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Republic of the Union of Myanmar

Public Financial Management Performance Report

March 2012

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CURRENCY EQUIVALENTS
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 1 US Dollar = 872.49 Myanmar Kyat
 1 Kyat (MMK) = 0.0012 US Dollar (USD)

FISCAL YEAR
 April 1 – March 31

Abbreviations and Acronyms

ADB	-	Asian Development Bank	MOH	-	Ministry of Health
AG	-	Auditor General	MOHA-	-	Ministry of Home Affairs General
			GAD	-	Administration Department
ASEAN	-	Association of Southeast Asian Nations	MOU	-	Memorandum of Understanding
AusAID	-	Australian Agency for International Development	MNPED	-	Ministry of National Planning and Economic Development
BD	-	Budget Department	MP	-	Member of Parliament
BOT	-	Build-Operate-Transfer	NGO	-	Non-Governmental Organization
CBM	-	Central Bank of Myanmar	OA	-	Other Account
CCTO	-	Company Circle Tax Office	OAG	-	Office of the Auditor General
CD	-	Customs Department	ODA	-	Official Development Assistance
COFOG	-	Classification of the Functions of Government	PA	-	Provisional Actual
DFID	-	Department for International Development	PAC	-	Public Accounts Committee
EITI	-	Extractive Industries Transparency Initiative	PC	-	Planning Commission
FC	-	Financial Commission	PEFA	-	Public Expenditure and Financial Accountability
FERD	-	Foreign Economic Relations Department	PFM	-	Public Financial Management
FR	-	Financial Regulations	PI	-	Performance Indicator
GDP	-	Gross Domestic Product	PPP	-	Public-Private Partnerships
GFS	-	Government Finance Statistics	PR	-	Performance Report
GFSM	-	Government Finance Statistics Manual	R&D	-	Research and Development
GIR	-	General Index Registration	RAT	-	Revenue Appellate Tribunal
GRF	-	General Reserve Fund	RE	-	Revised Estimate
HS	-	Harmonized Systems	SAO	-	State Administrative Organizations
ICT	-	Information and Communications Technology	SDR	-	Special Drawing Rights
IMF	-	International Monetary Fund	SEE	-	State Economic Enterprises
INGO	-	International Non-Governmental Organization	SFA	-	State Funds Account
INTOSAI	-	International Organization of Supreme Audit Institutions	SNG	-	Sub-National Government
IPSAS	-	International Public Sector Accounting Standards	SORC	-	Special Orders for Rapid Clearance
IRD	-	Internal Revenue Department	SPDC	-	State Peace and Development Council
MEB	-	Myanmar Economic Bank	TIN	-	Tax Identification Number
MFR	-	Ministry of Finance and Revenue	TWG	-	Technical Working Group
MIC	-	Myanmar Investment Commission	UNDP	-	United Nations Development Program
MOD	-	Ministry of Defense	UNICEF	-	United Nations Children's Fund
MOGE	-	Myanmar Oil and Gas Enterprise			

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Summary Assessment Table

	Overall Score	Dimensions			
		i.	ii.	iii.	iv.
A. PFM OUT TURNS: Credibility of the Budget					
PI-1. Aggregate expenditure out-turn compared to original approved budget	C	C			
PI-2. Composition of expenditure out-turn compared to original approved budget	D+	D	A		
PI-3. Aggregate revenue out-turn compared to original approved budget	B	B			
PI-4. Stock and monitoring of expenditure payment arrears	N/R	N/R	D		
B. KEY CROSS CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5. Classification of the budget	D	D			
PI-6. Comprehensiveness of information included in budget documentation	D	D			
PI-7. Extent of unreported government operations	D+	D	C		
PI-8. Transparency of inter-governmental fiscal relations	D	D	D	N/A	
PI-9. Oversight of aggregate fiscal risk from other public sector entities	C	C	N/A		
PI-10. Public access to key fiscal information	D	D			
C. BUDGET CYCLE					
(i) Policy-based Budgeting					
PI-11. Orderliness and participation in the annual budget process	C+	C	D	A	
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D	B	D	D
(ii) Predictability and Control in Budget Execution					
PI-13. Transparency of taxpayer obligations and liabilities	C+	C	B	C	
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	D+	D	C	D	
PI-15. Effectiveness in collection of tax payments	D+	D	A	C	
PI-16. Predictability in the availability of funds for commitment of expenditures	D+	D	A	A	
PI-17. Recording and management of cash balances, debt and guarantees	C+	C	C	B	
PI-18. Effectiveness of payroll controls	D+	D	B	C	D
PI-19. Competition, value for money and controls in procurement	D	D	D	D	D
PI-20. Effectiveness of internal controls for non-salary expenditure	D+	D	D	B	
PI-21. Effectiveness of internal audit	D+	D	D	C	
(iii) Accounting Recording and Reporting					
PI-22. Timeliness and regularity of accounts reconciliation	C+	D	A		
PI-23. Availability of information on resources received by service delivery units	D	D			
PI-24. Quality and timeliness of in-year budget reports	C	C	C	C	
PI-25. Quality and timeliness of annual financial statements	D+	C	A	D	
(iv) External Scrutiny and Audit					
PI-26. Scope, nature and follow-up of external audit	C+	C	N/A	B	
PI-27. Legislative scrutiny of the annual budget law	N/A	N/A	N/A	N/A	N/A
PI-28. Legislative scrutiny of external audit reports	N/A	N/A	N/A	N/A	
D. DONOR PRACTICES					
D1. Predictability of direct budget support	N/A				
D2. Donor financial information provided for budgeting and reporting on project/program aid	D	D	D		
D3. Proportion of aid that is managed by use of national procedures	D	D			

Note: "Not Rated" (N/R) is used when adequate evidence is not available; "Not Applicable" (N/A) is used when a new system or process has not yet been in place for at least a full fiscal year.

Summary Assessment

1. The Public Financial Management Performance Report (PFM-PR) is the first comprehensive review of Myanmar's PFM system. There is no recent history of development partner engagement on PFM reform and little had been understood about the status of the Government's PFM reform agenda. The objective of this report is to provide the first comprehensive assessment of Myanmar's PFM system, based on the Public Expenditure and Financial Accountability (PEFA) PFM Performance Measurement Framework. The report aims principally to establish an objective baseline measure of current PFM conditions, highlighting areas of absolute and relative strength and weakness. The assessment, and the associated dialogue, provides support to the Government in setting its reform priorities.

2. At the same time it should be noted that the Government is in the process of undertaking a major political and economic reform program, with major implications for public financial management and broader public sector management. The new reformist Government, sworn in on March 30th, 2011, immediately embarked on a range of political and economic reforms aimed at attaining national reconciliation, good governance, and economic development. Key economic reforms include adoption of a more liberal exchange rate policy, relaxation of trade restrictions, rationalization of tax rates, and fiscal decentralization.

3. With regard to management of public finances, there have been two major catalysts for reforms since 2011. First, the operationalization of the Parliament and establishment of the Public Accounts Committee and the Planning and Finance Committee have resulted in enhanced external scrutiny and oversight over the budget by the Parliament, while the public airing of budget debates on the national television and the publication of the budget law in national newspapers has enhanced budget transparency. Second, the constitutional requirement for separation of regional and state budgets from the Union has required rapid deconcentration of budgeting and planning functions to support bottom up planning and budgeting processes in states and regions. In order to coordinate state/region budgets with the Union budget, the Government has also established the Financial Commission and the National Planning Commission. The new planning and budgeting practices have also resulted in a deconcentration of PFM policy functions from the President's Office to the Ministry of Finance and Revenue (MFR) and the Ministry of National Planning and Economic Development (MNPED), respectively.

4. An additional set of important PFM reforms are also in train. In particular, proposals are being developed to make the Central Bank of Myanmar (CBM) independent and to separate out the functions that it currently performs on public finance management. State Economic Enterprises (SEEs) are being given greater financial autonomy and are now allowed to keep part of their profits, but they are also required to fund most of their own working capital requirements. Some SEEs are being privatized or otherwise being fully exposed to market forces. The previous practice of accounting for foreign exchange transaction at the official rate is being abandoned with exchange rate unification.

i. Integrated Assessment of Public Financial Management Performance

Credibility of the budget

5. Budget credibility in recent years has been low, with the exception of revenue out-turns where credibility is higher. Deviations in recent years between aggregate expenditure out-turn and the approved budgets have been large and growing, increasing from 8.7 percent of approved spending in 2008-09 to 20.2 percent in 2010-11. Much but not all of this can be traced to adjustments made in the annual revised budget. In recent years, revenues have generally been somewhat higher than expected. Compositional expenditure deviations have been substantial, and often exceed the deviations in total spending. Use of the contingency reserve was not a factor in compositional deviations. In this context, it is also worth noting

that all deviations would have been higher had the exchange rate used by the government been the same as the exchange rate used by the private sector. The issue of payments in arrears could not be assessed due to lack of legal definition of arrears and lack of a central arrears monitoring system.

Comprehensiveness and transparency

6. The budget and oversight of fiscal risk are not comprehensive. Nor is fiscal and budgetary information generally available to the public. There are currently a number of limitations in the classification of budget information, as well as missing types of information in budget documents themselves and a large amount of unreported government operations, which together mean that budgetary and fiscal information is highly limited. Myanmar's budget classification system, which is the backbone of its fiscal accounts, is not fully consistent with modern classification structures. The formal presentation of the budget as contained in the Union Budget Law consists of a limited amount of information, though great progress was made in FY2012/13 in making the Union Budget Law public.

7. Budget comprehensiveness and transparency are affected by the significant level of unreported government operations, which means that the budget law presents a quite limited fiscal picture in terms of central government revenue, expenditure, and financing. In Myanmar's case there is a high degree of extra-budgetary expenditure that is not included in fiscal reports while, at the same time, there is limited information on development partner-funded projects included in fiscal reports. There is extensive use of "Other Accounts," which are essentially accounts held by ministries and SEEs in the Myanmar Economic Bank (MEB) for management of their own-source revenues. FY2011/12 data from MEB and the Budget Department show total Other Account receipts of 2.54 trillion kyat, which is 44 percent of total budgeted revenue, and expenditures of 2.26 trillion, which represents 28 percent of total budgeted expenditure. On the external financing side, the picture is also mixed. Though complete income/expenditure information is included in fiscal reports for all loan financed projects, it appears that only some information on about 50 percent (by value) of grant financed projects is also included.

8. Another important consideration from the perspective of transparency and comprehensiveness is the treatment of the intergovernmental fiscal system, which has been in a period of flux since the new constitution. In operational terms the assignment of functions and finances is evolving. Like with many other budgetary process indicators, the system is not yet fully formed because this is the first full fiscal year in which the new system is being implemented. The assessment shows that the system for allocating resources to states/regions is neither rules-based nor transparent, and that states/regions do not receive timely, reliable information on their transfers. Moreover, states/regions may and do request supplementary budget allocations. These features make for an inter-governmental fiscal system that is not transparent and that impedes sound budget planning.

9. One of the likely consequences of a fiscal system in as much flux as Myanmar's is a probable increase in the amount of fiscal risk. In addition to the sweeping changes that have taken place at the political and constitutional level, many material changes have also been made in the operations of state economic enterprises (SEEs) and sub-national governments. These major systemic changes increase the likelihood of fiscal risk for four main reasons. First, the internal control environment is still relatively weak. For example, the internal audit function is only now being established in line ministries and the capacity in SEEs varies. Second, the central oversight function is narrow and underdeveloped. Third, there is a lack of a strategic approach to public financial management, with central oversight agency engagement focusing more on low value processes and less on analysis of results and impact. Lastly, public fiscal information is quite limited, reducing the chances of meaningful public engagement on these issues. Moreover, a consolidated report on total fiscal risk from the point of view of the Union Government is not produced. The lack of such an analysis leaves the Government open to potentially significant blind spots (for example, as pertains to operational losses, payment arrears, or possibly even

debt defaults). Another source of fiscal risk emanates from possible contingent liabilities from public-private partnerships (PPPs).

Policy-based budgeting

10. The budget process in Myanmar is largely guided by prior practice. Although officials have clearly defined roles and understand their responsibilities well, there is incomplete guidance in existing laws and regulations. For the period under review, ministry spending proposals were generally made independently of any central coordination regarding future resource availability or constraints. Macroeconomic forecasts are not routinely shared with the line ministries nor are they used to help determine aggregate expenditure ceilings for current and future years. Major policy decisions or options are not required to be fully costed in terms of estimates of forward expenditures and are not required to be described in sector strategy documents.

11. The Union budget process is decentralized, with the SAOs and line ministries setting their own budgetary ceilings and devising their own expenditure proposals. Budget proposals are organized along administrative lines, by ministry and department, rather than by programs, activities, or outputs. The Budget Department (BD) of the Ministry of Finance and Revenue (MFR) is responsible for collating and consolidating the recurrent budget. It is also responsible for the foreign exchange budget which was still in place in 2012 despite the steps taken toward exchange rate unification in 2012. The Ministry of National Planning and Economic Development (MNPED) is responsible for collating and consolidating the capital budget. It also reviews all investment proposals prior to entry into the budget. The process is hierarchical with five levels of scrutiny before the draft budget is submitted to the Parliament for debate and eventual adoption immediately prior to the start of the next fiscal year. Toward the end of the fiscal year, the authorities devise an “improved” set of budget estimates which are presented to parliament for approval in the form of a supplemental budget. The supplemental budget and the budget for the next year are submitted almost simultaneously. The result is that Members of Parliament (MPs) are essentially presented with two budgets for their consideration: an improved budget for the fiscal year coming to a close and a new budget for the impending new fiscal year.

Predictability and control in budget execution

12. Spending bodies have a reasonable degree of predictability about the resources available to them in terms of the original budget assigned to them for each year. Quarterly limits on spending are set for recurrent spending (although not for capital), but the spending bodies set these limits themselves based on the phasing of their expenditure plans. They do face the risk that if they do not spend these quarterly limits, the unused balance will be removed from their budgets for the year as a whole. But they are in a position to manage that risk by, in the first place, avoiding overestimating and then seeking increases in the limits later in the quarter if necessary.

13. Payment processes are not overelaborated and payments can be made efficiently through the network of MEB branches with a minimum of delay and without centralized vetting from MFR. Transactions involving foreign currency remain more constrained. The processes required can be cumbersome and time consuming, adding to difficulties in managing budget execution, although these procedures are under reconsideration.

14. However, the lack of systematic and comprehensive commitment/discharging recording in most spending bodies leaves them vulnerable in predicting and controlling the flow of payments in a cash based budgeting system. Payments may bunch or get carried over to another period or year in an unpredictable way causing additional budget management pressures. Furthermore, the large scale and late

timing of supplementary budget approvals made in recent years has meant that provision to address additional pressures or to tackle new initiatives has not been certain until the final few months of the year.

15. Although cash shortages that cause disruption in the flow of payments have been avoided in recent years, this has been partly achieved by the Central Bank of Myanmar (CBM) stepping in to buy Treasury Bills when necessary, thereby, in effect, monetizing any cash shortfalls, but also adding to inflationary pressures.

16. The Financial Regulations (FRs), and their related instructions, the OoSa and HtaSa, dealing with transaction control and reporting, are somewhat out of date (last revised in 1986 in the case of FRs). The financial regulations are recognized as being substantially out of date. As such, they do not fully reflect current practice other than in a general way. In addition, there are even older regulations used that deal with specific issues and situations; some of these go back to the 1950s. Their legal status is unclear although they continue to be used as the basis for practice. The finance department in each spending body appears to play a key role in deciding which mix of rules is adopted within its organization. The arrangements are thus somewhat ad hoc, differing from ministry to ministry. Moreover, the regulations are open to interpretation by financial management officials and it is not clear the regulations are well understood throughout ministries and states/regions.

17. But the emphasis is on the controlled processing of transactions and the avoidance of overspending of budget provision rather than broader accountability for the effective use of resources. The lack of linkage between plans and budgets means that expected results are not clearly defined. Classification and reporting systems are focused on identifying the spending unit and the nature of the input rather than the objectives of the expenditure or what it is intended to achieve.

18. The system of delegation of powers to spending agencies is occurring without the necessary assurances in place. The lack of centrally defined standards in areas such as payroll management and procurement do not ensure that the processes implemented at the level of the spending bodies observe at least minimum procedures and controls. In many cases, these minimum requirements are either not defined or the current status of old regulations is not clear. For example, procurement was recently released from central control by the Ministry of Commerce and delegated to spending bodies giving them at the same time a clear instruction to increase the use of open competitive tender. But each spending body was left to develop its own detailed procedures and systems.

19. There is little feedback to MFR, other than through the reports of the Office of the Auditor General (OAG), about the observance of minimum requirements (even where they are defined), variations in the effectiveness of the control regime implemented by individual spending bodies or statistical information such as the value of procurement processed through different procurement techniques. The lack of internal audit in many spending bodies does not give assurance to senior management in ministries that financial systems and processes (not just individual transactions) are being conducted effectively and being adequately enforced. The OAG also indicates that significant problems arise with regards to procurement at all levels with regards to both purchasing and the letting of concessions. This lack of assurance exposes the control system to risk and unevenness of application. The challenge remains of achieving an appropriate level of assurance without undermining the beneficial aspects of delegation.

20. With regards to tax policy and administration, there have been some improvements in communicating with taxpayers and in offering recourse to appeal. The process of depositing tax collections into the Union Fund Account is sound. But the predictability of the flow of tax revenues continues to be affected by weak collection systems, the existence of tax incentives and discretionary powers with regard to their being applied by different administrative bodies and levels, weaknesses in the compliance management system, and high values of on-going arrears and considerable administrative

negotiation surrounding the handling of those arrears. Partly as a result, tax collection has remained very low, at around 3-4 percent of GDP, in recent years. There is also a lack of assurance with regard to the operation of tax collection systems. Although there have been some improvements in the legal basis of taxation, a comprehensive, modern system of laws and regulations is still yet to emerge. Taxpayer registration is weak and fragmented. There is no central guidance on planning the auditing and investigation of taxpayers, which often occur at the local level and are not directly controlled by the central tax authorities.

Accounting, recording and reporting

21. Accounting is maintained on a simple cash based double entry system. Most payments are discharged through MEB by the use of check or transfer. The use of physical cash is limited although most departments have small imprests and advances are made for special purposes such as extended travel. Tax revenue is usually paid into MEB by the taxpayer directly, based on an assessment raised by the tax authorities although some fee and charge revenue is collected in cash and paid in by the body concerned. The previous practice of accounting for foreign transactions at an official rate rather than a realistic market rate has tended to distort the picture revealed by the accounts, particularly for the SEEs with high volumes of such transactions and where trading has taken place between SEEs. However, this is now being resolved following the recent integration of exchange rates on an open market basis.

22. Accounting records are originated by the spending/revenue raising body concerned. Aggregation and reconciliation for reporting and control purposes are conditioned by the largely manual, paper based processes that are still used in both the originating bodies and in MEB. The processes of reconciliation are well documented, appear adequate, and are applied with sufficient rigor to give some confidence in the accuracy of aggregate records.

23. Reporting is done monthly. However, the process of aggregation and reconciliation takes some 3 months to complete, which delays the production of final reports for each monthly reporting cycle. In order to provide more timely data, the BD produces an interim report which it usually manages to issue within 6 to 8 weeks after the end of the month in question. But, even so, the compressed format and delayed timing of the reports combined with the limited degree of analysis that is included in summary reports weakens their capacity to support active in-year management of the emerging position. The manual aggregation processes also impose difficulties in producing information in different formats for specific or ad hoc purposes.

24. End-of-year financial statements are produced on a similar basis to those produced in-year, but with supplementary clearance arrangements. In the last few years they have been finalized within 6 months of the end of the year. But the statements largely serve the purpose of providing some discipline ensuring consolidation and reconciliation. They provide limited information as a basis for active financial management and both their form and distribution are difficult to interpret and contribute little to fiscal transparency. International accounting standards, even for cash based systems, are not fully met and there are no clear notes attached to the statements explaining the basis on which they have been produced or giving supplementary information about important issues such as guarantees and contingent liabilities. Neither in-year nor end-of-year statements are given wide circulation.

External scrutiny and audit

25. Since 2011, the Parliament has established two specialized committees for the purpose of providing oversight of the Government's public finances, and, despite its relatively recent origins, is having a major influence on PFM, both broadly and on specific issues. The Public Accounts Committee (PAC) has a bipartisan membership and vets the budget bill and the audit report. The Planning and

Finance Committee is responsible for reviewing the national development plan and legislative matters relating to the financial sector. Since 2012/13 these committees have reviewed and rationalized the executive's budget proposal significantly and have been instrumental in having the approved Budget Law published in the local press. These committees have engaged some technical advisors on a part time basis but do not have specialized staff or institutional support that can independently review and analyze the budget proposals and the national development plan in order to advise the PAC accordingly. Instead, the committees rely on government ministries for policy analysis.

26. The Office of the Auditor General (OAG), also despite its relatively recent origins, is having a significantly positive impact on the management of public finances in Myanmar. The OAG is a semi-independent body reporting to the Parliament through the President's Office. The OAG has purview over all the public sector, except for the Ministry of Defense. The OAG is also the entity responsible for setting accounting and auditing policy for the public sector. The OAG has adopted INTOSAI audit standards and conducts mostly financial audits with some procurement and performance audits. The OAG has yet to submit an audit report to the Parliament – under the Parliamentary form of government which started functioning from 2011 onward. A formal response is provided by ministries to the audit findings within 1 month of receiving the audit opinion, but there seems to be little evidence of systematic follow-up.

i. Assessment of the Impact of PFM Weaknesses

27. The analysis of the six PEFA dimensions suggests a system that would benefit from strengthening in all areas. The extant limitations of the system suggest that it is highly constrained in delivering across the board on the three levels of budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The weak control environment, combined with limited budget comprehensiveness and transparency, suggest a system that is at risk to corruption as well.

28. Myanmar's PFM system is highly informal: there is a lack of foundational legal underpinnings (e.g., organic budget law) and it is not fully clear which regulations are legally in force (so ministries have adopted different approaches, e.g., using old colonial regulations from India as guidelines). Myanmar's system does focus narrowly on control but not on accountability: regulation focuses on detailed transaction control and avoiding budget overruns rather than accountability for the efficient delivery of service. There is little visibility for how controls are applied in practice between different levels of the administration and with the parliament. Reliance is placed on the OAG rather than internal standard setting and review. The Financial Regulations focus on control at the transaction level whereas a large amount of supplementation and virement takes place. There is a high degree of delegated negotiability in areas such as revenue collection. The effect is to provide a framework of control and practice, but to leave the system open to abuse by those who would seek to make use of that vulnerability.

29. The system emphasizes control rather than dynamic management of resources in order to achieve a high quality of expenditures in delivering policy objectives. Key weaknesses are: a lack of effective connection between strategic plans and budgets on the one hand and between recurrent and capital expenditure on the other; an emphasis on managing the short term rather than planning strategically for the medium to long term; and information and cash forecast management is cumbersome and inflexible and focused on cash control rather than informing decisions about new commitments, priorities, and options. The impact is to undermine the ability of the system to focus attention on the strategic allocation of resources in delivering policy objectives. Public finances are exposed to a watering down of the quality of expenditures as increasing resources become available.

30. The exposure of public financial management to external risks is not adequately managed and this will become more important:

- The role of public finances within broader management of the economy has been complicated and entwined. Monetary and public financial management have been inter-dependent and commercial activity has been dominated by state run enterprises. These overlaps are being unwound, but will expose public financial management to new risks.
- Key areas of risk and exposure that will become more important are the management and control of debt and cash. These have been under-managed in the past.
- There is an absence of a clear framework of understood policies and parameters within which public finances will be managed.

31. The impact is that as more demands are placed on public financial management to deliver services, in an environment of a more open economy, aggregate fiscal discipline is vulnerable to being undermined.

32. Table 1 summarizes the links between the six PEFA dimensions and the three levels of budgetary outcomes.

Table 1: Links between the key dimensions of a PFM system and the three levels of budgetary outcomes in Myanmar

	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
Budget credibility	In order for the budget to be a tool for policy implementation, it is necessary that it is realistic and implemented as passed.		
The budget is realistic and is implemented as intended	The lack of budget credibility in Myanmar has not had a major impact on fiscal discipline, in part because revenues tend to be underestimated in the budget.	A lack of credibility in the budget in Myanmar leads to a misalignment of policy priorities and spending, as the budget is significantly remade during the year. Compositional expenditure deviations have been substantial, leading to a breach between stated policy and actual spending.	The significant changes in the composition of spending during the year raise the likelihood of inefficiencies in service delivery in Myanmar due to unplanned over- or under-spending.
Comprehensiveness and transparency	Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is important for enabling external oversight of government policies and programs and their implementation.		
The budget and fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public	Aggregate fiscal balance in Myanmar may be threatened by the many material changes that have been made in the operations of SEEs and sub-national governments. The lack of a consolidated report on fiscal risk leaves the Government open to a potentially significant blind spot (for example, as pertains to operational	Myanmar's budget classification system is not fully consistent with modern classification structures, which limits the ability of policy makers to make informed judgments about tradeoffs in spending. The significant level of unreported government operations means that	The underdeveloped budget classification system, the lack of comprehensiveness in budget documentation, and limited availability of information to the public limits scrutiny by citizens, who would not have the ability to meaningfully analyze spending in light of their preferences.

	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
	losses, payment arrears, or possibly even debt defaults). The underdeveloped budget classification system, the lack of comprehensiveness in budget documentation, and limited availability of information to the public limits scrutiny by financial markets.	the budget law presents a quite limited fiscal picture in terms of central government revenue, expenditure, and financing, which limits transparent discussion of competing priorities, likely leading to less efficient sectoral allocation of funds.	
Policy-based budgeting	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy.		
The budget is prepared with due regard to government policy	Limited focus on medium term implications of fiscal decisions may lead to unsustainable policies. Top-down budget ceilings are not issued by MFR in Myanmar, leading to possible ambiguity about aggregate and sectoral spending levels during the budget preparation process.	Sector strategies may have been prepared for some sectors in Myanmar, but none of them have substantially complete costing of investments and recurrent expenditure, which limits the ability of planning efforts to influence future budgets.	Budgeting for investment and recurrent expenditure are separate processes in Myanmar, which leads to inefficiencies in service delivery.
Predictability and control in budget execution	Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.		
The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.	Control in Myanmar focuses on transactional details with weaker control at the aggregate level. Financial Regulations focus on control at the transaction level whereas a large amount of supplementation and virement takes place. There is a high degree of delegated negotiability in areas such as revenue collection.	The effect is to provide a framework of control, but to leave the system open to abuse and corruption by those who would seek to make use of that vulnerability.	Regulation in Myanmar focuses on detailed transaction control and avoiding budget overrun rather than accountability for the efficient delivery of service.
Accounting, recording and reporting	Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.		
Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes	Highly limited information on contingent liabilities and future costs of investments reduces the scope for management of long-term fiscal sustainability in Myanmar.	Accounting and reporting tend to be viewed as a largely technical process that exerts control in avoiding overspending of budget provision and providing the basis for audit. It does little to establish deeper	Limited information on the cost of programs in Myanmar weakens the planning and management of service delivery, and also reduces the availability of evidence needed for effective audit, providing potential opportunities for leakages,

	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
		accountability for how resources are used or play a role in active in-year financial management.	corrupt procurement, or inappropriate use of funds.
Effective external scrutiny and audit	Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation.		
Arrangements for scrutiny of public finances and follow up by executive are operating.	Myanmar's new parliament is functioning effectively to monitor and enforce aggregate fiscal discipline through the annual budget process.	The new parliament is functioning effectively to monitor and reorient spending allocations through the annual budget process.	Myanmar's parliament does not generally have sufficient information to advise on service delivery efficiency and effectiveness, but the OAG is contributing to identifying waste, fraud, and abuse.

ii. Prospects for Reform Planning and Implementation

33. The Public Finance Management (PFM) reforms being undertaken are part of a much broader reform program of the Government. With regards to management of public finances, there have been two major catalysts for reforms since 2011. First, the operationalization of the Parliament and establishment of the Public Accounts Committee and the Planning and Finance Committee has resulted in enhanced external scrutiny and oversight over the budget. Second, the constitutional requirement for separation of regional and state budgets from the union fund accounts has required rapid deconcentration of budgeting and planning functions to support bottom up planning and budgeting processes at the state and region level.

34. The fast pace of reform has meant that the authorities have made significant changes in PFM practices without either drawing up a reform strategy or updating the rules and regulations that govern public finances to be in-line with the current practices. Where regulation has been passed, it has remained at a relatively high level with significant leeway given to agencies to determine policy implementation. This has made the current PFM system underregulated and largely practice based.

35. Recognizing the need to robustly manage the emerging PFM reform program, the Office of the President has endorsed MFR's request to establish PFM Reform Steering and Technical Committees. The decision was taken to repurpose the existing PEFA Steering and Technical Committees into the new managerial and technical level reform committees. The purposes of the reform committees will be to design and drive the reforms as well as coordinate the program with the development partners.

36. The Government appreciates that weaknesses remain and is thinking through an appropriate PFM reform program to address these challenges sequentially. In this regard, the Ministry of Finance and Revenue, together with the Ministry of National Planning and Economic Development, are intending to develop a PFM reform strategy based on technical inputs from this report, the recent IMF Public Finance Management Assessment, and the planned Public Expenditure Review. It must be stressed that the Government would need careful prioritization at each stage. Taking into account scarce capacity, Government should vigorously resist the temptation to overload the agenda.

37. It would be conceptually useful to define a short term and a medium term reform objective. The possible short-term objective could be conceptualized as “*Strengthen MFR’s ability to manage the transition while addressing key regulatory gaps and laying the foundation for the future reforms.*” The transition refers to the new developments in Myanmar, which is a complicated and transitional process that involves constitutional and economic reform that places new pressures on the PFM system. The regulatory gaps refer to key missing pieces and ambiguities in the PFM process that could be addressed quickly through interim measures.

38. ***Managing the transition*** should focus on the most immediate needs arising from the economic policy and public sector reforms underway. There are three top priorities. First, arrangements must be made to manage the separation of the CBM from the MFR. The MFR will need to deal with the public finance functions to which the CBM previously contributed (consolidate accounting statements and systems, debt management, cash flow management). Second, given that Myanmar’s system is in a state of massive flux, a premium should be put on prudent risk management. The MFR would benefit from developing an analysis of fiscal risks emanating from the transition and mechanisms to address them (including SEE risks). For example, while current accounting systems will not permit a systematic risk analysis, a number of simple steps could be taken, including making lists of major contingent liabilities (which may or may not include valuations), quasi-fiscal operations of SEEs that could impact their performance and the budget, and tax expenditures. Similarly it would be important to start articulating clearly the central-local government fiscal relations system while incorporating measures to mitigate risks of contingent liabilities that may arise from borrowing by state and regional governments. Third, given Myanmar’s wealth of natural resources, and its embrace of a more market-oriented economy, it is critical that policies and systems be established to strengthen regulation and management of natural resource revenue flows. Myanmar has already made an important start on strengthening governance of the natural resource sector by taking steps toward adoption of the Extractive Industries Transparency Initiative, which bodes well – but much more will be required to ensure that Myanmar captures its revenue potential in a sustainable way and that flows are channeled through government systems in a way that allows for transparency and accountability.

39. At the same time it would be important to ***address high priority gaps in the regulatory framework*** (mainly, improvements in financial regulations and minimum rules on procurement and internal audit) while commencing development of stronger overarching public finance legislation (e.g., a budget law) to be implemented over the medium term. For example, high priority gaps exist in procurement and internal audit, given the presidential instructions issued in 2012 ordering ministries to set up internal audit units and undertake competitive procurement. Ministries urgently need a modicum of guidance on minimal acceptable standards and processes in order to comply with the President’s orders. Similarly, another short term priority is building a stronger budget policy unit/function, which would include developing macroeconomic forecasting capacity, developing a fiscal policy framework, and strengthening prioritization of capital spending. This latter priority is also related to the expected growth of revenue, including from natural resources, from higher rates of economic growth as well as revenue policy (tax and non-tax) reforms.

40. ***Laying the foundation for future reform*** refers to the need to set up a management structure and develop tools needed to design and implement the reforms. A key first step, which the President’s Office has authorized in early 2013, is establishing an executive reform committee and secretariat to prepare and lead a PFM reform program. Other critical elements of the reform program would include: a vision of reform (the system reform objectives for a 10 year period, say); detailed reform action plans (by PFM sub-system: expenditure, tax, procurement, external audit, etc.); a capacity development plan, including ICT; and a performance management framework (e.g., monitoring of selected PEFA PIs). It is also worth noting that the PFM reform program will have further implications for MFR organizational design (which will become apparent after reform program is developed), which would need to be addressed.

41. In a way the proposed approach – “*Strengthen MFR’s ability to manage the transition while addressing key regulatory gaps and laying the foundation for the future reforms.*” – is only really playing “catch up” with the fast moving realities of Myanmar today. The PFM reform program that Myanmar develops will need to carefully prioritize and sequence reform measures, given scarce capacity and the significant need for improvement across the board. The PEFA Performance Report indicates the need for strengthening across all areas of all PFM sub-systems. Obviously, all these areas cannot be addressed simultaneously. Nor does the Performance Report provide guidance about which areas to prioritize for reform. Rather, the diagnosis as to which PFM areas to address depends on country contextual factors, such as the level of capacity, policy objectives, macroeconomic conditions, and political economy constraints.

42. One approach to PFM reform sequencing is focusing on the basic functionalities of the system, and this may well be the best way to think about the reform program in Myanmar. “Getting the basics right first” provides some overarching guidance as to what should be done (as well as not done), but much more work needs to be done to arrive at a specific set of short- and medium-term priorities. Key contextual factors are Myanmar’s decision to decentralize rapidly, which has already started, and its significant natural resource wealth, both of which must be taken into account when developing the logic of reform sequencing.

43. A “basics first” logic of prioritization could suggest the following four priorities: *First*, the credibility of the budget (defined as divergence between the budget plan and actual spending) is low, thus creating negative impacts on line ministry planning and service delivery. There are a number of reasons why credibility is low, including: the use of large (and late) supplementary budgets, weak revenue forecasting, limitations in public investment planning, and the lack of information on donor funded projects. These measures to strengthen budget credibility would increase reliability for Union ministries as well as the newly empowered states and regions. *Second*, management would benefit from incrementally better information on the budget and actual spending. Priorities here include: strengthening budget classification, providing some basic ICT functionality to plan, record, and analyze expenditure; strengthening the comprehensiveness of information provided in budget documentation; and enhancing oversight of fiscal risk (as discussed above). *Third*, building up some basic regulations and controls would help reduce fiduciary risk. Key measures here would include: strengthening taxpayer registration and assessment; strengthening procurement; and improving payroll controls. *Fourth*, making external oversight more robust would provide enhanced incentives for better public financial management. Key reform measures here would include: improving the quality and timeliness of in-year budget reports; further building up the scope and quality of external audits; and providing adequate technical support to the Parliamentary committees reviewing Government plans and budgets. These four priorities are not meant to be definitive but rather suggestive. As noted in this report, a PEFA Performance Report, by itself, is not adequate to plan a PFM reform program. Much more work will be needed, but it is hoped that these suggestions provide some useful inputs to the Government as it commences the next steps in its reform process.

1. Introduction

1.1 Objective

44. The Public Financial Management Performance Report (PFM-PR) is the first comprehensive review of Myanmar's PFM system. There is no recent history of development partner engagement on PFM reform and little had been understood about the status of the Government's PFM reform agenda. At the start of this work no prior comprehensive diagnostic work had been carried out and there was no dialogue on PFM between Government and development partners.

45. The objective of this report is to provide the first comprehensive assessment of Myanmar's PFM system, based on the PEFA PFM Performance Measurement Framework. The report aims to: (i) establish an objective baseline measure of current PFM conditions, highlighting areas of absolute and relative strength and weakness; and (ii) suggest priority areas for reform, taking into account the need to approach a reform program in a sequenced manner based on institutional capacity and the reform space. The assessment, and the associated dialogue, provides support to the Government in setting reform priorities.

1.2 Process of preparing the PFM-PR

Methodology

46. This report is the result of a coordinated effort of the Government, the World Bank, DFID, and other development partners. The World Bank task team visited the country several times between May and October 2012 to: (i) conduct discussions and consultations for the PEFA indicators; (ii) conduct workshops on specific technical PFM issues requested by the Government; and (iii) present preliminary results to the Government and other stakeholders, including regular briefings to development partners. The missions were joined by other partners, including DFID and the ADB, on several occasions. DFID also provided funding for the study.

47. In May the Government set up a high level PEFA Steering Committee under the chairmanship of Deputy Finance Minister with representation from the relevant ministries, departments, divisions (particularly those dealing with budgeting, audit, accounting, revenue, planning and development), state economic enterprises, and the Parliament. A series of meetings, interviews and discussions were conducted with officials from the Ministry of Finance and Revenue (MFR), Central Bank of Myanmar (CBM), Myanmar Economic Bank (MEB), the Office of Auditor General (OAG), Ministry of National Planning and Economic Development (MNPED), Ministry of Health, Ministry of Education, Ministry of Energy, Myanmar Oil and Gas Enterprise, and the Union Parliament (Hluttaw). Overall coordination was provided by the Steering Committee, particularly by the Budget Department of the Ministry of Finance and Revenue.

48. The meetings and interviews were also held with members from the international development community including DFID, IMF, AusAID, the European Commission, UNDP, and ADB. The team visited some resident partner representatives in Yangon and organized donor briefing meetings to seek broad understanding of the diagnostics and possible reform priorities, in order to ensure a coordinated approach to PFM support along the lines of this assessment.

49. Information was gathered through a combination of in-depth interviews and analysis of internal and external documents and data. The team collected and reviewed various laws and regulations, operational manuals, revenue and budget documents and data, and financial reports. In many cases, however, the practice-based approach in use by the Government was not underpinned by published regulations. In other cases, regulations exist but were not available in English.

50. On the basis of the evidence obtained, the team scored the individual dimensions and determined the overall ratings for 28 indicators of government capacity and 3 indicators of donor performance. The assessment was prepared in close consultation with the members of the Steering Committee. A presentation of the preliminary findings and initial scores was made to the Steering and Technical Committees in August 2012. During the October 2012 mission the mission clarified and resolved outstanding issues and facilitated a discussion on the steps that could be taken by Government to develop its PFM reform strategy. Quality assurance for the work followed the Bank's internal review process as well as the standard PEFA mechanism. The report was reviewed by World Bank Management and the PEFA Secretariat in December 2012. A detailed review was undertaken by the PEFA Secretariat and bilateral discussions between the Secretariat and the task team were held to finalize several of the ratings. Comments were received from the Government and the report was finalized in March 2013.

51. The assessment covered the central (Union) government for the years 2008/09, 2009/10, and 2010/11. During the period of assessment, the Union Government included 33 central ministries, 9 State Administrative Organizations (SAO), 9 cantonment municipalities, and 43 State Economic Enterprises (SEEs).² During the period of assessment, the central government budget also controlled most spending by the 14 states and regions. Following constitutionally mandated changes to take effect in FY2012/13, each state and region now has its own budget law, which is passed by each state/region parliament.

Table 1: Public Sector Accounts

	Number of entities	Expenditures (billions of kyats) ^{3/}			
		2008/09	2009/10	2010/11	2011/12
Central Government 1/	51	2,269	3,175	4,379	4,719
State Economic Enterprises 2/	43	2,180	2,288	2,343	2,816
Total	94	4,450	5,463	6,722	7,536

Source: Ministry of Finance and Revenue and Bank staff calculations.

1. Includes 33 ministries, 9 SAOs, and 9 cantonment municipalities.

2. Excludes transfers to central government.

3. Estimated actual out-turns.

2. Country Background Information

2.1 Description of economic situation

52. Myanmar is bordered by Bangladesh, India, China, Laos and Thailand with 1,930 kilometers of contiguous coastline along the Bay of Bengal and Andaman Sea. It is spread out over 678,500 square kilometers and is richly endowed with forest lands, arable land, oil, gas, and various minerals. Three mountain chains divide Burma's three river systems, the Irrawaddy, Salween, and the Sittaung Rivers. The coastal regions receive over 5,000 mm of rain annually, much of which falls during the monsoon season.

² On September 4, 2012, the National Assembly approved a reshuffling of Ministries. Following this change, there were 36 ministers (for 33 ministries) including 6 ministers located in the President's Office.

53. The rural poverty head-count was estimated to be 29 percent in rural areas compared to 15 percent in urban areas and 26 percent overall.³ Myanmar is ranked 149 out of 187 countries in the 2011 UN Human Development Index. For comparison purposes, Papua New Guinea is ranked 153 while Timor-Leste is ranked 147 and Bangladesh 146. The country's GDP is estimated at around US\$ 50 billion, but with population figures ranging between 48 million and 60 million, per capita income is estimated to be in the range of US \$800 - \$1,000. Life expectancy at birth is 65 years compared to the regional average of 73 years (72 years if developed countries are excluded).

Table 2: Myanmar: Selected Economic Indicators, 2009–12

	2008/09	2009/10	2010/11	2011/12
Real GDP growth (% change):				
Central Statistical Office	10.3	10.6	10.2	5.9
IMF	3.6	5.1	5.3	5.5
Consumer price inflation (% change):				
Central Statistical Office	17.9	1.5	7.7	5.0
IMF	22.5	8.2	8.2	4.0

Sources: Central Statistical Organization and IMF. Fiscal years (FYs) end on March 31.

54. Agriculture is currently still the largest contributor to national output and to livelihoods. It accounts for roughly 43 percent of GDP, generates about 54 percent of employment, and provides livelihoods to more than 70 percent of the population. The major agricultural product is rice which covers about 60 percent of the country's total cultivated land area and accounts for 97 percent of total food grain production by weight. Other prominent agriculture products are pulses, forestry products, fisheries, and livestock. There are large and growing natural gas reserves, with production in 2012/13 expected to account for 33 percent of export revenues and 20 percent of consolidated revenues. Myanmar is also a major exporter of gems. Manufacturing is still in its infancy, and is largely limited to agro-processing.

55. The economy continued to accelerate in 2011/12 following several years of moderately strong growth. Real GDP growth has increased steadily from 3.6 percent in 2008/09 to 5.5 percent in 2011/12 and is projected at 6.2 percent in 2012/13.⁴ This acceleration was driven on the supply side by the manufacturing and services sectors: real growth in agricultural value-added (43 percent of total GDP) fell from 4.7 percent in 2009/10 to 4.4 percent per annum in 2010/11 and 2011/12. Real agricultural growth may slow further in 2012/13 to 4.2 percent due in part to heavy flooding in August 2012 which displaced thousands of farming households. Demand side drivers included higher fiscal spending before the 2012 elections, growth in commodity exports, and strong investment.

56. Official data from the monetary accounts are incomplete after 2005. Even so, the available data suggest that the government had been making good progress in reducing the stock of net credit to the government from 19 percent of GDP in 2000 to 16.4 percent of GDP in 2007/08. The flow of credit subsequently increased to the rather high level of 5.1 percent of GDP in 2009/10 and 2010/11, thus increasing the stock of credit to 22.8 percent of GDP by 2010/11. There is a small market for treasury securities, although the interest rates are set administratively. There is no interbank market and the CBM

³ UNDP, 2011, Integrated Household Living Conditions Survey 2009-2010, Poverty Profile. Caution is urged in the interpretation of data, since the surveys did not include populations in parts of the border areas, potentially masking large pockets of poverty and skewing final results. Moreover, proxies of poverty show a mixed picture: while caloric intake and ownership of small assets have increased as one would expect when poverty is falling, the share of food in consumption has been rising rather than falling for the poorest three quintiles.

⁴ IMF staff estimates. Official estimates are twice as high and flat through 2010/11. Official estimates for 2011/12 were not available yet.

does not yet conduct traditional open market monetary operations. In general, the conduct of monetary policy has relied mostly on direct monetary policy instruments such as reserve requirements, interest rate controls, and prudential limits on the structure of commercial bank balance sheets.

57. Period average inflation rates have generally followed the trend in credit growth. The inflation rate has come down substantially in the last several years from 22.5 percent in 2008/09 when price increases were exacerbated by the global spike in food and fuel prices, to 8.2 percent in 2009/10 and 4.0 percent in 2011/12. The inflation rate for 2012/13 is projected at 6.1 percent.

58. Following the introduction of a managed exchange rate float on April 1, 2012, the nominal exchange rate has depreciated slightly in subsequent months. Until this reform was introduced, the official exchange rate was pegged to the SDR at 8.5 Kyat per SDR. Based on this exchange rate, the USD was trading at 6 Kyat with a wide range of unofficial rates used within the economy that were much closer to the level of 800 Kyat/USD. The new system involves daily sealed bids from certain domestic banks to the CBM for specific quantities of foreign currency. As at November 30, 2012, the Kyat was trading at 872 kyat to the U.S. dollar.

59. Going forward, the country's economic opportunities lie in its strategic location within a large regional and global export market, vast untapped natural resources, and the improving prospects for trade, investment, and development aid as it re-engages with the wider international community. The development agenda is challenging. The country has yet to fully utilize its locational advantage by being more competitive in these markets. In order to fully exploit these opportunities, a number of critical challenges need to be overcome. These include weak institutions, a poor business environment, a huge infrastructure deficit, and under-developed service sectors. Decades of under-investment have taken a toll on public institutions. The reach of government and its ability to provide services, in particular in rural areas, remains limited. Health and education services suffer from high "out-of-pocket" costs, having been underfunded for extended periods of time. Salaries of many civil servants – in particular at the lower levels of the bureaucracy and those in rural areas – are often insufficient to cover living costs, although the FY2012/13 budget (following a heated debate in Parliament) provided a significant raise to civil servants. A lack of funds to cover the cost of transportation has in many cases confined agricultural extension workers to the areas they can reach easily. Within the private sector, a substantial portion of economic activity in Myanmar is informal, with small and medium-sized enterprises accounting for over 90 percent of the country's enterprises. Corporate governance within the larger firms has yet to benefit from the same degree of transparency maintained in most middle and high income countries. Finally, regulations governing the extractive industries have not been sufficient to protect Myanmar's environment and rich bio-diversity.

60. *Overall government reform program:* A reformist administration has ushered Myanmar on an unprecedented path of political and economic reforms. After decades of military rule and ethnic conflict, a civilian administration was sworn in on March 30th, 2011 following elections that were held in December 2010. The new Government immediately embarked on a range of political and economic reforms aimed at attaining national reconciliation, good governance, and economic development. Some of the key political reforms have included the readmission of a key political party into the country's mainstream politics, the signing of ceasefire agreements with the majority of ethnic armed groups some of which have waged war with the Government for the past six decades, large-scale releases of political prisoners and readmittance into the country of former critics of the Government, and increased freedom of expression. Key economic reforms include discussion of the budget in Parliament for the first time and publication of the budget, adoption of a more liberal exchange rate policy, relaxation of trade restrictions, rationalization of tax rates, and fiscal decentralization.

61. Some aspects of governance at the central level have improved. The Government has made efforts to improve transparency, with the national budget being presented and debated in Parliament for the first time in 2012 (leading to significant cuts in the executive's proposal), and subsequently published in national newspapers. The government established a Financial Commission and undertook a significant de-concentration of budgeting and planning functions. Restrictions on media have been lifted, leading to greater coverage of previously sensitive topics such as corruption.

62. The public financial management system has some strong features. Budget classification is consistent across various ministries and departments (though not in line with international standards). Systematic reporting exists by ministries and state economic enterprises (Myanmar's equivalent of state owned enterprises) to the MFR, the MNPED, and, so that such reports are cross checked for accuracy, with the CBM, the MEB, and the Myanmar Foreign Exchange Bank (MFEB). The external audit function is established, financial audit coverage is high, agencies respond to audit opinions, and the newly established Public Accounts Committee of the Parliament establishes an appropriate forum for discussing audit reports and budget bills.

63. *Rationale for PFM reforms:* With regard to management of public finances, there have been two major catalysts for reforms since 2011. First, the operationalization of the Parliament and establishment of the Public Accounts Committee and the Planning and Finance Committee have resulted in enhanced external scrutiny and oversight over the budget by the Parliament, while the public airing of budget debates on the national television and the publication of the budget law in national newspapers has enhanced budget transparency. Second, the constitutional requirement for separation of regional and state budgets from the Union fund accounts has required rapid deconcentration of budgeting and planning functions to support bottom up planning and budgeting processes in states and regions. In order to coordinate and integrate state/region budgets with the Union budget, the Government has also established the Financial Commission and the National Planning Commission. The new planning and budgeting practices have also resulted in a deconcentration of PFM policy functions from the President's Office to the MFR and the MNPED, respectively. Prior to 2011 the policy making function was centralized with the President's Office.

2.2 Description of budgetary outcomes⁵

64. *Fiscal performance:* The fiscal balance of the consolidated government moved further into deficit in 2010/11 and 2011/12. The consolidated fiscal deficit was -5.2 percent of GDP in 2009/10. Although revenues gained 1.2 percentage points of GDP in 2011/12, expenditures gained 1.5 percentage points of GDP, boosting the deficit that year by approximately 0.4 percentage points of GDP. As a consequence, the stock of domestic public debt grew from 20 percent of GDP in 2009/10 to 25.9 percent of GDP in 2011/12. There is growing pressure coming from interest payments which have been steadily rising from 0.6 percent of GDP in 2007/08 to 1.3 percent of GDP in 2011/12 and a forecast of 1.5 percent in 2012/13.

⁵ The data in this section are generally consistent with data provided by the authorities although the format has been revised in conformance with PEFA guidelines.

Table 3: Consolidated Government Fiscal Outcomes, as Percent of GDP, 2009-12^{1/}

	2008/09	2009/10	2010/11 Est.	2011/12 Est.
Revenues and Grants 2/	13.0	11.7	13.0	13.0
A. Revenues	13.0	11.7	13.0	13.0
1. General government 3/	4.4	3.8	4.8	4.4
2. State economic enterprises	8.6	7.9	8.2	8.6
B. Grants	0.0	0.0	0.0	0.0
Expenditures 2/	15.5	16.9	18.4	19.0
A. Recurrent	9.6	9.4	9.7	11.3
1. General government	3.3	3.6	4.2	5.2
a. Non-interest expenditure	2.6	2.8	3.3	4.1
b. Interest expenditure	0.6	0.8	1.0	1.2
2. State Owned Enterprises 3/	6.4	5.8	5.4	6.1
B. Capital	5.8	7.5	8.8	7.7
1. General government	4.6	6.2	7.8	6.6
2. State economic enterprises	1.2	1.3	1.0	1.0
Overall Balance	-2.4	-5.2	-5.4	-6.0
Primary Balance	-1.8	-4.4	-4.5	-4.8
Net Financing	2.4	5.2	5.4	6.0
A. Domestic	2.4	5.2	5.4	6.0
B. Foreign 2/	0.0	0.0	0.0	0.0
C. Statistical Discrepancy	0.0	0.0	0.0	0.0

Sources: Budget Department and Bank staff estimates.

1. For the period under review, the concepts of central government and consolidated government were synonymous: the budgets of the sub-national governments and state economic enterprises were all subsumed into the central government budget.

2. All foreign exchange transactions through 2011/12 were valued at the official, fixed exchange rate rather than the market rate.

3. Net of transfers from state economic enterprises to central government.

65. The adoption of a managed float exchange rate system at the start of 2012/13 is expected to have a favorable impact on the overall fiscal balance. Revenue is projected to gain just over 6.4 percentage points of GDP due to the revaluation of exports, including gas, and imports. However, expenditures will become be higher as well, gaining 5.6 percentage points of GDP. This will allow the overall balance to improve by approximately 0.7 percentage points of GDP to -5.3 percent of GDP.

66. The new exchange rate regime also means that the importance of the state economic enterprise (SEEs) in financing the budget is set to grow. The SEE sector represents a substantial share of the consolidated fiscal accounts. As shown in Table 2, SEE revenues were 8.6 percent of GDP in 2011/12 compared to Union revenues of 4.4 percent of GDP. SEE expenditures that same year were 7.1 percent of GDP while Union expenditures were 11.8 percent of GDP. The overall balance for the SEE sector is that year was 1.5 percent of GDP and the Union balance was -7.5 percent of GDP. According to the 2012/13 budget, the SEE sector will run a surplus of 4.0 percent of GDP while the Union government will generate a deficit of 9.2 percent of GDP.⁶ In essence, SEE operations are expected to provide substantial net financing to the Union government.

67. *Allocation of resources:* The first budget discussion in the new Parliament was initiated in 2012/13. The composition of actual budgetary outcomes is expected to change substantially as exchange

⁶ Based on staff estimates and forecasts for GDP.

rate unification brings more revenues, the construction of the administrative capital approaches completion, and defense spending is reduced. Consolidated government spending on health has been increasing to 4.8 percent of the total by 2011/12 but this is set to expand sharply in 2012/13 under the first Parliamentary budget. ON-budget defense spending increased to 17.3 percent of the total in 2010/11 and then fell to 14.1 percent of the total in 2011/12.

Table 4: Actual Budgetary Outcomes, by Sectors, as Percent of Total, 2009-12^{1/}

	2008/09 Prov. Act.	2009/10 Prov. Act.	2010/11 Prov. Act.	2011/12 Bud. Est.
General Public Services	22.2	28.6	29.4	26.0
Defense Affairs	8.8	10.5	17.3	14.1
Public Order and Safety	1.6	2.2	2.2	2.2
Education	3.3	3.3	3.6	3.7
Health Services	0.9	0.9	1.0	1.1
Social security and welfare	1.0	0.3	0.3	0.3
Housing, Water, Community Dev., Environment	2.4	2.5	2.1	2.0
Transport and Communication	6.2	5.8	5.2	6.6
Fuel, Energy, Mining, Manufacturing, Construction	44.3	37.3	30.8	35.7
Religious affairs, Culture, Recreation Media	0.5	0.5	0.5	0.5
Others	8.8	8.0	7.6	7.8
Total Expenditures (excluding debt service)	100.0	100.0	100.0	100.0

Sources: Budget Department and Bank staff estimates.

1. For the period under review, the concepts of central government and consolidated government were synonymous: the budgets of the sub-national governments and state economic enterprises were all subsumed into the central government budget.

68. Table 5 shows how actual spending was distributed over economic classifications.⁷ It presents a highly distorted pattern of spending relative to international averages. Spending on capital investment typically ranges from an average of 25 percent of the total for poor countries to around 6 percent for the high income countries. In Myanmar, that share increased from 37.8 percent of the total in 2008/09 to 47.7 percent in 2010/11 and 42.5 percent in 2011/12. Most of this movement can be traced to Union Government investments. The increased Union spending on capital goods required a general compression in recurrent and capital spending by the SEEs. Spending on wages and salaries is also distorted relative to international norms. Such spending typically ranges from an average of 19 percent of low income countries to an average 31 percent for high income countries. By contrast, such spending in Myanmar did not exceed 7.5 percent of the total during the period under review. If SEEs are excluded, the maximum share observed would increase to 12 percent of total Union expenditures, still well below the international norms.

⁷ The spending categories are not consistent with GFS standards.

Table 5: Actual Budgetary Outcomes, by Economic Classification, as Percent of Total, 2009-12^{1/}

	2008/09	2009/10	2010/11 Est.	2011/12 Est.
Expenditures	100.0	100.0	100.0	100.0
A. Recurrent	62.2	55.5	52.3	57.5
1. Union	21.1	20.7	23.0	29.9
a. Wages/salaries	5.9	5.7	6.5	7.5
b. Goods and services	2.2	1.9	2.0	4.1
c. Maintenance and repairs	1.7	1.2	0.2	2.5
d. Contributions	1.0	1.1	1.1	3.6
e. Interest payments	4.1	4.8	6.2	7.4
f. Other 2/	6.1	6.0	7.2	4.9
2. State economic enterprises	41.1	34.8	29.3	27.6
B. Capital expenditures	37.8	44.5	47.7	42.5
1. Union	29.9	36.9	42.1	36.3
2. State economic enterprise	7.9	7.5	5.5	6.2

Sources: Budget Department and Bank staff estimates.

1. Consolidated government. All foreign exchange transactions are valued at the official, fixed exchange rate rather than the market rate.

2. Includes current expenditures of the Ministry of Defense and pension and gratuities.

2.3 Description of legal and institutional framework for PFM

A. Legal framework

69. Much of the PFM system is practice-based and operates without benefit of foundational laws (such as an organic budget law, procurement law, or public information law) or up to date regulations. These practices can be traced back to colonial documents (when Burma was a part of India), which contain guidelines for many but not all of the practices observed during the period under review in this assessment. There is, however, one over-arching document: the Constitution of 2008.

70. The Constitution (paragraph 11) establishes the executive, legislative and judicial branches of government and requires that each shall each serve as a check and balance on the others. A special role is set aside for the military. Paragraph 12 empowers state and regional governments through their own parliaments.

71. The constitution (paragraphs 229 and 230) also defines the composition and duties of the Financial Commission. The Commission is constructed as an over-arching body led by the President with representation from Union and regional ministers, the Minister of Finance, the Attorney-General, and the Auditor-General. The Commission is assigned three key roles. One role is to recommend the Union and state/region budgets prior to vetting by the Vice Presidents and the President. A second role is to recommend “supplementary finance as suitable to the Regions or States from the Union Fund, giving grants as a special matter and permitting loans.” The third role is to advise on financial matters that should be undertaken.

72. The Constitution also stipulates the nature of the national economy and the role of government in the economy. Paragraph 35 states that the economy shall be market based, although paragraphs 29 and 30 require the state to provide production inputs for agriculture and industry and paragraph 37 says all land is ultimately owned by the Union.

B. Institutional framework

73. The Constitution of 2008 has had important implications for the institutional arrangements and management of public finances. With effect from the 2012/13, the budget and regulations relating to public finances have again been subject to consideration and approval by the Hluttaw.

74. *Budgetary expenditures:* Paragraph 103 defines how the Union Budget shall be proposed and considered. The President or his designee is to submit the budget to the legislature. The legislature may approve, refuse, or curtail expenditures except those listed in sub-section b., including salaries, debt obligations, court ordered expenditures, and expenditures required by international treaties. The constitution also enables the Hluttaw to set up a Public Accounts Committee. Sub-section e. allows for the use of supplementary budgets. Paragraph 221 requires prior consultation with a Financial Commission before the Union Budget is drafted. The commission is chaired by the President with membership of the Minister of Finance and Revenue and the states/regions. The commission considers budget proposals with regard to the Union Budget and from the states/regions. It also considers issues such as the ceiling for taking debt during the year and contributions to be made from the Union budget to the state/region budgets. Once the Union budget is approved, funds are cascaded down from ministries to departments and then, for the bigger ministries, down to deconcentrated units providing services at the local level. Paragraph 222 allows expenditures based on the budget of the previous year in the event that a new budget cannot be agreed.

75. *Revenues:* Paragraph 231 gives the Union the right to collect all taxes and revenues, setting aside several revenue sources in Schedule 5 for collection by the regions and states. Union taxes and revenues are to be deposited in the Union Fund.

76. *Borrowing:* The Constitution does not prescribe any limits on the amount of borrowing nor when borrowing shall be allowed nor for what purposes.

77. *External audit:* Paragraphs 241 through 245 refer to the Auditor-General and Deputy Auditor-Generals. The Auditor-General is responsible to the President. The Auditor-General can be impeached. Under the Audit Law of 2010, the Auditor-General is given a 5-year tenure and budgetary independence, receiving allocations directly from the Parliament. The Office is not fully independent, however, because it reports to the President of the Union of Myanmar.

78. *Regional and state governments:* The new constitution has introduced a federal structure with 14 states and regions with their separate budgets and funds. The Union Fund makes grants to state/region funds, but at the time of this review the process of separating finances and funding was still in the process of being fully worked through and stabilized. Paragraph 193 defines how region and state budgets shall be proposed and considered in a manner exactly parallel to paragraph 103.

C. The key features of the PFM system

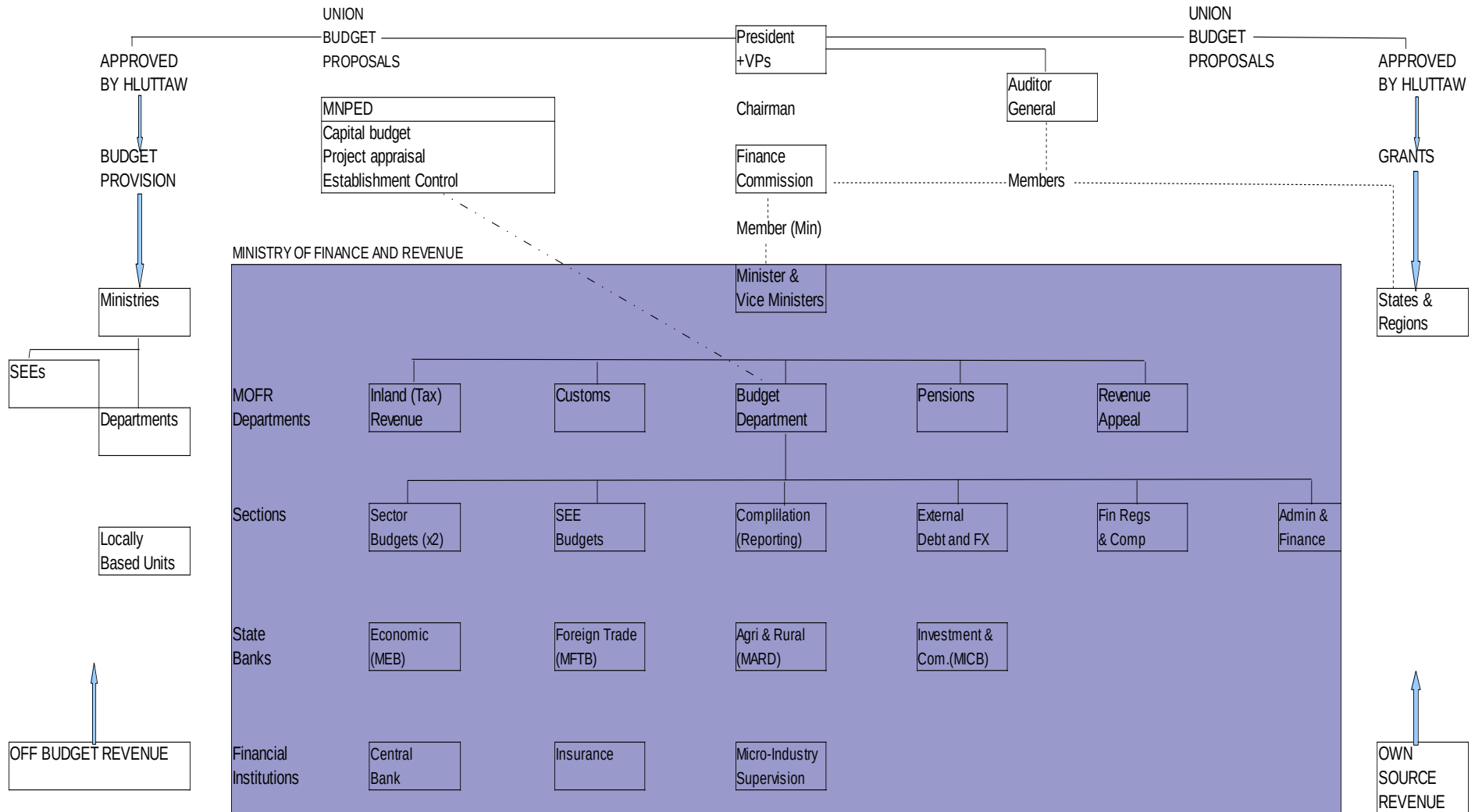
79. The main features of the current institutional arrangements are set out in Figure 1. The following features are of particular note, or are in some ways different to what would be found in other countries:

- The Auditor General reports to the Hluttaw through the President rather than directly.
- Budget preparation is shared between MFR and MNPED with the latter preparing both strategic plans (and economic targets) and developing the budget for capital expenditure.
- There is no equivalent unit fulfilling the functions of what would be called the Treasury or the Accountant General in many countries. Accounting and reporting functions are carried out through the combined efforts of the Budget Department of MFR, MEB, and CBM.

- There are no organizational units with direct responsibility for standard setting in public financial management generally or for procurement specifically (the Ministry of Commerce formerly had this responsibility with regard to procurement).
- There are considerable off-budget flows with regard to areas such as the fees and charges of service providing bodies. However, this off-budget activity is at least reported in summary form in the financial statements.
- The CBM has been under the direct policy control of the MFR and has also fulfilled assigned functions in the management of public finances that would be separately performed by ministries of finance in many other countries.
- The payment system is centralized, with payments made by the MEB. Exceptions include civil service salary payments (which are discharged by township level ministry officials) and payments from Other Accounts (and thus also payments made by SEEs).

80. It is worth noting that a number of important changes are in train. In particular, proposals are being developed to make the CBM independent and to separate the functions that it currently performs that are directly related to public finance management. The SEEs are being given greater financial autonomy and are now allowed to keep part of their profits, but they are also required to fund most of their own working capital requirements. Some SEEs are being privatized or otherwise being fully exposed to market forces. The previous practice of accounting for foreign exchange transaction at an artificially low official rate, which was about 1 percent of the market rate and has distorted the reporting of the performance of SEEs in particular, is being dropped with the unification of the exchange rates.

MAIN FEATURES OF INSTITUTIONAL ARRANGEMENTS FOR MANAGEMENT OF PUBLIC FINANCES



3. Assessment of the PFM Systems, Processes, and Institutions

3.1 Credibility of the budget

81. A budget is considered credible when actual out-turns for revenues, expenditures, and net financing are very close to what was approved in the budget. When budgets are credible, it is easier for governments to maintain macroeconomic stability because actual fiscal balances will be in line with approved targets. Payments in arrears and increased debt are avoided because actual expenditures and net borrowing are kept very close to approved amounts. When budgets are credible, the capacity to provide public services is higher because ministries and their agencies can plan confidence because the resources approved for them will be delivered to them.

82. Budget credibility in recent years has been low, with the exception of revenue out-turns where credibility is higher. Deviations in recent years between aggregate expenditure out-turn and the approved budgets have been large and growing, increasing from 8.7 percent of approved spending in 2008-09 to 20.2 percent in 2010-11. Much but not all of this can be traced to adjustments made in the annual revised budget. There can be many reasons why a budget would be revised, including new information regarding expected revenues and net financing. In recent years, revenues have generally been somewhat higher than expected, with the implication that net financing – most of it domestically sourced – is the main cause of aggregate deviations. In this context, it is also worth noting that all deviations would have been higher had the exchange rate used by the government been the same as the exchange rate used by the private sector (see Box 1 for an explanation).

83. Compositional expenditure deviations have been substantial, and often exceed the deviations in total spending. Two ministries (responsible for energy and for livestock) were always under-spent during the period under review, while five ministries (responsible for agriculture, construction, defense, finance and revenues, and social welfare, relief and resettlement) were always over-spent. Two special administrative organizations responsible for the Union Government and for elections were also always over-spent. Use of the contingency reserve was not a factor in compositional deviations. The issue of payments in arrears could not be assessed due to lack of legal definition of arrears and lack of central repository of data.

84. Looking forward, stronger capacity will be needed to deal with three new challenges. First, while exchange rate unification within a managed float exchange rate regime is expected to substantially reduce the misallocation of resources seen in earlier years, it can also reduce some of the certainty that government ministries had enjoyed previously. Second, the expected increase in revenues from gas exports will bring higher volatility along with higher revenues. In response, to avoid excessive new risks, the authorities will need to quickly bring the quality of macroeconomic forecasting and cash flow management (PI-16) up to levels seen in other neighboring market economies if policy makers and implementing officials. Third, because these changes also affect the State Economic Enterprises which are funded from the budget, it will also be important to carefully monitor their performance and provision against the most likely contingent liabilities that may arise out of their operations.

Box 1: The Impact of Exchange Rate Distortions

It is important to underscore that the estimates reported for PI-1 through PI-3 are the outcome of substantial distortions in the markets for foreign exchange and selected goods and services. The government maintained a dual exchange rate regime between 1977 and April 2012. Under the old regime, all government entities including the state economic enterprises used a fixed and increasingly over-valued exchange rate set at 8.51 kyat per SDR. Foreign exchange earned by government entities was collected centrally and allocated by means of a foreign exchange budget. There have been no allocations to the private sector at the official rate. By contrast, from 1989 onward, the private sector has been able to buy and sell foreign exchange in a moderately unrestricted market.¹ The gap between the market rate and the official rate grew steadily over time, so much so that it peaked at an average of 1,100 kyat per US dollar in 2007-08 compared to the official rate of 5.2 kyat per US dollar. By the end of FY2011-12, official rate had appreciated to just over 800 kyat per US dollar. In addition, sale prices for a number of products produced by, or imported by, the SEEs were controlled by the Government.

Thus, for the period under review, substantial portions of the fiscal accounts are under-reported relative to market valuations. These include revenues on goods produced by government and SEEs, external grants received by government, expenditures on goods directly imported by government, and debt service paid. In addition, a special exchange rate set between the official and market rates has been used in assessing the value of imports for customs duties.

These price setting policies had the effect of suppressing uncertainty within Government even while they encouraged the misallocation of resources relative to what market prices would have otherwise indicated. The April 2012 decision to unify the official and market exchange rates is expected to bring efficiency gains to the economy as a whole. At the same time, the authorities will need to quickly bring the quality of macroeconomic forecasting and cash flow management (PI-16) up to levels seen in other neighboring market economies if policy makers and implementing officials are to avoid excessive new risks.

¹ In 1988, exporters were allowed to retain only 60 percent of their earnings. This was changed to 100 percent retention in 1989 albeit with the requirement that exports are taxed at a rate of 10 percent in foreign currency.

PI-1: Aggregate Expenditure Out-Turn Compared To Original Approved Budget

85. The ability to keep total expenditures at the level approved in the budget is an important factor in macroeconomic management. Budget credibility in this regard has been low. Deviations between aggregate expenditure out-turn and approved budgets in recent years have increased from 8.7 percent of approved spending in 2008-09 to 20.2 percent in 2010-11. These deviations contributed directly to the consolidated fiscal deficit which increased from 2.4 percent of GDP in 2008-09 to 5.6 percent of GDP in 2010-11.

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure

86. This PEFA assessment covers the Union budget for the fiscal years 2008-09 through 2010-11; with 2010-11 being the most recent fiscal year for which provisional expenditure out-turns were available at the time of the assessment.⁸ In keeping with PEFA methodology, the indicator measures the aggregate out-turn for combined recurrent and capital expenditure out-turns compared to the original approved budget rather than the revised budget.⁹ Debt service and expenditures controlled by donors are excluded from the calculation. These adjusted expenditures are referred to here as “primary expenditures.”

87. The data used for analysis in PI-1 through PI-3 come from translated summaries of the approved expenditure estimates and the provisional estimates for expenditure out-turns provided by the BD. The team did not have access to primary sources such as copies of official budget estimates, financial statements, or audited accounts.

88. The data in Table 6 show that the provisional estimates of actual expenditure were well above the originally budgeted amounts in each year. Expenditure deviations as a percent of originally budgeted amounts, increased in 2009-10 and again in 2010-11. Unexpected revenue surpluses in 2008-09 and 2010-11 may have contributed to this outcome (see PI-3). No such surplus occurred in 2009-10, however, suggesting that the over-spending in that year has to be traced back to other causes.

Table 6: Comparison of Budget Estimates to Actuals (Primary Expenditure, Kyat millions)

	2008-09	2009-10	2010-11
Original Estimate	4,723,350	5,347,944	5,947,993
Actual Expenditure	5,132,917	5,992,898	7,147,253
Aggregate Expenditure Deviation	409,567	644,954	1,199,260
Aggregate Expenditure Deviation, Percent	8.7	12.1	20.2

89. Based on the analysis above, a provisional score of C is indicated. The score is provisional because the expenditure out-turns are not from audited accounts or final estimates. The accuracy of provisional estimates could not be assessed without final estimates that could be compared to provisional estimates. There are some elements of the PEFA assessment that suggest accurate accounting may be difficult to achieve, notably with regard to the regular and timely reconciliation of bank accounts (see PI-22), timely and comprehensive financial reporting (see PI-24, PI-25), and comprehensive external audit (see PI-26).

⁸ The government also maintains a separate budget for foreign exchange receipts and payments. This is not assessed here. Extra-budgetary spending, notably by means of so-called “other accounts” are excluded from the calculations. See PI-6.

⁹ The authorities often refer to the original budget estimates as BE, the revised budget estimates as RE, and provisional actual out-turns as PA.

Indicator	Analysis	Indicated Score	Framework Definition	Evidence Used
The difference between actual primary expenditure and the originally budgeted primary expenditure	The deviations in absolute terms were 8.7% in FY09, 12.1% in FY10, and 20.2% in FY11.	C	In no more than 1 of the last 3 years has actual expenditure deviated from budgeted expenditure by more than amount equivalent to 15% of budgeted expenditure.	Translated summaries of the approved expenditure estimates and the provisional estimates for expenditure out-turns provided by the BD.
Overall Score		C		

90. The analysis above is restricted to a period of time just before some major changes in government operations were implemented. These changes will have consequences. First, on 1 April 2012, the Government made a major move toward exchange rate unification within a managed float exchange rate regime. This change is expected to substantially reduce the misallocation of resources seen in earlier years. At the same time, it can also reduce some of the certainty that ministries had enjoyed previously. Second, the government has invested in the production of new gas exports. The expected increase in revenues from these exports as early as 2012-13 will bring higher volatility along with higher revenues. In response, to avoid excessive new risks, the authorities will need to quickly improve the quality of macroeconomic forecasting and cash flow management (PI-16) to levels seen in other neighboring market economies if policy makers and implementing officials.

PI-2: Composition of Expenditure Out-Turn Compared to Original Approved Budget

91. Effective public service delivery and successful investment is more likely when ministries and their agencies and enterprises spend the amounts approved for them in the budget. Many ministries in Myanmar over-spent and did so well beyond what would have been reasonable after taking into account unexpected shocks to revenues and net financing.¹⁰ This over-spending was only partially compensated by the under-spending in several other ministries. Unforeseen shocks and policy changes are a common occurrence around the world and many governments set aside a contingency reserve to help deal with these. While this is prudent, the reserve should not be so small as to be unhelpful, nor so large as to undermine the credibility of the overall budget. In addition, it is good practice to ensure that spending is not directly charged to the contingency reserve but rather to the applicable ministry and program. In Myanmar's case, the credibility of the budget was not undermined by excessive use of the contingency fund, in part because the fund was very small.

(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items¹¹

92. The first dimension measures the average variance by individual Union ministries above or below the aggregate variance calculated in PI-1.¹² This is achieved by adjusting the allocations from the original budget for each of the twenty largest ministries by the aggregate variance and then calculating by how much the actual out-turn for each ministry differed from the adjusted allocations. For example, in the case

¹⁰ These include the ministries responsible for agriculture, construction, defense, finance and revenues, and social welfare, and the state administrative organizations for the Union Government and for the electoral commission.

¹¹ The government also maintains a separate budget for foreign exchange receipts and payments. This is not assessed here.

¹² In a manner similar to PI-1, both recurrent and capital expenditures are included. Debt service, donor funded project expenditures, contingency items (such as the reserve fund), and off-budget accounts are not included in the calculation.

of 2008-09, all allocations were increased by 8.7 percent. These adjustments, along with actual out-turns, are shown in Table 7 below.

Table 7: Comparison of Budgeted and Actual Expenditure (Kyat, billions)

	2008-09				2009-10				2010-11			
	Original Budget	Adjusted Budget 1/	Actual 2/	Variance	Original Budget	Adjusted Budget 1/	Actual 2/	Variance	Original Budget	Adjusted Budget 1/	Actual 2/	Variance
Administrative Organizations 3/	376.0	408.6	658.9	282.9	377.4	1,115.2	1,089.6	712.2	666.0	1,432.4	1,261.8	595.8
Finance & Rev. excl. Reserve Fund	234.0	254.3	331.7	97.7	362.1	446.2	423.7	61.7	488.9	625.9	558.2	69.3
Defence Affairs	354.4	385.2	465.1	110.7	561.1	672.9	657.3	96.2	849.8	1,323.1	1,297.1	447.2
Home Affairs	52.5	57.0	53.3	0.9	58.5	64.4	92.0	33.6	94.1	112.5	115.4	21.4
Education	167.4	181.9	174.9	7.4	187.1	210.2	209.5	22.4	262.9	266.9	266.7	3.8
Health services	44.8	48.7	45.8	1.0	50.8	57.1	55.8	5.1	69.8	78.4	77.0	7.3
Environment	116.1	126.2	121.4	5.3	129.2	137.9	152.6	23.4	143.2	146.7	147.7	4.5
Transport	78.3	85.1	74.4	-3.9	89.1	92.2	92.1	2.9	85.2	83.2	83.0	-2.3
Communication	242.9	263.9	259.6	16.7	265.1	267.5	271.2	6.1	288.7	302.9	309.1	20.4
Electric Power (1)	188.2	204.6	228.4	40.2	276.8	278.0	283.1	6.3	227.6	242.5	239.3	11.8
Electric Power (2)	295.9	321.6	295.4	-0.6	327.5	335.7	322.3	-5.1	445.2	451.5	415.5	-29.8
Energy	1,381.1	1,500.9	1,089.0	-292.1	1,243.9	917.5	899.0	-344.9	932.7	865.9	817.1	-115.6
Mines	32.4	35.2	28.5	-3.9	44.2	44.2	40.7	-3.5	52.2	47.8	47.6	-4.6
Industry	467.9	508.4	483.5	15.6	558.8	510.6	484.0	-74.8	433.4	375.7	348.9	-84.5
Construction	206.6	224.5	231.0	24.4	240.5	261.3	310.4	69.9	301.3	422.9	446.9	145.6
Information	21.5	23.4	23.1	1.5	26.6	27.5	23.4	-3.1	29.4	30.9	27.4	-2.0
Agriculture and Irrigation	197.8	214.9	257.7	59.9	209.4	233.1	243.9	34.5	216.5	289.7	282.1	65.6
Livestock, Breeding & Fisheries	49.9	54.2	29.1	-20.7	59.2	49.2	29.0	-30.1	55.9	55.9	40.0	-15.9
Science	27.4	29.8	29.0	1.6	23.4	25.6	25.7	2.3	34.6	42.5	42.3	7.7
Rail Transport	115.3	125.4	134.5	19.2	172.8	178.6	184.3	11.5	171.3	187.1	186.1	14.8
All Other	72.7	79.0	118.5	45.8	84.5	104.7	103.2	18.7	99.4	112.7	138.2	38.9
Total for PI-2	4,723.3	5,132.9	5,132.9	409.7	5,347.8	6,029.8	5,992.9	645.1	5,947.9	7,496.9	7,147.3	1,199.4
Contingency Items	0.1	0.1	0.0	-0.1	0.1	0.1	0.0	-0.1	0.1	0.1	0.0	-0.1
Total for PI-1	4,723.4	0.0	5,132.9	409.6	5,347.9	6,029.9	5,992.9	645.0	5,948.0	7,497.0	7,147.3	1,199.3

Sources: Ministry of Finance and Revenue and World Bank staff calculations.

1. Calculated by adjusting the allocations for each ministry by the aggregate variance from PI-1. These “adjusted budgets” are provided for analytical purposes, following the PEFA Guidelines, and are not meant to be the same as the improved budgets approved by the Government at the end of each year.

2. Provisional estimates.

3. Administrative organizations include the State Peace and Development Council, the Union Government, the Supreme Court, the Office of the Attorney General, the Office of the Auditor General, the Election Commission, the Civil Services Board, and the Constitutional Tribunal of the Union. More than 90 percent of spending within this category can be attributed to the Union Government.

93. Table 8 below shows the average compositional variances that are calculated from the data shown in Table 7. The average weighted deviations were 20.6 percent in 2008-09, 26.9 percent in 2009-10, and 24.2 percent in 2010-11. The average weighted deviations therefore exceeded the overall variance in primary expenditures by over 15 percentage points in each of the three years reviewed in this assessment. Based on the analysis above, a score of D is indicated for the first dimension. As noted for PI-1 above, the score is provisional because the expenditure out-turns are not from audited accounts or final estimates.

Table 8: Comparison of Budget Estimates against Actual Primary Expenditure 1/

	2008-09	2009-10	2010-11
Total Primary Expenditure Variance (in percent) PI-1	8.7	12.1	20.2
Average Compositional Variance (in percent) PI-2	20.6	26.9	24.2

Sources: Ministry of Finance and Revenue and Bank staff calculations. For more detail, see Annex 1.

1. All data are preliminary, from provisional estimates.

(ii) *The average amount of expenditure actually charged to the contingency vote over the last three years*

94. The second dimension of PI-2 measures the average amount of expenditure actually charged to a contingency vote (the Reserve Fund) over the last three years. In the case of Myanmar, a very small notional allocation of K100 million was allocated to the Reserve Fund each year. It was never utilized. Instead, it was common practice to draw from the General Reserve Fund (GRF) in order to deal with unanticipated needs above allocated amounts while depositing unspent funds in the same GRF. Thus, the provisional actual estimates (PA) through 2011-12 had been the sum of the revised budget (RE) and net flows to/from the GRF. Based on the analysis above, a score of A is indicated because the actual expenditure charged to the contingency vote was on average less than 3 percent of the original budget.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.	The deviations in absolute terms were 20.6% in FY09, 26.9% in FY10, and 24.2% in FY11.	D	Variance in expenditure composition exceeded 15% in at least two of the last three years.	Translated summaries of the approved expenditure estimates and the provisional estimates for expenditure out-turns provided by the BD.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	Actual expenditure charged to the contingency vote was nil.	A	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.	Translated summaries of the approved expenditure estimates and the provisional estimates for expenditure out-turns provided by the BD.
Overall Score		D+		

95. The policy governing the Reserve Fund has been revised starting with the budget for 2012-13. The contingency vote was increased to Kyat 100 billion per year (1.8 percent of total primary expenditures) in order to create real capacity to deal with unanticipated needs. From 2012-13 onward, ministries are expected to draw from the contingency vote with approval from the Minister of Finance and Revenue and the Financial Commission. This could help keep total actual expenditures closer to the approved total during periods when revenues and grants are below expected amounts.

PI-3: Aggregate Revenue Out-Turn Compared To Original Approved Budget

96. An accurate revenue forecast is a key input to the preparation of a credible budget. Overly optimistic revenue forecasts can lead to unjustifiably large expenditure allocations and to larger fiscal

deficits when budgeted revenues do not come in. On the other hand, too much pessimism in the forecast can result in unanticipated revenues being used for spending that has not been subjected to the scrutiny of the budget process. During the period under review, the Government produced accurate revenue forecasts for FY2008-09 and FY2009-10. Deviations from these forecasts were less than ± 5 percent. By contrast, the forecast for 2010-11 was less accurate with a gap of almost 18 percent between budgeted revenues and actual out-turn.

(i) Actual domestic revenue compared to domestic revenue in the originally approved budget¹³

97. Indicator PI-3 measures actual domestic revenue compared to domestic revenue in the originally approved budget. Translated summaries of the original approved revenue estimates and provisional out-turns were obtained from the BD.

98. The largest source of domestic revenue comes from state economic enterprise receipts, which account for 74 percent of total budgeted domestic Union revenues in 2011-12.¹⁴ The next largest revenues in that year were to come from commercial taxes (8.7 percent), income taxes (8.5 percent), and “Union Government recurrent receipts” (6.3 percent). Roughly 90 percent of all domestic taxes are collected by the MFR although several line ministries also collect revenues. As noted in indicator PI-7, some revenues are retained by the line ministries or by their agencies (health clinic fees, e.g.).

99. Initial budgetary targets for revenue are calculated by each of the revenue collecting ministries, SAOs and SEEs. These targets are established with some guidance from MFR and may occasionally be adjusted by MFR. No government office makes routing revenue forecasts beyond the annual targets. Information on actual revenues is collected by MFR on a monthly basis from the line ministries, SAOs, and SEEs. These data are audited annually by the OAG.

100. As summarized in Table 9, revenue out-turns have been close to budgeted amounts in recent years. Actual domestic revenue collection as a share of budgeted domestic revenue was 103.7 percent in 2008-09, 96.0 percent in 2009-10, and 117.8 percent in 2010-11.¹⁵ Based on these outcomes, a provisional score of B is assigned: actual domestic revenue was between 94 percent and 112 percent of budgeted domestic revenue in at least two of the last three years.

Table 9: Domestic Revenue Out-Turn Compared To Original Approved Budget

In Kyat Billions	2008 - 2009			2009 - 2010			2010 - 2011		
	BE	RE	PA	BE	RE	PA	BE	RE	PA
Total Domestic 2/	4,468.9	4,627.2	4,634.9	4,908.8	4,563.4	4,711.6	4,830.9	5,235.6	5,690.0
Actual (PA) as share of budget (BE)			103.7			96.0			117.8

Sources: Ministry of Finance and Revenue and Bank staff calculations.

1. The authorities refer to the original budget estimates as BE, the revised budget estimates as RE, and provisional actual out-turns as PA.

2. Includes receipts from SEEs and excludes foreign grant receipts.

¹³ The Government also maintains a separate budget for foreign exchange receipts and payments, which is not assessed here.

¹⁴ From SEE contributions (15.7 percent) and receipts (58.3 percent).

¹⁵ These gaps would have been larger under a market determined exchange rate.

Indicator	Analysis	Indicated Score	Framework Definition	Evidence Used
PI-3: Actual domestic revenue compared to domestic revenue in the originally approved budget	Actual domestic revenue collection as a share of budgeted domestic revenue was 103.7% in FY09, 96.0% in FY10, and 117.8% in FY11.	B	Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years.	Translated summaries of the approved expenditure estimates and the provisional estimates for expenditure out-turns provided by the BD.
Overall Score		B		

101. In the immediate future, the Union Government will benefit from an increased share of gas export receipts in government revenues. As much as 20 percent of total revenues and grants could come from gas receipts as early as 2012-13. This development, while important for Myanmar's economy, will bring higher volatility along with higher revenues. Within the broader Asian energy market, natural gas prices tend to be tightly linked to crude oil prices – and crude oil prices are notoriously volatile due to high price elasticities to supply and demand. Thus, as mentioned earlier, to avoid excessive risks, strengthened macroeconomic forecasting and cash flow management will be important.

PI-4: Stock and Monitoring of Expenditure Payment Arrears

102. Indicator PI-4 is concerned with measuring the extent to which there is a stock of payments in arrears, and the extent to which any systemic problem is being brought under control and addressed.¹⁶ At present, the government has neither a legal definition of what constitutes payments in arrears nor a centralized system for tracking payments in arrears.

(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

103. The existing legislation and regulations in Myanmar do not include any definitions of payments in arrears. Moreover, none of the coordinating ministries within the government keep a consolidated record of most categories of payments in arrears. This dimension therefore cannot be rated.

104. The Government does, however, keep track of debt service payments in arrears. The PEFA guidelines require that only arrears on interest payments be included in the estimation of arrears on external debt since principal repayment is not expenditure but a financing transaction. At end-2012, Myanmar's arrears on external debt amounted to US\$6.1 billion, including arrears on interest payments and on late interest payments. This is equivalent to 59.4 percent of expected spending in FY2011-12.¹⁷

¹⁶ Expenditure payment arrears are expenditure obligations that have been incurred by government, for which payment to the employee, supplier, contractor or loan creditor is overdue. For example, under internationally accepted business practices, a claim will be considered in arrears if payment has not been made within 30 days from government's receipt of a supplier's invoice (for supplies, services or works delivered), whereas the failure to make staff payroll payment or meet a deadline for payment of interest on debt immediately results in the payment being in arrears.

¹⁷ Based on a revised budget estimate of 8,466 billion kyat for total expenditures in 2011-12, including interest, and a parallel market exchange rate of 824 kyat per US dollar.

(ii) Availability of data for monitoring the stock of expenditure payment arrears

105. There is no central repository of data for most categories of expenditures in arrears. Individual ministries, SAOs, and SEEs may monitor their own stock of payments in arrears but they are not required to report this information to MFR or any other coordinating body. A score of D is indicated since there are no reliable data on the stock of arrears from the last two years.

106. It should be noted, however, that records on external debt and debt service payments in arrears are comprehensive, up to date, and broadly consistent with records from creditors. By December 2012, Myanmar had accumulated US\$ 11.0 billion in arrears on debt service due to international donors. Of this amount, US\$ 4.9 billion were principal payments in arrears, US\$ 1.2 billion were interest payments in arrears, while US\$ 4.9 billion were arrears on late interest payments (penalties). In January 2013, arrears to multilateral institutions (World Bank and Asian Development Bank) amounting to US\$ 932 million were cleared while an agreement was reached on the resolution of the US\$ 10.0 billion in arrears to Paris Club creditors that will result in a 50 percent write-off of arrears and restructuring of the remainder.

107. An overall score for this indicator cannot be assigned, due to the lack of information for the first dimension.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	There is no system for compiling and reporting expenditure arrears.	Not rated (N/R)	There is not enough information to assign a score.	Interviews with officials from the BD.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	There is no central repository of data for expenditures in arrears.	D	There are no reliable data on the stock of arrears from the last two years.	Interviews with officials from the BD.
Overall Score		N/R		

3.2. Comprehensiveness and transparency

108. This set of indicators assesses whether the budget and oversight of fiscal risk are comprehensive, and whether fiscal and budgetary information is available to the public. There are currently a number of limitations in the classification of budget information, as well as missing types of information in the budget documents themselves and a large amount of unreported government operations, which together mean that budgetary and fiscal information is highly limited. An important subset of fiscal information – inter-governmental fiscal transfers – is also characterized by a low level of transparency. Similarly, the information that is actually made public is highly constrained. From the perspective of fiscal risk management, the fact that existing mechanisms to monitor fiscal risks from other public sector entities are underdeveloped is compounded by the aforementioned limitations in the comprehensiveness and transparency of fiscal data.

109. Myanmar's budget classification system, which is the backbone of fiscal accounts, is not fully consistent with modern classification structures. It does provide a classification structure according to administrative categories (e.g., ministries and departments, SEEs), geographic categories (states, regions, and municipal development committees), broad functional categories (though they are not consistent with the United Nations Classification of the Functions of Government, COFOG, standard), and broad economic categories (though they are not fully consistent with the Government Financial Statistics, GFS, standard).

110. The formal presentation of the budget as contained in the Union Budget Law consists of a limited amount of information, though significant recent progress was made with the publication of the law for the first time in FY2012/13. The law is limited to total revenue and expenditure (including recurrent, capital, loans, and grants) per ministry/agency and SEE, and total aggregate transfers to states and regions. The law also contains the aggregate debt ceiling for the fiscal year. The Union Parliament receives additional data in budget books on each ministry (and thus SEE), and it appears that these books contain quite detailed revenue and expenditure data. However, the budget documentation fulfills very few of the PEFA information benchmarks.

111. A further compounding factor is the significant level of unreported government operations, which means that the budget law presents a quite limited fiscal picture in terms of central government revenue, expenditure, and financing. In Myanmar's case there is a high degree of extra-budgetary expenditure that is not included in regular fiscal reports while, at the same time, there is limited information on development partner-funded projects included in fiscal reports.

112. There is extensive use of "Other Accounts," which are essentially accounts held by ministries and SEEs in the Myanmar Economic Bank for management of their own-source revenues. The grand total of Other Accounts currently in use is over 13,400. FY2011/12 data from MEB and the Budget Department show total Other Account receipts of 2.54 trillion kyat, which is 44 percent of total budgeted revenue, and expenditures of 2.26 trillion, which represents 28 percent of total budgeted expenditure.

113. On the external financing side, the picture is also mixed. Though complete income/expenditure information is included in fiscal reports for all loan financed projects, it appears that only some information on about 50 percent (by value) of grant financed projects is also included. Ministries are also supposed to report to the Ministry of National Planning and Economic Development on a monthly basis on their grant revenues and expenditures, but the flow and quality of information is rather uneven, and the information received is not yet made available to the Budget Department. It should also be emphasized that the quality of the grant data provided is likely in need of strengthening, both in terms of projections in budget documents and actual spending amounts in execution reports. NGO financed activities are not reported at all in the Government's fiscal reports.

114. Another important consideration from the perspective of transparency and comprehensiveness is the treatment of the intergovernmental fiscal system, which has been in a period of flux. In operational terms the assignment of functions and finances is evolving. Like with many other budgetary process indicators, the system is not yet fully formed because this is the first full fiscal year in which the new system is being implemented. The assessment shows that the system for allocating resources to states/regions is neither rules-based nor transparent, and that states/regions do not receive timely, reliable information on their transfers. Moreover, states/regions may and do request supplementary budget allocations. These features make for an inter-governmental fiscal system that is not transparent and that impedes sound budget planning.

115. One of the likely consequences of a fiscal system in as much flux as Myanmar's is a probable increase in the amount of fiscal risk. In addition to the sweeping changes that have taken place at the

political and constitutional level, many material changes have also been made in the operations of SEEs and sub-national governments. These major systemic changes increase the likelihood of fiscal risk for four main reasons. First, the internal control environment is still relatively weak. For example, the internal audit function is only now being established in line ministries and the capacity in SEEs varies. Second, the central oversight function is narrow and underdeveloped. Third, there is a lack of a strategic approach to public financial management, with central oversight agency engagement focusing more on low value processes and much less on analysis of results and impact. Lastly, public fiscal information is quite limited, reducing the chances of meaningful public engagement on these issues. One of the major contributors to the C score here is the fact that a consolidated report on total fiscal risk from the point of view of the Union Government is not produced. The lack of such an analysis leaves the Government open to a potentially significant blind spot (for example, as pertains to operational losses, payment arrears, or possibly even debt defaults). Another source of fiscal risk emanates from possible contingent liabilities from public-private partnerships (PPPs).

116. Though public access to key fiscal information is highly limited in Myanmar, it is worth emphasizing that the Union Government has become much more open in FY2012/13. The most notable event with regard to the budget process was the publication of the FY2012-13 budget. Compared with international standards, however, Myanmar makes very little information available to the public.

PI-5: Classification of the Budget

117. Myanmar's budget classification is not fully consistent with modern classification structures. It does provide a classification structure according to administrative categories (e.g., ministries and departments, SEEs), geographic categories (states, regions, and municipal development committees), broad functional categories (though they are not consistent with the United Nations Classification of the Functions of Government standard), and broad economic categories (though they are not fully consistent with the GFS standard). The rating for this indicator would thus be a D, as budget formulation and execution are based on a non-GFS compatible classification.

118. The budget classification structure follows a seven-tier hierarchy: group accounting head (viz., ministry)¹⁸; attendant group accounting head, which specifies a set of broad economic categories (e.g., revenue and expenditure items; types of expenditure items such as recurrent, capital, and financial (e.g., loans)); major head, which indicates the (secondary) major sub-ministerial entities (viz., ministerial departments and SEEs)¹⁹; minor head, which indicates the (tertiary) administrative sections under the secondary administrative level (e.g., High School Section or Inspection Section), and in many cases also provides more detail on functional areas; attendant minor head, which provides for administrative units below sections and can also provide functional information (e.g., sub-section administrative units, which can be administrative or sectoral in nature); sub-head, which provides seven categories for recurrent economic classifications (viz., remuneration, travel allowances, goods and services, maintenance, transfer payments, entertainment expenses, and reserve fund) as well as three capital expenditure classification sub-heads (project investment, works investment, and office equipment); and the primary unit, which provides a more detailed economic classification of about thirty types of goods and services, including rentals, contractual labor, office equipment, utilities, medical expenses, conferences and seminars, etc. This structure applies to ministries; there is a somewhat different structure in use for SEEs. This structure

¹⁸ Myanmar has 31 ministries and 44 SEEs. There are also group accounting head items for Cantonment Municipalities and Development Committees (for Nay Pyi Taw, Yangon, and Mandalay).

¹⁹ The Major Head Category (mostly ministers' offices and ministerial departments) broadly provides a sub-functional category that includes some of the COFOG level two classifications. E.g., the Ministry of Education has two Departments of Higher Education (Lower and Upper Myanmar), three Departments of Basic Education (Lower, Upper, and Yangon), as well as departments for education planning and training, examinations, research, and language.

is used for formulating, executing, and reporting on the budget (in that sense there is no separate, distinct chart of accounts).

119. The revenue structure is similarly *sui generis* but does provide for many categories of revenue and types of taxation. Broad categories of revenue include tax (income taxes, sales taxes, excises, land, etc.), non-tax, royalties, capital revenue, and other revenue. There are also categories for investment income, interest income, and savings of ministries and departments.

120. The capital budget structure is limited to three broad areas, which are a mix of economic and functional classifications. The heads – project investment, which covers construction; works investment, for machinery; and office equipment – are general and seem to overlap somewhat among themselves and possibly with the recurrent classification (*viz.*, office equipment). It appears that there is no official, centrally mandated additional classification tier below the three broad capital categories. However, some ministries report using more detailed information for their own budgeting purposes, though it does not seem, based on the information provided, that ministries necessarily use a structure. Rather, they report more detailed expenditure information on particular expenditure items. The absence of clear guidance and definitions of expenditure categories (in the form of a manual, for example) indicates a risk that ministries' classifications are not necessarily consistent with each other.

121. Myanmar produces some budget data according to four general functions (general services, defense, economic services, and social services), though not for its own internal use, but for reporting to the IMF. The functional classification system is not based on COFOG standards (either the ten main functions or the more detailed functions below them) and it is doubtful that it could produce consistent documentation according to those standards. Further work would be necessary at the level of minor heads and attendant minor heads for each ministry before determining whether a bridging table could be produced to generate COFOG-consistent documentation. Particular challenges would seem to lie with the categories of social protection, recreation/culture/religion, and environmental protection. Similarly, it is not clear to what extent poverty-reducing expenditure could be tracked using the current budget classification and account codes. A more detailed look at minor heads and attendant minor heads in each ministry would be required.

122. Government Financial Statistics Manual (GFSM) 2001 bridging tables were not able to be produced directly from budget execution data, but are under preparation with the assistance of the IMF. However, the level of detail in the bridging tables is limited for some categories (SEEs and subnational governments, as well as transfers, capital expenditure, and defense). Moreover, it is not clear to what extent a need for reclassification of some expenditure (by splitting entries under some budget codes into different codes for GFS) would entail a high risk of inconsistency.

123. The Financial Regulations (1986) provide the broad budget classification structure described above, though there is no published manual that provides the more detailed structure. Ministries do appear to use the same broad classification structure, but it is not clear that they all use exactly the same structure in the same way. This results in some variation in detailed expenditure classification and reporting from ministry to ministry. There were indications that some ministries do not conform systematically to the capital budget classification structure, even at the most aggregate level.

Indicator	Analysis	Indicated Score	Framework Definition	Evidence Used
The classification system used for formulation, execution, and reporting of the central government's budget	The classification, though it contains administrative, geographic, and broad functional categories, does not use GFS or COFOG standards, and as yet cannot produce documentation consistent with those standards.	D	The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).	Union Budget Law, FY2012/13; Financial Regulations, 1986; MFR classification tables; archival material from MFR and line ministries.

PI-6: Comprehensiveness of information included in budget documentation

88. The annual budget as contained in the Union Budget Law contains a limited amount of information, though the law is now made public. The law is limited to total revenue and expenditure (including recurrent, capital, loans, and grants) per ministry/agency and SEE, and total aggregate transfers to states and regions. The law also contains the aggregate debt ceiling for the fiscal year. The Union Parliament receives additional data in budget books on each ministry (and thus SEE), and it appears that these books contain quite detailed revenue and expenditure data. However, as the budget documentation fulfills two or fewer of the nine information benchmarks, this indicator is rated as D.

89. It is important to note that the annual budget law is discussed in the context of the Government's national plan, which sets the stage for a detailed discussion of resource allocations in light of national priorities. The National Planning Act, which is presented to Parliament a few weeks before the budget law, is the annual planning legislation for the year in the context of the Short Term Five Year Plan (which runs from FY2011/12 to FY2015/16). The plan presents targets for the economy as a whole as well as by sector. For example, the annual GDP growth objective is given, as are sectoral growth objectives. The National Planning Act also provides "annual project proposals and investment estimates for the state owned sector." The Act does not provide any fiscal information. The Act also provides information on: (1) each ministry/agency's policies and activities, and capital project proposals; and (2) 14 sectoral plans. The project proposals are presented for a multi-year, however these project lists are not considered as resource-constrained but rather as sectoral planning priorities.

90. Though the Union Parliament is a new institution in Myanmar, reports indicate vigorous discussion and debate about the FY2012/13 budget, which was the first one ever discussed in a parliament. The discussions focused on the details of spending within and across ministries. Information on most of the items treated in this indicator was not made available to the Parliament, but recently parliamentary committees have requested that this information be provided to them in the future. For example, parliamentarians have recently requested the following additional information as part of the budget process: reports on in-year spending, information on grants, a macroeconomic framework, a fiscal policy statement, and a medium term fiscal policy statement.

Indicator	Analysis	Indicated Score	Framework Definition	Evidence Used
Share of the above listed information in the budget documentation most recently issued by the central government	The budget law contains total revenue and expenditure per ministry/agency and SEE, and total transfers to states and regions, and also includes the aggregate debt ceiling for the fiscal year. Parliament receives additional detailed expenditure data in budget books on ministries and SEEs. Most of the nine items, however, are not included. 1. <i>Macro-economic assumptions, including at least estimates of aggregate growth, inflation, and exchange rate:</i> Some macroeconomic objectives are provided in the National Planning Act, but these are not assumptions, but rather targets. Inflation and exchange rate projections are not provided. 2. <i>Fiscal deficit (according to GFS standard):</i> A fiscal framework is not provided, though a fiscal deficit figure (deficit/GDP) is given, but not according to GFS or comparable standards. 3. <i>Debt financing and anticipated composition:</i> Only the aggregate debt limit is provided; no information on composition. 4. <i>Debt stock:</i> Not provided. 5. <i>Financial assets:</i> Not provided. 6. <i>Prior year's budget outturn:</i> Not provided. 7. <i>Current year's budget:</i> Not provided. 8. <i>Summarized budget data, including for current and previous year:</i> Not provided. 9. <i>Explanation of fiscal implications of policy changes:</i> Not provided.	D	Recent budget documentation fulfills 2 or fewer of the 9 information benchmarks.	Union Budget Law, FY2012/13; National Planning Act, FY2012/13; Financial Regulations, 1986; selected MFR budget books.

PI-7: Extent of Unreported Government Operations

91. The extent of unreported government operations determines whether or not fiscal reports provide a complete picture of central government revenue, expenditure, and financing. In Myanmar's case there is a high degree of extra-budgetary expenditure that is not included in fiscal reports while, at the same time,

there is limited information on development partner-funded projects included in fiscal reports. These limitations result in a score of D+ for this indicator.

(i) The level of extra-budgetary expenditure which is not included in fiscal reports

92. There are some sources of budgetary operations that are not included in fiscal reports. The main source is special accounts, known as “Other Accounts” held in the Myanmar Economic Bank, which are not fully reported in fiscal reports. There may also be other sources and uses of funds which are managed outside of the official process entirely (i.e., outside of MEB), but this report does not have any detailed information on those (and accounts outside of MEB are not permitted under the Financial Regulations). The Office of the Auditor General has surmised that there may indeed be accounts held outside of the MEB and that some revenues generated from joint ventures, as well as from natural resources, could also be extra-budgetary.

93. “Other Accounts” are essentially accounts held by ministries and SEEs²⁰ in the MEB for management of their own-source revenues. The Financial Regulations explicitly only allow the Ministries of Defense and Home Affairs to open OAs (without MFR permission), but the regulations have been interpreted to allow the MFR to grant permission to open OAs to other ministries upon request.

94. By definition the funds held in OAs are extra-budgetary (in that they are not reported on or accounted for in budget documentation). Sources of own-source revenues include: user fees, revolving funds, trust fund/community donations, etc. The Ministry of Health, for example, has 427 Other Accounts, which are used for receipts from community cost sharing, hospital equity funds, and interest on trust funds (each of the 330 townships has an Other Account). The Ministry of Energy has 3 Other Accounts (in Singapore), but 100% are remitted to the State Funds Account (SFA). The Ministry of Public Works has 140 Other Accounts for receipts from works, maintenance income, cement sales, housing rental fees, etc. The Ministry of Education has Other Accounts for dormitory fees, its MBA program, as well as others under the Planning Department. The Myanmar Oil and Gas Enterprise have 14 Other Accounts, including for oil fields, and all of the enterprises receipts are retained in their Other Accounts. Anecdotal reports indicate that some of the Ministry of Defense’s Other Accounts are used for commercial operations (farming, factories, etc.). The Ministry of Communications is also reported to have significant resources held in Other Accounts. The Ministry of National Planning and Economic Development has Other Accounts for donor-funded projects (e.g., from UNDP).

95. The Ministry of Defense holds the largest number of Other Accounts, followed by the Ministry of Health. The total number of Other Accounts (as of June 2012) held by ministries at the Union level was 8,417 and at the state/regional level was 176. The total number of Other Accounts (as of June 2012) held by SEEs at the Union level was 4,319 and at the state/regional level was 517. The grand total is thus over 13,400. All Other Accounts held by MEB are in kyat. Special accounts for ministry own-source revenue denominated in foreign exchange can be held in the Foreign Exchange Trade Bank.

96. Other Accounts also saw significant resource flows, as shown in Table 10, with the state/regional level accounting for only a miniscule share of resources. These figures do not represent the total balance in Other Accounts, however, as previous fiscal year balances are carried forward, a provision which underscores the extra-budgetary nature of these funds (as revenue received in a fiscal year is not necessarily spent in the same fiscal year). FY2011-12 data from MEB and the Budget Department show total Other Account receipts of 2.54 trillion kyat, which is 44 percent of total budgeted revenue, and

²⁰ According to the methodology, public business enterprises are not included in the definition of “government operations” for the purposes of this indicator. Therefore, SEEs are not considered in this analysis.

expenditures of 2.26 trillion, which represents 28 percent of total budgeted expenditure. What is not clear is the distribution of these funds, that is, how much is held in SEE accounts versus line ministry accounts (this is relevant because SEEs are not included in the analysis of this indicator). Still, based on discussions with officials, it seems likely that level of unreported extra-budgetary expenditure of line ministries constitutes more than 10 percent of total expenditure.

Table 10: Other Accounts: Deposits and Withdrawals at the Union and State/Region Levels, April-June 2012 (Kyat, bln)

	April	May	June	Quarterly Total
Union Government				
Deposit	1,216.254	856.009	877.439	
Withdrawal	199.000	505.552	570.487	
States/Regions				
Deposit	1.776	6.137	27.528	
Withdrawal	0.675	2.17	5.68	
Total Revenue	1,218.03	862.15	904.97	2,985.14
Total Expenditure	199.68	507.72	576.17	1,283.56

Source: MEB.

97. Ministries can use the funds in their OAs very freely, though SEEs cannot. Revenue and expenditure from Other Accounts is not shown in the Government's budget data, so it is not known for what purposes ministries use OAs. In the case of MOH, for example, spending decisions are made by each Township Medical Officer. Some share of spending is dedicated to staff remuneration (via a staff welfare fund), as well as supplies and maintenance. It is not clear if there are any guidelines on uses of Other Account funds in MOH. Due to cases of mismanagement of Other Accounts uncovered by the Auditor General, including in MOH, Township Medical Officers are now required to submit to the ministry spending reports, which are then audited by the Auditor General. The Auditor General has identified management of OAs as a source of high fiduciary risk and the issues in MOH are likely to be present in other ministries as well.

98. It is not clear how ministerial income becomes defined as own-source revenue. There are some ongoing discussions between the Government and the Auditor General about how that determination is made and whether there are some cases where own-source revenues should be redefined as normal budgetary revenue. Moreover, not all own-source revenues are necessarily deposited in Other Accounts. In some cases, determined percentages of these revenues are deposited in Other Accounts while the remaining share is deposited in the State Funds Account (SFA). For example, in the case of hospital charges 50 percent are deposited in Other Accounts and 50 percent in the SFA. It is not clear on what basis that allocation of funds was determined.

99. OA fund flows are reported by MEB branches (via Form 5) directly to the Central Bank of Myanmar and not to the MEB's head office, nor to the Budget Department (though the CBM provides a statement on these accounts to the Budget Dept.). The Budget Department thus does not have a consolidated view of the stocks and flows of these funds by budget head. It is important to note that given these reporting arrangements, it would be possible for information on Other Account to be included in the budget. Unlike in many countries where bringing off-budget accounts onto the budget are a major challenge, Myanmar is well placed to significantly reduce the extent of unreported government operations. However, given the current situation, with the level of unreported extra-budgetary expenditure

(other than donor projects) constituting more than 10 percent of total expenditure, this dimension is rated as D.

100. While not extra-budgetary in the sense of this indicator, it is worth noting that there is a class of capital expenditures known as “Special Development Projects (SDPs),” which are managed under the Office of the President and do not follow the normal budget calendar. The allocations and management of these projects is determined by the higher authorities. Some examples of current SDPs include the Yangon-Mandalay highway project, the ASEAN integration project, and preparations for hosting the SEA games.

(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports

101. The other dimension of this indicator analyzes donor-funded income and expenditure included in fiscal reports. Myanmar performs well on the inclusion of external borrowing in regular fiscal reports. The Foreign Economic Relations Department (FERD) in the MNPED is charged with management of all external assistance. The MFR is empowered to borrow, but decisions about borrowing – amounts, sources, ministerial beneficiaries – are made by high level committees involving the President and ministers. External borrowing is reserved only for capital projects and all projects are included in the development plan (as part of the national planning act). The annual budget law contains aggregate levels of capital spending (including loan-financed) by ministry and the aggregate amount of external borrowing by ministry as well. Ministries and SEEs report on external loan movements (disbursements, interest payments, etc.) on a weekly basis to the BD, which compiles a report and provides it to the minister. It is worth noting that the rules governing external borrowing are internal procedures of the MNPED.

102. Grant assistance to Myanmar is managed by the Grant Aid Foreign Assistance Steering Committee, which is chaired by the President with the Minister of MNPED as secretary. Previously ministries with grants had to provide budget estimates to the MNPED for planning purposes. Starting in FY2013/14 ministries are also required to provide grant estimates to the Budget Department during the annual budget process and the budget law includes aggregate estimates of grant revenue and expenditure by ministry. This change was made at the request of the Parliament. Still, the process is new and grant coverage in the budget is presently incomplete, partly because development partners do not always provide estimates of grant funding for the coming fiscal years.

103. Ministries are also supposed to report to the FERD on a monthly basis on their grant revenues and expenditures, but the flow and quality of information is rather uneven, and the FERD does not yet make that information available to the Budget Department. Some in-kind receipts (such as medicines provided by UN agencies) are included in ministry reports on grant receipts as well. The National Planning Act (Annex II) includes projects by sources of funding, including ODA grants. The Ministry of Health, in particular, seems to have a relatively well-developed system for capturing and reporting on donor grants. The fact that the largest share of grant support (about $\frac{3}{4}$ in FY2011/12) is allocated to the Ministry of Health indicates that it is likely that about 50 percent of grant-financed ODA is included (in some form) in fiscal reports. However, it should be emphasized that “complete” information is not included in the fiscal reports and that the quality of these data is likely in need of strengthening, as both projections in budget documents and actual spending amounts in execution reports. NGO financed activities, however, are not reported at all in the government’s fiscal reports.

104. In sum, this dimension is rated as C, given that complete income/expenditure information for all loan financed projects is included in fiscal reports.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) The level of extra-budgetary expenditure which is not included in fiscal reports	The level of Other Accounts, which are not reported in budget preparation or execution, though are recorded by MEB, is larger than one quarter of total expenditure. In addition, there may be extra-budgetary operations in particular sectors (e.g., natural resources) and through particular arrangements (e.g., joint ventures), as well as accounts held outside MEB. Though it is not possible to estimate these other operations, anecdotal evidence suggests they may be significant.	D	The level of unreported extra-budgetary expenditure (other than donor projects) constitutes more than 10 percent of total expenditure.	Financial Regulations, 1986; data tables from MFR and MEB.
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports	Information on external borrowing is included in fiscal reports for all loan financed projects. Management of grant financing is highly uneven and overall relatively weak. The regularity and quality of data from most line ministries is in need of improvement.	C	Complete income/expenditure information for all loan financed projects is included in fiscal reports.	Financial Regulations, 1986; data tables from MFR; and discussions and correspondence with MNPED as well as some development partners.
Overall Score		D+		

PI-8: Transparency of Inter-Governmental Fiscal Relations

105. Myanmar's intergovernmental fiscal system has been in a period of flux since the new constitution was passed in 2008. In operational terms the assignment of functions and finances is evolving. Like with many other budgetary process indicators, the system is not yet fully formed because this is the first full fiscal year in which the new system is being implemented.

106. There is one sub-national government level, comprised of seven states and seven regions (of equal status), in terms of budgetary transfers from the Union Government.²¹ Each state/region is governed by a Hluttaw, or legislature. The new constitution defines to some extent the demarcation of revenue collection and expenditure responsibilities between the Union Government and the state and regional governments, but some provisions have not yet taken effect.²²

107. Some functions are managed exclusively by the Union Government, such as health and education, whose respective ministries have deconcentrated offices in the states and regions. Other ministries, such as agriculture, exist at both the Union and state/regional levels (that is, some state and regional governments directly manage devolved ministries of agriculture in their respective jurisdictions).

²¹ There are also Union Territories, such as the capital, and Self-Administered Areas. For more detail, see the Constitution of the Republic of the Union of Myanmar, 2008, Chapter II., "State Structure," Articles 49-56.

²² See Schedules One, Three, and Five in the Constitution of 2008.

The arrangement is similar for SEEs, some of which exist only at the Union level while others exist at the Union level as well as at the state/regional level.

108. This indicator is not able to be rated, due to the fact that the third dimension cannot be rated (as it assesses the preparation of annual monitoring reports, yet one full year of implementation of the current system has not happened yet). The assessment of the first two dimensions does show that the system for allocating resources to states/regions is neither rules-based nor transparent, and that states/regions do not receive timely, reliable information on their transfers. Moreover, states/regions may and do request supplementary budget allocations. These features make for an inter-governmental fiscal system that is not transparent about how allocation decisions are made and that impedes sound budget planning.

(i) Transparent and rules-based systems in the horizontal allocation among sub-national governments of unconditional and conditional transfers from central government

109. There are no horizontal allocation rules, formulae, or even guidelines for the distribution of Union (central) government resources to sub-national governments (SNGs). The Finance Commission and the Union Parliament discuss and determine annual allocations to sub-national governments based on budget proposals received from the states and regions. The process begins with state/region governments preparing budget proposals, which are reviewed and approved by their respective parliaments (as budget bills), and forwarded to the Finance Commission, which proposes an aggregate transfer for each state/region and incorporates that set of allocations into the Union budget that is submitted to the Union Parliament for approval. The proposed transfers, as well as the final approved transfers, are indicated at the aggregate level, that is, as an aggregate transfer amount to each state/region, disaggregated only by the amount of grants versus loan (ceilings on borrowing authority). The Finance Commission thus proposes state/region budget allocations to the Parliament, which makes the final decision. States/regions are also allowed to request supplementary budgets. In fact, all states and regions have now requested supplementary budgets (for both additional grants and loans) in FY2012/13. It is worth noting that final state/region budget laws are published in local newspapers.

110. The central transfers are calculated based exclusively on estimates of the state/regional level operating deficits (with the exception of the Chin state, which is reported to receive additional grant financing due to its relatively higher poverty level). For each fiscal year an estimate is prepared of expected income and anticipated expenditure, and the resulting deficit is then calculated. For FY2012/13 all fourteen states/regions anticipate budget deficits, necessitating transfers from the Union. For example, the largest deficit (49, 240 mln Kyat) is expected in Magwe while the smallest (4,816 mln Kyat) is expected in Kayar. At the aggregate level fully 88.5 percent of the expected deficits are expected to be covered by grants from the Union Government, with 11.5 percent expected to be covered by loans.²³

111. Though it is not clear how the grant/loan split is determined for each state/region, there may be a correlation between state/region income level and mix of grant/loan support. For example, some states/regions (viz., Sagaing, Yakhine, and Ayeyarwaddy) are receiving 100 percent of the value of their expected deficits in grants, while others, such as Yangon, are expected to rely on Union grants for only 37 percent of their deficit financing, with recourse to borrowing authority to cover the remainder. Thus there may be a broad poverty-influenced guideline in the allocation of grants and loans. Overall, Union grants make up approximately 38 percent of total expected state/regional expenditure in FY2012/13.

²³ Based on the loan ceiling approved in the Union budget, states/regions can contract loans through their local MEB branches. As of October 2012 (i.e., seven months into the FY), no states or regions had yet had recourse to loan financing. Loans from the Union are to be contracted at 4 percent; other terms and conditions have not yet been determined. Outstanding state and regional/district debt obligations (historical) have been assumed by the Union. SEEs under states/regions can also borrow, with states/regions providing the guarantees.

(ii) Timeliness of reliable information to SNGs on their allocations from central government for the coming year

112. Once the Union budget has been approved, the state/regional governments are notified of their allocations. The rules of the system, however, mean that states/regions do not know their final allocations until the Union budget is passed by Parliament, which is typically a few days before the start of the fiscal year. In at least one case, this has resulted in delays in approving a budget at the state level. In FY2012/13 the Shan state was notified of its budget allocation in late March, and the state parliament passed the state budget on April 25, 2012, meaning that the state operated without a budget for nearly a month into the new FY (during which time only salaries could be paid).

(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to selected categories

113. Implementation of the state/government budget follows the same procedures as at the Union level. Each ministry at the state/region government level submits monthly budget reports to the state/region budget office, which in turn consolidates and submits them to the Union Budget Office, and the state/region Accountant General's Office. However, the reporting format does not show expenditure data by functional or economic classification (it only contains very broad fiscal aggregates). Thus, some consolidation of sub-national fiscal data takes place, but there is no evidence of detailed breakdown of the data by functional and economic classification categories.

114. The states/regions are supposed to submit monthly reports within three months after the end of the month, but thus far they are somewhat late (running about 4 months behind schedule). The BD Head Office will prepare annual financial statements for states/regions, but has not yet done so as this is the first year of the new system.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central govt. (budgeted and actual)	There are no horizontal allocation rules or formulae for the distribution of Union government resources to sub-national governments. However, final state/region budget laws are published in local newspapers.	D	No or hardly any part of the horizontal allocation of transfers from central govt. is determined by transparent and rules based systems.	Discussions with staff of the Financial Commission and selected states/regions; MFR reporting templates for states/regions.
(ii) Timeliness of reliable information to SN governments on their allocations from central govt. for the coming year	State/regional governments are only informed of their budget allocations a few days before the start of the fiscal year. It is not clear how reliable state/region budget submissions (bills) are for planning and budgeting purposes.	D	Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable.	Discussions with staff of the Financial Commission and selected states/regions; MFR reporting templates for states/regions.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general govt. according to selected categories	As this is the first year of the new system, no annual reports have yet been produced.	N/A		
Overall Score		D		

PI-9: Oversight of aggregate fiscal risk from other public sector entities

115. One of the likely consequences of a fiscal system in as much flux as Myanmar's is a probable increase in the amount of fiscal risk. In addition to the sweeping changes that have taken place at the political and constitutional level, many material changes have also been made in the operations of SEEs and sub-national governments (SNGs). Broadly speaking, there has been considerable decentralization of fiscal authority to ministries, states/regions, and state economic enterprises, but without all the controls and standards that would allow the "top down" to reinforce the "bottom up" in a positive way. Line ministries hold significant virement powers, for example, and determine their own procurement systems, but are not always subject to clear laws and procedures for implementing their budgets and reporting on the results of their spending. States and regions do not have clarity about the total amount of annual funding available to them. SEEs are now operating under new, more commercial arrangements, but now also have the authority to borrow, yet still have narrow reporting requirements and are not subject to robust central oversight.

116. These major systemic changes increase the likelihood of fiscal risk for four main reasons. First, the internal control environment is still relatively weak. For example, the internal audit function is only now being established in line ministries and the capacity in SEEs varies. Second, the central oversight function is narrow and underdeveloped. Third, there is a lack of a strategic approach to public financial management, with central oversight agency engagement focusing more on low value processes and much less on analysis of results and impact. Lastly, public fiscal information is quite limited, reducing the chances of meaningful public engagement on these issues.

(i) Extent of central government monitoring of autonomous government agencies and public enterprises

117. This dimension assesses the extent to which autonomous government agencies and SEEs submit regular fiscal reports to the central government, the extent to which those accounts are audited, and whether or not the central government produces a consolidated report on fiscal risk. In brief, in the case of Myanmar, SEEs do submit regular reports to the MFR, though those reports tend to be quite limited in terms of the information, data, and analysis provided (autonomous government agencies, as defined in this indicator, are not significant entities in Myanmar). At the same time there is audit coverage of SEEs, though it is not complete. More challenging is the absence of a consolidated fiscal report produced by the central government, indicating that any data that is available from individual SEEs are not treated comprehensively. This analysis thus indicates a C rating, as most SEEs submit fiscal reports to the central government at least annually, but a consolidated overview is missing or significantly incomplete.

118. SEEs provide monthly fiscal reports to the concerned parent ministries, which provide them to the MFR. SEEs do not regularly or usually provide any reporting aside from basic revenue and spending data. SEEs by and large do not appear to set financial targets for monitoring purposes. There is some evidence that some SEEs report against operational targets (e.g., the Myanmar Oil and Gas Enterprise (MOGE) has production, drilling, and income targets), but it is unclear that this practice is widespread.

The MFR also provides a weekly external loan report on disbursements, interest payments, and transfers for SEEs and ministries to the Minister of Finance and Revenue.

119. The new more commercial orientation starting this FY only provides SEEs with 22 percent of their current approved budget. SEEs are authorized, however, to borrow up to 78 percent of their annual approved budget allocations. It is unclear how this rule will work in practice, nor how Government will monitor the fiscal risks that could arise. SEEs operating at the sub-national level can also borrow, subject to approval of state/regional governments, which would provide the guarantees.

120. OAG audits SEE accounts but the annual coverage rate is not known (but is not complete). OAG's method is to sample audit each type of expenditure (recurrent and capital) and assets for each SEE. The OAG reviews SEE internal audit reports (which are not provided to the parent ministries) biannually. OAG also reviews all SEE financial statements every year.

121. One of the major contributors to the C score here is the fact that a consolidated report on total fiscal risk from the point of view of the Union Government is not produced. The lack of such an analysis leaves the Government open to a potentially significant blind spot (for example, as pertains to operational losses, payment arrears, or possibly even debt defaults).

122. Another source of fiscal risk emanates from possible contingent liabilities from public-private partnerships (PPPs). MOGE, for example, has joint ventures (production sharing arrangements) with foreign oil companies, which operate under the foreign investment law, which has just been revised, under the management of the Myanmar Investment Committee. The Ministry of Construction is also reported to have Build-Operate-Transfer (BOT) arrangements for some highways. The Ministries of Transport and Communications are reportedly looking into new PPPs. At present MFR does not undertake regular monitoring of the possible fiscal risks from PPPs. In the absence of a sound, clear legal framework, these few existing and planned PPPs could become a major new source of fiscal risk.

(ii) Extent of central government monitoring of sub-national governments' fiscal position

123. One of the new features of Myanmar's PFM system is the separation of state and regional budgets from the Union budget. As part of this reform, the Union government provides loans and grants to the states and regions. States and regions are thus able to borrow, but only with the prior approval of the Union Parliament. That is, states and regions can only borrow up to the ceiling authorized in either the annual budget law or the supplementary budget law for a given fiscal year. As this is the first full year these provisions are in effect, however, it is not yet clear how they are functioning in practice. The fact that all states and regions requested supplementary budgets (for additional grant and loan financing), however, suggests that there is actually a soft budget constraint in operation. If states/regions overspend in-year then ask for supplemental grants and loans to subsidize their operations, there could be non-trivial fiscal risks developing for the Union Government. Moreover, the fact that the loan terms have not yet been stipulated also adds to the possible risk. However, it is too early to tell whether this is a significant concern or not.

124. The focus of this dimension is not, however, whether SNGs can borrow, or how much, but whether the central government has a firm handle on emerging liabilities from SNGs. Robust monitoring of SNGs' fiscal positions is the tool needed by the central government to monitor and measure this risk, which is what this dimension rates. In Myanmar annual monitoring of sub-national governments' fiscal position is significantly incomplete. States/regions do provide basic revenue and expenditure data to the MFR, but these data are presently highly aggregate and do not provide enough information for the MFR to undertake proper analysis. Nor is it clear to what extent (if at all) the Union Government monitors states/regions' fiscal positions in order to detect possible risks (of operational losses, payment arrears,

debt defaults by sub-national SEEs, etc.). These characteristics would result in a rating of D for this dimension. However, as a full year has not yet passed, the dimension cannot yet be rated.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Extent of central government monitoring of autonomous government agencies and public enterprises	SEEs provide monthly fiscal reports to the concerned parent ministries, which provide them to the MFR. A consolidated report on total fiscal risk from the point of view of the Union Government is not produced. All SEEs do have annual audited accounts.	C	Most major AGAs/PEs submit fiscal reports to the central government at least annually, but a consolidated overview is missing or significantly incomplete.	Monitoring reports from selected SEEs; discussions with MFR and selected SEEs.
(ii) Extent of central government monitoring of sub-national governments' fiscal position	States/regions must get prior approval from Union Government to borrow, but the Government does not yet monitor the fiscal positions of states/regions on a regular basis.	N/A	As FY2012/13 is the first full year of devolved state/region budgets, technically it is not possible to rate this dimension, as it refers to annual monitoring (and a full year has not yet passed).	Discussions with MFR, and selected SEEs and states/regions.
Overall Score		C		

PI-10: Public Access to Key Fiscal Information

125. The Union Government has become more transparent in 2012. The most notable event with regard to the budget process was the publication of the FY2012-13 budget. This new openness is consistent with experience from around the world which shows that broad public engagement in government budget processes can promote improvements in governance and reductions in poverty when people have information, skills, and opportunities to participate. PI-10 measures the first of these criteria, public access to key fiscal information presented in an understandable and meaningful manner.

126. The number of listed elements of public access to information that are fulfilled:

(i) Annual budget documentation

127. The criteria for this element are that (a) a complete set of documents can be obtained by the public through appropriate means and (b) this is made possible when the budget is submitted to the legislature. The Union government did publish a summary of the 2012-13 budget in national newspaper on March 30, 2012. This was accomplished after, rather than when, the budget was submitted to the parliament in January 2012. This is consistent with Article 89 of the 2008 Constitution requiring that the proceedings and the records of the parliament shall be published. In addition, Article 214 requires that the President shall sign the laws passed and enacted by the Pyidaungsu Hluttaw and said signed laws shall be

promulgated in the Official Gazette. There are, however, no constitutional or regulatory requirements that budget proposals submitted to the parliament shall be published.

(ii) In-year budget execution reports

128. The criteria for this element require that (a) within-year budget execution reports are routinely made available to the public through appropriate means and (b) are made available within one month of their completion. Such reports have not been provided to the public during the period under review. There are no legal or regulatory requirements for such publication. The MFR does, however, produce quarterly budget execution reports that are shared with the Financial Commission and Parliament.

(iii) Year-end financial statements

129. The criteria for this element require that (a) statements are made available to the public through appropriate means and (b) are made available within six months of completed audit. Such statements have not been provided to the public during the period under review. There are no legal or regulatory requirements for such publication. The Central Statistical Office does, however, include summaries of budgetary out-turns in its annual Statistical Yearbook. These are reported with a two year lag.

(iv) External audit reports

130. The criteria for this element are that (a) all reports on central government consolidated operations are made available to public through appropriate means and (b) within 6 months of completed audit. Such reports have not been provided to the public during the period under review. There are no legal or regulatory requirements for such publication.

(v) Contract awards

131. The criteria for this element are that (a) the award of all contracts with value above approximately US\$ 100,000 equivalent are published and (b) are published at least quarterly through appropriate means. Contract awards have not been provided to the public during the period under review. There are no legal or regulatory requirements for such publication.

(vi) Resources available to primary service units

132. The criteria for this element are that (a) information for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics) is publicized through appropriate means; and is publicized (b) at least annually, or upon request. This kind of information has not been publicized on a regular basis or on demand during the period under review. There are no legal or regulatory requirements for such publication.

133. Given the assessment above, a score of D is assigned. The Government did not make available to the public any of the six types of information listed above.

Indicator	Analysis	Indicated Score	Framework Definition	Evidence Used
PI-10: The number of listed elements of public access to information that are fulfilled: 1) Annual Budget; 2) In-year budget reports; 3) Year-end financial statements; 4) External audit reports; 5) Contract awards larger than \$100,000; 6) Funding resources to primary service units in at least 2 sectors such as elementary schools and primary health clinics	The government did not make available to the public any of the six types of information listed above.	D	The government makes available to the public none of the 6 listed types of information.	Review of the legal and regulatory framework, supplemented by discussions with the authorities.
Overall Score		D		

3.3 Policy-based budgeting

134. Government targets are more likely to be achieved when budgets are prepared in a manner that is deliberately supportive of government policies. Successful budgets need to be consistent with aggregate fiscal targets, while also ensuring that key sectors and activities receive adequate resources that can be used efficiently to meet policy goals. Such budgets are more likely to emerge when all key members of the political leadership as well as technocrats from the SAOs, ministries, and SEEs are able to participate in an orderly, well informed budget process. This requires an integrated top-down and bottom-up budgeting process, involving all parties, in accordance with a pre-determined budget formulation calendar, with adequate time to review and debate various budget proposals in the context of government policy objectives. This is often best done in a multi-year framework that facilitates planning for the recurrent costs of investment decisions and anticipates the funding requirements for multi-year procurement so that each subsequent budget is supportive of current policies.

135. The budget process in Myanmar is largely guided by prior practice. Although officials have clearly defined roles and understand their responsibilities well, there is little guidance in existing laws and regulations. For the period under review, ministry spending proposals have generally been made independently of any central coordination regarding future resource availability or constraints. Macroeconomic forecasts are not routinely shared with the line ministries nor are they used to help determine aggregate expenditure ceilings for current and future years. Major policy decisions or options are not required to be fully costed in terms of estimates of forward expenditures and are not required to be described in sector strategy documents.

Table 11: Summary of Key Steps in the Budget Process Used in FY2012

	Budget for FY2012-13	Revised Budget for FY2011-12
August	Preparation of instructions and budget estimate forms for the next fiscal year Distribution of instructions and recurrent and capital budget calendars for the next fiscal year	Distribution of requests about the need for revised recurrent and capital budget allocations for the ongoing fiscal year
September	Preparation by SOAs, line ministries and SEEs of revenue and expenditure estimates	Preparation by SOAs, line ministries and SEEs of improved revenue and expenditure estimates
October	Transmission of proposals to MFR and MNPED Negotiations between MFR, MNPED, ministries and SAOs Preparation of draft budget	Transmission of proposals to MFR and MNPED Negotiations between MFR, MNPED, ministries and SAOs Preparation of draft improved estimates
November	Review by Union Ministers for MFR and MNPED Review by Vice President (1)	Review by Union Ministers for MFR and MNPED Review by Vice President (1)
December	Review by Financial Commission Review by the Office of the President Submission to Parliament	Submission of revised budget to Parliament
January-March	Parliamentary debate and modification	Parliamentary debate and modification
End-March	Parliamentary adoption	Parliamentary adoption

136. The Union budget process is decentralized, with the SAOs and line ministries setting their own budgetary ceilings and devising their own expenditure proposals. Budget proposals are organized along administrative lines, by ministry and department, rather than by programs, activities, or outputs. The BD is responsible for collating and consolidating the recurrent budget. It is also responsible for the foreign exchange budget which was still in place in 2012 despite the steps taken toward exchange rate unification in 2012. The MNPED is responsible for collating and consolidating the capital budget. It also reviews all investment proposals prior to entry into the budget.²⁴ The process is hierarchical with five levels of scrutiny before the draft budget is submitted to the Parliament for debate and eventual adoption immediately prior to the start of the next fiscal year. Toward the end of the fiscal year, the authorities devise an “improved” set of budget estimates which are presented to parliament for approval in the form of a supplemental budget. The supplemental budget and the budget for the next year are submitted almost simultaneously. The result is that Parliament is essentially presented with two budgets for their consideration: an improved budget for the fiscal year coming to a close and a new budget for the impending new fiscal year.

137. The budget formation process is expected to begin around August when the Budget Department and the MNPED issue their budget calendars. In the case of the FY2012-13 budget, this initial phase began late due to the various changes associated with separating the Union, state, and regional budgets and the Parliament’s new role. The process of internal review is expected to be conducted in November and December. Parliamentary debate and adoption are expected to take place between January and March.

²⁴ Under the old system, it also reviewed spending plans for construction and for the purchase of capital equipment.

The FY2012-13 budget was received by Parliament on January 17, 2012 and adopted on March 28, 2012. There are more than 20 committees in Parliament, each reviewing the expenditure programs under their jurisdiction. Some budget hearings are broadcast on television.

PI-11: Orderliness and Participation in the Annual Budget Process

138. The orderliness of participation in the budget formulation process is measured by PI-11. The degree of the orderliness of participation will affect the extent to which the budget will reflect macro-economic, fiscal and sector policies. In the case of Myanmar, orderliness is generally high while the degree of participation is increasing.

(i) Existence of and adherence to a fixed budget calendar

139. For the last budget approved by the Parliament, 2012-13, a budget calendar was issued by MFR in October 2011 for the preparation of the recurrent and capital budgets as well as the revised budget. A summary of the key steps included in the budget calendar is also posted on the MFR website²⁵ but it does not include dates. The calendar was supplemented by additional instructions from the MNPED regarding the capital budget.²⁶ The team was not provided with any information regarding a calendar for the formation of the foreign exchange budget. The actors in the budget preparation process knew in advance what their roles would be and they had a general sense of the timing of the different stages of the process. Despite this, in conformance with PEFA evaluation guidelines, this budget calendar is considered rudimentary because it is not formally set out in the applicable laws and regulations. Ministries, SAOs, and SEEs were allowed only three weeks to complete their detailed estimates for the 2012-13 budget due to the transitional challenges described earlier in the report.

140. Based on the analysis above, a score of C is indicated for the first dimension: an annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs little time to complete detailed estimates.

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)

141. The second dimension of the assessment focuses on to what extent clear guidance on the budget process is provided in the budget circular and budget formulation manual, including indicative budgetary ceilings for administrative units or functional areas approved by the cabinet. In the case of Myanmar, this last criterion cannot be met because there is no budget call circular with indicative recurrent and capital expenditure ceilings for ministries, SAOs, and SEEs that were approved by the cabinet or the Financial Commission.²⁷ Instead, the line ministries set their own recurrent ceilings, informed by average cash outcomes from the previous three years and known adjustments to personnel rolls, in negotiation with MFR. Capital expenditure ceilings are set by MNPED but these are not pre-approved by the cabinet. Adjustments are made to these proposals by MFR to ensure that spending allocations are consistent with macroeconomic targets. Changes in the resulting proposals can be made by the Financial Commission prior to submission to the Office of the President and then the Parliament.

142. Based on the analysis above, a score of D is indicated for the second dimension: a budget call circular is not issued.

²⁵ http://www.mofr.gov.mm/dept_bud_04.html

²⁶ The team was not provided with a copy of the documents from MFR and MNPED.

²⁷ As noted in PI-12, the recurrent and capital budgets are determined separately before joint submission to Parliament. There are no legal or regulatory requirements that recurrent and capital estimates should be linked in any way.

(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)

143. The budgets for 2012-13 and the previous three years were approved in the month of March before the April 1 start of each new fiscal year. For example, the budget for 2012-13 was approved on 28 March 2012. A score of A is therefore indicated for the third dimension: the budget was approved before the start of each fiscal year for the last three years. Based on the analysis above, an overall score of C is indicated.

144. Changes made in 2012-13 have significantly enlarged the scope of people who are involved in the budget process. During the period under review, the State Peace and Development Council provided strategic guidance to all levels of government. It also reviewed budget proposals and approved the annual recurrent and capital budget allocations and the subsequent improved allocations at the end of each year. Under that system, the government also operated a foreign exchange budget backed by a dual exchange rate system. As noted in the introduction to this report, the formation of the 2012-13 budget was conducted under a new regime dictated by the 2008 Constitution. Most fundamentally, the role of the SPDC has been largely replaced by the Parliament although the newly created Financial Commission will retain important roles in setting strategy and clearing budget proposals for Parliamentary approval.²⁸ In addition, the new process treats the budgets of the states and regions as being separate and distinct from the central, Union budget, thus enlarging the role and responsibilities of local government.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Existence of and adherence to a fixed budget calendar	For the last budget approved by the Parliament, the budget calendar was not dictated by laws or regulations. Ministries had to rush in order to meet the deadlines.	C	An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs little time to complete detailed estimates.	Summary of budgetary process provided by the authorities, interviews with authorities in MFR and MNPED.
(ii) Guidance on the preparation of budget submissions	No call circular with spending ceilings was issued for the last budget approved by the Parliament.	D	A budget circular is not issued.	Interviews with authorities in MFR and MNPED.
(iii) Timely budget approval by the legislature	The budgets in the last 3 years were all approved before the start of each fiscal year.	A	The legislature has not existed for the past three years, yet a “similarly mandated body” did: the State Peace and Development Council.	Interviews with authorities in MFR and MNPED.
Overall Score		C+		

²⁸ See sections 221 and 229-30 of the Constitution.

PI-12: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting

145. Many expenditure policy decisions have multi-year implications. Those decisions will be successfully executed only when the costs are well aligned with the availability of resources in the medium-term perspective. To make this judgment, the authorities will need multi-year fiscal forecasts of revenues, external grants, and knowledge of how much domestic and external borrowing can be pursued without doing harm to policy goals for inflation, exchange rate management, and debt sustainability. Similarly, recurrent expenditure estimates should be informed by knowledge of the operating and maintenance costs of installed capital.

(i) Preparation of multi-year fiscal forecasts and functional allocations

146. MFR and MNPED do not make forward estimates of any fiscal aggregates beyond the next fiscal year. Line ministries do not receive annual guidance on what to expect in outer years for indicative expenditure ceilings, resource constraints, or expected inflation. MNPED does, however, prepare a five year National Plan that includes a forecast of a few key macroeconomic variables. Based on the analysis above, a score of D is indicated for the first dimension: no forward estimates of fiscal aggregates are undertaken.

(ii) Scope and frequency of debt sustainability analysis

147. The legal and regulatory framework does not require any government office to conduct debt sustainability analysis exercises. The government did, however, recently complete such an exercise in collaboration with the IMF as part of the 2011 Article IV Consultation. The results were published on March 2nd, 2012. A score of B is therefore indicated for the second dimension: a DSA for external and domestic debt was undertaken at least once in the last 3 years before this assessment.

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

148. The Government uses five-year national plans and underlying five-year sector plans. The plans include estimated recurrent and capital costs arranged by administrative units. As there are no forward estimates for fiscal aggregates, costs assigned to administrative units are usually constructed by inflating prior year allocations by expected nominal GDP growth. The plans do not meet the PEFA definition of being costed: the criteria require that costs are arranged by programs and by economic categories within programs with main parameters and assumptions stated. A score of D is therefore indicated for the third dimension: sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure. This limits the ability of planning efforts to influence future budgets.

(iv) Linkages between investment budgets and forward expenditure estimates

149. Recurrent and capital budgets are determined separately before joint submission to Parliament. There are no legal or regulatory requirements that recurrent and capital estimates should be linked in any way. A score of D is therefore indicated for the fourth dimension: budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared. Based on the analysis above, an overall score of D is indicated.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Preparation of multi-year fiscal forecasts and functional allocations	MFR and MNPED do not make forward estimates of any fiscal aggregates beyond the next fiscal year.	D	No forward estimates of fiscal aggregates are undertaken.	Interviews with authorities in MFR and MNPED.
(ii) Scope and frequency of debt sustainability analysis	A DSA was completed in 2011 in collaboration with the IMF as part of the 2011 Article IV Consultation.	B	A DSA for external and domestic debt was undertaken at least once in the last 3 years before this assessment.	IMF, 2011. Article IV Consultation, Country Report 12/104.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	Plan costs are not arranged by programs and economic categories within programs, with main parameters and assumptions stated.	D	Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.	Interviews with authorities in MFR and MNPED.
(iv) Linkages between investment budgets and forward expenditure estimates	There are no legal or regulatory requirements that recurrent and capital estimates should be linked in any way.	D	Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.	Review of financial regulations and interviews with authorities in MFR and MNPED.
Overall Score		D+		

3.4 Predictability and control in budget execution

150. Spending bodies have a reasonable degree of predictability about the resources available to them in terms of the original budget assigned to them for each year. Quarterly limits on spending are set for recurrent spending (though not for capital), but the spending bodies set these limits themselves based on the phasing of their expenditure plans. They do face the risk that if they do not spend these quarterly limits, the unused balance will be removed from their budgets for the year as a whole. But they are in a position to manage that risk by, in the first place, avoiding over estimating and then seeking increases in the limits later in the quarter if necessary.

151. Payment processes are not overelaborated and payments can be made efficiently through the network of MEB branches with a minimum of delay and without centralized vetting from MFR. MEB works with the CBM to ensure that cash is available through its network of more than 300 branches and cash outages have not been a problem in recent years. Total cash held in the branch network is reported daily although consolidation, in effect, only takes place monthly.

152. The situation where transactions involve foreign currency remains more constrained. Requirements in this respect must be identified in advance and additional approval sought when the

payment is due. The processes required can be cumbersome and time consuming adding to difficulties in managing budget execution, although these procedures are under reconsideration.

153. However, the lack of systematic and comprehensive commitment/discharging recording in most spending bodies leaves them vulnerable in predicting and controlling the flow of payments in a cash based budgeting system. Payments may bunch or get carried over to another period or year in an unpredictable way causing additional budget management pressures. Furthermore, the large scale and late timing of supplementary budget approvals made in recent years has meant that provision to address additional pressures or to tackle new initiatives has not been certain until the final few months of the year.

154. Although cash shortages that cause disruption in the flow of payments have been avoided in recent years, this has been partly achieved by the CBM stepping in to buy Treasury Bills when necessary, thereby, in effect, monetizing any cash shortfalls, but also adding to inflationary pressures. As policy changes in the direction of more clearly separating monetary management from public finance management the current lack of effective cash flow and commitment planning systems will need to be addressed. Risks will need to be identified and cash and debt will need to be managed in a more integrated and strategic way than currently happens. Much more of a balance will need to be struck between giving spending bodies predictability and managing the availability of resources. How this is managed in practice is likely to have a profound implication for both predictability of spending bodies in being able to make payments and for the effective operation of control systems generally.

124. The Financial Regulations (FRs), and their related instructions, the OoSa and HtaSa, dealing with transaction control and reporting, are somewhat out of date (last revised in 1986 in the case of FRs). The financial regulations are recognized as being substantially out of date. As such, they do not fully reflect current practice other than in a general way. In addition, there are even older regulations used that deal with specific issues and situations; some of these go back to the 1950s. Their legal status is unclear although they continue to be used as the basis for practice. The finance department in each spending body appears to play a key role in deciding which mix of rules is adopted within its organization. The arrangements are thus somewhat ad hoc, differing from ministry to ministry. Moreover, the regulations are open to interpretation by financial management officials and it is not clear the regulations are well understood throughout ministries and states/regions.

155. But the emphasis is on the controlled processing of transactions and the avoidance of overspending of budget provision rather than broader accountability for the effective use of resources. The lack of linkage between plans and budgets means that expected results are not clearly defined. Classification and reporting systems are focused on identifying the spending unit and the nature of the input rather than the objectives of the expenditure or what it is intended to achieve. The result is that compliance tends to focus on observing technical process rather than the quality of the expenditure in achieving policy goals.

156. Detailed financial management is highly delegated to ministries and spending units at different levels within them. Resources are cascaded down to departments (or SEEs) within ministries and further down to deconcentrated units within local townships in the case of the larger ministries providing services directly to the public. Positions are identified at each level having responsibility for budget execution and for financial management. In itself, delegation in this way is potentially positive and is in line with modern trends emphasizing the empowerment of spending bodies closest to the public or the service they provide to decide best what needs to be done.

157. However, at the moment, this tends to be delegation without the necessary assurance. The lack of centrally defined standards in areas such as payroll management and procurement does not ensure that the processes implemented at the level of the spending bodies observe at least minimum procedures and

controls. In many cases, these minimum requirements are either not defined or the current status of old regulations is not clear. For example, procurement was recently released from central control by the Ministry of Commerce and delegated to spending bodies giving them at the same time a clear instruction to increase the use of open competitive tender. But each spending body was left to develop its own detailed procedures and systems for doing that.

158. There is little feed back to MFR, other than through the reports of the OAG, about the observance of minimum requirements (even where they are defined), variations in the effectiveness of the control regime implemented by individual spending bodies or statistical information such as the value of procurement processed through different procurement techniques. The lack of internal audit in many spending bodies does not give assurance to senior management in ministries that financial systems and processes (not just individual transactions) are being conducted effectively and being adequately enforced. There is also a lack of assurance to those senior managers about the effectiveness of control at lower levels of the resource cascade such as in the deconcentrated units at township level. The OAG indicates that problems often occur at those lower levels, for example, in payroll processing and the avoidance of “ghost workers,” because it is more difficult to achieve adequate separation of duties at those lower levels. The OAG also indicates that significant problems arise with regards to procurement at all levels with regards to both purchasing and the letting of concessions. It is too soon to be able to tell if new delegated arrangements for procurement based on greater use of open competitive tendering have improved this situation.

159. This lack of assurance exposes the control system to risk and unevenness of application. Such risks arise, for example, as reforms take place in the wider aspects of public financial management, but which, nevertheless have implications for the control systems, as senior staff in finance departments come and go and as functions are shared and re-distributed with new units of local government. The challenge remains of achieving an appropriate level of assurance without undermining the beneficial aspects of delegation.

160. With regard to tax policy and administration, there have been some improvements in communicating with taxpayers and in offering recourse to appeal and the process of depositing tax collections into the Union Fund Account is sound. But the predictability of the flow of tax revenues continues to be affected by weak collection systems, the existence of tax incentives and discretionary powers with regards to them applied by different administrative bodies and levels, weaknesses in the compliance management system, and high values of on-going arrears and considerable administrative negotiation surrounding the handling of those arrears. Partly as a result, tax collection has remained very low at around 3-4 percent of GDP in recent years.

161. There is also a lack of assurance with regard to the operation of tax collection systems. Although there have been some improvements in the legal basis of taxation, a comprehensive, modern system of laws and regulations is still yet to emerge. Taxpayer registration is weak and fragmented. There is no central guidance on planning the auditing of taxpayers and fraud investigation which are often applied at local level and not directly controlled by central tax authorities.

162. In summary, spending bodies have reasonable security in planning the implementation of at least their original budgets, but this must now be aligned with the recognized need for stronger commitment and cash flow controls. Basic controls are in place and appear to operate effectively in many spending bodies. However, the control system is under-regulated and is applied with varying standards. There is insufficient assurance to management at different levels about the effective operation of the control systems applied in the areas for which they are responsible.

PI-13: Transparency of Taxpayer Obligation and Liabilities

163. Myanmar's current tax structure comprises 15 types of direct and indirect taxes and customs duties. Various institutions, including the Internal Revenue Department (IRD), Customs Department (CD), and the Ministry of Home Affairs General Administration Department (MOHA-GAD) are in charge of collection of tax revenues. The IRD, CD and MOHA-GAD are centralized departments with operational offices located in townships across all fourteen states and regions. The IRD plays a major role in terms of revenue mobilization, collecting more than 90 percent of total Union Government taxes.

164. The Myanmar tax system dates back to the British colonial regime. Myanmar's socialist period saw the promulgation of the, Income Tax Law (1974), Profit Tax Law (1976), and the Goods and Services Tax (1976).²⁹ However the system was archaic and segregated, with the profit tax applied only to the private sector while the goods and services tax applied to the state sector. Beginning in 1988, the country's transition from a centrally planned economy to a market-oriented one was marked by the emergence of a more modern tax system. In particular, the Commercial Tax Law was enacted in 1990 to replace the goods and services tax and applied to all sectors in the economy. The income tax comprises corporate income tax, individual income tax, capital gains tax and withholding tax, and applies to all types of taxpayers, including SEEs, cooperative societies, foreign investments, partnerships or joint ventures, foreigners, and nationals earning an income. Prior to 2011, a separate profits tax, adopted since 1976, was imposed on certain types of income not covered under the income tax law.

165. In addition, the legal framework that governs both domestic and foreign investments has been developed with major investment laws promulgated, including the Foreign Investment Law, Myanmar Citizens Investment Laws, Special Economic Zone Law, the Dawei Special Economic Zone Law, and sector laws (e.g., the Myanmar Mines Law). The country has signed double taxation agreements with the United Kingdom, Malaysia, Singapore, India, Republic of Korea, and Vietnam.

166. The Government has recently embraced a major overhaul of the tax system. Systemic analysis of equity and revenue impact of the amendments to tax policy, however, has not been conducted. In particular, the Government has not conducted a tax expenditures analysis to measure the revenues foregone due to fiscal incentives and changes to the statutory tax structure. For the tax year starting April 2012 the Government has amended major tax laws with the following changes:

- The profit tax was repealed as it was causing tax cascading.
- The commercial tax was harmonized at 5 percent for most goods and services. However, on luxury goods commercial taxes are higher – with a clear schedule and rates. There are plans to phase out the commercial tax and introduce a value added tax.
- Stamp duty rates were adjusted upward.
- Income tax bands were adjusted and extended to public officials (previously public officials were tax exempt).
- The corporate income tax rate was reduced from 30 percent to 25 percent for resident companies (one rate) while the corporate rate for non-resident companies remains at 35 percent.

(i) Clarity and comprehensiveness of tax liabilities

167. Tax laws and recent amendments are clear about taxable income and activities, bases, rates, and the calculation of tax liabilities. Fiscal provisions for domestic and foreign direct investments are

²⁹ Source: http://www.myanmar.com/finance/dept_ird_06.html

specified in relevant tax, investment, and sector laws. However, a comprehensive, modern tax system is still emerging. For example, a separate excise tax has not been introduced but rather is lumped together with the commercial tax regime.

168. A dedicated set of laws and legislation on tax and customs administration is lacking. Although IRD has been issuing directives for tax administration (especially inspection, assessment) since 1972, there is no comprehensive set of procedures or regulations governing tax administration. The tax base could be eroded and the determination of tax liability ambiguous due to the institutional setting and fiscal incentives embedded in separate legal documents. Tax collection has remained low, hovering at just 3-4 percent of GDP.

169. The Myanmar Investment Commission (MIC), formed in 1994, manages the Foreign Investment Act of 1988 and provides investment privileges including tax incentives under Section X of this Act.³⁰ The Act provides for a generous set of incentives including: (i) tax holidays (minimum 3 years, extendable); (ii) accelerated depreciation with full capital expensing; (iii) double deduction for R&D expenditures, taxes paid to foreign workers, (iv) import duty exemption for machinery and materials, including petroleum.³¹ In case investors desire to obtain further incentives, they can discuss with the MNPED, the MFR, and the MIC. The administrative discretionary power by different institutions in applying multiple tax incentives tends to undermine efficacy, equity, and transparency of the tax system.

(ii) Taxpayer access to information on tax liabilities and administrative procedures

170. A taxpayer service function has recently been instituted, with major improvements since early 2012. IRD has prepared a detailed handout on taxpayers' obligations and liabilities for all taxes under its administration. This flier presents the tax rates, allowances, exemptions, and methods for calculation of taxes. The IRD conducts taxpayer outreach programs during the annual tax filing timeline from April – June. Each township office of the IRD is responsible for establishing a public relations unit. The unit is responsible for organizing tax education events including radio programs, workshops, and seminars, and conducting tax awareness campaigns, especially when there is new change in tax policy/procedures. While this role is undertaken by tax officers, no specific or extra training is provided on how to exercise this function. Tax forms are available for download from the Department's website or obtained from public relations units. Both the IRD and CD prepare pamphlets, conduct radio programs, and have established a hot-line to answer taxpayer questions.

171. Since 2012, the pamphlets have been designed systematically and uniformly at the headquarters, replacing the previous ad hoc practice done by public relations units at township level. The IRD has recently started publishing a *Revenue Journal* that informs on tax news, tax knowledge, and features articles on taxation. However taxpayer service is still new to revenue agencies and has to be strengthened. At the current stage, the service covers mostly large taxpayers and will need to reach out to small and medium businesses. The tax culture and compliance of these businesses remain particularly weak, reflected in low level of compliance.

(iii) Existence and functioning of a tax appeals mechanism

172. Tax appeal procedures are laid out in major tax laws, specifically the Income Tax Law and Commercial Tax Law. There are three appellate levels. The first appellate level is the responsibility of the Regional and State Revenue Directorate. The second level of appeal resides with the Revenue Appellate

³⁰ Source: <http://missions.itu.int/~myanmar/t&b/invest01.html>.

³¹ Source: <http://www.yomabank.com.mm/business/CC3.htm>.

Tribunal (RAT), a dedicated function at the MFR. The RAT, operating since 1954, is independent of the IRD and includes members from the Supreme Court and the Ministry of Justice. If taxpayers remain unsatisfied, they can request the RAT to refer the case to the Union Supreme Court, the third, and final, appellate level.

173. While the appeal mechanism is clearly defined, the treatment tends to be biased against taxpayers. They have to pay their assessed tax liability in full before making the case for appeal. If taxpayers win appeal cases, in income tax, e.g., a refund will be used to credit for the next year's tax liability without any interest earned on the assessed refund. Tax laws do not specify the deadline that each level of appeal has to reach its decision on the pending cases. Interviews with the IRD indicated that the revenue administration's rate of success is about 50 percent. The non-systemic treatment of taxpayers in appeal combined with the low level of compliance may attribute to the low, declining number of appeal cases: from 234 in 2008 to just 25 cases in 2010.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Clarity and comprehensiveness of tax liabilities	Legislation and stipulated procedures for the major tax instruments are comprehensive and clear, but the fairness and consistency of the tax system is compromised due to the absence of a dedicated set of tax and customs administration laws and due to substantial discretionary powers of multiple government entities involved in granting tax incentives. The incentives are provided in various legal documents including major tax, investment and sector laws. Tax revenue collection remains low.	C	Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved	Income Tax Law (1974), Profit Tax Law (1976), Myanmar Foreign Investment Law (1988), Goods and Services Law (1976) – all as amended April 30, 2012
(ii) Taxpayer access to information on tax liabilities and administrative procedures	Taxpayer service function has been instituted and improved since early 2012. Taxpayers seem to have easy access to comprehensive, user friendly and up-to date information on tax laws and administrative procedures for major taxes. However, the taxpayer service function needs to be substantially strengthened to reach out to micro, small and medium businesses.	B	Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited.	Taxpayer outreach program and published pamphlets for calculating taxable income

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(iii) Existence and functioning of a tax appeals mechanism.	The tax appeals procedures are transparently defined in major tax laws with three separate appellate levels. The second appellate level is referred to the Revenue Appellate Tribunal, which is independent of the revenue administration. The effectiveness of the appeal process is substantially limited, however, due to both its non-systematic treatment of taxpayers in case they win and the relative ease of direct negotiation on assessed tax liability between taxpayers and tax collectors at the township levels.	C	A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.	Income Tax Law (1974), Profit Tax Law (1976), Goods and Services Law (1976) – all as amended April 30, 2012
Overall Score		C+		

PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

174. All resident citizens, resident foreigners, corporations earning income and/or taxable proceeds of sales, engaged in trade and certain types of services have to register, file returns, and pay their taxes due. Registration takes place at the township level with stipulated form. Currently in total there are 200,000 taxpayers registered in the system, representing about 0.4 percent of the population.

(i) Controls in the taxpayer registration system

175. Registration takes place at the township level. The IRD establishes annual targets for the registration of new taxpayers. A taxpayer is required to register information including name, nature of business, address, and national identification number and is then issued a General Index Registration (GIR) number. The IRD has commenced deployment of a bespoke e-Revenue system which would incorporate information on registered taxpayers, tax returns, and GIR numbers. However, at the present, no unified master taxpayer database has been established. As currently constituted, the IRD is organized by tax types and each tax-type directorate holds an individual list of its registered taxpayers.

176. The GIR is semi-automated and issued as a serial number without any links to other government databases. The number is used only within a specific geographical area. It is not unique and can be duplicated across regions and tax-type directorates. The same taxpayer may have multiple GIRs if she/he operates different types of businesses in different regions. As such the GIR is not an effective control mechanism and fails to facilitate communication with third parties. The IRD recognizes the shortcomings of the GIR and is considering the introduction of a unique tax identification number (TIN) system.

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

177. The IRD applies an administrative assessment system. The process is as follows: (i) the taxpayer files a tax return and presents her/his financial accounts to the IRD; (ii) IRD calculates the tax liability

and issues a “chalan” (tax summon) to the taxpayer with a 3 week deadline for paying the tax; (iii) if the taxpayer agrees with the tax assessment then she/he settles the tax liability by paying directly at the designated bank (an office of the MEB), keeps one copy of the chalan for own file, and returns a copy of the chalan with the bank payment validation to the IRD; (iv) in cases where the taxpayer disputes the tax assessment she/he can start an appeal process as stipulated in the relevant tax laws – however the assessed tax must first be paid. There are three levels of appellate available to a taxpayer: first level at the Regional and State Tax Directorate within the IRD; the second level with the Revenue Appellate Tribunal; and the third with the Supreme Court.

178. Tax laws establish transparent and strict terms applicable to non-compliance and tax evasion in dedicated chapters dealing with offences and penalties. The penalties vary, from financial (payment of fines) to administrative (confiscation of business properties or imprisonment). The offenses as stipulated in tax laws are comprehensive, covering all types of non-compliance (e.g., failure to register, later/non-filing; late/non-payments of taxes due; falsification of sales/purchases; and giving or taking bribes). For example in the case of commercial tax, if a taxpayer does not respond to the chalan, the applicable tax laws allow the revenue agencies to impose a penalty of 10 percent on the tax amount due. The taxpayer is then provided a deadline of two to three weeks to respond. In case the taxpayer does not respond to the tax penalty chalan, then the tax laws allow the IRD to go to court for confiscation of property and closure of business. The property can be auctioned. This is the system, but in the past, the IRD never resolved to confiscation of property as the previous government did not encourage the IRD to pursue this route. From this fiscal year, the IRD and CD have significant leeway in effectively enforcing the system. However, extremely low compliance indicates that revenue administrations remain reluctant to enforce the power conferred to them by the law. The latest tax filing data show the compliance reaches just 29 and 33 percent for income and commercial tax, respectively. The rate remains far from satisfactory, even for large taxpayers, administered by the Company Circle Tax Office (CCTO, Yangon), with a total aggregate filing compliance of only 67 percent for Myanmar enterprises, foreign enterprises, and joint ventures.

179. By nature, administrative assessment confines audit to its most rudimentary form and places excessive reliance on fraud investigation as the main instrument in enforcement. Under this system, taxpayers are required to file their taxable sales or net income and the tax administration is responsible for reviewing and assessing the tax liability. If in doubt, the IRD will request the taxpayers to submit supplemental documents to justify the reported sales and income. If the township tax offices suspect any falsification, they can send other rank staff to conduct field inspection and tax liabilities can be determined on the field report. Given the procedures, tax audit amounts to 100 percent simple desk review. In customs administration, the CD’s investigation unit is responsible for checking the importer declarations. Inspections of assignments are conducted on an ad-hoc basis. If fraud is found, penalties are imposed and the CD informs both the MNPED and the Ministry of Commerce which in turn may decide to cancel the import permits and put the importers on a black list.

180. Efforts are being made to increase the number of registered taxpayers. The IRD establishes annual targets for the addition of new taxpayers. However, due to a combination of several factors, including the application of administrative assessments leading to unavoidable direct negotiation and bargaining between traders and tax collectors, weak capacity of revenue administration, and the lack of central manuals or guidance on survey methodologies to identify potential taxpayers, many micro/small businesses have incentives to stay in the informal sector and the IRD is unable to capture them in the system.

(iii) Planning and monitoring of tax audit and fraud investigation programs

181. Both the IRD and the Customs Department have not prepared a comprehensive set of guidelines or manuals for auditing. In practice, the concept of risk based auditing is not yet practiced. In addition,

administrative assessment with overreliance on field inspection creates significant room for taxpayer-tax collector interactions and associated rent seeking opportunities. The IRD intends to switch to a Self-Assessment System together with introduction of unique taxpayer identification number (TIN) and risk based auditing, and is currently exploring how to make this transition.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Controls in the taxpayer registration system	Registered taxpayers are issued General Index Registration (GIR) Numbers. The GIR is not unique across regions and tax-type directorates. Taxpayers operating multiple businesses in different regions may have multiple GIR Numbers. The database is not linked to any other government database systems and is not communicated with third party. A master taxpayer database has not been established. There is an absence of central guidelines for systematic periodic surveys to detect potential taxpayers.	D	Taxpayer registration is not subject to any effective controls or enforcement systems	IRD staff discussions on the General Index Registration system
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	Offences and penalties in compliance with taxpayer registration, filing and payment, and integrity of tax administration are well defined in tax laws. Non-compliance is subject to various statutory financial and administrative penalties. However, substantial improvement in administration and enforcement is needed to give them real impact. Administrative assessment creates opportunities and incentives for direct negotiation between taxpayers and tax inspectors, rendering legal provisions on tax penalties and offences ineffective, reflected in low compliance.	C	Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance.	Income Tax Law (1974), Profit Tax Law (1976), Goods and Services Law (1976) – all as amended April 30, 2012

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(iii) Planning and monitoring of tax audit and fraud investigation programs	There is no central guidance or planning on auditing and fraud investigation, leaving township offices with discretion on conducting enforcement measures. Tax audits amount to 100 percent simple desk audits. The IRD and CD have not prepared uniform guidelines or manual on auditing and fraud investigation. There is an absence of risk based auditing while fraud investigations are undertaken on an ad hoc basis.	D	Tax audits and fraud investigations are undertaken on an ad hoc basis if at all.	IRD staff proclamations and discussions with staff of the compliance management system
Overall Score		D+		

PI-15 Effectiveness in the collection of tax payments

184. Tax collection enforcement is weak even though the tax laws sufficiently establish clear definitions of offenses, provisions for penalties and enforcement processes (e.g., 10 percent penalty of tax due, confiscation of property, auction of assets to recoup tax liability, and imprisonment in serious fraud cases). The IRD assesses taxes and issues tax summons. However, under the previous administration, the penalty and recourse mechanisms available under law were not applied in cases where the taxpayer failed to respond. The new administration has empowered the IRD to follow up with taxpayer more systematically and apply sanctions as needed to collect tax due. It is however too early to determine how the enforcement practice has changed, given the data on collection of taxes and arrears.

185. To strengthen customs administration, Myanmar has adopted the Harmonized System (HS) codes for classifying goods and uses reference prices to determine import duties. For second hand goods the CD also maintains a list price against which it cross-checks the declared prices. The CD allows for bonded warehouses and temporary import of goods for expositions and stated reasons (as per ASEAN agreements).³² Prior to the exchange rate unification, import duties were collected in foreign exchange and reflected in the local currency at the official exchange rate. With exchange rate unification, the rate has been adjusted upward to the daily official rate notified by the CBM.

(i) Collection ratio for gross tax arrears, being the present of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

186. Neither the IRD nor the CD has yet introduced an arrears management system. In particular, the agencies do not conduct rigorous analysis of tax arrears or prepare effective arrears management plans in which efforts can be targeted to arrears collection on the basis of systemic, well-defined classification of arrears by tax type, age, and taxpayers. The aggregate level of tax arrears have not been reduced over the past three years and remain high at about 100 billion Kyats (representing 8 percent of total tax collections in 2010).

³² Source: http://www.myanmar.com/finance/dept_customs.html

187. The arrears collection of the two main taxes, income and commercial, shows the persistent low performance. Income tax arrears collections during the year as a share of total tax arrears at the beginning of the year stand at just 62 and 52 percent in 2009-10 and 2010-11, respectively. The collection of commercial tax arrears in the respective two years is much less effective at 24 and 26 percent.

Table 12: Arrears collection, major taxes, 2009-2011

	Income Tax		Commercial Tax	
	2009-10	2010-11	2009-10	2010-11
Beginning of the year (million Kyats)	31,929	29,056	46,736	49,019
Collected during the year (Million Kyats)	19,691	15,194	11,063	12,878
Collection ratio	62%	52%	24%	26%
Average	57%		25%	

Source: Internal Revenue Department

188. There are also substantial arrears on import taxes collected by customs. Under the Special Orders for Rapid Clearance (SORC) procedures, the CD can clear imported goods³³ before importers settle their import duties. Government departments that import goods often ask private sector importers to bring in the goods and issue the documents that trigger the SORC procedures. The goods then get cleared without import duty being paid up front. In some cases, government agencies simply do not have the money to pay for the import duties, so arrears accrue. Customs arrears in 2010 were 14 billion Kyats. This is significant accumulation of arrears, accounting for 26 percent of the total customs duties collected in the same year.³⁴

(ii) Effectiveness of transfer of tax collection to the Treasury by the Revenue Administration

189. The IRD and CD do not have control of the monies collected. Both departments follow normal financial management procedures for government agencies. Collections by the CD in foreign exchange are remitted to MFR at the official exchange rate. Neither IRD nor the CD maintains any accounts outside the MEB – all revenue collections are banked by taxpayers into these accounts and no cash is accepted as payment for taxes. These bank accounts are controlled by the BD and cross checked with the tax summons. Revenue departments are responsible for providing collection reports to the BD on a weekly basis.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrear records and receipts by the Treasury

190. Arrangements for banking tax collections into accounts controlled by the BD are largely sound. The IRD, CD, and MEB have a built in facility to reconcile tax assessments, collections, and transfers. Discussions with the OAG confirm that there is reconciliation of tax collections with tax summons --- and the annual report is also submitted to the OAG and subject to audit. Reconciliation of tax assessments, collection, receipts, and arrears records (between records of the IRD or CD and the MEB) is conducted monthly. Final, complete reconciliation is normally done within two weeks of the end of the fiscal year.

³³ Criteria for rapid clearance include provisions for the following goods: (i) perishables; (ii) goods immediately required by Government; (iii) live animals; (iv) dangerous and hazardous materials; and (v) medicines, pharmaceuticals, and goods requiring refrigeration.

³⁴ The calculation is based on data by the CD.

191. Monthly reconciliation of tax assessments, collections, arrears and transfers to the BD is conducted by the revenue departments upon receiving the bank account statements from the MEB. Final and complete reconciliation takes place annually, usually within 2 months of the end of the fiscal year. The OAG also audits tax collections and reconciliation reports annually.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Collection ratio for gross tax arrears, being the present of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	The stock of arrears has been relatively constant over the last 3 years at high level of about 100 billion kyats, or 8 percent of the total tax collection. Enforcement in arrears collection remains weak. The average rate of arrears collection in the two main taxes, the income and commercial taxes, respectively reached just 57 percent and 25 percent over the past two years, 2009-2011.	D	The debt collection ratio in the most recent year was below 60% and total amount of tax arrears is significant (i.e. more than 2% of total annual collections).	Data on arrears from the IRD and the CD
(ii) Effectiveness of transfer of tax collection to the Treasury by the Revenue Administration	From the regulations all tax collections are transferred to the Treasury through the IRD and CD accounts opened in the MEB on a daily basis. These bank accounts are controlled by the BD and cross checked with the tax summons. Revenue departments are responsible for providing collection reports to the BD on a weekly basis.	A	All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.	Financial Regulations (1986) and discussions with the MEB on the actual practice
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrear records and receipts by the Treasury	Monthly reconciliation of tax assessments, collections, arrears and transfers to Treasury is conducted by the revenue departments upon receiving the bank account statements from the designated bank, the MEB. Final and complete reconciliation takes place annually – within 2 months of the end of the fiscal year. The OAG also audits tax collections and reconciliation reports annually.	C	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least annually within 3 months of end of the year.	Discussions with the MEB and the OAG
Overall Score		D+		

PI-16: Predictability in the availability of funds for commitment of expenditures

192. Budget allocations (sanctions) are distributed on a highly delegated basis to relatively low levels of the organization. The allocations to ministries and departments within them are fixed by the estimates presented to Parliament. Departments, where appropriate, cascade the sanctions down to the level of their deconcentrated units in townships. Although ministries and departments within them are required to provide detail of their estimates down to economic classification (minor heads and sub-heads) and these are provided to Parliament in the form of a detailed budget book, the detail at this level is not subject to Parliamentary approval. The BD receives monitoring reports from the budget holders within ministries down to this detailed level, but only intervene if estimates for certain sub-heads considered sensitive (such as travelling expenses) threaten to be exceeded. Information at this detailed level comes from the accounting records of the individual budget holders and is not held centrally.

193. MEB is advised of sanctions down to the level of the organizational unit that holds the budget sanction and only distinguishes between capital and recurrent. It holds no detail below that. It will meet the checks issued by the budget holder provided that they do not cause the sanction held at that aggregate level to be exceeded.

(i) Extent to which cash flows are forecast and monitored

194. There is no organizational unit or function established for cash flow monitoring. In estimating borrowing requirements, broad estimates are made of cash needs based on the level of budgeted deficit and past patterns of expenditure. Individual budget holders at each level are required to estimate their cash needs a quarter in advance (for recurrent only, capital is not required). These are provided to MEB and become quarterly limits that may not be exceeded. If they are not used, the resources are lost to the budget holder for the year as a whole (acting as an incentive not to overestimate their needs). But these quarterly estimates, or any data about the timing of large payments, are not aggregated into an overall cash plan quarter by quarter.

195. However, the lack of cash planning does not appear to have acted, in recent years, in such a way as to disrupt the spending plans of budget holders or caused MFR to intervene in the flow of expenditure. This is because the CBM, if necessary, has stepped in to take up Treasury Bills and thereby effectively monetize the cash deficit. While this will have an effect on monetary management and inflation in particular, it has tended to shield budget holders from changes in their ability to spend the approved budgets due to cash constraints.

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

196. Budgets are issued in good time with sanctions being notified to ministries and departments within them before the start of the new financial year.

Table 13: Dates of Budget Law Approval and Sanction Issuances, FY2009-10 – FY2012/13

	2009/10	2010/11	2011/12	2012/13
Budget Law Approved	30/03/09	22/03/10	27/01/11	28/3/12
Sanction issued	30/03/09	29/03/10	28/03/11	29/03/12

Sources: Budget laws and Budget Department.

197. MEB has confirmed that the more detailed cascade down to townships, together with the quarterly drawing limits), is normally completed for the first quarter by the end of April at the latest. In effect, the full budget is issued to budget holders at the start of the year. The constraints of quarterly limits are based on the estimates of the budget holders themselves. An element of uncertainty derives from the possibility of having unused sanction at the end of each quarter taken away, but, to a large extent, this is within the hands of the budget holder and they generally manage to avoid such constraints.

198. Although they are under reconsideration, supplementary controls are still in place in relation to transactions that require foreign currency. These must be estimated in advance and act as supplementary limits. Variation in those limits is subject to a procedure that can be cumbersome and take considerable time.

199. Each ministry and department set their own quarterly spending limits and can commit expenditure accordingly, indicating an A for this dimension. However, changes in the supplementary budget are substantial and have been very late in recent years, undermining the credibility of in-year information on ceilings (but these effects are already captured in PI-1 and PI-2, and so are not considered in the rating of this dimension).

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

200. Budget holders have considerable flexibility in moving money around at the minor head and subhead level and appear to exercise this discretion. Restrictions are placed on only some sub-heads (such as travel expenses). But except in very exceptional circumstances, changes in budget limits above this level are focused through a once a year supplementary budget. While changes may be made as the supplementary budget proceeds for approval through the Minister of Finance and Revenue, cabinet, and then the Hluttaw, the process for identifying required supplementations and discussing the need for them appears to be transparent between the budget holder and BD.

201. However, both the timing and the scale of changes in the supplementary budget cause a problem for the predictability of resources available to budget holders (Table 14). In FY2009-10 and FY2010-11 the sanction allowing spending bodies to spend was issued following cabinet approval and before the law had been passed by the Hluttaw. However, in 2011/12, this did not take place and will not take place in 2012/13 although MFR is trying to speed up the processing of the law. Even if they are able in part able to anticipate the supplementary provision, the scale of change and the late confirmation of amount seriously undermines the predictability for spending bodies of being able to spend the supplementary funds requested. The late issue of the sanction in 2011/12, in particular, led to the buildup of arrears as budget holders retained invoices that they could not process for payment. Nevertheless, MEB confirms that all arrears were cleared before the year end.

Table 14: Dates of Supplementary Budget Law Approval and Sanction Issuance, FY2009-10 – FY2011-12

	2009/10	2010/11	2011/12
Date Supplementary Budget Law Approved	12/03/10	25/01/11	24/02/12
Date supplementary Sanction issued	21/12/09	06/12/10	24/02/12
<i>Memo item:</i>			
Total amount of supplementary in relation to original budget	+22%	+28%	+16%

Sources: Supplementary Budget Laws and Budget Department.

202. In the past, the lack of a well-developed cash planning function had not acted to undermine the ability of budget holders to plan and execute their budgets as originally approved. However, as monetary management receives more emphasis as Myanmar's economy becomes more open, the need for cash management within the public service will become more important. The way in which tighter cash management is introduced is likely to have profound implications for the predictability with which budget holders will be able to execute their budgets. To this extent there is interplay between the first and second dimensions. Focusing supplementation on a once a year review is not, in itself, a bad practice, but the timing and scale of change that has happened in recent years seriously undermines both the credibility of the original budget and the predictability for deploying the funds sought.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Extent to which cash flows are forecast and monitored	The in-year estimate of cash flow requirements is of a rudimentary nature and lacks connection to the undertaking of spending commitments.	D	Cash flow planning and monitoring is of a poor quality.	Budget Laws Supplementary budget laws Discussions with BD, CBM, and MEB; and some budget holders
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	Each ministry and department set their own quarterly spending limits and can commit expenditure accordingly, indicating an A for this dimension. However, changes in the supplementary budget are substantial and have been very late in recent years, undermining the credibility of in-year information on ceilings (but these effects are already captured in PI-1 and PI-2).	A	MDAs are able to plan and commit expenditure for at least six months in advance in accordance with budgeted appropriations.	Financial Regulations, OoSa and HtaSa. Timing and scale of supplementary provision.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	Supplementary provision is focused on a single annual supplementary budget law. The process is transparent and follows the same principles as the annual budget process.	A	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.	Supplementary budget laws and Financial Regulations.
Overall Score		D+		

PI-17: Recording and management of cash balances, debt and guarantees

203. The CBM and the BD maintain records of internal and external debt respectively, but separately. External debt raised to fund specific public services is recorded against that service and interest is charged accordingly to that service. The CBM acts as Government's banker, but individual transactions are processed through the branches of MEB, a Government-owned and controlled bank. The CBM releases cash to MEB to fund those transactions as necessary.

(i) Quality of debt data recording and reporting

204. Separate records are maintained of individual debts for domestic debt on the one hand and foreign debt on the other. Both sets of records are maintained on a manual basis. The debt records include both stock and servicing information and the usual information about each specific loan records including the creditor concerned. External debt records also include information on the proceeds conveyed onwards to the spending bodies funded. Both sets of records appear well maintained within the limits of manual recording. No significant issues or problems appear to have been identified by the OAG who has access to both sets of records.

205. Regular quarterly reports are made concerning the stock and movements of internal debt. Copies are made available to senior management in MFR and to the OAG. Reports concerning external debt are produced on an ad hoc basis as and when senior management requires. There is no consolidated reporting and analysis of the debt stock as a whole. Summaries of debt stock and movements are not made publicly available. There is no regular process for reconciling stock records with creditors, but ad hoc exercises take place from time to time.

(ii) Extent of consolidation of the government's cash balances

206. There is a general rule that no bank accounts may be set up by Government bodies outside the umbrella of MEB. This and the procedure for establishing an account with MEB are set out in the OoSa/HtaSa guidelines. Deployment of non-budget resources, such as Other Accounts, must be carried out through parallel MEB accounts and movements are reported in the Government's financial statements.

207. MEB discharges payments authorized by spending bodies and receives revenue through a network of more than 300 branches. It is in the process of trying to computerize its systems, but this has only been partially completed across part of this network (30 branches at the time of review) and is said to

be taking a long time. As systems remain largely manual, there is no process of automatic overnight consolidation of balances. However, the MEB head office requires daily notification of balances held in each branch and reports the total to the Minister of Finance and Revenue. There is a monthly process within MEB of setting off balances between the center and its branches that mops up surpluses and effectively consolidates the balances. The MEB head office reconciles the balance at the month end with CBM and if government accounts at MEB are in deficit, the CBM transfers funds from the Union Fund account to replenish the MEB account.

208. MEB provides data with regard to both on-budget and off budget cash balances to the CBM that then produces consolidated statements of cash balances on a monthly basis. But due to reconciliation problems, it usually takes around 3 months for these consolidated statements to be finalized. In the meantime, MEB draws down further cash from the CBM on a monthly basis as required and provides cash to each of its local branches for the coming period. MEB gives more frequent (weekly) summaries of foreign exchange balances. This does not include, however, any exchange held in overseas bank accounts other than MEB's account in Singapore.

209. The CBM produces an annual assessment of consolidated cash needs, based on broad aggregates (such as the average spending pattern in the last 3 years and planned level of deficit). This assessment has no detailed link to the phasing of budget expenditure planned by spending bodies. It is updated as monthly actual cash flow figures are known. Previous practice has been for the CBM to provide cash to fund budget expenditures drawn down by MEB, buying Treasury Bills as necessary (effectively monetizing any deficit). MEB calls down cash amounts monthly from the CBM. It derives an estimate of cash requirements for the month ahead based on past expenditure patterns and talking to key departments about large spending projects.

(iii) Systems for contracting loans and issuance of guarantees

210. A total ceiling for new and replacement debt is included in budget documentation and subject to approval by the Hluttaw. The ceiling is a single aggregate figure encompassing both domestic and foreign debt and was 2.6 trillion kyat for FY2012-13. Individual large loans or tranches of loan require specific Parliamentary approval. The raising of loans or granting of guarantees other than through MFR and within debt ceilings is. This includes loans proposed by both SEEs and sub-national governments.

211. The debt ceiling is promulgated by the Finance Commission, but there is no regular production of a debt strategy or some similar form of analysis underpinning it. There has been some recent work on risk management and debt profiling with the assistance of the IMF, but this is not part of regular systems. As a broad rule of thumb, policy is to raise 40% of cash requirements through bills and 60% through bonds.

212. Processing of new or replacement debt issuance by the CBM and BD appears to be conducted effectively although manually. It does not follow modern practice based around separating front, middle, and back office functions.

213. The disbursement procedures work reasonably efficiently on a decentralized basis. Some visibility is created of balances of cash (daily), internal debt (quarterly) and external debt (as required). But these are produced separately and there is no integrated reporting or overarching strategy for cash and all forms of debt with the aim of making the best use of cash balances and minimizing borrowing costs. Consolidation of cash balances is only undertaken on a monthly cycle and with some considerable problems of reconciliation between the CBM and the MEB. Debt recoding and issuance works reasonably effectively at a basic level, but the manual processes involved would be severely stretched by any significant increases in volume or variety in transactions.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Quality of debt data recording and reporting	The records kept appear to cover all debt, but are on a manual basis and not subject to systematic regular checking back with creditors. Summary reports are produced for internal debt but not given wide distribution. Reports of external debt are produced on an ad hoc basis.	C	Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content.	Viewing of manual records kept by CBM and MFR. Discussion with CBM and MFR.
(ii) Extent of consolidation of the government's cash balances	Cash balances are calculated daily, but only consolidated monthly. Reconciliation between CBM and MEB takes place monthly, but is often delayed for around 3 months while problems are sorted out. (But bank balances are all controlled through MEB and, in effect, consolidated monthly.)	C	Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances.	Discussion with BD, CBM, and MEB; OoSa and HtaSa regulations.
(iii) Systems for contracting loans and issuance of guarantees	Under the new constitution all public sector bodies are required to process loans through the center and proceeds are passed from the center to the initiating body. This is carried out within an overall debt ceiling approved in the budget. Although manual debt issuance, servicing and recording are well maintained.	B	Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity.	New constitution. Discussions with the BD.
Overall Score		C+		

PI-18: Effectiveness of payroll controls

214. There is no centralized payroll. Each spending body is required to develop its own system, but must discharge the payroll through MEB by issuing a payroll list. Some spending bodies have computerized the payroll calculation and preparation function, though most are still manual. A mixture of payment by check for the gazetted officers and cash for more junior staff is used.

215. There is no standard system or central process for quality assuring the systems that spending bodies put in place. The financial regulations do not specifically address payroll management and there is also no centralized payroll related regulations governing this area. But each ministry appears to have its own internal regulations setting out, for example, who is authorized to make adjustments, forms to be used, methods of payment, etc. In the four ministries seen, the internal regulations used appear to be similar and of long standing, perhaps due to the existence of old regulations that date from the 1950s pre-dating the current financial regulations. The status of these old regulations is not clear, but common ancestry may explain certain common features in the individual ministry regulations.

216. Given the lack of centralized systems and lack of central control over the processes of individual spending bodies it is only possible to make a general assessment based on discussions with a sample of four line ministries and their SEEs engaged through the PEFA technical working group.

(i) Degree of integration and reconciliation between personnel records and payroll data

217. Those ministries with computerized payroll systems use the systems to record both personnel and payroll records. Those with manual systems rely on the generation and authorization of manual payroll lists produced by the spending body and reauthorized regularly by the senior management of the spending body.

218. There is a separate establishment control process by which both MNPED and MFR receive, approve and record agreed establishments and establishment changes for individual departments and administrative units. This system is largely paper based although some ministries use spreadsheet systems. There are no centrally generated checks of payroll against these establishment records or that correct grade rates, allowances etc. are being paid. Instead, there is reliance by the center on budgetary limits for controlling staff related payments.

(ii) Timeliness of changes to personnel records and the payroll

219. Although each ministry has its own system, each of the four ministries represented on the PEFA Technical Working Group has a set timetable for handling changes. Changes occurring before a set date in the month are processed for the payroll at the end of the month. Those arising later in the month are generally processed in the next month. Emergency arrangements are available where circumstances justify late adjustment in the month. The cutoff date appears to be different for different ministries, but the process is much the same.

220. What appears to be a common practice of requiring positive confirmation of the payroll list from the senior management of the spending body concerned (generally at department level within ministries) provides a degree of assurance that changes have been captured. Although changes are sometimes missed, the OAG does not indicate this as a major cause of concern.

(iii) Internal controls of changes to personnel records and the payroll

221. For the four sample ministries a degree of internal check is imposed by separating the authorizing of payroll lists (or updating of computerizing personnel records) from payroll processing. But this separation of duties is not backed up by regular independent checks to ensure that both personnel records are up to date and in line with the payroll processed. Documents for making changes are defined and an adequate audit trail is generally maintained.

222. However, the OAG confirms that he finds many problems particularly where payroll activity is conducted at the township level (which includes most of the staff for the big deconcentrated ministries such as health and education). Here, the lack of and variations in the quality of financial management staff makes it difficult to achieve the necessary degree of separation of duties and necessary checks and balances.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

223. There is an absence of internal audit in the line ministries (other than in SEEs where the OAG considers those units to be variable in quality and generally weak) to provide internal assurance to management about the accuracy and control of payroll processing. This is an area where internal audit would normally play an important role both in conducting transaction checks and carrying out system based reviews. Therefore, there is a reliance on audit activity by the OAG. The OAG confirms that significant problems arise including the existence of “ghost workers” particularly at the deconcentrated level within the large ministries.

224. There do not appear to have been any recent special exercises conducted to review payroll processes systematically or to carry out independent checks or audits of the physical existence of employee against payroll provision by the spending body concerned or against the establishment records held by MNPED or MFR.

225. The lack of centralized regulation and standard setting with regards to payroll processing hinders making generalized conclusions about the soundness of payroll processes across the public sector as a whole. But while it seems that some checks and balances are achieved at the center of spending bodies through division of duties etc., payroll processing at the deconcentrated level of ministries such as health and education is particularly vulnerable to error and fraud. The lack of regular reconciliation between establishment and personnel records, the absence of internal audit in many spending bodies, and non-existence of systematic independent checks outside the normal processing routines are critical weaknesses.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Degree of integration and reconciliation between personnel records and payroll data	Some, but not all, ministries have computerized payroll and some of those systems have integrated personnel and payroll information within them. But there is no established or consistent procedure applied for checking that they are aligned and that they are up-to-date and accurate. There is no regular reconciliation between establishment, personnel and payroll records.	D	Integrity of the payroll is significantly undermined by lack of reconciliation between establishment, personnel and payroll records.	Discussions with four line ministries and two SEEs. Sample of internal regulations provided by MOGE.
(ii) Timeliness of changes to personnel records and the payroll	The internal regulations of the line ministries seen include a requirement and procedure for rapid update. However, the OAG confirms that while not a serious problem, delays do sometimes occur.	B	Up to three months delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.	Discussions with four line ministries and two SEEs; OAG.
(iii) Internal controls of changes to personnel records and the payroll	The internal regulations of the sample of line ministries seen include procedures for separating duties for changing personnel records and processing payroll, limiting the authority for changes and establishing an audit trail. But audit activity suggests that these checks are insufficient or insufficiently enforced to avoid a significant number of cases of incorrect payroll payments, particularly in local units at the deconcentrated level.	C	Controls exist, but are not adequate to ensure full integrity of data.	Discussions with four line ministries and two SEEs; OAG.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	There is no formal system of payroll audit and internal controls are left to each spending bodies. There is no internal audit system (except in SEEs) to perform these checks.	D	No payroll audits have been undertaken within the last three years.	Discussions with four line ministries and two SEEs; OAG.
Overall Score		D+		

PI-19: Transparency, competition and complaints mechanisms in procurement

226. Until 2011, overall controls of procurement operations were centralized through the Ministry of Commerce. In an order from the President's Office dated 2nd June, 2011, however, ministries were made responsible for making their own procurement without central supervision. In doing this, the order noted that:

It is found that some ministries are still practicing a Closed Tender system while purchasing materials and; machinery, equipment, vehicles, workshops, operated factories and construction built by ministries. Similarly, the sales of State-owned properties under ministries such as buildings, factories, workshops, hospitals, schools, vehicles, machinery and other materials as well as the rental of buildings, factories, workshops, road construction, bridges, ponds, vehicles and machinery by some ministries are based on Close Bidding.

227. The President issued an instruction that in delegating procurement functions to ministries the practice of closed bidding was to stop and that each spending body should use open bidding, but there have been no detailed regulations or guidance issued as to how they were to implement their delegated powers.

228. The OAG confirms that he finds significant problems in the area of procurement including inappropriate and corrupt practices. There were unconfirmed press reports recently of a number of large scale cases of corrupt and inappropriate practices in several ministries concerning both purchasing and concessions. But as the last complete audit related to the year 2010/11 these findings reflect practice before the June 2011 order and it is too soon to detect an improvement through audit findings.

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

229. There is no overarching procurement law that provides a framework for procurement. The financial regulations last revised in 1986 are largely silent in this respect. In delegating authority over procurement to line ministries there have been no detailed regulations or guidance issued concerning the methods by which open tendering is to be employed or the procedures to be followed. Each ministry is, therefore, formulating its own arrangements and internal rules. However, as yet, there is also no central scrutiny of the arrangements put in place by each minister/spending body or quality assurance of those arrangements.

(ii) Use of competitive procurement methods

230. Due to the delegated nature of the new arrangements it is difficult to generalize about the arrangements being put in place under them. This assessment is based on discussions with four ministries represented on the PEFA Technical Working Group. These discussions suggest that there is an awareness of international good practice with regards to open tendering, tender opening (in the presence of bidders) and evaluation. Each ministry has formed a tender committee under the authority of the minister and chaired by a vice-minister. But practice varies with no standard practice as regards:

- The form of internal instructions, rules and documentation.
- Thresholds (value or type of expenditure) with regard to the deployment of different procurement techniques (except a general expectation that all large scale capital spending will be done by competitive bidding).
- Some ministries have central records of tenders placed and technique used, others do not. None of the ministries with which this was discussed were able to give precise figures on the proportion by value of the different procurement techniques used.

- It also seems that the understanding of open competitive bidding may vary from ministry to ministry. For example, cases were observed of specifying specific models for equipment when many models are available in the market.

231. Spending bodies say that they are responding to the requirement for open competitive bidding in respect of all significant procurements. But definitions of “significant” seem to vary. For example, it is taken as all capital and other items above kyat 500,000 for health; for education it varies according to the department.

(iii) Public access to complete, reliable and timely procurement information

232. Tender exercises are announced in the gazette and appear to be given appropriate levels of publicity. However, there is no common framework for ensuring systematic supply of information and transparency. In particular, there are no procedures for publicly announcing tender results and issuing summary information about tender plans and the value of contracts placed.

233. There are no arrangements for post contract review other than the scrutiny carried out by the OAG as part of his audit program or for summarizing and/or making the results of audit scrutiny available to the public.

(iv) Existence of an independent administrative procurement complaints system

234. There is no formal complaints procedure or arrangement for considering the claims of aggrieved parties. Ministries appear to consider that complaints are likely to emerge through aggrieved parties contacting the press or by making a complaint to the OAG.

235. Clearly, previous procurement practice has been unsatisfactory and the intent of the new arrangements issued in 2011 is to create more openness and competitiveness. However, given the lack of data and consistency of practice under delegated arrangements it is impossible to generalize about the effectiveness of the new requirements. Without these arrangements being set under a stronger framework of minimum requirements, standards and transparency there is a strong risk that the intended pressure for more openness and competitiveness will be weakened in practice.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	There is no centralized framework. Each ministry has delegated powers to make its own arrangements within a general requirement to exercise open competitive tendering as the default method.	D	The legal framework meets one or none of the requirements listed in the PEFA framework.	The Order issued by the President's Office on 2 nd June, 2011. Discussion with MFR and four line ministries
(ii) Use of competitive procurement methods	There is no central collection of data about the different procurement techniques deployed and spending bodies do not keep records in this form.	D	Reliable data is not available.	Discussion with MFR and four line ministries
(iii) Public access to complete, reliable and timely procurement information	Some information is given and some tenders are advertised, but there is no framework for ensuring systematic supply of information and transparency.	D	The Government lacks a system to generate substantial and reliable coverage of key procurement information and does not systematically make key procurement information available to the public.	
(iv) Existence of an independent administrative procurement complaints system	There is no independent procurement complaints review body.	D	There is no independent procurement complaints review body.	
Overall Score		D		

PI- 20: Effectiveness of internal controls for non-salary expenditure

(i) Effectiveness of expenditure commitment controls

236. Internal control of non-salary payments is highly decentralized with the finance departments of the spending bodies playing a key role.

237. There is no formal system of commitment control although some spending bodies (for example the Ministry of Health) take the initiative to make their own records of commitments largely on a manual basis. Other than in respect of foreign exchange transactions there are no requirements for the placing of contracts and other forms of commitment to be cleared through any centralized control process. MNPED does monitor progress on capital projects, but not at the commitment/individual payment level.

(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures

238. The financial regulations are recognized as being substantially out of date. As such, they do not fully reflect current practice other than in a general way. Some thresholds, for example, are denominated in fixed amounts of currency and are clearly much out of date. In addition, there are even older regulations used that deal with specific issues and situations; some of these go back to the 1950s. Their legal status is unclear although they continue to be used as the basis for practice. The finance department in each spending body appears to play a key role in deciding which mix of rules is adopted within its organization. The arrangements are thus somewhat ad hoc, differing from ministry to ministry. Moreover, the regulations are open to interpretation by financial management officials and it is not clear the regulations are well understood throughout ministries and states/regions.

239. The financial regulations do contain a range of basic control provisions including:

- The establishment of a framework of authority and responsibility attached to named posts.
- A requirement for spending bodies to establish their own internal regulations.
- Efforts to establish a degree of internal checks and balances in particular through the separation of duties between authorizing officers, drawing officers and controlling officers each with clearly defined responsibilities.
- Use of controlled and numbered documents for receipts and payments.
- Use of checks and limits on the drawing of cash.
- Rules about imprests and advances.
- Virement authorities.

240. However, there are significant areas that are either not covered or are treated very generally without providing a clear framework within the FRs for development in detail under separate regulations: procurement arrangements, payroll arrangements, management of assets (other than cash), there is no provision relating to internal audit, and disciplinary matters (what happens on breach/default). The four participating line ministries do have asset registers and inventory control systems.

241. Overall, finance departments, judging by the nature of the findings of the OAG, do appear to exert discipline although the effectiveness of that discipline varies from spending body to spending body. What seems to be lacking is an up to date, consolidated and modern framework of regulations that is driven by a consistent philosophy and approach that is clearly understood across the whole of the public sector.

(iii) Degree of compliance with rules for processing and recording transactions

242. All payments (with the exception of those made through minor cash imprests) are required to be made through the accounts of each spending body held with the MEB (which itself distributed geographically across more than 300 branches). Payment vouchers submitted to the MEB for discharge require two signatures from the spending bodies. One from a secretary general and one from the relevant spending unit. There is no requirement for supporting documentation to pass to the MEB such as proof of delivery or evidence of fulfillment of requirements by the supplier/contractor. However, the procedures of the four line ministries require copies of the vouchers to pass through their own finance department for vetting and additional signature. Spending bodies must seek separate approval for each payment to be made requiring foreign currency.

243. Basically, therefore, the MEB only checks the availability of budget sanction at an aggregate level and that it recognizes the required signatures. The MEB confirms that it does reject payment vouchers from time to time, but not often and usually for the unavailability of budget sanction. The MEB will, in what are described as rare circumstances, make advances in urgent cases where there is no budget sanction in place, but only with the agreement of their own managing director and where there is certainty that budget sanction is going to be forthcoming in due course.

244. In general, controls appear to be understood and applied with some discipline. However, the basis of these controls on established practice within each spending body gives rise to vulnerability as finance staffs come and go. This vulnerability is enhanced by the lack of updating, consolidation and clarity of status of regulations to be applied consistently across the public sector as a whole. The lack of systematic recording of commitments is likely to become more of a problem as Government seeks to tighten its cash controls in a way that has not been applied in the past.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Effectiveness of expenditure commitment controls	There is no system of universally applied commitment control covering all forms of expenditure and control is largely reliant on containing cash payments within budget.	D	Commitment control systems are generally lacking.	Sample of four line ministries and two SEEs.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	The financial regulations are recognized as being substantially out of date. As such, they do not fully reflect current practice other than in a general way. The finance department in each spending body appears to play a key role in deciding which mix of rules is adopted within its organization. The arrangements and interpretations of them are thus somewhat ad hoc, differing from ministry to ministry.	D	Clear, comprehensive control rules/procedures are lacking in other important areas.	Financial Regulations 1986 and various older sets of regulations provided by the Ministry of Health. Discussions with the OAG.
(iii) Degree of compliance with rules for processing and recording transactions	Transaction controls are well understood and applied consistently although advance procedures will be used in advance of budget sanction in exceptional circumstances.	B	Compliance with rules is fairly high, but simplified/ emergency procedures are used occasionally without adequate justification.	Discussions with OAG and MEB.
Overall Score		D+		

PI-21: Effectiveness of internal audit

245. While it seems that internal audit is now required to exist in all large scale public bodies, many do not yet have it in practice. Nor is there any other function that provides a similar process of assurance to top management within the spending bodies regarding the effectiveness of internal control and financial management systems. However, the SEEs under the policy umbrella of individual ministries usually do have internal audit units of varying depth and effectiveness. Within the ministries themselves, those that do not have internal audit (which seems to be most of them) they sometimes have inspection units that largely carry out pre-payment checks as part of the control system and investigate cases concerning fraud and other irregularities. But these are more part of the control system itself rather than fulfilling the role of modern internal audit.

246. The OAG has been concerned about the lack of an internal audit capacity and has been making suggestion in his report to the President about addressing the problem. An order was issued from the President's Office (July 2012) requiring that all ministries set up internal audit units. It is clear that some

ministries are beginning to respond to this order, but it is too early to be able assess the effectiveness of response or the results achieved.

(i) Coverage and quality of the internal audit function

247. There has been no set of centrally defined audit standards, roles, objectives and processes to guide the internal audit function. In the ministries and SEEs represented on the PEFA Technical Working Group (TWG) there is an awareness of the existence of international standards, but no process for holding internal audit sections accountable for observing them. There was also no guidance or set of standards issued to accompany the order requiring more widespread adoption of internal audit within the ministries themselves although the OAG has this objective in view.

248. For the sample of line ministries and SEEs engaged in the PEFA assessment, only some of the SEEs at least appear to have produced audit plans which are cleared with the management of the SEE and shared with the responsible ministry. The limited sample of audit reports for SEEs seen suggest that the audit work is largely transaction based although changes in system may be proposed where transaction reviews suggest the need. However, there is little to suggest a methodical approach to system based review and assurance to management. The OAG considers the internal audit units that do exist variable at best and in most ministries and some SEEs as largely ineffective.

249. At present, there is no organizational unit within MFR or elsewhere that has a clear role in providing cadre leadership and standard setting for the internal audit function across the public sector. There has been no assessment of the expansion of staff and skills required to widen both the coverage and effectiveness of internal audit that is implied in the order issued by the President's office. The impetus for deepening internal audit has come largely from the OAG, yet for the OAG to provide leadership in terms of implementation and standard setting of internal audit would carry the risk of drawing him closer to being part of internal control systems and potentially compromise his role as external auditor at arm's length from management.

(ii) Frequency and distribution of reports

250. Line ministries are now planning on establishing audit committees, but it is too early to see how widespread this will be adopted (or over what time period). The sample of SEEs engaged in the PEFA assessment have established audit committees that receive reports and respond to recommendations in a systematic and timely way. An issue that is still not clear is whether such committees will be established for the ministry encompassing the SEEs under its policy umbrella or whether each SEE will continue to have its own. Current practice in sharing reports between SEEs and their respective ministries appears to vary. Reports are not systematically shared with the MFR. The OAG has a right to see reports and does exercise that right at his discretion.

(iii) Extent of management response to internal audit findings

251. The existence of audit committees, at least in a subset of SEEs, does provide for a systematic response and the SEEs involved in the PEFA assessment feel that this works well. But since the reports are largely transaction based, the response also appears to be largely confined to the transactions concerned rather than focusing on more systemic problems.

252. This is an area where, clearly, the need to do more has been perceived and steps have been taken to initiate improvements, at least in coverage. While it is too soon to assess the effectiveness of the response to the order requiring wider adoption of internal audit, PEFA ratings in this area could be improved; this would have knock on benefits for other indicators such as PI-18, PI-19 and PI-20 in

particular. But, whether this is achieved in practice will depend very much on clearer standard setting and procedures for leading and reviewing the implementation of internal audit and the quality of work undertaken.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Coverage and quality of the internal audit function	Coverage of public bodies as a whole by internal audit is quite limited. Internal audit is not yet operational in most ministries. The internal audit function is present in some SEEs. Little of the internal audit carried out in SEEs is systemic in nature.	D	There is little or no internal audit focused on systems monitoring.	Discussions with the sample of four line ministries and their SEEs engaged in the PEFA review; the OAG. The July 2012 order issued by President's Office and the reports of an SEE in the PEFA TWG.
(ii) Frequency and distribution of reports	Hardly any ministries have operational internal audit functions. For those bodies that have internal audit (mainly the SEEs) at least annual reports are issued, but are not systematically shared with MFR.	D	Reports are either non-existent or very irregular.	
(iii) Extent of management response to internal audit findings	In those few ministries and SEEs with operational internal audit, management often takes action on significant issues though sometimes with delay (Note: the management response is rated here only for the internal audit units that exist).	C	A fair degree of action taken by many managers on major issues but often with delay.	
Overall Score		D+		

3.5 Accounting, recording, and reporting

253. Accounting is maintained on a simple cash based double entry system. Most payments are discharged through the MEB by the use of check or transfer. The use of physical cash is limited although most departments have small imprests and advances are made for special purposes such as extended travel. Tax revenue is usually paid into the MEB by the taxpayer directly, based on an assessment raised by the tax authorities although some fee and charge revenue is collected in cash and paid in by the body concerned.

254. Previous practice of accounting for foreign transactions at an official rate rather than a realistic market rate has tended to distort the picture revealed by the accounts, particularly for the SEEs with high volumes of such transactions and where trading has taken place between SEEs. However, this is now being resolved following the recent integration of exchange rates on an open market basis.

255. Accounting records are originated by the spending/revenue raising body concerned. Aggregation and reconciliation for reporting and control purposes are conditioned by the largely manual, paper based processes that are still used in both the originating bodies and in the MEB. The processes of reconciliation are well documented, appear adequate and are applied with sufficient rigor to give some confidence in the accuracy of aggregate records.

256. Reporting is done monthly. However, the process of aggregation and reconciliation takes some 3 months to complete and delays the production of final reports for each monthly reporting cycle. In order to provide more timely data, Budget Department produces an interim report which it usually manages to issue within 6 to 8 weeks after the end of the month in question. But, even so, the compressed format and delayed timing of the reports combined with the limited degree of analysis that is included in summary reports weakens their capacity to support active in-year management of the emerging position. The manual aggregation processes also impose difficulties in producing information in different formats for specific or ad hoc purposes.

257. In addition to reporting progress against budget, spending bodies are also required to report revenues that they are allowed to raise and use off-budget such as some of the fees and charges raised in schools and health facilities. However, details of how those resources have been deployed are limited.

258. Consideration is being given to introducing wider use of modern computer based information technology for accounting and reporting. MEB has already introduced IT systems in about 30 of its more than 300 branches. But there is little experience of large scale IT systems in the Myanmar public service and there is an awareness of a need to proceed cautiously.

259. The upward aggregation of accounting data gives the higher levels of management an opportunity to review the activity of lower levels and to hold them accountable, but this is limited by the mainly administrative and input basis of the data produced. As the bulk of expenditure in relation to service units is controlled and discharged at the level of the deconcentrated units of ministries at township level and because it is discharged through the bank accounts at township level with MEB, there is little visibility at the higher levels of how resources have been distributed among service units (schools, clinics, etc.) at the operational level.

260. In addition to being included in the budgets and accounts of the ministry with policy responsibility for them, SEEs are also required to produce accounts on a commercial basis using accounting principles adapted from those used internationally. A process is already in hand to make the finances of the SEEs more independent of the ministries to which they currently report and, in some cases to privatize the operations.

261. End of year financial statements are produced on similar basis to those produced in-year, but with supplementary clearance arrangements. In the last few years they have been finalized within 6 months of the end of the year. But the statements largely serve the purpose of providing some discipline ensuring consolidation and reconciliation. They provide limited information as a basis for active financial management and both their form and distribution are difficult to interpret and contribute little to fiscal transparency. International accounting standards, even for cash based systems, are not fully met and there are no clear notes attached to the statements explaining the basis on which they have been produced or giving supplementary information about important issues such as guarantees and contingent liabilities. Neither in-year nor end-year statements are given wide circulation.

262. Overall, accounting and reporting tends to be viewed as a largely technical process that exerts control in avoiding, for example, overspending of budget provision and providing the basis for audit. It

does little to establish deeper accountability for how resources are used or play a role in active in-year financial management.

PI- 22: Timeliness and regularity of accounts reconciliation

263. Both accounting and reconciliation processes are mainly based on a monthly cycle. The processes involved are set out in instructions issued under the authority of two documents called the OoSa and the HtaSa. Reconciliation takes place in two directions. Between MEB as to disbursements made on behalf of spending bodies and the detailed accounting records maintained by those spending bodies. Secondly, between the MEB and the CBM as to the cash balances and movements in cash between them and MEB branches.

(i) Regularity of bank reconciliations

264. The MEB sends records of payments made on behalf of spending bodies to each spending body on a monthly basis requiring that they check against their own records. The MEB itself does not check that spending bodies have, in fact, carried out this reconciliation. However, the MEB also sends the monthly statements to BD, which requires each spending body to submit their summary reports and make clear any unreconciled differences. At this point BD checks that the reports from spending bodies agree with those received from the MEB and take up any differences with the spending bodies. The reconciliation process thus described includes cash held by the MEB in the off-budget accounts of the spending bodies.

265. To fund spending requirements, MEB draws down cash monthly from the CBM. Cash balances held by MEB and balances held by CBM on behalf of government are reconciled between MEB and CBM also on a monthly basis.

266. Problems arise due to the geographical dispersion of MEB branches on the one hand (more than 300) and the deconcentrated nature of the spending and revenue collecting in the larger spending bodies where budget management is delegated down to units at township level. These problems are compounded by the manual nature of the records on both sides of the reconciliation process. The process is forced to move at the pace of its weakest links. Some lower level spending bodies reconcile and submit their spending reports more slowly than others, statements submitted by MEB branches are sometimes incomplete or inconsistent and there is limited capacity in MEB and CBM to perform the overall reconciliation. As a result, the whole monthly cycle and full reconciliation typically takes around 3 months to be fully completed.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

267. Each department within the spending bodies is entitled to request a small imprest. For example, the imprest of BD itself is 500 kyat. The amount of the imprest is assessed department by department on the basis of petty cash requirements for 2 weeks and is subject to approval by the BD. Spending bodies are required to account for transactions and reconcile imprest balances on a monthly cycle. They make returns to the BD, which reconciles the aggregate balance. The process is set out in the OoSa and HtaSa.

268. Advances are allowed to be made for things such as overseas travel and other specific areas set out in the HtaSa. Budget Department follows up advances and requires accounting, reconciliation and retirement of any balances. If this is not done within 3 months of the funded event, the BD takes steps to deduct the amount involved from salary.

269. In what are described as rare circumstances, the MEB will hold payments in suspense when there is no budget sanction. This is only done in urgent circumstances with the agreement of the managing director of MEB and when the subsequent issue of budget sanction is considered certain. Any suspense balances must be cleared at the end of the year.

270. Spending bodies are also allowed to hold amounts in suspense for a limited period of time, for example, when the correct coding at the detailed level is not clear at the time of payment or where short term timing issues arise such as with income tax deductions from salary. The OoSa and HtaSa set out the procedure by which these amounts must be reported to BD, which must monitor their regular and timely clearance. The arrangements with regards to advances/deposits, imprests and suspense set out in the OoSa and HtaSa are specific and provide BD with clear visibility and an opportunity to challenge spending bodies.

271. The processes of reconciliation are well documented, appear adequate and are applied with rigor. The problem is one of timing caused by the disbursed nature of the network and the largely manual processes used. The procedures for control and clearance of advances/deposits, imprests, and suspense accounts are set out in detail and appear to be applied with some rigor.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Regularity of bank reconciliations	While reconciliation takes place frequently (monthly) it takes around 3 months to be completed.	D	Bank reconciliation for all Treasury managed bank accounts take place with backlogs of several months.	Monthly Financial Statements. The OoSa and HtaSa regulations.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	There is a monthly process of monitoring and reconciliation reinforced by quarterly action to clear balances.	A	Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.	Discussion with the BD, MEB, and CBM.
Overall Score		C+		

PI-23: Availability of information on resources received by service delivery units

272. This indicator requires focus on primary schools and primary health clinics in relation to the overall resources made available to the sectors irrespective of which level of government is responsible for the operation and funding of those units. In Myanmar, budgetary resources in both sectors are cascaded down from ministries to their functional departments (such as primary education) and then on down to individual townships and the deconcentrated offices of the sector ministry. This is in the process of changing with the introduction under the new constitution of local government bodies with decentralized powers, but the process of decentralization is still in a transitional phase.

273. In general, the township offices do not make direct allocations to individual schools, clinics, etc., but retain the budgets devolved to them and manage them on behalf of the establishments in their area. Delegation to township level includes procurement except where common types of purchase are centralized for price efficiency purposes or controlling capital works.

274. In the case of education, some experimentation, supported by donor funds, is taking place with giving schools direct management of limited funds based on the size of the school and the number of pupils. However, budgets for salaries and some other forms of expense (utilities) are retained at township level and discharged from there. For these allocations, the provision is still retained at township level and payments for purchases made on behalf of schools, colleges etc. from within the allocation are made by the township from accounts kept with MEB.

275. In the case of health, the process is similar, but there are no allocations below township level yet and for things like materials, the township medical office purchases and distributes based on his understanding of need (the ministry is considering a change to introduce allocations to health unit level).

276. As the bulk of expenditure in relation to service units is controlled and discharged at township level and because it is discharged through the township's bank account with MEB, there is no accounting data that flows upwards from the township about how resources have been distributed at the operational level. Only information about how the township has used the resources in aggregate. The evolving system of capitation within the education sector gives some visibility of what ought to be controlled at operational unit level, but there is no accounting data that is summarized upward to show this.

277. There also appears to have been no surveys in recent years to see what resources are actually being consumed by service units in either ministry.

Indicator	Analysis	Indicated Score	Framework Definition	Evidence Used
Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units	There is no visibility of how resources distributed across service units above township level (although education are starting to make notional allocations for some resources).	D	No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.	Meetings held with both the Ministries of Education and Health, and the BD.
Overall Score		D		

PI- 24: Quality and timeliness of in-year budget reports

278. The basic source of information for in-year monitoring reports and the accounts of government as a whole are detailed records maintained by spending bodies largely on a manual basis. Reconciliation processes take place between spending bodies and the MEB who make payments on their behalf, and between MEB and CBM as to cash balances and movements. However, budget sanction is recorded by MEB at a high level (ministry, department within ministry, and recurrent/capital). Detailed information, for example, down to economic (minor head and sub-heads) classification is dependent on the records maintained by the spending bodies. Procedures for accounting and in-year monitoring are set out in two documents, the OoSa and the HtaSa, that overlap in many respects, but which, together, set out detailed procedures for both transaction processing and the aggregation of data to prepare monitoring reports of spending compared to budget and the financial statements of government as a whole. As well as setting out the procedure for reconciling and aggregating data for reporting purposes the OoSa also sets out a number of requirements designed to achieve internal check and to establish responsibility for the quality of data at each level of the aggregation.

(i) Scope of reports in terms of coverage and compatibility with budget estimates.

279. Reports are based on summaries of cash transactions, including the transactions of SEEs also in cash form. There is no information about either commitments or arrears. Spending bodies are required to show original estimates, revised estimates, and accumulative actuals to date. The accounting systems of MEB are largely manual. Processing inside individual spending bodies and also compilation within the Budget Department is largely manual and paper based.

280. In terms of monitoring reports, information is submitted by the spending bodies to the Budget Department at the detailed level of economic (minor head and sub-head) classification within ministries and departments. However, overall summaries made by BD (monthly to the Minister of Finance and Revenue and quarterly to the Hluttaw) are at the more aggregate level of department without the economic classification. For control purposes, the lower level of detail in the form of economic classification contained in the budget book appears to be a largely administrative form of control between MFR and the spending bodies. The BD exercises control at this more detailed level over areas that spending bodies are not allowed to vire between (for example the sub-head travelling expenses). In addition, monthly consolidated financial statements for government showing summary movements and cash balances are produced in the same form as the financial statements for the year.

281. SEEs are required to produce separate reports on a “commercial” basis using commercial style accounting practices. These are also produced monthly and made available to the minister having policy responsibility for the SEE and are also available to the OAG. The procedure for preparing these reports is set out in the OoSa.

(ii) Timeliness of the issue of reports

282. Spending bodies are required to aggregate data from their lower level units monthly and reconcile that data with statements given to them by MEB as to cash paid away on their behalf. While spending bodies are required to submit their reconciled spending reports to the BD by the 7th of the second month following the period in question (Source: Annex A of the Oo Sa), they are allowed to omit at that stage any reconciled accounts not yet received from lower level units as long as they advise the BD of the omissions. Nevertheless, the BD uses the material from spending bodies submitted on that basis to prepare interim monitoring reports by around 8 weeks after the end of the period in question. This is also shared with cabinet and the OAG.

283. Full reconciliation between CBM, MEB, and the BD normally takes around 3 months to finish. At that point the summary financial statements are also produced. The scale of difference between interim and financial statement figures is discussed with respect to Dimension 3. However, in recent years, this period has remained more or less constant and there has been no buildup of delay.

(iii) Quality of information

284. The interim summary submitted by DG of the Budget Department to the Minister of Finance and Revenue contains only partially reconciled data and even omissions where no data is available. Except at the time that the supplementary budget is being considered, the report is largely confined to tables of numbers without very much by way of critical analysis or forward projecting of implications. There is no publishing of this report to a wider audience. Given the manual nature of the data production and compilation of summaries in the BD, it is very difficult and time consuming to produce different formats of data, such as data summarized by economic (minor head and sub-head) classification either regularly or on demand.

285. The reporting and reconciliation processes are adequate enough to achieve an eventual reconciliation and a basic level of accountability among the spending bodies. The process is set out in detail in the OoSa and HtaSa and is applied with some rigor. But the compressed format and delayed timing of the reports combined with the limited degree of analysis that is included in summary reports weakens their capacity to support active in-year management of the emerging position. Controls and responsibilities built into the OoSa and HtaSa are focused largely on the avoidance of overspending of budget provision.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Scope of reports in terms of coverage and compatibility with budget estimates	Reports are produced by the BD in terms of administrative headings. Spending bodies do report data at a more detailed level, but this is only summarized and reported upward at a more aggregated administrative level. Reports do not include commitment data which would be necessary to secure a higher rating.	C	Comparison to budget is possible only for main administrative headings. Expenditure is captured at payment stage (not commitment data).	Examples of reporting formats from spending bodies to the BD and from the BD to the minister. OoSa and Hta Sa regulations.
(ii) Timeliness of the issue of reports	Interim reports are issued monthly, but with some data incomplete by around 8 weeks after the month in question. Reconciled reports normally take at least 3 months to complete.	C	Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter.	Timetable set out in the OoSa and Hta Sa and observed from recent cycles.
(iii) Quality of information	The interim reports produced are not complete and fully reconciled, but the differences with final actual are not large. The extent of analysis and forward forecasting undertaken is limited.	C	There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.	Examples of reporting formats. Consolidation processes adopted by the BD. OoSa and Hta Sa regulations.
Overall Score		C		

PI-25: Quality and timeliness of annual financial statements

286. The accounting year for the Government runs from April to March. Accounts are produced in the form of consolidated financial statement and several annexes. The statements are cash based. The form of the financial statements has been fixed for some considerable number of years. Copies of the statements are provided to the Minister of Finance and Revenue, cabinet, and the President, but not published or otherwise made available to the public. The OAG receives copies of both in-year and ends of year statements and audits the sixth month and final statement.

(i) Completeness of the financial statements

287. The statements show cash payments and receipts as well as movements in cash balances. Only movements in the overall stock of debt or other forms of financial assets/liabilities are shown, not the opening and closing balances. There are a large number of off-budget accounts, but the movements in these are also recorded in an Annex to the main statement although it is not clear that the list of off-budget accounts is complete (for example in respect of foreign currency accounts held outside Myanmar). For off-budget accounts only the movements are shown, not the balances. No notes are added with regard to significant financial considerations such as guarantees, arrears, or contingent liabilities.

288. The cash transactions of SEEs are included in these statements, but each SEE is required, in addition, to produce separate accounts on a “commercial” accounting basis. These are available to the Ministry that has policy responsibility for each SEE, the senior cadre of both the MFR and MNPED as well as the OAG, but not published or made widely available.

(ii) Timeliness of submission of the financial statements

289. The accounting year is closed to new payment transactions relatively quickly. MEB stop accepting new payments at 31st March and adjusting movements by the 10th April. However, a lengthy clearance and reconciliation process takes place and in earlier years this has taken up to 2 years to complete. However, in recent years the process has been completed more quickly and the final form of the Financial Statements was submitted within 6 months to the Auditor General as follows:

	2009/10	2010/11	2011/12
Date of submission of financial statements to the OAG	04/08/10	12/09/11	09/08/12

Sources: Financial statements and confirmation from the Office of the Auditor General.

(iii) Accounting standards used

290. The Auditor General is also Chairman of the Myanmar Accountancy Board which deals with accounting standards generally in Myanmar. Accounting standards have been developed for the commercial sector which is also applied to SEEs in the “commercial” form of their accounts. But, as yet, there are no standards or statements of practice that apply to the Government’s financial statements which include SEE activity prepared on a parallel cash basis. The Auditor General is seeking to encourage the development of a set of public sector accounting standards, which the OAG is intending to complete in 2013.

291. The current form of the financial statements does not fully reflect the requirements of the cash-based IPSAS, for example, in relation to the treatment of donated funds, but they do include some information that would be required by the IPSAS, such as previous year actuals. There are no explanatory notes included with the statements as to the accounting policies adopted or guidance issued to help in their interpretation. In general, they act as a technical control rather than being very informative as a basis for active financial management.

292. The underlying practices in preparing the existing form of the financial statements have remained little changed for at least several years up to and including the statements for 2011/12. However, a major change of practice has occurred in 2012/13. It has previously been the practice for receipts and payments made in foreign currency to be accounted for at the official rate – around (1 percent) of the market rate now being used in 2012/13 following steps to unify the exchange rate. The use of the artificially depressed official rate has had an increasingly distorting effect on the financial statements as revenues from natural resources have quickly grown. The previous practice has also applied in transactions between individual SEEs so that the apparent trading results between the SEEs have also been distorted. The change in practice in 2012/13 will make the financial statements for that year inconsistent with those for earlier years and it is not yet clear how this will be dealt with. It is understood that work is being done to calculate the main areas of distortion, but not the comprehensive affect.

293. The financial statements are produced on a regular and reasonably timely basis. But they largely serve the purpose of providing some discipline ensuring consolidation and reconciliation. They provide

limited information as a basis for active financial management and both their form and distribution are difficult to interpret and contribute little to fiscal transparency.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Completeness of the financial statements	The limited form and scope of the format of the financial statements produced omitting information that would be required under international standards even under a cash-based system.	C	Consolidated statements are prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.	Copies of recent financial statements. Explanation of basis from the CBM.
(ii) Timeliness of submission of the financial statements	The dates of submission to the OAG being around 5-6 months after the end of the financial year.	A	The statements are submitted for external audit within 6 months of the end of the fiscal year.	The CBM and BD as corroborated by the OAG.
(iii) Accounting standards used	There is a lack of any standards or supporting explanatory notes provided with the financial statements.	D	Accounting standards are not disclosed.	Discussion with the OAG on the development of accounting standards in Myanmar generally and for the public sector specifically.
Overall Score		D+		

3.6. External scrutiny and audit

294. The two institutions that provide external oversight to the executive are the Parliament and the Office of the Auditor General (OAG). Established under the Constitution of the Union of the Republic of Myanmar, the role of the Parliament in relation to public financial management is to scrutinize the national development plan and the budget, government public finances, and external audit reports. Since 2011, the Parliament has established two specialized committees for this purpose. The Public Accounts Committee (PAC) has a bipartisan membership and vets the budget bill and the audit report. The Planning and Finance Committee is responsible for reviewing the national development plan and legislative matters relating the financial sector. Since FY2012-13 these committees have reviewed and rationalized the executive's budget proposal significantly and have been instrumental in having the approved budget law published in the local press. These committees have engaged some technical advisors on a part time basis but do not have full-time specialized staff or institutional support that can independently review and analyze the budget proposals and the national development plan and to advise the PAC accordingly. Instead, these committees rely on government ministries for policy analysis.

295. The OAG was constituted in its current form under the Law of the Auditor General of the Republic of the Union of Myanmar of 2010. The OAG is a semi-independent body reporting to the Parliament through the President's Office. The OAG has purview over all the public sector, except for the Ministry of Defense. The OAG is also the entity responsible for setting accounting and auditing policy for the public sector. The OAG has adopted INTOSAI audit standards and conducts mostly financial audits with some procurement and performance audits. The OAG has yet to submit an audit report to the Parliament under the Parliamentary form of government which started functioning from 2011 onward.

296. Complete independence of the OAG from the executive and extending its purview over expenditures of the defense sector are points of consideration for Myanmar as the authorities consider further steps to improve management of public finances.

PI-26: Scope, nature and follow-up of external audit

297. The Auditor General has powers and duties in formulating the state audit and accounting policies, and setting out the standard rules for state audit. The Auditor General is responsible for the administration of related state audit affairs. The OAG was established under the Constitution as an independent agency, which is a ministerial equivalent under the law. The appointment the Auditor General is made by the President with the approval of the Parliament. The Auditor General reports through the President to the Parliament and is thus not fully independent. However, good international practice requires that the OAG submit its audit report directly to Parliament.

(i) Scope/nature of audit performed (including adherence to auditing standards)

298. The OAG performs financial, tax collection, and compliance audits consistent with INTOSAI audit standards. The OAG has purview over all general government revenue and expenditure, including financial statements from SEEs, but excluding the Ministry of Defense. The OAG, therefore, has purview over approximately 70 percent of total expenditures. All SEEs are required to submit its financial report, compliant with Generally Accepted Accounting Standards. At present the Auditor General's Office performs mainly financial audits, with limited performance and procurement audits.

(ii) Timeliness of submission of audit reports to legislature

299. Financial statements prepared by the Ministry of Finance and Revenue are subject to annual audit by the OAG. Before the Parliamentary system of government there was a significant lag (between 1-2

years) in submission of the audit report by the OAG to the President. With the Parliamentary system the OAG is required to submit audit reports to the Parliament. However as the parliamentary system of government has not completed a fully audit cycle, the audit report has not been submitted by the OAG to the Parliament as yet. The Parliament has already established a bipartisan Public Accounts Committee to review the audit report when submitted. The MFR submitted the financial statements for FY2011-12 to the OAG in August 2012. However, because the OAG had not submitted the audit report to Parliament as yet, it is not possible to rate this dimension.

(iii) Evidence of follow up on recommendations

300. Audited agencies are required to respond within 30 days of receiving the audit findings and to propose remedial measures to address any deficiencies uncovered by the audit process. The Auditor General confirmed that most ministries provide a response to the audit opinion/queries, and also propose an action plan to address concerns. The OAG checks in the next fiscal year if the action plan has been implemented or not.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Scope/nature of audit performed (including adherence to auditing standards)	According to the Auditor General of the Union Law (2010), the Auditor General has mandate to audit all revenues and expenditures of the Union Government, regions, states, and SEEs, <i>except the Ministry of Defense</i> . The Office of the Auditor General has adopted INTOSAI consistent audit standards and audits about 60-70 percent of total expenditures under its jurisdiction annually. Audits are mostly financial (transactions level testing) and some performance and procurement audits are also conducted.	C	Central government entities representing at least 50 percent of total expenditures are audited annually. Audits predominantly comprise transactions level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.	Auditor General of the Union Law (2010) and discussions with staff from the Office of the Auditor General
(ii) Timeliness of submission of audit reports to legislature	Audit reports expected to be submitted to the Parliament 8 months of the end of period covered from the time the Ministry of Finance and Revenue submits the financial statements to the OAG. However, as the Parliament only started full operations since 2011 audit reports have yet to be submitted from the OAG to the Parliament. Therefore it is not possible to rate this dimension.	N/A	Number of months audit report is submitted to the legislature from the time financial statements are received by the Office of the Auditor General from the executive.	Discussions with staff from the Auditor General and BD

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(iii) Evidence of follow up on recommendations	A formal response is provided by ministries to the audit findings within 1 month of receiving the audit opinion. But there seems to be little evidence of systematic follow-up.	B	A formal response is made in a timely manner, but there is little evidence of systematic follow up.	Discussions with staff from the OAG and line ministries
Overall Score		C+		

PI-27: Legislative scrutiny of the annual budget law

301. For FY2012-13 legislative scrutiny of the annual budget law was quite comprehensive. The Government gave due consideration to the deliberations and resolutions of the Parliament on the FY2012-13 budget. The overall framework for the Parliament's consideration of the draft budget is set out in the Constitution of the Republic of the Union of Myanmar and the budget calendar. The Parliament has established a specialized Public Accounts Committee (PAC) to examine each agency budget proposal, and there are very detailed discussions between the PAC and the Ministry of Finance and Revenue and respective ministry on specific changes (reductions) in the draft budget proposals.

302. The coverage of this indicator, however, is the last completed FY under the existing system. Given that the new Parliament only began to operate in 2012, the relevant FY would be FY2012-13, which has not yet been completed. Thus, this indicator cannot yet be rated.

(i) Scope of the legislature's scrutiny

303. The Parliament review covers basic fiscal policies presented in the capital investment proposal and aggregates for the coming year as well as detailed estimates of expenditure for Union, state and region budget entities. There is significant scope for the Public Accounts Committee of the Parliament to influence budgetary appropriations. According to discussions the Public Accounts Committee (PAC) trimmed down the Executive's budget proposal significantly for FY2012-13 – and the corresponding deficit went from a proposed 4.9 percent of GDP to 3.8 percent. Additionally, the Parliament did not appropriate any budget for a proposed Ministry of Industrial Relations – and the result was that the Government did not establish the ministry. The debate on the draft budget law for FY2012-13 was telecast live on national TV.

(ii) Extent to which the legislature's procedures are well-established and respected

304. Procedures and processes for legislature's review of the budget law are simple and respected by the Government. When reductions were made to the FY2012-13 budget proposal, the Government reflected them in the reviewed draft budget law, which was only approved after the Public Accounts Committee reviewed the changes.

(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget cycle

305. The timeframe for Parliament's review of the budget proposal is stipulated in the annual budget calendar. For the FY2012/13, budget estimates were submitted to the Parliament on January 17, 2012 and

the Budget Law was approved on March 28, 2012. This effectively provided the Parliament more than two months to review and debate the budget proposals.

(iv) Rules for in-year amendments to the Budget without ex-ante approval by the legislature

306. The rules allow for significant in-year reallocations within administrative heads – which reduce the credibility of the approved budget law. However: (i) reallocations between capital, recurrent and personnel appropriations are not allowed; (ii) the rules for reallocations are clear; and (iii) reallocations are reported to the Parliament ex-post during the supplementary budget presentation. Reallocations do not seem to expand the overall expenditure envelopes, however supplemental budgets do.

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Scope of the legislature's scrutiny	The Parliament's review covers: (i) broad fiscal policies (as presented in the capital investment proposals); and (ii) details of expenditure and revenues for the coming year by Union, regions, and states. An aggregate borrowing ceiling is also passed by the Parliament, even though details sources or applications of borrowing are not provided.	N/A	The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.	Discussions with the Public Accounts Committee of the Parliament
(ii) Extent to which the legislature's procedures are well-established and respected	The Parliament in Myanmar was established 2008. The current procedures are simple and evolving. Established procedures and processes are respected by the Government. When budgetary cuts were made to the FY2012/13 budget, the Government reflected them in the reviewed draft budget law, which was only approved after the Public Accounts Committee reviewed the changes.	N/A	Simple procedures exist for the legislature's budget review and are respected.	Discussions with the Public Accounts Committee of the Parliament and the BD
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget cycle	For the FY2012/13, budget estimates were submitted to the Parliament on January 17, 2012 and the Budget Law was approved on March 28, 2012. This effectively provided the Parliament at least two months to review and debate the budget proposals.	N/A	The legislature has at least two months to review the budget proposals.	Budget Calendar for FY2012/13 and discussions with the Public Accounts Committee of the Parliament and the BD

Dimension	Analysis	Indicated Score	Framework Definition	Evidence Used
(iv) Rules for in-year amendments to the Budget without ex-ante approval by the legislature	Clear rules for in-year reallocations exist and they allow for administrative reallocations which are reported to the Parliament during the supplementary budget presentation.	N/A	Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.	Financial Regulations 1986
Overall Score		N/A		

PI-28: Legislative scrutiny of external audit reports

307. Prior to 2011 the audit report used to be submitted by the OAG to the President of the Republic of the Union of Myanmar for review and sign off. The audit report was not published and there was no public debate on findings of the audit report.

308. With the new government assuming office, the Parliament was sworn-in in early 2011 and became fully operational over the course of the year. The Public Accounts Committee (PAC) tasked to review the budget proposal and the audit reports. The PAC reviewed the executive's budget proposal for FY2012-13. However, as the audit cycle for FY2011-12 had not been completed, the Parliament has not had the opportunity to review the same. Hence it is not possible to rate any dimension of this indicator.

309. However, it is important to note that: (i) the review of the audit report by the Parliament within a predetermined timeframe is not mandated by any legislation. The parliamentary procedures call for a review by the Public Accounts Committee only, and not a full discussion in either the House of Representatives (Pyithu Huttlaw) or the Upper House (Amyotha Huttlaw); (ii) the PAC has limited technical support; (iii) the legislative framework does not call for actions to be undertaken with respect to recommendations of legislative review; and (iv) there is no provision in the legislation requiring publishing of the audit report.

Indicator	Analysis	Indicated Score	Framework Definition	Evidence Used
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	The Parliament was established in 2008 with parliamentarians sworn in in 2011 (after the November 27, 2010 election). To date the Parliament had not reviewed the audit report because the first audit cycle under the new system is yet to be completed. Therefore it is not possible to rate this indicator at this time.	N/A	Number of months the scrutiny of the audit report is completed by the legislature.	Discussions with the PAC and OAG.

Indicator	Analysis	Indicated Score	Framework Definition	Evidence Used
(ii) Extent of hearings on key findings undertaken by the legislature	Thus far the Parliament had not received and reviewed the audit report.	N/A	Substance of hearings between the legislature and the audited entity on key audit findings.	Discussions with the PAC and OAG.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	As the audit report had not been reviewed by Parliament, it is not yet possible to rate this dimension.	N/A	Whether or not recommendations are issued by the legislature for the executive to implement to address audit issues, and follow through thereof.	Discussions with the PAC and OAG.
Overall Score		N/A		

3.7 Donor practices

310. During the period under review, Myanmar was in the bottom fifteenth percentile of all ODA recipients on a net per capita basis. In 2010, the average net assistance was US\$7 per-capita, mainly in the form of grants. In recent years, five ministries benefitted from grant assistance. Most grant aid went to the Ministry of Health (70 percent in FY12) but the ministries responsible for forestry, education, sports, and science and technology also benefitted. According to the MFR, external loans have been extended to the ministries for agriculture, industry, transport, energy, and electricity, among others.

Box 2: Managing ODA in Myanmar – Some current partner practices

The lifting of sanctions in 2012 will facilitate pursuit of the agenda set out in the 2005 Paris Declaration for Aid Effectiveness. These are: 1) developing countries should set their own strategies and objectives for poverty reduction, improve their institutions and tackle corruption; 2) donors should align behind these objectives and use local systems; 3) there should be harmonization between government and donors in aid coordination and implementation, simplifying procedures, sharing information to avoiding duplication; 4) developing countries and donors shift focus to measurable development results; and 5) donors and the government should be mutually accountable for development results.

Ownership and alignment: International assistance has been largely focused on humanitarian interventions and has come in far smaller volumes on a per capita basis than aid to neighboring countries such as Laos, Cambodia or Vietnam. Due to international sanctions during the period under review, most assistance had been directed to communities rather than to the government. Aid projects thus far have typically focused on activities related to education, health, community development, minority support, and disaster management/prevention. Some of this assistance is “in-kind,” the provision of medicines being an example. There are also several scholarship programs aimed at capacity building. The drafting of a new five year development plan and the accompanying Framework for Social and Economic Reform, which has been drafted through a consultative process, are aimed at increased ownership and the promotion of donor alignment. In best practice applications, consultations are given adequate time to ensure all interested stakeholders are heard, additional time is allowed for the discussion of proposed decisions and reasons are provided to all stakeholders for each key decision taken. Going forward, it will be important to ensure that national ownership of the development process is not undermined by (i) too many uncoordinated offers of support, fragmented, and/or stand-alone initiatives from development partners; (ii) lack of transparency in management of development finance that could result when resources flow off budget or bypass crucial elements of the government systems; and (iii) overly high transaction costs imposed on stretched government structures.

Harmonization: The donor community does coordinate with the Government with regard to the level, composition and timing of their support. Planning meetings can occur several times a year. Only a few appear to be timed in a manner that allows the authorities to make informed estimates of expected aid disbursements in the budget cycle. Many members of the donor community do also coordinate among themselves as well. The formation of several technical working groups is currently under discussion.

Many donors have relied on UN agencies, regional institutions and international non-government organisations for project implementation. The fact that most of this work has been at the community level implies that government procedures have generally not been used for procurement, payments, accounting, auditing, and financial reporting procedures. In some cases, project activities can be managed by ministry staff under contract with a donor, but this has meant the officer is temporarily removed from the government payroll until the expiration of the contract. Some issues remain with regard to differentials in travel allowances paid by donor agencies and the government. Many project staff at the community level have been paid in cash because of the under-developed banking system.

More recently, the Government and donors have set up a few multi-donor trust funds. These have generally proven to be a positive experience in terms of coordination, policy dialogue and a shared understanding of results. Looking forward, it will be especially important for the government and its donor partners to support the strengthening of institutions and avoid a range of practices that in other countries have tended to undermine institutional development: these include (i) “brain drain” of the best civil servants to development partner-financed structures, (ii) salary “top-ups” or payments to government officials outside government norms which create distortions and unsustainable practices for the rest of the administration, and (iii) multiplication of project-specific and separate implementation structures. Some of these practices might be well intended for short term quick delivery of results but in the long term undermine the ability of institutions to deliver services and design and implement policies.

311. Assistance between 2006 and 2011 was provided by 23 bilateral donors, 5 multilateral agencies, and 14 UN agencies. A list is provided in Annex Table 2. The largest donors in recent years include: Australia, the European Commission, the Global Fund for Vaccination and Inoculation, Japan, Norway,

Sweden, the United Kingdom, and the United States of America. This assistance contains elements of both recurrent and capital expenditures. Due to international sanctions during the period under review, only a small fraction of this aid was channeled through the public sector, primarily for non-procurement related activities such as teacher training in the townships. No direct budget support, nor sector-wide support, had been provided during the period under review. Assistance therefore took the form of projects, technical assistance, and aid in-kind. There has thus been almost no use of country systems for procurement, payments, accounting, auditing, or reporting. A comprehensive assessment of donor practices regarding the sharing of financial information with the government remains pending.

D-1: Predictability of Direct Budget Support.

Direct budget support to the Union Government is expected in the near future but the Union Government has not received such support at the time of this assessment.

- (i) *Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)*

Not applicable.

- (ii) *In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)*

Not applicable.

D-2: Financial Information Provided by Donors for Budgeting and Reporting on Project and Program Aid

312. Predictability of disbursement of donor support for projects and programs affects the implementation of specific line items in the budget. Project support can be delivered in a wide range of ways, with varying degrees of government involvement in planning and management of resources. A lower degree of government involvement could lead to problems in budgeting resources (including presentation in the budget documents for legislative approval) and in reporting of actual disbursement and use of funds (which will be entirely the donor's responsibility where aid is provided in-kind). While the Government through its spending units should be able to budget and report on aid transferred in cash (often as extra-budgetary funding or through separate bank accounts), the government is dependent on donors for budget estimates and reporting on implementation for aid in-kind. Donor reports on cash disbursements are also important for reconciliation between donor disbursement records and government project accounts.

- (i) *Completeness and timeliness of budget estimates by donors for project support*

313. Overall, most development partners do not provide budget estimates for disbursement of project aid for the coming fiscal year and at least three months prior to its start, indicating a rating of D for this dimension. The FERD has some reporting processes and mechanisms in place, but the MNPED acknowledges that they are a work in progress. For example, development partners are supposed to sign memoranda of understanding (MOU) with the FERD. The MOU would provide estimates of project support, though it appears not all partners sign the MOU, or do not sign them in a timely manner from the perspective of the budget calendar. Similarly, data provided by partners is neither precise nor comprehensive. The FERD does not have information on international NGO project support; nor is this information included in the budget by the MFR. Still, the FERD prepares estimates, based on the

available information, for use in national planning process, though it does not routinely report this information to the Budget Department.

314. Some partners do provide estimates of their support for budgeting purposes. For example, officials from the Ministry of Health reported that UNICEF and the ministry conduct an annual budgeting exercise together in which activities and funding are agreed. WHO shares budget estimates with the government at the annual WHO Regional Committee meetings, through the Sub-Committee on Policy and Program Development. These meetings are held in the fall months, typically September, in time for incorporation into the budget for the forthcoming year.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

315. There is some reporting by development partners on actual project support flows, but there are major limitations on the frequency, timeliness, and coverage of the information provided, thus indicating a rating of D for this dimension. Some donors, such as the UNDP, provide quarterly reports on actual spending to the FERD. The FERD also attempts to obtain spending estimates from line ministries directly. The FERD provides rudimentary forms to line ministries, which are supposed to provide data to the FERD on a quarterly basis. Weak partner reporting to line ministries also, however, limits the effectiveness of this approach. Some information is provided, though it is incomplete and not usually provided in a timely manner. Loan transactions are reported more rigorously (e.g., on a weekly basis internally).

Dimension	Analysis	Indicated Score	Framework Requirement	Evidence Used
(i) Completeness and timeliness of budget estimates by donors for project support	There is some reporting by development partners on actual project support flows, but there are major limitations on the frequency, timeliness, and coverage of the information provided.	D	Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior to its start.	Correspondence with selected development partners; OECD/DAC database; reporting formats from FERD/MNPED.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	Most development partners do not provide budget estimates for disbursement of project aid for the coming fiscal year and at least three months prior to its start.	D	Donors do not provide quarterly reports within two months of the end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.	Correspondence with selected development partners; OECD/DAC database; reporting formats from FERD/MNPED.
Overall Score		D		

D-3: Proportion of Aid that is Managed by Use of National Procedures

316. National systems for management of funds are those established in the general legislation (and related regulations) of the country and implemented by the mainstream line management functions of the government. The requirement that national authorities use different (donor-specific) procedures for the management of aid funds may be justified in the short-run but, over the long-run will reduce incentives to improve the capacity and quality of the national systems. The problem is compounded when different development partners have different requirements.

317. The use of national procedures mean that the banking, authorization, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds. All direct and un-earmarked budget support (general or sector based) will by definition use national procedures in all respects. Other types of donor funding, such as earmarked budget support, basket funds, and discrete project funding may use some or no elements of national procedures.

(i) Overall proportion of aid funds to central government that are managed through national procedures

318. Due to international sanctions during the period under review, almost all the cooperating partner-financed activities operate outside the country's PFM system. According to data supplied through the OECD. Only 13 percent of official development assistance was channeled through the public sector. Partners therefore generally use procedures that are different from the country's regular procurement, payments, accounting, auditing, and financial reporting procedures.

319. Only a small fraction of external aid funds were channeled through the public sector (ministry and department accounts 05 and 06), primarily for non-procurement related activities such as scholarships, training, seminars, supervision, and monitoring. Flows through these accounts are generally subject to the full array of government systems for payments, accounting, auditing, and financial reporting. In addition, a number of "Other Accounts" have been established in order to forward some of the assistance flowing through ministry accounts to the township level (e.g. by the ministries responsible for education and health). It is government practice not to allow procurement from these forwarded grant funds. Flows through these accounts are generally subject to the full array of government systems for accounting, auditing, and financial reporting.

Indicator	Analysis	Indicated Score	Framework Requirement	Evidence Used
Overall proportion of aid funds to central government that are managed through national procedures.	Due to international sanctions during the period under review, almost all the cooperating partner-financed activities operate outside the country's PFM system.	D	Less than 50% of aid funds to central government are managed through national procedures.	Correspondence with selected development partners; OECD/DAC database; discussions with MNPED and MFR.

4. Government Reform Process

320. The Public Finance Management (PFM) reforms being undertaken are part of a much broader reform program of the Government. Since 2011 the elected government has been undertaking major structural reforms to the political governance system, the banking and financial sector, the public sector, and the investment climate/private sector development area. The reform efforts have been aimed at making the political space more democratically contested and electorally representative, liberalizing the financial sector and unifying the exchange rate to reduce market distortions, promote greater financial intermediation and capital market development, reforming tax policy and budgeting systems to enhance the revenue effort and making the budget more transparent and responsive to local needs, rationalizing different regulations and abolishing permits that constrain private enterprise to flourish.

321. Recognizing the need to robustly manage the emerging PFM reform program, the Office of the President has endorsed MFR's request to establish PFM reform steering and technical committees. The decision was taken to repurpose the existing PEFA Steering and Technical Committees into the new managerial and technical level reform committees. The purposes of the reform committees is to design and drive the reforms as well as coordinate the program with the development partners.

322. With regard to management of public finances, there have been two major catalysts for reforms since 2011. First, the operationalization of the Parliament and establishment of the Public Accounts Committee and the Planning and Finance Committee have resulted in enhanced external scrutiny and oversight over the budget by the Parliament, the public airing of budgetary debates on the national television and enhancing budgetary transparency thorough publication of the budget law in national newspapers. Second, the constitutional requirement for separation of regional and state budgets from the union fund accounts has required rapid deconcentration of budgeting and planning functions to support bottom up planning and budgeting processes at the state and regions level. In order to coordinate and integrate state and region budgets with the union budget, the government has also established the Financial Commission and the National Planning Commission. The new planning and budgeting practices has also resulted in a deconcentration of PFM policy functions from the President's Office to the MFR and the MNPED, respectively. Prior to 2011 the policy making function was centralized with the President's Office, and the respective line agencies only required to implement top-down policies.

323. Another major development has been the change in the treatment of SEEs. Since 2011 the Government has moved to make SEE management independent of the corresponding parent ministry and more market oriented, stopped the practice of providing budgetary support to cover SEE losses – with a move to providing loans to SEEs for covering losses, making operational results more transparent – and moved toward privatization of some SEEs. This change has resulted in less government control over SEE operations but also of reduced ministerial oversight of SEEs.

324. The fast pace of reform has meant that the authorities have made significant changes in PFM practices without either drawing up a reform strategy or updating the rules and regulations that govern public finances to be in line with the current practices. Where regulation has been passed, it has remained at a relatively high level with significant leeway given to agencies to determine policy implementation. This has made the current PFM system under regulated and largely practice based.

325. The majority of the PFM reforms have focused on delegation of authority downward – from the Union Government to the states and regions (for meeting regional and state level development needs), from central agencies to sectoral ministries (for example on public procurement and internal audit functions), and from sector ministries to SEEs (by making them more arm's length, less dependent on budget financing, and more commercial). Less emphasis has been put on ensuring that the rules and regulations governing the delegated system are at par with actual current practices, that the control environment is outdated and accountability for results systems not yet in place. At the same time, fiscal transparency and the focus on results is quite limited. This makes the current PFM system in Myanmar susceptible to mismanagement because of the asymmetry between significant delegation but the lack of adequate controls and assurance systems needed in a highly delegated PFM system.

326. This section describes briefly some of the specific PFM reforms undertaken by Government, presents some weaknesses identified as part of the PEFA assessment based on the performance indicators, and presents some forward looking reforms which the Government is in the process articulating more clearly through a PFM reform strategy.

Tax policy and administration reforms

327. The revenue effort in Myanmar is low compared with other ASEAN countries. The revenue to GDP ratio in Myanmar was 6.7 percent in FY2011/12, compared to the average ASEAN country revenue to GDP ratio of about 15 percent. Low revenue collection significantly limits the ability of the government to undertake needed expenditures, as well as complicates cash management.

328. The MFR began tax policy and administration reforms in 2012 aimed at increasing the revenue effort and simplifying tax policy. From FY2012-13 the Government: (i) replaced gross profit tax with net profit tax, (ii) increased taxable income thresholds for salary earners and brought public servants into the tax net; (iii) abolished differential corporate tax rates on foreign exchange earnings; (iv) rationalized the commercial tax on most goods and services to 5 percent and reduced the number of different tax rates applied, as well as increasing the number of services subject to the commercial tax. These reforms are aimed at simplification of revenue in order to enhance compliance and increase revenue collections in an efficient and accountable manner.

329. The Government has also taken initial steps to improve transparency of tax policy and its administration. In April 2012 the Government published the revised personal income tax code and corporate tax code in both Myanmar and English on the website of the Internal Revenue Department (IRD). The IRD also published and distributed a simplified guide to taxpayers for calculating taxable income based on the revised tax code for all major tax instruments. This was followed up by a countrywide taxpayer outreach program, including training to tax officials on application of the revised tax laws.

330. However there are still significant shortcomings in tax policy. Myanmar does not yet have a unified tax code which compromises the consistency of the overall tax policy and leads to tax cascading. Major tax instruments are legislated separately and are quite dated, different tax laws allow for significant leeway in granting tax exemptions without estimating tax expenditures. Additionally the rate structure of commercial taxes could be simplified further for efficiency purposes.

331. Tax administration also faces major challenges. Myanmar practices the administered tax assessment system which allows for significant collusive interactions between taxpayers and collectors. Although the government has implemented a General Index Registration system for taxpayers, only 0.4 percent of the population is registered. Additionally, the GIR number is used only within a specific geographical area. It is not unique and can duplicate across regions and tax-type directorates. The same taxpayer may have multiple GIRs if she/he operates in different types of businesses in different regions. As such the GIR is not an effective control mechanism and fails to facilitate communication with third parties. The compliance management system is weak, showing collection rates of less than 30 percent for the commercial tax and 60 percent for income tax.

332. The Government is cognizant of these weaknesses and is planning to address these deficiencies. In this regard, the MFR plans to develop a sequenced revenue policy and administration reform program which focuses on further simplifying revenue policy, modernizing administration, enhancing revenue transparency, and promoting compliance. Potential reform elements include: (i) comprehensive revision of tax policy along with rules and regulations governing tax administration; (ii) modernizing the tax assessment system; (iii) strengthening taxpayer identification system concurrent with progressively building a modern risk-based tax audit system; (iv) developing more efficient and modern tax instruments; and (v) improving the arrears management system. These reforms will require significant change management, institutional restructuring, and capacity enhancement.

Expenditure management reforms

333. Establishment of the Union, region, and state parliaments in 2011 has heralded a fundamental change in the expenditure management system. Prior to 2010 the budgeting and planning system was top-down with the Chairman of the State Peace and Development Council signing-off on the budget without any external consultation or scrutiny. This changed with the establishment of the parliamentary system of government and establishment of regional and state parliaments. Starting with fiscal year 2012/13, the

Government separated regional and state budgets from the Union budget. This is aimed at making the budget process more bottom-up and responsive to local needs.

334. In order to effectively coordinate and integrate the budget process for the Union, state and regional levels, the Government has also established new institutions. First, township level planning committees were established to provide inputs into the formulation of regional and state budgets. Second, the Financial Commission (FC) was established to coordinate the Union budget with regional and state budgets. The FC is chaired by the President and comprises the Minister for Finance and Revenue (Secretary), Chief Ministers from the regions and states, the Minister for National Planning and Economic Development, the Auditor General and the Attorney General. The FC reviews the proposed union and state and regional level budgets and subsequently submits them to Parliament for approval. Third, in June 2012, the Government also constituted the Planning Commission (PC) – chaired by the President and comprising the Minister for National Planning and Economic Development (Secretary), all Union Ministers, all Chief Ministers from Regions and States, the Union Auditor General, and the Attorney General. The PC coordinates the formulation and implementation of the National Development Plan along with providing high level guidance to agencies on project implementation issues on a case-by-case basis.

335. There have also been reforms aimed at improving alignment of the budget to development priorities. One of the characteristic features of past budgets has been the dominance of allocations to defense, while allocations to such critical sectors as health and education have been relatively very low even compared to peers and neighboring countries. In FY2011/12, military outlays accounted for about 23.5 percent of all expenditure in comparison to only 5.4 percent of total spending allocated to health and education. However, Government has started the process of realigning the budget to critical development priorities. In the FY2012-13 budget, on-budget military spending was reduced by ten percent, accounting for 14.4 percent of total budgeted expenditures. Concurrently, nominal allocations to education and health were increased. In terms of shares of total planned expenditure, education and medical care expenses accounted for 4.7 percent and 2.8 percent, respectively, each up about 1 percentage point.

336. However, the legislative framework has lagged the new budget planning practices. While the government has changed budgeting-planning systems very expeditiously, the financial rules and regulations, budget planning and management guidelines, internal control framework, and financial reporting rules have not been updated to reflect these new practices. Instead the public financial management system functions by “generation by generation” practices. This makes Myanmar one of the most practice-based systems in the world. For example, the public procurement system is regulated by a brief Order of the President’s Office mandating agencies to establish an open tender system for public procurement. However, there are no centrally issued subsidiary regulations on how the open tender system should be organized and monitored. Instead, agencies have been given the autonomy in determining the structure of their respective open tender systems. With no central monitoring agency responsible for procurement policy and administration, there is thus no regulatory yardstick to determine whether or not the country procurement system is being run in an efficient and effective manner.

Enhancing transparency in the management of public finances

337. Since 2011 the government has also been undertaking reforms aimed at enhancing transparency of public finances. In FY2012/13 the Government changed the budget and accounting processes to use a more market based exchange rate for foreign currency transactions. This reform is very significant as it allows for greater transparency in tax collections from foreign transactions and also allows agencies greater realism on the expenditure side by minimizing the need for fictitious adjustments on expenditures made in foreign exchange. Furthermore, the Government published the Union Budget Law for FY2012/13 in the Official Gazette, and in the Myanmar Ah-Lin and Mirror newspapers. This marks a

significant step toward improved transparency since the published budget provides information of interest, such as the recurrent and capital budgets for each ministry and transfers to states and regions.

338. Moreover, the Government has established an Extractive Industries Transparency Initiative (EITI) Leading Authority chaired by the Minister to the President's Office and comprising the Minister for Environment Conservation and Forestry, the Minister for Energy, Minister for Mines, and the Minister for Finance and Revenue. The Center for Economic and Social Development at the Myanmar Development Resources Institute has been assigned the role of EITI National Coordinator. The Leading Authority has been tasked to develop the detailed EITI implementation plan so that the Government can formally apply to be an EITI member. This work is expected to be completed by December 31, 2013 (as per the official notification issued by the President's Office in the local news media).

339. Notwithstanding these positive developments, fiscal transparency remains quite constrained and practice based. The legislative instruments and the financial regulations are mostly silent on disclosure of fiscal information. The publication of the FY2012/13 budget in the newspapers was based on the recommendations of the PAC. Myanmar does not publish some of the fiscal information that the PEFA considers as good practice. These include in-year budget reports; year-end financial statements; external audit reports; information contract awards; and financial resources availed to primary service units such as elementary schools and primary health clinics. Hence, there is significant room for legislatively mandating greater fiscal disclosure and ensuring compliance. At the same time, fiscal transparency depends on sound management practices and IT systems, thus necessitating a gradual approach. Some gains could be realized in the short term (1-2 years), including: making more budget information available to the public (e.g., year-end financial statements, external audits, procurement contract awards, etc.). Other measures would take more time, including to prepare the technical inputs, and are feasible over the medium term (3-5 years), including: strengthening budget classification; preparing analysis of previous FY budget execution and comparing past data with current budgets; bringing more spending onto the budget (including from donors and INGOs); working with donors and INGOs to provide more information to the Government; and clarify rules for allocations from Union level to state/regions.

340. In order to ensure that the highly delegated PFM system provides accountable and efficient public services, there is need to put in place adequate control and accountability mechanisms that balance the current flexibility to front line service delivery units by providing assurance that public resources are being put to appropriate use within an effective control environment in an efficient manner.

341. The Government appreciates that weaknesses remain and is thinking through an appropriate PFM reform program to address these challenges sequentially. In this regard, the MFR, together with the MNPED, are intending to develop a PFM reform strategy based on technical inputs from this report, the recent IMF Public Finance Management Assessment, and the planned Public Expenditure Review. It must be stressed that the Government would need careful prioritization at each stage. Taking into account scarce capacity, Government should vigorously resist the temptation to overload the agenda.

342. It would be conceptually useful to define a short term and a medium term reform objective. The possible short-term objective could be conceptualized as *"Strengthen MFR's ability to manage the transition while addressing key regulatory gaps and laying the foundation for the future reforms."* The transition refers to the new developments in Myanmar, which is a complicated and transitional process that involves constitutional and economic reform that places new pressures on the PFM system. The regulatory gaps refer to key missing pieces and ambiguities in the PFM process that could be addressed quickly.

343. **Managing the transition** should focus on the most immediate needs arising from the economic policy and public sector reforms underway. There are three top priorities. First, arrangements must be

made to manage the separation of the CBM from the MFR. The MFR will need to deal with the public finance functions to which the CBM previously contributed (consolidate accounting statements and systems, debt management, cash flow management). Second, given that Myanmar's system is in a state of massive flux, a premium should be put on prudent risk management. The MFR would benefit from developing an analysis of fiscal risks emanating from the transition and mechanisms to address them (including SEE risks). For example, while current accounting systems will not permit a systematic risk analysis, a number of simple steps could be taken, including making lists of major contingent liabilities (which may or may not include valuations), quasi-fiscal operations of SEEs that could impact their performance and the budget, and tax expenditures. Similarly it would be important to start articulating clearly the central-local government fiscal relations system while incorporating measures to mitigate risks of contingent liabilities that may arise from borrowing by state and regional governments. Third, given Myanmar's wealth of natural resources, and its embrace of a more market-oriented economy, it is critical that policies and systems be established to strengthen regulation and management of natural resource revenue flows. Myanmar has already made an important start on strengthening governance of the natural resource sector by taking steps toward adoption of the Extractive Industries Transparency Initiative, which bodes well – but much more will be required to ensure that Myanmar captures its revenue potential in a sustainable way and that flows are channeled through government systems in a way that allows for transparency and accountability.

344. At the same time it would be important to ***address high priority gaps in the regulatory framework*** (mainly, improvements in financial regulations and minimum rules on procurement and internal audit) while commencing development of stronger overarching public finance legislation (e.g., a budget law) to be implemented over the medium term. For example, high priority gaps exist in procurement and internal audit, given the presidential instructions issued in 2012 ordering ministries to set up internal audit units and undertake competitive procurement. Ministries urgently need a modicum of guidance on minimal acceptable standards and processes in order to comply with the President's orders. Similarly, another short term priority is building a stronger budget policy unit/function, which would include developing macroeconomic forecasting capacity, developing a fiscal policy framework, and strengthening prioritization of capital spending. This latter priority is also related to the expected growth of revenue, including from natural resources, from higher rates of economic growth as well as revenue policy (tax and non-tax) reforms.

345. ***Laying the foundation for future reform*** refers to the need to set up a management structure and develop tools needed to design and implement the reforms. A key first step, which the President's Office has authorized in early 2013, is establishing an executive reform committee and secretariat to prepare and lead a PFM reform program. Other critical elements of the reform program would include: a vision of reform (the system reform objectives for a 10 year period, say); detailed reform action plans (by PFM sub-system: expenditure, tax, procurement, external audit, etc.); a capacity development plan, including ICT; and a performance management framework (e.g., monitoring of selected PEFA PIs). It is also worth noting that the PFM reform program will have further implications for MFR organizational design (which will become apparent after reform program is developed), which would need to be addressed.

346. In a way the proposed approach – “*Strengthen MFR's ability to manage the transition while addressing key regulatory gaps and laying the foundation for the future reforms.*” – is only really playing “catch up” with the fast moving realities of Myanmar today. The PFM reform program that Myanmar develops will need to carefully prioritize and sequence reform measures, given scarce capacity and the significant need for improvement across the board. The PEFA Performance Report indicates the need for strengthening across all areas of all PFM sub-systems. Obviously, all these areas cannot be addressed simultaneously. Nor does the Performance Report provide guidance about which areas to prioritize for reform. Rather, the diagnosis as to which PFM areas to address depends on country contextual factors,

such as the level of capacity, policy objectives, macroeconomic conditions, and political economy constraints.

347. One approach to PFM reform sequencing is focusing on the basic functionalities of the system, and this may well be the best way to think about the reform program in Myanmar. “Getting the basics right first” provides some overarching guidance as to what should be done (as well as not done), but much more work needs to be done to arrive at a specific set of short- and medium-term priorities. Key contextual factors are Myanmar’s decision to decentralize rapidly, which has already started, and its significant natural resource wealth, both of which must be taken into account when developing the logic of reform sequencing.

348. A “basics first” logic of prioritization could suggest the following four priorities: *First*, the credibility of the budget (defined as divergence between the budget plan and actual spending) is low, thus creating negative impacts on line ministry planning and service delivery. There are a number of reasons why credibility is low, including: the use of large (and late) supplementary budgets, weak revenue forecasting, limitations in public investment planning, and the lack of information on donor funded projects. These measures to strengthen budget credibility would increase reliability for Union ministries as well as the newly empowered states and regions. *Second*, management would benefit from incrementally better information on the budget and actual spending. Priorities here include: strengthening budget classification, providing some basic ICT functionality to plan, record, and analyze expenditure; strengthening the comprehensiveness of information provided in budget documentation; and enhancing oversight of fiscal risk (as discussed above). *Third*, building up some basic regulations and controls would help reduce fiduciary risk. Key measures here would include: strengthening taxpayer registration and assessment; strengthening procurement; and improving payroll controls. *Fourth*, making external oversight more robust would provide enhanced incentives for better public financial management. Key reform measures here would include: improving the quality and timeliness of in-year budget reports; further building up the scope and quality of external audits; and providing adequate technical support to the Parliamentary committees reviewing Government plans and budgets. These four priorities are not meant to be definitive but rather suggestive. As noted in this report, a PEFA Performance Report, by itself, is not adequate to plan a PFM reform program. Much more work will be needed, but it is hoped that these suggestions provide some useful inputs to the Government as it commences the next steps in its reform process.

Annex 1: Variance in Spending: Budgets vs. Actuals, FY2008-2009 – FY2010-2011

Table 1: Myanmar FY2008-09

Administrative head, Kyat millions	Original budget	Revised Budget	Executed	Adjusted budget	Deviation	Absolute deviation	Percent
Administrative Organizations	375,988	661,685	658,872	408,599	250,273	250,273	61%
Finance & Rev. excl. Reserve Fund	233,986	327,151	331,703	254,281	77,422	77,422	30%
Defense affairs	354,446	362,214	465,147	385,189	79,958	79,958	21%
Home Affairs	52,467	54,690	53,339	57,018	-3,679	3,679	6%
Education	167,416	176,782	174,858	181,937	-7,079	7,079	4%
Health services	44,810	47,192	45,821	48,697	-2,876	2,876	6%
Environment	116,138	120,512	121,396	126,211	-4,815	4,815	4%
Transport	78,319	77,632	74,413	85,112	-10,699	10,699	13%
Communication	242,852	261,506	259,594	263,916	-4,322	4,322	2%
Electric Power (1)	188,232	233,224	228,443	204,558	23,885	23,885	12%
Electric Power (2)	295,939	299,082	295,385	321,607	-26,222	26,222	8%
Energy	1,381,115	1,166,009	1,089,021	1,500,905	-411,884	411,884	27%
Mines	32,383	31,957	28,514	35,192	-6,678	6,678	19%
Industry	467,856	496,228	483,460	508,435	-24,975	24,975	5%
Construction	206,611	232,831	231,037	224,531	6,506	6,506	3%
Information	21,538	24,001	23,073	23,406	-333	333	1%
Agriculture and Irrigation	197,793	273,121	257,727	214,948	42,779	42,779	20%
Livestock, Breeding & Fisheries	49,850	47,089	29,144	54,174	-25,030	25,030	46%
Science	27,431	28,995	28,982	29,810	-828	828	3%
Rail Transport	115,346	136,819	134,502	125,350	9,152	9,152	7%
All Other	72,734	120,298	118,486	79,043	39,443	39,443	50%
+ allocated primary expenditure	4,723,250	5,179,018	5,132,917	5,132,917	0	1,058,836	
+ contingency (reserve fund)	100	100	0				
= total primary expenditure	4,723,350	5,179,118	5,132,917				
+ interest	162,853	172,814	181,203				
+ financial expenditure	1,098	1,094	771				
= total expenditure	4,887,301	5,353,026	5,314,891				
overall variance PI-1							8.7%
composition variance PI-2(i)							20.6%
contingency share of budget PI-2(ii)							0.0%

Source: Budget Department and staff calculations.

Table 2: Myanmar FY2009-10

Administrative head, Kyat millions	Original budget	Revised Budget	Executed	Adjusted budget	Deviation	Absolute deviation	Percent
Administrative Organizations	377,435	1,115,225	1,089,624	422,961	666,663	666,663	158%
Finance & Rev. excl. Reserve Fund	362,058	446,177	423,739	405,729	18,010	18,010	4%
Defense affairs	561,088	672,888	657,299	628,766	28,533	28,533	5%
Home Affairs	58,454	64,359	92,044	65,505	26,539	26,539	41%
Education	187,075	210,224	209,461	209,640	-179	179	0%
Health services	50,754	57,119	55,836	56,876	-1,040	1,040	2%
Environment	129,217	137,933	152,599	144,803	7,796	7,796	5%
Transport	89,120	92,211	92,070	99,870	-7,800	7,800	8%
Communication	265,089	267,471	271,170	297,064	-25,894	25,894	9%
Electric Power (1)	276,807	277,994	283,080	310,195	-27,115	27,115	9%
Electric Power (2)	327,466	335,677	322,331	366,965	-44,634	44,634	12%
Energy	1,243,891	917,458	899,024	1,393,928	-494,904	494,904	36%
Mines	44,217	44,150	40,674	49,550	-8,876	8,876	18%
Industry	558,824	510,648	484,017	626,229	-142,212	142,212	23%
Construction	240,494	261,338	310,365	269,502	40,863	40,863	15%
Information	26,568	27,541	23,443	29,773	-6,330	6,330	21%
Agriculture and Irrigation	209,416	233,121	243,919	234,676	9,243	9,243	4%
Livestock, Breeding & Fisheries	59,167	49,240	29,049	66,304	-37,255	37,255	56%
Science	23,415	25,646	25,676	26,239	-563	563	2%
Rail Transport	172,829	178,602	184,303	193,676	-9,373	9,373	5%
All Other	84,460	104,748	103,175	94,648	8,527	8,527	9%
+ allocated primary expenditure	5,347,844	6,029,770	5,992,898	5,992,898	0	1,612,349	
+ contingency (reserve fund)	100	100	0				
= total primary expenditure	5,347,944	6,029,870	5,992,898				
+ interest	185,812	289,628	263,180				
+ financial expenditure	1,036	1,966	4,514				
= total expenditure	5,534,792	6,321,464	6,260,592				
overall variance PI-1							12.1%
composition variance PI-2(i)							26.9%
contingency share of budget PI-2(ii)							0.0%

Source: Budget Department and staff calculations.

Table 3: Myanmar FY2010-11

Administrative head, Kyat millions	Original budget	Revised Budget	Executed	Adjusted budget	Deviation	Absolute deviation	Percent
Administrative Organizations	665,986	1,432,380	1,261,805	800,278	461,527	461,527	58%
Finance & Rev. excl. Reserve Fund	488,866	625,872	558,207	587,443	-29,236	29,236	5%
Defense affairs	849,808	1,323,066	1,297,051	1,021,167	275,884	275,884	27%
Home Affairs	94,050	112,464	115,443	113,015	2,428	2,428	2%
Education	262,907	266,907	266,702	315,921	-49,219	49,219	16%
Health services	69,758	78,390	77,024	83,824	-6,800	6,800	8%
Environment	143,166	146,692	147,683	172,035	-24,352	24,352	14%
Transport	85,238	83,181	82,951	102,426	-19,475	19,475	19%
Communication	288,709	302,867	309,065	346,926	-37,861	37,861	11%
Electric Power (1)	227,576	242,486	239,336	273,465	-34,129	34,129	12%
Electric Power (2)	445,222	451,528	415,451	534,999	-119,548	119,548	22%
Energy	932,664	865,925	817,068	1,120,731	-303,663	303,663	27%
Mines	52,171	47,792	47,569	62,691	-15,122	15,122	24%
Industry	433,428	375,701	348,902	520,826	-171,924	171,924	33%
Construction	301,304	422,901	446,926	362,060	84,866	84,866	23%
Information	29,390	30,898	27,366	35,316	-7,950	7,950	23%
Agriculture and Irrigation	216,486	289,656	282,051	260,139	21,912	21,912	8%
Livestock, Breeding & Fisheries	55,914	55,924	39,995	67,189	-27,194	27,194	40%
Science	34,606	42,452	42,327	41,584	743	743	2%
Rail Transport	171,288	187,052	186,111	205,827	-19,716	19,716	10%
All Other	99,356	112,746	138,220	119,391	18,829	18,829	16%
+ allocated primary expenditure	5,947,893	7,496,880	7,147,253	7,147,253	0	1,732,377	
+ contingency (reserve fund)	100	100	0				
= total primary expenditure	5,947,993	7,496,980	7,147,253				
+ interest	313,901	364,963	358,467				
+ financial expenditure	1,059	1,377	1,219				
= total expenditure	6,262,953	7,863,320	7,506,939				
overall variance PI-1							20.2%
composition variance PI-2(i)							24.2%
contingency share of budget PI-2(ii)							0.0%

Source: Budget Department and staff calculations.

Annex 2: List of Donors Active between 2006 and 2011

Bilateral	Multilateral	United Nations
Australia Austria Belgium Canada Denmark Finland France Germany Greece Ireland Italy Japan Luxembourg Netherlands New Zealand Norway Portugal Republic of Korea Spain Sweden Switzerland United Kingdom United States	European Commission Humanitarian Aid and Civil Protection (ECHO) European Commission (EC) Global Alliance Vaccines and Immunization (GAVI) Global Fund International Energy Agency	FAO ILO OCHA UN Habitat UNAIDS UNDP UNESCO UNFPA UNHCR UNICEF UNODC UNOPS WFP WHO

Source: OECD DAC website.

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