I. Project Context

Country Context

The Government of the Republic of the Union of Myanmar is undertaking a major economic reform program, with significant implications for public financial management and broader public sector management. Key economic reforms include adoption of a more liberal exchange rate policy, relaxation of trade restrictions, rationalization of tax rates, separation of regional and state budgets from the Union, and fiscal decentralization. With regard to management of public finances, there have been two major catalysts for reforms since 2011. First, the Constitution has established new institutions which have established new 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 budget transparency through the public airing of budget debates on national television and the publication of the budget law in national newspapers. Second, the constitutional requirement for separation of regional and state budgets from the Union has required rapid deconcentration of budgeting and planning functions to support bottom up processes in states and regions. In order to coordinate state/region budgets with the Union budget, the Government has also established the Financial Commission and the National Planning...
Commission. The new planning and budgeting practices have also led to a deconcentration of Public Finance Management (PFM) policy functions from the President’s Office to the Ministry of Finance and Revenue (MFR) and the Ministry of National Planning and Economic Development (MNPED), and to state and regions. Other dimensions of the PFM system are also being transformed, with significant implications for national development. Proposals are being developed to make the Central Bank of Myanmar (CBM) independent and 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). In addition, the government plans to modernize tax policy strengthen tax administration in order to increase the revenue effort (currently Myanmar's tax-to-GDP ratio is approximately 4 percent, the lowest in Asia), while also working to improve collection and recording of non-tax revenues, especially from the natural resource sector. Public procurement practices are also being reshaped around a commitment to open competition and transparency. Furthermore, authorities are distancing SEEs from regular government operations, with more financial autonomy and responsibility on retaining and managing revenues as well as financing operations.

**Sectoral and institutional Context**

The PFM systems in place in Myanmar have their roots in a British style of colonial administration. Some financial regulations from that time are either still in place or continue to influence more recent rules. This gives rise to both strengths and weaknesses. On the one hand, internal processes are logical and focus on ensuring basic integrity of the system. Resources reach spending agencies, and financial management is undertaken within the requirements of rules as they are understood at spending unit level. 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 Myanmar Economic Bank (MEB) in close coordination with the Central Bank of Myanmar. However, while ad hoc reforms have taken place according to political priorities (such as the introduction of the extensive network of State Economic Enterprises), twenty years of isolation have understandably resulted in a system which has not kept pace with modern practice. A recent review carried out by the World Bank using the PEFA Framework found that weaknesses exist across most of the key PFM dimensions. Outdated and fragmented financial rules and regulations lead to vulnerability and a weak control environment in a system where powers to implement budgets are highly delegated. This also applies to public procurement. Budget credibility is low, with underestimation of revenues and significant deviations in volume and composition of expenditure. This leads to large, late in year adjustments to the budget. Links between the budget, policies and plans are weak and fragmented, particularly between capital and recurrent budgets. Reporting and accountability systems are largely manual and underdeveloped, and the transparency of public finances is low. About 30 percent of expenditures are conducted through “Other Accounts”, which are considered off-budget. Revenue raising systems are basic, and an outdated and administratively assessed tax declaration system constrains the ability to fully exploit taxable capacity of the country. Revenue classification and reporting systems do not explicitly capture revenues from the natural resource sectors, creating potential for leakage and mismanagement. Recognizing the significant room for improvement, this review was strongly endorsed by the PEFA Steering and Technical Committees, which were co-led by the Ministry of Finance and Revenue and the Ministry of National Planning and Economic Development and comprised ministries for health, education, construction, energy, Yangon and Mandalay regions, and Shan state. 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) is appropriate 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. Central ministries such as the Ministry of Finance and Revenue and the Ministry of National Planning and Economic Development have newly assigned policy development functions, but do not yet have the institutional structures and capacity to perform these tasks which until recently were centralized with the President’s Office. The government’s procurement system is basic. Procurement is largely seen as synonymous with purchasing from suppliers, and revolves primarily around the prices offered by different middle-parties. For now, procurement is dominated by the purchasing of goods (inputs for capital investments) that are imported. Ministries regularly undertake capital investments on their own and source domestically produced inputs from other government agencies. For example the Ministry of Industry produces cement and one of the firms controlled by the Myanmar Investment Committee produces reinforcing bars. Due to the period of sanctions, most of the “suppliers” are brokers and not local branches of firms making the good. The historical legacy of sanctions has also created lack of clarity in regard to organizational forms where departments and companies are mixed together. For example, the Department of Public Works of the Ministry of Construction seems to be organized as a company where staff salaries were paid from a 10 percent administrative fee that was charged for all projects that they undertook. There is also no mechanism for monitoring procurement outcomes. There is significant attention being given to defining new rules and practices in procurement, primarily from the Office of the President. A Presidential Order requiring agencies to move towards open tenders was reinforced by a recently issued Tender Regulation – providing some basic instructions regarding procurement (as well as the sale of state assets).

II. Proposed Development Objectives
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.

III. Project Description
Component Name
A. Revenue Mobilization
Comments (optional)

Component Name
B. Budget Preparation and Planning
Comments (optional)

Component Name
C. Budget Execution
Comments (optional)
Component Name
D. External Oversight
Comments (optional)

Component Name
E. Capacity Building and Institutional Reform
Comments (optional)

IV. Financing (in USD Million)

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V. Implementation

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point
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