Document of
The World Bank

Report No: PAD925

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR19.6 MILLION
(US$ 30 MILLION EQUIVALENT)

AND A PROPOSED MULTI-DONOR TRUST FUND GRANT

IN THE AMOUNT OF $25 MILLION

TO

THE REPUBLIC OF THE UNION OF MYANMAR

FOR A

MODERNIZATION OF PUBLIC FINANCE MANAGEMENT PROJECT

February 28, 2014

CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2014)

Currency Unit	=	Myanmar Kyat (MMK)
984 MMK	=	US$1
1.53 US$	=	SDR 1

FISCAL YEAR
April 1 – March 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AG	Auditor General
ASEAN	Association of Southeast Asian Nations
BD	Budget Department
BOT	Build-Operate-Transfer
CBM	Central Bank of Myanmar
CCTO	Company Circle Tax Office
CD	Customs Department
BOT	Build-Operate-Transfer
COFOG	Classification of the Functions of Government
DFAT	Department of Foreign Affairs and Trade
EITI	Extractive Industries Transparency Initiative
FC	Financial Commission
FERD	Foreign Economic Relations Department
FMC	Financial Management Committee
FR	Financial Regulations
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GIR	General Index Registration
GOM	Government of the Union of Myanmar
GRF	General Reserve Fund
HS	Harmonized Systems
ICT	Information and Communications Technology
IFR	Interim Unaudited Financial Report
IMF	International Monetary Fund
INGO	International Non-Governmental Organization
INTOSAI	International Organization of Supreme Audit Institutions
MOGE	Myanmar Oil and Gas Enterprise
MOH	Ministry of Health
MOHA-GAD	Ministry of Home Affairs General Administration Department
MOU	Memorandum of Understanding
MNPED	Ministry of National Planning and Economic Development
MP	Member of Parliament
NGO	Non-Governmental Organization
OA	Other Account
OAG	Office of the Auditor General
ODA	Official Development Assistance
ORAF	Operational Risk Assessment Framework
PA	Provisional Actual
PAC	Public Accounts Committee
PC	Planning Commission
PCAU	Procurement Coordination and Advisory Unit
PDO	Project Development Objectives
PEFA	Public Expenditure and Financial Accountability
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PPP	Public-Private Partnerships
PR	Performance Report
R&D	Research and Development
RAT	Revenue Appellate Tribunal
RE	Revised Estimate
SAO	State Administrative Organizations
SDR	Special Drawing Rights
RE	Revised Estimate
SEE	State Economic Enterprises
SFA	State Funds Account

ABBREVIATIONS AND ACRONYMS

IPSAS	International Public Sector Accounting Standards
ISN	Interim Strategy Note
JICA	Japan International Cooperation Agency
IRD	Internal Revenue Department
MEB	Myanma Economic Bank
MIC	Myanmar Investment Commission
FERD	Foreign Economic Relations Department
FMC	Financial Management Committee
MOF	Ministry of Finance
MOD	Ministry of Defense
SNG	Sub-National Government
SORC	Special Orders for Rapid Clearance
SEE	State Economic Enterprises
SPDC	State Peace and Development Council
TIN	Tax Identification Number
TWG	Technical Working Group
UNDP	United Nations Development Program
UK AID	United Kingdom Department for International Development
UNICEF	United Nations Children's Fund
US-OTA	US Treasury Department's Office of Technical Assistance
WBG	World Bank Group

Regional Vice President:	Axel van Trotsenburg
Country Director:	Ulrich Zachau
Sector Director:	Sudhir Shetty
Sector Manager:	Mathew Verghis
Country Manager:	Kanthan Shankar
Task Team Leader:	Saiyed Shabih Ali Mohib

REPUBLIC OF THE UNION OF MYANMAR

MODERNIZATION OF PUBLIC FINANCE MANAGEMENT PROJECT

TABLE OF CONTENTS

PAD DATA SHEET

Myanmar

Modernization of Public Financial Management (P144952)

PROJECT APPRAISAL DOCUMENT

EAST ASIA AND PACIFIC

EASPT

Report No.: PAD925

Basic Information		
Project ID P144952	EA Category C - Not Required	Team Leader Saiyed Shabih Ali Mohib
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]	
	Financial Intermediaries [ ]	
	Series of Projects [ ]	
Project Implementation Start Date 15-Apr-2014	Project Implementation End Date 31-Mar-2019	
Expected Effectiveness Date 11-Apr-2014	Expected Closing Date 30-Sep-2019	
Joint IFC No		

Sector Manager	Sector Director	Country Director	Regional Vice President
Mathew A. Verghis	Sudhir Shetty	Ulrich Zachau	Axel van Trotsenburg

Borrower: Republic of the Union of Myanmar			
Responsible Agency: Budget Department			
Contact:	U Maung Maung Win	Title:	Director General
Telephone No.:	66-95-6741-0322	Email:	nwenwewin1957@gmail.com
Responsible Agency: Office of the Auditor General of the Union			
Contact:	Daw Khin San Oo	Title:	Director General
Telephone No.:	66-95-67-407335	Email:	AUDITORGENERAL@mptmail.net.mm

Project Financing Data(in US$ Million)					
[ ]	Loan	[X]	Grant	[ ]	Guarantee
[X]	Credit	[ ]	IDA Grant	[ ]	Other

Total Project Cost:	55.00	Total Bank Financing:	30.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	30.00
Myanmar Strategic Partnership	25.00
Total	55.00

Expected Disbursements (in US$ Million)

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	0000
Annual	0.20	5.00	10.00	12.00	15.00	10.80	2.00	0.00
Cumulative	0.20	5.20	15.20	27.20	42.20	53.00	55.00	0.00

Proposed Development Objective(s)

The development objective of the project is to support efficient, accountable and responsive delivery of public services through the modernization of Myanmar's PFM systems and strengthening institutional capacity.

Components

Component Name	Cost (US$ Millions)
A. Improving Revenue Mobilization Through Bringing More Revenues from Natural Resources on Budget and Strengthening Tax Administration	11.00
B. Supporting Responsive Planning and Budget Preparations	14.00
C. Supporting Effective Budget Execution and Financial Reporting	15.00
D. Fostering External Oversight and Accountability	6.00
E. Establishing a Sustainable Institutional Platform and Skills-base for PFM	9.00

Institutional Data

Sector Board

Public Sector Governance

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	General public administration sector	100		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Economic management	Debt management and fiscal sustainability	20
Economic management	Macroeconomic management	20
Public sector governance	Public expenditure, financial management and procurement	30
Public sector governance	Tax policy and administration	30
Total		100

Compliance

Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01		**X**
Natural Habitats OP/BP 4.04		**X**
Forests OP/BP 4.36		**X**
Pest Management OP 4.09		**X**
Physical Cultural Resources OP/BP 4.11		**X**
Indigenous Peoples OP/BP 4.10		**X**
Involuntary Resettlement OP/BP 4.12		**X**
Safety of Dams OP/BP 4.37		**X**
Projects on International Waterways OP/BP 7.50		**X**
Projects in Disputed Areas OP/BP 7.60		**X**

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
Project institutional arrangements	**X**		CONTINUOUS

Description of Covenant

The Recipient shall maintain at all times during the implementation of the Project: the PFM Executive Reform team, focal points in each project line department, the PFM Reform Secretariat, and the Project

Support Services Units in MOF and OAG, all with functions, composition, staffing and resources satisfactory to the Association.

Name	Recurrent	Due Date	Frequency
Project Operations Manual	X		CONTINUOUS

Description of Covenant

The Recipient shall ensure that the Project is carried out in accordance with the arrangements and procedures set out in the Project Operations Manual.

Name	Recurrent	Due Date	Frequency
Annual Work Plans and Budgets	X		Yearly

Description of Covenant

The Recipient shall prepare and submit to the Association for its approval not later than two months before the beginning of each Fiscal Year an Annual Work Plan and Budget containing all eligible project activities and expenditures.

Name	Recurrent	Due Date	Frequency
Project Reports and Interim Unaudited Financial Reports	X		Semi-Annual

Description of Covenant

The Recipient shall submit to the Association project progress reports within 45 days of each calendar semester.

Name	Recurrent	Due Date	Frequency
Mid-term Progress Report		01-Apr-2016	

Description of Covenant

The Recipient shall: (a) on or about the date twenty four (24) months after the Effective Date, prepare and furnish to the Association a mid-term report, in such detail as the Association shall reasonably request, documenting progress achieved in the carrying out of the Project during the period preceding the date of such report.

Conditions

Name	Type
Cross-effectiveness	Effectiveness

Description of Condition

The Grant Agreement (for the Myanmar Partnership MDTF co-financing grant for the Project) has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the IDA Financing Agreement), have been fulfilled.

Team Composition

Bank Staff

Name	Title	Specialization	Unit
Saiyed Shabih Ali Mohib	Senior Economist	**Team Leader**	EASPT

Christine Wong	Operations Officer	Operations Officer	EASPW
Duc Minh Pham	Senior Economist	Senior Economist	EASPV
Joel A. Turkewitz	Lead Public Sector Specialist	Lead Public Sector Specialist	EASPR
Khwima Lawrence Nthara	Senior Economist	Senior Economist	EASPT
Leah April	Sr Public Sector Mgmt. Spec.	Sr Public Sector Mgmt. Spec.	EASPT
Mark Miller	Consultant	Economist	EASPT
May Thet Zin	Economist	Economist	EASPT
Miki Matsuura	Public Sector Mgmt. Spec.	Public Sector Mgmt. Spec.	EASPW
Paul Gerard Crilley	Consultant	ICT Specialist	EASPT
Peter Brooke	Consultant	PFM Advisor	EASPV
Robert Boothe	E T Consultant	Public Sector Specialist	EASPT
Robert R. Taliercio	Lead Economist	Lead Economist	EASPR
Angkanee Luangpenthong	Program Assistant	Program Assistant	EACTF
Aye Marlar Win	E T Temporary	Team Assistant	EACMM
Maung Maung Win	E T Temporary	Team Assistant	EACMM
Constantine Chikosi	Manager	Portfolio and Operations	EACTF
Christopher Robert Fabling	Sr Financial Management Specialist	Sr Financial Management Specialist	EASFM
Frederick Yankey	Senior FM Specialist	Senior FM Specialist	EASFM
Siriphone Vanitsaveth	FM Specialist	FM Specialist	EASFM
Sirirat Sirijaratwong	Procurement Specialist	Procurement Specialist	EASR2
Zhentu Liu	Senior Procurement Specialist	Senior Procurement Specialist	EASR2
Manush A. Hristov	Senior Counsel	Senior Counsel	LEGES
Miguel-Santiago da Silva Oliveira	Senior Finance Officer	Senior Finance Officer	CTRLN
Peer Reviewers			
Cyrus P. Talati	Senior Economist	Peer Reviewer	AFTP3
Hans Anand Beck	Senior Economist	Peer Reviewer	EASPN
Sanjay N. Vani	Lead FM	Peer Reviewer	OPSOR
William Leslie Dorotinsky	Adviser	Peer Reviewer	PRMPS
Non-Bank Staff			
Name	**Title**	**Organization**	**City**
Declan Magee	Economic Advisor	UK Aid	Yangon
Thom Adcock	Economist	UK Aid	Yangon
Tini Chatterjee	Program Manager	Australia Department for Foreign Affairs and Trade	Yangon

I. STRATEGIC CONTEXT

A. Country Context

1. **Since 2011, Myanmar has witnessed a remarkable process of change.** The country has embarked on a series of ambitious reforms, which include the establishment of a Parliament, separation of State and Region budgets from the Union together with decentralization of functional responsibilities to lower tiers of government, separation of the Central Bank from the Ministry of Finance, the release of political prisoners, attempts to end the armed ethnic conflicts by signing ceasefire agreements, the relaxation of media controls and censorship, and economic reforms including reform of state-owned enterprises, liberalizing the foreign exchange market and relaxing controls on foreign ownership of companies. This reform process has enormous potential to make considerable improvements to development outcomes in the country.

2. **The reform process can be viewed as three related transitions, each of which is catalyzing rapid changes in the way that government manages its public finances.**

- **The transition from an authoritarian military system to democratic governance has seen the 2008 Constitution establishing new institutions and measures to increase scrutiny and control over public spending.** This includes the creation of the Parliament and consequent establishment of the Public Accounts Committee and the Planning and Finance Committee as budgetary oversight bodies. These parliamentary committees have increased external oversight and budget transparency through the public airing of budget debates on national television and the publication of the budget law in national newspapers. From a baseline where national budgets were not publicly shared and significant portion of total revenues are off-budget (largely expected to accrue from the extractives sector), the government now publishes the national budget and has committed to Myanmar gaining candidacy under the Extractive Industries Transparency Initiative (EITI). Following a Presidential decree, public procurement practices are also being reshaped around a commitment to open competition and transparency.

- **The transition from conflict to peace in the border areas is underpinned by significant steps towards decentralization**. The new constitution has introduced a requirement that regional and state budgets be separated from the Union budget and these are debated at state and regional parliaments. Budget offices have been established at state and region level; while township planning committees have also been formed in order to formulate 'bottom-up' plans that are more responsive to the needs of citizens. In order to coordinate state/region budgets with the Union budget, the Government has also established the Financial Commission and the National Planning Commission – both chaired by the President.

- **The transition from a state-dominated economy to a more market-oriented system is changing the government's engagement with the private sector at the same time that it reconfigures its relationship with the Central Bank of Myanmar (CBM) and the way it manages State Economic Enterprises (SEEs).** The CBM was made independent in July 2013 and the government is developing protocols to separate out the functions that it currently performs in coordination with the Myanmar Economic Bank (MEB) on public finance management (treasury operations and domestic debt management) and restructure the Ministry of Finance accordingly. SEEs are both the largest contributors of revenue and the largest users of government expenditure in the national budget. The government's review of the role of SEEs, their links with line ministries and the subsidies they receive will have major implications for the national budget. The movement away from state ownership and direct control over economic activity also heralds a rise in the importance of the private sector in the creation of assets and the provision of goods. Public procurement, previously an activity of marginal significance, has assumed an increasingly prominent role in public spending and service delivery.

3. **Responding to these changes, both the public and the newly established Parliament have demonstrated a growing demand for quick improvements in the provision of public services.** Government's ability to finance improvements in service delivery is however greatly constrained by the availability of revenues. Myanmar's Union Government revenue to GDP ratio is low, as of 2012/13 it was estimated at 9.1%[1], the fifth lowest in the world (of 188 countries which have data) compared to an average among ASEAN countries of around 18-20%.

4. **Nevertheless, robust economic growth and the prospect of increased external finance mean that public resources are likely to grow rapidly in the next 5-10 years, even in the absence of reforms to domestic revenue mobilization.** The government has recognized in its *Framework for Economic and Social Reform (FESR, 2012)* that the PFM system will play a critical role in ensuring those increased resources are translated into improved delivery of services and development outcomes.

B. Sectoral and Institutional Context – *Current Situation and Transitional Pressures*[2]

5. **The PFM system in Myanmar has a number of strengths which can be built upon to better support service delivery.** The PFM system has retained a fundamental degree of internal integrity that has ensured that, at a basic level, controls are maintained and that resources do flow to the point of service delivery.[3] As fiscal agent for the country, the Myanmar Economic Bank (MEB) is able to provide basic banking services to delivery units across the country. Reporting lines between the Ministry of Finance, the MEB, and line ministries are clear. Checks and balances exist through the division of duties and responsibilities in executing and monitoring functions. The manual ledger system is largely up-to date and reasonably accurate. Spending agencies do not have direct access to their own bank accounts, which are controlled centrally by the MEB in close coordination with the Central Bank of Myanmar. However, while ad hoc reforms have taken place according to political priorities twenty five years of isolation had understandably resulted in a system which has not kept pace with modern practice.

6. **There are significant off-budget revenue flows which cause budget fragmentation, elevate fiduciary risks, and raise transparency issues.** According to the Public Expenditure and Financial Accountability assessment, approximately 40 percent of revenues (mostly from the natural resource sector) are managed through Other Accounts at the MEB which are essentially off-budget. This weakens the strategic resource allocation function of the budgetary system through fragmentation of the resources into budgetary and off-budgetary categories, weakens external oversight, and gives rise to concerns about accountability and transparency.

7. **The outmoded tax administration does not provide the tools for a constructive relationship between the state and taxpayers.** Myanmar currently employs an outdated Official Assessment System (OAS) which depends on taxpayer accounts and bookkeeping in order for tax officers to assess liabilities. The assessment requirements fall on tax officers rather than taxpayers, but the level of book keeping in Myanmar is low, and thus the process is typically a negotiated affair between officers and taxpayers, leaving significant space for rent-seeking and leakages. Taxpayer registration is manual and cumbersome preventing authorities from assessing the size of or managing the taxpayer population. The current tax type based organizational structure means that different client files must be created for different tax types,

---

[1] IMF Country Report No. 13/250

[2] Based on analytical work conducted by UK AID-WB (PEFA 2012, Tax Administration Assessment 2012, and related analytical work related to preparation of this Project), IMF (Review of PFM 2012, Treasury and Debt Management 2012, and Staff Monitored Program 2011)

[3] Public Expenditure and Financial Accountability Assessment (World Bank-UK AID, 2012)

further complicating management of taxpayer population, and increasing the administrative and compliance burden on the taxpayer. The current taxation system employs a commercial tax regime, which is subject to a range of well documented issues including tax cascading, input tax credits, and a host of tax evasion activities. These weaknesses lead to a low tax effort and critically jeopardize the prospect of establishing a fair and constructive relationship between large taxpayers and the state at a time when Myanmar is attempting to build a solid foundation for private sector growth and investment.

8. **The budget has largely been a mechanism for expenditure control, rather than a central tool of public policy that can be used to direct financial resources towards policy priorities.** Budget preparation is not framed within a strategic context that considers total resource availability and then allocates these scarce resources to development priorities. Instead incremental budgeting is practiced where line ministries make spending proposals independently of any central coordination regarding future resource availability or constraints. Current manual consolidation procedures for the budget make it difficult to analyze expenditures and provide robust information on budget and expenditure trends to inform decisions on budget allocations. The result is that budgetary allocations are driven by prior year budgets and actual expenditures are rationed based on available cash.

9. **Budget credibility is constrained large deviations in volume and composition of expenditure.** This limits the ability of spending agencies to plan and deliver services effectively**.** Furthermore, the budget system is hampered by credibility issues stemming from the use of large (and late) supplementary budgets, inaccurate revenue forecasting, limitations in public investment planning, and a lack of information on development partner funding being integrated into budgetary allocation process.

10. **Budget transparency is limited, although increasing.** There is limited fiscal information published, although authorities have demonstrated their commitment to improving the transparency by publishing the approved Budget for 2011/12 onwards**.** At present, the Parliament, but also the private sector, civil society and citizens have very limited information on the budget and where information is being published, at present it is not presented in a particularly accessible format. About 30 percent of expenditures are also conducted through "Other Accounts" and allocated outside of the formal budgetary process.

11. **A lack of up to-date financial rules and regulations impose a significant burden on budget execution and in turn on effective service delivery**. For example, spending agencies must come up with their own internal regulations (including on public procurement), creating confusion and increasing the chance of wasting time and money. Business processes for spending money and processing re-appropriations have been identified by sector ministries as often overly onerous and cause delays to delivery of services.

12. **The compilation of budget execution reports and financial statements is almost entirely manual, significantly delaying compilation of reports and impeding timely analysis of data.** The use of ICT in budget preparation is largely limited to data entry with constraints in connectivity meaning all information is submitted in hard-copy format and aggregated and reentered into computers on a manual basis. This means the potential richness of expenditure data is being lost (5,400 individual spending units also submit detailed financial statements on a monthly basis) and it is difficult to analyze how much expenditure is reaching front-line service delivery units. Delays in reports make it difficult for management to respond to emerging challenges in revenue collection and expenditure management.

13. **There are also considerable delays in the compilation of bank statements at Myanmar Economic Bank** with a current three month lag between the end of a period and the full compilation of bank statements for the State Fund Account**.** MEB currently operates 13 different types of software, none

of which are interfaced. Connectivity in the branch network is also limited with just 7 of the 336 branches linked to a centralized network. Manual processes for processing and recording of transactions at MEB also cause delays in payments and considerable transaction costs for all taxpayers, where it can take up to a day to pay taxes.

14. **Since their establishment under the new constitution, the Parliament's Public Accounts Committee (PAC) has shown promise in their role as a budgetary oversight body**. Nevertheless, it is a young institution and the PAC acknowledge that there is a need to better understand the role they are expected to play in scrutiny of the use of public resources and to build the appropriate knowledge and skill-set. There is also a shortage of information and independent analysis on which to inform budgetary scrutiny. The Officer of the Auditor General is also playing a central role in providing external oversight of the budget. They recognize however the need to improve the quality and credibility of the OAG's auditing practices by adopting the International Standards for Supreme Audit Institutions.

15. **Capacity of staff to effectively manage finances is both low and thinly spread.** The potential loss of key personnel, both due to retirement as well as increasing competition from a growing private sector, pose additional risks. It is also unclear whether the public administration system (including the pay and compensation dimension) will be able to attract, train, deploy, motivate, and retain appropriately skilled staff. Knowledge of modern practices is limited and exposure to the use of even basic informational technology tools is extremely limited. Staffs largely work within their functional silos without having a picture of the PFM system as a whole. Most knowledge about the PFM system is vested in senior management, with limited knowledge base at the technical level.

16. **The system of intergovernmental fiscal relations has been in flux since the adoption of the 2008 constitution with the assignment of both functions and finance still evolving.** The separation of the state and region budgets from the Union funds account is putting significant pressure on the entire budgeting and planning systems to transition very rapidly from a centralized model to more hybrid unitary decentralized one. Each of these changes necessitates institutional redesign and capacity building for these functions, whilst ensuring the PFM system continues to function and provides service delivery agencies with resources.

17. **The combination of outdated PFM systems, limited use of ICT, rules and regulations that lag practice and the additional stresses which emerge out of the on-going transitions pose significant risks.** For example, while halting the monetization of the deficit and granting autonomy to the CBM is generally lauded as a positive step, it also removes what was previously an important fiscal cushion, exposing the budget implementation system to cash flow pressures which, unless carefully managed, could further destabilize budget management and in-year service provision. Similarly, while a movement together greater decentralization opens up avenues for more responsive planning and budgeting, this also creates new vulnerabilities for the management of public finances as a whole unless placed in a clear framework of control and accountability. Increasing the use of contracting for the creation of assets and the delivery of services can greatly enhance public sector effectiveness but runs the risk of creating service disruptions as the government strengthens its capacity to undertake procurement. Not only will the PFM system be unprepared to meet the new challenges faced *if risks are unaddressed*, there is a real possibility that service delivery could fall below the current baseline and fiscal stability could be put under threat.

18. **High-level political ownership and clear executive commitment accorded to the PFM reform provide a window of opportunity for making meaningful and significant improvements to public financial managements systems in Myanmar.** There is a risk, however, either through internal demand pull or development partner push, for change to go at a faster pace than can realistically be managed, particularly given the pressures that the reform process is placing on the staff, systems,

institutions and processes which govern the management of public finances. For example, putting the CBM at arms-length from the management of public finances has required new functions to be created inside MOF (such as the establishment of a Treasury Department and restructuring of the Budget Department) which has little experience in carrying out these roles. The rapid push to decentralize functional responsibilities from the Union to states/regions in the absence of having internal capacities to manage the decentralized PFM system poses the risk of transitional paralysis that may discredit the reform process. Distancing SEEs from their parent ministries while reducing subsidies is creating issues about how to effectively manage and oversee these entities given their increased fiscal independence, and to finance the budget from general government revenues, rather than SEE earnings. Therefore it is important to sequence and pace the reform process to the absorptive capacity of the system, otherwise the proverbial wheels will come off.

C. Higher Level Objectives to which the Project Contributes

19. **The Government has actively engaged with development partners in analyzing the PFM system in order to develop a fit-for-purpose Public Finance Management reform strategy.** Since 2012 the government has conducted a PEFA assessment, a Review of Public Finance Management (IMF), assessed needs to set up a Treasury (IMF), and analyzed tax administration and policy to identify reform priorities. In 2012 the Government established a PFM Executive Reform Team led by the Ministry of Finance to develop the reform strategy and oversee its implementation.

20. **The Government has articulated a PFM Reform Strategy that focuses on phased modernization the PFM system to develop internal capacities needed to effectively manage the transitions and support service delivery.** In this regard, the authorities have considered the underlying strengths of the PFM system along with weaknesses, and have taken an appropriately phased approach to the modernization process. In the PFM Reform Strategy the government has proposed a 3-phased reform program that covers a 10-15 year period. The table below summarizes the phases and rationale.

PHASES	RATIONALE
Phase 1 (3-5 years) – Improve the control and stability in expenditure and revenue management processes while building internal capacities. Begin to make initial connections between plans and budgets for improving service delivery and enhancing the unity of the budget (through capturing all revenues and expenditures on on-budget).	During the transition it is vital to maintain a clear line of sight through different levels of government and establish control systems to adequately capture all revenues (including from natural resource sectors) and extend coverage of the budget to maintain business continuity as new institutional arrangements are operationalized. Ensuring control and stability is also important for strong fiduciary control and putting in place the foundation for all further reforms and support service delivery
Phase 2 (5-8 years) – Develop the ability to produce, analyze and interpret more sophisticated financial management data as a basis for holding all levels of management accountable for results in their collection and use of public finances.	Because establishing effective accountability depends on a more stable and controlled environment and getting more confidence in the use of modern information systems, but is also the basis for providing better services through effective use of resources in the future, including on gender
Phase 3 (8-12 years) – Develop more sophisticated budget and expenditure management systems (like IFMS) to improve the quality of expenditures in relation to achieving policy objectives.	Because after phases 1 and 2 it becomes more possible to link budgets and plans effectively and to hold all levels of management responsible for what they achieve with the resources available.

21. **The government is cognizant of the current realities, risks, opportunities and the central role of the PFM system in successfully managing each of the transitions that have been laid out.** The government's Framework for Economic and Social Reform puts a credible, responsive, and transparent planning and budget process at the heart of political reform. Ensuring the allocation and use of public funds are responsive to local needs will serve to strengthen the peace process; while effective parliamentary oversight of the national budget underpins democratic governance and accountability. Unlocking Myanmar's economic potential will also depend on fiscal stability, while greater fiscal transparency (especially in natural resource revenues) will help to attract foreign investment and contribute to improved state-citizen relations.

22. **The PFM system is not only a crucial foundation for navigating these reforms, it is in and of itself central to the sustaining growth, poverty reduction and promoting shared prosperity.** Generating additional revenues will help to finance expenditure programs that promote economic growth and target poverty reduction. Ensuring that these increased resources translate into balanced development outcomes across the country will be dependent upon planning and budget systems having the ability to allocate and deliver resources to support the effective delivery of services. Establishing an effective procurement system will contribute to spurring private sector development at the same time that it improves service delivery outcomes. Creating guidelines and regulations that facilitate citizen and civil society engagement in planning, budgeting and monitoring processes will contribute to building trust in government, increase accountability and make services more responsive to local needs. This applies across all aspects of government spending such as health, education, and infrastructure investment.

23. **Good public financial management can contribute to improvements in responsiveness and quality of public service delivery that promotes improved gender equality**. The 2013-2022 *National Strategic Plan for the Advancement of Women* outlines a comprehensive approach for improving the situation of women and girls in the country. The plan identifies twelve priority areas to achieve gender equality related to livelihoods and poverty reduction; education and training, health services (in Myanmar the maternal mortality rate is high at 200 deaths per 100,000 live births (2010) compared to an average of 83 in East Asia and Pacific, developing only); violence against women; emergencies; economy; decision making; institutional mechanisms; human rights; media; environment; and the girl child. Having planning and budgeting systems that can direct resources to these priorities are critical for achieving objectives laid out in this Strategic Plan.

24. **Public financial management reform is also a core element of the World Bank Group's (WBG) interim strategy in Myanmar.** After more than two decades of absence from the country, the WBG has reengaged in the country's development and has discussed an Interim Strategy Note (ISN) covering an 18-month period focusing on programs that can support the government in the country's current transition. The ISN outlines support around three pillars, each of which is closely tied to PFM reform. The first pillar is aimed at supporting government's efforts to transform institutions to allow them to deliver for citizens. To this end, planned reforms of government PFM institutions will have a direct bearing on how funds are allocated, channeled and used by government agencies responsible for delivering services to the citizens of Myanmar. The second pillar is aimed at building confidence in the ongoing reform process. Here, as discussed, PFM reforms will be a key enabling factor in political and economic reforms being undertaken. The third pillar is focused on preparing the way for the resumption of a full country program. In this regard, seeing demonstrable improvements in fiduciary management and oversight will help to build confidence to resume programming across a broader portfolio that channels resources through Myanmar PFM systems, including budget support operations.

25. **The project will catalyze improvements in the effectiveness of development finance**. The project is jointly prepared and financed by Australia, and the United Kingdom. Other development partners like the European Union have expressed interest in possible additional financing later on. Project

interventions are also coordinated with other development partners through the Public Finance Management Sector Working Group, which is chaired by the Ministry of Finance – with Japan and the World Bank co-chairing from the development partner side. The project has also been prepared within Myanmar's aid-coordination framework: partnership principles between the government and development partners supporting PFM have been agreed and a number of joint-missions have taken place to ensure coordination of the project with other interventions (see Annex 6 for more details). International experience has shown that the impact of development finance is much greater when channeled through country systems as it allows for a harmonized and country-owned approach, as well as reducing transaction costs. By contributing to improved fiscal transparency and strengthened fiduciary controls, this project will help to address current development partner concerns about using government system which contribute to the current fragmentation of funding flows that is particularly acute in the social sectors.

II. PROJECT DEVELOPMENT OBJECTIVES

Project Development Objective

26. The development objective of the project is **to support efficient, accountable and responsive delivery of public services through the modernization of Myanmar's PFM systems and strengthening institutional capacity**.

27. **This project directly supports the WBG's strategic goals of eliminating extreme poverty and promoting shared prosperity** through three main channels: (a) increasing revenue to combat poverty through delivery of critical public services; (b) increasing efficiency of service delivery; and (c) fostering greater accountability for service delivery. The project will support the government in strengthening revenue administration, which will increase the effectiveness of tax and non-tax revenue mobilization, including from natural resources, thereby creating fiscal space for increasing expenditure on public services that reduce poverty and promote shared prosperity. The project will also directly support enhancements in the efficiency of public service delivery through a more strategic planning and budgeting process that allocates resources to the highest socio-economic priorities as well as through a more credible budget management system that actually delivers resources as intended. Similarly, the project will strengthen accountability for service delivery by supporting more robust oversight of public finances through improvements in control systems necessary for enhanced accounting and reporting on budget execution.[4]

Project Beneficiaries

28. **The ultimate beneficiaries of the project will be the citizens of Myanmar who stand to gain improvements in both the quantity and quality of public services delivered.** As the project proceeds, improvements in tax compliance as a result of tax administration improvements should translate into greater availability of funds for financing the provision of core economic and social services whilst ensuring fiscal discipline is maintained. Improved connectivity and data availability will allow for more policy analysis to support more strategic and transparent use of public funds. Improved guidance on the funds available and project appraisal skills should also contribute to a more effective allocation of funds to projects with highest socio-economic returns. Improvements in procurement practices will enable the government to take advantage of private sector efficiencies and help deliver goods and services with

[4] This draws on recent discussions on the contribution of the governance practice to the WBG's new strategy. See, for example, "*Role of Governance Global Practice Group in Operationalizing the Bank's Strategic Goals (2013, draft).*"

value for money.

29. **The project will ensure better informed decision making capability for high-level policymakers in Government.** The PFM reforms supported through the project will provide the necessary levers for policymakers to translate policy priorities into financial outlays, ensure fiscal transfers to states and regions are consistent with the functional responsibilities, and ensure feedback loops are present for top management to know when things are off-track and to take measures to correct.

30. **The project will also provide training and capacity building to public officials in oversight and line ministries in order to enhance their ability to serve the public more effectively, fairly and efficiently.** Training in technical skills, such as budgeting, financial reporting and procurement relevant to their evolving responsibilities, as well as soft skills, such as ICT and English language, will lead to increases in human capital across government (line ministries, central agencies, states and regions). Investments in ICT facilities will help to eliminate much of the routine duplication of tasks currently being undertaken and free up time for more strategic work at both, central and line ministries. Public servants outside of finance and planning cadres will benefit from improvements to systems and procedures for financial management put in place. For example, spending agencies across the Union, States and Regions will receive improved guidance on the funds available facilitating prioritization and better work planning; reductions in the time taken for processing of payments and financial reports will reduce delays in implementation; updated rules and regulation will help to remove much of the uncertainty that surrounds existing processes.

PDO Level Results Indicators

31. The following thematic results, linked to World Bank's strategic goals and derived from the Government's PFM reform program, will be used to reflect and measure success in achieving the PDO:

Increasing revenue for poverty reduction and public service delivery

- Contribute to enhancing the Tax to GDP ratio from 6.2 percent in FY2012/13 to over 10 percent by FY2018/19 including through increasing tax collections from large taxpayers by strengthening tax administration[5] *(<u>Baseline</u>: Tax collection from large taxpayers not measured. <u>Target: at least 20 percent real-term increase over established baseline in collections from large taxpayers by 2018/19).</u>*

Enhancing efficiency of service delivery

- Improvement in policy-based budgeting in line with global good practice to enable more strategic and sustainable allocation of resources for service delivery as measured by a strengthened budget preparation process by 2019 that is characterized by (i) preparation of a medium-term fiscal framework and (ii) issuance of agency budget ceilings. *(Baseline: neither a fiscal framework nor ceilings are currently produced).*

- Increased credibility of budget allocations for line ministries in terms of the composition of expenditure out-turn compared to the original approved budget as measured by the average percentage of compositional variance over the 3 previous years *(Baseline of 23.9% (as rolling 3 year average) to under 15% (as a rolling 3 year average) by 2019).*

[5] In absence of data to determine tax efficiency/productivity, this indicator is being used as the Project supports operationalization of the large taxpayers office.

Fostering accountability for service delivery

- Improved transparency in the mobilization and use of public funds in line with global good practice as measured by increased public access to key fiscal information *(Baseline: in 2012/13 only enacted budget published. Target: By 2019, at least four key fiscal documents to be published, along with a report on revenues from natural resources)*[6].

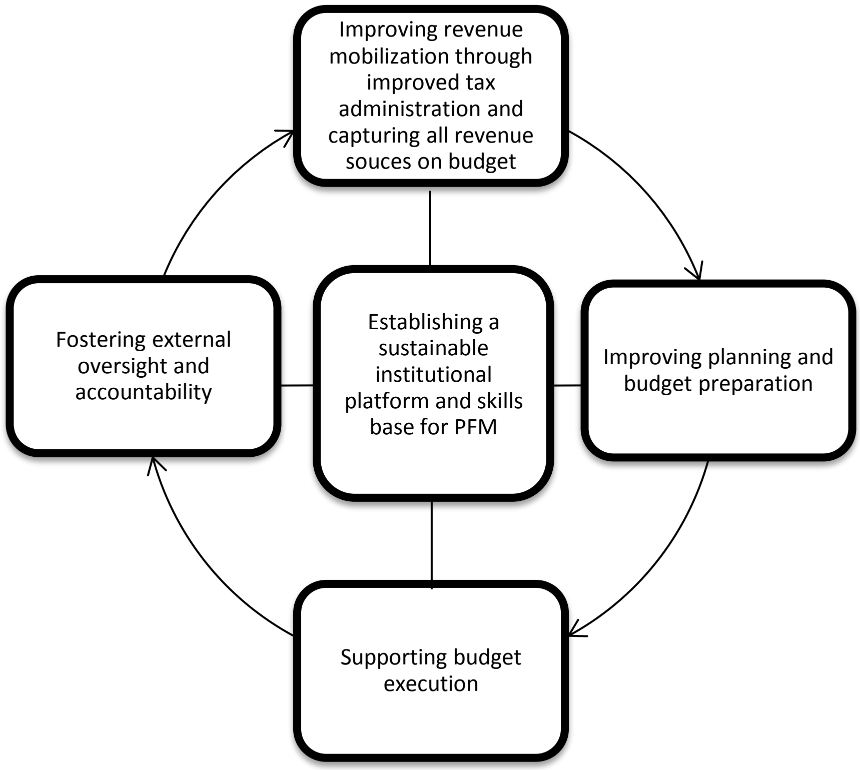
III. PROJECT DESCRIPTION

32. **The proposed operation supports the first phase of Government's PFM modernization strategy** presented by the PFM Executive Reform Team (PFM-ERT) to the multi-development partner PFM Working Group on 18th September 2013. The PFM-ERT has recognized that managing the transition effectively and building the foundations for further reforms will require improvements in the PFM system to be carefully sequenced over a sustained period – in the order of 8-12 years. The government's approach to sequencing is, in the short term, to improve the control and stability in expenditure and revenue management processes, and to enhance the unity of the budget (through capturing all revenues and expenditures on-budget while beginning to make initial connections between plans and budgets. In the medium term the government aims to have the base internal capacities to provide, analyze and interpret more sophisticated financial management data for more effective use of resources. And in the longer term, the government plans to develop more sophisticated and strategically driven budget and management systems.

33. **This project maintains a line of sight between the project interventions and the transitions taking place, the strengths and weaknesses, and new pressures being placed on the PFM system that need to be addressed sequentially.** It is thus articulated around four components that are interlinked around the PFM cycle and a fifth cross cutting component. Namely, support is provided to revenue administration (mobilizing more resources on-budget), planning and budget preparation (allocating resources to priorities in-line with the evolving intergovernmental arrangements), budget execution (providing resources to service delivery units through new institutional arrangements resulting from the autonomy of the CBM and improving the quality of procurement processes and outcomes), and external oversight and accountability (holding the Executive branch to account for the use of resources through Parliament and external audit institutions); while the fifth component is cross cutting and addresses the long-term skills agenda and the sustainability of reforms.

[6] Nine core documents include: (i) pre-budget statement; (ii) annual Executive budget proposal documentation, (iii) enacted budget, (iv) in-year and year end budget execution reports, (v) audited annual financial statements, (vi) external audit reports, (vii) summary of the Executive budget proposal; (viii) medium term budget proposal, (xi) summary of enacted budget.

Figure 1: Overview of Project Components within PFM Cycle



34. **The project design recognizes that Myanmar is not building its PFM system afresh; rather, the focus is on modernizing the existing PFM base**. The PFM Executive Reform Team has thoughtfully prioritized changes necessitated by broader reforms and where appropriate making targeted incremental improvement to modernize existing procedures. The ERT has done this through studying other country reform experiences, reviewing analytical reports from the World Bank and the IMF, and having extensive discussions with peers through the auspices of the Public Expenditure Management Network for Asia. In this regard the authorities are trying to capitalize on the last mover advantage to avoid mistakes of other countries and to learn from their successes.

A. Project Components

Component A: Improving revenue mobilization through bringing more revenues from natural resources on budget and strengthening tax administration (US$11.0 million)

35. **This component will support developing systems and procedures for capturing more revenues from natural resource sectors on-budget and addressing identified weaknesses in tax administration.** Activities will support efforts to correctly classify, record and report revenues which are currently both off-budget and misclassified. Where possible, this will include a focus on bringing natural resources revenues from SEEs on budget, as well as moving increasing development assistance through country systems. This component will be closely linked to government implementation of the Extractive Industries Transparency Initiative and will support the development of the business processes and corresponding reporting and recording systems to move revenues on-budget. Additionally, this

component will support modernization and reform across the logical basic spectrum of tax operations, with a special focus on improving compliance, in order to lay the foundation for a tax system which is transparent and efficient. The project will initially focus on piloting reforms on the largest and highest capacity taxpayers, through the establishment of a Large Taxpayer's Office (LTO). This office will operate under a functional (rather than tax type) organizational structure, will pilot a move to the Self-Assessment System, and will begin to employ the contained IT solutions needed to manage taxpayer registration, strengthen compliance, manage risk systematically, employ risk-based auditing, and monitor and manage arrears. The project will ensure that taxpayer registration of individuals will reflect global good practice in data protection. Transformations in both the LTO and at IRD headquarters will be supported under the project through procurement of necessary computing equipment and connectivity, small software to support the self-assessment system, training, as well as for the technical assistance, capacity building, and business process reengineering needed to undertake these new tasks and responsibilities.

Component B: Supporting Responsive Planning and Budget Preparations (US$14.0 million)

B1: Supporting policy based budgeting and budget preparations (US$8 million)
B2: Responsive planning and investment management (US$6 million)

36. **This component is aimed at supporting the new mandates of the budget and planning departments and the evolving decentralization process in Myanmar.** In this regard the project will support development of budgetary and planning capacities that link policies with budget appropriations within a simple medium term perspective that considers all revenue sources (tax, revenues from natural resources, dividends from state economic enterprises, and development assistance). Such a budgeting and planning system would support the decentralization process which is currently underway, and provide timely guidance to states and regions to develop responsive bottom-up plans within a realistic availabilities informed framework. This will involve making changes to current planning and budget preparation processes in order to facilitate prioritization and will be done through (i) working with both the Planning Department and Budget Department to prepare a realistic medium-term fiscal framework (with macroeconomic fundamentals, and anchored within sustainable debt management strategy); (ii) issuance of expenditure ceilings to spending agencies at the Union, state, and regional levels consistent with their assigned functional expenditure assignments; and (iii) reviewing financial rules and regulations, guidance and forms provided by the planning department to certain priority sectors at the national and sub-national level on how to prepare responsive plans that guide budgetary allocations[7]. In this regard the project will provide computing equipment and connectivity, software, training, as well as for the technical assistance, capacity building, and business process reengineering needed to the Budget Department and the Planning Departments to build the capacities and systems to achieve these objectives.

37. **To help inform decisions and debate on budgetary allocations, this component will also work towards improving the quality and timeliness of information available both internally and externally through basic computerization of current manual compilation process for the current and investment budgets.** This will be done through progressively equipping and connecting budget, treasury and spending agencies starting at the Union level and then moving to states and regions. This will allow for analysis within line ministries and sub-national governments on the administrative, geographic and economic composition of budgets and actual expenditures and thereby their linkages (or lack thereof) with policy priorities. Technical assistance will also be provided to review how information is presented both internally, to the parliament and to the public in order to strengthen the engagement of the private sector, civil society and citizens in the planning and budget preparation processes. The government will be supported to prepare budgetary information in such a way that is accessible to the

[7] Initial priority sectors would be electricity, agriculture and water in line with the government's stated priorities

public (through for example a citizen's budget).

Component C: Supporting Effective Budget Execution and Financial Reporting (US$15.0 million)

C1: Supporting Treasury Operations (US$6 million)
C2: Improving management of State Funds Account (US$9 million)

38. **Support for effective budget execution will focus on the establishment and effective operationalization of the Treasury Department, creating an effective procurement function, and building the ability of MEB to manage the state fund account in order to ensure business continuity in view of the CBM separation from the MOF.** A specific focus will be on improving the timeliness, accuracy and quality of information available from reporting and bank reconciliation processes managed by the newly-formed Treasury department and the MEB. This will require investments in modernization of the MEB's computing systems and particularly improving connectivity of the branch network, strengthening the functionality and interfacing of software and providing necessary training on amended business processes. The new Treasury Department will also adopt responsibility for debt management. This component will provide hardware and training for strengthened reporting and analysis of debt in conjunction with software and advisory services provided by the ADB and the United States Office of Technical Assistance. A third area of focus will be on establishing procurement rules and practices that generate value given the increasing proportion of spending will take place via the procurement system. This aspect of the project will support creating common rules for executing procurement and building competencies to undertake procurement, foster transparency and accountability, and achieve performance goals. Work will support building capacities at the line ministries to improve processes around budget execution as well as on implementing the revised procurement rules and regulations effectively. Where needed, technical assistance will be provided to review rules and regulations outlining expenditure controls. These will be updated to ensure they capture the right balance between reducing financial irregularities without being overly onerous to impede service delivery and building of infrastructure.

Component D: Fostering External Oversight and Accountability (US$6.0 million)

D1: Supporting the Parliamentary Public Accounts Committee (US$3 million)
D2: Enhancing operational effectiveness of the Auditor General's Office (US$3 million)

39. **This component will strengthen Myanmar's nascent structures for external oversight and accountability and thus complement improvements in the quality and transparency of budgetary information. First,** it will reinforce the capabilities of parliamentarians and particularly the Public Accounts Committee who have little experience to draw from in reviewing budget information and audit reports, PFM legislation, and performing the external accountability function for the management of public funds in line with the demands of citizens they are representing. To support them in this role, financing will be provided for establishing a Public Account Committee Office (PACO) responsible for undertaking independent analysis of the budget, review of legislations pertaining to management of public finances as well as consultation/input into the Union Office of the Auditor General's (OAG) audit planning process and analysis of audit reports findings. In addition, funds will be provided for wider institutional strengthening and learning from other parliamentarians in the region. **Second**, assistance will be provided to enhance operational effectiveness of the OAG. In this regard the project shall support the implementation of a 'peer-reviewed' medium term capacity development plan that will include measures to increase audit coverage and quality of financial audits through development of the existing risk based audit procedures in accordance with international standards, support the implementation of a quality assurance regime, and to enhance the human resources capacity and organizational effectiveness of the OAG and the State and Region Auditor General Offices. This work will be closely coordinated with work being financed by UK AID to strengthen social accountability which will build capacity of civil society to

understand PFM reform, planning and budgeting processes and develop tools and platforms to help them engage directly and constructively with government to have more responsive service delivery.

Component E: Establishing a Sustainable Institutional Platform and Skills-base for PFM (US$9.0 million)

E1: Operationalization a PFM Academy (US$7.5 million)

40. **This component will aim to address the specific challenges faced by Myanmar with respect to the skills required to operate a modern public financial management system.** The project will support the establishment of a PFM Academy that will serve as a nucleus for developing and facilitating provision of just in time, on the job, operational training within a sustainable framework. This would entail developing, managing and coordinating a skills (technical and non-technical) acquisition program in line with a simple competency driven framework. Technical assistance will be provided to develop a focused range of modules touching on issues across the full PFM cycle. Modules will respond to some of the evolving requirements of the PFM system in Myanmar to which staff will have historically been less exposed including for example on procurement and demand-side accountability so that officials understand why and how they can engage citizens and civil society, ensure transparency, and respond to demands for improved service delivery. In-service and pre-service training will be provided to officials who are involved in the management of public finances across the government – including in MOF, MNPED, sector ministries, and progressively regions/states and districts/townships. The government has already identified facilities to house the PFM academy in Naypyitaw. In addition, a diploma program in PFM will be developed in coordination with the Ministry of Education, Yangon Institute of Economics and Ministries of Finance and National Planning. Financing will be provided to provide for advisory work to develop a competency frameworks and curricula; the necessary equipment for a modern training facility as well as resources for the delivery of training programs. It is also expected that all development partner support for PFM skills development would ultimately be provided and reported through the academy. The PFM Academy will also work in close coordination with the training courses offered by the OAG and the Union Civil Service Board.

41. **The development impact will be further strengthened by considering how PFM systems could ensure public service delivery benefits are enjoyed by various groups, especially women and minorities.** The project will support the objective through two primary channels. First, the component on responsive planning and budget preparation will work with both the Finance and Planning Ministries to incorporate a gender and minority informed view, focusing specifically on how the bottom-up planning at the local level can recognize and respond to women’s and minorities’ needs. This process will involve exploring how the regulatory framework and planning process can support inclusion of these perspectives, as well as building capacity on the gender dimensions of budget and planning through the PFM Academy. Second, the project will explore ways of building capacity in the newly formed Fiscal Policy Division at the Budget Department to undertake basic analysis on the incidence of public spending across genders and ethnicities. Authorities will be able to evaluate and report how public spending has benefited different groups, and inform policy decisions to target such groups as desired. Through the automation of systems to track and monitor spending, the project will also support the availability of inputs necessary to conduct this type of analysis.

E2: Supporting Project Management (US$1.5 million)

42. The government has formed a PFM Executive Reform Team and a PFM Reform Secretariat to articulate, manage, and monitor the overall reform program, including the project. Resources will be also be provided (US1.5 million) to the capacity development of the PFM Reform Secretariat in order that they can effectively play their role in management of the reform program, through for example convening

of meetings with implementing agencies, managing multi-donor PFM coordination meetings, implementation support missions, translation of necessary documents and so on. Training support will also be provided to relevant parties on financial management and procurement.

EITI and Public Financial Management Reform in Myanmar

This box describes how the Extractive Industries Transparency Initiative and public financial management reform efforts are mutually reinforcing, how EITI and PFM support each other in the context of Myanmar, and specific activities under the Modernization of Public Financial Management Project which support EITI implementation and vice versa. The EITI and public financial management reform are intrinsically linked - as the global standard for accountability and transparency in the extractive sector, EITI is a *reporting* tool which complements the *management* and *administrative* tools of PFM reform. The EITI reports and dialogue provide data on incoming revenue, an overview of multiple revenue streams, and reconciliation between operator and government reports which helps identify leakage. Under the new 2013 Standard, these reports must also include data on production, license and contract, state participation, and revenue that is not remitted into the central treasury, i.e. sub-national payments, payments to state owned enterprises. Under the new EITI 2013 Standard, countries are encouraged to report on expenditure and description of budget and audit processes, and to use this information to foster public debate around revenue sustainability and resource dependence.

In December 2012, President Thein Sein announced that Myanmar would become an EITI candidate, appointing a Leading Authority, including the Minister of Finance, to oversee the process. It is anticipated that the country will become a candidate in the first half of 2014, and issue its first EITI Report before the end of 2015. EITI is a particularly powerful reform tool in the context of Myanmar's emergence from fifty years of authoritarian rule and isolation. EITI reporting will strengthen the role of the Ministry of Finance as a central, civilian, policy making body. The formation of the Multi-Stakeholder Group, the core of the accountability in the EITI process, has already driven unprecedented discussions between Government and civil society, important to both building trust and improved management of the country's natural resources. Finally, as evidenced in public statements, Government appreciates that membership in EITI will send a powerful signal, both domestically and internationally, of transparency, accountability, and ultimately a break with past practices.

The Modernization of Public Financial Management Project and EITI Implementation will support each other in several specific ways:

Component A: *Improving Revenue Mobilization*
- Implementation of EITI is a planned project output
- Creation of a Large Taxpayer Office will consolidate tax assessment and tax collection in one government agency.

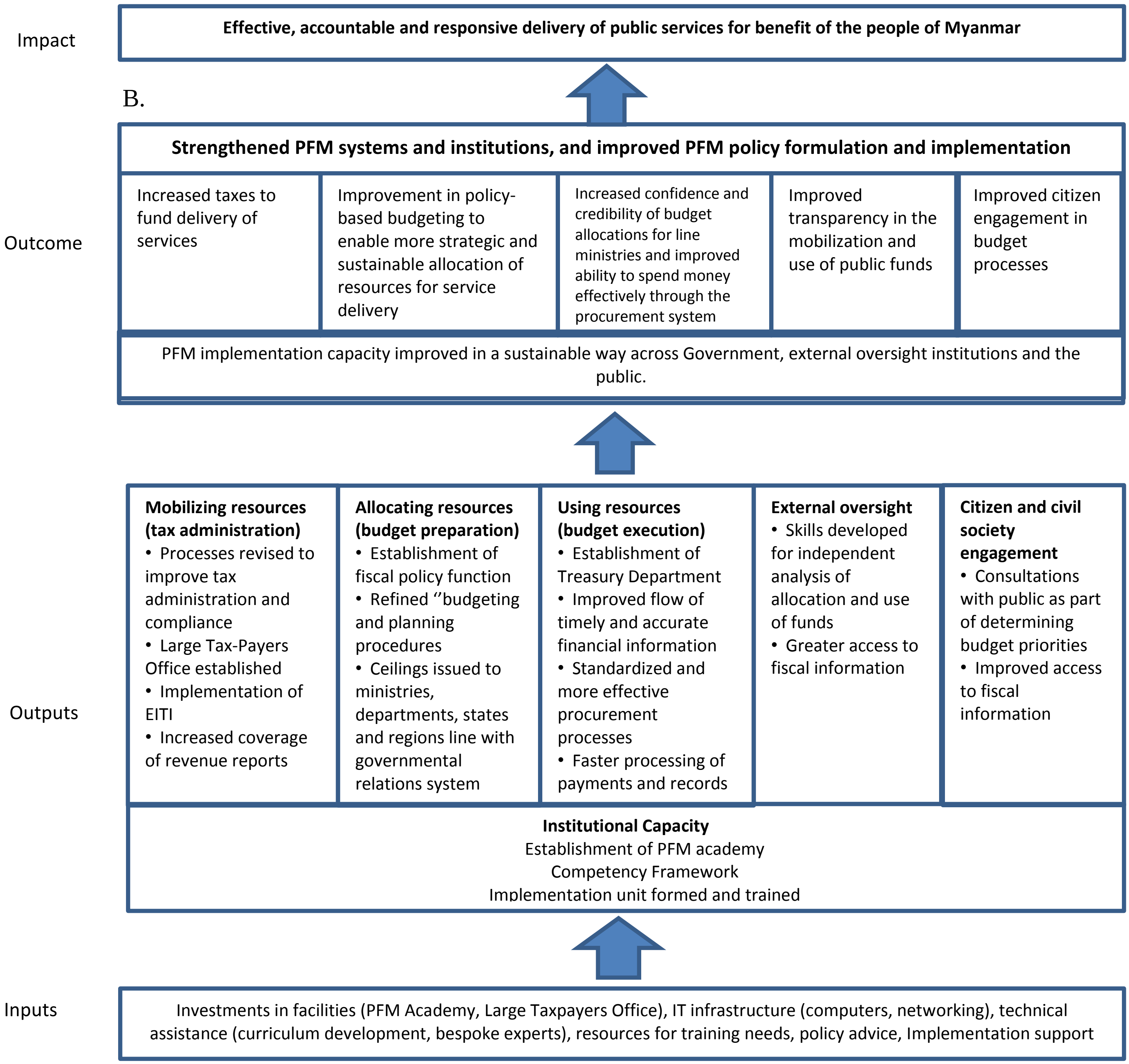
Component B: *Responsive Planning and Budget Preparations*
- EITI reporting will provide data on current and anticipated future revenues, across the multiple revenue streams, which the Fiscal Policy and Strategy Division at the Budget Department, can use to develop a medium-term fiscal framework
- Fiscal policy-making contributes to improvements in fiscal regimes in extractive sectors

Component C: Budget Execution and Financial reporting
- Improved and more timely revenue data enabling EITI reporting and use of reporting templates

Component D: *Fostering External Oversight and Accountability*
- The creation of a Public Accounts Committee Office will reinforce Parliament's oversight role, including capacity to understand and use EITI reports
- Support for the Office of the Auditor General will help this office play its role in EITI implementation. Currently the office is represented on Government's EITI Working Committee.
- Associated work on strengthening social accountability by building capacity of civil society to understand PFM reform, planning and budgeting processes.

43. Figure 2 depicts the theory of change process that is expected to translate the inputs provided by the project into outcomes and ultimately the impact the government is striving to achieve.

Figure 2: Theory of Change[8]



[8] Source: Adapted from the UK Business Case for supporting PFM Reforms

B. Project Financing

Lending Instrument

44. The proposed operation will be financed by an Investment Project Financing (IPL) instrument. An International Development Association (IDA) Credit of SDR 19.6 million (US$ 30 million equivalent) is proposed, co-financed by a Recipient Executed Trust Fund (RETF) Grant of US$25 million, financed by contributions from the Australian government (US$8.5 million) and the UK Department for International Development (UKAID) ($16.5 million).[9] The legal agreements for the Credit and the Grant funds will be countersigned by the Ministry of Finance on behalf of the Republic of the Union of Myanmar.

45. It is expected that the grant resources will be secured by April 2014 and be available for joint-co-financing of the Project. A cross-effectiveness provision has been made in the Project Financing Agreement to ensure that the RETF Grant Agreement is signed and effective at the same time as the Financing Agreement. The UK AID has already secured approval for the financing and the single-country multi-development partner trust fund has been agreed in principle. However, in case the co-financing does not materialize, the Project will be restructured to promptly commence implementation of the activities and additional resources will be sought through potentially an IDA additional financing mechanism or other development partner like the European Union during implementation, so that the total amount shall be made available to the government to implement the Project as designed.

Project Costs and Financing

<table>
<tr><th rowspan="2">Project components</th><th rowspan="2">Project costs (US$)</th><th colspan="2">IDA financing</th><th colspan="2">Co-financing</th></tr>
<tr><th>US$ equivalent</th><th>%</th><th>US$</th><th>%</th></tr>
<tr><td>1. Revenue mobilization</td><td>11.0m</td><td rowspan="5">30.0m</td><td rowspan="5">55</td><td rowspan="5">25.0m</td><td rowspan="5">45</td></tr>
<tr><td>2. Budget preparation and planning</td><td>14.0m</td></tr>
<tr><td>3. Budget execution</td><td>15.0m</td></tr>
<tr><td>4. External oversight</td><td>6.0m</td></tr>
<tr><td>5. Capacity and institutional platform</td><td>9.0m</td></tr>
<tr><td>Total Costs</td><td>55.0m</td><td>30.0m</td><td>55</td><td>25.0m</td><td>45</td></tr>
</table>

46. **The government is making significant in-kind contributions to the project.** Three sizeable government buildings have been allocated towards the development of the PFM academy that will provide capacity to train up to 150 participants. The government has also identified eight members of staff to work on the project full time to provide support service in procurement and financial management. Furthermore, as the project is not establishing a dedicated Project Implementation Unit, but rather working through the line department, the government has *de facto* committed to providing the necessary top level management and staff time to oversee and implement the project. The project will also lead to growing operations and maintenance expenditures that the government has committed to meet through normal budgetary operations.

[9] Other development partners have expressed potential interest in providing further financing to the project once the modality is well-established, at which point arrangements for refinancing would be agreed upon.

C. Lessons Learned and Reflected in the Project Design

47. **Although, this project is the first World Bank engagement on Public Financial Management in Myanmar, there is a growing body of evaluation work drawing from extensive international experience of both successes and failures in PFM reform.**[10] A 2012 World Bank and ODI report on PFM in post-conflict countries synthesizes findings from eight case studies that have informed the design of the project. A number of lessons drawn from these experiences have been reflected in the project design.

48. **International experience has shown that PFM reform delivers results only where high-level political ownership exists.** The government has clearly demonstrated high-level political commitment to this reform and PFM modernization agenda. The Government's Framework for Economic and Social Reform has emphasized modernization of PFM systems as a necessity for improving service delivery; the Ministry of Finance has proactively taken on a leadership role on the PFM Sector Working Group with development partners; and the PFM reform strategy has been approved at the level of the Minister for Finance. The government has already commenced implementation of some core areas including on budget reforms and treasury management.

49. **International experience also notes that typically systems for development partner coordination of reform efforts emerge too late**. As a multi-development partner operation, this project is coordinating inputs from a number of development partners. A PFM sector working group has also been established and partnership principles agreed by both development partners and government.

50. **There is international consensus that reform design and implementation need to be tailored to the appropriate institutional and capacity context.** Reform design has therefore been informed by considerable diagnostic work to better understand the Myanmar context given a long period of non-engagement. A PEFA assessment has been undertaken as well as an IMF Review of Public Financial Management, Treasury and Debt management, Government Financial Statistics review, and analytical work on tax policy and administration by development partners. These assessments are able to point to strengths and weaknesses of the system and reform priorities agreed upon based on the specific functional problems the country is currently facing. In developing the PFM Reform Strategy, the Government has also studied reform experiences of other countries like Malaysia, Thailand, Vietnam, and Korea and have taken on a leadership role on the recently created Public Expenditure Management Network in Asia.

51. **PFM reform also takes time and it is necessary to establish realistic expectations and sequence reforms accordingly.** The government's PFM reform strategy has identified a number of immediate reform priorities to be undertaken prior to elections in 2015; as well as both further medium-term and longer-term reform objectives. These reforms build up the basics across the whole PFM cycle, rather than seeking to introduce more sophisticated reforms too early (such as program budgeting).

52. **PFM systems also evolve and new pressures will arise as context shifts and reforms develop particularly in a context as fluid as Myanmar's at present.** It is therefore necessary to maintain flexibility in implementation. For this reason, the operation presented here maps out priority areas for intervention, initial key reform activities and ongoing procedures for review and evaluation; but does not set out detailed activity plans for the full five-year time period. Rather space is left for dynamic selectivity during project implementation.

53. **While reforms need to be appropriate to the capacity context; medium-term to long-term**

[10] See for example Public Sector Reform: What Works and Why?, Wescott (2008) http://siteresources.worldbank.org/EXTPUBSECREF/Resources/psr_eval.pdf); Good Practice Note on Sequencing PFM Reform, Diamond (2012); Evaluation of Public Financial Management Reform, Lawson (2012) etc.

improvements in public financial management will rely upon improved skills of civil servants responsible for the management of government funds. For this reason, where possible, the project design has opted to support capacity enhancement (both in terms of building PFM skills and reform management capacities) rather than substitute capacity through heavy reliance on external advisers.

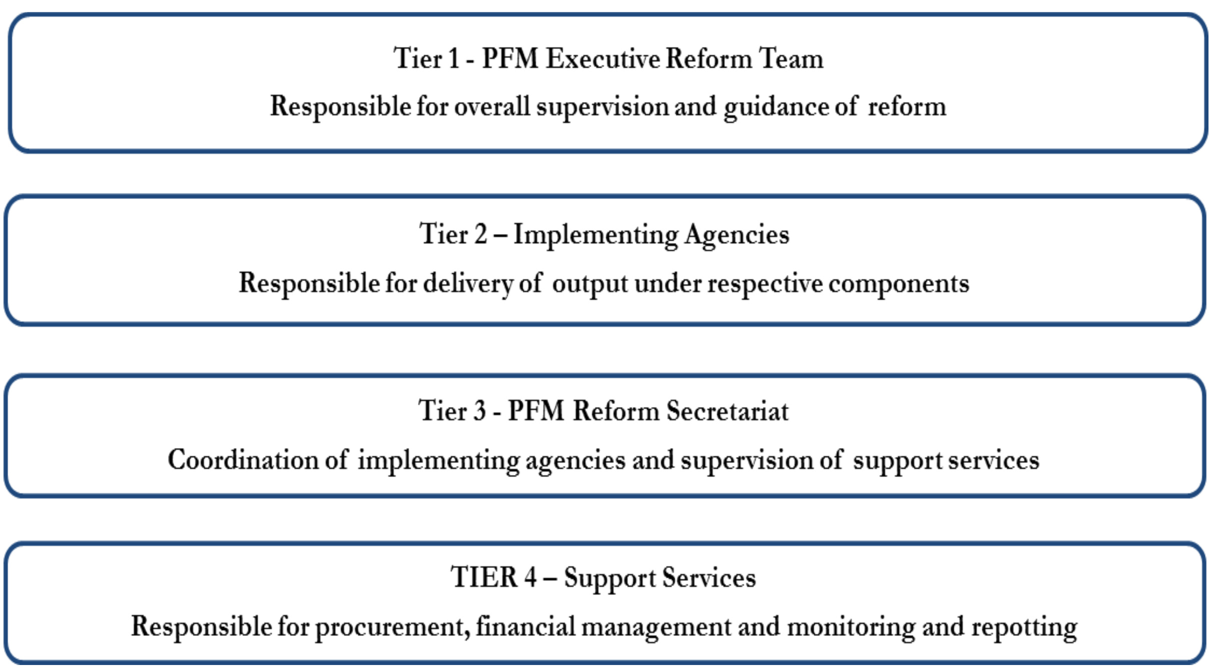
54. **International reform experience has also shown that public financial management operates in a systemic way with its strengths deriving both from the quality of individual process areas (e.g. budget preparation), but also the links between those processes.**[11] For this reason reform efforts cannot on individual processes in isolation, rather reform efforts need to engage with whole PFM cycle and also focus on how processes are linked to one another. The Government has consulted with sector ministries to better understand the constraints they are feeling because of the PFM system, so that the PFM modernization process addresses the concerns and thus support front line service delivery. In this regard, the Ministry of Finance has decided to provide skills and hardware to all line ministries to improve their respective budget preparation and reporting systems.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

55. **MoF and MNPED will be the primary counterparts for the Modernization of Public Financial Management Project**. The implementation arrangements of the project are based on taking into account existing institutional structures that the authorities have put in place to oversee the PFM Reform. The project will adopt a four tiered approach for effective implementation (the responsibility matrix and detailed governance structure is discussed in Annex 3):

Figure 3: Structure of Implementation Arrangements



[11] See for example Andrews (2006) in Budgeting and Budgetary Institutions

- ***TIER 1*****: PFM Executive Reform Team.** Led currently by the Director General of the Budget Department and comprising Director Generals from all departments supported by the Project, main role and responsibility of the ERT is to coordinate project activities that span across line departments (for example on the IT policy and connectivity infrastructure), monitor implementation, and to resolve implementation bottlenecks as they arise. The ERT would also focus managerial attention on achieving the targeted outcomes and to ensure that they are strategically aligned with the overall PFM Reform Program.

- ***TIER 2:*** **Implementing Agencies**. Each agency is responsible for delivering on the outputs of their respective component/s with inputs received from the project. To do so, each will appoint a focal point to the PFM Reform Secretariat who shall work in close collaboration with the support service units under Tier 4. The agencies (as listed in Annex 3, para. 122) will work under the overall guidance of their respective Director General.

- ***TIER 3*****: The PFM Reform Secretariat** will play a critical role in supporting Director Generals and coordinating functions of the project, and will report progress to the Executive Reform Team through the departmental reporting lines. It will be responsible for ensure that the day to day delegated management of all activities of the project are effectively executed by the IAs; it will supervise the tasks of the support services; and will also assume responsibility for evaluating the progress of the project.

- ***TIER 4:*** **Support Services:** Support services will be delivered by 2 distinct units under this tier (i) Financial Management, (ii) Procurement services. Given its role in providing independent oversight, it has been agreed that the Office of the Auditor General will have its own dedicated staff for providing FM and procurement services. Monitoring will be the responsibility of implementing agencies.

56. **The project will support the building of abilities to procure and manage these support services.** Government has identified dedicated staff to play these roles and there is also a large implementation support team to provide hands-on implementation support. During the initial stages of the project, to help the government through processes for complex procurement, appropriate national/international specialist will also support the procurement unit. There will also be need to in-source IT expertize into the PFM Reform Secretariat to work with MOF and MNPED implement the basic yet scaled up computerization and network management.

B. Results Monitoring and Evaluation

57. **Each implementing agency will monitor progress of their respective component against the agreed performance indicators listed in Annex 1.** In order to ensure line of sight, the responsibility for achieving results will be vested with the Director General of each implementing agency. In this regard, the technical focal point from each implementing agency will provide the monitoring reports to the FM unit on a quarterly basis. The financial management unit will consolidate the report and send it to the Project Appraisal and Progress Reporting Department of the MNPED – which is responsible for monitoring and reporting on government projects. The FM unit will prepare the quarterly Integrated Financial Reports and progress reports for the PFM-Reform Secretariat.

58. **Project level monitoring will keep track of mechanisms identified for bottom-up planning at the local level responding to women's and minorities' needs** and; capacity building provided on the gender dimensions of budget and planning through the PFM Academy.

C. Sustainability

59. **The key sustainability issue related to the project the sustainability of improvements in human capital made through the project intervention and ensuring that initial momentum for PFM reform continues to be built upon.** Through support for the PFM academy, structures are in place to put skills acquisition on a sustainable footing. The project is also investing in enhancing the capacity of government staff to administer and monitor development partner-supported reform programs, rather than looking to use external consultants and project implementation units as a quick short-term fix for gaps in implementation capacity. If investments in equipment and infrastructure are to be sustainable, the government will also need to provide sufficient resources for the operation and maintenance of equipment. This has been recognized by the Ministry of Finance, who are confident that with improvements in tax administration and a positive economic outlook, such costs are manageable and will be provided for through normal budgetary operations.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table[12]

Risk	Rating
Project Stakeholder	**Moderate**
Implementing Agency Risk	
- Capacity	**High**
- Governance	**Substantial**
Project Risk	
- Design	**Moderate**
- Social and Environmental	**Low**
- Program and Donor	**Substantial**
- Delivery Monitoring and Sustainability	**Substantial**
Overall Implementation Risk	**Substantial**

B. Overall Risk Rating Explanation

60. **The proposed project is assessed as having substantial risks.** The key risks are: (a) implementation agency risks (weak oversight, inadequate capacity, fiduciary weaknesses); and (b) project risks (possible complexities in transfers of functions from the Central Bank of Myanmar to the Ministry of Finance on treasury operations, and possible weaknesses in monitoring outcomes). Another key risk is the uncertain work environment to initiate and process operations, as this would be one of the first World Bank activities after two decades of absence from Myanmar. Both the WBG and its counterparts need to learn to work together again, and how to cooperate to maximize the benefits of the development initiatives.

61. **Capacity risks associated with financial management and procurement requirements of implementing a World Bank project are substantial.** These risks will however be mitigated by supporting the development of adequate project management, procurement and financial management capacity to support implementation. Within the Ministry of Finance, full-time staff have already been

[12] Risks are assessed according to a standardized scale from Low to Moderate to Substantial to High

identified to undertake procurement and financial management functions. By using nominated own government official for FM and procurement, a greater sense of ownership and accountability is expected for project implementation. Systems for financial reporting are also building on existing strengths and integrity of the government's own accounting structure. Further, there will be a dedicated implementation support task team (see Annex 5 for further details) to provide support as required to guide these processes.

62. **Risk of quick automation and adoption of too sophisticated software disrupting operations and compromising the integrity of the current manual system are high.** There is significant internal pressure for MOF and MNPED to put in place sophisticated software for improving management of PFM systems which increases risks of inappropriate software being implemented or parachuted in. In order to mitigate this risk, the project is proposing a phased approach where by manual systems are migrated to an electronic medium as-is, staff are trained (and certified) on excel and office suite of software, only small and contained software is deployed for specialized work only (at the IRD), and there is much more integration of existing business processes and corresponding software interfaces, than bringing in new solutions. The project will also significantly bolster internal IT skills in government to manage this basic yet scaled up use of automated office tools across all budget entities along with significant training programs for officials across the Union, states and regions to improve budget preparations and expenditure management. More sophisticated (and not yet relevant) systems like integrated financial management information systems have been deliberately been excluded from this project along with reforms like program budgeting – which will at this time provide very limited value for the Myanmar context because much can be gained by modernizing existing systems.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

63. **The centrality of the PFM system to the momentous changes being made in the country mean the potential benefits of the project are substantial and diverse.** At the most straightforward level they include more sustainable public finances, the benefits from increased service delivery, more efficient management of funds, and the benefits from an allocation of those funds which is more aligned to the strategic priorities of government. There are other benefits that are less easy to measure and to attribute, but are nonetheless hugely important. These include increased accountability of government, a more constructive dialogue between government and civil society, reduced risk of future aid dependency, a more transparent and accountable system for allocating revenues from natural resource sectors, a system able to respond to the needs created by decentralization, and a better dialogue around the role of state-owned enterprises. In sum this project could contribute towards the continued emergence of Myanmar as a more peaceful, more accountable, and better governed state.

64. **While direct attribution of benefits to PFM reform is difficult, one can get a sense of the scale of its potential impacts.** These include:

- *Increased revenues to fund more public services*. As discussed previously, Myanmar's revenue to GDP ratio is extremely low. With government revenues and expenditure so low, there are likely to be high social returns to increased provision of basic services and infrastructure. Even if the project's contribution to increased tax revenues is only 0.1% of GDP, this would raise the government an additional $US316 million over the course of the project, a figure that dwarfs the total project investments.

- *A more strategic allocation of resources***.** There are already signs that increasing transparency and accountability in the budget process is leading to a more efficient allocation of resources. This will be amplified by consolidating revenue management and bringing resources on budget, subjecting them to the allocation criteria as other public funds. Between 2011/12 and 2012/13 fiscal years, education and health expenditures have been increased by over 38%, while military spending decreased by 10%[13]. Although, it is difficult to quantify the impact of this kind of resource reallocation, there are clear economic benefits. Total spending over 2014/15 to 2018/19 (the length of this project) is estimated to be $119bn, or nearly 2000 times the value of this proposed investment[14]. A small improvement in the quality of this spending would justify its costs.

- *Fiscal stability and transparency***.** The flurry of investor interest in Myanmar demonstrates the enormous economic potential in the country. Continued macro-fiscal stability is a necessary condition for economic growth. Improved fiscal management and transparency will also have a critical role to play in ensuring that investor interest translates into greater capital inflows. Additionally, by addressing weaknesses in tax administration, this project will support the establishment of a tax system which is viewed as transparent and fair – a key factor in attracting and retaining both foreign and domestic investment.

- *Expansion of the capacity of the public sector to spend money and expand services*. Achieving rapid and substantial increase in public spending due to increased donor financing and expanding public sector budgets requires a public procurement system that functions efficiently and transparently. Enabling the government to make full use of the skills and expertise of local, national, and international private firms is fundamental to satisfying expectations of improved service delivery.

- **Efficiency gains in public expenditure.** These include:

    - *Efficiency gains in production of standard financial reports.* Investments to computerize existing manual processes to compile and record budgets, budget execution reports, supplementary budgets, bank statements and so on will over time result in considerable economic benefits in terms of the hours of labor saved that is currently performing these repetitive tasks.

    - *Increased capture of gains derived from private sector innovation*. The creation of a public procurement system capable of handling a significant volume of transactions will enable the government to reduce its dependency on the public production of goods and assets and enable it to reap the benefit of cost and quality improvements created by the private sector. Increased standardization of procurement practices within government will reduce excessive discretion at the same time that it reduces the transactions costs to business of working with the government.

    - *Efficiency gains through reduced administrative costs faced by firms through tax administration.* Economic benefits will also be realized through the reduced time cost to firms of transactions in tax administration. The introduction of self-assessment, simplified procedures for tax registration and dedicated services provided to large tax-payers all stand to potentially reduce the costs in terms of man hours of dealing with the Internal Revenue Department.

[13] MDRI and The Asia Foundation (2013) *State and Region Governments in Myanmar*
[14] Based on estimates of expenditure/GDP and GDP in the most recent Article IV.

B. Technical

65. **The reforms have been informed by extended in-country diagnostic work and dialogue with government on an appropriate reform design.** Informing the first phase of project preparation, UK AID funded a World Bank administered PEFA assessment and IMF conducted three core diagnostics – one on Public Financial Management, another on Treasury and Debt Management, and the third on Government Financial Statistics. The World Bank and IMF have also conducted joint analysis and diagnostics on tax policy and administration. Building on this diagnostic work, more detailed consultations have taken place on each of the constituent components of the project. Analytical documents that have been prepared during project preparations are held on file.

66. **The reform design has also drawn from international experience on what works well in PFM reform.** The design of the project has drawn from the findings of the 2012 synthesis of case studies on PFM reform in Post-Conflict countries. The project's focus on strengthening core function is in line with the proposed phasing of reforms in the Good Practice Note on Sequencing of PFM Reforms[15].

C. Financial Management

67. **The overall financial management risk is assessed as 'substantial'.** The main risks that need to be addressed are: (i) inexperience of the two identified financial management committees (FMCs) in managing and handling donor funded projects; (ii) inadequate documentation of policies and procedures (although there is a high level of integrity in terms of accuracy of financial records and financial statements as discussed in the PEFA report and IMF analysis); and (iii) the high volume of soft expenditures which increases the potential risk for misuse of funds. The following are the proposed measures to mitigated these risks:

a. The capacity issue and inexperience of managing and handling donor funded projects will be addressed through three (3) measures:

   i. Technical support from short term qualified financial management consultants: preferred candidates would need to know the Myanmar language with a proven record on knowledge transfer skills (on the job training and mentoring) and ability to deliver short modular 'how to' courses during the first year of implementation. The detailed terms of reference for this position will be developed in collaboration with MoF and OAG.

   ii. The project will also finance certification programs on core skills on accounting, financial management as well as public finance management. These programs will be customized for different levels of government staff and will be delivered at the PFM Academy.

   iii. Complementary and sustained support and guidance from the World Bank Task Team will also be programmed all throughout project implementation; this in order to assist all implementing agencies on specific policies and procedures of World Bank funded and administered projects. The detailed implementation support plan for each specialized area is discussed in the relevant section of this program document.

b. Having in place an acceptable financial management manual (FMM) for the project that includes controls and detailed procedures on the provision and liquidation of advances for training/workshops; have all staff involved in handling financial transactions matters trained in project's financial management immediately after the approval of the FMM; and
c. Having the project financial statements subject to an annual external audit.

[15] Good Practice Note on Sequencing of PFM Reforms (Jack Diamond, 2013) http://www.pefa.org/sites/pefa.org/files/v8-Good_Practice_Note_on_Sequencing_PFM_Reforms_%28Jack_Diamond__January_2013%29_1.pdf

68. The project is subject to the World Bank's Access to Information Policy. The project's audit report and audited financial statements will be made available to the public in accordance with the agreed acceptable mechanism.

D. Procurement

69. **Currently, Myanmar does not possess national level legislation on public procurement, and no official procedures in writing exist within either the MOF or OAG.** This creates a risk of confusion as to the procedures and rules to be followed under implementation of this project. To address this risk, the team has clarified and agreed with MOF and OAG that the project will strictly follow the World Bank Procurement/Consulting Guidelines.

70. **The experience of all implementation agencies with procurement is limited, and this will be the first time for these agencies conduct procurement in accordance with international practice**. For implementation of the proposed project, an international procurement specialist who is familiar with World Bank procurement guidelines version January 2011 will be therefore employed in the initial phase of the project to assist these offices through PCAU and to provide the knowledge transfer and capacity building to the assigned staff. Both MOF and OAG have agreed to assign at least one full time officer to work with the international procurement specialist. The Bank team also will provide procurement training to the implementing agency staff to familiarize them with the Bank's procurement policy and procedures.

E. Social (including Safeguards)

71. **The project does not include activities that may incur significant social risks or deal directly with the population at large.** However, Government-financed delivery of services is of crucial importance to poverty reduction and shared prosperity. By allowing the government to take a more strategic approach to planning and budgeting, this project has the potential to allow for a better allocation of resources to those areas that are likely to raise growth and increase its inclusiveness. Rises in social sector spending (which at present is particularly low) has also been shown to benefit women. The project also has the potential to increase trust between citizens and government through the sharing of fiscal information, thereby helping to foster dialogue between state and citizens.

F. Environment (including Safeguards)

72. **The proposed project will primarily finance office equipment (ICT and office equipment), technical assistance and training in order to achieve its development objective**. The project will only finance micro/minor works like putting up white-boards in the PFM Academy, putting in non-permanent partitions in the inside of the offices to have break-out group sessions, and small touch-up paint (if needed). Any contract issued for supply and installation of goods will include provisions for the supplier to include the standard health and safety precautions that apply for such minor/micro works and to manage any noise level and disposal of packaging of goods to ensure that there are no adverse environmental impacts. The project will not construct any structures or finance any external modifications of any facilities. Therefore, in view of the limited minor/micro works envisaged, in accordance with the Bank's operational environmental assessments (OP 4.01, Annex E) is not triggered. The proposed project had been placed in Category C and did not require an environmental assessment.

Annex 1: Results Framework and Monitoring[16]

MYANMAR: MODERNIZATION OF PUBLIC FINANCE MANAGEMENT PROJECT

Project Development Objective: To support efficient, accountable and responsive delivery of public services through the modernization of Myanmar's PFM systems and strengthening institutional capacity.

Indicator	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
			YR 1	YR 2	YR 3	YR 4	YR 5				
PDO Level Results Indicators											
1. Contribute to enhancing the Tax to GDP ratio from 6.2 percent in FY2012/13 to over 10 percent by FY2018/19 including increasing tax collections from large taxpayers by strengthening tax administration	Recorded Revenue Large Tax Payers./GDP Ratio	*Not measured (2012/2013 FY)*	Baseline established	Baseline +5% (in real terms)	Baseline +10% (in real terms)	Baseline+ 15% (in real terms)	Baseline +20% (in real terms)	Annual	Fiscal reports	IRD	*Greater funding for service delivery:* Indication of success of government efforts to reduce compliance gap of large tax-payers
2.Government commitment to fiscal transparency in line with global good practice, including report on revenues from natural resources	(i) Number of key fiscal documents publicly available[17]; and (ii) report on revenues from natural resources	1 (enacted budget); no report on revenues from natural resources	(i) 1	(i) 2	(i) 3; (ii) report on revenues from natural resources published	(i) 3; (ii) report on revenues from natural resources published	(i) 4; (ii) report on revenues from natural resources published	Annual	Documents available on MOF web site	Budget Department	*Fostering accountability for service delivery* Indication of transparency in the mobilization and use of public funds
3. Composition of expenditure out-turn compared to original approved	Average % compositional variance over 3 previous years [18]	24%	22%	20%	18%	16%	14%	Annual	Financial statements	Budget Department	*Increasing efficiency of service delivery* Indicator measures confidence and credibility of budget allocations for line ministries
4. Budget preparation process including (i)	Y/N	(i) N (ii) N	(i) N (ii) N	(i) N (ii) Y	(i) Y (ii) Y	(i) Y (ii) Y	(i) Y (ii) Y	Annual	Budget circular and	Budget Department	*Increasing efficiency of service delivery* Indication

[16] None of the core indicators are used

[17] Nine core documents include: (i) pre-budget statement; (ii) annual Executive budget proposal documentation, (iii) enacted budget, (iv) in-year and year end budget execution reports, (v) audited annual financial statements, (vi) external audit reports, (vii) summary of the Executive budget proposal; (viii) medium term budget proposal, and (xi) summary of enacted budget.

[18] Measured using PEFA methodology

Indicator	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
			YR 1	YR 2	YR 3	YR 4	YR 5				
issuance of ceilings (ii) preparation of medium-term fiscal framework									budget documents		of progress of improvements in policy-based budgeting to enable a more strategic and sustainable allocation of resources.
Intermediate Results Indicators											
Component A: Strengthening Revenue Management											
5. Number of large tax-payers completing self-assessment	Number	0	0	20	50	150	250	Annual	IRD records	IRD	*Greater funding service delivery:* Indication of progress of tax administration reforms anticipated to reduce tax compliance gap for large tax-payers.
Component B: Support for Budget and Planning											
6. Improving information base for linking budgets to plans	Number of departments submitting (i) recurrent budget and (ii) capital budget forms electronically	No organizations submit forms electronically	(i) 5 (ii) 5	(i) 20 (ii) 20	(i) 30 (ii) 30	(i) 35 (ii) 35	(i) 40 (ii) 40	Annual	Electronic Budget submissions; Electronic Planning submissions	Budget/ Planning	*Efficient service delivery:* Indication of progress in strengthening information base for linking budgets to policy objectives and for undertaking incidence analysis.
Component C: Supporting Budget Execution											
7. Availability of information on public procurement outcomes	Availability of information on implementation of large procurement contracts[19].	No standardized information provided	Information on 20% of large contracts	35%	45%	55%	70%	Yearly	MOF website	Treasury	*Fostering accountability for service delivery:* Indicator measures the degree to which the public is able to monitor the performance of large public sector investments.
8. Budget holders are empowered to execute budget within clearly defined procedures and regulations that	Financial rules and regulations	Financial rules and regulations outdated and not widely available.	Updated financial rules and regulations approved by MOF	Rules and regulation put on website	Financial rules and regulations revisited and further refined	Updated rules and regulation published	Appropriate financial rules and regulations in line with practice	Annual	MoF website	Treasury	*Efficient service delivery (budget credibility):* Indicator measures regulatory aspects of the system that allows line

[19] Threshold and mode of placement will be determined based on the procurement rules and regulations

Indicator	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
			YR 1	YR 2	YR 3	YR 4	YR 5				
are consistently enforced											agencies to deliver services within an appropriate fiduciary environment
9. Timeliness of reconciled budget execution reports	Number of months after end of period	>6	</=5	<5	</=4	<4	</=3	Quarterly	Budget Execution Reports	Treasury	*Efficient service delivery: Indication* of the extent to which government can respond in a timely way to emergent issues of under or over-utilization of public funds
Component D: External Oversight											
10. Timeliness of Submission of Audit Report to Parliament	Number of months after end of fiscal year	Over 1 year	<14 months	<13 months	<12 months	<11 months	<10 months	Annual	Audit Report submissions	OAG	*Fostering accountability for service delivery:* Indicator measures relevance of audit report being scrutinized by legislature
Component E: Institutional and capacity development											
11. Number of beneficiaries of (i) training courses through PFM academy, and (ii) training module on revenue and expenditure incidence analysis (including by gender, income group and region)	Number per year	None, as PFM Academy not operational as yet	0	50, 0	100, 20	200, 40	300, 60	Annual	PFM Academy records	PFM Academy	Efficient service delivery – Indication of progress on skills development agenda.

Annex 2: Detailed Project Description

MYANMAR: MODERNIZATION OF PUBLIC FINANCE MANAGEMENT PROJECT

73. The project takes a "chain is as strong as the weakest link" approach to PFM modernization. This means that in order for the PFM system to serve as the backbone that supports effective delivery of services in Myanmar, it ought to have the following five abilities: (i) collect revenues commensurate to economic activity and natural resource extractions levels: (ii) national development plan that reflects local needs and transparently links needs to realistic (availabilities informed) budgetary appropriations that reflect the Union, State and Regions' functional responsibilities; (iii) deliver finances to service delivery units in a timely manner and execute them with due fiscal diligence, including the procurement system; (iv) effective external oversight on spending and feedback loops; and (v) inculcates trust through transparency and responsiveness. In case any of these functions are not strong enough, the overall system fails to support delivery of services by front line units. This is how the following components of the project have been programmed based on the government's PFM Reform Strategy.

Component A: Improving revenue mobilization through bringing more revenues from natural resources on budget and strengthening tax administration (US$11.0 million)

74. Myanmar's Union Government revenue to GDP ratio in 2012/13 was about 9.1 percent of GDP. This is low by international standards. There are two main reasons for this low revenue effort. First, about 40 percent of revenue accruing mainly from the natural resource sector is off-budget. Second, the outmoded tax administration. The government aims to increase the revenue effort to above 12 percent by 2019. In order to do so, the government plans to bring off-budget revenues on-budget and improve tax administration so that it can collect taxes commensurate to economic activity, and to do so in a way that builds a positive relationship between the state and the taxpayer.

75. The project will support the efforts of the government to implement the Extractive Industries Transparency Initiative (EITI) through putting in place the appropriate rules, regulations, protocols, and reporting systems to ensure compliance with EITI requirements. Concurrently, the project will be support the development of the budgetary system that includes revenues from the natural resource sector and captures development assistance through the budgetary process.

76. In undertaking reform of tax administration in Myanmar, authorities have identified their objective as arriving at a system which is efficient, equitable and simple, delivering necessary resources to government while minimizing the burden to the taxpayers. Moving from the current system of tax administration towards a modern system which is capable of meeting these objectives will require significant institutional and organizational reform. In particular, two transformations are likely to have profound implications for the organization and business processes of the tax system. The first is moving from the current system of administrative assessment to a system of self-assessment; the second is moving from the current system of tax-type organization towards a system of functional organization.

77. Given the complexity of these transformations and their broad implications for management practices, business processes, organizational design and staffing, and skills acquisition, authorities have decided to roll out these reforms in a sequenced approach, first piloting these transformations in a newly established Large Taxpayer's Office, before moving to the subsequent establishment of Medium Taxpayer's and then Small Taxpayer's Offices. This sequenced approach is especially critical given the significant business process re-engineering that will be required when moving towards self-assessment, while still ensuring continuity of revenue collection. This component will provide both financial support as well as technical and advisory services in order to facilitate these transformations. This will include the

hard costs of establishing the LTO (computerization, connectivity, small commercially available software and data warehousing) as well as the advisory services and technical assistance needed for the LTO to undertake the transformations described in the first paragraph. Following the pilot of these changes in the LTO, the project will provide continued support as they are rolled out to Medium and Small Taxpayer Offices. It is anticipated that the LTO will include firms in the extractives sector. In having the LTO operate effectively, tax payers will be able to meet requirements under EITI auspices.

78. A related reform objective which must be undertaken alongside the institutional and organizational transformations outlined is the need to improve the taxpayer registration process. Successful compliance management, particularly under a system of self-assessment, requires a reliable database on taxpayers registered. Such a database is necessary to: (i) analyze the real growth rate in the taxpayer population; (ii) cross-check tax registration data with business registration information; (iii) follow-up in cases of stop-filers and non-filers; and (iv) cross-check and verify information in tax returns. As currently constituted, the tax registration system does not guarantee a unique and single taxpayer identification number for each taxpayer and thus is not a reliable system. Therefore, a unique Taxpayer Identification Number (TIN) system will need to be rolled out alongside the institutional transformations described above. The system envisioned will reflect international good practice regarding data protection. It is expected that the general provisions of the legal and regulatory framework applicable to ensuring privacy and data protection being undertaken under the (contemporaneous IDA telecommunications project) will apply to this project as well. To the extent that any special privacy or data protection provisions related to taxpayer registration might apply, they will be addressed in this project. This component will provide the technical support and advisory services to establish a functional TIN system and registration database, and to implement this TIN system in a coordinated fashion with the other reform activities.

79. In order to support these institutional and organizational transformations, authorities have also recognized the need to review the legal and regulatory framework which currently governs tax administration in Myanmar. The modernization of the administration, in particular the creation of specialized tax administration functions, the introduction of self-assessment, and the possibility to introduce e-taxation will require additional and revised rules on rights and obligations of taxpayers and tax officers. International experience suggests that a special tax administration law or tax procedures code can help to entrench and provide the necessary mandate for these changes. This component will therefore provide resources and technical assistance to review and reform the legal and regulatory framework as necessary.

80. Finally, all of the reform objectives described above will require significant investments in the training and capacity building of IRD personnel. The skills agenda will be a crucial factor in both the institutional and organizational changes described, as well as to fully leverage the new tools, software and connectivity under the ICT strategy which will be developed and implemented. Furthermore, a move towards self-assessment and the establishment of the LTO will put particular significance on the taxpayer service function. As companies begin to undertake their own assessments of tax liabilities incurred, there will be a critical need for quality, efficient taxpayer service to provide assistance to taxpaying “clients”. This component of the project will also provide the financial and technical support needed to ensure the necessary training and capacity building for IRD staff.

Component B: Supporting Responsive Planning and Budget Preparations (US$14.0 million)

Sub-Component B1: Supporting Policy Based Budgeting and Budget Preparations (US$8.0 million)

81. At present, most of the Budget Department’s manpower is absorbed in performing cumbersome

routine tasks of budget compilation and reporting. Existing budget compilation procedures are undertaken on a predominantly manual basis. Budgets are either recorded manually or in the few computers available at agencies, and then information is faxed or sent by post to recipients. Data is then aggregated manually and reentered into computers. Current manual compilation processes are time-consuming and also do not lend themselves easily to manipulation of data to analyze links between the budget and policy. This is the cause for the significant delays in budget preparations and reporting which hamper the governments' ability for effectively reporting and managing public finances.

82. There is significant scope to modernize these procedures to free up the department's time to also take on a more strategic role as well as improving the quality of information available to undertake analysis of the budget-policy link. In order to do this, this component will aim to move the budget compilation process to one that is excel-based and stores budget information in a centralized database to facilitate analysis. The data will be captured and stored in such a way that it will serve as the foundation for a full chart of account codes structure later on.

83. Inputs to achieve this will include procuring the necessary computing hardware, connectivity improvements, introduction of simple database software, basic computing skills training and support for the Budget Department to manage the change to business processes. The focus of the first phase of the project will be on linking up departments and organizations within Naypyitaw to ensure that the Union budgets are submitted electronically; while in the second phase of the project, the focus will shift to the electronic submission of state and regional budgets.

84. The political reform process that is underway is resulting in the Ministry of Finance being expected to take increased responsibility for advising Cabinet on fiscal and budgetary policy; an area previously overseen by the President's Office. Further, the constitutional requirement for separation of regional and state budgets from the Union also has placed new functional demands on the ministry. To accommodate its changing role, the Ministry of Finance has proposed revisions to its organizational structure. This component will also support the Budget Department to undertake these new roles effectively. Short-term advisory services will be contracted to provide guidance and on-the-job assistance in the development of these new policy functions.

85. In particular, technical guidance and training will be provided to the newly formed Fiscal Policy and Strategy Division at the Budget Department in developing a medium-term fiscal framework as a tool to provide Cabinet with a strong analytical foundation for informing key budgetary decisions. The framework will provide a medium-term view on the fiscal space available for allocation to potential spending priorities. This will require building skills for forecasting the overall resource envelope (tax and non-tax revenues, grants, and debt flows) that is consistent with a sustainable borrowing strategy, as well as working closely with the Planning Department to estimate ongoing expenditure commitments and identifying policy options for allocating additional resources. These would then become the basis of expenditure ceilings to spending agencies at the Union, state, and region levels. Concurrently, technical support will be provided to improving the structure of budget and management of off-budget funds and State Economic Enterprises.

86. Training will also be given on the drafting and analysis of standardized fiscal reports, whose coverage extends to all fiscal operations, including those conducted through the use of off-budget vehicles such as Other Accounts. As well as the production of standard reports, tools will also be developed for scenario planning, so that the division can prepare ad-hoc reports looking at specific areas, which might lead to fiscal risks. This might include for example looking at the wage bill and pensions, the balance between investment and maintenance expenditures, and also advising on fiscal implications of moves to distance State Economic Enterprises from the government.

87. The project will also provide technical assistance to the Intergovernmental Relations Division at the Budget Department. Determining an appropriate balance of roles, responsibilities, and financing between the various levels of government, especially the states and regions, will have a major impact not only on the quality of services citizens receive, but also on the ability of authorities to ensure peace and stability amidst a geographically, ethnically and culturally diverse landscape. The establishment of this Intergovernmental Relations Divisions will help to ensure debate and policy making on these issues are well-informed, and that execution of these policies (particularly allocating public resources to states and regions) is well managed and appropriately tracked and reported. The project will provide support and technical assistance as this new division begins to undertake the functions described above. The department will also be given the opportunity to learn from successes and failures of other countries in devising an appropriate intergovernmental fiscal transfer system consistent with the functional responsibilities for different levels of government.

Sub-Component B2 – Responsive Planning and Investment Management (US$6.0 million)

88. The planning framework and budget framework go hand in hand. This component will support the planning department (US$4.5 million) in developing the macroeconomic forecasts that frame the budget and 5 year national plans. Particular attention will be given to developing a joint planning and budget schedule to ensure that the macroeconomic projections prepared by the Planning Department and the fiscal framework prepared by the Budget Department are consistent.

89. The planning department also plays a key role in administering and guiding the development of sector and state and regional bottom-up plans. The project will aim to strengthen the bottom-up planning process by developing guidelines and procedures so that the states and regions (all the way down to townships) have the information and tools to plan responsively, yet ensure fiscal discipline. To play this role, the project will support advisory services in the development of revised guidelines and forms that are provided to sectors, as well as equipping planning officers to play a 'challenge function' in their respective sectors by looking critically at some of the assumptions on which plans are being based. The project will provide training and skills programs through the PFM Academy to develop skills of township planning officers on strategic prioritization, stakeholder participation, and responsive planning.

90. Second, this component will strengthen processes for public investment management in two key areas. First, in close conjunction with component B1, technical assistance and training will be provided for strengthening budgeting for investment projects (through work with Finance and Investment Directorate of the Planning Department). Support will be given for the development of standard Excel-based forms that will be used to computerize the compilation and aggregation of the investment budget. This work will be done in conjunction with the forms prepared under component B1 to strengthen linkages between recurrent and capital budgets and will serve as the basis for a common account code structure. Code identifiers will also be put in place in order that projects can be monitored throughout the whole investment management cycle. As with the budget component, significant investment will be required to put in place the necessary hardware and connectivity, as well as reengineer the business process.

91. Under responsibility of the Project Appraisal and Progress Reporting Department (PAPRD), the authorities are also aiming to ensure formal project appraisal is undertaken for all large projects before they can be considered for inclusion in the budget. This component will therefore support improvements to processes for appraisal and monitoring of large capital investments (US$1.5 million). Assistance will be provided for the development of technical guidance for investment appraisal that applies across sectors, as well as sector-specific guidance in key strategic sectors (including roads, water, electric power and irrigation). Training and workshops will also be financed to build confidence in applying standard methodologies. Support will also be given to review the forms being used for progress reporting on

projects. Financing will be also provided for the development of a database of project appraisals and progress reports. Support for improving appraisal and monitoring of large investments will be done in close connection with related efforts to improve public procurement processes and outcomes.

Component C: Supporting Effective Budget Execution and Financial Reporting (US$15.0 million)

Sub-Component C1 – Supporting Treasury Operations (US$ 6.0 million)

92. This component will assist the Treasury Department and the Myanmar Economic Bank in budget execution functions based on the autonomy of the CBM. Work will focus on three key areas. First, the project will assist in the effective operationalization of the new Treasury Department at the MOF, which is scheduled to be established in April 2014, at the start of the 2014/15 fiscal year (US$4.0 million). Building on the investments in computerization and connectivity financed under component B, the project will provide assistance in adapting business processes to improve the flow, accuracy and timing of in-year reporting on budget execution. Basic Excel forms for budget reporting will be developed and information will be uploaded to a central server, thereby reducing current repetition of manual tasks. At present, expenditure reports are also aggregated at each level of government (e.g. township, district, state/region, Union) meaning that when information is finally received by Budget Department, much of the detail is lost. By storing and aggregating information electronically, the granularity of expenditure reporting will improve. The changes to business processes will require considerable training in the use of Microsoft Excel and sensitization on the use of electronic forms. In conjunction with the modernization of reporting systems at MEB, advice and training will also be provided to treasury officials on how to identify sources of discrepancies between bank statements and budgetary accounts and reduce the time lag in bank reconciliation.

93. The debt and cash management functions that the new Treasury Department will be required to undertake will be new for many of the staff employed there. With regard to debt management, the initial focus of the project will be on building up the functions associated with a 'back office' in a fully functional Debt Management Office. The back office is responsible for the settlement of transactions and maintenance of the financial records. MoF is already migrating manual ledgers of debt operations to Excel spreadsheets, initially for external debt and then to add domestic debt. However, the Excel spreadsheets are a short term solution, given the increasing number of loans. The component will provide financing for debt management software necessary to operate the system as well as the hardware requirements. In addition, it is also vital that resources are provided for capacity building in order that these back-office functions begin immediately. Dedicated analytical resources will be established (staff and skills), with initial focus on basic cost and risk indicators covering domestic and external debt, and later advancing to high quality reports and analysis for improved decision-making based on portfolio analysis. The preparation of a debt statistical bulletin is expected to inform the articulation of a basic debt management strategy as a basis for the 2015/16 budget financing plan. In terms of cash management, support will initially be focused on training dedicated staff in the new Treasury Department to consolidate an aggregate quarterly cash-flow forecast for the fiscal year.

94. The Treasury Department will also become responsible for advising on future amendments to the Oo-Sa and Tha-Sa rules and regulations, as they relate to internal controls on budget execution and reporting. The project will make resources available to review and update these rules and regulations as and when required including on procurement and resources for the consistent application of these procurement regulations across all levels of government.

95. A second area of focus will be public procurement (US$2.0 million). The project will support the application of recent directives mandating the use of competitive tenders in procurement transactions by

defining implementing rules and regulations as well as improvements. Complementary work will support building the capacity to plan, design, execute, manage and oversee procurement. This effort will encompass establishing manuals and standard forms to guide implementation, developing material to train staff in various aspects of public procurement, and establishing the organizational arrangements required to undertake procurement effectively. Given the importance of public procurement in development outcomes, and the immense costs associated with poor procurement in many other countries, special attention will be given to enabling effective procurement monitoring and to piloting ways to improve outcomes.

Sub-Component C2 Improving management of State Funds Account (US$ 9.0 million)

96. The third key intervention under this component will be to strengthen ICT systems at the Myanmar Economic Bank (MEB), who acts as the fiscal agent for the Union Government, State and Regional Government and all State Owned Enterprises (US$9.0 million). Currently, the effectiveness of MEB's operations is affected by its outdated ICT systems characterized by *ad-hoc* software solutions (thirteen different types of software are used, but none are inter-linked) and a lack of connectivity, hardware and intermittent electricity supply in the branch network. Although an inter-branch application has been launched in seven branches, it requires new dedicated accounts to be opened and the services offered are limited. A lack of linkages and customization of reporting software mean that at present, it takes three months between the end of the period and the Central Bank of Myanmar to present consolidated statements on the overall government position.

97. During the initial stage of the project, (i) urgent amendments will be made to existing software in order to help build interfacing capabilities and to improve the ease of manipulating data for compilation of ledgers and bank statements; (ii) support for improvements will be made to hardware and connectivity in the branch network in order that branches can benefit from improved software; (iii) access to training on required basic computer skills will be expanded; (iv) a specialist firm will be contracted to scope out in detail the functional requirements for an integrated core banking software for MEB and prepare bidding documents for its procurement.

98. Once this initial stage is completed, the project will provide resources for the implementation and use of amended software, as well as continued training on usage. Software will also be rolled out to branches as planned improvements to telecommunication and electricity supply come on line. This will be undertaken in conjunction with further improvements to connectivity and hardware. Depending on the scope of the functional requirements, a decision will also be taken as to whether to proceed with the procurement of the appropriate core banking software through the project (procurement would be funded through additional resources anticipated from other donors expected to join the multi-donor trust fund).

Component D: Fostering External Oversight and Accountability (US$6.0 million)

Sub-Component D1: Support to the Parliamentary Public Accounts Committee (US$3.0 million)

99. Parliament and particularly the Public Accounts Committee play a crucial role in holding the executive to account on fiscal policy and the use of public resources. The Parliament has already demonstrated a growing demand for quick improvements in the provision of public services and has been actively involved in debating the national budget. That said the Myanmar Parliament and the associated Public Accounts Committee have only been recently formed. At present parliamentarians are unfamiliar of what is expected of them in their new roles.

100. As such, this component will support a program of institutional strengthening, This would include a skills development program for parliamentarians to be provided through a combination of technical

advisors, on-the-job training, twinning arrangements, and knowledge sharing, which would enhance the technical skills of relevant Parliamentarians in the fields of economic, financial and budget policy analysis; build awareness on the role of Parliamentarians (both at Union and State and Regional level) in the wider PFM process. Resources will also be provided for contracting of experts as and when needed to provide ad-hoc advice on particular policy or legislative issues, as required by the Parliament. In addition, assistance will also be targeted at building the capacity of assistants in developing work plans, drafting meeting agendas, drafting bill summaries as well as English language and computer literacy skills.

101. In addition, it is proposed that a dedicated Public Accounts Committee Office (PACO) is formed to provide Parliamentarians with independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals. Analysis would include tracking economic indicators; reviewing the fiscal forecasts; reviewing the geographical distribution of budget (capital and recurrent) allocations; advising the Parliament on structure of PFM institutions; realigning budget and planning timelines; commenting on changes over time in resource allocations between sectors (e.g. health, education, transport) and within sectors (e.g. basic education, secondary education) and how that reflects (or not) government policy. Six to eight full-time officers would be contracted and made responsible for providing analytical work on both the national budget and also State and Regional budgets for counterparts at the State and Regional level.

Sub-Component D2: Enhancing operational effectiveness of the Office of the Auditor General (OAG) (US$3.0 million)

102. As the nation's supreme audit institution or SAI, the OAG has a central and crucial role in the achievement of PFM outcomes. The OAG has a strong institutional history and relatively strong auditing capability compared with other SAIs in the region, but together with other PFM institutions faces significant challenges in developing its capacity to contribute effectively in future.

103. The Auditor-General and his officials have identified as their primary objective the need to improve the quality and credibility of the OAG's auditing practices by adopting the International Standards for Supreme Audit Institutions (ISSAIs) over a five year period. There is also an identified need for a program of institutional strengthening and workforce development to support this process, and to enable the OAG to function independently and effectively in the future PFM environment of Myanmar.

104. The OAG is in a position to develop its capacity from a number of strengths, which include its stand-alone status and independence from the Ministries and other agencies it audits; an established risk based auditing approach; a broad coverage of audited entities and relatively few audit arrears; and a strong commitment to training of its own staff and those of other public sector entities within its mandate. Through its recent involvement in regional activities with other SAIs it has identified the potential to use the ISSAI framework as a basis for its institutional and professional development and have prepared a 5 year strategy which charts it path towards compliance with the ISSAI framework.

105. The obstacles faced by the OAG to its future development include a looming "generation gap" as a number of senior staff approach retirement; the lack of a comprehensive system for staff development; and a severe lack of ICT capability and the knowledge and skills to move forward in an ICT environment. The OAG also has an, as yet, incomplete understanding of the implications of ISSAI implementation for its existing and future auditing work, and it has identified a need for significant assistance to give effect to its strategy of ISSAI implementation. This challenge is by no means unique to Myanmar, and is recognized as a potential area for development partners to support developing SAIs under the global INTOSAI-Donor Initiative.

106. In particular, it will be crucial to implement the ISSAI framework in a manner that is meaningful

for the OAG and the Myanmar context. Alignments with the wider reform program in Myanmar, including the PFM reforms, the accounting and auditing reforms, and the development of ICT capacity across the public sector will be crucial.

107. This sub-component will support a mix of medium and short term interventions to address these challenges. The medium term interventions will focus on assisting the OAG to develop and implement a strategic approach to institutional strengthening, with inputs in three areas: completion of a workforce profile and medium term training and development plan; development of an ICT strategy incorporating both institutional aspects (including an operating platform and facilities for internal and external communications and staff training) and auditing aspects (including the conversion of its auditing manuals to an IT based audit support tool and the development of the OAG's information systems auditing capacity); and the contemporaneous strengthening of the auditing approach through its five-year strategy for ISSAI implementation (which will need to include assistance with the translation of the key ISSAIs and further development of the OAG's understanding of their significance and applicability).

108. There are many benefits of a strategic approach of this nature, which is also being used for equivalent capacity development programs in Lao PDR and Vietnam. The three areas of workforce development, ICT strengthening, and ISSAI implementation are interlinked. For example, auditing capacity will be improved through the development of staff capability and the strengthening of methodologies and organizational capacity through the ISSAI implementation, in a manner that is aligned with ICT systems development but in a properly sequenced and cost-effective manner.

109. In addition to these activities, the primary short term priority intervention identified by the OAG is the need to strengthen its existing training capacity through a mix of internally delivered training (including English language training) and external development opportunities (including through scholarships, secondment arrangements to and from other SAIs, and a possible twinning arrangement with a developed SAI(s)). The OAG also acknowledges that the achievement of wider PFM outcomes requires enhanced relationships between the nation's SAI, the preparers of Government's consolidated financial statements, and the other scrutiny bodies (including the public accounts committee of the Parliament). There is potential for assistance to be given to the OAG to develop these relationships in coordination with the PACO, in order to strength coordination and cooperation, improve the quality and timeliness of reporting systems and audit recommendation follow-up mechanisms. This will enable the OAG also to further enhance its independence in a practical sense. In these respects, this sub-component is linked with sub-component E1 and also with components B and C above.

110. The ISSAIs provide an internationally-based framework basis for designing and implementing these inputs, as well as establishing benchmarks for monitoring and evaluation. The ISSAIs take a multi-level approach, and include standards covering the SAI's institutional status and practices as well as its approach to auditing, reporting, and quality control. The INTOSAI Development Initiative (IDI) is developing a performance monitoring framework together with a range of assessment tools to monitor ISSAI compliance tools and programs, and it is proposed to use these as a basis for measuring the OAG's progress across all of the above activities over the medium term.

Component E: Establishing a Strong Capacity and Institutional Platform for PFM (US$9.0 million)

<u>Sub-Component E1 – Operationalizing the PFM Academy (US$7.5 million)</u>

111. The aim of establishing a PFM Academy in Myanmar is to enhance capacities and organizational effectiveness by providing just in time, on the job, operational training to officials across government working on public finance management issues. The focus will be on ensuring officials have the right skills and training along clearly defined simple competency frameworks. The PFM Academy will be the

nucleus for developing and managing a sustainable skills (technical and non-technical) through in-service and pre-service training to officials who are involved in the management of public finances across the government – including in the Ministry of Finance (MOF), Ministry of National Planning and Economic Development, sector ministries, regions/states and districts/townships. Capacity building under these competency frameworks will include both soft skills (English language, communications, basic MS Office training, basic analytical skills, leadership and team-building) as well as more technical skills (such as accounting and finance, procurement, debt management, fiscal policy and strategy, medium term fiscal framework and budget analysis, public investment management analysis).

112. In the first phase of the project, a training development firm would be contracted to assist MOF and MNPED in the design of an overarching capacity development strategy, appropriate institutional structures for the administration of the academy, development of a core competency framework for respective functions and design of curriculum modules that address needed competencies. Competency frameworks will be specific to different types of roles – for example, senior officials are likely to require greater emphasis on leadership, managerial training, communications and strategic planning, while more junior officials will likely require targeted technical skills aligned to their specific roles, analytical skills, and basic MS Office training. Additionally, these competency frameworks will be accompanied by a certification process under which officials will be tested and certified as having completed different training and course components, in order to ensure skills are sufficiently retained and internalized.

113. Resources will also be set aside to conduct small internal remodeling and equip the buildings that will house the PFM academy (three buildings behind the budget department have already been identified). There is an urgent requirement to provide both MOF and MNPED with facilities that can be used for on the job training support in Naypyitaw.

114. To meet the costs of up-skilling the PFM workforce in Myanmar, over half of the funds under this component will be set aside for the actual provision of training courses. A large part of the soft skills provision will be contracted out to specialist suppliers (e.g. centers for providing training on Microsoft software)

115. The establishment of the PFM Academy will be coordinated with development partners who have offered assistance to the authorities on developing a capacity building framework. It is expected that in the medium-term all external support for training will be administered through the framework of the PFM Academy.

<u>Sub-Component E2 – Effective Project Management (US$ 1.5 million)</u>

116. The government has formed a PFM Executive Reform Team and a PFM Reform Secretariat to articulate, manage, and monitor the overall reform program, including the project. Resources will be also be provided (US$1.5 million) to the capacity development of the PFM Reform Secretariat in order that they can effectively play their role in management of the reform program, through for example convening of meetings with implementing agencies, managing multi-donor PFM coordination meetings, implementation support missions, translation of necessary documents and so on. Training support will also be provided to relevant parties on financial management and procurement.

PROJECT FINANCING

Project Component	**Project Costs (US$)**
A. Improving revenue mobilization through improved tax administration	**11,000,000**
B. Supporting Responsive Planning and Budget Preparations	**14,000,000**
B1 Supporting budget policy and preparation	8,000,000
B2 Responsive planning and investment management	6,000,000
C. Supporting Effective Budget Execution and Financial Reporting	**15,000,000**
C1 Supporting Treasury Operations	6,000,000
C2 Improving Management of State Funds Account	9,000,000
D Fostering External Oversight and Accountability	**6,000,000**
D1 Supporting the Parliamentary Public Accounts Committee	3,000,000
D2 Enhancing the Operational Effectiveness of the Office of the Auditor General	3,000,000
E. Establishing a Strong Capacity and Institutional Platform for PFM	**9,000,000**
E1 Operationalizing the PFM Academy	7,500,000
E2 Effective Project Management	1,500,000
Total Financing	**55,000,000**

Annex 3: Implementation Arrangements

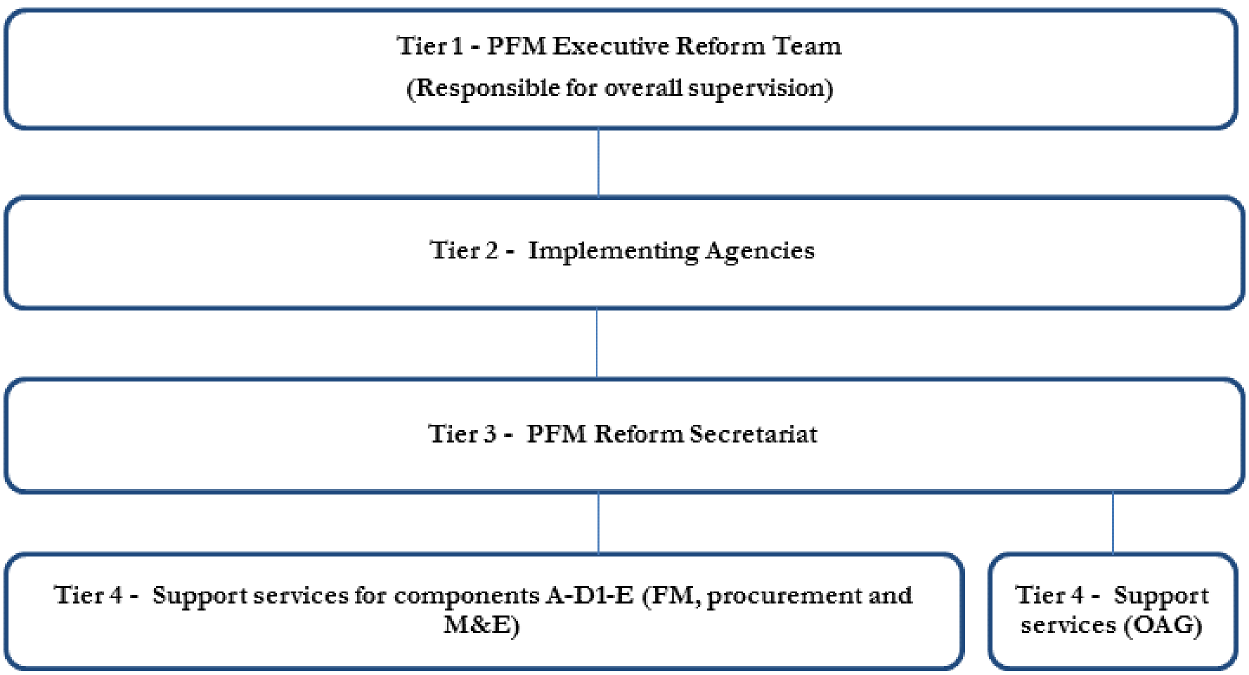
MYANMAR: MODERNIZATION OF PUBLIC FINANCE MANAGEMENT PROJECT

Project Institutional and Implementation Arrangements

117. The Project is articulated around four project components with distinct outputs that are interlinked across the PFM logical chain to achieve the overall project outcomes. A cross cutting capacity and institutional development platform has been articulated that will support the skills acquisition agenda for all implementing agencies during the lifetime of the project and beyond.

118. The proposed project will work through the existing committees that have already been set-up to manage the overall PFM-Reform Program. Figure 1 presents the proposed governance and organizational structure for project implementation. The arrangements have been discussed and endorsed by MoF and key implementing agencies. The project will adopt a four tiered approach for effective implementation.

Figure 1: Proposed Governance Arrangements



<u>Tier 1: The PFM Executive Reform Team</u>

119. The PFM-Executive Reform Team was constituted by the Ministry of Finance to articulate the PFM Reform Strategy and to oversee its implementation. The composition of the team is as follows:

Chair: Director General of the Budget Department, Ministry of Finance

Members:

- Director General for Internal Revenue Department, MoF
- Director General for Treasury Department, MoF (from April 1, 2014 when this Department is established). Currently Director General Budget is providing leadership on this reform area).

- Director General of Planning Department, MNPED
- Director General for Project Appraisal and Progress Reporting, MNPED
- Managing Director of Myanmar Economic Bank (MEB)
- Director General of Central Bank of Myanmar
- Director General of Officer of the Auditor General (OAG)

Secretariat: A PFM Reform Secretariat has been established under this Executive Reform Team comprising focal points from these departments to provide technical support to the reform process.

120. With the exception of the Parliament's Public Accounts Committee, all implementing agencies are represented at the PFM-ERT. Based on their mandate to oversee the PFM Reform Program, they will convene meetings twice a year (January and June) to review progress of the implementation of the project, discuss cross-cutting issues, monitor progress towards achieving development results, and most importantly authorize corrective action to address identified issues that may constrain reform implementation.

121. The Director General of the Budget Department as Chair of the PFM-ERT will also assume the role of Project Director. In this capacity, he/she will have the overall responsibility to ensure that the project development objective is fully achieved. After endorsement, annual implementation status and results reports from the project will be presented by the PFM-ERT jointly to the Minister for Finance and the Minister for National Planning and Economic Development.

<u>Tier 2: Implementing Agencies</u>

122. There are eight implementing agencies in the MPFMP corresponding to the component structure of the project. The primary role and responsibility of the IA is to deliver on the output/s of their respective component/s as agreed in the annual work plans endorsed by the PFM-ERT. The different tasks of the IA during project implementation are defined in their respective annual work plans.

Project Components	**Implementing Agencies**
Component A: Improving revenue mobilization through improved tax administration	Internal Revenue Department
Component B: Improving planning and budget preparation through policy-based budgeting, effective budget preparations, and responsive planning and investment management	Budget Department Planning Department, and Project Appraisal and Progress Reporting Department
Component C: Supporting Budget Execution	Treasury Department/Budget Department (procurement) Myanma Economic Bank
Component D: Fostering External Oversight and Accountability D1. Support to Parliament D2. Support to OAG	Parliamentary Public Accounts Committee Office of the Auditor General Financial Audit Department
Component E: Establishing a Strong Capacity and Institutional Platform for PFM	PFM Academy Executive Board (to be established) Budget Department

123. Each implementing agency will be led by their respective DG; and the concerned divisions under the directorate will play an important part in providing quality and timely technical inputs for result. Detailed terms of reference for each implementing agency will be developed and included in the Project Operations Manual.

Tier 3: PFM Reform Secretariat

124. The Permanent Members of the PFM Reform Secretariat will be headed by the Deputy Director General for the Budget Department and comprise of technical focal points at the Division Director level (or higher) from all eight implementing agencies.

125. Recognizing the significant modernization of the ICT infrastructure needed to support the PFM reform program along with need for effective coordination of ICT between MOF and MNPED, the PFM Reform Secretariat will also include members from the existing MOF and MNPED ICT Promotion Committees. The project will assist the effective operationalization of these committees by infusing IT technical skills, developing a uniform ICT policy, and ensuring ICT assets are appropriately procured, calibrated and configured for information exchange needed by PFM functionaries at the two ministries.

126. The primary role and responsibility of the secretariat is to support the PFM-ERT. For the proposed Project, it will also assume the following functions:

- With guidance of the respective Director General of the implementing agency, act as focal point for supporting implementation of activities, consolidating work plans, and coordinating internally within respective departments.
- Coordinate implementation of ICT across MOF and MNPED.
- Prepare the inputs for the deliberations of the PFM-ERT.
- The head of the Reform Secretariat will also supervise the fiduciary and monitoring units under Tier 4 (below).

127. The detailed terms of reference for the PFM Reform Secretariat and distinct role and responsibilities of the Head of the Secretariat will be further elaborated in the Operations Manual.

Tier 4: Support Services

128. To respect the independence of the Office of Auditor General, two separate structures for fiduciary functions for the project will be put in place under the Budget Department (for components executed by Departments under the Ministry of Finance, the Ministry of National Planning and Economic Development, and the Parliament's Public Accounts Committee) and the Office of the Auditor General.

129. Keeping with the government's administrative and functional setup, to support implementation of components A-D1-E there will be two supporting units reporting to the Deputy Director General for the Budget Department:

a. ***Procurement Coordination and Advisory Unit (PCAU):*** The unit has been formed and will be headed by the Director of Accounts and Administration Division of the Budget Department. It will be staffed with 4 dedicated government officials and during the first year of the project will have an international consultant assigned to train and mentor this unit. The primary role of this unit is to oversee that all procurements (with the exception of those undertaken by the OAG under component D2) are executed per guidelines stipulated in the Financing and Grant Agreements. The unit will provide advisory and support services to all IAs on procurement matters and will also coordinate the functions of evaluation of goods contracts and selection of consultants. The detailed terms of reference for this unit are defined in the Operations Manual.

b. ***Financial Management Committee (FMC):*** The Budget Department will also handle the financial management for the project (except for the finances for support to the Office of Auditor General). A Financial Management Committee (FMC) has been established to oversee that the financial resources are used for the purposes intended under the terms of the financing and grant agreements. The unit will be headed by the Deputy Director General of the Budget Department.

130. *Monitoring and Reporting:* In order to ensure line of sight, the responsibility for achieving results will be vested with the Director General of each implementing agency. In this regard, *the technical focal point* from each implementing agency will provide the monitoring reports to the FMC on a quarterly basis. The financial management committee will consolidate the report and send it to the Project Appraisal and Progress Reporting Department of the Ministry of National Planning and Economic Development – which is responsible for monitoring and reporting on government projects. The FMC will prepare the semi-annual Interim Unaudited Financial Reports and progress reports for the PFM-Reform Secretariat.

131. The Office of Auditor General will have dedicated staff responsible for undertaking financial management and procurement functions for component D2. This will include monitoring outcomes.

Financial Management, Disbursements and Procurement

132. ***The overall financial management risk is assessed as 'substantial'***. The main risks that need to be addressed are: (i) inexperience of the two identified financial management committees (FMCs) in managing and handling donor funded projects; (ii) inadequate documentation of policies and procedures (although there is a high level of integrity in terms of accuracy of financial records and financial statements as discussed in the PEFA report and IMF analysis); and (iii) the high volume of soft expenditures which increases the potential risk for misuse of funds. The following are the proposed measures to mitigated these risks:

- The capacity issue and inexperience of managing and handling donor funded projects will be addressed through three (3) measures:

    i. Technical support from short term qualified financial management consultants: preferred candidates would need to know the Myanmar language with a proven record on knowledge transfer skills (on the job training and mentoring) and ability to deliver short modular '*how to*' courses during the first year of implementation. The detailed terms of reference for this position will be developed in collaboration with MoF and OAG.

    ii. The project will also finance certification programs on core skills on accounting, financial management as well as public finance management. These programs will be customized for different levels of government staff and will be delivered at the PFM Academy.

    iii. Complementary and sustained support and guidance from the World Bank Task Team will also be programmed all throughout project implementation; this in order to assist all implementing agencies on specific policies and procedures of World Bank funded and administered projects. The detailed implementation support plan for each specialized area is discussed in the relevant section of this program document.

- Having in place an acceptable financial management manual (FMM) for the project that includes controls and detailed procedures on the provision and liquidation of advances for training/workshops; have all staff involved in handling financial transactions matters trained in project's financial management immediately after the approval of the FMM; and

- Having the project financial statements subject to an annual external audit.

133. It has been indicated by PEFA report and IMF analysis that there is high level of integrity in terms of accuracy of financial records and financial statements despite using a manual system. A phased approach to computerization of accounting for this project should be taken. Initially, manual book keeping and Excel processes can be used until the government introduces the computerized accounting systems proposed under this PFM project. TA support for Excel configuration for project accounting and training in the use shall be provided.

Organization and staffing

134. To ensure an efficient project start up and implementation, two financial management committees (FMCs), as discussed in the following paragraphs have been established. The FMC based at the MoF will be responsible for the financial management functions of all components (except for D2). The FMC based at the Training & Research/Administration Division of the OAG will be responsible for the financial management functions of component D2 implemented by the OAG.

The Financial Management Committee at the Ministry of Finance (MoF-FMC)

135. The MoF-FMC has been formed with (8) staff members comprising of: one Director, one Deputy Director, three Assistant Directors and three full time staff officers. The FMC is headed by the Deputy Director General of the Budget Department who is also the Chair person for the PFM Reform Secretariat. The members of the FMC come from various sections within the Budget Department, namely: budget, compilation, research and ICT and account sections. Based on the Curriculum Vitae provided during project preparation, interviews and review of documents, staff members have variety of experience in the fields of budgeting, accounting and reporting adequate for the project. The mix of the FMC members appears to be appropriate for project purposes.. Terms of reference of each member of the FMC members will also need to be drafted to avoid confusion and reduce the accountability risk. The terms of reference will be fully described in the FM section of the operations manual. As the staff members do not have prior experience in managing World Bank financed projects or other externally financed aid projects, technical assistance support from an experienced consultant may be needed. The support should include technical assistance in setting up the FM system, including drafting of the FM section of the operations manual, and on the job training to the FMC members. Support would be required for at least 6 months. Terms of reference of this TA will be reviewed by the World Bank. Function of the FMC will also need to be clearly spelled out and agreed by all parties. The FMC will be responsible for all aspects of the project financial management from budget compilation and review to accounting to reporting and liaising with the OAG for the external audit.

The Financial Management Committee within the division of Training & Research/Administration at the Union Office of the Auditor General (OAG-FMC)

136. At the OAG, staff qualified in accounting that have good level of English knowledge and with experience in accounting and budgeting will be identified. At least three staff will be needed for financial management; head of the unit, an accountant and accounts clerk. The terms of reference of each member of the FMC will also need to be drafted to avoid confusion and reduce accountability risk. The terms of

reference will be fully described in the FM section of the operations manual. As the OAG staff members do not have prior experience in managing World Bank financed projects or other externally financed aid projects, support from a short term experienced consultant may be needed. The support will include technical assistance in setting up the FM system, including drafting of the FM section of the operations manual, and on the job training to the FMC members. Support should be provided at least 6 months. The terms of reference of this TA will be reviewed by the World Bank. The function of the FMC will also need to be clearly spelled out and agreed by all parties. The FMC will be responsible for all aspects of the project financial management from budget compilation and review to accounting to reporting and liaising with external audit (the external audit of this component will need to be conducted by an audit firm).

Budgeting and planning

137. Both MoF and OAG follow the government budgeting process. The current budgeting preparation, approval and revision process appears to be adequate for project budgeting purposes and therefore the project will follow the existing government budgeting process used to obtain Parliamentary approval. The process will be documented in the FM section of the operations manual.

138. Budget is to be prepared by each implementing agency based on its approved annual work plan. The budget should be prepared in sufficient details to enable costing by activities to allow the drafting of coherent procurement and training plans as appropriate. Budgets are then consolidated by the FMC of each implementing agency before submission to PFM-RS and/or OAG for their respective endorsement. The endorsed consolidated budget will then be submitted to the World Bank for no objection.

139. The annual budget shall be reviewed semi-annually and revised if necessary through the Government's supplementary budget process. Annual budget shall also be divided into six monthly budgets for easier monitoring and reporting of use of funds against work plan. Explanations of variances between actual versus budgeted expenses will be reported in the six monthly Interim Unaudited Financial Report (IFR) and linked to the progress of project implementation.

140. The budgeting process, timing and review of execution will be detailed in the project's financial section of the operations manual.

141. The MoF has confirmed that an indicative budget for the initial period from project effectiveness date to end calendar year 2014 has been approved by the Parliament in November 2013. This means that all IAs are able to incur project expenditures as soon as the project is effective.

142. The detailed policies and procedures for the management expenditures related to training activities and other in country and international project related travel will be fully documented in the financial section of the operations manual.

Accounting Policies and Procedures

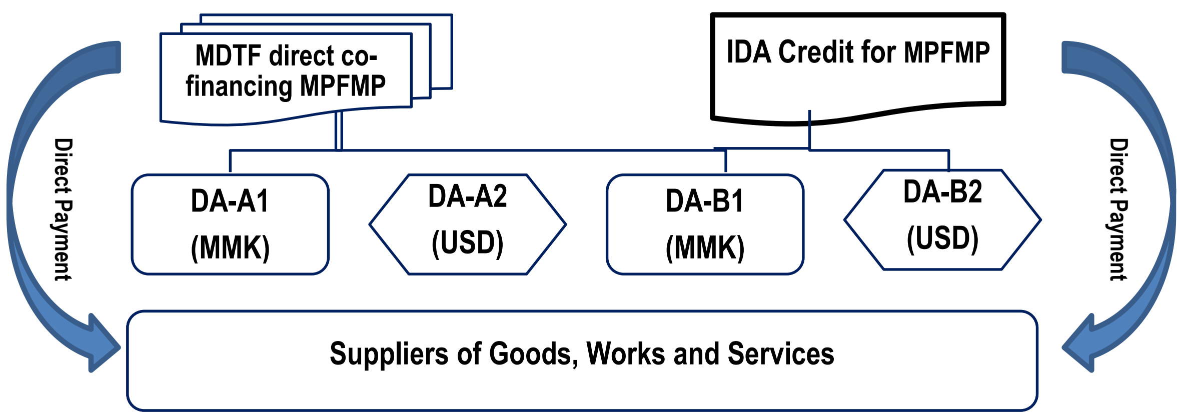
143. Project accounting will use the cash basis of accounting, with systems designed to monitor advances, commitments and safeguard of assets. Appropriate accounting policies (on receipts, expenditure, foreign exchange, assets, advance, commitment etc) and procedures shall be determined and detailed in the FM section of the operations manual. The project can choose whether to adopt full IPSAS cash basis for project accounting purposes or policies generally accepted for project accounting. Procedures and controls are in place and controls are quite strong. However, they are not fully documented. Therefore, accounting procedures for various processes and internal controls must be documented in the FM section of the operations manual. This will provide guidance to FMC staff in carrying out their day to day FM work.

Fund flows

144. The project is *jointly* financed by an IDA Credit and a Recipient Executed Trust Fund. The disbursement percentages are IDA 54020 at 55 percent and TFxx at 45 percent on ALL project expenditures.

145. The MoF, as the authorized signatory of the legal agreements will open four (4) separate pooled Designated Accounts (DAs) at the Myanmar Economic Bank. The 2 DAs managed by the MoF are: DA-A1 and DA-A2 and the ones managed by OAG are: DA-B1 and DA-B2. Accounts are denominated in Myanmar Kyats and US dollars. Funds will flow from the IDA 54020 and TFxx in the approved percentages to the respective pooled DAs. Procedures and controls on withdrawal from each DA shall be elaborated in the FM section of the operations manual. The funds flow arrangements are depicted in the diagram below.

FLOW OF FUNDS FOR THE
MODERNIZATION PUBLIC FINANCIAL MANAGEMENT PROJECT (MPFMP)



DA-A1 and DA-A2 are managed by the FMC at MoF supporting the implementation of Components A-D1 and E

DA-B1 and DA-B2 are managed by the FMC at OAG supporting the implementation of Component D2

Financial Reporting

146. Government reporting is monthly and prepared in accordance with the Myanmar Generally Accepted Accounting Principles (MGAAP). A monthly report is prepared to a format defined by the Ministry of Finance. This will not be suitable for the project as the project will need to report by project component, sub-component, expenditure category on a six monthly basis compared with budget. Financial reports are also prepared manually, with some use of Excel or partial computerized system e.g. ABCS used by the OAG. As indicated above, Excel will be used to aid preparation of project financial report or the Interim Unaudited Financial Report (IFR).

147. At least a balance sheet, statement of sources and uses of funds, expenditure report by sub-components shall be produced on a monthly basis to support project management's monitoring and decision making. MoF and OAG will also prepare separately and submit to the World Bank the six

monthly Interim Unaudited Financial Report (IFR) to the form and content satisfactory to the World Bank. Submission should be no later than 45 days after the end of each 6-month period. The format of the IFR has been agreed at negotiations. Reporting procedures and requirements have been elaborated in the project's financial management manual.

148. Annual financial statements can be prepared based on IPSAS cash or generally accepted accounting principles for aid projects. The FMCs at MoF and OAG will each prepare annual financial statements for the components under their responsibility. These will then be subject to an annual external audit.

Audit arrangements

149. The Union Office of the Auditor General (OAG) is the supreme audit institution in Myanmar and reports simultaneously to the Parliament and the President's office. OAG operates at Union and State/Region levels and carries out the audit of all public sector entities. The audit is carried out twice a year for those entities that are classified as significant. The OAG carries out financial audits that include elements of performance audits and compliance audits. The OAG carries out the audit in accordance with the Myanmar Standards on Auditing (MSAs) which are equivalent to ISAs. The OAG follows the Audit Documentation System (ADS) when carrying out the audit. The ADS covers the process for planning, implementing, reporting and follow up of action. OAG reports to the Union Parliament through the President in accordance with the Union Auditor General Law and Constitution Law. States and Regions OAG also issue audit reports to their respective regional audited entities, responsible ministers, higher regional OAG. The audit is usually carried out, completed and tabled at the Parliament within six months of the time the Ministry of Finance submits the financial statements to the OAG. The OAG has more than 6000 staff members at all levels. Although there is no specific mandate for the OAG to audit development partner projects, the OAG has had experience auditing infrastructure projects funded by UNICEF and implemented by DRD. Based on our preliminary findings and discussions with the OAG, it appears that the OAG is capable of carrying out the audit of government funds. The OAG had been appointed as the external audit of two World Bank financed projects under implementation. Capacity building for the OAG is also included in this project. A capacity needs assessment has been carried out during appraisal and the capacity development areas are detailed in Component D2 of this project. Under a harmonized approach, the World Bank and the ADB have agreed that the OAG will be the external auditor for all their respective projects with a standard TOR (except where there are independence issues identified). The World Bank FM team plans to conduct workshops for the OAG on the audit requirements for World Bank financed projects to ensure there is no confusion and that acceptable audit opinions are produced.

150. Separate audit opinions will be required for each FMC i.e. one for MoF and one for OAG. For the components implemented by departments within MoF, MNPED and PAC, the OAG will carry out the audit with ToR acceptable to the World Bank.

151. Due to the independence issue, the OAG will not be able to audit its own sub component of the PFM project (D2). Hence, private local or international audit firm, with ToR acceptable to the World Bank, will be appointed to audit this sub component. An independent qualified auditor with Terms of Reference acceptable to the World Bank shall be appointed within six months of project effectiveness. The total audit cost will be budgeted for as eligible expenditure under Consultants' services.

152. The audit report and audited financial statements for the Project are required to be publicly disclosed following the World Bank Policy on Access to Information. The Bank and MoF (as the authorized signatory of the MPFMP legal agreements) have agreed that these documents will be disclosed on MoF's website.

Implementation Support and Supervision Plan

153. The financial management implementation support mission will be carried out semi-annually during the first year of the project and thereafter, depending on the updated project financial management risk assessments. The implementation support missions will include reviews of the continued adequacy of the project's financial management arrangements and a review of selected transactions on an annual basis. Where possible, an integrated fiduciary review of goods and services contracts will also be carried out jointly with procurement team.

Disbursement arrangements

154. The primary disbursement methods will be Advances and Direct Payments. Reimbursements and Special Commitments will also be made available. Four DAs will be opened at the Myanmar Economic Bank (MEB).. Supporting documentation required for documenting eligible expenditures paid from the DAs are Summary Sheets with Records and Statement of Expenditures (SOE). Reimbursements would also be documented by Summary Sheets with Records and Statement of Expenditures (SOE). Direct Payments will be documented by Records. The frequency of reporting of expenditures paid from the DAs shall be once every six months. The ceiling of the DAs will be as follows: DA-A1 and DA-A2 will have Variable Ceilings based on 6 monthly forecasts, and DA-B1 will have a Fixed Ceiling of MMK 20.0 million (IDA MMK 11.0 million (55%) and TF MMK 9.0 million (45%) and DA-B2 will have a Fixed Ceiling of US$ 100,000 (IDA US$ 55,000 (55%) and TF US$ 45,000 (45%). Six months or a year into the Project, the Project may warrant opening other small petty cash accounts for some Implementing Agencies (IA's) to allow for a more efficient implementation of some activities. The petty cash accounts to these IAs will be managed as advances by the MoF-FMC and should not cover more than 30 days' worth of expenditures by the IA's, with the IA's having to report back on a monthly basis on the use of these accounts. These accounts will appear as reconciling items on the DA Reconciliation Statement.

155. The minimum application size for Reimbursements, Special Commitments and Direct Payments will be equivalent to US$50,000 equivalent.

156. The project will have a Disbursement Deadline Date (final date on which the World Bank will accept applications for withdrawal from the Recipient or documentation on the use of Credit and Grant proceeds already advanced by the World Bank) of four months after the Closing Date of the project. This "Grace Period" is granted in order to permit the orderly project completion and closure of the Credit and Grant accounts via the submission of applications and supporting documentation for expenditures incurred on or before the Closing Date. Expenditures incurred between the Closing Date and the Disbursement Deadline Date are not eligible for disbursement, except as otherwise agreed with the World Bank. All documentation for expenditure submitted for disbursements will be retained by the respective FMCs during the lifetime of the project and be made available to the external auditors for their annual audit, and to the World Bank and its representatives if requested.[i] After project closing, the relevant documentation will be retained for 2 years' following the Government's regulations on record keeping and archiving[20]. In the event that auditors or the World Bank implementation support missions find that disbursements made were not justified by the supporting documentation, or are ineligible, the World Bank may, at its discretion, require the Recipient to: (i) refund an equivalent amount to the World Bank; or (ii)

[20] The General Conditions require the Recipient to retain all records (contracts, orders, invoices, bills, receipts, and other documents) evidencing eligible expenditures and to enable the Bank's representative to examine such records. They also require the records to be retained for at least one year following receipt by the Bank of the final audited financial statement required in accordance with the legal agreement or two years after the closing date, whichever is later. Recipients are responsible for ensuring that document retention beyond the period required by the legal agreement complies with their government's regulations.

exceptionally, provide substitute documentation evidencing other eligible expenditures. The World Bank may also withhold disbursement of additional deposits into the DAs (if the ineligible expenditures were paid from the DAs). If the Recipient does not comply with any of the requirements stated above, within 12 months following notice by the World Bank to the Recipient of the requirement, the World Bank may (a) decline to allow the use of the DAs under new Grants/Credits made to or guaranteed by the Recipient, (b) establish compliance as a condition for Board presentation of new Grants/Credits, (c) suspend disbursements under the Credit and Grant; or (d) in extreme cases, suspend disbursements under all ongoing Grants/Credits to or guaranteed by the Recipient.

157. Before the World Bank closes the Credit and Grant accounts (two months after the Disbursement Deadline Date), the Recipient must provide supporting documentation satisfactory to the World Bank that shows the expenditures paid out of the DAs, or refund any undocumented balance. If the Recipient fails to provide the documentation or refund required by the World Bank by this date (two months after the Disbursement Deadline Date), the World Bank does not permit the use of the DAs under new Grants/Credits made to or guaranteed by the Recipient.

158. Disbursements from the Credit and Grant shall be made against the following expenditure categories[21]:

Expenditure category	IDA XDR	IDA US$ Equivalent (million)	IDA Percentage of Financing (inclusive of taxes)	TF US$ (million)	TF Percentage of Financing (inclusive of taxes)
(1) Goods, minor works, non-consulting services, consultants' services, Training and workshop; and incremental operating costs for the project under Parts A to D1 and E		28.35	55%	23.65	45%
(2) Goods, minor works, non-consulting services, consultants' services (including audits), Training and workshop; and incremental operating costs for the project under Part D2		1.65	55%	1.35	45%
Total		**30.0**		**25.0**	

159. Incremental Operating Costs means the reasonable costs of goods and non-consulting services required for the day-to-day coordination, administration and supervision of Project activities, including leasing and/or routine repair and maintenance of vehicles, equipment,

[21] This expenditure category breakdown is indicative and will be managed through annual work plans in discussion with the World Bank Implementation Support Task Team.

facilities and office premises, fuel, office supplies, utilities, consumables, communication expenses (including postage, telephone and internet costs), translation, printing and photocopying expenses, bank charges, publications and advertising expenses, insurance, Project-related meeting expenses, Project-related travel, subsistence and lodging expenses, and other administrative costs directly related to the Project, but excluding salaries, bonuses, fees and honoraria or equivalent payments of members of the Recipient's civil service.

Financial Management and Disbursement Action Plan

	Actions	Responsible Party	Target Completion
1.	Recruitment of an experienced local consultant to support the FMCs in setting up of FM system*	Budget Department and OAG	Within three months of project effectiveness.
2.	Appoint an independent qualified auditor with ToR acceptable to the World Bank for Component D2*	OAG	Within six months of project effectiveness.

* The above action items are included in the Project Operations Manual which, in turn, has been referred to in the Financing Agreement.

Procurement

160. The country public procurement system and procurement practices in the Ministry of Finance and the Office of Auditor General were assessed in October 2013. The assessment found that there is no comprehensive written legal framework for public procurement. The existing rules include two instructions from the President's Office in 2011, one for change from "close tender" to "open tender" and another for decentralizing procurement to line ministries, and one Tender Directive which was issued by the President's Office in April 2013 for addressing some issues in processing open tender. Within the implementation agencies, there are no official regulations on implementation of open tender.

161. **The assessment identified the following major risks concerning procurement which could arise during project implementation and suggested measures for mitigation of the risks:**

- *Lack of legal framework of public procurement:* There is no national level legislation on public procurement and no official procedures in writing within the MOF and OAG. In project implementation, there may be confusions to the project as for the procedures and rules to be followed. To address this risk, it is clarified and agreed with MOF and OAG that the project will strictly follow the World Bank Procurement/Consulting Guidelines. Also, the Operations Manual will provide details of procurement procedures.

- *Unacceptable practices:* The assessment revealed a few practices which are not acceptable to the World Bank Guidelines, such as price negotiation after bid opening, automatic rejection of bid if the bidder does not attend bid opening, etc. This will be clarified in the Operations Manual and through procurement training.

- *Limited capacity and no experience with procurement*: All the implementing agencies of MOF, MNPED and OAG have limited experience with procurement, and this will be the first time for

MOF, MNPED and OAG to conduct procurement in accordance with international practice. For implementation of the proposed project, an International Procurement Specialist will be employed to assist all the implementation agencies through PCAU and to provide the knowledge transfer and capacity building to the assigned procurement staff. MOF and OAG agreed to assign at least one full time officer to work with the International Procurement Specialist. The Bank team will provide procurement training to the implementing agency staff to familiarize them with the Bank's procurement policy and procedures.

- *Inadequate technical specifications and use of brand names*: The consultants will assist MOF and OAG to prepare the technical specifications following international practice.

- *Possible lengthy process of procurement*: When the procurement plan is prepared, major milestones for each contract will be identified including the governmental internal approvals. PCAU and the Bank team will closely monitor the progress.

- *Responsibilities of PCAU*: Because of the number of implementation agencies and the existing capacity, it is expected that the capacity of PCAU will be a challenge. The procurement consultant should be on board as early as possible and the working procedures should be properly specified in the Operation Manual.

162. **With the above mitigations, the residual procurement risk under the project is still rated as high**.

Procurement Plan

163. During the project appraisal, the implementation agencies, prepared and submitted the procurement plan for the first 18 months of project implementation. The World Bank team reviewed and approved this plan. The summary of this procurement plan is as follows:

<u>*Procurement Plan for the first 18 months*</u>

I. GENERAL

1) *Project information*:

Country	Myanmar
Borrower/Recipient	Ministry of Finance
Project Name	Modernization of Public Finance Management Project
Project ID No.	P144952
Project Implementing Agencies	Ministry of Finance and Office of the Auditor General

2) Bank's approval date of the Procurement Plan: February 17, 2014

3) Date of General Procurement Notice: ----

4) Period covered by this procurement plan: 18 months

II. GOODS AND NON-CONSULTING SERVICES

a) Prior Review Threshold: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

	Procurement Method	Prior Review Threshold	Comments
1.	ICB (Goods)	>US$ 100,000	All
2.	Shopping (Goods)	<US$ 100,000	First Contract

b) Procurement of all contracts for Goods financed wholly or partially by the project will be carried out through the applicable procurement methods in accordance with the thresholds in the above table and as defined against each contract package in the procurement plan.

c) Summary of Procurement Packages planned during the first 18 months after project effectiveness.

1	2	3	4	5	6	7
Ref. No.	Contract (Description)	Estimated Cost (US$ million)	Packages	Domestic Preference (yes/no)	Review by Bank (Prior/Post)	Comments
	Summary of the ICB (Goods)	11.05	3	No	Prior	
	Summary of the Shopping (Goods)	0.40	7	No	Post	1st Contract for Prior Review

III. SELECTION OF CONSULTANTS

a) Prior Review Threshold: Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

	Selection Method	Prior Review Threshold	Comments
1.	QCBS or QBS Methods (Firms)	>US$ 50,000	>US$300,000
2.	CQS Method (Firm)	>US$ 50,000	<US$300,000
3.	Single Source (Firms, Individual)	All	
4.	Individual	>US$50,000	All prior review for fiduciary and legal positions regardless of value.

b) Short list comprising entirely of national consultants: Short list of consultants for services, estimated to cost less than $100,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

c) Any Other Special Selection Arrangements: N/A

d) Consultancy Assignments with Selection Methods

Ref. No.	Contract (Description)	Estimated Costs (US$ million)	Packages	Review by Bank (Prior/Post)	Comment
	Summary of number of contracts that will use QCBS	-	-	-	
	Summary of number of contracts that will use other methods	2.80	16	Prior	LCS and Individual Consultants

Frequency of Procurement Support

164. The procurement capacity assessment indicated the need for bi-annually implementation support missions to assist in project implementation during the first year of operation. The frequency of implementation support for procurement will be further defined depending on the progress and capacity of the implementing agencies.

Environmental and Social (including safeguards)

165. The project will finance consulting services, goods, training and workshops. The project will only finance micro/minor works like putting up white-boards in the PFM Academy, putting in non-permanent partitions in the inside of the offices to have break-out group sessions, and small touch-up paint (if needed). Any contract issued for supply and installation of goods will include provisions for the supplier to include the standard health and safety precautions that apply for such minor/micro works and to manage any noise level and disposal of packaging of goods to ensure that there are no adverse environmental impacts. The project will not construct any structures or finance any external modifications of any facilities. Therefore, in view of the limited minor/micro works envisaged, in accordance with the Association's operational environmental assessments (OD 4.0 1, Annex E), the proposed project had been classified under Category C.

Monitoring & Evaluation

166. The results monitoring and evaluation framework for the Modernization of the Public Financial Management Project is detailed in Annex 1. Implementing agencies will be responsible for monitoring results related of their respective components and reporting to the Monitoring Reporting Unit based in PAPRD on a biannual basis. The PFM Reform Secretariat will collate the results as part of the six-monthly progress reports to be drafted. Results will also be quality assured by the World Bank's Implementation Support Team.

167. The indicators selected are largely drawn from indicators in the PEFA framework, that particularly pertinent to the project intervention and are relatively straightforward to measure. The PEFA indicator set does not have appropriate targets for measuring improvements of capacity. Given the focus of this project on the skills agenda, a number of capacity specific targets have been set.

168. An updated PEFA assessment will also be taken prior to the mid-term review of the project, as well as a further assessment after the project has been completed to provide a more comprehensive

assessment of the overall progress government is making in its public financial management procedures.

Role of Partners

169. The MPFMP will be a single project with a single, unified reporting, accountability and results framework that will be financed by the pooled resources of IDA, UK AID and Australia DFAT. This arrangement will reduce transaction costs for the government. Other development partners like the European Union have indicated they would like to provide co-financing to the project at a later time. As and when other development partners co-finance the project, this shall be done under a single unified reporting and results framework.

170. The resources of other contributing partners to the project will be pooled into a single child-fund for the MPFMP. This will be one of three child-funds under the Institution-Building Window that sits under the umbrella of the Myanmar-wide, multi-purpose, multi-donor trust fund. Donor resources provided for supporting the PFM project will be earmarked for the specific child-trust fund linked to the MPFMP and will not be eligible for expenditures to support any other projects.

171. Any additional donor financing to be made available for achievement of government goals within this program will be incorporated through agreed refinancing amendments to the project.

172. The project will be a significant part of the overall assistance being provided by development partners for PFM reform. Annex 6 describes in more detail the coordination arrangements to avoid gaps and overlaps with other donor interventions.

Annex 4: Operational Risk Assessment Framework (ORAF)

Myanmar: Modernization of Public Financial Management (P144952)

<table>
<tr><td colspan="7">Project Stakeholder Risks</td></tr>
<tr><td>Stakeholder Risk</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="3">Risk Description:

Borrower relations - Government has demonstrated strong interest and support in the public financial management reform agenda, as presented in the Framework for Economic and Social Reform (FESR) and subsequent establishment of PFM reform steering committee and technical committees. Key stakeholders (including Ministry of Finance and Revenue (MOF), Ministry of Planning and Economic Development (MNPED), President’s Office, Legislative Assembly, Office of the Auditor General, and four sector ministries) appear to have a broad consensus on the importance of improving PFM systems to support government development objectives, improve service delivery, and to promote accountability for use of public resources – as such, the risk of opposition from government stakeholders is low.

Donor relations – There is a high level of interest and multiple development partners are interested in supporting PFM reforms. This poses some risk in that multiple donors with uncoordinated or out-of-sequence policy advice, TA and support could jeopardize the reform effort’s efficacy.

Other key relations – PFM reforms are less politically charged than other types of reforms and stand to benefit both government and citizens as they improve ability of authorities to deliver services. As such, other key relations for PFM reforms present low levels of risk
This statement is not necessarily true for procurement</td><td colspan="6">Risk Management:

In order to maintain the low borrower relations risk, the project will: (i) ensure project interventions are situated within an overall Government’s PFM reform strategy and sequenced implementation plan; (ii) make use of the existing reform coordination structure which have already demonstrated their effectiveness in the Public Expenditure and Financial Accountability (PEFA) and the on-going Public Expenditure Review (PER) processes – these committees help facilitate inter-agency coordination within the Government and provide a window to ensure consistency of reform priorities across different stakeholders; (iii) not establish a separate Project Implementation Unit, but support existing executive agencies implement the reform program.

Donor coordination has improved over the past six months, especially owing to the establishment of a Myanmar PFM Working Group, which comprises development partners with an interest in supporting PFM reform (including the World Bank, the IMF, the ADB, and key bilateral agencies), and which is chaired by the Director General for the Budget Department and comprises senior officials from the MOF and MNPED. To minimize risks of uncoordinated or out-of sequence support, the project team members will need to continue to play an active role in facilitating and coordinating this PFM Working Group, and strongly encouraging authorities to play a leadership role so as to discourage competing supply-side support efforts from development partners, including emerging donors’ support. The World Bank PFM team will work with the Country Management Unit towards establishing a multi-donor trust fund to ensure development partner assistance is pooled and provided to authorities in an untied manner.</td></tr>
<tr><td>Resp:</td><td>Status:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Client</td><td>In Progress</td><td>Preparation</td><td>☑</td><td></td><td></td></tr>
</table>

reform – where improved outcomes may come at a cost to the officials and private sector firms that benefit from current arrangements.						
Implementing Agency (IA) Risks (including Fiduciary Risks)						
Capacity	**Rating**	**High**				
Risk Description: Implementing Agencies (IA) suffer from a shortage of both, resources (with respect to competent and well-trained staff), as well as processes and systems to ensure efficient financial management and procurement. Agencies have only general guidance on procurement practices, and operate differently across different sectors. Very few staff currently possess basic accounting and computing skills.IAs are unfamiliar with Bank's policies and procedures, creating potential risk for delays related to basic administration and financial management for project implementation. Experience with monitoring and evaluation is low, and will require significant training. Furthermore, lack of automation and computerization across the public sector will make producing the necessary financial reports a challenge. However, staff turnover is low, such that potential to retain skills once learned is high. Controls, while sometimes outdated and cumbersome, do serve to maintain integrity within the system. There are no national regulations or laws regarding public procurement. Procurement capacity is very limited, as MOF and MNPED does not have experience with procurement processes, especially regarding selection of consultants, in projects financed by international financial institutions.	**Risk Management:** The project will provide institutional support and technical assistance to support MOF and MNPED during implementation. International consultants will be engaged to provide assistance for capacity building in key areas, including project management, procurement, financial management, and results monitoring. A substantial training program in financial management will be put in place. All financial management procedures to be used under the project will be documented in a financial management manual (FMM). The elaboration of the FMM will be a progressive task which will build on existing good and sensible practices already in place and can be standardized during the project lifetime to become the Government of Myanmar's financial manual to manage both internal and external resources. Mitigation measures, such as training in debt management, financial management operations manual, and external auditors would be required to reduce governance and implementation risks. Concurrently the government's financial management practices will be reviewed to ensure that there appropriate business process modifications are undertaken from the government side to ensure that internal bureaucratic procedures do not delay project execution. MOF and MNPED will follow the WBG's Procurement Guidelines, and simple procurement methods will be used as much as possible. Intensive training in procurement areas will be provided by the WBG and provision will be made for recruiting an international procurement-training consultant. Given that national procurement guidelines and procedures are lacking, the project will also work with the Government of Myanmar to elaborate standard regulations and guidelines for public procurement and support of institutional arrangements that would provide enhanced guidance and oversight over public procurement. No separate structure is envisaged to implement the project. Instead a program					

<table>
<tr><td rowspan="2"></td><td colspan="6">management and evaluation (PME) unit will be constituted under the Government’s PFM Reform Secretariat; this unit will provide all implementing agencies with procurement and financial management support services as well as assist in monitoring and evaluation (M&E) of project interventions.

A simple assets inventory system (using Excel) will be setup to ensure accountability and appropriate management of all assets procured. Here again, as the system is setup, clear guidelines will be drafted on the use and maintenance of ALL assets, independent of funding source.

More broadly, the project will focus explicitly on building capacity and resources within the overall PFM system, with targeted TA as required by authorities, the establishment of the PFM Academy to increase capacity and technical skills, and support both on the software (skills and training) and hardware (basic computers and appropriate software for simple analysis and data management).

It is expected that as operating procedures and guidelines for project implementation are mapped out, skills gaps related to basic operations management will be filled over time.</td></tr>
<tr><td>Resp:
Both</td><td>Status:
In Progress</td><td>Stage:
Preparation</td><td>Recurrent:
☑</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Governance</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td rowspan="2">Risk Description:

The current PFM system is compliance oriented rather than results focused, with significant requirements for multiple approvals and documentation requirements at every stage. There is a risk that implementing agencies lack the flexibility and autonomy needed to implement project components. A culture of top down decision making at very high levels (above MOF and MNPED) sometimes inhibits abilities of even senior government officials to make decisions in a timely fashion. While this may result in delays in project implementation, governance at the IA level is generally sound and does not pose a high risk.</td><td colspan="6">Risk Management:

The project will explicitly identify decision making and project management structure within the existing PFM Executive Reform Team and Reform Secretariat responsible for implementing the PFM reform, especially what roles and responsibilities each level will hold and to what extent they can exercise decision making power over project implementation. This will be done under within the Project Operations Manual. For example, while major strategic level decisions must be undertaken and approved by Executive Reform Team, the Reform Secretariat would be empowered to act on implementation of specific projects components such that they are timely, and where needed, flexible.</td></tr>
<tr><td>Resp:
Client</td><td>Status:
In Progress</td><td>Stage:
Preparation</td><td>Recurrent:
☑</td><td>Due Date:</td><td>Frequency:</td></tr>
</table>

Ownership of PFM related reforms is mostly strong within IAs, and a clearly defined hierarchy of the PFM reform management structure presented in the Concept Note (figure 1) provides channels to define roles and responsibilities and promotes accountability, as demonstrated by recent experience with the PEFA Assessment. Behavior and norms include a code of ethics for public servants, with established vertical channels for communication.						
	Risk Management: Adequate fiduciary controls will be put in place to ensure that project funds are used for their intended purposes. In addition the project will conduct a series of awareness workshops and campaigns (involving civil societies) to educate officials on governance and public sector management. This project will assist the Government of Myanmar in its efforts to improve transparency, accountability and service delivery by strengthening public sector management systems within the executive branch, including improved capacity of MOF and MNPED officials to manage public finances.					
	Resp: Client	**Status:** In Progress	**Stage:** Preparation	**Recurrent:** ☑	**Due Date:**	**Frequency:**
Project Risks						
Design	**Rating**	**Moderate**				
Risk Description: The main project risk is related to inappropriate sequencing of reform components and phasing of automation. Inadequate sequencing can jeopardize the efficacy of the reform program and lead to sub-optimal outcomes --- or even make things worse. Inappropriate sequencing of technology could lead to the loss of the current integrity of the manual system and failure to use technology to achieve desired outcomes.	**Risk Management:** In order to manage the risk from inappropriate sequencing, the task team will support the efforts of the authorities in preparing a sequenced and prioritized PFM reform program. The project will support critical reform areas in Phase 1 of the strategy that resolve performance constraints that are identified by the authorities as most binding. The project will also provide the avenue for other development partners to dialogue with authorities on issues related to reform sequencing and provide support appropriately. With regards to the risk related to phasing of automation, the project will ensure that					

	incremental approach is built into project design to address both content and geography, and ensure that sufficient time for learning and capacity building exists. Design will also explicitly identify periodic review milestones to incorporate lessons learned to date and adjust operating practices as is appropriate. Project design will also take into account the limited technical capacity and resources of IAs and employs an incremental approach, focusing first on basic tools and skills which will improve PFM work processes while building capacity simultaneously. The approach is incremental in geographic terms as well, concentrating first on a few locations (Nay Pyi Taw, Yangon, Mandalay) before considering how to further roll out. Implementation arrangements will be kept simple, with a core group of IAs with closely shared visions and objectives. The incremental approach will also build in sufficient flexibility to react to changes in the operating environment, by explicitly incorporating space and time to learn from ongoing implementation experiences and adjust the approach as needed, while keeping constant the objectives of modernizing PFM systems to support better service delivery.					
	Resp: Client	**Status:** In Progress	**Stage:** Preparation	**Recurrent:** ✓	**Due Date:**	**Frequency:**
Social and Environmental	**Rating**	**Low**				
Risk Description: The MOF and MNPED do not have experience with World Bank's environmental assessment that may be triggered as the project will be supporting construction of the PFM Academy on existing MOF office space. No other safeguards are expected to be triggered	**Risk Management:** The project will provide for the government to engage international consultant(s) who can support the implementing agency manage and comply with the Bank's environmental assessment requirements. The task team will also bring on an appropriate architect who could advice on construction issues – such skills are available as the Bank provides financing for construction of schools in different countries.					
	Resp: Client	**Status:** In Progress	**Stage:** Preparation	**Recurrent:** ✓	**Due Date:**	**Frequency:**
Program and Donor	**Rating**	**Substantial**				
Risk Description: Multiple donors have expressed interest in supporting the PFM reform agenda in Myanmar. With these comes the	**Risk Management:** As discussed in earlier sections, donor relations will be managed through the existing Myanmar PFM Working Group. By encouraging authorities to drive the reform process					

<table>
<tr><td rowspan="2">potential for uncoordinated, or worse conflicting support, TA and policy advice. While some key steps have been taken to manage this risk such as the establishment of the single-window Myanmar PFM Working Group as an entry point for donor support, donor coordination will need to be carefully monitored and managed to ensure multiple presences and agendas do not destabilize the overall reform program – and the project with it.</td><td colspan="6">through their leadership role in this body, and by tying individual project components to the reform priorities as specified by authorities and as communicated to development partners, support for PFM reform under the project and under other donor activities should be consistently aligned.</td></tr>
<tr><td>Resp:
Client</td><td>Status:
In Progress</td><td>Stage:
Preparation</td><td>Recurrent:
☑</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Delivery Monitoring and Sustainability</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td rowspan="2">Risk Description:

Typical World Bank monitoring and evaluation requirements may be overly complex given the low level of technical capacity in IAs. Additionally, lack of computerization will make reporting more difficult in the short term. Direct beneficiaries of PFM reform (especially service users) are unlikely to feel the effects of the project until at least the medium term, and as of now are not well integrated into the monitoring and evaluation framework.

Implementing agencies have demonstrated ownership and commitment to the PFM reform process – taking the lead on early PFM work including the Public Expenditure and Financial Accountability (PEFA) assessment and newly launched Public Expenditure Review (PER), openly publishing diagnostic and analytical work undertaken by various partners, and establishing capable executing bodies with the authority to push this agenda forward. However, as noted, some senior officials are nearing retirement age. To promote sustainability of reform objectives, careful consideration will have to be given to ensure capacity and institutional memory is retained.

The bulk of funding for the project will be provided under IDA. To ensure reforms are sustained over the long-term, a combination of support for maintaining and upgrading</td><td colspan="6">Risk Management:

The project will identify a simple but effective roadmap for monitoring and evaluation of project milestones, with results indicators tied directly to authorities PFM reform action plan. Aligning project performance indicators with government reform priorities would create better incentives for timely and accurate monitoring and ensures authorities are not unduly burdened with additional externally imposed monitoring and reporting requirements.

Government of Myanmar has recognized PFM reform, especially modernizing and computerizing existing manual system, as a high priority area. There is therefore scope to enter into discussions with both GOM and other development partners regarding financing for operating and maintenance costs for hardware systems, so as to ensure sustainability</td></tr>
<tr><td>Resp:
Client</td><td>Status:
In Progress</td><td>Stage:
Preparation</td><td>Recurrent:
☑</td><td>Due Date:</td><td>Frequency:</td></tr>
</table>

assets (especially computers and technology) from authorities and other donors will be necessary over the long term. The project focuses explicitly on increasing revenue potential of the MOF in order to help ensure adequate resourcing for recurrent costs. Specific costs for upkeep of PFM technical assets will be more fully considered and articulated during the project preparation. Contract management poses a significant risk in the short term owing to the low capacity and experience of IAs in dealing with World Bank financed operations. Significant attention will have to be given to working with authorities on project management, especially procurement and contract monitoring, in the initial stages of the project.						
Other (Optional)	**Rating**	**Moderate**				
Risk Description: Given the speed at which Myanmar is transforming, development partners are often focused on ensuring immediate support for authorities so that a window of opportunity is not missed. By focusing too much on short term support or "low hanging fruit", there is a risk of quickly finishing the appetizer without planning for the main course.	**Risk Management:** Project preparation will specifically engage authorities on what service delivery constraints they hope PFM reform to solve, and from there identify what steps must be taken in the short, medium and long term to reach these goals. Furthermore, expectations must be managed such that authorities see the value of a sustained reform effort even if the development benefits materialize over the medium term and beyond.					
	Resp: Client	**Status:** In Progress	**Stage:** Preparation	**Recurrent:** ✓	**Due Date:**	**Frequency:**
Overall Risk						
Overall Implementation Risk:	**Rating**	**Substantial**				
Risk Description: PFM reforms are complex as they impact the whole of government revenue and expenditure systems, require significant implementation and stewardship capacity, and need to be recalibrated based on progress. Therefore the implementation risk is substantial. The task team shall manage this risk with sustained implementation support and supporting development partner coordination and collaboration						

Annex 5: Implementation Support Plan

MYANMAR: MODERNIZATION OF PUBLIC FINANCE MANAGEMENT PROJECT

Strategy and Approach for Implementation Support

173. The authorities have expressed their wish to where possible use government systems and staff to implement the MPFMP instead of establishing an external project implementation unit. This demonstrates government commitment and will help to internalize project interventions, maximize development impact and align accountability for implementation of the project. However, this will also necessitate significant implementation support.

174. With financing from the Bank-executed portion of the multi-donor trust-fund, the Bank will bolster its implementation support resources and maintain a MPFMP Facilitation Team throughout the period during which the project is implemented. Initially, the team will comprise an international and national full-time PFM specialists based in country, who will be available for just-in-time implementation support and analytical guidance, program management and reporting to contributing donors. This team will work closely with the PFM-ERT and each of the implementing agencies to provide on-the-job technical assistance on PFM issues across the project, as well as guidance on activity design and implementation, procurement and financial management.

175. Dedicated technical specialists have also been identified for each of the components and will be available remotely for real-time technical guidance and assisting with developing and review terms of reference and technical guidance to implementing agencies. These specialists will be a resource for both the Bank's Facilitation Team and also available to the government to respond to specific technical queries. Where necessary, the BETF will also finance analytical work to address specific requests by the government.

176. Specialized World Bank Financial Management and Procurement staff will provide guidance to the staff responsible for financial management and procurement. Training and technical assistance is being provided to the FM and procurement units to give much needed support for day to day administrative management of the project. As the Financial Management (FM) risk is assessed as substantial and procurement risk is assessed as high, the financial management implementation support missions will be carried out semi-annually. FM risk will be reassessed at each mission and the level of implementation support adjusted accordingly. The implementation support mission will include reviews of the continued adequacy of the project's financial management arrangements and a review of selected transactions on an annual basis. These will be integrated technical and fiduciary missions, undertaken jointly by the World Bank and the trust fund donors

177. Furthermore, in order to continue to review and iterate the overall strategic direction of the project, analytical work will be undertaken financed by the Bank Executed Trust Fund with joint inputs and discussions from all contributing partners. A thorough mid-term review of the strategic approach of the project will also be undertaken and recommendations from the review used to implement any mid-term corrections. This mid-term review will be undertaken after approximately two years after effectiveness and an Implementation Completion Report upon closing of the project. The mid-term review and Implementation Completion Report missions will draw upon the findings of independent/external evaluation consultant(s) that will be financed via Bank-executed Trust Fund. This work will be commissioned six-months before the mid-term review of the project is planned.

178. Given that this is the first project of its kind in Myanmar, it is proposed that formal dedicated 2-week implementation support missions take place on a biannual basis. The tables on the next page highlight the main focus of implementation support in the first twelve months and beyond, and roles of

development partners that are co-financing the Project.

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Revenue Administration	Self Assessment Systems specialist	4 weeks of time of tax specialist	In collaboration with IMF and US-OTA long term advisors on tax
	Budget and Treasury Management	Top-down medium term budgeting and cash management	8 weeks time of Senior PFM Specialist	In collaboration with IMF FAD long term Treasury Advisor
	Improving management of State Funds Account	Specialist on CORE banking	6 weeks of time of Senior Banking Specialist	In collaboration with the IMF Treasury Advisor
	Project Operational Support	Implementation Specialist ICT Specialist Capacity Building/Trainer Procurement Specialist Financial Mgt Specialist	25 weeks of time	In collaboration with Development Partners supporting PFM reforms
	Project appraisal systems	Specialist on capital appraisal systems in the Public Sector	4 weeks of time of Public Investment Management Specialist	In collaboration with the ADB advisory services on improving appraisal methodology
12-48 months	Same skills mix as above (first twelve months)		Time to be determined as implementation progresses	In collaboration with Development Partners through PFM sub-Sector Working Group
Other	Social Accountability	Political economy and social scientist	8 weeks of staff time of Social Scientist	Through UK AID work on social accountability aspects and demand side of PFM

179. As this Project is co-financed by Australia AID and the UK AID, staff from these agencies will join the six-monthly implementation support missions. The table below shows the role of the Partners during implementation support.

Name/Position	Institution/Country	Role
Program Manager for Public Finance Management	Australia Department of Foreign Affairs and Trade (Australia AID)	Participating in implementation support missions and providing technical inputs to the World Bank Team Leader for mission aide memoires.
Economic Advisor/Economist	United Kingdom Department for International Development (UK AID)	Participating in implementation support missions, coordinating the UK AID work on EITI and Social Accountability with PFM reforms, and providing inputs to the World Bank Team Leader for mission aide memoires.

Note: In case the Project is co-financed by additional development partners, one respective staff of the agency will join the six-monthly implementation support missions.

Annex 6: Development Partner Coordination and Support

MYANMAR: MODERNIZATION OF PUBLIC FINANCE MANAGEMENT PROJECT

180. This annex provides a summary overview of the major related interventions currently providing PFM support to Myanmar, and the broader context of development partner (DP) assistance into which this project is located.

181. The government has developed its own PFM reform strategy and presented this during a joint development partner mission held 9th-13th September in Naypyitaw. This provides an overall framework within which the interventions of development partners' interventions are broadly aligned.

182. Partnership principles have been agreed between DPs and GOM. The spirit of the principles entails constantly seeking ways in which to:

a. improve program coordination to prevent uncoordinated, contradictory or out of sequence support;
b. minimize the human, institutional and financial costs of securing such co-ordination – especially transaction costs to GOM;
c. maximize the effectiveness of coordinating arrangements to secure program delivery.

183. The Modernization of Public Finance Management Project (US$ 55.0m, 2014-19) is the largest source of PFM-related technical assistance to Myanmar, and is co-financed jointly by Australia DFAT, the United Kingdom, and the World Bank. The project is informed by priorities as set out in the government's PFM reform strategy and provides support for incremental improvements across the whole cycle of public finance management.

184. The Asian Development Bank is providing focused support for the development of government's debt management function. This will be done initially through support for capacity building for external debt division in MOF, codification of procedures, conduct of debt management performance self-assessment, guidance on development of organizational and functional structure for proposed debt management division within new Treasury Department, and identification of capacity building needs and development of training plan. Support is also being provided to look at corporatization and privatization policy with respect to State Owned Enterprises. A technical adviser is also reviewing general procedures for project appraisal over a period of three months.

185. The US Treasury Department's Office of Technical Assistance (US-OTA) has assigned a resident advisor as well as short term advisory services as required to support the establishment and operationalization of the Large Tax-Payer's Office. The US-OTA has also offered additional technical assistance on budget and fiscal reforms, treasury and cash management, and debt management.

186. JICA is providing a range of technical assistance including resident advisors based in Foreign Economic Relations Department at MNPED to support improved aid management as well as at the Customs Department of MOF. JICA is also offering opportunities for senior and working level Government of Myanmar officials to learn budget and finance experiences in Japan. Financial and technical support is also being considered for upgrading ICT systems at the Customs Department and the Central Bank.

187. With financing provided by Japan, the IMF's Fiscal Affairs Department is also playing an active role in providing technical assistance to the Ministry of Finance. One resident adviser has been placed in

the Ministry of Finance to support the establishment of the Treasury Department and a second adviser is to be based in the Internal Revenue Department to support implementation of the reform strategy. In addition, the IMF are coordinating provision of training on macroeconomic forecasting using financial programming.

188. The table below summarizes some of the main support being provided by development partners to the Government's PFM reform strategy.

PFM area	**Phase 1 reform activities in PFM reform strategy**	**Lead Implementing Agency**	**DP**	**Support provided**
			IMF (Japan)	Resident and short term advisory services on restructuring of the IRD headquarters for effective integration with the LTO
	Modernize tax administration	IRD HQ (modernization unit)	MPFMP (World Bank, UK, AusAID)	(computerization, software, training, peer-to peer knowledge sharing)
Revenue Management			USOTA	Resident and short term advisory services to support LTO operationalization
	Establishment of large tax-payer's office	IRD (LTO)	MPFMP	Equipping LTO and providing further short-term TA on implementation of self-assessment
			JICA	Resident advisor on customs operations plus ICT support
	Customs reform	Customs	EU	Providing support to Customs department – some basic training, working through trade program
	Establishing stronger top down control of budgetary aggregates base on fiscal strategy and MTFF	Budget (fiscal policy)	IMF (Japan)	Preparing macroeconomic forecasts using financial programming model.
			MPFMP	Medium Term Fiscal Framework (MTFF) on-the-job training; support for establishment of Fiscal Policy and Budget Strategy function
			MPFMP	Supporting better integration of budget and planning functions; ongoing support to Budget Department on fiscal ceilings; capacity building with PAPRD in MNPED
Budget Preparation			JICA	Dispatched both long term and short term Advisors to FERD, who have provided advice on integrated public finance management and aid coordination
			UNCDF	Reviewing budgeting and planning processes at the township level
	Linking capital and recurrent budgets	Budget	ADB	Revising guideliens for project appraisal procedures
	Strengthening credibility of bottom-up budget estimates to reduce requests for supplementary funds	Budget, Planning	MPFMP	Supporting development of challenge function at Budget and Planning to review accuracy of bottom-up forecasts
	Developing intergovernmental fiscal transfer system	Budget (intergovernmental relations division)	MPFMP	Assist in improving information base and developing an appropriate intergovernmental fiscal transfer system and support capacity and skills acquisition
	Establishment of Treasury Department	Treasury (Policy division)	IMF	TA on establishing the treasury department and initiating the cash management function, including its interface with debt management;
	Promote and harmonize cash and debt management	Treasury (Debt Management)	ADB	Capacity building, establishment of a debt recording and management system, development of a medium term public debt management strategy, and development of legal and regulatory framework.
		Treasury (Cash management)	IMF	Support for initiating cash management function in newly established treasury department
Budget Execution	Compilation of financial information, and reporting in a timely manner.	Treasury (Compilation)	MPFMP	Computerization of Budget, Treasury and Departments in NPT, TA and training for computerization of forms
	Improved bank reconciliation through ICT improvements at MEB	MEB, CBM	MPFMP	Reengineering of MEB software, improved hardware and connectivity
		CBM	JICA	
	Review and ratify regulation on financial controls and procurement	Treasury (internal regulations)	MPFMP	
External Oversight	Paliamentrary Oversight	Public Accounts Committee	MPFMP	Development of Public Accounst Committeee Office, peer-to-peer learning, short-term TA as required
	Strengthened financial audit	OAG	MPFMP	
Fiscal transparency and oversight	Reporting of SOEs			
	Pension reform	Pensions Department	JICA	
Development of PFM Academy		Budget	MPFMP	Providing equipment for academy, TA to develop competencry driven framework, providing training
			Multiple donors	Providing training on technical disciplines

Annex 7: Map

MYANMAR: MODERNIZATION OF PUBLIC FINANCE MANAGEMENT PROJECT