

Public Financial Management in Myanmar

Observations from training needs assessment and pilot trainings conducted by The Asia Foundation, VNG International, and Myanmar Development Resource Institute's Centre for Economic and Social Development (MDRI-CESD) with funding support from the Australian Department of Foreign Affairs and Trade.

In recent years, Myanmar has undertaken political and economic reforms with major implications for public financial management (PFM). Decentralization represents an immense change from the existing system, in which budget deficits are covered by the national or the Union level, to a system in which the country's 14 state and region governments must prioritize and balance expenditure with their own limited revenues. Such a significant shift requires not only technical capacity but also a change in mind-set of those involved in budgeting and planning at the subnational level. This program brief describes the training needs assessment, training program design and implementation, highlights key capacity needs in PFM at the state and region level, and outlines relevant recommendations for continuing approaches on PFM reform.



The 2008 Myanmar Constitution introduced a degree of fiscal decentralization of budgeting and planning functions from the Union government to states and regions¹. State and region governments now prepare their own budgets and have some authority to collect revenues locally. The total budgets of states and regions has risen accordingly, from less than 4 percent of public spending in the 2013-2014 financial year to nearly 12 percent in 2014-15.²

While states and regions have full statutory authority to determine budgeting priorities, spending discretion is limited in practice by the Union-level Financial Commission, which ultimately decides how much budget support each state and region will receive from the Union fund through a process that is neither transparent nor based on objective criteria. The overall process of policy-setting, levying, and collecting of revenues is not yet well developed and leaves considerable room for improvement. States and regions may also request additional monies through supplementary budget allocations, a practice which

impedes sound budget planning. The benefit of participatory mechanisms on the planning and budgeting process remains limited.

Financial regulations are also recognized as being substantially out of date. The finance department in each spending body appears to play a key role in deciding which mix of rules is adopted within its organization. The arrangements are thus somewhat ad hoc, differing from ministry to ministry as well as between states and regions. Moreover, a World Bank² study found the fiscal decentralization system vulnerable to corruption due to a weak control environment, limited budget comprehensiveness, and lack of transparency.

Initial interventions by development partners on PFM reform have been limited in scope and focus on the Union level – and there have been none in the states and regions. While development partners have a limited understanding of the actual needs for technical support to the government's PFM reform agenda, it is clear from recent reports and studies, as well as from a range of

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consultations with government agencies at both national and state and region levels by The Asia Foundation, MDRI-CESD, and VNG International that a large demand for capacity building exists in the states and regions.

Building on the continuing collaboration between The Asia Foundation and MDRI-CESD to provide policy-oriented research on subnational governance and fiscal decentralization in Myanmar, the Foundation and MDRI-CESD partnered with VNG International, who has significant technical expertise in capacity building for local governments worldwide, to design and conduct three-day trainings on PFM in four regions and states.

NEEDS ASSESSMENT AND TRAINING PROGRAM DESIGN

The needs assessment training, carried out in May 2014, consisted of a literature review, interviews with state and region government officials and stakeholders, and working sessions with state and region budget officers. Based on findings from the assessment, a pilot training program was designed broadly to develop awareness in five distinctive areas of public financial management: (1) characteristics of government from a financial perspective; (2) fiscal decentralization; (3) strategic priority-setting; (4) revenue collection; and (5) results-oriented budgeting.

The PFM trainings were delivered in July 2014, with each training topic structured to include an introductory overview of best practices from the European Union cross-referenced with Myanmar's practices. This was followed by questions from the participants, after which they worked in groups to prepare presentations comparing the situation in Myanmar to European best practices.

Training participants were nominated by the state and region governments, targeting staff responsible for budgeting, planning, and revenue collection. The trainings, which were implemented in Shan State, Tanintharyi Region, Ayerwady Region, and Bago Region, substantially confirmed the assessment findings, and revealed broad areas requiring development and capacity building.

KEY FINDINGS

The Myanmar budget cycle focuses almost exclusively on financial control, while key planning tools – the Strategic Plan, Medium Term Budget Framework, and Multi-Annual Budget – are almost entirely absent.

An effective budget cycle transforms a policy goal into a Strategic Plan, which is then translated financially into a Medium Term Budget Framework from which a Multi-Annual Budget can be developed. A budget narrative describes policy goals, activities for implementation, expected outputs/outcomes, and measurements that gauge the level of success in reaching the formulated policy goals. These key planning tools are almost entirely missing from the Myanmar budget cycle.

In contrast, financial control is relatively well-developed when it comes to detailed transactions-level documentation, though cost control of programs remains weak due to limited information.³ The result is a budget cycle which focuses almost exclusively on financial control and dedicates little or no attention to policy-based budgeting and efficient delivery of services.

Training participants appeared to have limited pre-existing knowledge of key tools and techniques for public financial management, though interest and engagement was high, especially on the topic of strategic priority setting. This session involved an intensive group assign-



ment in which participants, guided by training team members, developed and presented a strategic plan for a ministry or department of their choice through a step-by-step analytical process: conducting a SWOT-analysis, developing and ranking critical issues, converting critical issues into goals, determining objectives and activities for goals identified. Participants overwhelmingly rated strategic priority setting as the most useful of all sessions conducted. However, during the training session on results-oriented budgeting, participants were much less able to engage in a critical analysis of Myanmar's budget system as it compared with key features of program budgeting.

Understanding of fiscal decentralization, intergovernmental fiscal relationships, and the principles which underpin equitable grant-distribution appears to be low or non-existent. Government officials interviewed for the assessment displayed little or no knowledge of intergovernmental fiscal relationships. None expressed concern about the existing allocation mechanism, in which the Union Financial Commission decides, on a year-to-year basis, the amounts to be disbursed to states and regions, and none had considered reforms that might make the system more objective, transparent, and predictable.

Training participants were also found to be the least knowledgeable about and least capable of engaging on the subject of fiscal decentralization. Training participants understood the importance of an objective and transparent mechanism in determining the total funds available for vertical decentralization. With regard to horizontal decentralization, however, most participants did not recognize the value of reducing the influence of personal connections and/or political affiliation by introducing an objective and transparent allocation

mechanism. Specifically, participants appeared unable to appreciate conceptually the differences between the existing allocation mechanism, in which the Union Financial Commission decides how much money will be transferred to each state and region, and an objective and transparent formula-driven mechanism.

Local tax policy and administration is underdeveloped, and states and regions have little incentive to enhance the local revenue base. Revenue-raising powers are assigned by the 2008 Myanmar Constitution to various levels of government, but there exists no clear legal framework that determines the exact kind and scope of resources to which states and regions are entitled. While it was not possible in the course of this assessment to gauge the effectiveness of actual local revenue collection efforts, previous research is unequivocal: local tax policy and administration is underdeveloped.⁴ Moreover, states and regions have little incentive to enhance the local revenue base as long as they continue to receive budget-deficit funding and submit mid-year supplementary budget requests to cover overruns of expenditure and shortfalls in revenue collection.

The low priority state and region governments assigned to improving local revenue collection was confirmed in the trainings, as no state and region revenue collectors attended the training programs, while several representatives from de-concentrated Union revenue branches did attend the course. While participants demonstrated considerable interest on the subject of taxation and engaged in long and lively question-and-answer sessions, most questions focused on taxes collected exclusively by the Union and how Union-collected revenues are handled in other countries. Not a single question was raised related to the primary purpose of the training session: improving revenue collection at the state and region levels.

KEY RECOMMENDATIONS

The assessment and pilot training program identified substantial areas for improvement at both Union and subnational levels. Broadly speaking, the Union can improve and clarify the institutional legal framework for decentralization; states and regions can introduce tools and measures for improved priority-setting, financial management, and local revenue collection.

Conduct further research: While the assessment resulted in a better understanding of existing financial management tools and procedures, further research and more in-depth analysis are needed.

Two areas that require further research are the effectiveness of revenue collection and the adequacy of the legal framework for state and region financial management. The study of the effectiveness of revenue collection should cover the following components: (1) overall organization and staffing; (2) knowledge of the applicable legal framework; (3) ability to produce complete and accurate tax bills; (4) creating awareness among citizens; (5) collecting data and registering tax payers; (6) preparing and sending tax bills; (7) collecting amounts due; (8) handling taxpayer complaints; (9) collecting outstanding dues from defaulters; (10) financial registration; and (11) reporting to the executive and Hluttaw, or parliament.

Raise awareness on key components of PFM:

Development partners and NGOs should work to raise the level of awareness regarding different modalities for intergovernmental fiscal relationships, particularly among relevant budget and planning officials within state and region governments.

Additionally, PFM programming for the states and regions may wish to focus on the implementation and effective use of: (1) A policy-based Strategic Plan; (2) a Medium Term Budget Framework; (3) a Multi-Annual Budget; (4) Techniques to integrate the Strategic Plan with the Multi-Annual Budget.

Provide training and/or mentorship to key representatives in the states and regions:

In order to prepare state and region governments to engage meaningfully in future discussions on all levels, including with the Union Financial Commission, training and mentorship should be provided to key representatives, including Chief Ministers. Such programming should be conducted with the goal of supporting the eventual development of a formula-driven intergovernmental fiscal transfer system, based on objective, transparent, and equitable criteria.

The Asia Foundation is a nonprofit international development organization committed to improving lives across a dynamic and developing Asia. Headquartered in San Francisco, The Asia Foundation works through a network of offices in 18 Asian countries and in Washington, DC. Working with public and private partners, the Foundation receives funding from a diverse group of bilateral and multilateral development agencies, foundations, corporations, and individuals.



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¹ States and regions are constitutionally equivalent. States cover areas with large ethnic minority populations and are located along Myanmar's borders. Regions encompass majority "Burman" areas.

² Union budget laws 2013-14, as published in *Union Government Gazette*.

³ World Bank (2013). *Republic of the Union of Myanmar, The Public Financial Management Performance Report*.

⁴ MDRI-CESD and The Asia Foundation (2013). *State and Region Governments in Myanmar*.