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Sharing the Wealth: A Roadmap for Distributing Myanmar's Natural Resource Revenues

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Oil, natural gas and mineral revenues are generated in nearly every state and region in Myanmar, with the most important onshore interests lying in Bago, Kachin, Magway, Mandalay, Sagaing, Shan and Tanintharyi. In these areas and others, extractive activities have significantly impacted livelihoods and the environment. Local populations in affected areas also assert a lack of direct benefits from the extractive industry.

In response, the newly elected National League for Democracy (NLD) has committed to "work to ensure a fair distribution across the country of the profits from natural resource extraction, in accordance with the principles of a federal union." Furthermore, regional and state leaders and several ethnic armed groups have pointed to natural resource revenue sharing as a key component in national reform, fiscal decentralization and peace processes. As such, distribution of natural resource revenues to subnational authorities will be a central component of any decentralization effort and could even feature in discussions around the creation of a new Myanmar federation.

Depending on how any prospective system is designed, resource revenue sharing can help address three separate issues: improving development outcomes and the quality of public investment; attracting high quality private investors to the sector; and securing a lasting peace.

Many countries have designed revenue sharing regimes to enhance public service delivery, improve inter-regional equity, and strengthen national unity. Success is dependent on having revenues reflect expenditure responsibilities, ensuring predictability and stability of revenue flows, and the ability of all levels of government and relevant stakeholders to reach a consensus on a formula that can survive political transitions. In other words, any revenue sharing system must be efficient, fair and transparent.

## FISCAL DECENTRALIZATION, SUBNATIONAL FINANCES AND EXTRACTIVE ACTIVITIES IN MYANMAR

Excluding illegal activities and payments to ethnic armed groups, almost all public oil, gas and mining tax and non-tax revenues are collected directly by the Union government or state-owned entities, as prescribed by the 2008 Constitution. Transfers of these resource revenues and general revenues to subnational governments are made on an *ad hoc* basis. They are disproportionately large on a per capita basis in conflict-prone areas and states and regions with more activist politicians, though there is also evidence that states and regions with greater development needs are receiving a higher share of revenues. As Myanmar decentralizes and devolves power to subnational authorities, the overall size of transfers is also increasing year-on-year.

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As of 2013, there were large-scale mines operating in all but two states and regions and active legal mines in all but Chin state. Among the most important of these are the Letpadaung copper mine in Sagaing region; jade mines in and around Hpakant township in Kachin state; ruby and sapphire mines in Mandalay region (Mogok) and Shan state (Mong Hsu); and the Kyaukpahto and Modi Taung gold mines in Sagaing and Mandalay regions, respectively.

Mineral exploration activities are also underway in nearly every state or region. Among the most promising deposits are iron ore in Kachin, Bago and Shan states, lead and zinc in Shan, and gold in Mandalay and Sagaing. The Ministry of Mines has plans to expand copper, nickel and chromite production at a minimum.

Foreign and independent sources place the value of mineral exports and production much higher than the officially reported USD 1.15 billion in exports in 2013/14. According to UN trade data, nearly USD 12.3 billion in precious stones were exported from Myanmar to China alone in 2014. An independent assessment by Global Witness valued gross jade production in Myanmar at roughly USD 31 billion in the same year. Despite the methodological challenges associated with calculating the value of mineral production—especially given the scale of smuggling activities and underreporting and the difficulty in accurately pricing precious stones such as jade—by these estimates, actual mineral exports were more than 10 times more valuable than what was reported by the government.
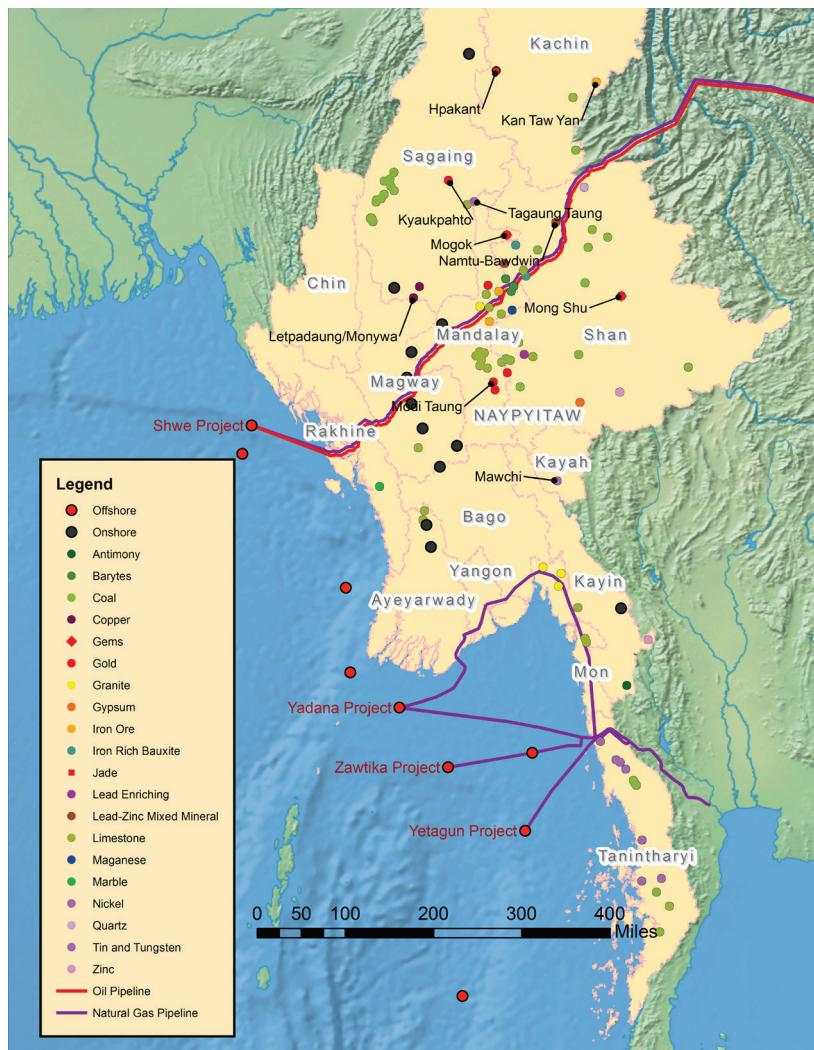
Map of major extractive activities in Myanmar

According to Myanmar's first Extractive Industries Transparency Initiative (EITI) report, published in January 2016, the Union government collected MMK 442 billion (approximately USD 460 million) in mineral revenues in 2013/14. Gems and jade represented 88 percent of this amount. Mineral sector payments contributed approximately 7 percent of Union government non-state-owned economic enterprise (non-SEE) fiscal revenues in 2013/14.

While most oil and gas production is currently off-shore, pipelines run through many states. The older gas network serving the Yadana and Yetagun fields runs through Yangon, Bago, Mon and Tanintharyi. The new Shwe oil and gas pipeline passes through Rakhine, Magway, Mandalay and Shan. As of April 2014, there were also 17 on-shore blocks producing oil or gas. On-shore oil and gas companies are active in nearly every state, especially in Bago and Magway. They are noticeably less active in Chin, Shan, Kachin and Tanintharyi.

The oil and gas sector generates more revenue than the mineral sector for the government. The Union government collected MMK 2,569 billion (approximately USD 2.7 billion) in oil and gas taxes, equity returns, signature bonuses, custom duties, royalties and in-kind production in FY 2013/14. Oil and gas sector payments contributed approximately 40.5 percent of estimated Union government fiscal revenues in 2013/14, excluding payments from SEEs.

While publication of extractive sector payments is a good first step, project-by-project production and payments data—preferably disaggregated by revenue stream—would be needed to implement a resource revenue sharing system that benefits producing regions in Myanmar. The first Myanmar EITI report does not provide this information, nor is it publicly available elsewhere.

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EIGHT STEPS TO DESIGNING A RESOURCE REVENUE SHARING SYSTEM

Our paper outlines eight considerations for natural resource revenue sharing in Myanmar:

- **Agreeing on revenue sharing objectives.** Extractive-specific revenue sharing systems are usually established to achieve one or more of the following goals: (i) compensate local communities for the negative impacts of extraction; (ii) mitigate or prevent violent conflict; (iii) respond to local claims for benefits, based on ideas of local ownership; and (iv) promote regional income equality between resource and non-resource rich regions. Achieving consensus on the objective(s) is essential since any resource revenue sharing system ought to be designed to reflect the objectives.

- **Deciding on vertical distribution.** Vertical distribution refers to the split in revenue shares between the national and all subnational entities. To prevent wasteful spending or poor service delivery, transferred revenues ought to match expenditures over the medium-term. While there is no one-size-fits-all system for vertical distribution, subnational expenditure responsibilities must be taken into account.

- **Deciding on which revenue streams to share.** Any revenue sharing formula must consider whether to cover all revenue streams or only some (e.g., royalties). It must also consider whether to cover only onshore or both onshore and offshore activities.

- **Deciding on horizontal distribution.** Resource revenues can be distributed between subnational entities according to two principles: a derivation-based principle, whereby a higher proportion accrues to the producing area; or an indicator-based principle, whereby revenues are allocated according to needs

(e.g., poverty rates; education outcomes) or revenue generating capacity (e.g., population; regional GDP). Currently, Myanmar does not publish enough accurate project-level data to implement a derivation-based formula and does not disclose enough data to even model such a formula. For these reasons, our report only models four indicator-based formulas using census data.

- **Deciding on recipients.** While region- and state-level authorities might be the most obvious recipients of resource revenue shares, governments in other countries make transfers to traditional authorities, municipalities, landowners and even directly to residents. These are all possible considerations in Myanmar.

- **Improving incentives for efficient spending (stabilization and earmarking).** The manner in which resource revenues are transferred—for instance if they are transferred in lump-sum or smoothed, or if they are earmarked for specific expenditure items like education—will help determine whether or not they contribute to improving development outcomes.

- **Transparency and oversight mechanisms.** One challenge many countries face is that local governments cannot verify whether they are receiving their resource revenue entitlements under the law. Transparency and oversight mechanisms can improve the chances that resource revenue sharing will reduce conflict rather than exacerbate it.

- **Negotiation process and venue for implementation.** Other countries' experiences indicate that a fair, stable and efficient system requires stakeholder consensus on any revenue sharing formula, as well as codification in law.

State/region/ territory	Current allocation (percentage of total fiscal transfers) (FY 2015/16)	Model 1: Population-based allocation (percentage of total)	Model 2: Education, electricity and water needs-based allocation (percentage of total)	Model 3: Education needs-based allocation (percentage of total)	Model 4: Weighted allocation (percentage of total)
Ayeyarwady	6.5	12.0	13.8	9.7	13.1
Bago	7.1	9.5	7.6	7.3	8.4
Chin	7.0	0.9	1.3	1.4	1.1
Kachin	8.4	3.3	2.8	2.9	3.0
Kayah	2.8	0.6	0.7	0.7	0.6
Kayin	4.0	3.1	4.6	5.2	4.0
Magway	7.9	7.6	6.6	6.6	7.0
Mandalay	6.8	12.0	7.6	9.3	9.4
Mon	4.0	4.0	4.2	4.5	4.1
Naypyitaw	-	2.3	1.3	1.7	1.7
Rakhine	7.7	6.2	9.6	7.6	8.3
Sagaing	9.8	10.3	7.9	8.3	8.9
Shan	11.9	11.3	21.2	24.1	17.4
Tanintharyi	8.1	2.7	2.9	2.3	2.8
Yangon	8.0	14.3	7.1	8.4	10.0

Current fiscal transfers per subnational government and indicator-based allocation models

Data: Myanmar Union Budget 2015/16; Myanmar 2014 Population and Housing Census

Notes: As a union territory, Naypyitaw does not receive fiscal transfers via the same mechanism as other states and regions, but is included here for the purpose of comparison. Model 2 uses an equally-weighted average of three census indicators, namely literacy rates (in any language), percentage of households whose main source of energy for lighting is electricity and percentage of households with access to "improved" water sources. "Improved water" is defined as piped tap water, tube well, borehole, protected well or spring, or bottled or purified water. Model 3 uses an equally weighted average of the literacy rates and percentage of households with internet access at home. Model 4 uses a weighted average of indicators: population (40 percent), literacy (20 percent), electricity at home (20 percent) and water (20 percent).

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