

2018 Public Financial Management Reform Program Strategy

The backgrounds of public financial management reform

1. The importance of carrying out public financial management reform linking up with Myanmar economic and social reform process: Public financial management is all about fiscal and tax reform, national budget transparency, fiscal policy, investment budget and effective public expenditure management, state-owned enterprises reform, strategic resource allocation and resource mobilization, which are stated in the Government's Economic Policy priorities regulated by the government.

2. The need for proper fund allocation between union and region/ state: Taxes collected by the Union Government and Region/State Governments are specified in schedule 1 and 5 of the 2008 constitution. The relevant tax dividends from collected taxes of the Union Government are allocated to States/Regions in accordance with the Constitution. The Union Government has been providing the funds and grants to region/state level with the recommendations of the financial commission to the Pyidaungsu Hluttaw for approvals which have been implementing to relevant with the Public Financial Management System. It is important to provide reasonable funds to states and regions so that they can meet their service delivery obligations. Moreover, it is also important for states and regions to utilize the allocated funds effectively for the public by avoiding the corruption.

3. The need for linking up with Monetary and Fiscal Policy: As the Central Bank of Myanmar is mainly responsible for and deal with monetary policy independently after enacting the new Central Bank law, reviewing current functions of Central Bank and task sharing among Central Bank, Treasury Department and Myanmar Economic Bank and Budget Department for selling bonds and treasury bills to finance budget deficit; maintaining the accounts of the Government functions. It is important to ensure that financing of the budget deficit is conducted in such a manner that it does not impact on inflation.

4. The need for transparency of public financial management system: Being a democratic country, reporting the matters related to the government budget to the Parliaments (Hluttaws), discussions about these matters during sessions of parliament

(Hluttaw) and releasing information to the public in openness are required. Myanmar is one of the member states of international organizations (the World Bank, International Monetary Fund and EITI etc.,) and has the obligation to follow international norms. Not only annual budget law but also a variety of documents in relating to budget which are worthy of reporting to the public such as budget report, budget in brief, budget speech, and budget review should be proclaimed to the public. Putting these out to the public is a priority for our PFM reform.

5. The need for State-owned Economic Organizations Reform: The new government has to find out fair and equitable rules and regulations, and administrative measures to reduce state budget allocated to state-owned enterprises gradually by promoting capacity of those enterprises and by operating commercially, and to implement corporatization and privatization efficiently aiming at achieving private sector development. It is thus important to ensure fiscal discipline SoE and SoE Management sector while incentivizing performance.

6. The need for Pension System Reform: According to Civil Service Law, the government takes its responsibilities to provide salaries and also pension benefits for civil service personnel. Currently, pension expenditures are directly born by the Union Budget yearly. Founding a pension fund system is necessary for reducing the burden of pension benefits on the Union budget and gaining an adequate, equitable and sustainable pension fund in the long run like international pension schemes. We aim to study and establish such a pension scheme with appropriate governance arrangements.

7. The need for adjusting categories of budget classification: Disbursement and the budget classification should be compliance with Government Financial Statistics (GFSM 2014) in the medium term. Concerning Public Financial Management process, the current source data makes it difficult to classify capital expenditure in detail, and need to revise the data reporting template to collect more detailed data from reporting agencies by revising budget codes and more collaborating with the Planning Department (PD) that categories of disbursement headings to comply with international rules and regulations. Our first priority is to ensure we can distribute

union level spending to states and regions, as we move towards GFS compliant reporting.

8. **The need for implementing state economic policy:** The government reveals 12- points state economic policy on August 2016 and policy aims at setting economic framework for proper conservation and allocation of natural resources among regions and states with the objectives of attaining continuous progress which is people-centered and all inclusive, and supporting national reconciliation as following.

- (a) Expanding our financial resources through transparent and effective public financial management.
- (b) Improving the operations of state-owned enterprises, and privatizing those state-owned enterprises that have the potential to be reformed, while promoting and assisting small and medium enterprises as generators of employment and growth.
- (c) Fostering the human capital that will be needed for the emergence of a modern developed economy, and improving and expanding vocational education and training.
- (d) Prioritizing the rapid development of fundamental economic infrastructure such as electricity generation, roads and ports, and establishing a data ID card system, a digital government strategy, and an e-government system.
- (e) Creating employment opportunities for all citizens including those returning from abroad, and giving greater priority in the short term to economic enterprises that create many job opportunities.
- (f) Establishing an economic model that balances agriculture and industry, and supports the holistic development of the agriculture, livestock and industrial sectors, so as to enable rounded development, food security, and increased exports.
- (g) Asserting the right of individuals to freely pursue the economic opportunities they choose, so as to enable private sector growth in line

with a market economy system; formulating specific policies to increase foreign investment; and strengthening property rights and the rule of law.

- (h) Achieving financial stability through a finance system that can support the sustainable long-term development of households, farmers and businesses.
- (i) Building environmentally sustainable cities, upgrading public services and utilities, expanding public spaces, and making greater efforts to protect and conserve our cultural heritage.
- (j) Establishing a fair and efficient tax system in order to increase government revenues, and protecting individual rights and property rights through enacting laws and regulations.
- (k) Establishing technical systems and procedures to support intellectual property rights that can encourage innovation and the development of advanced technology.
- (l) Identifying the changing and developing business environment both in ASEAN and beyond, so as to enable our own businesses to situate themselves to take advantage of potential opportunities.

9. **The need for efficiently and transparent utilizing the Development Assistance:** In order to ensure the national ownership of the development process, and to utilize efficiently and transparently the development assistance, the Government has organized the Development Assistance Coordination Unit-DACU led by the State Counselor was organized, and Ten Sector Coordination Groups under this Unit were also organized for implementing and supervising the development assistance. The application should be: giving adequate time for consultations; ensuring all interested stakeholders' awareness; allowing additional time for the discussion of proposed decisions; and providing reasons to all stakeholders for each key decision taken.

10. **The need for updating and enacting legal framework governing public financial management:** Concrete laws and regulations should be enacted separately such as Public Finance Law, Public Procurement Law, State-Owned Economic

Organization's Performance Monitoring Manual. Thus, Public Financial Management Process is required to be upgraded in line with international standards for supporting national political, economic and social objectives, maintaining macroeconomic stability and sustaining economic development of the Republic of the Union of Myanmar.

11. The need for exercising policy-based budgeting before progressively moving to program budgeting: Our first priority is to implement a functional system of performance based budgeting. In this regard our plan is to progressively link our medium term fiscal framework with bottom up ministerial submissions and include performance information. Once our budget is more policy-linked and performance based, we will consider appropriate how best to cluster expenditures into program that follows our organizational structures. To strengthen the interrelationship between sectoral reforms and key areas of Public Financial Management system reforms, the linkage between Public Financial Management reform programs and improvements of public service will be taken into consideration. In doing so, reform period will be prolonged as the scope of Public Finance Management is broad and complicated therefore identifying prioritized reform areas and systematic implementation will to be performed. In this regard we will work with development partners including the World Bank to support PFM reforms in sectors with technical assistance for improving sectoral planning and budgeting.

Activities required implementing in the area of Public Financial Management System Reform

12. Reforming systems such as budget preparation which predominantly includes government revenues, government expenditures, budget surplus, budget deficit, status of debt; budget scrutinizing system; budget monitoring system on execution; budget assessment and reporting system; long-term budget estimate, revenues mobilization and aggregation systems; and Efficient resources allocating system are required concerning Public Finance Management. Likewise, such reforms in infrastructure, human resources, structure and management in particular codes which involve in the budgeting are required so as to create budget process which is relevant to country

context. This is very complex and needs careful coordination, especially because we have to implement reform while continuing government business.

13. Furthermore, it is important to develop clear revenue and expenditure assignments between Union and Region or State governments to adjust fiscal sharing method. As amendments or enactment of taxation laws and customs law in line with fiscal policy are required as well, and equipment with appropriate technologies should be used similar to other countries for increasing customs control, and operate laboratory tests for approvals. Internal Revenue Department will complete the implementation of the key goals for the second phase (2017-22) by building on the achievements, which progressively resulted in that of the first phase (2012-17). This Reform Plan aims IRD to become a transparent and accountable modern tax institution that every citizen including taxpayers can absolutely rely on. This plan covers improvements in integrity and public awareness of taxation, the development of tax policy, introduction of new technology, development of staff, introduction of new assessment processes, improvements in service and enforcement, improvement in Revenue forecasting and restructuring of the department.

14. Policy and procedures of financing deficit, methods of planning to make plan with budget harmonious will be developed, reducing burden of pension benefits on the Union budget and gaining an adequate and equitable pension fund in the long run like international pension schemes and enhancing capacity of the staff in the field of project assessment is necessary to achieve such developments. The developments of project screening and appraisal process are required in order to choose the projects that the budget and international loans and grants are spent effectively. To control public finance figures in a timely manner, Core Banking System and computerized banking system will be in developed. Pension system reform from the system which pension benefits directly born by the government budget to an adequate, equitable and sustainable pension fund system would be adopted as international practice.

Constraints in the area of Public Finance Management System Reform

15. Concerning Public Finance Management, insufficiency of rules and regulations, the need for carrying out strengthening manpower of the institutions step

by step; the need to comply with government policies and objectives, annual plan, and demands of the Pyidaungsu Hluttaw; inadequacy of manpower and technical know-how for budget analyzing; weak reporting system resulting in a lack of both high-quality and higher-frequency budget execution data and lack of consistent and comprehensive budget financing data (below-the-line), occurrence of budget deficit usually due to exceeding amount of expenditures over revenues, dependence on income of State-owned enterprises, providing from Union funds to regions or states where deficit occurs, lack of international pension schemes are constraints.

Activities achieved at the first stage (2012 to March 2017 achieved and on-going activities) of reform

16. The followings are some achievements in the middle of first stage of reform (2012 Oct to 2017 March).

- (a) **Established the Treasury Department:** The Treasury Department was founded separately under Ministry of Planning and Finance on 1 September 2014 so as to carry out treasury functions effectively and systematically and practicing auction treasury bonds and treasury bills to finance budget deficit; taking the specific tasks to maintain the Union Fund Account.
- (b) **Updated Financial Rules and Regulation:** Ministry of Planning and Finance updated the 1986 Financial Rules and Regulation and established as new Financial Management Regulation (2017) which to be followed by ministries, departments, state-owned enterprises, development affairs committee and organizations in line with current situations.
- (c) **Prepared new PFM Act:** To be able to enact the Public Finance Management Act, formed working committee of establishing PFM Act with respective government officials, and working committee collaborated with technical advisor from IMF, and under processing.
- (d) **Practicing Medium Term Fiscal Framework:** Medium Term Fiscal Framework has been practiced with technical assistance of the World

Bank and the budget ceilings were issued to spending agencies since 2015-2016 Fiscal Year.

- (e) **Strengthening the budgeting and planning:** Regarding with Budgeting and Planning Composition of expenditure out-turn compared to original was 111.65 % at 2012-2013, 92.38 % at 2013-2014, and 91.24 % at 2014-2015 respectively. Budget preparation process including (i) issuance of ceilings (ii) preparation of medium-term fiscal framework was achieved. MOPF has a practice of formulating the MTFF started from 2015-2016 FY and could issue current and capital expenditure ceilings to line Ministries along with MTFF. Improving information base for linking budgets to plans was also achieved. As a first step, Ministry of National Planning and Economic Development and Ministry of Finance have been combined as a Ministry of Planning and Finance started from 2016-2017 FY. Secondly, Budget Department and Planning Department are closely working to be consistence with plan and budget in line with MTFF, and procuring computers, Mini Data Centers and software application to improve information technology system, and will have a practice of electrically budget submission in soon with technical assistance of the World Bank. Project Proposal Template which is applied to formulate effective and sustainable development projects is issued.
- (f) **Improved intergovernmental fiscal transfer system:** In order for developing resource allocation between Union and Region or State governments, Intergovernmental Fiscal Relations Division under Budget Department has been established in 2015. Union Government allocates the relevant fiscal transfer to Region/State by measuring with macro-indicators to reduce the centralized system. As tax sharing, 2% of additional Stamp Duty, 5% of Income Tax collected in Kyat from the individual, 15% of Commercial Tax collected other than tax levied for importing goods, 15% of Specific Goods Tax collected other than tax levied for importing goods that exclude imported special goods are transferred to Region/ State Governments.

- (g) **Fiscal transparency improvement:** In addition to (i) Annual Budget Law yearly , (ii) with technical assistance of DFID, Citizen's Budget was issued since 2015-2016 Fiscal Year, and published (iii) 2015-2016 budget summary as pre-budget statement in January 2016, (iv) 2016-2017 Budget Speech in February 2016 (v) 2015-2016 Citizens Budget in August 2015, (vi) first report of MEITI for 2013-2014 FY in January, 2016, and (vii) year-end report for 2015-2016 in September, 2016.
- (h) **Improving Macro Economic Forecasting:** In Planning Department, staffs were trained with related courses for Macroeconomic Forecasting by hiring International Expert with the technical assistance under the PFM Project for analyzing and forecasting of the macro-economic development.
- (i) **Enhancing Public Investment Management:** The Project Appraisal and Monitoring Guideline (draft), Project Proposal Form and Monitoring Form (draft) are drafted as a result of the process for being well-documented and systematic related to capacity enhancing for Public Investment Management. For plans, database construction by ministry and locality is being implemented.
- (j) **Improved Cash Management and Debt Management:** The Treasury Department is implementing Cash Management with technical assistance of an expert from the IMF and Debt Management with the technical assistance of an expert from the ADB in a systematic way. Public Debt Management Law was enacted in January, 2016. Medium Term Debt Management Strategy (2016) and (2017) have been published respectively. Auctions for Treasury Bills and Treasury Bonds were launched in 2015 and 2016 respectively. It was emphasized on building good relationship with investors. Government Debt Annual Report for 2015-2016 was published for the first time and we are making effort to publish it on annual basis. It is making an attempt to implement Debt Recording and Management System – DRMS in order to operate

investments on debts, public debt management legal framework and structural framework, analyzing potential issues regularly. The information regarding Public Debt Management Law and debt management reforms is available at the website "www.mof.gov.mm".

- (k) **Improved Supporting Budget Execution:** Availability of information on public procurement outcomes is improved. Procurement reforms measure in Myanmar are being implemented under the leadership of Procurement Rules and Regulations Supervision Committee (PPRRSC) chaired by Deputy Minister of Planning and Finance. "Tender Procedure for procurement of goods, services, rental and sale for the government departments and organizations" was prepared and issued by the presidential directive (1/2017) on 10 April 2017 as an important milestone. Public Procurement Law (Draft) is being prepared in consultation with procurement specialists from World Bank. Currently, line ministries have a practice of advertisement of bidding documents in newspaper and respective Ministry web site for more transparency and full competitiveness by using transparent selection method with respective evaluation committee. Budget holders are empowered to execute budget within clearly defined procedures and regulations that are consistently enforced is our project target achieved. Reporting of consolidated Fund Accounts in a timely manner is improved because Treasury Department consolidates monthly Union Fund Account and fourteen State & Region Fund Accounts and submits to Ministry of Planning and Finance, Union Government Office and Office of the Auditor General. Myanma Economic Bank, which maintains State Fund Account practically to control public financial data in a timely manner, is trying to apply Core Banking System of international banking. In first stage, commencing from 26 April, 2016, Deloitte Consultant, an international consultant firm was hired and it provided technical requirements for core banking system, and provided relevant training to Core Banking Design and capacity building training for staff. In second

stage, based on the current data suitable software will be purchased. In third stage, purchased Core Banking System software will be introduced at the (86) branches including Myanmar Economic Bank (Head Office), Regional and State Office, District branches of the Myanmar Economic Bank.

- (i) **Performing the Myanmar Customs Reform and Modernization:** In 2014, with assistance from the Government of Japan and the Customs and Tariff Bureau of MoF, Japan, the Myanmar Customs Department (MCD) started to implement the Myanmar Automated Cargo Clearance System (MACCS) and the Myanmar Customs Intelligence System (MCIS) aiming at the modernization of the export/import customs clearance process and implementation of the single window system and the Myanmar e-Customs System. Running test was undertaken and the whole MACCS/ MCIS system is running live since 12 November 2016. In 2015, the Bill Amending the Sea Custom Act (1878) (Pyidaungsu Hluttaw Law No. 13, amending the law related to sea customs duty) and the Bill Amending the Land Customs Act (1924) (Pyidaundsu Hluttaw Law No. 14, amending the law related to road customs duty) were approved by Pyidaungsu Hluttaw and facilitate the reform process. Myanmar Customs has been implementing the Customs procedures to be in line with the international standards based on agreement and recommendations of WCO and WTO, such as Risk Management System, World Trade Organization Valuation Agreement (WTOVA), Post Clearance Audit (PCA), Advance Ruling on Classification and Customs Valuation, Myanmar Customs Tariff 2017 of WCO and AHTN amendments. MCD has been progressing Authorized Economic Operator - AEO Program to be notified and implement and to become Revised Kyoto Convention (RKC) accession successfully. MCD has been performing Customs Procedures in accordance with the Trade Facilitation Agreement. MCD has been preparing to implement for National Single Window in order to connect the ASEAN Single Window.

- (m) **Strengthening Tax Administration System and Revenue Management:** Since 2012 the Internal Revenue Department has been implementing significant reforms to tax administration in Myanmar. This is being done with the assistance of World Bank, IMF and USOTA and other development partners. In 2014, the department developed a Strategic Plan and a more detailed Reform Plan. To coincide with this, IRD restructured its Headquarters as functions based and established the Large Taxpayers' Office. The reforms will be expanded gradually to other parts of IRD as capacity increases. The Specific Goods Tax was introduced from 1 April 2016, and the Tax Administration Procedures Law has been drafted and is expected to be enacted from 1 April 2018. This Administration law facilitates transparency and fairness in the tax system. The structure is currently being refined as the Strategic and Reforms Plans looking out over the next 5 years. Service and enforcement activations have been strengthened and significant intensive capacity building in Head- quarters, LTO and MTO (1) are ongoing. With regard to the Number of large taxpayers, completing self-assessment was achieved because IRD established Large Taxpayers' Office at Yangon on April 1st, 2014 and Large Taxpayers could do self-assessment. Also Medium Taxpayers' Office 1 and 2 were established on June 11th, 2015 and 3 was started on March 3rd, 2016 at Yangon respectively. LTO started its SAS operation on 1st April, 2015, MTO 1 started it on 1st April 2017, and other MTOs will expand based on the achievement of LTO and MTO 1.
- (n) **Strengthening External Oversight of accountability:** The Joint Public Accounts Committee (JPAC) of the Union Parliament (Pyidaungsu Hluttaw) has been implementing the PFM Project since 2014-2015 FY and undertaking the functions such as: after scrutinizing the projects and the budget estimates that appeared in the bills of national planning and the union budget submitting reports to the Union Parliament.

After analyzing the report of the Union Auditor General concerning the revenues and expenditures of the union in accordance with the Union Budget Law, submitting a report to the Union Parliament, after studying whether the Union Level organizations had made necessary arrangements to obtain revenues fully and had made expenditures authorized according to the provisions efficiently, whether there were misuse of funds and corruption in project implementation and submitting reports to the Union Parliament, if necessary, urging the Parliament to send investigation teams to various departments to make enquiries whether the expenditures approved by the Parliament are made correctly and effectively only for the prescribed activities, analyzing the government expenditures made from local and foreign loans.

Analyzing the six month reports of the government on national plan implementation, on government expenditure and the revenue obtained, analyzing the report of the Central Bank of Myanmar on fiscal policy implementation and financial system stabilization, organizing training programmes on the Parliamentary procedures to strengthen the external oversight and auditing activities, collecting financial information, studying the international procedures and standards. In addition, to be able to implement the fiscal policy of the state and the Medium Term Fiscal Framework projections and scrutinize the budget from the legislative body, PEFA standards (PI-18) and to obtain the revenues accordingly with the parliamentary approval and to examine the expenditures so that they are made for the activities authorized in the budget (PI-31).

JPAC is attempting to its full capacity. It is also attempting to improve its ability to carry out its functions and to build friendly cooperation and coordination with all other organizations and individuals concerned. In addition, knowledge sharing and workshop programmes are being carried out in collaboration with the PACs of states and regions who are scrutinizing the states and regional budgets in practice.

The new Myanmar Accountancy Council law was prescribed in 2015 with the purpose of reflecting the subject matter terminology prescribed by International Federation of Accountants (IFAC), more involvement of accountancy services, allowing for the opening of Private Accounting Training Schools to strengthen the Accountancy Profession, delegation of Council duties to sub committees and compliance with other existing laws. At present, MAC is performing to adopt fully International Financial Reporting Standards (IFRS). To do so, MAC will proceed to sign “Agreement for the Supply of data for the Adoption and Publication of IFRS” with International Financial Reporting Standards Foundation Corporation and approval of the Cabinet. For the purpose of improving Financial Reporting in Myanmar’s Banking Sector with the technical assistance of the German International Cooperation (GIZ), Banking Sector Financial Reporting Standards Implementation Committee (BFRIC) including representatives from Office of the Auditor General of the Union (OAG), Myanmar Accountancy Council (MAC), Myanmar Institute of Certified Public Accountants (MICPA), Central Bank of Myanmar (CBM) and Myanmar Banks Association (MBA) has been organized. Until now, BFRIC Committee has selected three pilot private banks to prepare their financial statements in compliance with IFRS. Report on Observance of Standards and Codes (ROSC)-Accounting and Auditing has been published by collaboration of the Office of the Auditor General of the Union together with Myanmar Accountancy Council, Myanmar Institute of Certified Public Accountants and the World Bank. With the technical assistances of ADB under Japan Fund for Poverty Reduction, the OAG is striving to come out International Standards of Supreme Audit Institutions (ISSAI) based financial audit manuals and guidelines. At the moment, workshops and trainings are delivering for the OAG staff with the collaboration of the development partners. Office of the Auditor General of the Union (OAG) is conducting the audit work in accordance with the Auditor General of the

Union Law. That Law was prescribed in 2010 and amended in 2013 and 2014, respectively. Regarding with Timeliness of Submission of Audit Report to Parliament is improved because 1st six-month audit report which describes audit findings, audit objections and actions taken by audited entities for FY 2014-2015 (period of April to September 2014) was submitted to Parliament in May 2015 which is 8 months after the period. Report covering 2nd six-month audit report for FY 2014-2015 (October 2014 to March 2015) and Audit Report on Budget Appropriation for the whole fiscal year 2014-2015 were submitted in December, 2015 with only 9 months gap. For 2015-2016 fiscal year, OAG changed the reporting style by prescribing the implementation of the National Plan by each sector, the implementation of the Union Tax Law, Budget Implementation, the progress of the implementation of audited entities' operations within 5 years, audit findings, interesting matters regarding some Ministries, the condition of the debts, losses of State owned cash and other assets and other matters, and sent it to the Parliament in March, 2017. The draft amendments to the Auditor General of the Union Law (third time) was prepared and submitted to the Parliament by coordination with the Joint Bill Committee, Joint Public Accounts Committee and Commission for Assessment of Legal Affairs and Special Issues. The draft amendments to the Myanmar Accountancy Council Law (second time) was prepared and still in coordination with the Union Attorney General Office.

- (o) **Institutional and capacity development:** Under the PFM reform, many staffs are beneficiaries of training courses for strengthening PFM from international institutions and development partners including the WB, IMF, ADB, and JICA. For the purpose of carrying out reform process effectively and efficiently, to promote capacity of staff, capacity enhancing to increase English and computer skills is being implemented and achieved trainings with respective international organizations for more than 300 staffs in MTF, Debt Management, Cash management,

budget analyzing, GFS, Banking System, SEEs, Tax auditing, Basic PFM courses, International Financial Reporting Standard and International Standard for Accounting, Accountancy profession, Procurement. For, 395 staffs of all IAs benefit 1st modular English course, and 482 staffs could continue the 2nd modular English course with British Council and 1340 staffs of all Implementing Agencies benefit computers basic and advanced trainings. The new government decided to build PFM Academy at the Nay Pyi Taw and before completion of the PFM Academy building, trainings programs are started at respective agencies such as tax auditing, macroeconomic monitoring, cash management, debt management, procurement trainings, financial management trainings, budget analysis trainings, workshops on electronic budgeting, fiscal decentralization, fiscal transparency, fiscal policy, accounting and reporting and so on. Moreover, PFM Academy Steering and evaluating board headed by Deputy Minister for MOPF was formed and decided to hire one consultancy firm to develop the PFM curriculum and training package by making training needs assessment of agencies' capacity requirement. Moreover, it is estimated 156.5 kyats in million in budget to construct the road for the entrance of PFM Academy. It also received the approval of Union Minister to build the PFM Academy near the MOPF building (1) and it is negotiating with the Naypyitaw Development Committee to get the land for building.

- (p) **Reforming State Economic Enterprises:** The Government has been supervising the SEEs reforms aligning with the policies of commercially operating their transactions and standing on their own fund. Furthermore, it has been undertaking the SEEs reforms based on the assessment of their budget, commercial and financial situations. Undertaking this SEEs facing losses year by year have been changing into Joint Venture and Corporatization in order to increase the revenue.

Activities to be performed at the second stage (2018 to 2022) of reform

17. We started our PFM modernization program in 2012. Now after 5 years of implementation, we have managed to ensure fiscal sustainability, implemented policy based budgeting, piloted the Self-Assessment System at the Large Taxpayer's Office, established a treasury department, provided separation of the Central Bank of Myanmar, improved the transparency of intergovernmental transfers, and have merged the Ministries of Planning and Finance to create a single structure. We have also managed to transform our fiscal system with the separation of state and region budgets from the Union budget. These are achievements we are proud of. Now we are looking ahead to the next 5 years covering 2018 – 2022. At the second stage of reform, we aim to maintain stability while enhancing the capacity of management procedures on government revenues and expenditures. This stage is expected to 5 years from 2018 and the following procedures are included in it (The PFM reform Program second stage Implementation Plan with timeline is attached in Appendix A).

- (a) Strengthen operations of the Treasury Department under Ministry of Planning and Finance on cash and debt management along with improving financial reporting;
- (b) Applying simplified technologies in collecting and compiling financial information and reporting in a timely manner across Union ministries and states and regions;
- (c) To promote and harmonize cash management and debt management in order to reduce CBM financing by 2022;
- (d) Deepen the Top Down method of budgeting and integrate with bottom up requests by Ministries, and include basic performance information in budget documents. Also we would aim to report Union Spending at state and region level;
- (e) Establishment of fundamentals to spend capital expenditures and recurrent expenditures proportionally by improving our capital appraisal system and monitoring of capital spending;

- (f) To make an effort to reduce supplementary budget request system and to exercise yearly estimate;
- (g) Further reviewing financial regulations and procurement regulations, laying down new regulations, arranging to enact new laws in order to amend required laws including budgetary law and public debt law to keep abreast of current situations, promoting and harmonizing cash and debt management;
- (h) Transparency of financial situation of state-owned enterprises, reviewing the role of State-owned enterprises in budget as it is appropriate;
- (i) Implementation of Core Banking system which can be used by linking up with Centralized Server via online in Head Office of Myanmar Economic Bank and its branches;
- (j) Managing to increase tax revenues and making amendments of taxation laws, enacting new laws in accordance with fiscal policy, restructuring of IRD Headquarters, opening of Medium Taxpayers' Offices functioning on SAS, centralization of processing, taxpayers services and telephone management across large and medium taxpayers and installation of required software. We will also plan to draft a new personal income tax and corporate income tax law;
- (k) Automatic Import and Export declaration system has been applied for Myanmar Customs modernization;
- (l) In order to conduct the audit process in conformity with international standards, OAG is trying to come out International Standards of Supreme Audit Institutions (ISSAI) based Financial and Performance Audit Manuals and Guidelines, arranging workshops, trainings and pilot audit to be able to conduct the Financial Audit, Compliance Audit and Performance Audit in line with the international standards, with the technical assistances of development partners such as Norway Audit Office and Asian Development Bank (ADB) etc. Moreover, for the

purpose of the conducting Information Technology Audit (IT Audit) by using IT based audit support tool in future, OAG is trying to improve the IT Capacity Building and to prepare the IT strategy. OAG will conduct the audit work with the cooperation of the respective organizations and by arranging the trainings for Human Resources Management, Project Management, and Assets Management, etc. for the continuous improvement of the audit quality for the OAG's staff, to be able to perform the audit work including Performance Audit effectively in accordance with the amending Law, as the Law Amending the Auditor General of the Union Law (2018) was approved in January 2018. It is trying to amend Myanmar Accountancy Council Law (2015) for the purpose of the completeness of the terminology, the completeness of the duties and powers of the Myanmar Institute of Certified Public Accountants, the broad involvement of other accounting trainings not only the Diploma in Accountancy and Certified Public Accountants training programmes, the strengthening of the Accountancy Profession to meet the Nation's needs, allowing only the citizens to open the Private Accounting Training Schools, liberalization of the provisions to conduct as individual trainer, deleting unnecessary matters to collect and support the facts in conformity with the Statistics Law, the other Laws. To be able to prescribe the detail procedures for the provisions of MAC Law, MAC by-law is being prepared. OAG will coordinate with the respective Ministries and Organizations to be able to conduct the audit work smoothly and to submit the report in time during the transition period (from 1st April to 30th September, 2018) for changing the fiscal year.

- (m) Establishment of Public Finance Management Academy;
- (n) Strengthen fiscal sustainability of the Pension System and support pensioners as best as we can.

Expected outcome of the second stage (2018 to 2022) of reform process

18. While implementing the second stage, attempts to be made for achieving significant changes and improvements relating to Public Finance Management. The following outcomes are expected to attain during the period of 2018 to 2022:

- (a) To establish the national procurement Law in line with international standards and consistent among different ministries;
- (b) To strengthen the internal auditing and implementation including preparation of Internal Audit Charter (IA Charter) and Internal Audit Manual (IA Manual);
- (c) To make a stride in accounting and reporting reforms (e.g., from single entry accounting to double entry accounting.);
- (d) To be able to deal with cash management and debt management systematically with accountability of Treasury Department;
- (e) To make progress of budget preparation system in compliance with international standards year by year to support macroeconomics stability and development;
- (f) To use advanced technology and simplified methods in evaluating the implementation of budget and consolidating of accounts;
- (g) To use the system of setting revenue target, limitations of expenditures (tax incentives and exemptions) as it is necessary to be the budget which complies with annual plan and can implement government policies effectively;
- (h) To issue financial regulations and procurement regulations in line with current situations, and to supervise all departments and organizations, and ensure that they abide by these regulations consistently;
- (i) To make an effort to reduce and eradicate supplementary budget request system gradually;
- (j) To improve Tax revenue, have clear and easily understood tax laws, and

increase the ratio of Tax to GDP up to 10%;

- (k) To review and revise the Customs laws and regulations for updating and standardizing with the international Customs Procedures;
- (l) Encouraging the utilization of Information Technology (IT) for project monitoring.

Activities to be performed only at the third stage

19. **Third Stage (8 to 12 years):** This stage is to be continuously followed after the next 5 years, after the second stage is completed. This is because these reforms need to be conducted in sequence. The quality of all government expenditures must be improved. Procedures of this stage are shown as below:

- (a) Implementing medium term budget preparation which includes performance analysis;
- (b) To complete the integration of budgeting and planning process so we have a single strategic planning and budgeting system;
- (c) To maintain the expenditures to be the nearest estimate in the specified limit;
- (d) To make assessment on the implementation of extremely important and substantial expenditures prominently through spending reviews;
- (e) To promote qualification and effectiveness of auditing capacity broadly under the initiative of Office of Auditor General;
- (f) To exercise the role of internal audit effectively and diligently;
- (g) To follow international auditing and accounting standards widely;
- (h) To make budgetary relations and discussions between the Parliament and government more effective;
- (i) To commence work on VAT legislation, improve data analysis capability, incorporate high wealth individuals into self-assessment system, expand reforms to all medium taxpayer offices,, review Reform Plan for next 5 years, further rollout of IT system;

- (j) To develop specifications of a core integrated financial management system focused on payment processing and budget and financial accounting by collaborating between Treasury, Budget, Central Bank and Myanma Economic Bank;
- (k) Establishment of Project Database and IT Development in projects and budget execution monitoring.

Long term Prospects

20. The long term prospects of Public Financial Management Reform are as below:

- (a) To make Public Financial Management System of Myanmar to be on equal terms with other Southeast Asian countries at the first stage and to reach international standards in the long term;
- (b) To identify the budget ceiling that the government can afford to ensure fiscal sustainability;
- (c) To increase the percentage of the scores which described in Public Expenditure and Financial Accountability Framework to reach A or B level (Currently, most indicators are between C&D);
- (d) To reduce not only frequency also the number of areas of lacking adherence of rules and regulations on revenues and expenditures;
- (e) To make plans and budget harmonious;
- (f) To ensure that resource mobilization should mainly depend on taxation and not on natural resources, and to make the best allocation of expenditures;
- (g) To establish the new pension system from defined benefit to defined contribution;
- (h) To be effective Public Investment Management.

Reform initiative, programs coordinating and human resource development

21. The Deputy-minister leads PFM sectoral working group and steering the Executive Reform Team of Modernization of Public Financial Management Program, and Director General of Budget Department is leading the PFM Reform Secretariat. The PFM program management is organized under the budget department with a program coordinator, financial management staffs and the procurement staffs from the budget department and the treasury department. The Representatives from respective PFM reform implementing agencies are involving in each committee, financial management matters and procurement matters by collaborating with the PFM project management unit. In addition, the followings are to be done along with forming committees:

- (a) Enhancing operational capacity;
- (b) Recruiting policy;
- (c) Policy to retain old hands;
- (d) Policy to assign alternately;
- (e) Policy to select and appoint the qualified persons;
- (f) Policy to hire foreign experts;
- (g) Policy to identify key players and provide them with trainings;
- (h) Establishment of Public Finance Management Training School;
- (i) To communicate and collaborate with similar training schools from abroad;
- (j) Sending trainees to the trainings on specialized subjects;
- (k) To use information technology;
- (l) To promote constructive cooperation, to overcome and reduce spoilage and hindrances;
- (m) To carry out structural reform in Ministry of Planning and Finance properly;

- (n) To reduce risks, challenges, and impact of reform to the minimum level.

To reduce potential risks, challenges and impacts through reform process to the minimum level

22. Myanmar prepared a single Union budget for many years however it has been separated into Union and State/ Region budgets since 2011-12 Fiscal Year. Union Government, Pyidaungsu Hluttaw, Region or State governments and Region or State Hluttaws have emerged in accordance with the constitution. Therefore, Public Financial Management Reforms have to be carried out in order to keep abreast of the times and the structure used for many years has to be changed. As a consequence, there will be risks and challenges, and impact in every respective area. Prediction and proper arrangements are supposed to be made in order to overcome and reduce potential risks, challenges and impact to the minimum level. Our structures continue to evolve and therefore important for the PFM system to remain adaptive.

23. The Union Budget Bill will be submitted according to the provisions of the constitution to Pyidaungsu Hluttaw concerning income and expenditures of the Union, and approval, objection and allowing the reduced amount by Pyidaungsu Hluttaw to other expenditures apart from those pursuant to article 103 (b) of the constitution will be performed through consensus.

24. At this point, it is necessary to examine whether these may impede government's policies and objective or not. Similarly, the entities involve in budget process such as Union Ministries, Central Organizations at Union level, Departments, State-owned Enterprises, Nay Pyi Taw Council, Nay Pyi Taw Development Committee will have experience of clearance of provision for income and expenditure to the parliament, giving explanation on projects, giving response to questions that Members of Parliament raised, holding frequent discussion with parliamentary committees, undergoing reduction for some projects and expenditures. In that event, to build understanding and mutual cooperation on the Union budget matters between the government and the parliament is critical.

25. As deficit has occurred in the previous years consecutively, local debt and foreign debt may increase year after year due to financing deficit budget. It suggests that the government must have a good debt management system.

26. Increasing tax revenue is key element of structural reform of receipts and it requires broader participation among all stakeholders such as Hluttaws, governments, ministries and private sector as well. Exploring the weakness of tax collecting and Tax base expansion, the citizens' willingness to pay tax, qualification and mind-set of Tax Office staff, enacting required laws and regulations and making amendments of existing laws etc., are necessary therefore a strategy (Reform Plan) has been developed with clear actions and time frames over the next 5 years. Good Governance will be essential. In customs administration, key international standards in procedures, classification, valuation and trade facilitation should be implemented along with effective enforcement of restrictions and prohibitions in cross-border trade. Good governance is a key to increased effectiveness and efficiency in customs controls.

27. Regarding allocation and use of expenditures, it must perform based on government policy, short term and long term plans, increasing spending on education and health sector and so on. Accordingly, bottom-up appropriation and Top-down limitations have to be adopted therefore it is required to promote the qualification of the staff of the all relevant departments/organizations.

28. To improve allocating resources among Union and Region or State governments is crucial process and it is necessary to operate it with great care. It may cause political and social impacts. Fair and equitable allocation of receipts and proper distribution of expenditures in accordance with the constitution must be carried out with continuous coordination and supervision.

29. As it is necessary to review the role of State-owned Enterprises in budget and to exercise in dependent operating system and split apart from government budget gradually, government policy, retaining 100% state-owned, privatization, going public, forming joint ventures as public-private partnership concerning state-owned enterprises should be executed.

30. It is high requirement to manage human resource development with UCSB mandate in PFM skills for public services, hanging the structure of development harmoniously for monitoring budget implementation, supervising and providing guidance, receiving financial figures in a timely manner, taking the responsibility of cash management and loan management by a specific department. Therefore it is important to have a functional PFM Academy.

31. To support laying down fiscal policy, Fiscal Policy, Strategy and EITI division was established under the Budget Department. Establishing fiscal policy department is important. This department should build communication network with line ministries, Central Bank of Myanmar and international organizations to collect information widely for prescribing fiscal policy that can help macroeconomic stability and long term economic development.

32. Existing budgeting is; foreign debt and grants are included in budget and calculate surplus or deficit. Actually, it should calculate surplus or deficit first without domestic and/ or foreign loan and foreign grants, then, determine how much will be borrowed from domestic and abroad to finance deficit. A great effort is required to change the course of conventional practice to the right track at all aspects.

33. In Budgeting, revenues and expenditures in Foreign exchange are estimated with its equivalent to Kyats. However, utilization in foreign exchange is requesting only from government due to foreign exchange market is not developed in Myanmar. This practice should be reviewed and changed to seeking foreign currencies as needed from foreign exchange market instead of issuing foreign exchange. For this purpose, foreign exchange market in Myanmar should be developed.

Conclusion

34. Public Financial Management Reform Strategy has been prepared based on policies of the last government's National Economic Social Reform Framework; and updated based on achievements of the first stage (2012 to March 2017) of reform and the current Government's Economic Priorities. To be able to lay down this strategy, we have reflected on our reform experience and the Public Financial Management Reform Report which was jointly prepared by the World Bank and line ministries of

Myanmar is also a fundamental document. Both strengths and weaknesses can be seen in existing system. Strengths should be kept and improved. How the weaknesses will be dealt with, what are the priorities to be addressed, which level is targeted to reach, how to protect the impact of reform process are described in this strategy. Thus, Public Financial Management Reform Process must be implemented stage by stage based on this strategy.

21	To use a modern system of setting revenue targets which complies with Government planning processes	Department	█	█	█	█	█	█	█	█											
22	To establish a Unit in Headquarters to proactively manage corruption		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
23	Develop and implement a comprehensive anti - corruption policy and procedures		█	█	█	█	█	█	█	█	█	█	█	█	█						
24	Establish Corporate Communications function in headquarters		█	█	█	█	█	█	█	█	█	█	█	█	█						
25	Enhance Management and Leadership Capacity through training and coaching		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
26	Develop HR policies which support ongoing reform		█	█	█	█	█	█	█	█	█	█	█	█	█						
27	Develop and implement a revenue forecasting capability		█	█	█	█	█	█	█	█	█	█	█	█	█						
28	Develop clear and easily understood taxation laws. This includes existing laws when amended		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
29	Develop a Tax Administration Procedures Law (TAPL) and submit to Parliament		█	█	█	█	█	█	█	█	█	█	█	█	█						
30	Rewrite the income Tax Administration Procedures, laws and submit to Parliament		█	█	█	█	█	█	█	█	█	█	█	█	█						
31	Develop policy for introduction of a VAT system															█	█	█	█	█	█
32	Improve awareness and education material for taxpayers to make it easy for them to comply with the tax laws		█	█	█	█	█	█	█	█	█	█	█	█	█						

53	To perform the auditing in accordance with International Standards of Supreme Audit Institutions (ISSAI), enhancing capacity of the staff		
54	To develop IT Audit by using Computer Assisted Audit Technique;		
55	To use advanced technology and simplified methods in evaluating the presentation of budget and consolidating of accounts;	Treasury Dept.& Budget Dept.	
56	Encourage the utilization of Information Technology (IT) for project monitoring;	MOPF	