Making Public Finance Work for Children in Myanmar

AN OVERVIEW OF PUBLIC FINANCE TRENDS 2011-12 to 2014-15

JOINT UNICEF/MDRI-CESD INITIATIVE
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FOREWORD BY UNICEF

Part of a body of work to raise awareness on budget allocations for children in Myanmar, and building on two previous papers by UNICEF, this paper by MDRI and UNICEF Myanmar presents a detailed analysis of the Government budget and its investments for children in the country. This initiative has been possible thanks to the Government efforts towards greater transparency. For the first time in Myanmar, utilising published budget laws since 2011/12, a single database containing 4 years of government expenditures and revenues has been created. This unprecedented public access to information on budget allocations allows for a detailed analysis of government priorities in relation to children, as reflected in the budget.

The budget is one of the public sector’s main instruments in achieving society’s goals and is a representation of society’s preferences and priorities. By ratifying the Convention on the Rights of the Child, State Parties commit to do all they can to promote and protect children’s rights within their available resources. Monitoring the share of resources and the impact of public investments allocated to realising children’s rights is therefore a primary concern for UNICEF and all advocates for children’s rights.

The principle of investing in children rarely evokes controversy. However we look at it, to invest in a child is to invest in our common future. The world of tomorrow will inherit the children of today. Whether nations grow and prosper will depend heavily on the survival, health, education and protection of their citizens, particularly the youngest.

One of the key lessons learned globally, when transitioning from a lower to middle income country and upwards to an advanced economy, is that successful countries do not first become wealthy and then decide to invest in human capital. Rather, they become wealthy by investing in both physical and human capital simultaneously. There is also a growing recognition that growth can be sustainable only when social cohesion is simultaneously strengthened by reducing disparities between the rich and the poor. Equitable access to quality social services is both good for people and for the economy.

Childhood is a unique window of opportunity; interventions and policy choices made today will determine whether millions of children and youth are able to reach their full potential, or are left to face a future of worsening inequity and marginalisation. Fiscal budgets are the cornerstone of this process, determining the resources that will be made available for health, education, social protection, nutrition and countless other policies that affect children every day.

This paper provides baseline information on fiscal revenue and expenditure in Myanmar over the last four fiscal years. It seeks to identify and highlight trends in public sector expenditures, their allocations and their growth rates, especially those related to the “social sector”; to assess the overall impact of State Owned Enterprises (SOEs) on the budget; and to examine the fiscal flows going to the states/regions.

Whilst Myanmar has seen an increase in social sector spending in the last 4 fiscal years, health, education and social welfare combined still receive far below the levels of funding provided to defence. While increases in health and education expenditure have been witnessed, the proportion spent on social welfare has decreased. Specific attention in this area, and more broadly on social protection, is required to make sure that the most vulnerable in Myanmar society are not by-passed by the current economic and social change.
With rapid economic growth and rising revenues it is feasible for the government to increase investment in the social sector. UNICEF encourages the Myanmar Government to actively explore options for investing in health, education and social welfare. The time for enhanced social investment is now and if done right will help every child in Myanmar benefit from new opportunities.

Bertrand Bainvel
UNICEF Representative to Myanmar
FOREWORD BY MDRI-CESD

The Centre for Economic and Social Development within the Myanmar Development Resource Institute (MDRI – CESD) and the United Nations International Children’s Emergency Fund (UNICEF) Myanmar are pleased to present this report: Making Public Finance Work for Children in Myanmar.

The report, which has been based on consultation and an analysis of government revenue and expenditure data from 2011-12 to 2014-15, provides one of the first comprehensive analyses of the fiscal trajectory of Myanmar, with specific focus on resources currently devoted to health, education and social welfare.

In the Framework for Economic and Social Reform, the Government of Myanmar (GOM) outlined the need to increase public expenditure in infrastructure and the social sector to support economic growth and fight poverty. The issues covered in this report are therefore pertinent, with Myanmar’s strong economic growth and a stable fiscal deficit providing grounds for optimism. In addition, the possibility of increasing financial inflows, and Myanmar’s untapped mineral resources, provide the potential for this growth to continue, provided that the right economic and social policies are pursued.

However, sufficiently detailed data has only recently been made public, allowing analysis to be conducted on the fiscal space available to fund investment in the social sector. Recognizing this, MDRI – CESD in partnership with UNICEF Myanmar have developed this report, which analyses key fiscal trends since the 2011-12 financial year, so as to better understand the current and potential fiscal space available for investing in infrastructure, health, education and social welfare, in order to meet the economic and social needs of Myanmar.

From this research a number of key points relevant to Myanmar’s economic and social development have emerged. Although the true level of ‘social expenditure’ is difficult to ascertain, due to it being undertaken by a range of ministries and SOEs, expenditure explicitly assigned to health, education and social welfare has increased since 2011-12, while expenditure on social welfare has decreased.

In addition, although Myanmar’s State-Owned Enterprises (SOEs) are still significant sources of revenue, they also account for close to half of government expenditure, with more than one-third of ministries reporting net losses from SOEs managed under their portfolio. As a result, with their continued reform, it is likely Myanmar will see further resources that can be directly reinvested into areas to further encourage Myanmar’s continued economic and social development.

This paper is organized into eight sections. Section one and two provide an overview of the paper’s finding, and introduce the reader to the need for this research. Section three then provides a brief overview of Myanmar’s budget cycle, before providing an overview of key expenditure and revenue trends since 2011-12 in sections four to seven. Section eight then concludes with a reappraisal of some of the report’s key findings and key recommendations stemming from the research.

Dr Zaw Oo
Executive Director
MDRI-CESD
ABBREVIATIONS & ACRONYMS

COFOG Classification of the Functions of Government  
CBM Central Bank of Myanmar  
CDC Cantonment and Other Development Committees  
FESR Framework for Economic and Social Reforms  
GDP Gross Domestic Product  
GFS Government Finance Statistics  
GOM Government of Myanmar  
IHLCS Integrated Household Living Conditions Survey  
IMF International Monetary Fund  
M&D Ministries and Departments  
MDRI-CESD Myanmar Development Resource Institute Centre for Economic and Social Development  
MEB Myanmar Economic Bank  
MOF Ministry of Finance  
MMK Myanmar Kyat  
MNPED Ministry of National Planning and Economic Development  
MTFF Medium Term Fiscal Framework  
SMART Specific, Measurable, Achievable, Relevant, Time-bound  
SOE State Owned Enterprises  
UNICEF United Nations Children’s Fund  
UG Union Government Offices (legislative bodies etc.)
Summary

In the Framework for Economic and Social Reform (FESR), the Government of Myanmar (GOM) outlined the need to increase public expenditure in the social sector and for infrastructure to support economic growth and fight poverty. FESR also stated that government expenditure on health and education will increase, whilst defence expenditure will decline. Therefore, the United Nations Children Fund Myanmar, (UNICEF) in collaboration with the Myanmar Development Resource Institute - Centre for Economic and Social Development (MDRI-CESD) have developed this report examining current social sector expenditure and the fiscal space available to increase this spending.

In order to understand how public finance could be better oriented towards children, the objectives of this paper were:

- To identify and highlight trends in terms of public sector expenditures, their allocation and growth rates, especially those related to the “social sector”;
- To assess the overall impact of State-Owned-Enterprises (SOEs) on the budget;
- To examine the fiscal flow to the states/regions; and
- To analyse trends in revenue and expenditure.

Key Findings from this report include:

- The Government has made commitments to reduce Myanmar’s fiscal deficit, with projections currently suggesting it will decline to 5 per cent of GDP by 2014-15, from 9 per cent in 2012-13. However, it is still uncertain to what extent the supplementary budget might impact the final figure.
- SOE’s make significant contributions to government revenue and expenditure. Although their net contribution to the fiscal balance varies between SOEs, many are increasingly being exposed to market forces, which is expected to improve their overall impact on the fiscal balance and potentially increase fiscal space for children
- Social sector spending (health, education and social welfare) has increased since 2011-12, averaging between 5-9 per cent of total expenditure, compared to defence which still absorbed 13-15 per cent of total expenditure over the same period. Despite this, the proportion of expenditure allocated to defence has declined since 2011-12.
- Budget allocations for education rose from just under 4 per cent of the budget in 2011-12 and is projected to reach nearly 6 per cent in 2014-15.
- Expenditure on health tripled, from 1 per cent in 2011-12 to 3 per cent of the budget in 2012-13.
- Allocations for social welfare have declined from under 0.2 per cent of expenditure in 2011-12 to 0.1 per cent in 2014-15. Despite this, social welfare expenditure in absolute terms is at approximately the same level in 2014-15 as it was in 2011-12.

In particular, the FSER hinges on ten important “quick win” reforms: (a) Fiscal and Tax reforms (b) Monetary and Financial Sector Reforms (c) Liberalization of trade & investment (d) Private sector development and tourism (e) Health care financing and education sector reforms (f) Food security and agricultural growth (g) Increased transparency (h) Information, communication and technology (i) Infrastructure, and, (k) Effective governance.
Key recommendations from this paper are that:

- An effective monitoring & evaluation system be developed in order to assist a move towards an outcome based budget management framework.
- A sustained expenditure focus on the social sector is required to improve socio-economic indicators in Myanmar.
- The time is opportune for Myanmar to consider the possibility of using increased revenues to direct resources towards efficient and equitable delivery of goods and services, especially those that are critical for children.
- Allocations and transfers to state and regions should be based on need, be linked to development indicators and/or be formula based.
- Exploration is conducted to ascertain whether efficiency gains could be achieved through the consolidation of some ministries, so as to minimise and avoid process duplication and leverage economies of scale in achieving common development outcomes.
- More analytical information is made publicly available to allow for deeper analysis of Myanmar’s fiscal position, in response to the Union Parliament’s request, and to inform parliamentary debate on sustaining investments in children.
- Myanmar’s budgetary classification is made consistent with the UN classification of the functions of Government Standard (COFOG) and Government Finance Statistics (GFS) standards, in recognition of the crucial role of fiscal policy to economic stability and growth. The Ministry of Finance (MOF) has been undergoing a Public Financial Management and Public Expenditure Review, cooperating with the international community in this process. This review process can form the basis of a shift towards adopting an internationally recognized budget classification system. Such a budget classification will support better understanding of what goes to children in the budget.
- The budget should, where possible, reflect local needs and should come from a local or ‘bottom-up’ planning process in order to put children at the centre of the budget process.
Introduction

Myanmar is grappling with a complex web of challenges as it undertakes a range of economic and political reforms. Since approximately one third of Myanmar’s population are children it is crucial to ensure that this is reflected in the share of resources allocated to promote and protect children’s rights in the budget. The most recent analysis of the Integrated Households Living Condition Assessment (IHLCA) data suggest that nearly 70 per cent of the population lie close to the poverty line, meaning a large number of families are vulnerable to economic and social shocks. Given the rapid changes currently being experienced in Myanmar, inclusive economic and social policies directed at vulnerable families and their children are vital to encourage sustainable social and economic prosperity.

The question of fiscal space or public finances for children (PF4C) is a pertinent issue, and recent data provide grounds for optimism, with Myanmar’s real per capita GDP growth projected to increase from 6 to 7 per cent in the medium-term; amongst the highest in the world. In addition, the possibility of increasing investment inflows and Myanmar’s untapped mineral resources provide the potential for this growth to continue, if responsible economic and social policies are pursued. International donors and regional partners are in the process of increasing assistance and with the right cooperation and mechanisms to ensure that international resources are used effectively, there is scope to focus on the quality as well as the quantity of resources directed towards children. Consequently, scaling up resources for children is not only an economic and social imperative, it is also highly feasible.

This optimism seems to be bolstered by a number of important and sweeping changes with respect to budgetary processes – many dictated by the 2008 constitution including:

1. Beginning in 2011-12, budgetary processes have become more streamlined, with more responsibilities being assigned to the Ministry of Finance (MOF) and the Ministry of National Planning and Economic Development (MNPED) to manage budget formulations while subnational governments are beginning to be increasingly involved in the planning processes.
2. As a constitutional requirement, as of 2012-13, the budget is being prepared separately for States/Regions and various Union Government entities such as Ministries & Departments (M&Ds), State Economic Enterprises (SOEs), Cantonment and Other Development Committees (CDCs), other government entities such as parliament, courts etc. (UG);
3. Since 2012-13, the budget is being more actively debated, discussed and modified by the legislature and made public through media and print; and
4. Many SOEs are increasingly being exposed to market forces.

More generally, Myanmar has also begun an ambitious, but much needed, public fiscal management reform programme – with antiquated processes being replaced by modern public finance management systems aimed at greater credibility, transparency, stability and control, through the roll-out of a medium term fiscal framework (MTFF), improved cash and debt management systems (via the creation of a new treasury department), adoption of COFOG and GFS, and the creation of a new public finance management institute. However, many serious fiscal risks remain in terms of execution, oversight and

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3 IMF, World Economic Outlook database, April 2014; OECD, Economic Outlook for Southeast Asia, China and India: Beyond the Middle-Income Trap, 2014.
control. To address these risks, not only the MOF, but also MNPED and other concerned ministries and departments need to be institutionally restructured.

In recognition of the current momentum and need for further reform, especially as they relate to women and children, UNICEF, in collaboration with MDRI-CESD, have developed this report examining current social sector expenditure and the fiscal space available to increase this spending.

This paper is based on the publicly available data from the Union Budget Law. Any analysis on public finances for children should examine the impact of government budgetary policies on children and their families. Although the data are not sufficiently disaggregated to allow a more detailed analysis of efficiency, distributional effects or incidence, this paper presents an initial and necessary starting point – to understand overall budgetary trends and resources available. An important product of this analytical exercise is a public fiscal database spanning 2012-2015. This database will be made available online on the UNICEF website for public use as of November 2014.

Two important caveats apply. First, the analysis is limited to data obtained from published official gazettes approved by the legislature, as a result figures are estimates, rather than actual realized expenditures (budget execution). Secondly, for the years 2011-12 the published data do not separate SOE expenditures and revenues, whereas for the 2014-15 budget data, the supplemental expenditure is excluded.

Secondly, although limited fiscal data are being made available to the public, its depth and availability is still limited when compared with international standards, with Union Budget Laws being limited to total revenue and expenditures (including recurrent, capital, loans and grants) per ministry/agency and SOEs as well as total aggregate transfers to states/regions.
The Budget Cycle in Myanmar

Key Points 1:

- Myanmar’s budget process is progressively being decentralized with states/regions and line ministries increasingly being asked to prepare their own budget proposals for parliamentary review.
- The budget process should link to central coordination, subject to expected resources (or constraints).

Understanding the budget cycle is a fundamental first step to assess how resources could be directed towards the fulfilment of children’s rights. The fiscal year in Myanmar runs from 1st April to 31st March and is guided by the 2008 Constitution (see Table 1). The budget process for each fiscal year is expected to begin around August when the MOF and MNPED issue budget calendars. Line ministries as well as states/regions are expected to submit their proposals by November when internal reviews and adjustments are made, before submission to the parliament for debate and approval between January and March.

After parliamentary approval, funds cascade downwards to departments (through the MEB). The Union Government manages most expenditure (such as in the education and health sectors) whereas offices in states and regions receive funds from the MEB. States/regions also directly manage some devolved ministries (e.g., agriculture) in their respective jurisdictions. A similar situation exists for many SOEs, some of which exist at the Union level, whilst others exist at the state level.

The budget process is now decentralized, in the sense that states/regions and line ministries set their own budgetary ceilings and expenditure proposals, which are organized along administrative lines rather than on programmatic costs. The Budget Department in the MOF collates and consolidates the recurrent budget for line ministries, whilst the MNPED collates and consolidates the capital budget for line ministries and reviews all investment proposals. State/region budget proposals are reviewed through respective legislative bodies before being sent to the finance commission directly. The finance commission then collates the state/region budgets as well as the Union budget and presents the consolidated budget to the national parliament. As such, the budget process thus far is not related to any central coordination in respect of expected resources (or constraints), nor any macroeconomic or planning framework, as policy decisions do not appear to be fully costed and reflected in the Union Budget Laws. In most cases, line ministries set their recurrent ceilings based on averages of the recent past, adjusted upwards for wage payments and GDP growth. Whilst capital expenditure ceilings are set by MNPED, these are not pre-approved by the parliament.

MOF, as well as the finance commission, may make changes in these proposals before submission to parliament, based on macroeconomic or political imperatives. More than halfway into the fiscal year, the government prepares an “improved” set of budget estimates, which are presented to the legislature in the form of a “supplemental budget” – where, typically, expenditure allocations are increased, (although not uniformly) across all entities. Thus the true fiscal envelope is not really known until well into the fiscal

4 The constitution demarcates areas where states/regions have expenditure control and the Union Govt. has sole control.
5 The minister of finance is the secretary of this finance commission.
year – at a time when government entities are also beginning preparations for the next fiscal year’s budget.

Table 1: The 2008 constitution and the budget

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Establishes executive, legislative and judiciary branches of the government and posits that each serve as checks and balance on the others.</td>
</tr>
<tr>
<td>12</td>
<td>Empowers state &amp; regional governments through their own legislative bodies.</td>
</tr>
<tr>
<td>103</td>
<td>Defines how the Union Budget is proposed and considered. The President or a designate submits the budget to the legislature which may approve, refuse or curtail expenditures, except those listed in sub-section (b) including salaries, debt obligations and court ordered expenditures etc.</td>
</tr>
<tr>
<td>193</td>
<td>Defines how region and state budgets shall be proposed and considered in a manner parallel to paragraph 103.</td>
</tr>
<tr>
<td>221</td>
<td>Requires prior consultation with the financial commission before the budget is drafted.</td>
</tr>
<tr>
<td>222</td>
<td>Allows forward carrying of the previous year’s budget in the event a new one cannot be agreed upon.</td>
</tr>
<tr>
<td>229 &amp; 230</td>
<td>Defines the composition and duties of the financial commission.</td>
</tr>
<tr>
<td>231</td>
<td>Gives the Union the right to collect all taxes and revenues, except those in schedule 5, for collection by regions and states. Union taxes and revenues are deposited into the Union Fund.</td>
</tr>
<tr>
<td>241-245</td>
<td>Makes provisions for an external audit through the Auditor and Deputy Auditor General’s office.</td>
</tr>
</tbody>
</table>

Source: Constitution of Myanmar 2008
Overview of recent fiscal trends

Key Points 2:

- On average revenue has grown faster than expenditure over the last three years.
- The Government has made a commitment to reduce Myanmar’s fiscal deficit, with projections currently suggesting it will decline to 5 per cent of GDP by 2014-15, from 9 per cent in 2012-13. However, it is still uncertain to what extent the supplementary budget might impact the final figure.
- In the past, mid-term supplementary budgets have resulted in total expenditure being 9 to 20 per cent higher than that which was initially projected.
- SOE’s make significant contributions to government revenue and expenditure. Although their net contribution to the fiscal balance varies between SOEs, many are increasingly being exposed to market forces and, in some instances, privatized, which is expected to improve their overall impact on the fiscal balance.

A country’s budget is a powerful tool for the government to use in implementing policies and to advance the rights of children. An overview of revenues, expenditures and deficits is thus a necessary and critical first step in analysing public financing for children. Figure 1 demonstrates the overall fiscal summary (as a per cent GDP) for the various government entities as well as the consolidated total: Ministries and departments (M&D), Union Government offices (UG); State Owned Enterprises (SOE); Cantonment and other development committees (CDC); Consolidated total (TOTAL).
Figure 1: Fiscal trends (% GDP)

2012-13

<table>
<thead>
<tr>
<th>TOTAL</th>
<th>CDC</th>
<th>SOE</th>
<th>UG</th>
<th>M&amp;D</th>
</tr>
</thead>
<tbody>
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<td>EXP</td>
<td>REV</td>
<td>DEFICITS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-9%</td>
<td>0%</td>
<td>14%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>0%</td>
<td>0%</td>
<td>15%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>0%</td>
<td>1%</td>
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<tr>
<td>15%</td>
<td>6%</td>
<td>0%</td>
<td>0%</td>
<td>-9%</td>
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2013-14

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<th>SOE</th>
<th>UG</th>
<th>M&amp;D</th>
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<tbody>
<tr>
<td>EXP</td>
<td>REV</td>
<td>DEFICITS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-8%</td>
<td>0%</td>
<td>17%</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>0%</td>
<td>0%</td>
<td>17%</td>
<td>0%</td>
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<td>0%</td>
<td>0%</td>
<td>15%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>0%</td>
<td>8%</td>
<td>0%</td>
<td>0%</td>
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2014-15

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<th>UG</th>
<th>M&amp;D</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXP</td>
<td>REV</td>
<td>DEFICITS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-4%</td>
<td>0%</td>
<td>14%</td>
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<tr>
<td>16%</td>
<td>11%</td>
<td>0%</td>
<td>0%</td>
<td>-5%</td>
</tr>
</tbody>
</table>
Revenue has grown faster than expenditure over the last four years although both have expanded considerably. Total revenue increased from about 21 per cent of GDP in 2012-13 to about 26 per cent of GDP in 2014-2015. Expenditure, on the other hand, increased less rapidly, from about 30 per cent of GDP in 2012-2013 to 32 per cent of GDP in 2013-2014.

Consequently, deficits as a ratio of GDP are projected to decline, with the government currently targeting a deficit of 5 per cent of GDP. This observed reduction in deficits is occurring because nominal GDP has experienced strong growth recently (averaging around 10 per cent since 2010). Furthermore, revenue growth has outpaced expenditure growth, leading to reductions in projected deficits and debt. When considered as a fraction of revenues, an important indicator for budget sustainability, deficits have declined from about 39 per cent of revenues in 2012-13 to about 33 per cent of revenues in 2013-14 and are projected to be 17 per cent of revenues in 2014-15.

An important caveat is that the 2014-2015 data do not include the supplemental expenditure increases that have yet to be confirmed for 2014-15. Historic experience suggests these would probably exert pressure on the 5 per cent deficit target, as can be seen from Figure 2 where the budget deficits are substantially higher when supplemental expenditures are taken into account – both for line ministries as well as SOEs – and hence the consolidated total. Historical data show that expenditures were about 20 per cent higher in 2012-13 and 9 per cent higher in the 2013-14 budget. Despite this when viewed since 2011-12, the contribution of supplementary budgets to overall expenditure has been declining.

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6 Total consolidated revenues increased from around 10 trillion MMK in 2012-13 to a projected 16 trillion MMK in 2014-15: a growth rate of about 28 per cent per year on average over the period. Over the same period, expenditures have been growing from about 14.4 trillion MMK to a projected 19.2 trillion MMK in 2014-15 (without the supplemental budget that could inflate expenditures further by 9-20 per cent if it followed the pattern of the past two fiscal years).

7 Although this includes a one-off increase in revenues from the recent sale of telecom licenses, which brought in roughly MMK1.22 trillion in 2014-15, about 10 per cent of total revenues.

8 Inflation has averaged about 5 per cent over the last four years implying that real GDP has been growing at about 8 per cent per year.

9 Total revenues grew 28 per cent on average between 2012-13 and 2014-15, whereas total expenditures expanded by 16 per cent, on average, over the same period.
In the recently concluded fiscal year (2013-14) supplemental expenditure comprised 31 per cent of all expenditures for SOEs, 24 per cent of all expenditures for government institutions, and about 6 per cent for all M&Ds combined. In 2012-13 supplemental budgetary provisions increased deficits by 5 per cent of GDP whereas in 2013-14 deficits increased by 3 per cent of GDP. Although it is still not known to what extent the supplementary budget might impact the deficit in 2014-15, the International Monetary Fund has projected the fiscal deficit is likely to be close to 5½ per cent of GDP in 2014-15, with it declining to 5 per cent of GDP in the medium term.\(^{11}\)

It is interesting to note that the UG and CDC components contribute very little to the overall fiscal balance, in sharp contrast to SOEs. In fact, it can be seen that SOE’s contribution to revenues is well in excess of 50 per cent, whilst also accounting for approximately 45 per cent of total expenditure. Although this implies that they are a significant source of financing for the government, the contribution varies between SOEs with some incurring significant deficits.

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\(^{10}\) The supplemental budget for 2014-15 had not been released at the time of this paper’s publication.

\(^{11}\) IMF, Article IV Consultation—Staff Report; Press release; and statement by the Executive Director for Myanmar. 2014.
Expenditures

**Key Points 3**

- In nominal terms, spending more than doubled in the last three fiscal years.
- Total consolidated government expenditure (including SOEs) rose from about 30 per cent of GDP in 2012-13 to 32 per cent of GDP in 2013-14 and is estimated at 31 per cent of GDP (excluding the supplemental budget) for 2014-15.
- Recurrent expenditure, such as salaries, has reduced from 56 per cent of total expenditure in 2011-12 to around 34 per cent in 2014-15.
- Despite strong economic growth, consolidated capital expenditure has remained under 30 per cent of total expenditure.
- Since 2012-13, health, education and social welfare have been allocated between 8-9 per cent of total expenditure.
- The largest increases in budget allocations have been transfers/aid to states and regions.

In accordance with obligations under the Convention on the Rights of the Child, Myanmar should actively pursue expenditure policies that directly promote the rights of children and enhance their access to schools, hospitals, safe drinking water, sanitation and hygiene, adequate nutrition, shelter and clothing, and access to justice.

Expenditures have an effect on wellbeing through various channels. For instance, providing greater funding for education can improve the earning capacity of households, whilst conversely, ignoring certain sectors can limit socio-economic development.

Myanmar’s future development prospects clearly hinge on peace and cohesion as well as its ability to integrate regionally and globally. A sustained focus on the provision of human capital, especially for children, will reap benefits well into the future. In addition, during times of volatility and rapid change, public expenditures can be used to “smooth” the effects of volatility and assist those exposed to shocks, through the provision of welfare and social assistance to protect the vulnerable from falling into poverty. Alternatively, government can encourage vocational training for workers in industries thereby smoothing their redeployment in others sectors of the economy.

Myanmar follows a “dual-budget” system with the capital and current expenditures being prepared by separate agencies and government entities. Government expenditures in the budget are shown as:

- (a) General expenditures; (b) interest payments; (c) aid; (d) capital expenditures; (e) lending; (f) other expenditures associated with loan repayments; (g) investment in organizations; (h) savings. For each of these categories there are provisions in the supplemental budget. Table 2 shows total expenditures across categories and some interesting trends can be observed.

---

12 Although many low-income countries have some form of separation between these two expenditure categories, there is a global trend towards the adoption of unified budgets, with supporting classifications and accounting systems, plus the existence of effective investment appraisal techniques, medium term budget planning and management tools with individual spending agencies, that encourage and enable the effective use of financial resources.
Table 2: Economic classification of expenditures (2011-12 to 2014-15)

<table>
<thead>
<tr>
<th>Classification</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>4716</td>
<td>7551</td>
<td>6198</td>
<td>6631</td>
</tr>
<tr>
<td>Interest payments</td>
<td>466</td>
<td>689</td>
<td>740</td>
<td>835</td>
</tr>
<tr>
<td>Aid</td>
<td>249</td>
<td>556</td>
<td>803</td>
<td>1727</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>3039</td>
<td>5145</td>
<td>4972</td>
<td>5683</td>
</tr>
<tr>
<td>Borrowing</td>
<td>0</td>
<td>94</td>
<td>161</td>
<td>80</td>
</tr>
<tr>
<td>Loans</td>
<td>5</td>
<td>376</td>
<td>618</td>
<td>201</td>
</tr>
<tr>
<td>Investment</td>
<td>2</td>
<td>4</td>
<td>4119</td>
<td>4135</td>
</tr>
<tr>
<td>Total</td>
<td>8473</td>
<td>14414</td>
<td>17611</td>
<td>19291</td>
</tr>
</tbody>
</table>

Data are in Bill. MMK. Note (1) that the data for 2014-15 does not contain the supplementary budget (2) GDP estimates are from IMF WEO (2014) (3) Inflation has been adjusted for Myanmar fiscal year based on IMF WEO

<table>
<thead>
<tr>
<th>Classification</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>56%</td>
<td>52%</td>
<td>35%</td>
<td>34%</td>
</tr>
<tr>
<td>Interest payments</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Aid</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>36%</td>
<td>36%</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>Borrowing</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Loans</td>
<td>0%</td>
<td>3%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Investment</td>
<td>0%</td>
<td>0%</td>
<td>23%</td>
<td>21%</td>
</tr>
<tr>
<td>Savings</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

MEMORANDUM ITEMS

| GDP (Bill. MMK)         | 43,368  | 47,851  | 54,434  | 62,572  |
| Inflation               | 3%      | 4%      | 6%      | 7%      |

Source: Author calculations from official gazettes and IMF, WEO database

Total consolidated government expenditure (including SOEs) rose from about 30 per cent of GDP in 2012-13 to 32 per cent of GDP in 2013-14 and is projected to reach 31 per cent of GDP in 2014-15 (excluding supplementary expenditure). When excluding SOEs, the figures are quite different, with expenditures having risen marginally from about 16 per cent of GDP in 2012-13 to 17 per cent in 2014-15.

In terms of nominal spending, total expenditures (including SOEs) increased from MMK8.5 trillion in 2011-12 to MMK14.4 trillion in 2012-13 an increase of over 70 per cent. In 2013-14 expenditures increased by another 20 per cent to MMK17.6 trillion and is projected to be around MMK19.2 trillion in the 2014-15 budget (excluding the supplemental budget) – an increase of 10 per cent.
The increases in expenditure appear to be tapering, but during the span of three fiscal years, total budgetary spending has more than doubled. Since inflation varied between 3-7 per cent during 2012-2014, these flows of nominal expenditures translate to an annual average increase in real expenditures of more than 25 per cent. On a per capita basis, government expenditures more than doubled from around MMK165 000 (US$166) in 2011-12 to a projected MMK375 000 (US$378) per person in 2014-15.13

It is worthwhile noting a decline in the share of “general” expenditures as these are related mainly to salary payments and other recurrent purchases. The share of total expenditures allocated towards general expenditures (salaries etc.) has fallen from over 56 per cent of total expenditures in 2011-12 to around 34 per cent in 2014-15. Expenditures allocated for the general category in the 2014-15 budget is also (on a nominal basis) lower than in the previous two years.

This decline in the share of general expenditures has not been matched by an increase in the share of capital expenditures; consolidated capital expenditures remain at under 30 per cent14 of total expenditures, despite the surging demand for capital-intensive infrastructure.

The most recent government budget also contains 9 per cent of total expenditures as transfers/aid (2014-15) – three times that which was observed in 2012-13. Though transfers to states/regions to cover their deficits can explain a large share of this increase, there are a number of agencies (e.g., Finance and Revenue, Religious Affairs, Border Affairs, Foreign Affairs among others) that also spend on aid.

The remaining portion of total expenditures (consolidated) can be explained by interest payments, repayment of loans and government lending. Interest payments on debt have absorbed between 4-5 per cent of total expenditures. Despite the recent reductions in government debt, it is important to recognize that interest payments represent an outflow of resources from Myanmar. Given this, measures such as further renegotiating debt obligations may provide an avenue to leverage additional resources for investing in sectors such as health, social welfare and education.

In terms of allocations across government entities in the most recent budget, SOEs have been allocated nearly 46 per cent of the budget in 2014-15 while M&Ds spend about 53 per cent of the budget. The remaining 1 per cent is split evenly between union government entities (parliament, courts, etc.) and CDCs.

Since 2012-13 SOE expenditures account for 47-51 per cent of total expenditures, thereby confirming their importance in terms of budget allocation. Defence absorbed between 13-15 per cent of expenditures over 2012-13 to 2014-15.

Since nearly half of the ministries operate SOEs, SOE expenditure must also be taken into account for “sector” based analyses. Figure 3 and Figure 4 depict the data as a snapshot in 2014-15 and as a time-series over 2012-13 to 2014-15. By looking at budgetary allocations by sector, it can be seen that energy is the largest sector with allocations around 15 per cent, followed by defence; 13-15 per cent, 13

13 Population of 51.4 million, based on initial 2014 Census figures.

14 It is interesting to note that investment expenditures increased rapidly in the last two fiscal years. This trend is related to the “privatization” efforts ongoing in the SOE sector whereby SOEs are being required to generate investible resources for their operations.
power; just over 11 per cent, and the social sector; 8-9 per cent. The declining share of industry and the low share allocated to transport (including rail) in 2014-15, is also worrisome, given Myanmar’s aspirations to industrialize.

Figure 3: Snapshot of allocations in the 2014-15 budget
In the primary sector, livestock, fisheries and rural development\textsuperscript{16} were gainers in 2014-15 as the allocation grew from 0.03 per cent in 2012-13 to about 2 per cent in the 2014-15 budget. However, the allocation for agriculture and irrigation declined by 0.5 per cent between 2012-13 and 2014-15. When SOE expenditures for the primary sector are included and agriculture, fisheries and forestry are combined (the primary sector), overall allocations are only around 5-6 per cent (see: Figure 3 & Figure 4).

Although there have already been efforts to decentralize and encourage more ‘bottom-up’ budgetary allocation, it seems clear that there are gains to be had if existing resources could be allocated more powerfully in developing high value-chains in sectors which employ the majority of Myanmar’s workforce, such as the agriculture and fishery sector. At the same time these sectors are also crucial for food security and nutrition.

The traditional “social sectors”\textsuperscript{17} – health, education and social welfare, have been allocated between 8 and 9 per cent of total expenditures since 2012-13 and there is considerable urgency, scope and

\textsuperscript{16} Ministry is now livestock, fisheries and rural development.

\textsuperscript{17} It is difficult to calibrate the extent of true social expenditures as other Ministries are also engaged in the provision of social welfare (e.g., transport, fisheries). However, following standard practice in Myanmar, these three sectors have been classified as the “social sector”.
need for this allocation to increase: not just because it is low in terms of international comparisons, but more critically because of inequality and pervasive vulnerability within Myanmar, especially in relation to children and women.

Most other ministries and sectors are allocated small portions of the budget. These include, inter-alia, labour and social security, communications, information, science and technology, religious affairs, culture, sports, transport etc. From Figure 3 as well as Figure 4 (‘others’ category) it is clear many ministries are allocated less than 1 per cent of the budget, suggesting there may be scope to consolidate ministries in order to reap economies of scale, greater management efficiency and control.

Transfers to states and regions more than doubled in 2014-15 to 8 per cent of the budget, compared to just over 3 per cent in previous years. Although these transfers are now less than social sector spending, it is not clear how these transfers are allocated. That is, they don’t appear to be linked to any development indicator (e.g., poverty/population etc.). Rather, they appear to be intended as grants and loans to cover state/region deficits.  

### Table 3: Transfers to states/regions

<table>
<thead>
<tr>
<th>States/Regions</th>
<th>% of consolidated budget transferred</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magway</td>
<td>0.34%</td>
<td>0.73%</td>
</tr>
<tr>
<td>Shan</td>
<td>0.34%</td>
<td>1.14%</td>
</tr>
<tr>
<td>Rakhine</td>
<td>0.28%</td>
<td>0.82%</td>
</tr>
<tr>
<td>Ayeyarwaddy</td>
<td>0.28%</td>
<td>0.44%</td>
</tr>
<tr>
<td>Yangon</td>
<td>0.25%</td>
<td>0.33%</td>
</tr>
<tr>
<td>Sagaing</td>
<td>0.18%</td>
<td>0.88%</td>
</tr>
<tr>
<td>Mandalay</td>
<td>0.16%</td>
<td>0.29%</td>
</tr>
<tr>
<td>Kachin</td>
<td>0.13%</td>
<td>0.82%</td>
</tr>
<tr>
<td>Bago</td>
<td>0.12%</td>
<td>0.41%</td>
</tr>
<tr>
<td>Tanintharyi</td>
<td>0.10%</td>
<td>0.65%</td>
</tr>
<tr>
<td>Mon</td>
<td>0.09%</td>
<td>0.19%</td>
</tr>
<tr>
<td>Kayin</td>
<td>0.07%</td>
<td>0.35%</td>
</tr>
<tr>
<td>Chin</td>
<td>0.06%</td>
<td>0.51%</td>
</tr>
<tr>
<td>Kayah</td>
<td>0.03%</td>
<td>0.22%</td>
</tr>
<tr>
<td>Transfers for deficits</td>
<td>0.85%</td>
<td>0.17%</td>
</tr>
<tr>
<td><strong>Total transfers</strong></td>
<td><strong>3.28%</strong></td>
<td><strong>7.95%</strong></td>
</tr>
</tbody>
</table>

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18 State and regional budgets are not published in the consolidated/unified budget law.
Conclusion

Analysis of expenditures suggests that there may be scope for (a) improved efficiency in organization and coordination of spending (b) greater control over debt and repayments (c) sustained and heightened focus on the social sectors and (d) continued reallocation of expenditures.

Government authorities are keen to ensure inclusive and sustainable growth in Myanmar and important changes are unfolding with respect to the budget process in Myanmar. A slew of reforms aimed at greater transparency and efficiency are being implemented, including:

- The creation of a separate treasury;
- The creation of a debt management unit;
- The unification of capital and current accounts; and
- The movement towards a medium term expenditure framework.

Within this framework, it can be seen that real per capita public sector expenditure has risen rapidly since 2011-12. However, this increased spending will not automatically translate into improved development outcomes unless there is also sufficient will and incentive to adopt a result-based framework where expenditures are explicitly targeted to foster greater participation, equity, social cohesion and sustainability.

Finally, it is hoped that, as data availability increases, with numerous household surveys being planned in the short and medium term, the impact of government expenditures on the economic and social development of women, children and communities will be ascertained. This is particularly important in order that the fruits of GDP growth can be better directed to achieve the maximum levels of economic and social development possible.
Social Sector Expenditures

Key Points 4

- From 2011-12 to 2013-14 per-capita expenditure on the social sector tripled.
- Budgetary allocations for education rose from just under 4 per cent of the budget in 2011-12 to 6 per cent in 2014-15.
- Over the same period, allocations for health have tripled, from 1 per cent of the budget to 3 per cent.
- Most of the increased allocation for education and health occurred in 2012-13.
- Allocations for social welfare have declined from under 0.2 per cent of expenditure in 2011-12 to 0.1 per cent in 2014-15. Despite this, social welfare expenditure in absolute terms is at approximately the same level in 2014-15 as it was in 2011-12.

Health, education and social welfare expenditure can have significant ramifications for the economic and social development of children, women and communities more generally. International experience confirms that higher standards of living, greater equity and increased social cohesion are not just accidental outcomes from growth, but one based on affirmative and inclusive welfare policies and a strong government commitment to ensure more equitable and inclusive outcomes.\(^{19}\)

The logic is based on the fundamental premise of equity, social cohesion and human rights being vital for human development. Not surprisingly, in most countries with high human development indicators, public sector social expenditures comprise around 20 per cent of GDP\(^ {20}\). Although social sector expenditures in Myanmar have increased rapidly in nominal terms, they have remained between 8 and 9 per cent of expenditure, or less than 3 per cent of GDP.

For purposes of this analysis the social sector is defined as expenditures consisting of education, health and social welfare ministries. Expenditure under these ministries includes teacher salaries, health infrastructure and direct assistance to the poor, such as food aid. Some important caveats are to be kept in mind: first, the budget headings under the education, health, and the ministry of relief, resettlement and welfare (referred to as ‘social welfare’ in this paper) do not reveal the full extent of public spending on the social sector, as a number of government ministries and agencies are engaged in the provision of social services.

For instance, the Ministry of Defence runs a number of nursing and medical academies and hospitals, whilst the Ministry of Labour provides social welfare through a social security board. In addition, as many as seventeen ministries, including the Ministry of Science and Technology, Ministry of Agriculture and Irrigation, Ministry of Livestock, Fisheries and Rural Development and the Ministry of Cooperatives operate their own specialized universities that offer higher education programs for the general population.

In addition, the poverty reduction and constituency funds address issues relating to poverty. However, due to there being insufficient detail in the budget, these could not be separately counted as part of the expenditure.

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20 See for example, the OECD SOCX database that contains detailed time series data on public social spending as a per cent of GDP. Available at http://www.oecd.org/social/expenditure.htm#socx_data
‘social sector’ in this analysis. There are also a range of activities relevant to the social sector managed at the local level which are not separately listed in the budget data.

The data reveal a rising trend in terms of social sector (and per capita) spending, although increased salaries and other input prices can explain a large part of this rise and much of the increase occurred in 2011-12. Despite this, our analysis suggests that Myanmar’s expenditure for the social sector is improving.

Expenditure allocations for the three ministries comprising the social sector and their rates of growth during the period 2011-12 to 2014-15 are depicted in Table 4, Figure 5, and Figure 6.

Table 4: Social Sector expenditures (2011-12 to 2014-15)

<table>
<thead>
<tr>
<th>Year</th>
<th>Social Welfare</th>
<th>Capital</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2012</td>
<td>7.5</td>
<td>7.6</td>
<td>15.1</td>
</tr>
<tr>
<td>2012-2013</td>
<td>13.1</td>
<td>8.0</td>
<td>21.0</td>
</tr>
<tr>
<td>2013-2014</td>
<td>8.2</td>
<td>3.7</td>
<td>11.9</td>
</tr>
<tr>
<td>2014-2015</td>
<td>9.4</td>
<td>5.5</td>
<td>14.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Health</th>
<th>Capital</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2012</td>
<td>66.7</td>
<td>25.3</td>
<td>92.0</td>
</tr>
<tr>
<td>2012-2013</td>
<td>180.1</td>
<td>220.6</td>
<td>400.7</td>
</tr>
<tr>
<td>2013-2014</td>
<td>308.0</td>
<td>220.5</td>
<td>528.6</td>
</tr>
<tr>
<td>2014-2015</td>
<td>382.3</td>
<td>270.5</td>
<td>652.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Education</th>
<th>Capital</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2012</td>
<td>274.9</td>
<td>35.5</td>
<td>310.4</td>
</tr>
<tr>
<td>2012-2013</td>
<td>546.8</td>
<td>218.0</td>
<td>764.8</td>
</tr>
<tr>
<td>2013-2014</td>
<td>686.9</td>
<td>222.5</td>
<td>909.5</td>
</tr>
<tr>
<td>2014-2015</td>
<td>873.9</td>
<td>268.6</td>
<td>1142.5</td>
</tr>
</tbody>
</table>

Data are in Billion MMK.

Table 4 contains nominal expenditures for the social sector ministries during the last three fiscal years. As illustrated, the education ministry has the highest expenditure, whilst health expenditure is about 40-45 per cent lower. Social welfare expenditure on the other hand, is insignificant in terms of scale and it is the only sector where both nominal (and real expenditure) is lower in 2014-15 than in 2011-12. The other two sectors saw significant increases in budgets: for instance, compared to 2011-12, education expenditure grew from about 310 billion MMK to 1.14 trillion MMK in 2014-15 – an increase of close to
300 per cent in just 4 years and nearly 50 per cent higher than the value observed in 2012-13. Similarly, health expenditure is about 600 per cent higher when comparing 2014-15 with 2011-12 and over 50 per cent higher than 2012-13.

There have also been increasing levels of per capita expenditures in the social sector, with total per capita expenditure at approximately MMK 5 000 (US$36) of which about MMK 22 000 (US$23) is for education, MMK13 000 (US$13) for health, and just under MMK300 (US$0.31) for social welfare. These have not necessarily translated into improved outcomes in relation to coverage and access, as the budgetary data suggest most of this increase can be attributed to increases in input costs, such as salaries.

Both education and health sectors have comparable levels of capital expenditure and most of the increase in total expenditures, as well as the high rates of growth of social expenditures, can be attributed to increases in recurrent expenditures (salaries, etc.). As mentioned, the lack of data and an effective evaluation and monitoring framework makes it difficult to assess and design policies to combat the low health and education outcomes observed in the recent past. There is a clear need to develop medium term planning and expenditure frameworks for these sectors along with the requisite costing for capital expansion to ensure the future availability of human capital, equipment and infrastructure.

The increased expenditures for education and health have also translated to an increase in their share of the budget. Figure 5 demonstrates the allocation of total expenditure in education, health and social welfare. As illustrated, budgetary allocations for education have risen over the period (except 2013-14) from just under 4 per cent of the budget in 2011-12 to nearly 6 in 2014-15.

Over the same period allocations for health have also tripled from 1 to 3 per cent of the budget. In stark contrast, allocations for social welfare declined since 2011-12 from 0.2 per cent of the budget in 2011-12 to just 0.1 per cent.

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21 Per capita expenditures refer to expenditures divided by estimates of the total population (51.4 million). Although it would be more accurate to calculate per capita expenditures based on target populations (such as school aged children for education), the budget data provided under union budget laws do not provide this level of detail.
Figure 6 demonstrates the rate of growth of expenditure for the social sector for each year between 2012-13 and 2014-15, and also shows the average rates of growth over the period under consideration. “All other” sectors’ expenditure growth rates and the growth rate of total expenditures are also shown for comparison purposes. As demonstrated, most growth in expenditure occurred during 2012-13.

The decline in expenditure allocations is significant for social welfare, especially during 2013-14, where there was a sharp decline in spending, suggesting that the provision of social welfare in Myanmar is primarily through informal or private means. On average, total expenditures grew at about 16 per cent through the last three years, but social welfare expenditures dropped by nearly 16 per cent. Health and

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Note: This decline may also be explained by institutional reorganization, as some functions of the Ministry responsible for Social Welfare were transferred to other government ministries, departments or agencies. Nevertheless, the low allocation suggests that an understanding of the importance of the public provision of social welfare has not yet gained sufficient ground among decision-makers in Myanmar.
education expenditure on average grew much faster than overall expenditure, at 28 and 22 per cent respectively.

**Figure 6: Average Rates of growth of social sector expenditures (2012-13 to 2014-15)**

![Bar chart showing average rates of growth of social sector expenditures from 2012-13 to 2014-15](chart)

**Conclusion**

Social sector expenditure growth needs to be sustained and resources strategically utilized to curb the adverse socio-economic indicators observed in Myanmar. A sustained expenditure focus for the social sector, not only on current allocations, but also on capital expenditures, is critical to ensure that an effective balance is struck between the current and future needs of the sector.

Current budgetary data are not appropriate to estimate the distributional impact of expenditure. However, as further surveys are conducted and the data become available, additional analysis will become possible. Given the importance of such data for determining the relative priorities of government, it is imperative that future data collection efforts adopt appropriate indicators to allow the measurement of
need and the impact of government programmes. 23

A robust Monitoring & Evaluation system is urgently needed, as is a move towards a results-based or outcome-based management framework, to better link expenditures with plans and policies. In this regard, the MOF’s current transition to a medium term fiscal framework (MTFF), presents an opportunity for the social sectors to engage in a similar exercise. This would provide an avenue of improved understanding of the short and medium term fiscal flows needed for the social sector.

23 A common standard for such indicators is that it be ‘SMART’: Specific, Measurable, Achievable, Relevant and Time-bound.
Revenues

Key Points 5:

• As a per cent of GDP, total revenues increased from about 21 per cent of GDP to 26 per cent of GDP over the last three fiscal years.
• Although the majority of government revenue is derived from SOEs, tax revenue has increased from 3 to 8 per cent of GDP since 2012-13.
• Revenues from taxation contributed between 25-33 per cent of total revenues from 2012-13 to 2014-15.

The importance of developing strategies to harness revenues for social and other sectors to improve the welfare of children has now been acknowledged as an imperative for sustainable growth in a developing country context. Strategies used to finance expenditures such as taxation, loans, grants and aid, have important bearings on economic efficiency and equity. Consequently these costs must be balanced against the gains from acquiring these resources. For instance, taxes can be used to encourage or discourage certain kinds of behaviour both at the private household level, as well as at the public sector level. Governments therefore need to conduct a careful analysis of the costs and benefits of acquiring funds and the uses for which these funds are deployed.

In this section we present an analysis of the government’s different types of revenue arrangements and the overall contribution to revenues. The database developed as part of this paper can be refined in future years, in order to allow a more detailed analysis of revenue efficiency, buoyancy and detailed statistical estimates. The database used for this report will be made available online on the UNICEF website for public use from November 2014.

Total revenues are derived by adding up revenues for Ministries & Departments as well as for SOEs, institutions of the Union Government and central development committees. The budgetary figures published in the official gazette aggregate revenues for each of these entities from several sources; tax revenues, taxes from SOEs (on profits), other current revenues, and capital revenues including loan repayments to these government entities, grants/aid, and other capital revenues.

Revenues in the budget (for each entity including SOEs) are classified as; taxation, other non-tax current revenues, capital revenues, grants & aid, and other capital revenues (Table 5 & Figure 8). Whilst it shows overall growth in revenues from most of these sources, the declining level of taxes from SOEs have offset some of this growth. Furthermore, the SOEs are a major source of finance for the government.

Total revenues increased by 60 per cent from MMK10.1 trillion to about MMK16.5 trillion during 2012-13 to 2014-15. As a per cent of GDP, this amounts to an increase from about 21 per cent of GDP to 26 per cent over the last three fiscal years.

Figure 7 demonstrates the growth in total revenues and thus the significance of SOEs in overall consolidated revenues is easily discerned. They are indeed a major source of government financing.

The composition of overall revenues (as per cent of the total) is shown in Figure 8 for the years 2012-13 to 2014-15. Interesting trends are observed; total SOE revenues constitute a major share of consolidated revenues, although in the fiscal year 2014-15 there was a decline in the revenue share accruing from them. On average SOE revenues have contributed between 50-70 per cent of the total. Tax revenues constitute a bigger share of total revenues in 2014-15 even though tax revenues from SOEs have declined. Although a lot of this increase has come from one-off sales of natural resources, other components of taxation also showed impressive gains (see Table 5).

Revenues from taxation contributed between 25-33 per cent of total revenues and include revenues from five types of taxes:

a) Taxes on domestic products and people’s consumption (taxes on excise, trade, imports, lottery, transportation fees, sales of stamps);

It is unclear how budget revenue reported at the union level accounts for revenues from SOEs, such as ‘taxes on SOEs’. Although analysis conducted as part of this report did not suggest this revenue had been counted more than once, its treatment has not been made explicitly clear in the published budgets.
Revenues from these five sources of taxes more than doubled when comparing 2012-13 with 2014-15. Tax revenues grew from around MMK2.5 trillion to MMK5.4 trillion by 2014-15. Natural oil and gas revenues contributed a further 6 per cent of total tax revenues.

**Figure 8: Composition of Total Revenues (% of total) 2012-13 to 2013-14**

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26 Technically some of these sources of government revenue should be classified as 'royalties' rather than 'taxes', for example, the payments made to governments for the right to extract oil, natural gas, and gemstones. However, Myanmar law and policy currently classifies these royalty payments as 'taxes', and for the sake of simplicity and consistency we also refer to these royalties as 'taxes' in this paper.
### Table 5: Revenues (2012-13 to 2014-15)

<table>
<thead>
<tr>
<th>Sources of Revenues (Bill. MMK)</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total tax revenues</td>
<td>2,487.2</td>
<td>3,557.9</td>
<td>5,424.0</td>
</tr>
<tr>
<td>1a. Tax Revenues</td>
<td>1644.6</td>
<td>2,609.2</td>
<td>4,891.0</td>
</tr>
<tr>
<td>1b. Taxes from SOEs</td>
<td>842.6</td>
<td>948.7</td>
<td>533.1</td>
</tr>
<tr>
<td>2. Other current revenues</td>
<td>255.1</td>
<td>347.7</td>
<td>490.0</td>
</tr>
<tr>
<td>3. Capital Revenues</td>
<td>9.7</td>
<td>37.8</td>
<td>131.2</td>
</tr>
<tr>
<td>4. Grants/Aid</td>
<td>15.6</td>
<td>87.9</td>
<td>204.0</td>
</tr>
<tr>
<td>5. Other capital revenues</td>
<td>110.8</td>
<td>144.1</td>
<td>760.2</td>
</tr>
<tr>
<td>6. Total Revenues (Excl. SOE)</td>
<td>2878.4</td>
<td>4,175.3</td>
<td>7,009.5</td>
</tr>
<tr>
<td>7. Total SOE Revenues</td>
<td>7,174.1</td>
<td>9,039.0</td>
<td>9,528.9</td>
</tr>
<tr>
<td>SOE current revenues</td>
<td>6,502.4</td>
<td>8,128.8</td>
<td>8,688.7</td>
</tr>
<tr>
<td>SOE capital revenues</td>
<td>22.4</td>
<td>121.2</td>
<td>6.0</td>
</tr>
<tr>
<td>SOE Grants/Aid</td>
<td>0.0</td>
<td>18.2</td>
<td>51.7</td>
</tr>
<tr>
<td>SOE other capital revenues</td>
<td>649.4</td>
<td>770.8</td>
<td>782.6</td>
</tr>
<tr>
<td>8. Total Revenues (Incl. SOE)</td>
<td>10,052.6</td>
<td>13,214.3</td>
<td>16,538.4</td>
</tr>
</tbody>
</table>

#### Breakdown of Tax revenues (item 1a) Data are in Bill. MMK

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tax on domestic products and people’s consumption</td>
<td>869.35</td>
<td>1,200.28</td>
<td>1,464.49</td>
</tr>
<tr>
<td>Tax on excise</td>
<td>0.23</td>
<td>0.35</td>
<td>0.93</td>
</tr>
<tr>
<td>Tax on trade</td>
<td>800.23</td>
<td>1,091.08</td>
<td>1,291.08</td>
</tr>
<tr>
<td>Licence fees on imports</td>
<td>0.77</td>
<td>6.00</td>
<td>8.00</td>
</tr>
<tr>
<td>Myanmar lottery</td>
<td>20.35</td>
<td>19.99</td>
<td>28.00</td>
</tr>
<tr>
<td>Transportation fees</td>
<td>16.30</td>
<td>51.86</td>
<td>105.47</td>
</tr>
<tr>
<td>Sales of stamps</td>
<td>314.00</td>
<td>31.00</td>
<td>31.00</td>
</tr>
<tr>
<td>2. Tax on income and property</td>
<td>684.87</td>
<td>1,264.93</td>
<td>1,664.93</td>
</tr>
<tr>
<td>3. Customs</td>
<td>85.00</td>
<td>135.00</td>
<td>190.00</td>
</tr>
<tr>
<td>4. Tax on usage of national properties</td>
<td>5.05</td>
<td>8.25</td>
<td>1,571.16</td>
</tr>
<tr>
<td>Tax on land</td>
<td>0.00</td>
<td>0.18</td>
<td>0.00</td>
</tr>
<tr>
<td>Tax on water and irrigation</td>
<td>2.60</td>
<td>1.10</td>
<td>1.02</td>
</tr>
<tr>
<td>Tax on extracting from forests</td>
<td>1.72</td>
<td>2.21</td>
<td>1.85</td>
</tr>
<tr>
<td>Tax on extracting minerals</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
</tr>
<tr>
<td>Tax on lakes</td>
<td>0.72</td>
<td>4.75</td>
<td>1.08</td>
</tr>
<tr>
<td>Tax on rubber</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Taxes on oil &amp; natural gas</td>
<td></td>
<td></td>
<td>329.34</td>
</tr>
<tr>
<td>Taxes on precious gems</td>
<td></td>
<td></td>
<td>1.40</td>
</tr>
<tr>
<td>Fees from telephone operators</td>
<td></td>
<td></td>
<td>1,225.00</td>
</tr>
<tr>
<td>Fees from extracting electric power</td>
<td></td>
<td></td>
<td>11.46</td>
</tr>
</tbody>
</table>

#### Memorandum item

<table>
<thead>
<tr>
<th>Memorandum item</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (Bill. MMK)</td>
<td>47,433</td>
<td>53,501</td>
<td>60,797</td>
</tr>
</tbody>
</table>
Figure 9 illustrates the functional classification of revenue sources as a per cent of GDP (but excludes revenues from SOEs which make up about 15 per cent of GDP). The impressive increase in taxation can be seen, as well as the decline in SOE tax revenues. Other components do not constitute significantly higher than 1 per cent. Grants/Aid although increasing in recent years, are still well below 1 per cent of GDP. There is considerable scope to increase the overall fiscal envelope through greater grants and aid flows to diversify the revenue base in Myanmar.

Figure 9: Sources of revenues (% GDP)

![Figure 9: Sources of revenues (% GDP)](image)

Figure 10 demonstrates the sectors through which revenues accrue and combines SOE revenues. It can be seen that natural resources (energy, power, mines, communication and IT, royalties from natural resources etc.) play an important role in generating revenues for Myanmar, as revenue flows from the natural resources sector contribute more than 50 per cent to overall revenues. The largest contribution comes from the energy sector (25 per cent) where SOEs under the ministry of energy generate the largest revenues from oil and gas transactions. Estimates suggest that revenues from gas exports are expected to contribute 1/6th to 1/8th of total revenues in the future.27

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Conclusion

Revenue growth has provided the government with substantially more resources. Increasing diversification and widening the taxation base would likely strengthen revenue flows and reduce the volatility of taxation receipts. There is therefore substantial scope to direct resources towards efficient, enhanced and equitable delivery of public goods and services, especially basic goods and services essential to children. This is an opportune moment to use these increased resources towards enhancing the welfare of children. Sources that can be effectively explored include (a) securing grant funding, (b) harnessing revenues from natural resources, and (c) increased tax efficiency.
Conclusion and Recommendations

This paper has summarized Myanmar’s fiscal trends since 2011-12. Excluding the supplementary budget, expenditure is approximately 31 per cent of GDP, whereas revenues are around 26 per cent of GDP. Although the Government has made commitments to reduce Myanmar’s fiscal deficit, with projections currently suggesting it will decline to 5 per cent of GDP by 2014-15, from 9 per cent in 2012-13, it is still uncertain as to what extent the supplementary budget might impact the final figure.

The most noticeable trend is the rapid scaling up of revenues, including taxes. SOEs make a significant contribution to revenues & expenditures, although substantial variation exists among them. From the expenditure side, enterprises under Ministries of Energy, Power, and Mining & Industry have the biggest budgets. When revenues are also factored in the most profitable enterprises are under Energy & Mining, whilst the least profitable are under industry and railways. Between 39 to 60 per cent of the ministries with SOEs have run deficits since 2012-13.

The strong revenue performance in Myanmar in recent years has endowed the authorities with more resources than ever. Possible financing strategies for funding government programmes that focus on children might include increasing tax or non-tax revenues, increasing revenues from the natural resources sectors and securing grants & concessional financing from development partners. In addition, programmes that increase the efficiency of expenditures through programme reforms and better targeting of expenditures, could potentially provide the fiscal space needed to finance additional social welfare programmes.

Defence spending has varied between 13-15 per cent of total expenditure. SOEs absorb about 47-51 per cent of expenditures. Interest payments absorb another 4 per cent of expenditures. Although expenditure on the social sector has increased, it is still only 8-9 per cent of total expenditure. Fortunately, there is scope for raising revenues through diversification and expansion of the economic base in Myanmar, with the latest IMF projections suggesting real GDP growth will increase to around 8 per cent.

Natural resources are an important source of revenues but there is very little information about their potential quantities. It is expected that, with EITI compliance requirements, much more public information will be made available and the full extent of inflows from natural resources could be assessed, as these have the potential to form an important source of revenues for driving economic and social development.

The time is opportune for the authorities to use the resources from increasing revenue flows to initiate far reaching reforms aimed at the most vulnerable. This is particularly true for children, as they constitute about 1/3rd of the population and data suggest that child development indicators are below acceptable levels.

28 Other strategies may include printing money & inflation (seignorage), borrowing domestically, borrowing internationally, drawing down assets/reserves. However, each of these strategies carry high levels of macroeconomic risk and in the long run are highly likely to have a negative impact on families and children.

29 IMF, Article IV Consultation—Staff Report; Press release; and statement by the Executive Director for Myanmar. 2014.
Recommendations

Based on the evidence presented in the paper, it is recommended that:

- An effective monitoring & evaluation system be developed in order to assist a move towards an outcome based budget management framework.
- A sustained expenditure focus on the social sector is required to improve socio-economic indicators in Myanmar.
- The time is opportune for Myanmar to consider the possibility of using increased revenues to direct resources towards efficient and equitable delivery of goods and services, especially those that are critical for children.
- Allocations and transfers to state and regions should be based on need, be linked to development indicators and/or be formula based.
- Research is conducted to ascertain whether efficiency gains could be achieved through the consolidation of some ministries, so as to minimise and avoid process duplication, and leverage economies of scale in achieving common development outcomes.
- More analytical information is made publicly available to allow for deeper analysis of Myanmar’s fiscal position, in response to the Union Parliament’s request, and to inform parliamentary debate on sustaining investments in children.
- Myanmar’s budgetary classification is made consistent with the UN classification of the functions of Government Standard (COFOG) and Government Finance Statistics (GFS) standards, in recognition of the crucial role of fiscal policy to economic stability and growth. The Ministry of Finance (MOF) has been undergoing a Public Financial Management and Public Expenditure Review, cooperating with the international community in this process. This review process can form the basis of a shift towards adopting an internationally recognized budget classification system. Such a budget classification will support better understanding of what goes to children in the budget.
- The budget should, where possible, reflect local needs and should come from a local or ‘bottom-up’ planning process in order to put children at the centre of the budget process.

References

