Myanmar's Budget System Reform
(Considering Japanese Experiences)

Aung Myat Kyaw
Budget Department
Ministry of Finance in Myanmar

12th, November, 2015

Policy Research Institute
Ministry of Finance in Japan
I. Myanmar’s Budget System Situation
II. Myanmar’s Budget Decentralization
III. Overview of the Japanese Budget System
IV. Japan’s Fiscal Decentralization
V. Findings and Recommendations
I. Myanmar’s Budget System Situation

• The New Constitution of the Republic of the Union of Myanmar was enacted in 2008

• Starting from the fiscal year 2011 – 2012,
  ➢ The Union Budget,
  ➢ The Region and State Budget
    (seven Regions and seven States Budgets.)

The Budget Process in Myanmar

The Fiscal Year (1\textsuperscript{st}, April to 31\textsuperscript{st}, March)

The Budget Cycle

(1) Budget Planning and Preparation,
(2) Budget Formulation and Approval,
(3) Budget Implementation and Execution, and
(4) Budget Evaluation, Reporting and Auditing.
I. Myanmar’s Budget System Situation

Overview of the Macroeconomic and Budget Trends

Real GDP growth from 2003 to 2015 in Myanmar

Source: IMF, World Economic Outlook Database, October, 2015.
I. Myanmar’s Budget System Situation

Revenue, Expenditure and Deficit in Myanmar (FY 2011-2012 to 2015-2016)

Kyat in Billion

Source: Budget Department, Ministry of Finance, Myanmar
I. Myanmar’s Budget System Situation

Tax, Revenue, Expenditure, and Deficit to GDP ratio in Myanmar
(FY 2011-2012 to FY 2015-2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax to GDP</th>
<th>Revenue to GDP</th>
<th>Expenditure to GDP</th>
<th>Deficit to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2012 (Actural)</td>
<td>3.6%</td>
<td>13.8%</td>
<td>17.3%</td>
<td>3.5%</td>
</tr>
<tr>
<td>2012-2013 (Actural)</td>
<td>6.6%</td>
<td>23.7%</td>
<td>26.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2013-2014 (Provisional Actural)</td>
<td>6.1%</td>
<td>23.9%</td>
<td>25.2%</td>
<td>1.3%</td>
</tr>
<tr>
<td>2014-2015 (Revised Estimate)</td>
<td>9.0%</td>
<td>25.5%</td>
<td>29.4%</td>
<td>3.9%</td>
</tr>
<tr>
<td>2015-2016 (Budget Estimate)</td>
<td>9.0%</td>
<td>23.2%</td>
<td>28.1%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Source: Budget Department, Ministry of Finance, Myanmar
I. Myanmar’s Budget System Situation

Percent of Tax to GDP for CLMV Countries in 2014 Projection

Source: Data from IMF Article IV consultations for CLMV countries
I. Myanmar’s Budget System Situation

Revenue Estimate Percentage for FY 2015-2016 in Myanmar

Source: Budget Department, Ministry of Finance, Myanmar
I. Myanmar’s Budget System Situation

Types of Tax in Myanmar

(1) Taxes on domestic products and people's consumption (excise duty, commercial tax, license fees on imported goods, state lottery, taxes on transport, and sales proceeds of stamp);

(2) Taxes on income and property (income tax);

(3) Customs (custom duty) and

(4) Taxes from usage of national property (tax on land, water tax and embankment tax, tax on extraction of forest produces, tax on extraction of mineral and gem, tax on communication services, tax on power generation of electricity)
I. Myanmar’s Budget System Situation

Percent of Total Expenditure Trends by Ministries FY 2011 to FY 2015

Source: Budget Department, Ministry of Finance, Myanmar
I. Myanmar’s Budget System Situation

Education and Health expenditure in percent of Total Expenditure and GDP

Source: Budget Department, Ministry of Finance, Myanmar
I. Myanmar’s Budget System Situation

Comparison of Education and Health Expenditure Percentage of GDP in ASEAN Countries (2013-2014)

Sources: Myanmar data (2013-2014 Provisional Actual), Budget Department, Ministry of Finance in Myanmar, Other countries data from World Bank WDI (2014)
I. Myanmar’s Budget System Situation

Foreign Grants and Loans for Yearly (FY 2011-2012 to FY 2015-2016)

Source: Treasury Department, Ministry of Finance, Myanmar
I. Myanmar’s Budget System Situation

Outstanding Debt in Myanmar for (FY 2011-2012 to FY 2015-2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign Debts</th>
<th>Domestic Debts</th>
<th>Total Debt</th>
<th>Debt to GDP Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2012</td>
<td>6,335</td>
<td>9,938</td>
<td>16,273</td>
<td>(34.9%)</td>
</tr>
<tr>
<td>2012-2013</td>
<td>7,301</td>
<td>10,824</td>
<td>18,125</td>
<td>(35.3%)</td>
</tr>
<tr>
<td>2013-2014</td>
<td>9,561</td>
<td>12,014</td>
<td>21,575</td>
<td>(36.4%)</td>
</tr>
<tr>
<td>2014-2015 (As 31.12.2014)</td>
<td>9,311</td>
<td>10,617</td>
<td>19,928</td>
<td>(30.0%)</td>
</tr>
</tbody>
</table>

Source: Treasury Department, Ministry of Finance, Myanmar
I. Myanmar’s Budget System Situation

Medium-term Fiscal Framework (MTFF) in Myanmar

✓ In 2014, Myanmar introduced the Medium-term Fiscal Framework.
✓ Followed by the program of Public Finance Management reform in Myanmar.
✓ Improved incremental to policy based.

Objectives

➢ To achieve the higher budget credibility
➢ Foster fiscal discipline for macro-fiscal discipline – deficit control
➢ Improve strategic resource allocation strategy by providing expenditure ceilings to agencies (including states and region grants) through a top down budget framework (medium term) based on available resources
➢ Practice top-down budgeting and bottom-up planning to be in line with the international standard - base on government policy
I. Myanmar’s Budget System Situation

Medium-term Fiscal Framework (MTFF) in Myanmar
Government Policy Priorities for FY 2015-16

- **Promote Social Service Delivery**
  - Provide free education for primary, middle and high school level
  - Increase stipend and scholarship for basic and higher education
  - Provide free medical services for government employee
  - Provide more grants for deficit financing and special grant to state/region governments

- **Improve Efficiency**
  - Scrutinize wages & salaries, travelling allowance, maintenance, entertainment expense
  - Mostly not allowed to build housing for government employee
  - Reduce non-productive expenditure – eg: Furniture, Machinery
I. Myanmar’s Budget System Situation

Medium-term Fiscal Framework (MTFF) in Myanmar

Medium-term Outlook FY 2015-2016 to FY 2017-2018

- Economic growth is expected to remain about (or above) 9 percent with an expansion an expansion 2015-16 FY to 2017-18 FY
- Tax revenue will need focus because our tax effort is low, and needs to grow more than the nominal GDP growth rate
- Outlook for resource revenue is positive – new gas fields are expected to come on-line from 2017/18 onwards
- Expect to implement EITI – which will increase transparency and ensure revenues from natural resources remain on-budget
- Expenditure side – continue to align budget to priorities and ensure efficiency of spending
- Refine the intergovernmental grants formula to provide state and regions adequate resources to meet functional responsibilities
- Ensure debt sustainability through capping deficit to about 5 percent of GDP over the medium term
I. Myanmar’s Budget System Situation

Medium-term Fiscal Framework (MTFF) in Myanmar
Budget Strategy for FY 2015-16

- Revenue will increase by Kyat 0.462 billion in FY 2015-16 (increased by 3%)
- Tax to GDP ratio increases from 7.4% in FY 2014-15 to 8.1% in FY 2015-16
- Revenue to GDP decreases because one-off receipts not to happen in 2015
- Expenditure plan has increased alignment to priorities – total spending of 20,827 billion kyats
- Debt service to GDP increases slightly from 1.8% in FY 2014-15 to 1.9% in FY 2015-16
- Deficit to GDP at 5.2%, as per objectives of fiscal sustainability
I. Myanmar’s Budget System Situation

State Economic Enterprises (SEEs) Budget System in Myanmar

Before FY 2012-2013,
- 30 percent of profit as income tax and 70 percent as contribution into the State Fund.

In FY 2012-2013,
- Only 22 percent of the cost of raw materials by Union fund,
- The rest 78 percent of the cost, charged by their own fund,
- Need working capital, take out loans Myanmar Economic Bank with 4 percent interest rate.
- 25 percent of profit as income tax and 20 percent as contribution into the Union Fund.
- Rest 55 percent of the net profit to the next fiscal year as their own fund.

In FY 2013-2014 and FY 2014-2015
- For profitable enterprises,
  - 100% Costs of raw material, state contribution, income tax by their own fund.
- For loss making enterprises,
  - 80% of the costs raw material charged by their own fund,
  - 20% and other by Union Fund.
I. Myanmar’s Budget System Situation

State Economic Enterprises (SEEs) Budget System in Myanmar (cont.)

In FY 2015-2016,

All of State Economic Enterprises which make profit or loss,

- 100% of the costs of raw material by their own fund.
- 20% of the net profit is put into the Union Fund as contribution,
- 25% of the net profit is paid as income tax,
- 55% of the net profit carrying to the next fiscal year as their own fund.

According to the financial policy, if State Economic Enterprise face budget deficit, year by year, they will be privatized.
I. Myanmar’s Budget System Situation

Budget Transparency

Open Budget Index Score for South East Asia Region

<table>
<thead>
<tr>
<th>Country</th>
<th>2012 OBI Scores</th>
<th>2015 OBI Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>15</td>
<td>8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>62</td>
<td>59</td>
</tr>
<tr>
<td>Malaysia</td>
<td>39</td>
<td>46</td>
</tr>
<tr>
<td>Myanmar</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Philippines</td>
<td>48</td>
<td>64</td>
</tr>
<tr>
<td>Thailand</td>
<td>36</td>
<td>42</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>36</td>
<td>41</td>
</tr>
<tr>
<td>Vietnam</td>
<td>19</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: The Open Budget Survey 2012 and 2015 (International Budget Partnership)
I. Myanmar’s Budget System Situation

Budget Transparency

The eight key budget documents available to the public in a timely manner

(1) The pre-budget statement,
(2) Executive’s budget proposal,
(3) Enacted budget,
(4) Citizens budget,
(5) In-year reports,
(6) Mid-year review,
(7) End-year report, and
(8) Audit report.
I. Myanmar’s Budget System Situation

Budget Classification system

According to the financial regulations (1986),

<table>
<thead>
<tr>
<th>Classification Head</th>
<th>For Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Group accounting head</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>(2) Attendant group accounting head</td>
<td>Revenues (or) expenditure</td>
</tr>
<tr>
<td>(3) Major head</td>
<td>Budget Department</td>
</tr>
<tr>
<td>(4) Minor head</td>
<td>Administrative sections</td>
</tr>
<tr>
<td>(5) Attendant minor head</td>
<td>Sub-section administrative</td>
</tr>
<tr>
<td>(6) Sub-head</td>
<td>0100 Wages and salaries</td>
</tr>
<tr>
<td>(7) The primary unit</td>
<td>0101 Salaries</td>
</tr>
</tbody>
</table>
Region and State Budget Process

1. Ministry of Finance issues guidelines and instructions,
   (ceiling by MTFF for grants by Union government)
2. Regional Budget Department and Planning Department Scrutinize,
3. Region or State Finance Minister examine,
4. Region or State Government examine and submit to Region or State Parliament,
5. Region of State Parliament discuss and approve,
6. Regional Budget submit to Vice President,
7. Vice President examine and submit to Financial Commission,
8. Financial Commission approved, via Union Government submit to Union Parliament,
   (to provide grants for region and state government by Union budget)
9. Union Parliament approved, Region and State Parliament resubmit,
10. Region or State Budget Law is signed by respective Chief Minister.
II. Myanmar’s Budget Decentralization

Revenues and Expenditures Ratios Trends in the Years of the Transition Period

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenues</th>
<th></th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Union Government</td>
<td>Region &amp; State Governments</td>
<td>Union Government</td>
</tr>
<tr>
<td>2011-2012</td>
<td>96.77</td>
<td>3.23</td>
<td>96.03</td>
</tr>
<tr>
<td>2012-2013</td>
<td>93.08</td>
<td>6.92</td>
<td>93.94</td>
</tr>
<tr>
<td>2013-2014</td>
<td>92.59</td>
<td>7.41</td>
<td>92.32</td>
</tr>
<tr>
<td>2014-2015</td>
<td>86.31</td>
<td>13.69</td>
<td>88.03</td>
</tr>
</tbody>
</table>

Source: Budget Department, Ministry of Finance, Myanmar
II. Myanmar’s Budget Decentralization

Grants allocation to Region and State Governments from the Union Government

Source: Budget Department, Ministry of Finance, Myanmar
### III. Overview of the Japanese Budget System

**Budget Situation in Japan**

**General Account Revenues of Japan**

<table>
<thead>
<tr>
<th>FY</th>
<th>General Account Revenues</th>
<th>Bonds Dependency ratio</th>
<th>Tax revenues /GDP</th>
<th>Tax revenues + Other revenues /GDP</th>
<th>Government Bonds Outstanding /GDP</th>
<th>Long-term debt outstanding of central and local government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tax Revenues</td>
<td>Other Revenues</td>
<td>Government Bond Issues</td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>58,004.0</td>
<td>2,639.6</td>
<td>5,593.2</td>
<td>66,236.8</td>
<td>8.4</td>
<td>12.8</td>
</tr>
<tr>
<td>2000</td>
<td>48,659.0</td>
<td>3,718.1</td>
<td>32,610.0</td>
<td>84,987.1</td>
<td>38.4</td>
<td>9.5</td>
</tr>
<tr>
<td>2005</td>
<td>44,007.0</td>
<td>3,785.9</td>
<td>34,390.0</td>
<td>82,182.9</td>
<td>41.8</td>
<td>8.7</td>
</tr>
<tr>
<td>2006</td>
<td>45,878.0</td>
<td>3,835.0</td>
<td>29,973.0</td>
<td>79,686.0</td>
<td>37.6</td>
<td>9.0</td>
</tr>
<tr>
<td>2007</td>
<td>53,467.0</td>
<td>4,009.8</td>
<td>25,432.0</td>
<td>82,908.8</td>
<td>30.7</td>
<td>10.4</td>
</tr>
<tr>
<td>2008</td>
<td>53,554.0</td>
<td>4,159.3</td>
<td>25,348.0</td>
<td>83,061.3</td>
<td>30.5</td>
<td>10.9</td>
</tr>
<tr>
<td>2009</td>
<td>46,103.0</td>
<td>9,151.0</td>
<td>33,294.0</td>
<td>88,548.0</td>
<td>37.6</td>
<td>9.7</td>
</tr>
<tr>
<td>2010</td>
<td>37,396.0</td>
<td>10,600.2</td>
<td>44,303.0</td>
<td>92,299.2</td>
<td>48.0</td>
<td>7.8</td>
</tr>
<tr>
<td>2011</td>
<td>40,927.0</td>
<td>7,186.6</td>
<td>44,298.0</td>
<td>92,411.6</td>
<td>47.9</td>
<td>8.6</td>
</tr>
<tr>
<td>2012</td>
<td>42,346.0</td>
<td>3,743.9</td>
<td>44,244.0</td>
<td>90,333.9</td>
<td>47.6</td>
<td>8.9</td>
</tr>
<tr>
<td>2013</td>
<td>43,096.0</td>
<td>4,053.5</td>
<td>42,851.0</td>
<td>92,611.5</td>
<td>46.3</td>
<td>8.9</td>
</tr>
<tr>
<td>2014</td>
<td>50,001.0</td>
<td>4,631.3</td>
<td>41,250.0</td>
<td>95,882.3</td>
<td>43.0</td>
<td>10.2</td>
</tr>
<tr>
<td>2015</td>
<td>54,525.0</td>
<td>4,954.0</td>
<td>36,863.0</td>
<td>96,342.0</td>
<td>38.3</td>
<td>10.8</td>
</tr>
</tbody>
</table>

Source: Japan's Fiscal Condition, January 2015, Ministry of Finance, Japan.
### III. Overview of the Japanese Budget System

#### Budget Situation in Japan

**General Account Expenditure of Japan**

<table>
<thead>
<tr>
<th>FY</th>
<th>Social Security</th>
<th>Local Allocation Tax, etc.</th>
<th>National Debt Service</th>
<th>Others</th>
<th>Total</th>
<th>Primary Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>11,614.8</td>
<td>15,275.1</td>
<td>14,288.6</td>
<td>25,058.3</td>
<td>66,236.8</td>
<td>51,948.2</td>
</tr>
<tr>
<td>2000</td>
<td>16,766.6</td>
<td>14,930.4</td>
<td>21,965.3</td>
<td>31,324.8</td>
<td>84,987.1</td>
<td>63,021.7</td>
</tr>
<tr>
<td>2005</td>
<td>20,380.8</td>
<td>16,088.9</td>
<td>18,442.2</td>
<td>27,271.0</td>
<td>82,182.9</td>
<td>63,740.7</td>
</tr>
<tr>
<td>2006</td>
<td>20,573.9</td>
<td>14,558.4</td>
<td>18,761.6</td>
<td>25,792.1</td>
<td>79,686.0</td>
<td>60,924.5</td>
</tr>
<tr>
<td>2007</td>
<td>21,140.9</td>
<td>14,931.6</td>
<td>20,998.8</td>
<td>25,837.5</td>
<td>82,908.8</td>
<td>61,910.0</td>
</tr>
<tr>
<td>2008</td>
<td>21,782.4</td>
<td>15,613.6</td>
<td>20,163.2</td>
<td>25,502.1</td>
<td>83,061.3</td>
<td>62,898.1</td>
</tr>
<tr>
<td>2009</td>
<td>24,834.4</td>
<td>16,573.3</td>
<td>20,243.7</td>
<td>26,896.6</td>
<td>88,548.0</td>
<td>68,304.3</td>
</tr>
<tr>
<td>2010</td>
<td>27,268.6</td>
<td>17,477.7</td>
<td>20,649.1</td>
<td>26,903.8</td>
<td>92,299.2</td>
<td>70,931.9</td>
</tr>
<tr>
<td>2011</td>
<td>28,707.9</td>
<td>16,784.5</td>
<td>21,549.1</td>
<td>25,370.1</td>
<td>92,411.6</td>
<td>70,862.5</td>
</tr>
<tr>
<td>2012</td>
<td>26,390.1</td>
<td>16,594.0</td>
<td>21,944.2</td>
<td>25,405.6</td>
<td>90,333.9</td>
<td>68,389.7</td>
</tr>
<tr>
<td>2013</td>
<td>29,122.4</td>
<td>16,392.7</td>
<td>22,241.5</td>
<td>24,854.9</td>
<td>92,611.5</td>
<td>70,370.0</td>
</tr>
<tr>
<td>2014</td>
<td>30,517.5</td>
<td>16,142.4</td>
<td>23,270.2</td>
<td>25,952.2</td>
<td>95,882.3</td>
<td>72,612.1</td>
</tr>
<tr>
<td>2015</td>
<td>31,529.7</td>
<td>15,535.7</td>
<td>23,450.7</td>
<td>25,825.9</td>
<td>96,342.0</td>
<td>72,891.2</td>
</tr>
</tbody>
</table>

*Source: Japan's Fiscal Condition, January 2015, Ministry of Finance, Japan.*
III. Overview of the Japanese Budget System

The Budget Cycle in Japan (PDCA)
(1) Planning the budget (Plan)
(2) Executing the budget (Do)
(3) Evaluating the budget execution in the context of achieving the policy agendas (Check)
(4) Making use of evaluation results for the budget planning (Action).

Budget Transparency in Japan
- The Constitution of Japan, article 91
  “At regular intervals and at least annually the Cabinet shall report to the Diet and the people on the state of national finances."
- The budget information is published at every stage of budget formulation process.
- "Guideline for Budget Requests", each ministry's budget request are published.
- When budget bill of the Cabinet is established, the Ministry of Finance explains the details of budget bill to the press.
- Ministry of Finance publishes brochures every year such as "The Japanese Public Finance Fact Sheet", "Fiscal Policy in Japan" and Ministry of Internal Affairs and Communication publishes "White paper on local public finance" etc.
III. Overview of the Japanese Budget System

Fiscal Consolidation Plan and towards Policy Priorities in Japan

The Cabinet approved this "Medium-Term Fiscal Plan" on August 8, 2013

- The government aims to halve the primary deficit of the national and local governments to GDP ratio (-3.3%) by fiscal year 2015 from the ratio in fiscal year 2010 (-6.6%)
- The government aims to improve the primary balance of the General Account at least by approximately 4 trillion yen both in fiscal year 2014 and 2015.
- The government aims to achieve a primary surplus by fiscal year 2020.
- Thereafter, the government will seek to steadily reduce the public debt to GDP ratio.

On June 30th, 2015, the Japanese government decided the fiscal consolidation plan.

- The primary balance to be in surplus by FY2020 and public debt to GDP ratio to be steadily reduced beyond FY2020;
- The primary balance deficit approximate -1% of GDP in FY2018;
- For social security expenditures, extending the recent 3-year trajectory of the social security expenditure towards FY2018;
- The local governments will also press ahead with their initiatives in tandem with the central government.
IV. Japan’s Fiscal Decentralization

The Structure of the Local Governments (as of April 5, 2014)

- 47 Prefectures (Tokyo is one of these regional authorities),
- 1718 Municipalities,
- 790 Cities (including 20 government designated cities),
- 745 Towns and 183 Villages.

The Constitution of Japan (1947)

**Article 92:** "Regulations concerning organization and operations of local public entities shall be fixed by law in accordance with the principle of local autonomy”

**Article 94:** "Local public entities shall have the right to manage their property, affairs and administration and to enact their own regulations within law.”

Fiscal situation of Central Government and Local Governments

<table>
<thead>
<tr>
<th></th>
<th>FY 2015</th>
<th>Central Government</th>
<th>Local Governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditure, Total revenue</td>
<td>¥ 96 trillion</td>
<td>¥ 85 trillion</td>
<td></td>
</tr>
<tr>
<td>Tax revenue</td>
<td>¥ 55 trillion</td>
<td>¥ 37 trillion</td>
<td></td>
</tr>
<tr>
<td>Government bond issue/revenue</td>
<td>38.3%</td>
<td>11.1%</td>
<td></td>
</tr>
<tr>
<td>Debt service/expenditure</td>
<td>24.3%</td>
<td>15.2%</td>
<td></td>
</tr>
<tr>
<td>Long-term debt outstanding</td>
<td>¥ 837 trillion</td>
<td>¥ 199 trillion</td>
<td></td>
</tr>
</tbody>
</table>

(Expenditure, revenue: general account, long-term debt outstanding: estimate / end of 2015)

Source: Ministry of Finance and Ministry of Internal Affairs and Communication
IV. Japan’s Fiscal Decentralization

Revenue of Local Governments

- Local Public Finance Program (LPFP)
  - Provides a mechanism to achieve harmonization among Central government finance and local government finance.
  - Negotiate Ministry of Finance and Ministry of Internal Affairs and Communications
  - Combine with many National Policies and Programs.

- Local Revenue
  - Local Tax Revenue
  - Grants from the Central Government
    - National Subsidies
    - Local Allocation Tax Grants (LAT Grants)
    - Local Transfer Tax (collected nationally and transferred to local governments)
  - Local Government Bonds
  - Other Revenue resources
IV. Japan’s Fiscal Decentralization

Local Tax Revenue
1. Normal Taxes (resident, enterprise, consumption, real property acquisition, tobacco, golf course utilization, automobile acquisition, light oil delivery, automobile, mine-lot, fixed property, light vehicle, mineral product, special land acquisition and holding)
2. Object Taxes (hunting, water utility and land profit, bathing, business facility, city planning, common facilities, residential land formation and national health insurance)

Composition of Tax Revenue (FY2013 settlement)

<table>
<thead>
<tr>
<th>Tax Revenue</th>
<th>Prefectures and Municipalities</th>
<th>Prefectures</th>
<th>Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate enterprise tax</td>
<td>8%</td>
<td>18%</td>
<td>-</td>
</tr>
<tr>
<td>Corporate residents tax</td>
<td>8%</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>Individual residents tax</td>
<td>34%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Local consumption tax</td>
<td>8%</td>
<td>18%</td>
<td>-</td>
</tr>
<tr>
<td>Fixed asset tax</td>
<td>24%</td>
<td>-</td>
<td>42%</td>
</tr>
<tr>
<td>Others</td>
<td>18%</td>
<td>24%</td>
<td>14% (City planning tax 6%)</td>
</tr>
<tr>
<td>Total Tax Revenue</td>
<td>¥35,374 billion</td>
<td>¥14,774 billion</td>
<td>¥20,600 billion</td>
</tr>
</tbody>
</table>

Source: White Paper on Local Public Finance, 2015, Japan
IV. Japan’s Fiscal Decentralization

Grants from the Central Government

1. Central Government Subsidy

Composition of National Subsidies in FY 2015 Budget

<table>
<thead>
<tr>
<th>Subsidy for</th>
<th>Trillion Yen</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>18.2</td>
<td>71%</td>
</tr>
<tr>
<td><em>Medical care for the elderly</em></td>
<td>5.5</td>
<td></td>
</tr>
<tr>
<td><em>Public assistance</em></td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td><em>Long-term care</em></td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td><em>National health insurance</em></td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td><em>Child-care and child allowance</em></td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td><em>Disability support program</em></td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td><em>Others</em></td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Education &amp; Science (Compulsory education 1.5 trillion)</td>
<td>2.2</td>
<td>9%</td>
</tr>
<tr>
<td>Public Work</td>
<td>2.7</td>
<td>10%</td>
</tr>
<tr>
<td>Others</td>
<td>1.1</td>
<td>4%</td>
</tr>
<tr>
<td>Reconstruction from the Great East Japan Earthquake</td>
<td>1.6</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25.8</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance*
IV. Japan’s Fiscal Decentralization

2. Local Allocation Tax Grants (LAT Grants)
   • Regular Allocation Tax Grants (94%, financial resources are insufficient)
   • Special Allocation Tax Grants (6%, special financial requirement)

The LAT grants is certain ratios of five national taxes.

### Ratios of Sources for Statutory Local Allocation Tax Grants

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Tax</th>
<th>Corporate Tax</th>
<th>Liquor Tax</th>
<th>Consumption Tax</th>
<th>Tobacco Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954 (initial budget)</td>
<td>19.66</td>
<td>19.66</td>
<td>20.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1954 (supplementary budget)</td>
<td>19.874</td>
<td>19.874</td>
<td>20.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1955</td>
<td>22.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>25.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>26.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>27.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1959–1961</td>
<td>28.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962–1964</td>
<td>28.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>29.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966–1988</td>
<td>32.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989–1996</td>
<td>32.0</td>
<td>24.0</td>
<td>25.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997–1998</td>
<td>32.0</td>
<td>29.0</td>
<td>25.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>32.0</td>
<td>32.5</td>
<td>32.0</td>
<td>29.5</td>
<td>25.0</td>
</tr>
<tr>
<td>2000–2006</td>
<td>32.0</td>
<td>35.8</td>
<td>32.0</td>
<td>29.5</td>
<td>25.0</td>
</tr>
<tr>
<td>2007–2013</td>
<td>32.0</td>
<td>34.0</td>
<td>32.0</td>
<td>29.5</td>
<td>25.0</td>
</tr>
<tr>
<td>2014</td>
<td>32.0</td>
<td>34.0</td>
<td>32.0</td>
<td>22.3</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>2015</strong></td>
<td><strong>32.0</strong></td>
<td><strong>34.0</strong></td>
<td><strong>32.0</strong></td>
<td><strong>22.3</strong></td>
<td><strong>25.0</strong></td>
</tr>
<tr>
<td><strong>2016</strong></td>
<td><strong>33.1</strong></td>
<td><strong>33.1</strong></td>
<td><strong>50.0</strong></td>
<td><strong>22.3</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

*Source: Ministry of Internal Affairs and Communication*
IV. Japan’s Fiscal Decentralization

2. Local Allocation Tax Grants (LAT Grants) (cont.)

Determination of total amount of Local Allocation Tax Grants by following;

✓ **Statutory Local Allocation Tax Grants**

In case of FY 2015, the following equation shows that how to estimate the portion of revenue from the above five national taxes and allocated to the special account for local allocation tax.

\[
R = 0.32 I + 0.34 Cr + 0.32 L + 0.223 Cn + 0.25 T
\]

(where: \( R \) is the revenue from earmarked taxes to allocate for local allocation tax, \( I \) is revenue from national income tax, \( L \) is revenue from liquor tax, \( Cr \) is revenue from national corporate tax, \( Cn \) is revenue from national consumption tax and \( T \) is revenue from national tobacco tax.)

✓ **Special Addition, etc.**

Local Public Finance measures taken each year, including transfer from general account and debt repayment.

---

*In case of Local Public finance Program (FY 2015),* (Trillion Yen)

**Financial Gap**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (Trillion Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Gap</td>
<td>(21.4)</td>
</tr>
<tr>
<td>Statutory Local Allocation Tax 13.6</td>
<td></td>
</tr>
<tr>
<td>Others 1.8 &amp; Special addition 1.45</td>
<td>(LAT) 16.85</td>
</tr>
<tr>
<td>Extra fiscal measure bonds for debt services 3.1 &amp; Extra fiscal measure bonds 1.45</td>
<td>(Special bonds) 4.55</td>
</tr>
</tbody>
</table>
IV. Japan’s Fiscal Decentralization

2. Local Allocation Tax Grants (LAT Grants) (cont.)

**Financing Gap (amount of LAT grants)** = \( \text{Standard Financial Requirements} - \text{Standard Financial Revenues} \)

\[
\text{Standard financial requirements} = \text{Unit expense} \times \text{Measurement unit} \times \text{Adjustment coefficient}
\]

(Where **Unit expense** is expense per one measurement unit of each administrative scope, **Measurement unit**: index which reflects quantity of financial requirements of each administrative scope reasonably and objectively, **Adjustment coefficient**: a modification coefficient reflecting region-specific conditions.)

**Standard Financial Revenues** = (Standard Local Tax Revenues \( \times 0.75 \)) + Local Transfer Tax

Where, a coefficient of 0.75 (75%) is reservation ratio.
IV. Japan’s Fiscal Decentralization

2. Local Allocation Tax Grants (LAT Grants) (cont.)

Two other expenses included in **Standard Financial Requirements**

This expenses about 10 percent of total requirements to be calculated by comprehensively.

The measurement unit based on population and surface area as follow:

\[ ax + by, \]

where, \( x \) is population that reflects differences in cost due to population size,

\( y \) is area size that reflects differences in cost due to types of land use.

As 2007, \( a = 12,390 \) for prefecture, \( a = 23,220 \) for municipality

\( b = 1,114,390 \) for prefecture, \( b = 2,357,000 \) for municipality

**Public Debt Payments.**

The public debt repayments for specified debts (50%~100%) such as bonds for disaster recovery (95%), and extra fiscal measure bonds (100%).
IV. Japan’s Fiscal Decentralization

Local Government Bonds

- Local governments can issue local government bonds to raise financing capital expenditure without permissions from upper levels of government.
- Repayment periods are longer than one fiscal year.
- The purpose of local government bonds
  - *In Article 5 of the Local Finance Law*
    Operating public enterprises (as transport, gas, water supply and sewerage services); investments and loans; renewal relief works; constructing public facilities such as schools, nurseries, other educational or welfare facilities and firefighters' facilities; and developing road, river, port and other public infrastructures.
  - *By Other Laws or Other Provisions*
    Depopulated Areas Special Measure Bonds; Municipal Merger Special Measure Bond; Evacuation Facility Development Bonds and Mining Pollution Relief Bonds.
IV. Japan’s Fiscal Decentralization

✓ Special Local Government Bonds

Tax-Reduction Supplementary Bonds; Retirement Allowance Bonds; Revenue Shortfall Bonds; Temporary Financial Measures Bonds.

**Fund Sources for Local Government Bonds (Issued in FY2013)**

<table>
<thead>
<tr>
<th>Fund Sources</th>
<th>Details of Fund Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Funds (36%)</td>
<td>Fiscal Loan Funds (25%)</td>
</tr>
<tr>
<td></td>
<td>JFM * Funds (11%)</td>
</tr>
<tr>
<td>Private Funds (64%)</td>
<td>Underwritten by banks (35%)</td>
</tr>
<tr>
<td></td>
<td>Public Market Issue (27%)</td>
</tr>
<tr>
<td></td>
<td>Loans From Government and its affiliated agencies (1%)</td>
</tr>
<tr>
<td></td>
<td>Others (1%)</td>
</tr>
</tbody>
</table>

(100%)Total of Local Government Bonds : ¥12,285 billion

* JFM: Japan Finance Organization for Municipalities (Japan Finance Corporation for Municipal Enterprises “JFCME” was abolished)

Source: White Paper on Local Public Finance, 2015, Japan
IV. Japan’s Fiscal Decentralization

Local Government Bonds

- The main creditors are the private sector, Japan Finance Organization for Municipalities (JFM) and Central Government.
  - JFM established on 1st August, 2008. (JFCME was abolished)
  - JFM raises funds in the capital market.
  - Provided exclusively to local governments at low interest.
  - Local governments must receive the consent or approval of the minister for internal affairs and communications or their respective prefecture governors when they borrow from JFM.
- The central government funds were provided through the Fiscal Investment and Loan Program (FILP).
  - This investment and loan activities are to enable the implementation of large and long-term projects.
  - The Funding Sources,
    - Before 2001, mandatory deposit funds from postal savings, pension reserves and other sources to the national government.
    - After Reform 2001, from issuance of FILP agency bonds and issuance of government (FILP) bonds.
  - FILP plan for FY 2015, provide necessary fund ¥3,989.0 Billion for Local Government. (30% of total FILP plan)
IV. Japan’s Fiscal Decentralization

Expenditure of Local Governments

The expenditure percentage of central and local governments, (FY 2013 settlement)

<table>
<thead>
<tr>
<th>Category</th>
<th>Local Governments</th>
<th>Central Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>General administration</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Defense</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Pension</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Housing, etc.</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Agriculture, forestry and fishery industry</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>Debt services</td>
<td>35%</td>
<td>62%</td>
</tr>
<tr>
<td>Disaster recovery, etc.</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Land conservation</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Land development</td>
<td>74%</td>
<td>26%</td>
</tr>
<tr>
<td>Public welfare (excluding pension)</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td>Social education, etc.</td>
<td>74%</td>
<td>26%</td>
</tr>
<tr>
<td>Judicial, police and fire service</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>School education</td>
<td>87%</td>
<td>13%</td>
</tr>
<tr>
<td>Sanitation</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Total expenditure</td>
<td>58.4%</td>
<td>41.7%</td>
</tr>
</tbody>
</table>

Source: White Paper on Local Public Finance, 2015, Japan
IV. Japan’s Fiscal Decentralization

Expenditure of Local Governments

Expenditure of Local Governments
Classification by Function
(FY2013 settlement)

Expenditure of Local Governments
Classification by Type
(FY2013 settlement)

(Net total of prefectures and municipalities) Total ¥97,412 billion

Source: White Paper on Local Public Finance, 2015, Japan
IV. Japan’s Fiscal Decentralization

Expenditure of Local Governments
Composition of Expenditure of Prefectures and Municipalities
(FY 2013 settlement)

<table>
<thead>
<tr>
<th>Functions</th>
<th>Prefectures</th>
<th>Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Administration</td>
<td>-</td>
<td>13%</td>
</tr>
<tr>
<td>Public Welfare</td>
<td>15%</td>
<td>35%</td>
</tr>
<tr>
<td>Commerce and Industry</td>
<td>8%</td>
<td>-</td>
</tr>
<tr>
<td>Civil Engineering work</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Education</td>
<td>21%</td>
<td>10%</td>
</tr>
<tr>
<td>Public debt payments</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>Others</td>
<td>30%</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥50,053 billion</td>
<td>¥54,860 billion</td>
</tr>
</tbody>
</table>

Source: White Paper on Local Public Finance, 2015, Japan

Central government guarantees to provide the local governments' fiscal challenge such as local allocation tax grants which is one of financial resources to cover the social security related expenditures.
V. Findings and Recommendations

(1) Fiscal Consolidation and Policy Based Budgeting

In the budget cycles, the budget planning and preparation stage is the most important stage for sound budgeting system.

Marc Robinson and Duncan Last (2009) (A Basic Model of Performance-Based Budgeting)

The essential requirements for this most basic form of performance-based budgeting are

- information about the objectives and results of government expenditure, in the form of key performance indicators and a simple form of program evaluation; and
- a budget preparation process designed to facilitate the use of this information in budget funding decision, including simple expenditure review processes and spending ministry budget decisions.

Lessons from Japanese Experience

- The Fiscal Consolidation Plan (The Japanese government decided on June 30th, 2015)
- Basic Policy of Budget Requests for FY2016 (Cabinet approved on 24th July, 2015)
- Basic Policies for Economic and Fiscal Management and Reform 2015
- The Japan Revitalization Strategy Revised in 2015

(Significantly, Japan has been prepared to clearer linkage between policies and budget. Japan with more advanced policies based budgeting provides to concrete and effective measures to achieve the medium-term fiscal targets.)
V. Findings and Recommendations


To start on the development of medium-term frameworks carefully (Some of these important, but basic, conditions)

- A deep political commitment and endorsement at the highest level to make the MTFF process a serious and meaningful exercise;
- Strong management of donors to ensure they operate within the framework of the MTFF;
- Willingness to subject policy decisions with financial implications, made outside the budget process, to the discipline of the MTFF;
- Improvements in expenditure control so that the MTFF is not undermined by excessive expenditures and reallocations during budget implementation;
- Improved macroeconomic management and revenue collection so that revenue shortfalls do not necessitate adjustments to the budget estimates; and
- Briefings of politicians and senior managers during implementation.
(2) Budget Classification and Transparency

Davina Jacobs, Jean-Luc Helis, Dominique Bouley, (2009) "Budget Classification"

In countries where the budget nomenclature is weak, upgrading the budget classification system should itself be considered a basic step—indeed a precondition—before embarking on other reforms of public financial management (PFM) such as introducing a computerized financial management information system, a Medium-term Expenditure Framework (MTEF), or a results based budgeting system.

Lessons from Japanese Experience


(2) Many documents for Japanese budget system and information by update on government web pages, books and booklets. Japanese citizens can access the information of financial statements beginning from FY1947, at the homepage of the Ministry of Finance and also can access from the homepages of Ministry of Internal Affairs and Communications and Cabinet Office, etc.
V. Findings and Recommendations

(3) Fiscal Decentralization

Oates (1999) stated that "Intergovernmental grants constitute a distinctive and important policy instrument in fiscal federalism that can serve a number of different functions. The literature emphasizes three potential roles for such grants: the internalization of spillover benefits to other jurisdictions, fiscal equalization across jurisdictions, and an improved overall tax system."

Lessons from Japanese Experience

Many years of reforming decentralization

eg."Fundamental Principle for Promoting Decentralization was adopted by Cabinet in 1994";

"Decentralization Promotion Plan was endorsed in May 1998";

"Omnibus Decentralization Law was enacted in July 1999";

"Created the Local Financial Reform Program "Trinity Reform" in 2003" and

"Promotion of Decentralization Reform Law was enacted in December 2006".

Japanese government has good experience with Financing Programs. (Grants system, FILP, etc.)
V. Findings and Recommendations

Recommendations

✓ Myanmar should be carefully some of basic conditions (point out slide 46) during the Introducing Medium-terms forecast for fiscal consolidation and policy based budgeting.

✓ The policy maker should be considering for more investment on social sector into the fiscal framework.

✓ Myanmar should implement tax reform system, to formulate new tax policy and to create the sharing system for social security.

✓ To improve the Medium Fiscal Frame work, Myanmar needs for sound Macroeconomic indicator and reliable data.

✓ Myanmar PFM modernization project is being implemented started from 2014 to 2019. Thus, in this time Myanmar should be change to the revised GFS Manual, and GFMIS System.
V. Findings and Recommendations

Recommendations (cont.)

- To upgrade the quality of Government Finance Statistics and Budget Transparency, Myanmar needs to improve technical capacity building and relative information technical system such as integrated and automated Financial Management Information System (FMIS).

- The government should review and amend the intergovernmental sharing tax system and grants system. (like as Japanese Grants system to Local governments)

- Myanmar needs to enact related laws and policy; to promote fundamental principle of fiscal decentralization.

- Union government should be more fiscal decentralization to Region or State governments, to implement administrative services and social sector services by closely related to the life of citizens Regional governments are required to improve transparency their fiscal situation.

- To improve and build up the sound budgetary system of Myanmar and to gain the credibility of budget, The Government should implement to improve technical skills and to improve the capacity building for the all of Stakeholders’ (including Regions and States)...

Thank you very much for your attention and your valued comments.