# Local Revenue Mobilisation in Myanmar

## *White paper*

By VNG International

## Introduction

Local governments in Myanmar are working towards more transparency and accountability. Until in the early 2010s, the Union government was the central organ that decided on the majority of matters. Since then, initiatives were launched to improve good governance and start decentralising some of its tasks. For this, local authorities with some political autonomy have been developed: Township Development Affairs Organisations (TDOAs). These TDAOs play an important role in local development of Myanmar, such as economic, social, and political development.

For the Myanmar government the challenge is to create a sound interaction between government and citizens. The heritage of the long-standing military regime is still visible in the daily life, with its effects on the levels of transparency and accountability of the Myanmar government. Since local government tend to be in closer contact with its citizens than the national level, TDAOs can contribute greatly to enhance accountability. Their potential for improving good governance is enhanced by the rapid urbanization that Myanmar is facing.

## Urbanisation in Myanmar

The South East Asian trend of urbanization also takes place in Myanmar. An increasing proportion of its population are now living in cities, up to one third in 2016. These numbers are in line with neighbouring countries Viet Nam and Lao, and much higher than Cambodia. (World Bank development indicators 2016). The largest city Yangon has been estimated to grow more rapidly than other major Asian cities. (LSE Cities 2013, Renaissance institute 2017). Urbanisation offers a range of opportunities for economic development to the benefit of many, caused by conglomeration and internationalisation effects. The World Bank already reports notable reductions in poverty due to urbanisation, but also observes possible equality pitfalls for Myanmar (World bank 2019). The impact of internationalisation of growing Yangon is very visible, and will be more so in the coming decade. But other cities in Myanmar grow even faster, such as Mandalay, Pathein and Hpa-An. It is safe to say that urbanisation will impact all citizens of Myanmar in the coming years to a growing extent.

Logically, urbanisation comes with challenges. The organisation of transport and mobility, of hygiene and waste, of poverty reduction and equality, all come under increasing stress with the numbers reached in Myanmar. Many citizens come to cities in search for a new life, leaving behind the villages where density was low but levels of government service were too. To invest in public infrastructure, waste management, local economic activity, and other municipal services is a requirement to maintain living standards in the urban clusters. With the right approach, living standards will even increase.

## Public investment and public resources

One of the key issues in public investment planning is to create public resources. Among the many ways to do this, you find levying national and local taxation. Generally speaking, national taxes have the benefit of scale, and local taxes have the benefit of proximity. A local tax can be levied in the same city where the revenue funds are invested, showing citizens specifically on what their tax money is spent. This creates a small tax loop with local governments investing in public services and citizens more willing to pay (Kelly 2013).

In general, raising resources on the local level in Myanmar seems to be in a *sur place*. On the one hand, the tax compliance is low due to the equally low amount of municipal services that citizens receive. Around 80% of the local budget is allocated to capital investment such as building roads and bridges. This however are combined funds from the national, regional and local level. It creates confusion about what local revenue is used for and decreases commitment and compliance for these revenues. On the other side, the local government can be hesitant to open up their books to the public, and be transparent about the amounts collected and how these funds are invested in the area. This is a process of transparency and accountability improvement that Myanmar has recently engaged to. Moreover, lack of resources and knowledge at the TDAO level, leading to unaccounted properties and poor tax collection contribute to a large tax gap.

## Property tax in Myanmar

One of the current local taxes in Myanmar is property tax, alongside local fees for transport and auctions of slaughterhouses. The property tax collection is particularly low due to a small tax base. Based on a study visit by VNG International experts to Dawei, Tanintharyi, approximately 50% of properties is missing from the municipal databases. The majority of own source revenue (OSR) in Dawei is raised by auctions for slaughterhouses and pawn shops; an estimated 34%. Property tax accounts for approximately 6% of local OSR in 2018. Assuming that this is around the same percentage in other municipalities, it follows that property tax revenue collection is generally low in Myanmar.

In the administrative part of local tax in Dawei, improvements can be made regarding to business processes, data and IT. This includes the lack of correct data, the lack of IT, and a labour intensive manual process. In addition, in the interaction with citizens, the tax administration of Dawei encounters a number of challenges. There is a limited amount of tax payer communication (partially due to the absence of a communication department at the TDAO), there is a limited extend of citizens involvement in funding and spending by the TDAO, and little transparency on how much tax revenue has been collected.

Against this backdrop, the amount of revenue raised by property tax is low compared to countries in the region: lower than 0.1 % of GDP, which is half of the yield in Cambodia and one third of that in Thailand (Renaissance Institute 2017; based on IMF and World Bank figures). This implies that property tax holds a substantial economic potential for increasing tax revenue in Myanmar.

## Recommendations for developing property tax in Myanmar

As local revenue collection forms the base for local governments, it constitutes an important part of the relationship between citizens and their local government. Issues regarding local revenue should therefore be comprehensively approached, taking into account administrative, as well as accountability and transparency functions of local governments. Local governments in Myanmar have great potential to increase their tax revenue and intensify public investment in the necessary services to face its rapid urbanisation. To pace up these developments, we recommend the four following steps:

1.  **Engage leadership to create political commitment for increasing local revenue and accountability.**

    The political commitment to improve the local revenue process is a key factor in achieving success. On the national level, awareness should be raised that local revenues are important for increasing investment and accountability of the local governments. This is similarly important for the state governments of Myanmar. On the local level, the political leadership should be committed to increase transparency and accountability, and to increase revenue by working on improving their own administrations.

2.  **Create more budget flexibility for TDAOs to increase expenditures on public priorities in addition to capital investment.**

    Currently, local administrations are bound to strict expenditure rules. The major focus of local expenditures is on capital investment (60% or more). Since the Myanmar economy is emerging, investments in public infrastructure are the number one priority. However, without any budget flexibility, it is difficult to improve other services that are prioritised by citizens, such as waste management or security. More budget flexibility can be a catalyser of local accountability, as citizens will see that the tax revenue is going to the priorities as set. Citizens become aware that their contribution is appreciated by the local government to spend on publicly discussed priorities. To connect the citizens preferences to their contribution (taxes, fees, charges) is a great challenge. This is nonetheless necessary to find the desired quality and quantity of services.

3. **Increase budget transparency from the TDAO**

   Small amounts of information are currently published about the financial state of the TDAOs. In some cases, upcoming investments are presented on billboards to the public. There is however distrust by citizens whether these investments are actually being made. Furthermore, citizens potentially feel cut out of the public priority setting. To increase citizens trust in the TDAOs, governments can bridge the gap by being more transparent and accountable for the revenues they collect. This can be started by opening up the books, making detailed public statements and organizing public events to inform citizens of the TDAO. Also Facebook can play a role in this, since this online platform is used widely by the public for the gathering of news and information. For the latter, the intellectual property regulations of Facebook should be taken into account.

4. **Increase cooperation between TDAO employees and ward administrators to improve property data.**

   There are several governmental organisations active at the local level. The TDAO is the local administration which belongs to the State/Region government; however, the General Administration Department (GAD) which is part of the Union Government, has also its deconcentrated units at various levels and employs ward administrators at township level. Ward administrators potentially have a key role in gathering data on properties, but this potential is currently underused.

   The main cause for this is that they work for different government bodies which lack a cooperative atmosphere. More cooperation and transparency between the ward administrators and the TDAO tax administrators can boost the collection of unlisted properties as well as update the data on listed properties. This can be achieved by intensifying the frequency and agenda setting of meetings between the different governmental organisations, by providing administrative process training. Doing so will improve a culture of trust between the employees of the different government bodies. The awareness that these organisational bodies serve the same objectives is already there, but it is hindered by a siloed modus operandi.

## How VNG International can contribute

According the economic figures, property tax holds a large economic potential for revenue mobilisation in Myanmar (World bank 2020, Renaissance institute 2017). As is shown by VNG International projects in other countries, property tax can be an enabler of accountable local government and active citizenship. VNG International is therefore eager to support the Myanmar governmental organisations in the local revenue mobilisation.

VNG International holds a sound track record in local revenue mobilisation in a large number of countries. In Myanmar, we hold an office in Yangon with an extensive local network by working in Myanmar for the past five years in sizable projects for the European Commission, Netherlands Ministry of Foreign Affairs and the World Bank. The approach for improving property tax collection of VNG International is innovative and integrates all relevant components of local governance:
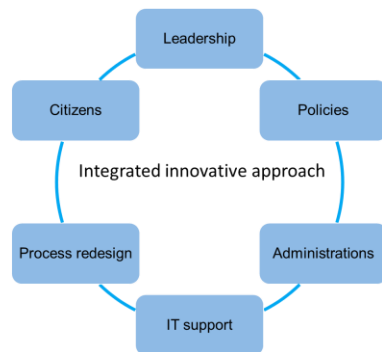
The VNG International approach includes administrative capacity building, IT implementation, leadership training, communication training and citizens engagement. Specific to the Myanmar situation, we can contribute to the challenges of urbanisation with tested methods, such as holding high level meetings at regions and union, and workshops on accountability for local leadership. For local tax administrations, we can provide customized IT solutions and training, as well as a digital data collection system and billing & payment system. Read about our methods through this link.

With this approach, the increased revenues caused by the improved taxation process can a catalyser for more improvement, for example of data collection or valuation. Supporting our project partners at the national, regional and local level, we aim to increase local revenue within two years; followed by increased investment in public services and increased accountability on these services.

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*Literature:*

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Further VNG International documentation is available upon request.