

# SHARING THE WEALTH



**6 Steps**  
for distributing  
Myanmar's natural  
resource revenues

***“We will 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.”***

*NLD 2015 Election Manifesto*

A historic transition in natural resource governance is underway in Myanmar. Sharing natural resource revenues with subnational governments will be important for peace and security. If done right, it could also help generate economic opportunities.

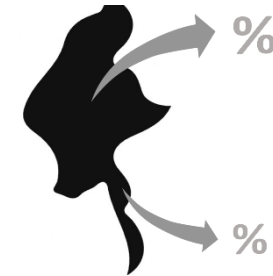
## How can Myanmar get natural resource revenue sharing right? Start with 6 steps:



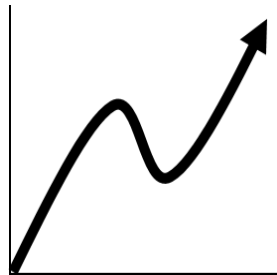
1. Choosing resource revenue streams



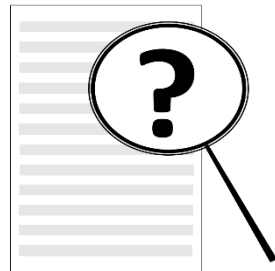
2. Deciding on vertical distribution



3. Deciding on horizontal distribution



4. Stabilizing resource revenues



5. Strengthening oversight



6. Building national consensus



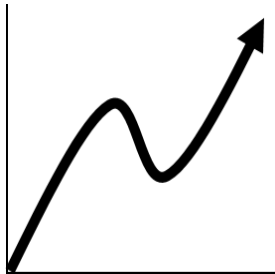
**Step 1:** Choose which revenue streams to share

## Myanmar currently collects seven major revenue streams from the oil, gas and mining sector



### license fees

*one-time payments by companies to seek or secure a new license*



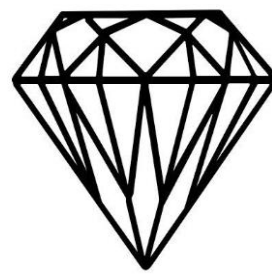
### state equity participation

*dividends from government ownership in oil, gas or mining projects*



### state share of production

*the portion of petroleum or minerals received directly by the government*



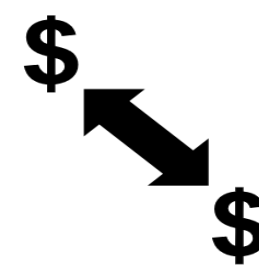
### royalties

*percentage-based payment based on quantity, volume or value of resource*



### corporate income tax

*taxes on the income of oil, gas and mining companies*



### commercial tax

*taxes on the sale of oil, gas and mining products*



### customs duties

*special taxes on the export of oil, gas and mining products*



**royalties**

Royalties are generally easier to estimate than taxes. They are more predictable and less volatile than other revenue streams.



**corporate  
income tax**

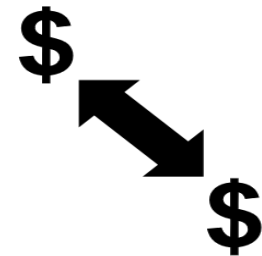
Corporate income tax requires more extensive information to calculate than royalties or license fees. Taxes on profits and dividends may not be collected until late in the project lifecycle.

**Certain revenue streams are easier to share, while others present challenges.**



**license  
fees**

License fees and signature bonuses are generally the easiest stream to calculate and verify. These payments thus lend themselves more naturally to collection at the state and region level.



**commercial  
tax**

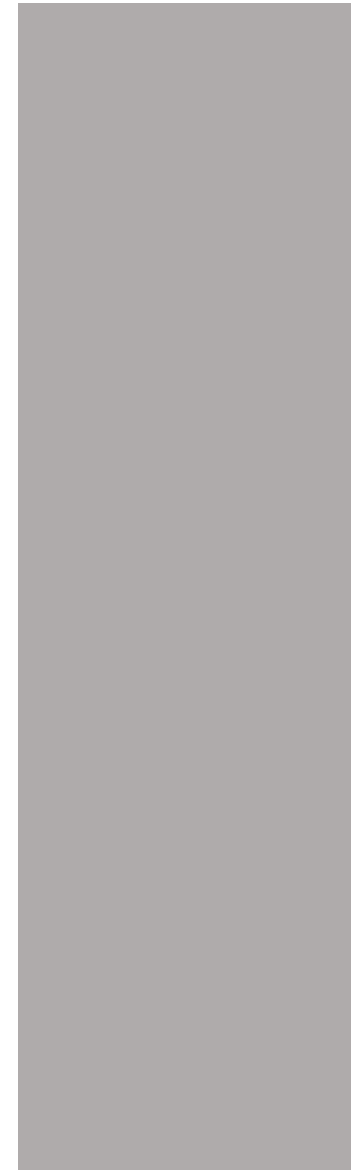
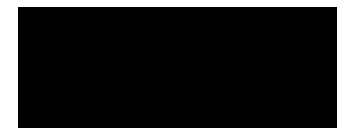
Like income taxes, commercial taxes are not easily linked to a given project in a given state or region. They are unlikely to reflect the true distribution of natural resource extraction.

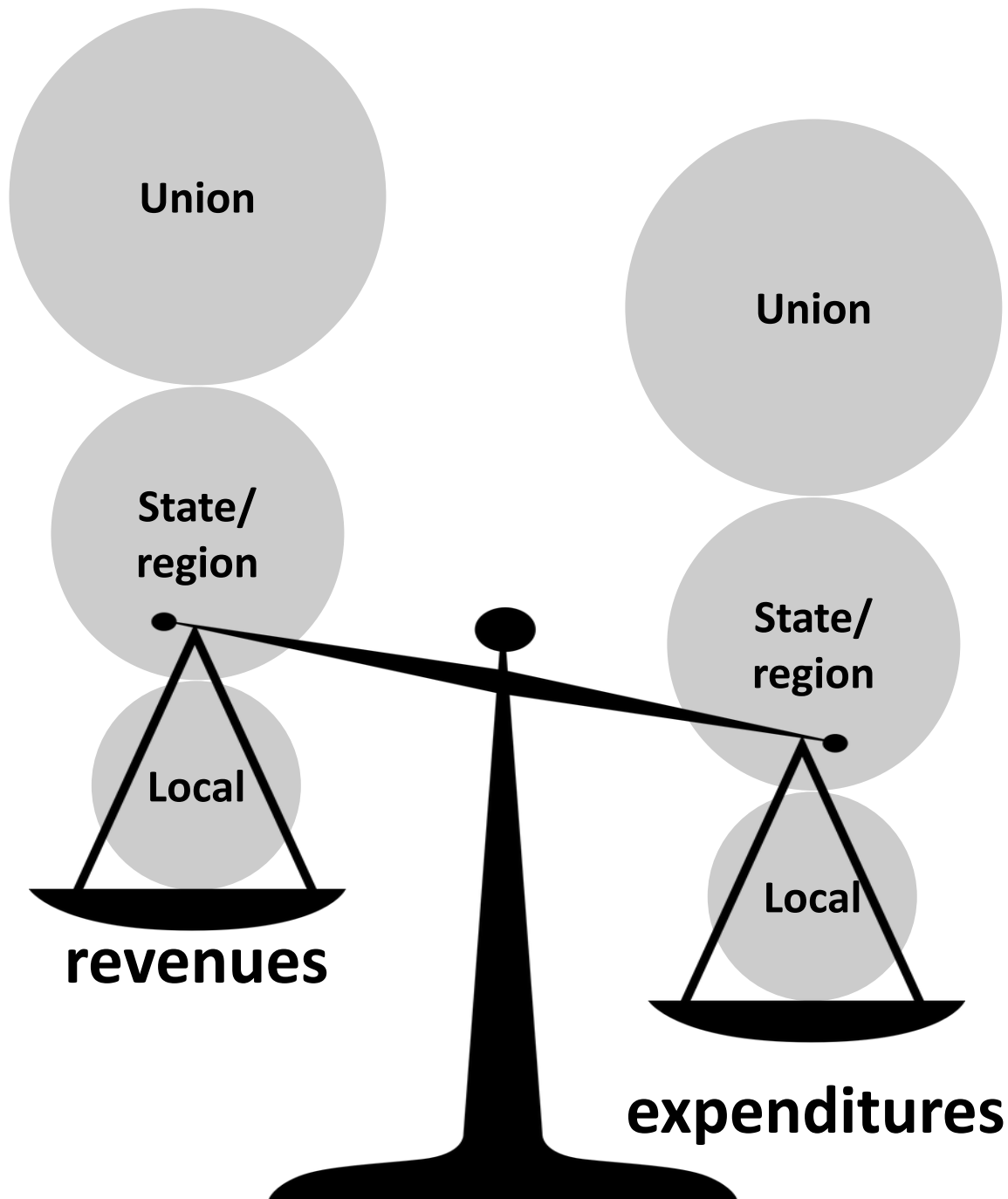
**For a revenue distribution system to function well, revenues must also be collected effectively. In Myanmar, available data indicate that much of mineral and gemstone production is not taxed.**

For example, China reported importing 11.8 billion US dollars' worth of precious stones from Myanmar in 2014. This trade alone should have generated more than 3.5 billion US dollars in tax revenue if it were subjected to Myanmar's 30 percent commercial tax on gemstone exports. This far exceeds the total revenue from the gemstone industry reported in Myanmar's 2013/14 EITI report, which amounted to just 400 million US dollars.

Estimated potential  
gemstone revenue

**Actual reported  
gemstone revenue**





## Step 2: Divide revenues between levels of government

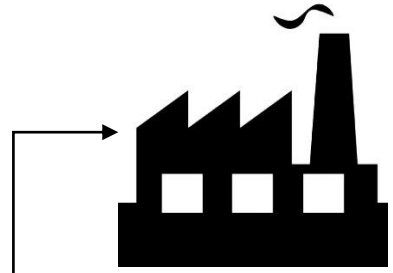
When dividing resource revenues among Union, state/region, and local governments (also known as “vertical distribution”), *revenues* and *expenditure responsibilities* should be balanced to avoid budget shortfalls or wasteful spending.

Under the 2008 Constitution, Myanmar’s states and regions are only responsible for smaller projects such as local roads, local housing, agriculture and recreation centers.



Myanmar's Union government currently collects major revenue streams from oil, gas and mining.

States and regions are responsible for smaller excise taxes, land taxes and taxes on gravel and sand production



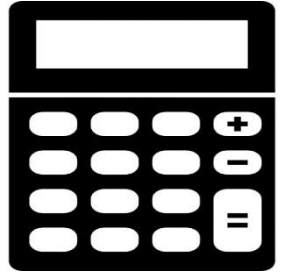
state-owned enterprises

% of SOE profits & SOE income tax

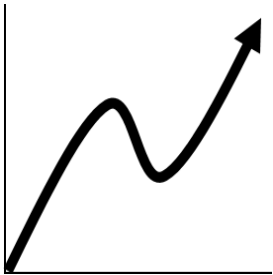


Union budget

Ministry of Finance



license fees



state equity participation



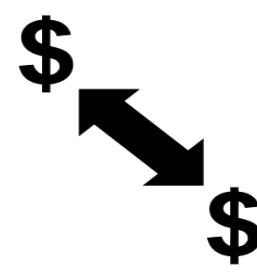
state share of production



royalties



corporate income tax



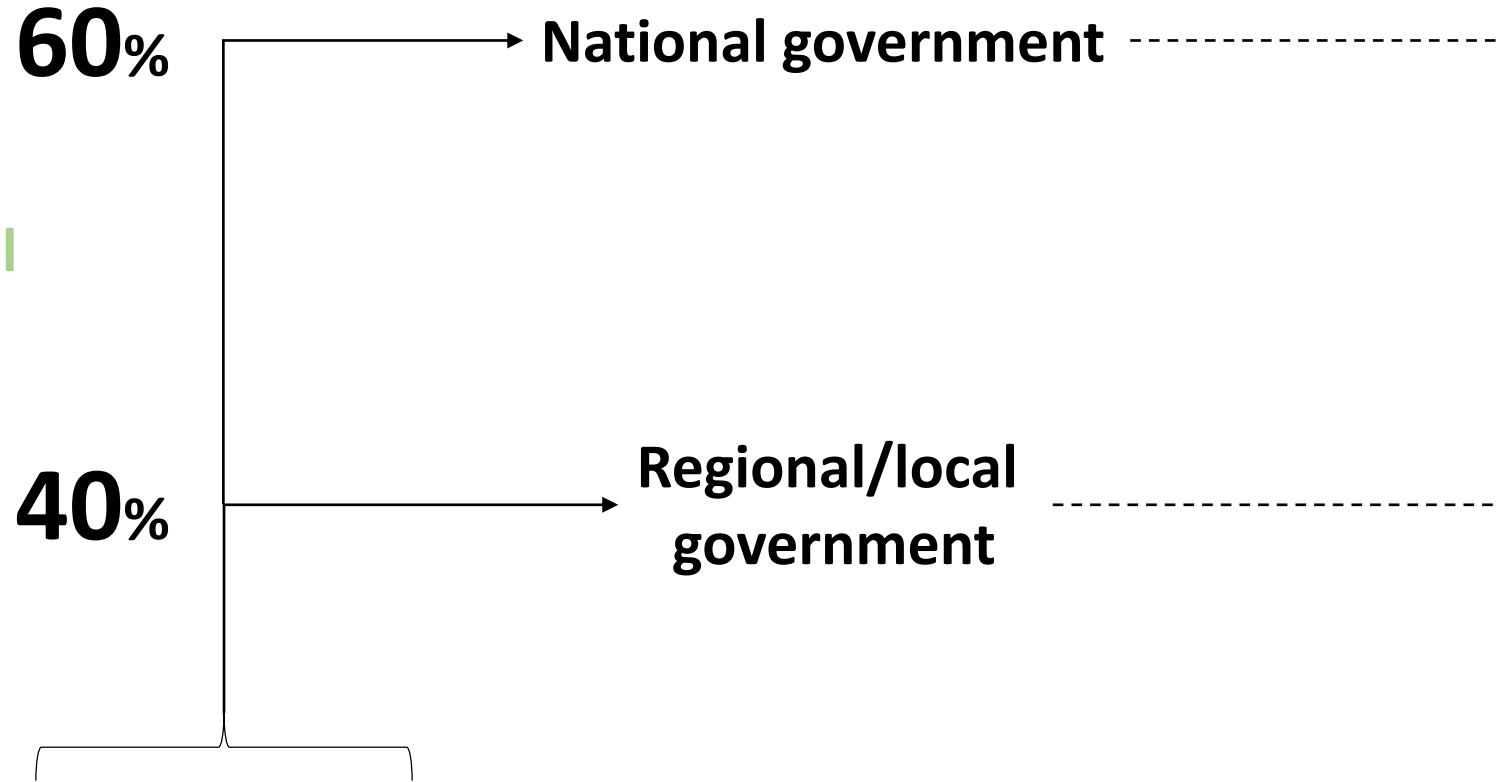
commercial tax



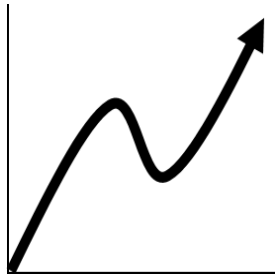
customs duties



In the Philippines, both the national government and local governments receive a share of mining royalties.



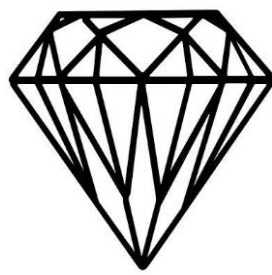
license fees



state equity participation



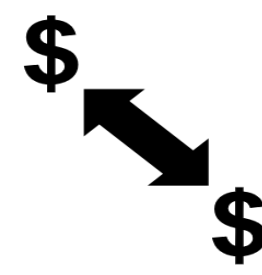
state share of production



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corporate income tax



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customs duties

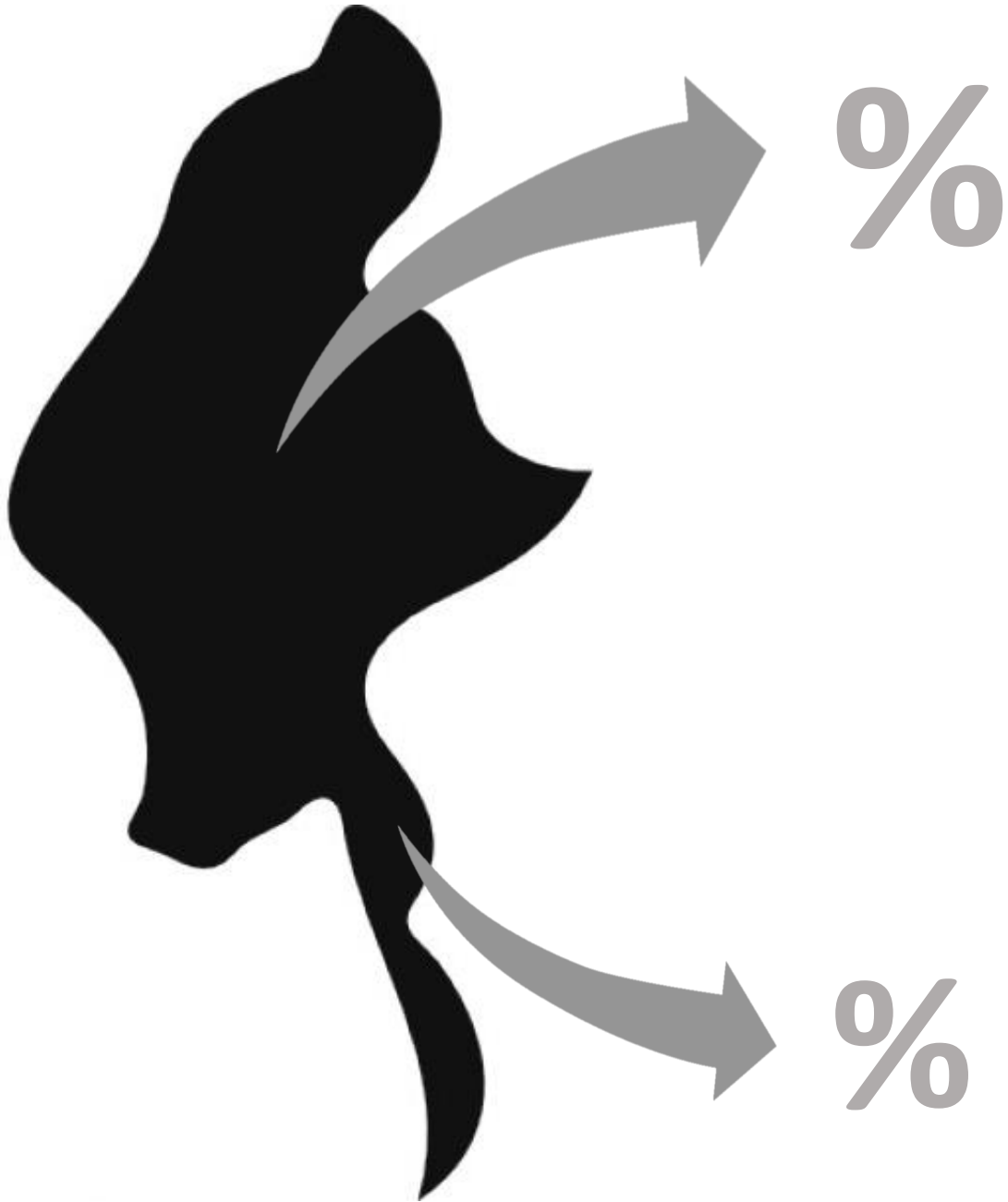
-----> **National government**

*Decentralization of responsibilities  
occurs in parallel with  
decentralization of revenues*

-----> **Regional/local government**

- Consulted in granting large-scale mining permits
- Participate in determining small-scale mining areas & awarding small-scale licenses
- Participate in monitoring & environmental management for small-scale mines

- Authority to grant large-scale mining permits
- Oversee monitoring & environmental management of large-scale mines
- Participate in determining small-scale mining areas & awarding small-scale licenses
- Participate in monitoring & environmental management for small-scale mines



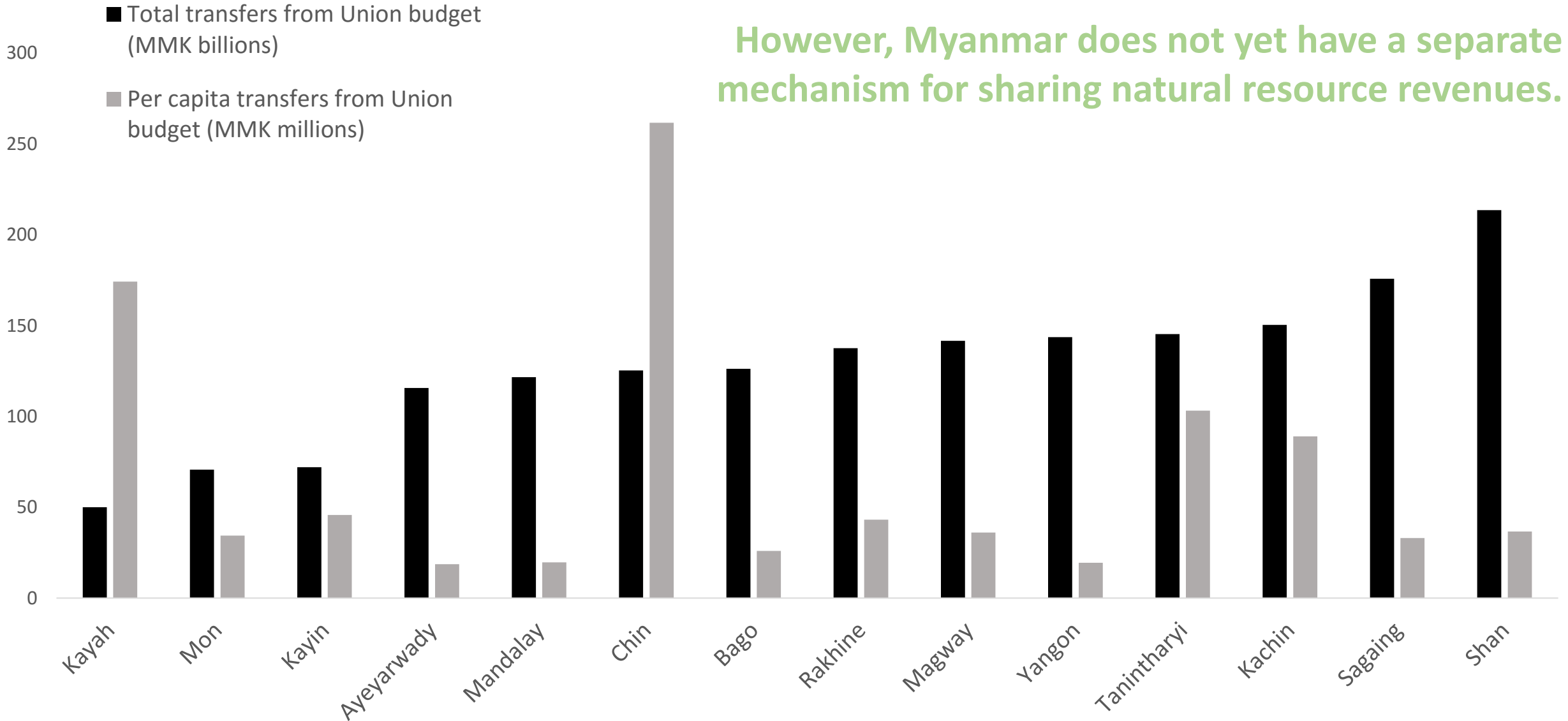
### Step 3: Divide revenues between jurisdictions

It is important to establish a clear and equitable systems for sharing revenues between Myanmar's states and regions (also called "horizontal distribution"), or among lower levels of government.

Countries that distribute resource revenues among subnational governments generally use a *derivation-based formula* or an *indicator-based formula*.

In FY 2015/16, state and regional governments received the following total transfers through the Union budget.

However, Myanmar does not yet have a separate mechanism for sharing natural resource revenues.



In Indonesia, onshore oil revenues are distributed using a *derivation-based formula*, whereby a portion of resource revenues is transferred back to its area of origin. (In Indonesia, revenues from oil produced offshore are not distributed)

Derivation-based systems are relatively easy to implement, but often exacerbate boom-bust cycles.



producing regions

**3.1%**

producing province

**6.2%**

producing district/regency

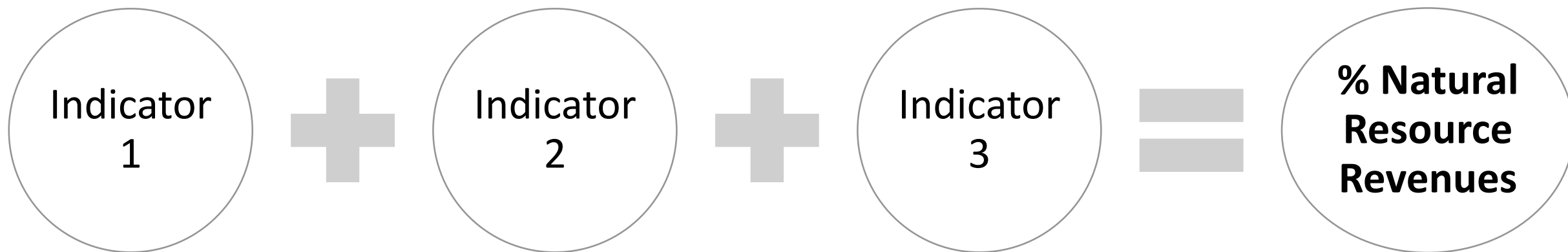
non-producing regions

**0%**

non-producing provinces

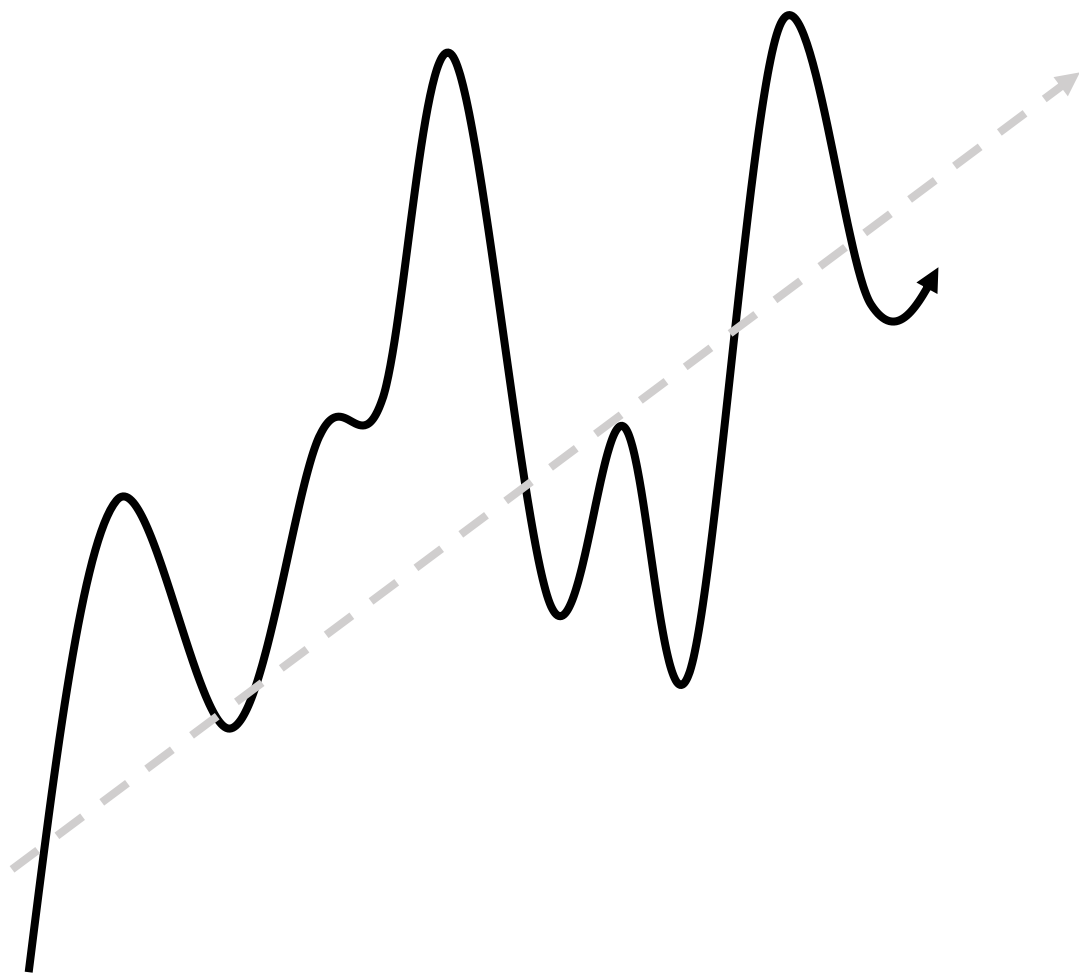
**6.2%**

non-producing district/regencies  
in producing province



Resource revenues can also be distributed using an *indicator-based formula*.

Although they need more data to implement and do not target producing areas, indicator-based allocations can target poorer areas, areas that generate less tax revenue and/or areas suffering from environmental damage. They can also help reduce inequality between regions.



## Step 4: Stabilize natural resource revenues

Derivation-based systems are particularly susceptible to *pro-cyclical government spending*. This means that governments over-spend during boom years and find it difficult to adjust during downturns. When revenues rise quickly, money is often absorbed through higher prices of construction, higher wages and flashy projects rather than used to build beneficial projects or pay for public services. When revenues decline, governments are forced to make harsh cuts or indebt themselves.



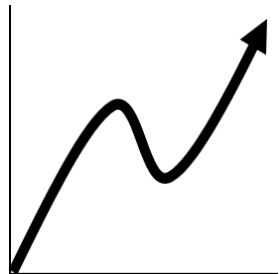
## There are several strategies for mitigating resource revenue volatility:



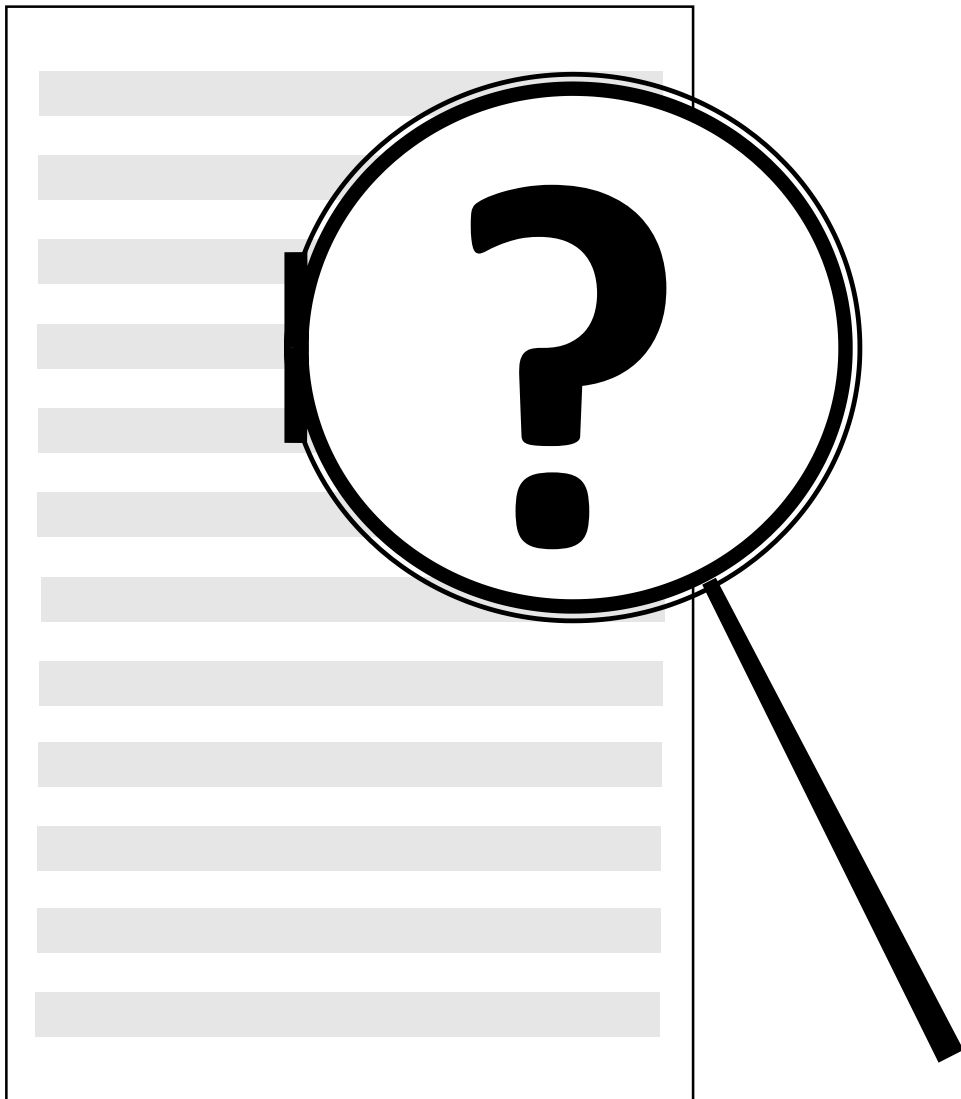
1. Subnational governments can **save resource revenue** windfalls in a natural resource fund for when revenues decline unexpectedly



2. Subnational governments can manage volatility through **borrowing** and paying down public debt



3. The Union government can **smooth transfers** to subnational governments, holding surplus revenues in trust for them



## Step 5: Strengthen transparency and oversight

Resource revenue sharing can only help to build trust between levels of government if revenues and flows are verifiable.

Oversight can be strengthened through data disclosure, independent auditing, and enhanced participation in processes like the Extractive Industries Transparency Initiative (EITI).

## Step 6: Build national consensus around revenue sharing

Depending on how a prospective system is designed, resource revenue sharing can help improve development outcomes, address local claims to a share of resource wealth, attract high quality investors to the resource sector, and secure a lasting peace.

It has encouraged rebel groups or secessionist movements in Brazil, Canada, the Democratic Republic of the Congo, Indonesia, Nigeria, Papua New Guinea and the Philippines to engage in technocratic discussions over the resource revenue sharing regime rather than resort exclusively to violence. If key stakeholders disagree on the formula and it is implemented nonetheless, the regime might be viewed as illegitimate and not addressing local concerns, leading to even greater conflict. It is therefore imperative that national, state and regional leaders design the system together.



**Who are we?**

The Natural Resource Governance Institute (NRGI) works to help people realize the benefits of their countries' natural resource wealth through technical advice, advocacy, applied research, policy analysis, and capacity development. Our Yangon-based country team has been active since 2012.

**Where can I find more information?**

Additional analysis is available in NRGI's recent report, "Sharing the Wealth: A Roadmap for Distributing Myanmar's Natural Resource Revenues." This report, and other research conducted by NRGI, can be accessed via our website:

[www.resourcegovernance.org](http://www.resourcegovernance.org)