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# Eight Principles for Resource Revenue Transfers in Myanmar

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## INTRODUCTION

Designing a system of non-renewable resource revenue transfers to subnational authorities should keep in mind several overarching goals: First, the system should encourage investment rather than consumption. In practice, this means there should be incentives for spending on health, education and useful infrastructure rather than unproductive projects such as monuments. Second, the system should be simple and transparent enough to allow subnational authorities to predict revenue flows. This is especially important given that non-renewable resource revenues are finite and volatile, responding sharply to fluctuations in commodity prices. Volatility makes budget planning difficult. Third, the system should survive political transitions. Fourth, the system should help mitigate conflicts.

In other words, the system should be efficient, stable, transparent and a product of national consensus.

Here, we enumerate eight principles for resource revenue sharing in Myanmar. These principles are extrapolated from case studies and grounded in the Natural Resource Charter, which emphasizes investing resource revenues to achieve optimal and equitable outcomes, for present and future generations.

## EIGHT PRINCIPLES FOR RESOURCE REVENUE TRANSFERS

**Principle 1. Clarify objectives.** Resource revenue sharing regimes are often created without agreement on why they are being created. As a result, their design often fails to meet any specific objective, whether it be compensation for extractive activities, regional equalization or conflict prevention or mitigation. A regime need not have a single objective, but each objective ought to be clarified in policy or legislation.

**Principle 2. Balance revenue and expenditure assignments.** Decentralization of fiscal revenues should be linked to the costs of public service delivery given subnational expenditure responsibilities. If revenues are much greater than what is required, the incentive for the local government will be to build conspicuous and potentially wasteful infrastructure, such as monuments, and not necessarily plan for operations and maintenance expenses. Costs of construction may also rise, meaning that construction company owners will reap the benefits of higher fiscal transfers rather than the local residents. On the other hand, if revenues to local governments are inadequate to finance local government expenditures, essential public services, such as education, health or infrastructure, might be underfunded. In Brazil, the

U Thit Nyein looks at the crater of Tigyit coal mine, Shan state, where his farm used to be situated.
Photo by Suthep Kritsanavarin for NRGI

Philippines and South Africa, subnational governments have been allocated key expenditure responsibilities, such as education, public order and safety, social protection and transportation. In these countries, resource revenues simply add to the fiscal space available to provide these services. In other countries, like Kazakhstan and Uganda, subnational governments have very few direct responsibilities. In these cases, windfall resource revenues are in a sense "extra" money for local authorities to allocate.[1] The decision on expenditure responsibilities assigned to different levels of government should be agreed upon before any decision is made on revenue sharing.

**Principle 3. Promote fiscal responsibility.** Local government bankruptcies or wasteful spending can lead to crises at the local level or national government bail-outs. Thus the design of any revenue sharing formula ought to create incentives for subnational governments to spend fiscal transfers efficiently. Options for promoting fiscal responsibility include limiting subnational governments' abilities to borrow; saving a portion of windfall resource revenues in a sovereign wealth fund; national approval of subnational budgets; conditional grants; consultations between national and subnational authorities on the budget; or simply moral suasion to control spending. No matter which option is chosen, a balance needs to be found between allowing local government flexibility to spend according to their needs and promoting fiscal responsibility.

**Principle 4. Smooth fiscal expenditures and make spending predictable.** Large and unpredictable transfers of natural resource revenues can destabilize a local economy and generate the wrong incentives for making quality public investments. It is incumbent on the central government to either provide a predictable and smooth source of financing to local governments or provide them the tools to smooth transfers. This can mean smoothing revenue transfers on behalf of local governments or allowing them to address resource volatility autonomously through debt management or saving in a sovereign wealth fund.

1 Bauer, Andrew (2013) Subnational Oil, Gas and Mineral Revenue Management. Revenue Watch Institute. Online: http://www.resourcegovernance.org/sites/default/files/RWI_Sub_Oil_Gas_Mgmt_EN_rev1.pdf

Oil field in Minhla Township, Bago region.
Photo by Matt Grace for NRGI

**Principle 5. Simplicity and enforceability.** Any revenue sharing formula must be simple enough for low-capacity local government authorities or civil society groups to verify the information in order to build trust between governments as well as with citizens. Simplicity also helps prevent corruption: transfers are more easily verified under a simple system. In practice, this means setting a single or maximum two objectives for the transfer regime and including just a few variables in any revenue sharing formula.

**Principle 6. Achieve national consensus on the formula.** Consensus building on any revenue sharing formula is extremely important for the stability of the formula and for meeting the regime's objectives, especially in politically contested and ethnically diverse environments. If key stakeholders disagree on the formula and it is implemented regardless, the regime might be viewed as illegitimate and not addressing local concerns, leading to even greater conflict. We have seen the consequences of lack of consensus-building in many countries. In 2012, some 200,000 people demonstrated in the streets of Rio de Janeiro over what was perceived as an unfair Brazilian revenue distribution scheme. In more extreme cases, the lack of consensus around revenue sharing has exacerbated violent conflict in Peru and Iraq.

**Principle 7. Codify the formula in law.** Any revenue sharing formula should be codified in legislation or regulation. Codification improves predictability and forces authorities to discuss the objectives of any revenue sharing formula. It also encourages public debate on the advantages and disadvantages of certain proposals.

**Principle 8. Make revenue sharing transparent and verify amounts.** Subnational governments can only know whether they are receiving their legal share of resource revenues if there is a clear revenue sharing formula and they can verify the value of taxes and royalties collected from mines and petroleum fields on their territory. Without project-by-project data on revenues and independent verification of the figures, calculation of revenue shares by local governments may not be reliable. In the Democratic Republic of the Congo (DRC) and the Philippines, subnational governments do not know whether they are receiving their resource revenue entitlements under the law. The resulting lack of trust and confusion undermines national government efforts to use resource revenue transfers to secure a lasting peace.

## KEY QUESTIONS FOR CONSIDERATION BY POLICYMAKERS

- What would be the objectives of any resource revenue sharing regime in Myanmar?
- Which regions, states, self-administered zones or divisions, or territories would be most affected by any resource revenues sharing regime?
- How could any resource revenue sharing regime be aligned with the current fiscal decentralization and deconcentration processes?
- If a resource revenue sharing system is established:
    - How would vertical distribution be determined?
    - Which revenue streams would be shared?
    - Would Myanmar employ a derivation-based formula or an indicator-based formula? If an indicator-based formula, what might some of the indicators be?
    - To which level of government would revenues flow?
    - Would revenues be transferred to non-state actors, such as traditional authorities?
    - How could the regime help subnational governments smooth year-to-year budget volatility and longer-term boom-bust cycles?
    - Should resource revenue transfers be earmarked for specific expenditure items?
    - What transparency and oversight mechanisms to verify accurate resource revenue transfers may be appropriate in Myanmar?
    - What would be the venue for implementation?
    - How could key stakeholders negotiate a stable, long-term formula?

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