I. Introduction and 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 under developed, 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 from 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)

**Relationship to CAS**

After more than two decades of absence from the country, the World Bank Group (WBG) has reengaged in the development of Myanmar. On October 30, 2012 the WBG approved an Interim
Strategy Note (ISN) covering an 18-month period focusing on programs that can support the Myanmar government in the country’s current triple transition - from an authoritarian military system to democratic governance, from a centrally-directed economy to market-oriented reforms, and from conflict to peace in the border areas—for the benefit of the people of Myanmar. The ISN outlines support around three pillars: the first aimed at supporting government's efforts to transform institutions to allow them to deliver for citizens; the second at building confidence in the on-going reform process; and the third focused on preparing the way for the resumption of a full country program.

The WBG initiated engagement with Myanmar on their PFM reform agenda beginning early 2012 with the Public Expenditure and Financial Accountability Assessment (supported financially the Department for International Development of the United Kingdom), and has sustained this engagement with a Public Expenditure Review (supported financially by the Australia Agency for International Development) which is currently on-going. This analytical work has provided valuable inputs contributing to the government’s articulation of the PFM reform program described earlier in this Concept Note. Given the Government’s emerging reform agenda and the priorities of the ISN, the WBG is well positioned to support Government to address its public service delivery constraints by improving the PFM system.

The WBG has also been coordinating with the IMF and ADB on the PFM program through joint missions, cross-sharing of analytical inputs, and working with advisors mobilized by different agencies to assist the authorities in specific areas. Looking ahead this coordination and collaboration will be further enhanced, including with bilateral development partners planning to support PFM reforms through establishing a Multi-Donor Trust Fund to serve as a vehicle for mobilizing additional grant financing for the government and for conducting joint analytical work together with providing the authorities with enhanced and implementation support.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
The development objective is to support the strengthening of Myanmar’s PFM systems and institutions, and improving PFM policy formulation and implementation for effective, efficient and accountable delivery of public services.

Key Results (From PCN)

- Improving tax administration by supporting introduction of self-assessment system for tax assessments and strengthening recording systems to ensure revenues from the natural resource sector are transparently recorded and reported in the revenue projections and actual collections – consistent with EITI requirements. Baseline: Only administered assessment system in operation in 2013 and revenues from natural resource sector not separately identified or reported in revenue estimates or actual collections as of 2013.

- Issuance of expenditure ceilings to budget entities at the Union, States and Region level based on a simple medium term fiscal framework by fiscal year 2017/18. Baseline: no budget ceilings issued. Spending agencies making budget requests with no idea of resource availability.

- Updated financial rules and regulations in place and applied consistently across different levels of government by 2016/17. Baseline: financial rules and regulations outdated and fragmented
in 2012

- Establishment of functional Treasury Department with critical internal control systems providing financial management services to all budget entities countywide by fiscal year 2017/18. Baseline: No consolidated treasury and financial management services to budget entities provided by a combination of the Myanmar Economic Bank and the Central Bank of Myanmar.

- Increased public access to fiscal information. Baseline: Only the enacted budget was published in 2012. Target value: at least 3 of the following 6 elements of fiscal information are published by 2018: 1) Annual Budget; 2) In-year budget reports; 3) Year-end financial statements; 4) External audit reports; 5) Contract awards larger than $100,000; 6) Funding resources to primary service units in at least 2 sectors such as elementary schools and primary health clinics.

- Enhance capacities and organizational effectiveness through developing a holistic capacity building program which includes establishing a PFM Academy. Baseline: Capacity building interventions ad hoc and focused solely on training. Absence of dedicated institution for providing and managing training needs and programs in 2013.

III. Preliminary Description

Concept Description

The proposed project will provide development finance to the Government to implement Phase 1 of the PFM Reform Strategy and Action Plan in close coordination with development partners through the Public Finance Management Sector Working Group. Recognizing that PFM reforms in Myanmar will evolve over time based on experience and changing priorities, there will be need to build in learning and adaptation within project design – which means supporting broader priority areas rather than locking-in all support for the next five year period.

Based on the PEFA assessment, analytical work conducted by the IMF, and discussions with authorities, it is clear that the PFM system can be strengthened across the entire spectrum of functions. However, acknowledging the capacity constraints, understanding the current situation of the PFM system and the pressures being exerted on it already it is important to appropriately sequence project interventions to Government’s priorities making use of the problem solving approach articulated in the World Bank’s Approach to Public Sector Management 2011-2020. In this regard the project team has discussed with the PFM Executive Reform team the performance constraints they plan to resolve to improve service delivery and then to align project interventions accordingly. These will be further specified during project preparation.

IV. Safeguard Policies that might apply

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