linguistic characteristics. The regions—Ayeyarwady, Bago, Magway, Mandalay, Yangon, Sagaing, and Tanintharyi—are more diverse ethnically and generally more developed economically. The distinction between states and regions reflects the balance between ethnic representation and administrative governance, with states often featuring more autonomy in local matters related to ethnic affairs, while regions are central to national economic and administrative policies. This division plays a crucial role in Myanmar's socio-political and economic structure. Table 4.1 summarize the area, population and capita per GDP for each state and regions.

Table 4.1: Area, Population and Capita per GDP of State and Regions

Region/State	Area (Km^2)	Population (Millions)	Capita per GDP (Kyats in Thousands)
Kachin State	89,039	1.44	1,169
Kayah State	11,731	0.28	1,286
Kayin State	30,385	1.43	1,319
Chin State	36,072	0.47	8,545
Sagaing Region	94,621	5.13	N/A
Tanintharyi Region	43,343	1.36	2,941
Bago Region	39,405	4.85	1,740
Magway Region	44,819	4.09	N/A
Madalay Region	29,686	8.00	1,779
Mon State	12,296	2.12	2,085
Rakhine State	36,778	3.22	1,339
Yangon Region	10,171	7.00	284
Shan State	155,458	6.00	991
Ayeyarwady Region	35,964	6.32	1,599

Source: Citizen Budget, MOPF

1. Kachin State

Kachin State occupies the most northern part of Myanmar and borders India to the west and China to the north and east as well as Sagaing Region and Shan State (north). Kachin is Myanmar's second largest State, covering 89,039 km2 divided into 18 townships. The capital city of Kachin State is Myitkyina. It is among the country's least populated states with an estimated population of 1.44 million (2011 HMIS data), or 16 people per square kilometer. 29% of the population lives in urban areas, and the remaining 71% in rural areas. The economy of Kachin State is predominantly agricultural. The product Kachin State is best known for is its jade and most of the jade extracted in Myanmar comes from there. Employment in Kachin State is predominantly in agriculture, with farming and forestry being major activities. There is also growing engagement in mining and hydropower projects, though these sectors are often limited by infrastructural and political challenges. Kachin State faces challenges related to infrastructure development due to ongoing regional conflicts. Transportation and communication infrastructure are underdeveloped compared to other regions of Myanmar, impacting economic activities and access to services (World Bank, 2023). According to the FY 2018-2019 citizen budget, the targeted economic growth is 9.3% with a value of GDP of 1,694.172 Kyats in billions. The Capita per GDP is estimated as Kyats in thousands 1169 per person and the state poverty index is 28.6.

2. Kayah State

The southeastern State of Kayah sits on the international border with Thailand and borders the neighboring states of Kayin and Shan (South). The state covers 11,731 km2, being Myanmar's second smallest State by land mass, and consists of 7 townships and Loikaw is the capital city. Kayah is the nation's smallest state by population with an estimated 0.28 million people (2011 HMIS data), or 24 people per square kilometre. 32% of Kayah's population lives in urban areas, and the remaining 68% in rural areas. The employment rate is high in agriculture and small-scale industries. According to the FY 2018-2019 citizen budget, the economic growth is targeted to 8.3% with a value of GDP of 360.128 Kyats in billions.

3. Kayin State

Kayin State sits on the international border with Thailand and borders the national states/regions of Kayah, Napyitaw, Bago, and Mon. The state covers 30,385 km2 and consists of 7 townships. Hpa-An is the capacity city of Kayin State. The state's population is 1.43 million (2011 HMIS data), or 47 people per square kilometer. 16% of Kayin's population lives in urban areas, and the remaining 84% in rural areas. Kayin has some of the heaviest mine contamination in the country and, with Bago, the highest number of recorded victims. Two of Kayin's townships, Hlaingbwe and Hpa-An, have a medium-level flood risk. Infrastructure development is improving but remains limited. The employment rate is high in agriculture, with emerging opportunities in tourism. According to the FY 2018-2019 citizen budget, the targeted economic growth is 7.5% with a value of GDP of 1,886.304 Kyats in billions. In terms of sectoral economic growth, agriculture, trade, industry, and transportation are the main drivers of economic growth with a contribution of 75%.

4. Chin State

Chin State shares international borders with India and Bangladesh, as well as with three national States/ Regions- Rakhine, Magway, and Sagaing. Chin comprises 9 townships and covers 36,072 km2 and the capital city is Hakha. It is the second smallest state by population with an estimated population of 0.47 million (2011 data) and a density of 13 people per square kilometer. 17% of the population lives in urban areas, and the remaining 83% in rural areas. Chin is one of the poorest of Myanmar's States/Regions and chronic poverty and food insecurity have been important concerns, along with their other consequences such as health and migration issues. Interventions have often been hampered by logistical difficulties in physical access to and from different townships due to the geographical characteristics of Chin State. According to the FY 2018-2019 citizen budget, the targeted economic growth is 7.3% with a value of Capita per GDP estimated as Kyats 8545 per person. In terms of sectoral economic growth, industry, agriculture, and service sectors are intended to obtain 37%, 33%, and 30% respectively.

5. Sagaing Region

Sagaing Region is an administrative region located in the north-west of Myanmar. It shares an international border with India's Naga land and Manipur states, as well as internal state borders with Kachin, Shan (North), Mandalay, Magway, and Chin with the Ayeyarwady River providing much of its eastern and southern boundary. It is geographically Myanmar's second largest state after Shan State, covering 94,621 km2 delineated as 37 townships, 3 of which form the Naga Self-administered Zone bordering India. Sagaing has the fourth largest state/region population at 5.13 million (2011 HMIS data), and a density of 54 people per square kilometre. 15% of the population lives in urban areas, and the remaining 83% in rural areas. It has varied infrastructure development, with improvements in transport and agriculture. Employment is high in agriculture, with some growth in small industries.

6. Tanintharyi Region

Tanintharyi is the country's most southern Region, running down the eastern border of Thailand, and is bordered by Mon state to the north, and the Andaman Sea to the west. The state covers 43,343 km2 administratively divided into 10 townships. Tanintharyi's population is estimated to be 1.36 million (2011 HMIS data), with a density of 32 people per square kilometer. 25% of the population lives in urban areas, and the remaining 75% in rural areas. Tanintharyi is also home to one of the country's three Special Economic Zones, in the coastal Dawei township. Tanintharyi has developed infrastructure, especially in transport and logistics. According to the FY 2018-2019 citizen budget, the targeted economic growth is 3.4% with a value of GDP of 4,311.800 Kyats in billions, and the Capita per GDP is estimated as Kyats in thousands 2941 per person.

7. Bago Region

Before 2012, Bago Region was officially split into two distinct regions – Bago East and Bago West. It would be a landlocked region if not for around 60km of coastline along the Andaman Sea, and shares state borders with Yangon, Ayeyarwady, Rakhine, Magway, Naypyitaw, Kayin, and Mon. The capital city is Bago. Bago Region covers 39,405 km2 and consists of 28 townships. It is the 5th most populous state in the country with an estimated population of 4.85 million (2011 HMIS data) or 123 people per square kilometer. 17% of the population lives in urban areas, and the remaining 83% in rural areas with features of moderate infrastructure development and a diverse economy including agriculture, manufacturing, and services. The employment rate is balanced, with gradual economic growth. According to the FY 2018-2019 citizen budget, the targeted economic growth is 11.9% with a value of GDP of 8,572 Kyats in billions, and the Capita per GDP is estimated as Kyats in thousands 1740 per person. In terms of sectoral economic growth, services, agriculture, and industry sectors are intended to obtain 40%, 30%, and 30% respectively.

8. Magway Region

Magway Region is one of Myanmar's central Regions, sharing borders with Chin and Rakhine to the west, Bago to the south, Mandalay and Naypyitaw to the east, and Sagaing to the north. Magway covers 44,819 km2 and consists of 25 townships and the capital city is Magway. It is among the more populated regions in the country (6th most populated), with an estimated population of 4.09 million (2011 HMIS data), or 91 people per square kilometer. 15% of the population lives in urban areas, and the remaining 85% in rural areas with key infrastructure developments focusing on transport and irrigation. Employment is centered on agriculture and mining.

9. Mandalay Region

Mandalay Region is one of Myanmar's central Regions, sharing borders with Sagaing, Shan, Kayin, Bago, Naypyitaw, and Magway. Mandalay covers 29,686 km2 and consists of 28 townships. The capital city of the Mandalay Region is Mandalay. It is Myanmar's third largest region by population with an estimated 8 million people (2011 HMIS data), and the second most densely populated with 194 people per square kilometre. 29% of the population lives in urban areas, and the remaining 71% in rural areas. It exhibits substantial infrastructure development, including transportation and industrial facilities. The employment rate is diversified across agriculture, manufacturing, and services. According to the FY 2018-2019 citizen budget, the targeted economic growth is 12.9% with a value of GDP of 11,421 Kyats in billions, and the Capita per GDP is estimated as Kyats in thousands 1779 per person.

10. Mon State

The southeastern state of Mon is flanked on its western border by the Andaman Sea, by Bago to the north, Kayin to the east, and Tanintharyi to the south. Mon State covers 12,296 km2 and consists of 10 townships and Mawlamyine is the capital city. The population is 2.12 million (2011 HMIS data), with a density of 172 people per square kilometer. 23% of the population lives in urban areas, and the remaining 77% in rural areas. The employment rate is diverse, including agriculture, fisheries, and small industries. According to the FY 2018-2019 citizen budget, the targeted economic growth is 6.6 % with a value of GDP of 4,118.291 Kyats in billions, and the Capita per GDP is estimated as Kyats in thousands 2085 per person.

11. Rakhine State

Rakhine State in the west of Myanmar shares an international border with Bangladesh and with the national states of Chin, Magway, Bago, and Ayeyarwady. The state covers 36,778 km2 and consists of 17 townships and Sittwe is the capital city of Rakhine. The state population is estimated at 3.22 million (2011 HMIS data), with a density of 88 people per square kilometer. 16% of the population lives in urban areas, and the remaining 84% in rural areas. The coastal areas of Rakhine are susceptible to cyclones and the area was severely affected by Cyclone Giri in 2010. Western Rakhine State is also home to one of the country's three Special Economic Zones, in the coastal Kyaukpyu township. According to the FY 2018-2019 citizen budget, the targeted economic growth is 2.9% with a value of GDP of 4,431.298 Kyats in billions, and the Capita per GDP is estimated as Kyats in thousands 1339 per person.

12. Yangon Region

The coastal region of Yangon sits within the wider Delta Region of the south, sharing borders with Ayeyarwady to the west, and Bago to the north and east, and resting on the Andaman Sea to the south. Yangon Region covers a span of 10,171 km2 administratively divided into 45 townships. Despite being Myanmar's smallest state by land mass, it is by far the most densely populated with an estimated population of 7 million (2011 HMIS data) and a population density of 586 people per square kilometer. 67% of Yangon Region's population lives in urban areas, and the remaining 33% in rural areas; Yangon is the Region with the greatest percentage of people living in urban areas. Southern Yangon Region is also home to the Thilawa Special Economic Zone, one of three such zones across the country. Yangon is the most developed region in Myanmar in terms of infrastructure. The employment rate is diverse, with significant sectors including industry, services, and trade. Economic growth is strong, and the GDP per capita is among the highest in the country. According to the FY 2017-2018 citizen budget, the targeted economic growth is 8.5% with a value of GDP of 22,400.964 Kyats in billions, and the Capita per GDP is estimated as Kyats in thousands of 2821 per person.

13. Shan State

Shan State in the east of Myanmar shares international borders with China, Laos, and Thailand, and state borders with Kachin, Sagaing, Mandalay, Naypyitaw Union Territory, Kayin, and Mon. It is the largest of the 14 administrative divisions in Myanmar, covering 155, 458 km2, almost a quarter of the total country area. Shan State, home to about 6 million people, shows varied levels of infrastructure development across its regions. According to the FY 2018-2019 citizen budget, the targeted economic growth is 7.5% with a value of GDP of 6,185.392 Kyats in billions, and the Capita per GDP is estimated as Kyats in thousands 991 per person. In terms of sectoral economic growth, services, agriculture, and industry sectors are intended to obtain 43%, 33%, and 24% respectively.

14. Ayeyarwady Region

Ayeyarwady Region, also known as the Delta region, is a coastal region between the Bay of Bengal to the west, and the Andaman Sea to the east. The capital city is Pathein. Sharing a border with Rakhine, Bago, and Yangon, the Ayeyarwady Region consists of 26 townships, covering a total of 35,964 km2. Ayeyarwady is Myanmar's most populated state with an estimated population of 6.32 million (2011 HMIS data) and a population density of 176 people per square kilometer. Ayeyarwady is the region with the greatest percentage of people living in rural areas (88%) relative to urban areas (12%) living in urban areas. This area was severely affected by Cyclone Nargis in 2008. Employment is predominantly agricultural, with some growth in aquaculture and small industries. According to the FY 2017-2018 citizen budget, the targeted economic growth is 6.4% with a value of GDP of 10,030.263 Kyats in billions, and the Capita per GDP is estimated as Kyats in thousands of 1599 per person.

4.2 Fiscal Decentralization in Myanmar

According to the 2008 Constitution of Myanmar, fiscal decentralization plays a crucial and strategic role in the country's reform process. Myanmar has advanced fiscal decentralization by providing state and regional governments with their own budgets, which include various small revenue sources and fiscal transfers. The primary policy focus was initially on expanding state and regional budgets through intergovernmental transfers, without a corresponding emphasis on revenue generation or clear expenditure guidelines. Since 2015, the central government has shifted towards a more systematic approach to fiscal policy for states and regions. The transfer system is now required to adhere to a medium-term fiscal framework, with allocations determined by a predetermined formula designed to reflect relative needs and fiscal capacities, moving away from mere gap-filling approaches. The effectiveness of fiscal decentralization is explored by reviewing the systematic mechanism of applying the budgeting approach—Medium Term Fiscal Framework (MTFF)— for the budget allocation to states and regions.

As an aggregate, Table 4.2 presents the annual national revenue and expenditure. Both national revenue and expenditure has been increased annually with the purpose of infrastructure development around the nation as the leading of government expenditure can enhance the national economic. The government has changed the fiscal year into 1st October to 30th November instead of 1st April to 31st March after 2017-2018 FY. There exists the six-month budget in 2018. The budget allocation of this mini budget is approximately half of the previous fiscal year. After 2020-2021 FY, the government turned to the fiscal year into 1st April to 31st March, and the second mini budget is practiced.

The increase in national revenue and expenditure is more obvious after the 2015-2016 FY because of the result of the PEFA assessment and practices of PFM. To provide public service effectively and efficiently, the government set the national economic policy, the Myanmar Sustainable Development Policy, and engaged in public financial management reform.

Table 4.2: National Revenue and Expenditure

Kyats in Millions

Year	Revenue	Expenditure	Surplus/Deficit
2011-2012	5,781,738.313	7,983,188.611	-2,201,450.298
2012-2013	10,884,709.823	12,838,422.448	-1,953,712.625
2013-2014	14,386,221.603	17,312,967.151	-2,926,745.548
2014-2015	19,161,172.004	21,914,181.283	-2,753,009.279
2015-2016	19,402,886.139	23,016,585.933	-3,613,699.794
2016-2017	19,228,722.674	22,516,371.754	-3,287,649.080
2017-2018	19,079,538.549	23,069,106.776	-3,989,568.227
2018(6)	9,722,840.278	11,744,287.840	-2,021,447.562
2018-2019	22,805,598.622	27,583,260.298	-4,777,661.676
2019-2020	28,524,849.156	35,243,980.638	-6,719,131.482
2020-2021	31,290,037.472	37,948,974.817	-6,658,937.345
2021-2022(6)	14,160,021.204	17,960,306.881	-3,800,285.677
2022-2023	26,565,544.415	33,964,930.049	-7,399,385.634
2023-2024	28,341,564.293	36,152,253.365	-7,810,689.072
2024-2025	32,821,260.150	41,622,312.646	-8,801,052.496

Source: MOPF, Myanmar

Moreover, the budget system is reformed systematically by approaching the MTFF frameworks. MTFF is used to provide the budgeting ceiling for the union level based on macroeconomic indicators to deliver public services effectively and efficiently. For states and regions, MTFF is applied for the allocation of Union transfer to the respective states and regions depending on their population, poverty index, area, per capita GDP, per capita tax collection, and the proportion of the urban population as a percent of the total state population. The main objectives of states and regions for using MTFF are to improve the budget allocation system between Union and State and Regional levels, to flexible the budgeting constraints for the requirement of development, and to equal the development between the state and regions. The revenue and expenditure of states and regions increase gradually and yearly as shown in Table 4.3.

The revenue of state and region is 1,027,927.775 kyats in millions and the union transfer is 1,921,764.743 kyats in million. The expenditure is 2,949,692.518 kyats in millions. The increase of state and region revenue in 2020-2021 FY is 2.9% while the state and region expenditure is increased in 5.8% compared to 2011-2012 FY. The government emphasizes infrastructure development in terms of transportation, communication, education, health, and electricity by increasing the allocation of expenditure and distribution of the responsibilities of projects between union and state and regional level to attract the inflow of foreign direct investment and economic development.

In terms of surplus or deficit, the first year of fiscal decentralization, 2011-2012 FY, is in -146,974.543 kyats in millions as the union government did not provide the intergovernmental transfer to the states and regions. The budger estimation and allocation of state and region is needed to follow the administration of respective State and Region Hluttaw. The State and Region Hluttaw has a right to scrutinize and manage their budget. In 2020-2021 FY, the balance of state and region budget surplus 810.215 kyats in millions as the Kayah Hluttaw scrutinized their budget that was approved by the Union government in term of transfer.

Table 4.3: States and Regions Revenue and Expenditure

Kyats in Millions

Year	Revenue		Expenditure	Surplus/ Deficit
	Revenue	Union Grant		
2011-2012	360,084.658		507,059.201	-146,974.543
2012-2013	436,636.747	395,498.607	832,135.354	0.000
2013-2014	559,201.798	612,709.721	1,171,911.519	0.000
2014-2015	1,150,002.868	1,472,771.341	2,622,774.209	0.000
2015-2016	700,559.692	1,702,275.907	2,402,835.599	0.000
2016-2017	561,512.121	1,688,219.000	2,249,731.121	0.000
2017-2018	767,361.582	1,707,580.396	2,474,941.978	0.000
2018(6)	376,743.297	820,156.739	1,196,900.036	0.000
2018-2019	1,065,632.163	1,793,645.102	2,859,277.265	0.000
2019-2020	1,210,703.676	2,114,385.962	3,325,089.638	0.000
2020-2021	1,438,041.630	2,380,843.202	3,818,074.617	810.215
2021-2022(6)	516,840.479	1,062,987.053	1,579,827.532	0.000
2022-2023	1,058,935.727	2,072,598.698	3,131,534.425	0.000
2023-2024	995,999.269	1,981,200.766	2,977,200.035	0.000
2024-2025	1,027,927.775	1,921,764.743	2,949,692.518	0.000

Source: MOPF, Myanmar

Table 4.4 and Table 4.5 explain the portion of state and region revenue and expenditure compared to the union revenue and expenditure. It shows that the proportion of revenue and expenditure is small compared to the union because the tax collection and the projects responsible administered by the union government are more. There may be more centralized although the government adopted the frameworks of fiscal decentralization.

Table 4.4: Proportion of Union and State and Region Revenue

Kyats in Millions

Fiscal Year	Union	Stat and Region	Different
2011-2012	5,421,653.655	360,084.658	5,061,568.997
2012-2013	10,052,574.469	436,636.747	9,220,439.115
2013-2014	13,214,310.084	559,201.798	12,042,398.565
2014-2015	16,538,397.795	1,150,002.868	13,915,623.586
2015-2016	17,000,050.540	700,559.692	14,597,214.941
2016-2017	16,978,991.553	561,512.121	14,729,260.432
2017-2018	16,604,596.571	767,361.582	14,129,654.593
2018(6)	8,525,940.242	376,743.297	7,329,040.206
2018-2019	19,946,321.357	1,065,632.163	17,087,044.092
2019-2020	25,199,759.518	1,210,703.676	21,874,669.880
2020-2021	27,471,152.640	1,438,041.630	23,652,267.808
2021-2022(6)	12,580,193.672	516,840.479	11,000,366.140
2022-2023	23,434,009.990	1,058,935.727	20,302,475.565
2023-2024	25,364,364.258	995,999.269	22,387,164.223
2024-2025	31,793,332.375	1,027,927.775	28,843,639.857

Source: MOPF, Myanmar

Table 4.5: Proportion of Union and State and Region Expenditure

Kyats in Millions

Fiscal Year	Union	Stat and Region	Different
2011-2012	7,476,129.410	507,059.201	6,969,070.209
2012-2013	12,006,287.094	832,135.354	11,174,151.740
2013-2014	16,141,055.632	1,171,911.519	14,969,144.113
2014-2015	19,291,407.074	2,622,774.209	16,668,632.865
2015-2016	20,613,750.334	2,402,835.599	18,210,914.735
2016-2017	20,266,640.633	2,249,731.121	18,016,909.512
2017-2018	20,594,164.798	2,474,941.978	18,119,222.820
2018(6)	10,547,387.804	1,196,900.036	9,350,487.768
2018-2019	24,723,983.033	2,859,277.265	21,864,705.768
2019-2020	31,918,891.000	3,325,089.638	28,593,801.362
2020-2021	34,130,900.200	3,818,074.617	30,312,825.583
2021-2022(6)	16,380,479.349	1,579,827.532	14,800,651.817
2022-2023	30,833,395.624	3,131,534.425	27,701,861.199
2023-2024	33,175,053.330	2,977,200.035	30,197,853.295
2024-2025	39,672,620.128	1,949,692.518	36,722,927.610

Source: MOPF, Myanmar

4.2.1 State and Region Revenue

According to the budgeting system, the revenue is mainly classified into current, capital, and financial. Current revenue involves tax revenue, receipts from SEEs, other revenue, interest revenue, grants from Union, foreign grant (current), and capital revenue including capital revenue and foreign grant (capital). Financial revenue is classified into drawee of loans, repayment of loans, and receipts from investment in the organization. Among the states and regions, Yangon and Mandalay have the most revenue in terms of tax collection and other revenue because they are commercial cities and improved in infrastructure development other than states and regions. Table 4.6 describes the proportion of each state and region on the amount of total revenue of states and regions in FY 2011-2012, FY 2016-2017, and FY 2024-2025.

Table 4.6: Revenue Proportion of Each State and Region

Kyats in Millions

Region/State	2011-2012	Perce-ntage	2016-2017	Perce-ntage	2024-2025	Perce-ntage
Kachin State	15,838.145	4%	11,720.624	2%	19,007.590	2%
Kayah State	8,310.338	2%	2,194.376	0%	5,693.281	1%
Kayin State	9,489.627	3%	4,717.821	1%	12,622.577	1%
Chin State	9,189.111	3%	1,712.532	0%	7,604.212	1%
Sagaing Region	22,678.109	6%	21,842.177	4%	22,321.092	2%
Tanintharyi Region	10,869.491	3%	6,034.182	1%	12,894.057	1%
Bago Region	20,934.266	6%	22,251.425	4%	42,693.164	4%
Magway Region	24,503.089	7%	14,111.659	3%	23,326.612	2%
Madalay Region	52,037.482	14%	112,566.720	20%	154,389.047	15%
Mon State	12,529.228	3%	8,305.940	1%	17,990.444	2%
Rakhine State	19,773.527	5%	6,856.917	1%	17,098.164	2%
Yangon Region	67,386.003	19%	295,360.570	53%	605,980.625	59%
Shan State	36,675.369	10%	33,293.161	6%	45,904.874	4%
Ayeyarwady Region	49,870.873	14%	20,544.017	4%	40,402.036	4%

Source: MOPF, Myanmar

4.2.2 State and Region Expenditure

The expenditure is also classified into current, capital, and financial. Current revenue involves other current, interest payments, union contributions, and contingency funds. Other current is re-classified into pay and allowance, traveling allowance, expenses of goods and services, maintenance charges, transfer payment (education and social expense), entertainment and meal expenses, and special expenses.

Table 4.7: Expenditure Proportion of Each State and Region

Kyats in Millions

Region/State	2011-2012	Perce-ntage	2016-2017	Perce-ntage	2024-2025	Perce-ntage
Kachin State	24,721.751	5%	164,010.624	7%	172,336.453	6%
Kayah State	11,451.852	2%	52,632.376	2%	79,428.624	3%
Kayin State	13,283.058	3%	78,616.821	3%	116,740.910	4%
Chin State	15,900.396	3%	132,451.532	6%	121,095.495	4%
Sagaing Region	37,357.481	7%	197,348.177	9%	237,504.017	8%
Tanintharyi Region	16,500.781	3%	151,425.182	7%	140,807.005	5%
Bago Region	35,431.113	7%	148,616.43	7%	173,700.991	6%
Magway Region	35,031.819	7%	155,636.659	7%	178,894.621	6%
Madalay Region	68,640.697	14%	219,791.720	10%	273,474.941	9%
Mon State	18,454.005	4%	79,272.940	4%	113,516.691	4%
Rakhine State	30,429.631	6%	147,264.917	7%	184,003.432	6%
Yangon Region	79,129.908	16%	336,218.570	15%	708,039.188	24%
Shan State	59,482.555	12%	249,701.161	11%	274,936.317	9%
Ayeyarwady Region	61,244.154	12%	136,744.017	6%	175,213.833	6%

Source: MOPF, Myanmar

Capital expenditures include capital expenditure for infrastructure development of more than one year in useful life such as construction, office equipment, and others while financial revenue is classified into repayment of loans, disbursement of loans, and investment in the organization.

Among the states and regions, Yangon and Mandalay have the most expenditure allocation according to the geographical profile, and population density because they are commercial cities and improved in infrastructure development other than states and regions. However, the other states and regions have a greater portion of expenditure allocation although their revenue is low through the union transfer transaction which is based on the calculation of MTFF, special development projects, the actual deficit respective state and region deposit account, and natural disaster conditions. Table 4.7 compares the proportion of each state and region on the amount of total expenditure of states and regions in FY 2011-2012, FY 2016-2017, and FY 2024-2025.

4.2.2 State and Region Tax Sharing

According to Schedule 5 of the Myanmar Constitution (2008), governments of the states and regions are permitted to collect taxes for their necessary fund. Union government is providing grants to the governments of states and regions that budget for their deficit in terms of tax sharing, grants for budget deficits, and special grants for development projects. Since the 2016-2017 FY, stamp tax (2%); income tax (5%); commercial tax (15%); and special goods tax (15%) have been shared as tax proportion from union funds to states and region budget. Union government forecasts an MTFF estimate of grants to states and regions during the budget preparation process, taking into account the development indicators. The amount of tax sharing also increased gradually as shown in Table 4.8. The Yangon has the highest proportion of tax sharing while Kayah has the lowest tax sharing amount as described in 2020-2021 FY. The growth of tax sharing is increased about 7% in total in 2020-2021 FY compared to 2016-2017 FY. During the study period (2016-2021), the tax sharing of Kayah, Chin and Rakhine significant grew.

Table 4.8: Total Tax Sharing of State and Region

Kyats in Millions

Region/ State	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Growth of Tax Sharing
Kachin State	450.033	6,476.882	5,185.983	5,701.421	7,706.350	17%
Kayah State	62.329	4,063.027	2,831.977	2,760.402	4,989.452	80%
Kayin State	326.706	5,880.037	5,152.330	5,333.727	6,408.302	20%
Chin State	52.285	7,661.823	5,556.164	5,631.019	6,495.937	124%
Sagaing Region	2,130.897	8,726.668	8,163.251	8,049.847	9,083.013	4%
Tanintharyi Region	539.223	4,896.623	3,992.566	4,348.710	5,361.334	10%
Bago Region	864.046	6,457.021	6,145.921	6,279.901	8,177.441	10%
Magway Region	1,815.918	7,324.134	5,606.224	5,850.780	7,764.494	4%
Madalay Region	6,027.235	11,423.049	25,912.256	27,803.668	27,435.878	5%
Mon State	378.734	4,292.072	3,546.198	3,921.891	5,338.658	14%
Rakhine State	126.652	8,879.205	6,889.351	6,863.931	8,131.256	64%
Yangon Region	37,976.327	121,603.837	239,019.361	248,047.629	248,146.250	7%
Shan State	1,400.290	11,701.554	11,813.093	12,255.659	15,021.647	11%
Ayeyarwady Region	489.888	7,363.132	7,104.260	6,992.635	9,199.859	19%
Total	**52,640.563**	**216,749.064**	**336,918.935**	**349,841.220**	**369,259.871**	7%

Source: MOPF, Myanmar

4.2.3 State and Region Grants

In Myanmar, two broad types of transfers are provided to states and regions as grants for budget deficit and special grants. Before the 2015-2016 FY, the grant form union is provided as a kind of loan and grant according to the nature of the state and region's organization. In the 2011-2012 FY, all of the state and region's departments were provided with grants. In the 2012-2013 FY and 2013-2014 FY, state administrative organizations and departments are provided as grants while the state-owned enterprises, development organizations, and committees of state and region levels are provided in the form of loans. In the 2015-2016 FY, state administrative organizations and departments, and state-owned enterprises are provided as grants while development organizations and committees of state and region levels are provided in the form of loans.

Another one is special grants for development that is quite similar to conditional transfer and another one is grants for S/R governments. Special grants include Rural Development & Poverty Alleviation Fund (RDPAF, hereafter), Regional Development Fund (RDF), Township Development & Management Fund (TDMF, hereafter), One-stop Service Office for District/Township Fund (OSODTF), Rental Housing Project (RHP) and Farmland Development (FLD). Up to the 2015-2016 FY, the union government provided special grants for the following issues;

(1) FY 2012-2013; Rural Development & Poverty Alleviation

(2) FY 2013-2014; Rural Development & Poverty Alleviation, Regional Development Fund

(3) FY 2014-2015; Rural Development & Poverty Alleviation, Regional Development Fund

(4) FY 2015-2016; Rural Development & Poverty Alleviation, Regional Development Fund, Township Development & Management Fund, One-stop Service Office for District/Township, Rental Housing Project, Farmland Development.

Table 4.9: Portion of Special Grants Issues in State and Region (FY 2015-2016)

Kyats in Millions

Region/State	Poverty Alleviation	Regional Development Fund	One-stop Service	Rental Housing	Farmland
Kachin State	0.500	180	150	100	500
Kayah State	0.500	70	150	50	500
Kayin State	0.500	70	150	100	500
Chin State	0.500	90	150	50	500
Sagain Region	0.500	370	150	200	1,000
Tanitharyi Region	0.500	100	150	100	500
Bago Region	0.500	280	150	200	1,000
Magwe Region	0.500	250	150	200	1,000
Mandalay Region	0.500	280	150	1000	1,000
Mon State	0.500	100	150	1000	500
Rakhine State	0.500	170	150	1000	500
Yangon Region	0.500	450	150	200	500
Shan State	0.500	550	150	200	1,000
Ayeyawaddy Region	0.500	260	150	200	1,000
Total	7.000	3,220	2,100	4,600	10,000

Source: MOPF, Myanmar

The portion of grants to states and regions is exhibited Table 4.9. In 2013-2014 FY, the RDF is under the control of the Union Government. However, other funds are disbursed only in FY 2015-16. Therefore, there is uncertainty for S/R governments whether they can receive special grants or not. Hence, it is difficult for S/R governments to estimate their budgets. Besides, S/R governments face difficulty in delivering their services to the public efficiently. The RDF is aimed to support the construction & maintenance of small-scale infrastructure and other development projects: (1) Water Supply, (2) Building and Repair of Roads in Rural Areas, and (3) Other essential tasks. The RDF has equally disbursed 100 Million Ks to each township starting from FY 2013-15. In FY 2013-14, the RDF budget was included in the union budget. Starting from FY 2014-15, the RDF budget is included in the S/R budget. Among the Funds, only the RDF has a law.

The RDPAF aims to support poverty reduction measures by the eight priority areas: (1) the agricultural production sector, (2) Livestock breeding and fish and meat production, (3) Rural productivity and cottage industries, (4) Micro saving and credit enterprises, (5) Rural cooperative tasks, (6) Rural socio-economy; (7) Rural energy and (8) Environmental conservation. The amount of this fund which is disbursed to each S/R government is 5 Million Ks in FY 2015-16. In 2014-2015, Kachin and Rakhine State received 15 Billion Ks respectively to rebuild infrastructure and peace program. Chin State received 5 Billion Ks due to poverty. Shan State received 4 Billion Ks because it is the largest state. Kayin State received 2 Billion Ks. The remaining S/R received 1 Billion Ks respectively. This fund is disbursed to implement eight priority areas. The scope is very wide and there is no explicit law on how to use and manage this fund. Therefore, usage of the fund is varying among S/R governments. Moreover, there is a lack of a clear-cut formula to allocate the funds. Mostly the decision-making, how to allocate the funds among districts or townships, is done by negotiations inside S/R governments.

The TDMF, OSODTF, RHP, and FLD have only some instructions for determining fund allocation. For that, in the case of the FLD Fund, there is no clear definition of farmless. Therefore, uniform disbursement and implementation of the fund become difficult.

4.3 Challenges of Fiscal Decentralization in Myanmar

Fiscal decentralization in Myanmar faces several significant challenges that hinder its effectiveness. Despite efforts to empower state and regional governments through budget allocations and fiscal transfers, numerous obstacles persist.

Firstly, the uneven distribution of resources and the lack of uniformity in fiscal transfers remain major issues. The system of intergovernmental transfers, designed to support regional budgets, often fails to address disparities in revenue generation and fiscal capacity. This inequity exacerbates regional inequalities and undermines decentralization efforts.

Secondly, there is insufficient clarity regarding expenditure mandates and revenue responsibilities. Early policies focused on expanding state and regional budgets through fiscal transfers but did not clearly define spending responsibilities or provide mechanisms for revenue generation. This lack of guidance complicates budgeting and reduces accountability.

The transition to a more structured fiscal framework has also been problematic. Since 2015, efforts to implement a medium-term fiscal framework and use formula-based allocations have encountered difficulties in accurately assessing and addressing the diverse needs of various regions. Limited capacity at the regional level to manage and utilize allocated funds further complicates the process.

Institutional capacity constraints at both central and regional levels exacerbate these challenges. Insufficient technical expertise and inadequate financial management systems limit the ability to implement decentralized financial policies effectively. Additionally, many regions have limited revenue-generating capacity due to underdeveloped tax systems and economic disparities, resulting in overreliance on central transfers and undermining local autonomy.

Political influence and central control also hamper decentralization. Fiscal decisions are often dictated by central authorities, leading to inefficiencies and favoritism in resource allocation. Furthermore, citizen engagement in budgeting and financial decision-making is minimal, reducing transparency and accountability in local fiscal management.

While fiscal decentralization in Myanmar has the potential to enhance local governance and development, it faces challenges related to resource distribution, expenditure clarity, fiscal frameworks, and institutional capacity. Addressing these issues is essential for achieving equitable regional development and realizing the full benefits of decentralization reforms.

CHAPTER V
CONCLUSION

5.1 Findings

This study has examined the role of fiscal decentralization in Myanmar, focusing on its impact on local economic development, the allocation of budgets to states and regions, and the challenges encountered in the implementation of decentralized financial policies. The objectives of this study were to describe the fiscal decentralization system in Myanmar, assess its current state, and identify the weak points and difficulties in its practice.

The analysis reveals that Myanmar's fiscal decentralization efforts, guided by the 2008 Constitution and subsequent reforms, have aimed to enhance local governance by providing states and regions with their own budgets. These budgets are comprised of various revenue sources, including intergovernmental transfers, which are intended to support regional development by addressing disparities and enabling investments in sectors like infrastructure and education.

According to the review of the PEFA assessment, the government enforced the reforming activities in various sectors, especially in the financial sector. The implementation of the Medium-Term Fiscal Framework (MTFF) since 2015 has introduced a more structured approach to budget allocation, with resources distributed based on a formula that considers population, poverty levels, and fiscal capacities in terms of per capita GDP, per capita tax collection, and the proportion of the urban population as a percent of the total state population. It is resulted that the revenue and expenditure of states and regions increase gradually and yearly. The government focused on the development of transportation, communication, education, health, and electricity sectors through the increased allocation and distribution of autonomy and responsibilities.

However, it is found that the portion of state and region’s revenue and expenditure compared to the union revenue and expenditure is small because the tax collection and the projects responsible administered by the union government are more. It can be concluded that the structure of fiscal decentralization is still covered by the centralized frameworks.

Myanmar budgeting has classified the revenue and expenditure into sub-classifications depending on the nature of revenue collection and expenses. It is provided that the state and region revenue has been increased yearly. Among the states and regions, Yangon and Mandalay regions are the highest in both revenue and expenditure portions because of the profile of the cities, the density of the population, and the core value of their economy. The portion of other states and regions is dependent on their respective geographical area, populations, annual development conditions, and the challenges of natural disasters. The increased of state and region revenue and expenditure is about 2.9% and 5.8% respectively with a compare to 2011-2012 FY.

Additionally, the government provides tax sharing, grants as intergovernmental transfers in terms of financing the budget deficit, and special development projects. The tax sharing is provided with the percentage of defined taxes by using the formulating approach of MTFF while special development projects are provided according to the roadmap of annual economic policies. Budget deficit financing is supported depending on the actual deficit of each state and region government deposit account.

Fiscal decentralization in Myanmar faces several obstacles that hinder its success. Key challenges include uneven resource distribution and inconsistent fiscal transfers, which exacerbate regional inequalities. There is a lack of clarity in expenditure mandates and revenue responsibilities, complicating budgeting and reducing accountability. Efforts to implement a structured fiscal framework have struggled due to regional capacity limitations. Additionally, weak institutional capacity, limited revenue-generation at the regional level, and central political influence undermine local autonomy. Citizen engagement in financial decisions is minimal, reducing transparency. Addressing these issues is crucial for achieving equitable regional development through decentralization.

5.2 Suggestions

While fiscal decentralization in Myanmar has the potential to improve local development and governance, addressing the challenges of resource distribution, expenditure clarity, and institutional capacity is essential. Based on the findings of this study, which examined the role of fiscal decentralization in Myanmar, several policy recommendations can be proposed to enhance the effectiveness of decentralization efforts and address existing challenges.

The government should enhance revenue generation at the regional level. To address disparities in revenue generation, it is crucial to strengthen the capacity of regional governments to increase local revenue. This can be achieved by developing and implementing local taxation frameworks tailored to the economic activities and capacities of different regions. Additionally, providing training and technical assistance to regional finance departments will improve their ability to manage and optimize local revenue sources.

Improving clarity and consistency in fiscal mandates is also important to reduce confusion and enhance accountability, it is essential to clearly define expenditure mandates and revenue responsibilities for state and regional governments. Establishing detailed guidelines and frameworks for budgeting and expenditure will facilitate better financial planning and ensure that resources are used effectively. Regular reviews and updates of these guidelines will help adapt to evolving regional needs.

It continues to strengthen the Medium-Term Fiscal Framework (MTFF). The MTFF has been a step towards a more structured budget allocation process. However, its effectiveness can be further improved by refining the formula used for resource distribution to better account for regional disparities. Incorporating more detailed indicators and adjusting the formula periodically will help ensure that allocations more accurately reflect regional needs and capacities.

The government should increase support for institutional capacity building by addressing institutional capacity constraints is critical for the success of fiscal decentralization. The central government should invest in capacity-building initiatives for regional administrations, focusing on improving technical expertise and financial management systems. This includes providing training programs, enhancing data management practices, and investing in modern financial management technologies.

Moreover, the practice of promoting better coordination between central and regional governments should increase because effective coordination between central and regional governments is vital for successful decentralization. Establishing regular communication channels and collaborative platforms will facilitate better alignment of policies and resource allocation. Additionally, setting up joint committees to oversee and review fiscal decentralization policies can help ensure that regional needs are adequately addressed and that central policies support local development.

Review and adjust the allocation of special grants is critical for the regional development. Special grants and development funds should be reviewed and adjusted to ensure they meet the evolving needs of states and regions. Developing clear criteria and transparent procedures for the allocation of these grants will improve their impact. Regular monitoring and evaluation of grant usage will help identify areas for improvement and ensure that funds are used effectively.

As an another practices, the state and region government should emphasize to be check and balance in respective regions to scrutinize the budget inefficiency, to distribute the expenditure in a full for each development segments in accordance with the distribution of the central government, to provide the tax incentive in local to mobilize the tax revenue, to provide the public financial management courses to policy makers and staffs rather than provided by central government, and to publish more competence budget information to the public.

Effective coordination between central and regional governments, coupled with continued capacity-building efforts, is crucial for optimizing the benefits of decentralization and ensuring equitable regional development. By implementing these recommendations, Myanmar can enhance the effectiveness of its fiscal decentralization efforts, promote equitable regional development, and improve overall governance and economic outcomes.

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