

# COVID-19 IN MYANMAR: REORIENTING THE BUDGET

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## INTRODUCTION

Plans, priorities and public finances must be revised to ensure the Covid-19 virus is contained and the negative impacts of the virus are minimized. The government is responding but the impacts of the pandemic and containment measures are far reaching.

New risks have emerged, and many plans, approved by the hluttaw in September 2019, are no longer feasible and may even be dangerous. Government revenues have been impacted by the changed business environment and by government regulation. Essential government entities that rely on own source revenues will require Union government support to continue.

Funding for response efforts may be found in cancelled government activities and additional borrowing. Government officials will need to use the full flexibility allowed by the financial management framework to respond quickly. The scale of changes to the budget will likely require an additional supplementary budget.

How the government delivers support to people will determine the success or failure of containment measures. The government's commitment to ensuring access to food and medicine should be applauded- though cash may be more efficient.

## WHY IS A MAJOR REPRIORITIZATION REQUIRED?

New tactics will be required to achieve the goals of Myanmar's Sustainable Development Plan. Covid-19 and the government response changes the efficiency and effectiveness of government operations.

## WHY REPRIORITIZE?

The Covid-19 pandemic has caused governments around the world to revise their budgets. France, Korea, Japan, the UK and the United States have all passed supplementary budgets in response to the crisis. Indonesia announced a halt to non-urgent spending to free resources for relief efforts. In Australia, the annual budget was deferred as estimates of future revenue and spending were considered too unpredictable.<sup>1</sup>

Myanmar has recently submitted the 2019-2020 Union Supplementary Budget Allocation Bill to the Pyidaungsu Hluttaw. This budget will increase spending by MMK 2.6 trillion but there has been little reprioritization or additional funds to respond to the Covid-19 pandemic.<sup>2</sup>

The Covid-19 pandemic requires a major adjustment in Myanmar's budget. Funding should be transferred between government ministries and departments and from the Union to sub-national governments to reflect new priorities.

In the current circumstances, many of the goals and ambitions of Myanmar can only be achieved if Covid-19 is contained. Some sectors, such as tourism, private sector development, and even education, will not be as efficient or effective during this pandemic as they would be in normal circumstances.

A shift in effectiveness and efficiency should lead to a shift in priorities. Long term goals may remain the same but the path to achieve these goals has changed. The Union government has already provided additional funding of MMK 300 million for the Ministry of Health and Sports in recognition of increasing health needs.<sup>3</sup> While this is a positive step, a government-wide reprioritization effort is required.

Cancellation or deferment of activities that are deemed to be risky or less effective frees up financial and human resources to be directed toward pressing needs. However, government should be mindful that cuts in spending in some areas can generate further economic hardship. For example, a cancelled or postponed construction project can hurt businesses and their employees.

On the revenue side, the macroeconomic considerations that underpin fiscal policy goals have changed. Early action to protect people and the economy from the impact of Covid-19 will provide both short- and longer-term returns. The International Monetary Fund (IMF) put it rather bluntly, “the priority for governments and the global community is to prevent people from contracting the disease and to cure those who do.”<sup>4</sup> Countries that were following prudent macroeconomic targets need to ensure the Covid-19 response does not suffer from a lack of funding— even if that means relaxing or suspending budget deficit and borrowing targets.

## REVISING WORKPLANS

**A good place to start reorienting the budget is reconsidering planned activities in light of new and emerging risks. Cancelling or postponing impractical activities will free resources for the Covid-19 response.**

## REVISING PLANS AND MANAGING RISK

Effectively responding to Covid-19 requires a whole of government approach. Every department must interrogate its planned activities and decide which activities can and should continue, considering new risks and restrictions. Government will need to consider risks to their activities and their staff as well as the risks imposed on people accessing government services and the challenges facing the private sector.

## MANAGING PUBLIC SECTOR RISK

New risks have emerged, and some plans that were low risk are now dangerous. For example, any activity that involves travel poses a serious risk of spreading the virus. The State Counsellor has instructed government to cancel all non-essential travel and large meetings. These instructions have budget implications and will require government ministries and departments to revise expenditure plans. Government planners will need to reconsider training, monitoring and evaluation, and coordination activities and modalities. Many planned training events have already been cancelled. As monitoring and evaluation exercises will be difficult to carry out, an assessment must be made if remote monitoring and evaluation can be implemented or if projects should be delayed. Myanmar’s bottom-up planning process involves coordinating project proposals from township to district and state or region levels. This process has typically involved a lot of travel, which should be reconsidered. Government ministries and departments must reassess their workplans and weigh up the risks posed against benefits to decide if activities should continue, be delayed or cancelled altogether.

## MANAGING RISKS TO THE PUBLIC

What may be less obvious to government planners are the risks to users accessing their services. Where citizens travel or queue to access a service, this poses risks to users and the wider community. The government can respond with both regulatory changes and by changing practices. Some regulations can be amended and relaxed. Licenses and

permits which are due to expire can be extended through public notice until it is safe to travel and congregate. Limits can be imposed on the number of people who can access a service per day. Some government departments have responded by moving services online. The Department of Trade has launched online services for import and export licenses.<sup>5</sup> The Myanmar Investment Commission has also launched an online application process for emergency loans to small businesses.<sup>6</sup> All government ministries should look to move services online where possible. Where the risks of imposed crowding and traveling are not considered, citizens may choose to avoid accessing government services entirely.

## PRIVATE SECTOR RISKS

Private companies that provide goods and services to the government are also facing new risks and challenges. Where companies cannot deliver on contracted goods and services, government expenditure plans are affected. The economy-wide slowdown as well as increasing government restrictions has forced many companies to fold or suspend production. Supply chains and the movement of people has been restricted as government closes borders and enforces containment measures. Myanmar has closed all land borders to foreigners. Trade with China, India and Thailand has been disrupted.<sup>7,8,9</sup> Many manufacturing plants have closed due to shortages of input goods.<sup>10</sup> Companies will face the prospect of growing rates of absenteeism. With schools closing, movement restricted and a higher likelihood of illness, workers have increasing obligations to provide care, interfering with work commitments. Government planners must be in regular contact with private contractors to determine the risks and likely impacts on their ability to deliver awarded contracts and revise their budgets accordingly.

### Recommendations

- Government ministries, departments and State Economic Enterprises (SEE) must interrogate their workplans, considering new and emerging risks. Government planners should assess risks given scenarios such as: high absenteeism, closure of borders, economic slowdown and the impact on private sector suppliers.
- Government ministries, departments and SEEs should assess risks to health and safety. This should include risks to government employees, persons accessing government services and the wider community.
- Government planners need to be in regular communication with suppliers and must revise budgets based on the changed operating environment.

## WHAT RESOURCES CAN THE GOVERNMENT WORK WITH?

**Government revenues have already been impacted. When ministries, departments, SEEs and municipal authorities have revised their estimated revenues, the government will have a clear picture of the resources at hand. As the government considers the impact on revenue, attention should be paid to entities which rely on own revenues. These entities may require Union government support in order to maintain operations.**

## ESTIMATING IMPACTS ON REVENUE

Government revenues around the world are declining due to the pandemic. This impacts the national budget as well as smaller revenue lines accruing to government ministries, states and regions and municipal authorities. If the impact on all revenue streams is not considered, Myanmar's response to Covid-19 may be cramped.

Around the world, sub-national governments and municipalities have been pivotal in managing the Covid-19 response. Sub-national governments are important as infection rates are strongly determined by geography, centering on cities and specific regions. Sub-national and municipal governments are also important because of the role they play in the non-medical response. These governments are responsible for managing sporting events, markets, places of worship and domestic borders, with these responsibilities critical to effective quarantine and social distancing.<sup>11</sup> Township committees, City Development Committees (CDCs) and Development Affairs Organization's (DAO's) have

been responsible for building quarantine facilities, closing markets and administering border checks.<sup>12</sup> The actions of these municipal authorities are helping to protect all of Myanmar. Facing increased responsibilities and spending while revenues decline, it will be imperative that the Union government ensures the operations of DAOs and CDCs are not hampered by shrinking budgets. Municipal authorities are normally funded by a combination of own revenues and transfers from state and region governments. As only the Union government can manage the large financing requirements of the Covid-19 response, the Union government should explore new financing options, including direct financing to DAO's and CDCs that may be more severely impacted by Covid-19.

DAO's<sup>13</sup> as well as the Yangon City Development Committee (YCDC) and the Mandalay City Development Committee (MCDC) are largely reliant on the revenues they collect. For example, Hpa-An DAO received only 6.1 percent of its revenue from state/region or Union sources and 76.2 percent of its revenue came from licenses.<sup>14</sup> These revenues are likely to suffer from the general economic slowdown and more specifically from restrictions imposed by the government as part of the Covid-19 response. Auctions of licenses will fetch lower prices as businesses become less profitable or are prevented from operating. Wheel tax and traffic fines are set to decline as travel becomes increasingly restricted and borders close. Some administrative issues are causing governments to put collection efforts on hold. Citing health and safety concerns, YCDC has already suspended the collection of parking fines.<sup>15</sup>

Revenues are being impacted by a reduction in economic activity. The World Bank has estimated Myanmar's growth in GDP will slow from 6.3 percent in 2019 to 3 percent in 2020.<sup>16</sup> A survey of Micro, Small and Medium Enterprises in Myanmar found that 54 percent of responders have had their employment recently ceased.<sup>17</sup> Governments are also changing tax policies to stimulate the economy, which will either reduce or delay tax receipts. The Myanmar government has extended the due date for quarterly income and commercial tax payments to the end of the financial year. A two percent advance income tax on exports has also been lifted.<sup>18</sup> Because of the economic impact and the measures to address them, current revenue forecasts and the methods to forecast revenue may no longer be valid.

To compensate for lost revenues, the government may be forced to increase borrowing. New borrowing options are likely to become available. In a strong statement of support, the IMF has pledged, "what we want is to guarantee that people are not going to die because of a lack of money".<sup>19</sup> To fully estimate the amount of borrowing required, the government must first estimate the funds freed up by the delay or deferral of planned activities, the likely reduced government revenue and the amount of money required to fund new programs.

## Recommendations

- The impacts on DAO's, CDC's and state/region governments' revenue should be considered, as well as the important role they will play in the response.
- Novel financing methods should be investigated. Direct funding to the worst-affected townships and states and regions may be required.
- Government ministries, departments and SEEs should revise revenue estimates. Government entities which subsist on own-source revenues may require Union government support.
- Macroeconomic targets should be reassessed, considering the long-term implications of an underfunded response and the availability of new concessional borrowing options.

## WHAT NEW SPENDING IS NEEDED? HOW SHOULD THE GOVERNMENT DELIVER ASSISTANCE?

Meeting people's basic needs is essential. Tools are available to deliver a cash-based response.

## DELIVERING A COVID-19 RESPONSE

While the health response is important, welfare has become an essential tool for governments responding to the current pandemic. Recent protests in India<sup>20</sup> and the Philippines<sup>21</sup> show that quarantine and social distancing are only possible where basic needs are met. The government has already demonstrated a consideration of the importance

of a welfare response. The State Counsellor recently entrusted the Covid-19 Prevent, Control, Treatment Committee with ensuring persons and communities facing quarantine are supplied with adequate supplies of food, water and medicine.<sup>22</sup>

People have complex needs: though a family may have adequate food, water and nutrition, their most pressing need could be sanitation, shelter or communication. For this reason, many countries have opted to provide households with cash rather than direct provision of goods. A total of 54 countries have turned to cash-based solutions to provide for vulnerable people's welfare during the Covid-19 pandemic.<sup>23</sup> While Myanmar does not have sophisticated financial systems that some other countries have utilized to manage the welfare response, it can and is using other tools at its disposal.

In recent years, Myanmar has had an incredible uptake in mobile phone usage; mobile cellular subscriptions are now 114 for every 100 people.<sup>24</sup> Mobile banking has been operating in Myanmar since 2013.<sup>25</sup> Acknowledging the important role this technology can play in supporting people in need, the Central Bank of Myanmar raised transaction limits for mobile banking from MMK 500,000 to MMK 1,000,000.<sup>26</sup> Microfinance institutions may also offer an avenue for distributing cash payments to those in need. In July 2019, the Myanmar Microfinance Association estimated there were 3.4 million microfinance recipients in Myanmar.<sup>27</sup> Social protection programs are another possible avenue as these programs have already identified needy households. One major social protection program currently being scaled up across Myanmar, the Maternal and Child Cash Transfers for Improved Nutrition, is expected to reach 678,000 beneficiaries with a total of 12,748,000 indirect beneficiaries.<sup>28</sup>

## Recommendations

- Cash is a more efficient and effective welfare response than the direct provision of goods.
- Wide mobile phone usage, microfinance networks, social protection programs and recent changes to mobile banking can assist in a cash-based response.

## FOLLOWING UP: HOW CAN THE GOVERNMENT REPRIORITIZE?

**The government's response needs to fit within the financial regulatory framework. The constraints and processes outlined in laws and regulations must be considered in managing the response.**

## MANAGING GOVERNMENT FINANCES

The management of government finances might not be the first thing that is thought of in an emergency response but if the government does not manage its finances well, the emergency response can grind to a halt.

Managing government finances should always begin with a plan; this is true even in an emergency. A clearly-defined response that outlines the types of measures, the budget and a timeframe helps those responsible for implementing government's plans begin to act. Clear communication is also important for accountability. Even where response measures are rapid, the public should be informed of the type and size of response. New measures can be outlined in a supplementary, revised or emergency budget, or they can simply be detailed in a speech and press release. Rapid, simple public communication should also be used when employing contingency funds. Each state and region government has been appropriated MMK 1 billion in contingency funding (sometimes referred to as emergency funding). State and region governments are in the process of accessing these funds for the Covid-19 response. Informing the public about how these funds will be used helps demonstrate the responsiveness of the government and improves planning and accountability.

Accounting also has a role to play in the response. Creating new accounts and new accounting codes specifically for the Covid-19 response can greatly assist accountability and monitoring. The government has established fundraising committees and has been collecting donations from individuals and businesses to help fund the Covid-19 response.<sup>29</sup>

Once donated, these funds are public money and should be treated accordingly. Government accountants and auditors should assist response committees to follow government accounting, reporting and audit practices. This will help to assure external funders that dedicated funding can be traced and accounted for.

Responding to a crisis such as Covid-19 is not normal for civil servants involved in budgeting, procurement, accounting and audit. While legal frameworks often include clauses that allow for normal processes to be relaxed or lifted, many civil servants would not be familiar with these options. The Ministry of Planning, Finance and Industry (MoPFI) and the Auditor General's Office can assist these officers by producing consolidated guidance on how to use some of the more obscure options permissible under current guidelines and legislation. For instance, the Auditor General's Office might issue guidance on justifying single source procurement due to the time sensitivity of the response. Where normal processes are circumvented, additional reporting is required to ensure overarching planning, budgeting and accounting principles are upheld. MoPFI and the Auditor General can assist budget offices, accountants and auditors by drafting templates to guide new reporting requirements.

The 2017 Regulations on Financial Management of Myanmar provide some scope for budget flexibility. Ministries and departments can transfer or 're-appropriate' surplus funds in current budgets<sup>30</sup> from one account head to another. This flexibility is limited. Transfers are not allowed between the current account and the capital account<sup>31</sup> and the funds cannot be used for new expenditures. Where budgets are underspent nine months into the fiscal year, funds that are unlikely to be used are drawn into an account named the General Reserve Fund (GRF). These funds can be re-appropriated but cannot be used for new projects. Funds from the GRF, especially those in the current account may present an opportunity for responding to pressing needs.

At the Union level, MoPFI has a greater degree of flexibility and can re-appropriate funds between capital accounts and current accounts. It can also transfer funds between Union ministries and departments and allocate funds for new expenditures. State and region governments have a similar degree of flexibility— though any re-appropriation process is more drawn out and cumbersome.<sup>32</sup>

Due to the scale of the reprioritization required, a second supplementary budget is justified. The language of the 2017 Regulations on Financial Management makes it clear that transfer of funds should only be used to facilitate regular day to day surpluses and deficits. A nationwide reprioritization will require an additional supplementary budget unless normal budget processes are suspended.

The Regulations on Financial Management do not allow large scale transfers of funds between ministries and departments or between levels of government (from Union to state and region). The regulations also do not allow for major adjustments to the national budget (overall large changes to borrowing, revenue and expenditures). In order to facilitate these adjustments, a second supplementary bill should be prepared with wide ranging revisions to the initial 2019-20 Budget Law.

## Recommendations

- All government announcements related to the emergency response should include estimates of budget, timeframes and specify implementing agencies.
- Guidance for budget officers, accountants and auditors should be developed to ensure full use and adherence to the 2017 Regulations on Financial Management.
- New dedicated Covid-19 response accounts and accounting codes should be developed in order to guarantee oversight and monitoring of funds.
- While budget departments should use existing budget flexibility to respond to Covid-19, a supplementary bill is also required.

## ENDNOTES

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