

**Abstract:** Although Myanmar seems to be experiencing a rapid economic and political transition, Myanmar is facing many challenges in its reform operations. After many years of official development assistance, Myanmar is receiving much assistance from international countries and organizations as it undergoes a historic transformation toward democracy, a market economy, and peace and stability. Among them, there are about forty-eight projects from the World Bank, fifteen investment projects from ADB, and twenty-five projects from JICA. The main issue is how to implement those projects in effective and efficient ways to achieve projects' targeted indicators and sustainable development for Myanmar. There are many problems in implementation of these projects, mainly arising from poor financial management and procurement, requirements of laws, rules and regulations, and unclear procedures in the approval process for implementation. Given a more difficult institutional capacity issue, Myanmar needs to ensure that its scarce resources are used efficiently and productively to address development challenges and generate sustained growth. Definition of public financial management underlies all government activity and literature of a sound public financial management system that allows the government to make best use of its resources to improve quality of life in society. The author attempts to develop a better understanding of the existing PFM system in Myanmar by analyzing the current system using the dimensions of the World Bank public expenditure and financial accountability (PEFA) and IMF's code of good practices on fiscal transparency. The study seeks to answer the question: how can the public financial management (PFM) capacity of government organizations in Myanmar be strengthened? It is hoped that this study will inform the government organizations of Myanmar on the ways to improve its public financial management to implement its mission effectively and efficiently.

**Key Words:** Public Financial Management, Myanmar

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## **I. Introduction**

The aim of strengthening financial management in the public sector is to manage limited resources and ensure economic efficiency in the delivery of outputs required to achieve desirable outcomes serving the needs of the community. Accelerating the pace of activities and disbursement, delegating administrative and financial power, ensuring a greater level of ownership, and monitoring reform activities and results are very important factors to successful reform. At this point, the government has committed to implementing PFM reform in Myanmar beginning in 2012. Myanmar completed the first assessment on Public Expenditure and Financial Accountability (PEFA) in 2013. Based on the results of the assessment, Myanmar set its PFM strategy and implemented PFM reform through

collaboration with international organizations. Nevertheless, after living isolated and undeveloped for many years, the country's development agenda is challenging because there is limited capacity in public institutions to implement its reform agenda. According to the UNDP Human Development Report in 2016, Myanmar's 2015 HDI was 0.556, below the average of 0.631 for countries in the medium human development group and below the average of 0.720 for countries in East Asia and the Pacific. Moreover, given the limited resources and huge spending needs, Myanmar is facing a challenge to ensure debt sustainability and maintain a budget deficit "no greater than 5% of the GDP." Therefore, Myanmar's public financial management system is struggling to implement its reform agenda and many development projects. Going forward, the country's economic opportunities lie in its strategic location within a large regional and global export market, vast untapped natural resources, and the improving prospects for trade, investment, and development aid as it re-engages with the wider international community. In order to fully exploit these opportunities, a number of critical challenges need to be overcome. These challenges include weak institutions, a poor business environment, a huge infrastructure need, and inefficient public service delivery regarding institutional capacity, policy, strategy, and related laws. Therefore, to overcome all these challenges, the priority is to improve PFM in Myanmar. However, the central question is how PFM should be strengthened. The purpose of this study is to find a way to strengthen PFM in Myanmar by analyzing the existing PFM system. The methodology of the study will focus on reviewing the 2013 Public Expenditure and Financial Accountability (PEFA) assessment and its impact on the current PFM system as well as analyzing the existing PFM system of Myanmar with IMF's code of good practices on fiscal transparency, reform challenges and the donor's recommendations on project implementations combination, with literature review on good governance practice in the PFM system. Thus, a review of relevant documents will be undertaken, including the original PEFA assessments, documentation on public financial management reform programs, PFM diagnostics conducted by development partners, and other donor PFM program review documentation. As a result, this paper will suggest how to strengthen the capacity of institutions in the PFM system. The structure of the study includes five parts: (1) a description of Myanmar's background and the PFM system, (2) a literature review on strengthening the Public Financial Management system, (3) a review on main findings of the 2013 PEFA assessment, (4) an analysis of the current PFM system, and (5) some suggestions for strengthening public financial management in Myanmar.

## **II. Chronological background of PFM reform and the PFM system in Myanmar**

### **II.1 Chronological background of PFM reform**

Myanmar covers an area of 676,578 square kilometers and has a population of about 52.89 million people from more than 135 different ethnic groups. According to the World Bank 2016 data, Myanmar is an emerging economy with a nominal GDP of 67.43 billion USD, GDP growth of 6.5% and per capital GDP of 1,275 USD. After decades of military rule and ethnic conflict in Myanmar, a civilian administration was sworn in on March 30th, 2011 following elections that were held in December 2010. The new government immediately embarked on a range of political and economic reforms aimed at attaining national reconciliation, good governance, and economic development. A year after a series of politically liberalizing measures, the previous government and President U Thein Sein started a "second

stage of reforms” that focused on the social and economic transformation of the country and developed a Framework for Economic and Social Reform (FESR) in consultation with senior officials of various ministries and departments of the government in May 2012. Also, the government established seventeen sectoral working groups to implement the respective reform program under the FESR. MOPF plays a leading ministry role during PFM reform by collaborating with the WB, IMF, JICA, USAID, DFID, DFAD and multi-development partners. The existing government of President U Htin Kyaw and State Councilor Daw Aung San Suu Kyi laid out a 12-point state economic policy on August 2016 that aims to set an economic framework for proper conservation and allocation of natural resources among regions. The objectives of this new economic policy are to attain continuous progress that is people-centered and all inclusive, and to support national reconciliation. The government’s commitment to having transparent and effective PFM is included as the first point of the state economic policy: “expanding our financial resources through transparent and effective public financial management.” Moreover, in order to ensure national ownership of the development process and to utilize the development assistance efficiently and transparently, the government has organized the Development Assistance Coordination Unit-DACU led by the State Counselor. Ten Sector Coordination Groups under the DACU were also organized for implementing and supervising the development assistance by the application of 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 made.

Key PFM reform included discussion of the budget in Parliament for the first time, publication of the budget, adoption of a more liberal exchange rate policy, relaxation of trade restrictions, and rationalization of tax rates. Moreover, the constitutional requirement for separation of regional and state budgets from the Union fund accounts has required rapid decentralization of budgeting and planning functions to support bottom up planning and budgeting processes in states and regions for fiscal decentralization. Some aspects of governance at the central level have improved. The government has made efforts to improve transparency, with the national budget being presented and debated in Parliament for the first time in 2012 and subsequently published in national newspapers. The government established a Financial Commission and Planning Commission, which undertook a significant de-concentration of budgeting and planning functions. As a result, there is enhanced external scrutiny and oversight by Parliament over the budget. Restrictions on media have been lifted, leading to greater coverage previously-sensitive topics such as corruption. Even though budget classification is not in line with international standards, it is consistent across various ministries and departments. Systematic reporting exists by ministries and state economic enterprises to the Ministry of Planning and Finance and, so that such reports are cross checked for accuracy, with the CBM, the MEB, and MFTB. The external audit function is established, financial audit coverage is high, agencies respond to audit opinions, and the newly established Joint Public Accounts Committee of Parliament establishes an appropriate forum for discussing audit reports and budget bills.

## **II.2 PFM system in Myanmar**

### **II.2.1 PFM legal framework**

As of 2011, much of the PFM system is practice-based and operates without the benefit of foundational laws (such as an organic budget law, procurement law, or public information law). Moreover, the system uses 1986 financial rules and regulations and the new constitution of 2008. The new constitution of 2008 introduced a federal structure of 14 states and regions with separate budgets and funds. Therefore, in Myanmar there is one union budget as well as fourteen state and regional budgets. The constitution (paragraph 11) establishes the executive, legislative and judicial branches of

government and requires that each shall each serve as a check and balance on the others. The Union Fund makes grants to state/region funds (paragraph 12) to empower state and regional governments through their own parliaments. Due to PFM reform, existing PFM related laws and regulations include the 2008 constitution, 2015 union taxation law, 2015 public debt management law, 2015 Myanmar Accountancy Council law, 2017 procurement guidelines, and 2017 financial management regulations.

### **II.2.1 Budget structure and administrative framework**

Due to the system of parliamentary and fiscal decentralization started in 2011, Myanmar has a union government, seven regional governments, and seven state governments; consequently, there is one union budget, seven regional government budgets, and seven state government budgets. This budget structure is supported by having one Union Fund account and fourteen regional and state fund accounts to manage their respective government budgets separately. At the union level, the budget covers 24 ministries, 104 departments, 35 state economic enterprises, 11 state administrative organizations (SAOs) and the Nay Pyi Taw Council, resulting in a total of 171 spending units. The Ministry of Planning and Finance (MOPF) is the ministry responsible for resource allocation by preparing the annual government budget approval parliamentary approval as well as for distributing and executing the approved budget. There are 22 agencies under the MOPF. Among them, the Budget Department and Planning Department are core institutions for the budgeting process. The Budget Department is responsible for preparing the annual budget, supplementary grant budget, Union Budget Law and Union Supplementary Appropriation Law for submission to the Financial Commission, the Cabinet and the Parliament. The Planning Department is responsible for the planning process and the preparation of the capital budget. The Internal Revenue Department is the main agency for tax collection and assisting with taxpayers' services. The Myanmar Economic Bank (MEB) provides commercial banking services as well as development banking services to both the public and private sectors. The government's State Fund Account is located at MEB, and all government agencies need to open their respective agency account at MEB in order to fund their expenditures and to collect revenue. The Treasury Department is responsible for cash and debt management and reporting financial statements by collaborating with MEB and Central Bank of Myanmar (CBM). CBM stands independently from the MOPF, and the government deposit account is located at CBM. CBM plays the role of an issuer of domestic currency and a banker to the government, an adviser to the government in respect of economic matters, an inspector and supervisor to the financial institutions, and a banker for the financial institutions. One problem in administrative structural change by Myanmar is that some ministries are merged and restructured with some new units, yet there is not much change in performance.

### **II.2.3 Budget Preparation**

Myanmar's fiscal year normally starts on the 1st April and ends on the 31st March; however, the upcoming 2018 fiscal year will instead be from the 1st October to the 30rd September. For the fiscal year from the 1st April to the 31st March, the budget preparation process usually takes place from July to October, meaning that preparation for next fiscal year budget begins 3 months after the current fiscal year starts. Budget preparation includes medium term fiscal framework (MTFF) forecasting, budget formulating, and issuing budget calendar; the preparation is shared between the Budget Department, Planning Department, Treasury Department, Central Statistic Organization, Central Bank of Myanmar, and Ministry of commerce, with preparation of both strategic plans and economic targets and developing the budget by exercising MTFF. On behalf of the Ministry of Planning and Finance, the Budget Department prepares and submits the guidelines for budget requests, including ceilings by the MTFF to the Cabinet for approval. The budget calendar is issued around first week of September, six months before the start of the next fiscal year. According to deadline for budget submission, line

agencies usually get less than one month to prepare their budget proposal and submit to the MOPF. The problem with this is that the MOPF can issue a budget calendar around September, so ceilings and spending agencies have only two or three weeks for their budget preparation in order to submit on time to the MOPF. The spending agencies need to get enough time for effective and comprehensive budget preparation and submission with acceptable justification.

### **II.2.2 Budget Scrutinizing**

Budget scrutinizing takes around three and half months, and it usually runs from October to mid-January. This process includes scrutinizing the Budget Department for recurrent budget and Planning Department for capital budget, reviewing and discussing both recurrent and capital budget with line agencies by Budget Department, scrutinizing by MOPF, and vetting by Vice Presidents and Financial Commission. MOPF usually submits the budget requests to the Vice Presidents around three months before the start of the next fiscal year. The budgets of the union ministries and union level organizations are to be vetted by a vice-president and the budgets of the region or state are to be vetted by the other vice-president assigned by the President. After scrutinizing by the Vice Presidents, according to paragraph 221 of the 2008 constitution, it requires prior consultation with a Financial Commission before the Union Budget is drafted, and paragraphs 229 and 230 also define the composition and duties of the Financial Commission. The consolidated budget request is submitted to Financial Commission led by the President with vice presidents, the Attorney-General and the Auditor-General of the union, chief ministers of region and states, Nay Pyi Taw council chairperson, and the Minister for Planning and Finance (Union). The financial commission usually takes one month for scrutinizing. The commission considers budget proposals with regard to the Union Budget and from the states and regions. It also considers issues such as the ceiling for taking debt during the year and contributions to be made from the Union budget to the state and regional budgets. The Constitution of 2008 has had important implications for the institutional arrangements and management of public finances. With the recommendation of the Financial Commission, the Cabinet submits the budget request and draft budget law (containing instruction on revenue, expenditure, loan, grant, contingency, contribution to the states and regions and budget) to the Pyidaungsu Hluttaw (Union level Parliament) for approval. A similar problem concerning the time permitted for budget review is that the Budget Department only gets around three weeks to scrutinize all spending agencies' proposal budgets because after receiving submitting budgets from agencies at first week of October, the Budget Department needs to submit results to the Deputy Minister of the MOPF by the fourth week of October. November and December are spent on vetting the budget and resubmitting budget requests from spending agencies according to the decisions of the Financial Commission.

### **II.2.3 Budget Approval**

Pyidaungsu Hluttaw has seventeen budget reviewing groups with representatives from the Pyithu Hluttaw (Upper House) and Amyotha Hluttaw (Lower House) that review budget requests. Upon recommendation from the seventeen budget reviewing groups, the Joint Public Account Committee (JPAC) of the Pyidaungsu Hluttaw scrutinizes the budget request, and the Joint Bill Committee submits their findings to the Pyidaungsu Hluttaw. After being approved by the Pyidaungsu Hluttaw, the union budget bill shall be signed by the president and promulgated as Union Budget Law. After being approved by the respective State or Region Hluttaw, the State and Regional Budget Bills shall be signed by the Chief-Minister and promulgated as State Budget Laws or Regional Budget Laws. For the supplementary budget, the preparation process, scrutinizing process and approving process are presented to the legislature in a manner consistent with the original budget presentation by starting the process at the beginning of September and getting approval from the Pyidaungsu Hluttaw around at the end of

November. The Supplementary Budget Law is then signed by the President. A main challenge is the capacity of the budget reviewing groups and the fact that JPAC has limited time to scrutinize the budget and raise comprehensive findings and suggestions. Whether parliament members with different educational backgrounds can ask the right questions and propose reasonable suggestions to requested budgets in that time is also of concern.

#### **II.2.4 Budget Execution**

According to the approved Union budget law, the Budget Department issues the Budget Sanction (the amount of budget each ministry can disburse from the Union Fund Account) to the line ministry. For executing the Union Budget, each spending unit maintains at least one bank account in one of the MEB's 324 branches called the drawing account. After receiving the budget sanction, the spending unit can start withdrawing by opening a drawing limit account (DL) for the whole year at the MEB. After receiving the budget sanction, the State Economic Enterprises (SEE) can open the SEE Account at the MEB for receiving subsidies from the union budget. They also have their Other Account (OA) under the Union Fund Account (UFA) at the MEB for their own revenue and expenditures because according to the new SEE financial system started between 2015-2016, SEEs need to finance their recurrent expenditures, except for production costs, administrative costs, distribution costs and research expenditures. The payment system is centralized by the MEB. The MEB maintains a Union Fund Account (UFA) for making receipts and payments of all union level agencies, including SEEs, Development Committees, SAOs, Ministries and Departments, Other Accounts, Revolving Funds, and Sub-Treasury accounts. At the central level, the Treasury Department is responsible for managing the consolidated account of the government, called the "Government Deposit Account," which is held at the CBM. The Treasury Department carries out accounting, reporting and debt management functions with using the combined efforts of the Budget Department, MEB, and CBM. The CBM maintains a Government Deposit Account for making debit and credit of subsidies for state and regional governments, SEEs contributions, treasury bonds/bills issuance, and repayment, redemption, renewal and surplus or deficit of UFA. Based on the debit and credit situation, CBM finances through the treasury operation. There are considerable off-budget flows with regard to areas such as the fees and charges of service providing bodies. However, this off-budget activity is at least reported in summary form in the financial statements. The main challenge of budget execution is related to ineffective budget planning and preparation of spending agencies and requirements of the MEB underdeveloped banking system. Making a centralized payment system with MEB is effective but largely manual; thus, an underdeveloped banking transition system for the MEB is needed to improve efficiency.

#### **II.2.5 Budget monitoring and reporting**

At the end of the month, each spending unit receives a monthly bank statement in hard copy for each account from their respective MEB branch. MEB consolidates account information for each government bank account (department level) grouped by each MEB branch and submits monthly statements showing inflows and outflows to the CBM, usually two weeks after end of the month. After receiving the statements from MEB, CBM consolidates all this information at the ministry department level. Consolidated Statements 1-6 and Statement 7 (Financial Adjustment) are sent to the TD by the 24th day of the following month. However, there have been consistent delays in sending the Government Deposit Account information. Each spending unit records their daily transactions in the Hta Sa registers. Information maintained in these registers is reconciled at the spending unit level against the MEB's monthly bank statements. At the end of each month, each spending unit submits the reconciled monthly accounting returns (Hta-Sa 6 to 12) to its respective supervising department by the 7th day of the following month. Upon receipt of the monthly accounts from all spending units, the

supervising department verifies the reconciliation records for each spending unit. If any discrepancies are found, the spending unit is informed to make the necessary corrections. The next step is to consolidate all financial information received from the spending units via Hta Sa into the Oo Sa-1 to 13 manual registers. The supervising department's monthly financial reports are prepared into the Sa Ya registers based on the consolidated monthly accounts information from Oo Sa registers. The Oo Sa forms are kept internally in the supervising department. The Sa Ya forms must be submitted to the Treasury Department no later than the 24th day of the following month. Preparation of Sa Ya-1 (Part 1 to 5 such as current receipts, capital receipts and expenditures, debt receipts and expenditures, proof sheet, summary of debt, deposit and remittances) takes between one and two weeks following the receipt of monthly returns from all spending units. In the case of SEE, the information related to SEE banks accounts is provided from the CBM by Statements 1-5. A second level of financial report aggregation takes place in the Treasury Department with manual preparation of the statements Sa Ya-6 (General Financial Statement), Sa Ya-7 (Statement of Surplus or Deficit) and Sa Ya-10 (Summary Statement). The Sa Ya-6, 7 and 10 represent the monthly Union Fund position report, showing aggregated revenues, expenditures, extra-budgetary accounts, cash balances (opening and closing) and surplus/deficit. These reports are compiled by the Treasury and submitted to the Minister of Planning and Finance, with a copy to the Union Auditor General and the Office of the Union Government. Compilation of the Financial Statements for the Government as a whole, including Union and all State/Regional governments, is also the responsibility of Treasury Department.

Each ministerial department, and in case of SEEs, the Minister's Office, is responsible for reconciliation, compilation and submission of their spending units monthly financial reports to the Treasury Department. Ministries are required to prepare monthly revenue and expenditure reports with information provided by spending units, the SEE, and major budget heads. These reports are submitted to the Budget Department by the 7th day of the following month. Likewise, quarterly, mid-year and annual reports are prepared and sent to the Budget Department. Quarterly, mid-year and annual budget reports contain the percentage of budget used, while mid-year and annual reports also include detailed explanations related to the major variances. These reports are submitted to the Minister of Planning and Finance, with a copy to the Union Auditor General and the Office of the Union Government by the budget department. Finally, the ministries are required to prepare Ya Tha Sa 1 reports for submission to the Auditor General Office within 2 months after the account closing date. In this report, revenues and expenditures are reported separately with each major budget head and related minor budget heads on separate sheets. The Ya Tha Sa 1 report is an annual budget execution report showing budget, actuals and variances. All these reports are manually consolidated by the BD. The OAG is responsible for auditing over all the public sector and is also the entity responsible for setting accounting and auditing policy for the public sector and conducts mostly financial audits with some procurement and performance audits. A formal response is provided by ministries to the audit findings within 1 month of receiving the audit opinion. The OAG submits an audit report to the Pyidaungsu Hluttaw usually within 12 months after audited year. JPAC also analyzes the finding report of the Auditor General of the Union concerning the revenues and expenditures of various government departments, and submits a report to the Pyidaungsu Hluttaw. Even though showing time framework for account consolidation and reporting procedure theoretically works well in the financial regulation and instructions, in reality it does not work in the timely manner mentioned above. The main reason is that spending agencies are preparing reports manually; moreover, there is no automation system at MEB to consolidate daily transactions from the Union Fund Account for the whole country government agencies. As a result, CBM cannot consolidate government deposit account information to send to the Treasury Department for preparing a financial report.

### **II.3 Issue findings**

Although the Myanmar budgeting system maintains a good procedure and controlling system, some challenges are still being faced, as mentioned above. In summary, there are two main problems in the budget system. The first problem is a weak strategic framework and timeframe to guide the budget process, and the second problem is the largely manual budgeting process and lack of automation. The consequence of these issues is that budget decisions aggregate and sectoral allocations taken time to process and are issued very late during the budget cycle. These problems are due to the absence of early guidance on government policy framework and priority programs before making plans by the line ministries make ineffective budget preparation as well as implementation, and a further manifestation of the supplementary appropriations within limited time. As a result, the expenditure proposals of line ministries are not presented with adequate justification and institution's strategic development framework within resource availability. The main cause of those problems is the needs of institutional capacities as well system challenges with public financial management (PFM). Therefore, strategic allocation and expenditure efficiency are weak, and consequently public service deliveries are less effective due to weak institutions, requirements for a strategic framework to guide the budget process, use of manual processes, infrastructure needs, under development in the ICT system, and the requirement for a clear strategic vision for all development. The following session reviews the literature on strengthening the Public Finance Management system in order to find ways to improve the PFM system in Myanmar.

### **III. Literature review on strengthening Public Finance Management system**

The aim of financial management in the public sector is to manage limited resources and ensure economic efficiency in the delivery of outputs required to achieve desirable outcomes serving the needs of the community. According to the Organization for Economic Cooperation and Development (OECD 2009), Public Financial Management (PFM) includes all components of a country's budget process, both upstream (strategic planning, medium-term expenditure framework, annual budgeting) and downstream (revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight). The key role of the budgeting system is to ensure fiscal discipline, enhance prioritization for allocation efficiency, and improve public service delivery (PRATAP, 2016). Realistic budgeting, in-year control over spending, and timely accounting and reporting are three main functions of the PFM system (Takumi, 2014). PFM underlies all government activity, including the mobilization of revenue, the allocation of these funds to various activities, expenditure, and accounting for spent funds (Rebecca, Natasha and Imran, 2011). Therefore, PFM is related to country governance and can vary depending on the governance practices. There is a general consensus that good governance rests on "four pillars": accountability, transparency, predictability, and participation. "Accountability" means the capacity to call public officials to task for their actions, "transparency" entails the low-cost access to relevant information, "predictability" results primarily from law and regulations that are clear, known in advance, and uniformly and effectively enforced, and "participation" is needed to supply reliable information and to provide a reality check for government action (Schiavo-Campo and Tommasi, 1999). However, Kaufmann and Bellver (2005) said that governance involves the traditions and institutions by which authority in a country is exercised for the common good; they measure its quality across six dimensions, namely, voice and accountability, governmental effectiveness, control of corruption, political stability and absence of violence, regulatory quality and rule of law. Hartley (2010) recommended understanding the processes of innovation development through "top-down" policy development, "bottom-up" innovation emerging, and "lateral" innovation from good

practice implementation and adjustment. Hartley also pointed out that the innovation is increasingly as much a “bottom-up” and “lateral” process as a “top-down” process.

### **III.1. Strengthening PFM legal framework**

Countries will adopt a new law or modify an existing one to address specific budget-related problems, introduce new budget principles, such as transparency, accountability, fiscal stability and sustainability, and budget performance, or strengthen and clarify the authority of the legislature or executive branch. Before adopting a new law, it is important to ask: “Which budget principles are already covered by law?” (Lienert and Fainboim, 2010). The objective of adopting fiscal rules has been to reduce the fiscal deficit within a range to stabilize the debt ratio at a prudent level and contain the debt ratio over the medium to long term (Kopits and Symansky, 1998). Two key factors that influence fiscal rules in budget management are political commitment and growth performance, and factors like political willingness to accept the constraints play a significant role in maintaining the fiscal rules (Hagen, 2007). Budget system law (all laws pertaining to the national budget system, including Public Finance Acts, Organic budget laws, Public Financial/Administrative Management Acts, Fiscal Responsibility Laws, Public Debt Acts, and External Audit acts) should provide the following framework for well-functioning of PFM: (i) attaining short term macro fiscal stability and medium term fiscal sustainability, (ii) enhancing allocation of budgetary resources, (iii) improving efficiency of spending, (iv) ensuring cash managed optimally, (v) and improving quality of budget information presented to Parliament and the public (Lienert and Fainboim, 2010). Effectiveness of fiscal rules depends on improving supporting institutional arrangements and its integration with budgetary institutions. According to the OECD (2002) and IMF (2007), Lienert and Jung (2004) described the following five documents needed to accompany the Draft Annual Budget Law or Appropriations Act.

- (1) A medium-term fiscal strategy and objectives, called the medium-term budget framework (MTBF), showing expected revenue, expenditure, budget balance, and public debt for least two years beyond the next fiscal year; identification and discussion of the economic assumptions and fiscal risks underlying the projections.
- (2) A statement on fiscal risks including: (i) sensitivity of the fiscal and debt projections to changes in assumption, (ii) alternative macro fiscal scenarios, (iii) assessment of debt sustainability and debt-related risks, (iv) risks associated with quasi-fiscal activities, government guarantees and other contingent liabilities, state-owned enterprises, the financial sector, subnational governments, extra budgetary funds, and government assets.
- (3) Clear identification of new policies being introduced in the annual budget, with an estimate of their quantitative impact on the budget.
- (4) Comparative information on actual revenue and expenditure during the previous two years and an updated forecast for the current year, with a commentary on each revenue and expenditure program; reconciliation with forecasts contained in earlier budget reports for the same period, accompanied by explanations of all significant deviations.
- (5) Tax expenditures, contingent liabilities and quasi-fiscal activities should be discussed, especially when quantitatively important.

### **III.2. Strengthening policy and strategic framework in budget planning**

According to Schiavo-Campo and Tommasi (1999), financial planning includes the preparation of an annual cash plan and a budget implementation plan, revenue forecast, monthly cash plans, and in-month forecasts. Moreover, an overall strategic framework should underpin formulation of sectoral policy provided that it is a genuine and concrete strategy in order to prepare line ministries and agencies their own strategic plan, including (i) their mandate consistent with statutory requirement, (ii) a set of

outcomes, (iii) the approaches to achieving these outcomes, (iii) a description of how activities and process will be used to achieve these objectives, and (iv) a broad cost estimate. Abonyi (2017) said that national development strategies/plans and policy priorities set the direction of country development, but without realistic and systematic assessment of overall public investment commitments and the quality of individual projects, neither the planned and expected development impacts (strategic effectiveness) of the investment nor the fiscal discipline (operational efficiency) necessary for managing societal resources in a sustainable manner over the long term may materialize. Saxena, Gentry and others (2014) suggested the following for developing simple revenue forecasts for each tax and non-tax category: (i) consult with information suppliers e.g. SEEs, IRD, (ii) take the previous year actuals as the baseline, (iii) assess if there is a trend over time, (iv) understand what drives the tax, (v) make informed assumptions as to how the drivers will change, (vi) apply these assumptions to generate an estimate, (vii) make informed assumptions on other factors such as inflation, exchange rates and nominal GDP growth, and state these assumptions clearly in any documentation, (viii) factor in likely gain from improvements in tax administration; (ix) factor in any potential impact from policy changes, and (x) factor in new revenue opportunities coming on stream. Mark and Adrian (2000) said that the Medium Term Expenditure Framework (MTEF) is a planning tool that seeks to: (i) match expenditures with overall resource availability, thereby ensuring budgetary stabilization in the short term and define sustainable expenditure levels for the longer-term, (ii) guide the sectorial allocation of expenditures in line with government's development priorities, on the basis of a comprehensive review of resources, policy options and their cost, (iii) facilitate strategic sector planning by ensuring a more predictable flow of resources on the basis of indicative limits over a three to five year period and the simultaneous programming of recurrent and investment expenditures and both internal and external financing, and (iv) improve the efficiency of expenditures by requiring line agencies to define their mission, objectives and activities and, where possible, link expenditures to measures of performance in terms of outputs and outcomes. According to Elizabeth Muggeridge, 1999, there are seven steps in the preparation of a MTEF: (i) preparation of the resource envelope, (ii) definition of the three- to five- year sectoral resource limits, (iii) preparation of sector programs, (iv) review of the sector programs by Ministry of Finance, (v) submission of revised limits to cabinet, (vi) finalization of budget and presentation to Parliament, and finally (vii) review and rollover.

### **III.3. Strengthening budget preparation**

Rebecca, Natasha and Imran (2011) said that a budget should be comprehensive, transparent and realistic. In order to promote these objectives, a budget should contain the following elements: (i) a macroeconomic framework and revenue forecast, (ii) a discussion of budget priorities, (iii) planned expenditure and past outturns, (iv) a medium-term outlook and details on budget financing, and (v) information on the government's debt and financial position. According to Lienert and Fainboim (2010), the documents that should accompany an annual draft budget law are (i) medium-term macroeconomic and fiscal projections, the underlying assumptions, and other information, (ii) information on extra budgetary funds, and (iii) information on objectives for performance. Schiavo-Campo and Tommasi (1999) pointed out that focus on public expenditure management should not lead us to forget the essential link between revenue and expenditure. Fiscal discipline results from good forecasts of revenue as well as expenditure, strategic allocation has a counterpart in the tax incidence across different sectors as well as tax administration to achieve three key objectives of good public expenditure management: fiscal discipline (expenditure control), allocation of resources consistent with policy priorities (strategic allocation), and good operational management calls for both efficiency (minimizing cost per unit of output) and effectiveness (achieving the outcome for which the output is intended). Allocating resources in accordance with the strategic priorities, efficient and effective use of resources to

implement the programs, and evaluating the results continue to haunt the policy makers by (i) making the budget performance oriented, (ii) bringing in multi-year perspective to expenditure planning, and (iii) establishing a rule based budget management system are important from the point of view of achieving fiscal discipline, allocation and technical efficiencies (PRATAP, 2016). Abonyi (2017) pointed out the multi-year commitments for both capital and recurring costs are necessary in order to ensure that financing is available to fully cover the costs of completing, operating and maintaining such projects and related facilities. The preparation of a realistic medium-term whole-of-government, strategically guided investment program will provide a clear, consistent, practical, and credible framework for considering inter-sectoral tradeoffs in resource allocation for public investment. Schiavo-Campo and Tommasi (1999) said that strengthening the budget preparation process requires the following improvements: (i) decisions that have a fiscal impact should be scrutinized together with direct expenditure programs (notably, decisions related to tax expenditures, lending, and guarantees and other contingent liabilities); (ii) financial constraints must be built into the start of the budget formulation process, consistent with policy priorities and resource availability. Spending agencies need predictability and should have clear indications of the resources available as early as possible in the budget preparation process; (iii) policy coordination mechanisms that fit the country context are needed, with particular attention to the budget-policy link. The medium-term fiscal impact of policy decisions must be systematically assessed; (iv) operational efficiency requires making line ministries accountable for the implementation of their programs. However, they can be held accountable only if they have participated in designing the programs and have authority for managing them. This requires, in a number of countries, review and revision of the distribution of responsibilities in budget preparation; and (v) aid-dependent countries need to pay more attention to the programming of expenditures financed by external aid and should scrutinize their budget as a whole, regardless of the source of financing and despite the fact that the project approach adopted by donors may favor fragmentation in budgeting.

#### **III.4. Strengthening budget execution, accounting and reporting**

Schiavo-Campo and Tommasi (1999) said that budget execution calls for: (i) ensuring that the budget will be implemented in conformity with the authorizations granted in the law, both in the financial and policy aspects, (ii) adapting the execution of the budget to significant changes in the macroeconomic environment, (iii) resolving problems arising during implementation, and (iv) managing the purchase and use of resources efficiently and effectively. A budget execution system should meet the three major objectives of a public expenditure management system, which are aggregate expenditure control, strategic resource allocation, and operational efficiency. According to Schiavo-Campo and Tommasi (1999), failure to spend funds in a timely manner, especially in developing countries, is due to the following four basic points, among others: (i) failure to take into account key informal rules, which is likely to lead to a failure of the budgeting reform itself, (ii) tough institutional changes, in general, and public budgeting in particular, which take a long time to be implemented successfully, (iii) lack of visibility of informal rules, and (iv) little change in the basic rules, procedures, and incentives for budget organizations, for which merging, restructuring, and recombining alone will not be enough to produce changes in budgetary outcomes. (for example, simply merging the Ministry of Finance and the Ministry of Planning will not do much by itself to improve coordination of current and investment budgets). According to Mark and Adrian (2000), common problems of improving effectiveness and accountability are (i) failure to review the base budget, (ii) failure to relate expenditures to resource availability, (iii) departmental rather than program or output orientation, (iv) inadequate timeframe for analysis of expenditures, and (v) encouragement of a cynical attitude.

Schiavo-Campo and Tommasi (1999) said that cash management has four main purposes: aggregate control of spending, efficient implementation of the budget, minimization of the cost of government borrowing, and maximization of return on government deposits and financial investments. Maximization of return on government finances comes with four key principles: (i) centralization of cash balances is important; (ii) cash planning is essential; (iii) borrowing policies need to be set in advance; and (iv) external debt should be contracted in accordance with the budget or a multi-year expenditure program. According to Williams (2010), the Key Characteristics of Good Practice in Government Cash Management are (i) centralization of government cash balances and establishment of a Treasury Single Account (TSA), (ii) an adequate and modern transaction processing and accounting framework (i.e. processing government transactions with few handling steps, reliance on electronic transactions) as well as modern banking, payment, and settlement systems, (iii) ability to make accurate projections of short-term cash inflows and outflow, (iv) strong institutional interaction, covering in particular information sharing between cash managers, revenue-collecting agencies and spending ministries (and any relevant ministry branch offices), strong coordination of debt and cash management, and formal agreements between the MoF and the central bank on information flows and respective responsibilities, and (v) use of short-term instruments (treasury bills, repo and reverse repo, term deposits, etc.) to help manage balances and timing mismatches. A standard Treasury Single Account is organized along the following lines: (i) line ministries hold accounts at the Central Bank, which are subsidiary accounts of the Treasury's account; (ii) spending agencies under the line ministries hold accounts either at the Central Bank or, for banking convenience, with commercial banks; in both cases, the accounts must be authorized by the Treasury; (iii) spending agencies' accounts are zero-balance accounts, with money being transferred to these accounts as specific approved payments are made; (iv) spending agencies' accounts are automatically swept at the end of each day (where the banking infrastructure allows daily clearing); and (v) the central bank consolidates the government position at the end of each day including balances in all the government accounts (Schiavo-Campo and Tommasi, 1999).

Accrual accounting helps to identify the full costs of activities, enabling improved decision making in resource allocation, enhanced governmental control and better capital investment decisions (Caridad and Yulia, 2015). Before accrual accounting is introduced, cash accounting should be robust, external audit should be functioning well and the legislature should be able to call the executive to account. Furthermore, these reforms require a considerable quantity of resources for the hiring and training of qualified personnel, installing software, and contracting consultants (Hepworth, 2003). At the same time, the implementation of accrual budgeting in developing countries without being a panacea can set the scene for profound and durable cultural change in the public sector due to its focus on the delivery of well-specified outputs at competitive prices and at specified quality levels (Peters, 1998). The literature identifies two main groups of benefits attributable to the implementation of an accrual accounting system (Jagalla et al., 2011). The first group comprises improved internal and external transparency. The second group of benefits is related to decision making. In several empirical studies (Alt and Lassen, 2006; Benito and Bastida, 2009), accrual-based financial statements are considered a measure of fiscal transparency. This is because an accrual accounting system requires a full statement of assets and liabilities as well as revenues and expenses (Diamond, 2002). According to Schiavo-Campo and Tommasi (1999), the accounting system should have the following features: (i) there should be adequate procedures for bookkeeping, transactions registered systematically, adequate security system, systematic comparison with banking statements; (ii) all expenditures and revenue transactions should be registered into the account; (iii) all transactions to be processed according to the same methodology (including expenditures from funds, autonomous agencies, and aid-financed expenditures); (iv) common classification of expenditures along functional and economic categories; (v) clear accounting and well-documented procedures; (vi) statements regularly produced; (vii) systems for tracking the uses of

appropriations (“budgetary accounting”) at each stage of the expenditure cycle (commitment, verification, and payment); (viii) clear procedures and full disclosure of budget financing operations (“below the line”) and liabilities; (ix) clear arrangements for the retention, access and security of supporting documentation including computerized records. The International Federation of Accountants (IFAC, 2014: 5) also stresses the importance of integrity and openness. According to OECD (2002) and IMF (2007) Lienert and Jung (2004) describe as following about Ex post budget reporting.

- (1) Quarterly (or monthly) reports: monthly and year-to-date budget execution reports, to be released within four weeks after the end of each period. A brief commentary on revenues, expenditures, and balance should accompany the data.
- (2) Mid-year report: a comprehensive update on budget implementation, released within six weeks of the end of the mid-year period and presenting the impact of changes in economic assumptions underlying the budget, any recent budget-related political decisions, and any other circumstances that may have a material effect on the budget. The report should also include updated budget projections for the current fiscal year and the following two fiscal years.
- (3) Year-end accounts and annual report: annual accounts should show compliance with the budgeted levels of revenues and expenditures authorized by the legislature. The format of the accounts should be identical to that of the budget presentation. Any in-year adjustments to the original budget should be shown. Comparative information on revenues and expenditures of the preceding year should also be provided.
- (4) The annual accounts should be audited by the external audit body and submitted to Parliament within no more than 6–12 months after the fiscal year ends.
- (5) The year-end budget report should contain a comprehensive discussion of the overall budget outcome compared with ex ante targets for aggregates for revenues and broad expenditure categories by including spending ministries’ reports on budget outcomes.
- (6) For countries with performance-oriented budget systems, the law should require that annual reports include non-financial performance information, including a comparison of performance targets and actual results achieved. The reports for year -1 should be available in time for the legislature’s consideration of the budget for year +1.

### **III.5. Strengthening external oversight**

Parliamentary oversight of governments’ internal control and audit systems is best communicated via reports of the external auditor by avoiding approving laws that authorize off-budget spending unless there are highly transparent arrangements for recording, monitoring, reporting, and auditing all financial transaction associated with them. Parliament should, however, require the government to provide full and regular reports on all extra budgetary spending, contingent liabilities, and quasi-fiscal activities (Lienert, 2010). The public availability of budgetary information and its timely public release is the first requisite for the interested social groups, citizens and opposition politicians to be engaged in the monitoring of public expenditures (Robinson, 2006). Although it is very difficult to establish direct causality between transparency and governance outcomes, a greater level of transparency in the public domain is associated with better quality governance (Islam, 2006), reduced corruption (Bastida and Benito, 2007) and better socio-economic and human development indicators (Kaufmann and Bellver, 2005). The main powers and responsibilities of the supreme audit institution (SAI) should be established in the constitution, but a separate external audit law should elaborate on the powers, roles and responsibilities of the SAI, the appointment of the auditor general or the collegial body and staff of the SAI (which should be independent of the civil service), and the type of audit—compliance and/or performance (value-for-money)—to be performed (Lienert and Fainboim, 2010). When a financial or compliance audit is concerned with ensuring the legality and regularity of financial

reporting, a value-for-money audits, also known as a performance audit, seeks to verify the effectiveness and efficiency of governmental programs and the use of public funds (INTOSAI, 1977). Ian Lienert (2010) suggested that the external audit report on annual budget performance should be received by Parliament within six months, so that the audit report for year -1 can be used by Parliament in pre-budget discussions on the budget strategy for year +1. Another benefit of Lienert's suggestion is that it would help to establish formal institutional arrangements in the legislature for systematic follow-up of external audit findings, e.g., the budget committee of parliament can report on the extent to which the executive has responded to the recommendations of the external auditor. According to Lienert (2010), Parliament should be allowed 2–4 months to scrutinize, debate, and propose alternative budgetary policies (within limits of cost) prior to adopting and promulgating the annual budget when new fiscal year begins. Most countries' parliaments have a number of sectoral committees to deal with specific budget related issues in agriculture, defense, education, health, and so on. Likewise, about 40% of OECD countries have a specialist budget committee to examine the government's draft budget proposals. In balancing the overall consistency of budget policies, the need for fiscal discipline in Parliament, and parliamentarians' sectoral spending priorities, three main options exist for the relative powers of parliamentary committees: (i) a budget committee sets aggregate and sectoral spending ceilings, and sectoral committees decide on detailed sector-specific appropriations within the ceilings provided by the budget committee; (ii) a budget committee considers overall fiscal policies and aggregates, but sectoral committees make recommendations that can result in higher sectoral expenditures; and (iii) only sectoral committees consider and approve appropriations in each sector. The budget committee, if it exists, provides assistance on the overall coherency of policies, but does not constrain total expenditure (Lienert, 2010). Schick (2002) noted that rather than act as controllers of public finance, legislatures should perhaps aim to promote fiscal discipline, improve the allocation of public money, and stimulate public bodies to manage their financial operations more efficiently by enhancing the legislative capacity to deal with budget issues. Messick (2002) highlights the needs to undertake a thorough analysis of the political environment within which the legislature operates, a fact reiterated by both Carothers (1999), who noted that "...aid providers' lack of knowledge about the political and personal dynamics of the institutions they are trying to reshape" was a common deficiency, as was "the lack of interest in reform among the power-holders in the legislatures of countries." That legislative assistance will continue to evolve, with growing emphasis on, inter alia, training legislators for executing budget processes and improving research and information capabilities (Manning and Stapenhurst, 2002). Lienert (2010) said that the establishment of a parliamentary budget office can be a useful adjunct for analyzing budget policy alternatives, thereby enhancing Parliament's capacity to evaluate the government's proposed budgets and to propose responsible alternatives for four main purposes: (i) to provide budget analysis and independent advice to parliamentarians from both the majority and minority parties represented in the legislature, (ii) to provide the legislature with medium-term fiscal projections and scenarios that may differ to those prepared by the government, (iii) to quantify the impact of alternative new tax or spending policies, especially (but not exclusively) on the budget for the forthcoming new fiscal year, and (iv) to remedy the lack of time and analytical capacity that elected representatives have to analyze the details of draft budgets and to propose alternative budget policies. It is necessary to examine the legislature's needs holistically, including looking at the role of legislators and staff, and the legislature's relationships with other branches of government and the public. Enhancing the legislature's role in the budget process can be a powerful tool in developing checks and balances within governance systems (Stapenhurst, 2004). Parliaments should not abuse their powers by increasing their own operating and investment expenses so that they become out of line with other national constitutional entities (e.g., expenses of the judiciary, the external auditor), and they

should formalize the legislature's internal rules for organizational arrangements for budget approval and review (Lienert, 2010).

### **III.6. Strengthening human resource management and the ICT system**

Strengthening budgeting institutions to improve decision-making is important for reducing the divergence between preferences of the people and actual policies that are needed to curtail the tendency of excessive public spending resulting in large deficit and debt (Campos and Pradhan 1996). Bennis (2009) said that "leadership is important for effectiveness of an organization, for anchors and guides, for the integrity of an organization, and therefore leadership is responsible for who is hired, the organization's goals and aspirations, working conditions, and who has authority over whom, moral, allocation of resources, transparency, and ethical standards." Bolman and Deal (2013) emphasize the importance of building and implementing an HR strategy by recruiting the right people, keeping them, investing in them, empowering them, and promoting diversity. According to Quinn, Faerman, Thompson, McGrath and St.Clair (2011), leaders must find people's concerns and needs to understand the reasons and emotions behind the resistance and then have to design of the specific change that needs to occur, and how the change will be implemented. Schiavo-Campo and Tommasi (1999) said that strengthening the institutional and communication linkages within the system: (i) does not prejudice or preempt the appropriate transition path for the system as a whole, (ii) involves a direct reduction in transaction costs, and (iii) is most likely to have positive implications for transparency and accountable financial management. However, Schiavo-Campo and Tommasi (1999) suggested that improving "core ministry" capacity (e.g., in a Ministry of Planning, or of Finance) could have an efficient-nucleus approach. This could consist of creating a "visiting team" unit in the core ministry that is charged with public investment responsibility by comprising a small number of highly qualified, newly trained local analysts and an experienced external adviser, all with excellent communication skills in addition to economic competence to visit each sector ministry in turn, and interact with its staff to produce better-quality decisions as well as some "teaching by doing." Synthesis Report prepared by the World Bank (2011) suggested to finance ministers and other central finance agencies making reform using the following points: (i) focus on developing mechanisms to drive the reform process (i.e. "Put the right driver in the driver's seat"); (ii) promote initiatives that stand a reasonable chance of success, rather than those that are designed to please donors; (iii) build partnerships with ministers and groups such as the legislature, external audit authorities and civil society that can help push forward the reform effort; (iv) be realistic about the amount of reform that can be achieved within a finite period; (v) focus reform strategies on "best fit" solutions rather than "best practice" models; and (vi) provide more intensive advice to clients on change management practices, and efficient project management. Brooke (2006) has identified four factors development: (1) capacity development (2) motivational development (3) process development (4) institutional development.

In the words of the Press Communique of the Conference on Fiscal Policy and Reform (February 2-4, 1999, Apia, Samoa): "...fundamental elements of budgeting preparation, implementation, and monitoring that permit effective control, promote transparency, foster accountability, and ensure legitimacy need to be firmly in place before highly sophisticated concepts of budget management...[are] introduced (Schiavo-Campo and Tommasi, 1999)." ICT offers a wonderful potential for increasing government accountability, transparency, and participation, improving the efficiency and effectiveness of public sector operations, widening access to public services, and disseminating information to the public and getting feedback from relevant stakeholders and service users. However, the adoption of more advanced ICT should (i) always fit the user requirements and the real objectives of the activity, (ii) assure that the more advanced ICT goes hand in hand with improved rules and processes, (iii) protect data and systems integrity, and (iv) aim at an integrated strategy and avoid a fragmentary approach

(which can fit specific needs but ultimately adds up to a ramshackle and even dangerous system) (Schiavo-Campo and Tommasi, 1999). ICT is a tool and it can be used appropriately or inappropriately, for good or for bad purposes, and its potential and risks must be *understood* and taken into consideration. In particular, it is sometimes thought that advanced ICT closes the door to corruption. However, while it eliminates corruption opportunities for some, it opens up new ones for others who are better able to understand and manipulate the technology (Schiavo-Campo and Tommasi, 1999). Kanungo, S., Sadavarti, S., & Sriivas, Y. (2001) informed Parson's approach of six IT strategies: central planning, leading-edge, scare resources, necessary evil, monopoly and free market. They also introduced three organizational cultures: bureaucratic cultures, innovative cultures, and supportive cultures. By using qualitative research methods, Kanungo, S., et al. (2001) reported the link between organizational culture and IT strategies. Innovative cultures are supportive of a leading-edge IT strategy, free market IT strategy, monopoly IT strategy and scare resource IT strategy, supportive cultures encourage a necessary evil IT strategy, and bureaucratic cultures support centrally planned IT strategy, monopoly IT strategy and scare resource IT strategy. In the centrally planned IT strategy, firms have attempts to integrate corporate strategy and its information system strategy. In the leading-edge IT strategy, firms need to update their hardware and software for superior performance and a sustainable competitive advantage. In the free market IT strategy, the user can choose to acquire hardware, software and services either from an IT department or outside vendor with a reasonable price. In monopoly IT strategy, the firms used one single source of computer service in organization and need to cope with the peaks in demand. In the scare resource IT strategy, the firms with limited budgets control spending of the IT department. In the necessary evil IT strategy, the firms believe in the use of computers but spend the minimum on hardware, software and people.

### III.5. Sequencing PFM reform

Two related approaches have dominated the literature: the “basics first” approach (Schick, 1998) and the “platform approach” (Brooke, 2003). The philosophy of “basics first,” which was introduced by Allen Schick, argues that countries with low capacity should focus first on the basics, on which the reform is built, and not on particular techniques (World Bank 1998). In elaborating on his argument for “Getting the Basics Right,” Schick states that: (i) the Government should foster an environment that supports and demands performance before introducing performance or outcome budgeting; (ii) control inputs before seeking to control outputs; (iii) account for cash before accounting for accruals; (iv) establish external controls before introducing internal control; (iv) establish internal control before introducing managerial accountability; (v) operate a reliable accounting system before installing an integrated financial management system; (vi) budget for work to be done before budgeting for results to be achieved; (vii) enforce formal contracts in the market sector before introducing performance contracts in the public sector; (viii) have effective financial auditing before moving to performance auditing; and (ix) adopt and implement predictable budgets before insisting that managers efficiently use the resources entrusted to them. The “basics first” approach argues that a government should seek to ensure that three basics of budgetary control are fully operational before working to strengthen areas “beyond the basics”: (i) there should be effective control of inputs before seeking to control outputs; (ii) accurate cash-based accounts should be developed before the introduction of accrual-based accounts; and (iii) effective financial audits should be conducted before moving to performance audits (Bietenhader and Bergmann 2010). Brooke (2003) said that building on a similar logic, the “platform approach” proposes that reforms be packaged together into groups of activities or measures (“platforms”) that form a logical sequence over a specified timeframe. Brooke also suggests possible measures that could be implemented within an initial platform, such as (i) budget planning: a macro budget framework/model for planning and controlling overall resource management; (ii) budget

formulation: greater comprehensiveness of coverage; (iii) budget execution: budget risk management plan systems, aggregate statements bringing financial and service performance, assess “readiness” of budget units to assume responsibility; (iv) accounting: basic reconciliation between central accounts, local accounts and bank balances, simple data aggregation techniques, classification improvement within existing code structures, recovery of backlog of accounting statements; (v) scrutiny and accountability: fund flow tracking exercises, sample joint procurement reviews (with SAI), sample joint transaction reviews (with SAI), acceleration of production of audit reports, more effective follow up arrangements for audit recommendations; and (vi) institutional measures: targeted staffing improvements in key areas, development and commencement of a staff development plan for resource management skills. Further, some PFM specialists noted that the principle of thinking in step changes should also be followed when implementing more sophisticated PFM systems such as an Integrated Financial Management Information System (IFMS), Government Financial Statistics Manual GFSM2001, or the International Public Sector Accounting Standards (IPSAS). Using an incremental approach regarding the implementation of IPSAS Accrual could mean that in a first step only the most important IPSAS Standards are implemented (Bietenhader and Bergmann, 2010). Schiavo-Campo and Tommasi (1999) said that the general prescriptions for a successful reform strategy are: (i) never transpose into a different social and economic context reforms introduced elsewhere without a realistic assessment of their impact, requirements and appropriate adaptation, (ii) never move beyond the basics until certain that the basics have been set right, (iii) never hope for a quick-and-easy technical solution to complex and long-standing budget process problems, and above all (iv) keep the local authorities firmly in charge of the reform process, and never assume that the “experts” are invariably right. According to Salamon (2002), problems for implementing agencies are (i) lack of will, competence, skill, and resources, (ii) becoming dominated or captured by a single interest, and (iii) sharp divisions among constituencies, i.e. gridlock by the combination of internal and external pressures, deadlines, development of information. Schiavo-Campo and Tommasi (1999) suggest “being open-minded but questioning because the history of development assistance is littered with the bones of imported institutional failures and if the recommendation is sound, it will withstand critical challenges; if it is not, only critical challenges will reveal that fact.

### III.5. Outcome-oriented budgets

The outcome budget was designed to move beyond the traditional line item system and clearly define the outcome of all government programs. Preparation of the outcome budget involves the following steps: (i) defining measurable outcomes, (ii) standardizing the unit costs of delivery of services, (iii) benchmarking standards and capacity building for attaining the requisite administrative capacity, (iv) ensuring necessary funding, effective monitoring and evaluation, and (v) making the system far more inclusive through the participation of the community and the stakeholders (Department of Expenditure 2007). The output refers to the quantity and quality of goods produced and outcome refers to progress in achievement of program objectives. While the outcome budget emphasizes quantifiable outcomes as the “end objective of State intervention,” in practice the distinction between outputs and outcomes remains blurred (PRATAP, 2016). Robinson (2013) said that measuring unit cost of delivery of services for planning expenditures, fixing appropriate targets, and quantifying deliverables in each scheme are other important features of the outcome budget. The unit cost approach seeks to link funding and results in government programs; however, the scope of the unit costs for budgeting instruments to derive the funding requirements for all kinds of government programs is limited, and it can work only for those types of government services that have a stable unit cost. The key element of the Performance Monitoring and Evaluation System (PMES) is the Results Framework Document (RFD), which is prepared by the ministries and focuses on success indicators such as physical achievement of government

programs. The departments ultimately need to prepare an outcome budget and RFD. While an outcome budget emphasizes on quantifiable outcomes, the RFD focuses on success indicators such as physical achievement of government programs, through which managerial accountability can be ensured (PRATAP, 2016). According to Salamon (2002), criteria for evaluating tools are (i) effectiveness: the extent to which an activity achieves its intended objectives, (ii) efficiency: achieving the optimum balance between benefits and costs, (iii) equity-distributive for fairness *and* redistributive for channeling benefits disproportionately to those who lack them, (iv) manageability/implementability: the ease or difficulty in operating programs with a particular tool, and (v) legitimacy and political support: trust, symbolism, due process, opportunity for participation. There are different tools, methods and approaches for monitoring non-financial performance. Schiavo-Campo and Tommasi (1999) distinguish the performance measures, as illustrated by the following examples: (i) Inputs: the resources used to produce services, whose social value is measured by their cost. The performance criterion corresponding to inputs is compliance, defined as adherence to budgetary limits; (ii) Outputs: the services provided, whose social value may be approximated by market cost of the closest equivalent service. The performance criterion corresponding to outputs is efficiency that is, minimizing the total input cost per unit of output; (iii) Outcome: the purpose that achieved by providing the service. The social value of outcomes is generally revealed by public reaction in the political arena. The performance criterion is effectiveness that is, maximizing the outcomes in relation to the outputs produced; (iv) Impact: the value added from the output, the gross income minus the contribution from other activities. This takes into consideration the contribution of other services to the achievement of outcomes but is, in practice, impossible to measure; (v) Process: the manner in which inputs are procured, outputs produced and outcomes achieved. Although such indicators are usually qualitative, they may be given a quantitative dimension through the use of service user surveys. Within government, this includes the Ministry of Finance (inputs, activities, outputs and sometimes outcomes), the Ministry of Planning and national planning agencies (outcomes and impacts) and spending agencies (inputs, activities, outputs, outcomes and impacts) (Rebecca, Natasha, Imran, 2011). According to Salamon (2002), key tool dimensions are: (i) Coerciveness: the extent to which a tool restricts individual or group behavior; (ii) Directness: the extent to which the entity authorizing, financing, or inaugurating a public activity is involved in carrying it out; (iii) Automaticity: the extent to which a tool utilizes an existing administrative structure to produce its effect rather than having to create its own special administrative apparatus; and (iv) Visibility: the extent to which the resources devoted to a tool show up in the normal government budgeting and policy review processes. Kouzmin, Loffler, Klages and Kakabadse (1999) point out to have the benchmark in the activity of public sector reform because the particular social and political pressures on public sector agencies are operating with fixed budget and competing for scarce resources, and benchmarking is required in every activity of public sector reform, and the internal standards for evaluating benchmarks for employees are (i) the extent to which decisions have been decentralized to lower organizational levels, (ii) openness, closeness or the extent of hierarchical decision making, (iii) availability of opportunities for avoiding responsibility, (iv) the extent to which organizational resources have been distributed to employees, (v) the extent to which a multi-level commitment exists toward change, (vi) how well institutional incentive systems reinforce, rather than discourage, cross-functional cooperation, and (vii) the degree of integration of functional units that contribute to the production of goods or services.

Vertical fiscal imbalances involve the central government in regional fiscal outcomes, and these imbalances also limit the flexibility of regional governments in their ability to raise additional revenues in times of crisis. Therefore, regional governments may feel justified when calling on the central government to provide additional resources because only it has the ability to do so (Rodden, Eskelund, and Litvack 2003a). Pisauro (2001) and Rodden (2001) warn, however, that closing the vertical fiscal gap

by providing regional governments with sufficient revenues to finance their expenditures may not result in fiscal discipline. Rodden (2001) finds that very large vertical fiscal imbalances combined with strong hierarchical controls of regional government spending and borrowing can mitigate the soft budget constraint problem. Boadway R. and Shah A. (2007) highlight the importance of the interaction among fiscal, financial, and political institutions in hardening budget constraints with the following points: (i) full revenue, spending, and borrowing autonomy can harden budget constraints only if voters and creditors hold regional governments accountable for their actions and are able to punish irresponsible governments; (ii) large vertical fiscal imbalances combined with strong hierarchical controls can harden budget constraints only if institutional features are put in place that prevents regional governments from circumventing these controls; (iii) discretionary transfers should be avoided and transfers allocated on the basis of clear and transparent rules; and (iv) each level of government should be assigned exclusive expenditure and revenue authority. This is an example of Wildasin's (2004) "too-big-to-fail" hypothesis and the "too sensitive to fail" hypothesis proposed by Von Hagen and others (2000). Rodden (2001) warns that intergovernmental transfers that are allocated on a discretionary basis exacerbate the soft budget constraint problem, because they are necessarily based on the regional governments' spending, borrowing, and taxing decisions. Indeed, the soft budget constraint problem would not arise if transfers were completely nondiscretionary. In order to avoid these problems, transfers should be allocated according to clear and transparent rules, such as the number of school children or elderly people residing in a particular jurisdiction (Bird and Smart 2002; Rodden, Eskelund, and Litvack 2003b).

#### **IV. Myanmar's PFM status in 2013 PEFA Assessment**

The Public Expenditure Framework Accountability (PEFA) program goals are to strengthen the ability of governments and international development agencies to assess the conditions of a country's public expenditures and procurement and financial accountability system in order to develop a practical sequence of reform. Based on this work, the outcomes of fiscal discipline, strategic resource allocation and operational efficiency in use of financial resources for service delivery can be best achieved if: (i) the budget is realistic and executed as intended, (ii) fiscal and budget information and fiscal risk oversight is comprehensive, and open to public scrutiny, (iii) the budget is aligned with government policy objectives, (iv) budget execution is orderly and predictable, with appropriate fiduciary controls, (v) accounting and other financial reports are produced, maintained and disseminated, and (vi) there are effective measures for external oversight (Ronshult, 2011). The government of Myanmar committed to PFM reform and its keen desire to strengthen the governance and public sector outcome, and Myanmar did the first PEFA assessment with the World Bank PEFA assessment team in 2013 to promote dialogue on the country's PFM reform needs and priorities. The WB PEFA team analyzed four years of data from 2008-2009 FY to 2011-2012 FY and provided a "Myanmar Public Financial Management Performance Report (2013)" to the government. Below, this section reviews back Myanmar's PFM practices at the time of the 2011-2012 FY from the World Bank's report (2013) in order to compare and analyze how much has been improved by the current PFM system of Myanmar and how much still needs to be improved in the follow up sessions.

##### **IV.1 Credibility of the Budget**

According to the WB PEFA key dimensions, the budget ought to be a tool for policy implementation; it is necessary that the budget is realistic and implemented as passed. Also, the ability to keep total expenditures at the level approved in the budget is an important factor in macroeconomic management. Budget credibility in Myanmar has been low, with the exception of revenue out-turns, where credibility was higher with 103.7 % in 2008-2009, 96.0 % in 2009-2010, and 117.8% in 2010-2011. This is because deviations between aggregate expenditure out-turn and the approved budgets has been

large and growing, increasing from 8.7% in 2008-2009 to 20.2% in 2010-2011. However, the average weighted deviations were 20.6 percent in 2008-09, 26.9 percent in 2009-10, and 24.2 percent in 2010-11, and therefore the average weighted deviations exceeded the overall variance in primary expenditures by over 15 percentage points in each of the three years reviewed. At the time, existing legislation and regulations in Myanmar did not include any definitions of payments in arrears. Moreover, none of the coordinating ministries within the government kept a consolidated record of most categories of payments in arrears and no central repository of data for most categories of expenditures in arrears existed. For this reason, stock and monitoring of expenditure payment arrears could not be assessed. Therefore, the question is how to determine the quality of expenditure outturns and revenue outturns. The subsequent next question is then how realistic of a budget estimation was made for those years.

#### **IV.2 Comprehensiveness and Transparency**

Budget formulation and execution are based on a non-GFS compatible classification, limited capital budget structure with three broad areas and a mix of economic and functional classification, and a generic revenue structure with broad categories of revenue and types of taxation. Therefore, adequate classification of budgets in Myanmar has not been satisfied. Comprehensiveness of information included in budget documentation has been low and often only fulfills two or fewer of the nine budget information benchmarks. The level of unreported government operations has been high with the level of extra-budgetary expenditure (other accounts) excluded from the fiscal reports. Furthermore, income/expenditure information on donor-funded projects is included in fiscal reports, but only for all loan financed projects. There are no horizontal allocation rules, formulae, or even guidelines for the distribution of Union (central) government resources to sub-national governments (SNGs); the state and regional governments are notified of their allocations a few days before the start of the fiscal year. The consolidated reporting format does not show expenditure data by functional or economic classification and it only contains very broad fiscal aggregates. Given this situation, transparency of Inter-Governmental Fiscal Relations in Myanmar has been poor. Oversight of aggregate fiscal risk in public sector entities has been also been poor; although most SEEs submit fiscal reports to the central government at least annually, a consolidated overview is missing or significantly incomplete. Thus, a score cannot be given for the extent of central government monitoring of sub-national governments' fiscal position. In fact, 2012-2013 is the first full year of devoted state and regional budgets. For these budgets, the state or region must get prior approval from the Union Government to borrow, but the government does not monitor the fiscal positions of states and regions on a regular basis. Public access to key fiscal information in Myanmar has been poor because a complete set of budget documents cannot be obtained by the public even after the budget is submitted to the legislature. This is part because there are no constitutional or regulatory requirements in Myanmar that budget proposals and budget execution reports, year-end financial statements, or contract awards submitted to Parliament need to be released to the public.

In reality, regarding extra-budgetary expenditures, SEEs have their Other Account (OA) under the Union Fund Account (UFA) at the MEB for their own revenue and expenditures, but there are considerable off-budget flows with regard to areas such as the fees and charges of service providing bodies. However, this off-budget activity is at least reported in the summary form in the financial statements.

#### **IV.3 Policy-based budgeting**

The Ministry of Finance and Revenue issues a calendar for budget preparation supplemented by additional instructions from the MNPED regarding the capital budget; however, the budget is not

formally set out in the applicable laws and regulations. Ministries, SAOs, and SEEs were allowed only three weeks to complete their detailed estimates for the 2012-13 budget. Clarity, comprehensiveness, and political involvement in the preparation of budget submissions has been weak because there is no budget call circular with indicative recurrent and capital expenditure ceilings for ministries, SAOs, and SEEs that was approved by the cabinet or the Financial Commission. However, there has been timely budget approval by the legislature or similarly mandated body (within the last three years). By the combination of these results, orderliness and participation in the Annual Budget Process in Myanmar has been low. MFR and MNPED do not make forward estimates of any fiscal aggregates beyond the next fiscal year, and line ministries do not receive annual guidance on what to expect in outer years for indicative expenditure ceilings, resource constraints, or expected inflation. The legal and regulatory framework does not require any government office to conduct debt sustainability analysis exercises. The government uses five-year national plans and underlying five-year sector plans, but the plans include estimated recurrent and capital costs arranged by administrative units and do not meet the PEFA definition for estimating costs. The PEFA criteria require that costs are arranged by programs and by economic categories within programs with main parameters and assumptions stated. Recurrent and capital budgets are determined separately before joint submission to Parliament and there are no legal or regulatory requirements. By the combination of the results of these dimensions, a score D was given for “Multi-Year Perspective in Fiscal Planning, Expenditure Policy and Budgeting.”

#### **IV.4 Predictability and control in budget execution**

A comprehensive, modern tax system is still emerging and a dedicated set of laws and legislation on tax and customs administration is lacking. The administrative discretionary power of different institutions in applying multiple tax incentives tends to undermine efficacy, equity, and transparency of the tax system is prominent. A taxpayer service function has recently been instituted, but it only covers large taxpayers and the tax culture, and compliance of these businesses remain particularly weak. The non-systemic treatment of taxpayers in appeal combined with the low level of compliance may contribute to the low “transparency of taxpayer obligation and liabilities” in Myanmar. One shortcoming of the current General Index Registration (GIR) system is that a master taxpayer’s database has not been established and there are no central guidelines for systematic periodic surveys to audit potential taxpayers. Revenue administrations remain reluctant with low compliance to enforce the power conferred to them by the law, and a combination of several factors, including the application of administrative assessments leading to unavoidable direct negotiation and bargaining between traders and tax collectors, weak capacity of revenue administration, and the lack of central manuals or guidance on survey methodologies to identify potential taxpayers, provide many micro/small businesses with incentives to stay in the informal sector, where the IRD is unable to capture them in the system. Both the IRD and Customs Department have not prepared a comprehensive set of guidelines or manuals for auditing. Effectiveness of Measures for Taxpayer Registration and Tax Assessment has been weak in Myanmar. Neither the IRD nor the CD has introduced an arrears management system, and the aggregate level of tax arrears has not been reduced over the past three years and remains high at about 100 billion Kyats (representing 8 percent of total tax collections in 2010). Income tax arrears collections during the year as a share of total tax arrears at the beginning of the year stood at just 62 and 52 percent in 2009-10 and 2010-11, but arrangements for banking tax collections into accounts controlled by the BD, MEB and OAG did exist. Final and complete reconciliation takes place annually no later than two months after the end of fiscal year. As a result of these several factors, effectiveness in the collection of tax payments has been weak in Myanmar.

There is no organizational unit or function established for cash flow monitoring, and in estimating borrowing requirements, broad estimates are made of cash needs based on the level of

budgeted deficit and past patterns of expenditure. Ministries, departments and agencies are able to plan and commit expenditure for at least six months in advance in accordance with budgeted appropriations. Also, supplementary provisions are focused on a single annual supplementary budget law, and the process is transparent and followed the same principals as the annual budget process. By the combinations of the results of these dimensions, “predictability in the availability of funds for commitment of expenditures” has been assessed as low in Myanmar. There is no consolidated reporting and analysis of the debt stock as a whole, but regular quarterly reports are made concerning the stock and movements of internal debt. There is no process of automatic overnight consolidation of balances but there is a monthly process within MEB of setting off balances between the center and its branches. MEB provides data with regard to both on-budget and off budget cash balances to the CBM, which then produces consolidated statements of cash balances on a monthly basis. However, it usually takes around 3 months for these consolidated statements to be finalized. The debt ceiling is promulgated by the Finance Commission, but there is no regular production of a debt strategy or some similar form of analysis underpinning it. By the combination of the results of these dimensions, “recording and management of cash balances, debt and guarantees” has been assessed as low in Myanmar. There are no centrally generated checks of payroll against these establishment records or that correct grade rates or allowances being paid. Instead, there is reliance on budgetary limits for controlling staff related payments. Up to three months of delay occurs in updating of changes to the personnel records and payroll, but this affects only a minority of changes and retroactive adjustments are made occasionally. Controls exist, but they are not adequate to ensure full integrity of data and lack of variation in the quality of financial management staff makes it difficult to achieve the necessary degree of separation of duties and necessary checks and balances. There is an absence of internal auditing in the line ministries to provide internal assurance to management about the accuracy and control of payroll processing. In fact, there is a lack of centralized regulation and standard setting with regards to payroll processing with the soundness across the public sector as a whole. Ultimately, the combination of the results of these “effectiveness of payroll controls” has been assessed as weak in Myanmar.

There is no overarching procurement law that provides a framework for procurement, and there is no central scrutiny or quality assurance of the arrangements put in place by each minister or spending body. Each ministry has formed a tender committee under the authority of the minister and chaired by a vice-minister but practices vary. There are no standardized practices regarding the form of internal instructions, rules, documentation, and thresholds. Different procurement techniques are used and understanding of open competitive bidding may vary from ministry to ministry. There is no common framework for ensuring systematic supply of information and transparency, no procedures for publicly announcing tender results and issuing summary information about tender plans and the value of contracts placed, and no arrangements for post contract review other than the scrutiny carried out by the OAG as part of his audit program or for summarizing and/ or making the results of audit scrutiny available to the public. There is no formal complaints procedure or arrangement for considering the claims of aggrieved parties. By the combination of these results, the “transparency, competition and complaints mechanisms in procurement” has been assessed as weak in Myanmar. There is no formal system of commitment control, although some spending bodies take the initiative to make their own records of commitments largely on a manual basis. The financial regulations are recognized as being substantially out of date and are either not covered or are treated very generally without providing a clear framework within the FRs for development in detail under separate regulations. For procurement arrangements, payroll arrangements, are management of assets, there is no provision relating to internal audits and disciplinary matters. There is no requirement for supporting documentation to pass to the MEB, such as proof of delivery or evidence of fulfillment of requirements by the supplier or contractor. The MEB only checks the availability of budget sanction at an aggregate level and whether

the required signatures are recognizable. The lack of systematic recording of commitments is likely to become more of a problem as the government seeks to tighten its cash controls in a way that has not been applied in the past. By the combination of these results, the “effectiveness of internal controls for non-salary expenditures” has been assessed as weak in Myanmar. There was also no guidance or set of standards issued to accompany the order requiring more widespread adoption of internal audit within the ministries. Reports are either non-existent or very irregular because current practice in sharing reports between SEEs and their respective ministries appears to vary and reports are not systematically shared with the MFR. Few ministries and SEEs with operational internal audit and action taken by many managers on major issues, but often with delay. By the combination of the results of these three dimensions, the “effectiveness of internal audits” has been assessed as weak in Myanmar.

#### **IV.5 Accounting, recording and reporting**

Some lower level spending bodies reconcile and submit their spending reports more slowly than others, statements submitted by MEB branches are sometimes incomplete or inconsistent, and there is limited capacity in MEB and CBM to perform the overall reconciliation. As a result, the whole monthly cycle and full reconciliation typically takes around 3 months to be fully completed. The processes of reconciliation are well documented, appear adequate and are applied with accuracy. The problem is one of timing caused by the disbursed nature of the network and the largely manual processes used. By the combination of these results, the “timeliness and regularity of accounts reconciliation” has been assessed as weak in Myanmar. As the bulk of expenditures in relation to service units is controlled and settled at the township level through the township’s bank account with MEB, there is no accounting data that flows upwards from the township about how resources have been distributed at the operational level. Thus, information about how the township has used the resources in aggregate and the overall “availability of information on resources received by service delivery units” is low. Spending bodies are required to show original estimates, revised estimates, and accumulative actuals, but the Budget Department is largely manual and paper based. In terms of monitoring reports, information is submitted by the spending bodies to the Budget Department at the detailed level of economic (minor head and sub-head) classification within ministries and departments. However, overall summaries made by BD (monthly to the Minister of Finance and Revenue and quarterly to the Hluttaw) are at the more aggregate level of department without the economic classification. Comparison to the budget is possible only for main administrative headings, and expenditures are captured at payment stage (not commitment data). Full reconciliation between CBM, MEB, and the BD normally takes around 3 months to finish. At that point, the summary financial statements are also produced. The process is set out in detail in the OoSa and HtaSa and is applied with some consistency, but the compressed format and delayed timing of the reports combined with the limited degree of analysis that is included in summary reports weakens their capacity to support active in-year management of the emerging position. Controls and responsibilities built into the OoSa and HtaSa are focused largely on the avoidance of overspending of budget provision. Therefore, the “quality and timeliness of in-year budget reports” has been assessed as low in Myanmar. The statements show cash payments and receipts as well as movements in cash balances. However, only movements in the overall stock of debt or other forms of financial assets/liabilities are shown, rather than the opening and closing balances or the large number of off-budget accounts. These are available to the Ministry that has policy responsibility for each SEE, the senior team of the MFR and MNPED as well as the OAG, but the information is not published or made widely available. The statements are submitted for external audit within six months of the end of the fiscal year. The current form of the financial statements does not fully reflect the requirements of the cash-based IPSAS, and it provides limited information as a basis for active financial management. Both their form and distribution are difficult to interpret and contribute little to fiscal transparency. By the

combination of these results, the “quality and timeliness of annual financial statements” has been assessed as weak in Myanmar.

#### IV.6 External scrutiny and auditing

OAG purviews over all general government revenue and expenditures over approximately 70 percent of total expenditures including financial statements from SEEs, but excluding the Ministry of Defense. Audit reports expected to be submitted to the Parliament 8 months after the end of period covered from the time the Ministry of Finance and Revenue submits the financial statements to the OAG. However, as the Parliament only started full operations since 2011, audit reports have yet to be submitted from the OAG to the Parliament. A formal response is provided by ministries in regard to the audit findings within 1 month of receiving the audit opinion, but there seems to be little evidence of systematic follow-up. By the combination of these results, “scope, nature and follow-up of external audit” has been assessed as weak in Myanmar. The dimensions “legislative scrutiny of the annual budget law” and “legislative scrutiny of external audit reports” cannot be rated because the new Parliament only began to operate in 2012, and the relevant FY would be FY 2012-13, which has not yet been completed. Parliament has established a specialized Public Accounts Committee (PAC) to examine each agency budget proposal and the audit reports. There are very detailed discussions between the PAC and the Ministry of Finance and Revenue and respective ministry on specific changes in the draft budget proposals.

#### IV.7 Donor practices

Regarding donor practices, the PEFA assessment team found that Myanmar was in the bottom fifteenth percentile of all ODA recipients on a net per capita basis. In 2010, the average net assistance was 7 USD per-capita, mainly in the form of grants. Therefore, the dimension “Predictability of Direct Budget Support” was not applicable because the Union Government did not received such support at the time of the assessment. There is some reporting by development partners on actual project support flows, but there are major limitations on the frequency, timeliness, and coverage of the information provided. Most development partners do not provide budget estimates for disbursement of project aid for the coming fiscal year until at least three months prior. Given the combination of the results of these two dimensions, “Financial Information Provided by Donors for Budgeting and Reporting on Project and Program Aid” has been rated as underdeveloped. Regarding the “Overall proportion of aid funds to the central government that are managed through national procedures,” due to international sanctions during the period under review, almost all the cooperating partners financed activities operate outside the country’s PFM system.

### V. 8. Overview on PEFA assessment

In summary, most of the PEFA dimensions failed in the Myanmar PFM system. Among 28 performance indicators of the PFM performance measurement framework, D was indicated for sixteen indicators, C was indicated for eight indicators, B was indicated for one indicator, and three indicators were not possible to assess. It is important to note that the time of PEFA assessment was at the beginning of a new Parliament operation, which was not functioning well due to it being a transitional period. Therefore, most, but not all, of the PEFA mission findings reflect the real state of the Myanmar PFM system. According to Ronsholt (2011), in addition to an analysis of improving and declining PFM elements across all the 74 PEFA indicator dimensions, a further analysis of trends utilizes a methodology (Andrews, 2009; Porter et al, 2010) that categorizes indicator dimensions in three pairs (however, the analysis *“only considers indicators/dimensions PI-5 to PI-28, as indicators PI-1 to PI-4 cover PFM system outcomes and performance and not the quality of PFM systems per se”*). Even though the PEFA

dimensions suggest that Myanmar's revenue out-turns credibility is high, how to assess the quality of its quality is of question, as well as for expenditure out-turns. There are many reasons for having weaknesses in the PFM system and it is common for developing countries. It is affected mostly due to political and economic situation and the countries left behind than others more than two decades. But the most important thing is that given the situation of country to make the reform processes and in the transition period, how the government can commit and transform its system to be better than before for its citizens. Myanmar has a good leadership and strong commitments on the PFM reform, after the PEFA assessment, the government recognized on the existing PFM system and realized the priorities and sequencing for the reform. It is can't be argue that Myanmar really needs to strengthen its PFM system in both outcomes and performance including considering the quality of PFM system. Myanmar's PFM system had many weaknesses at the time of 2013 PEFA assessment but the following section analyzes how the PFM system in Myanmar has changed after this PEFA assessment.

## V. Analyzing the current PFM system in Myanmar

According to the 2013 PEFA assessment report, the government of Myanmar has recognized the PFM-related challenges that are mentioned in the previous section. In this section, the study uses WB's PEFA dimensions to analyze which changes in the PFM system have already been implemented following the 2013 PEFA assessment as well as which challenges are still present in the PFM system. The study also analyzes how existing the Myanmar PFM system does in comparison to IMF's code of good practices on fiscal transparency (2007), which covers topics such as clarity of roles and responsibilities, the open budget processes, public availability of information, and assurances of integrity.

### V.1 Analyzing on current PFM system of Myanmar with the WB's PEFA dimensions

The following table analyzes the current PFM system in Myanmar using the WB's PEFA dimensions.

PI	PEFA Dimension	2013 PEFA Score	Summary remarks of the 2013 PEFA assessment	Key findings on the current PFM system (2017)
PI -1	<b>Aggregate expenditure out-turn compared to original approved budget</b>	C	(i) Aggregate expenditure out-turn and the approved budgets have been large and are continuing to grow, increasing from 8.7% in 2008-2009 to 20.2% in 2010-2011.	Improved aggregate expenditure deviation between original estimates and provisional actual expenditures, with 7.62% in 2013-14, 8.69% in 2014-15 and 4.61% in 2015-2016. Estimation is improved, with aggregate deviation under 10%, but one follow-up question is how it contributes to government policies to ensure effective service deliveries are provided. Thus, strategic guidelines for budget implementation are required.  Data Source: Budget Department
PI -2	<b>Composition of expenditure out-turn compared to original</b>	D+	(i) Average weighted deviations were 20.6 percent in 2008-09, 26.9 percent in 2009-10, and 24.2 percent in 2010-11. (ii) Actual expenditure charged to	Improved in some ways. Average weighted deviations are better than before (19% in 2011-12, 20% in 2012-13, 14% in 2013-14, 15% in 2014-15, and 15% in 2015-16). It seems that year after year, compositional expenditure out-turns are better and better; however,

	<b>approved budget</b>		the contingency vote was on average less than 3 percent of the original budget.	as mentioned in above, tracking of agencies' outcome effectiveness and monitoring by MOPF is required to achieve the desired policy goals.  Data Source: Budget Department
PI -3	<b>Aggregate revenue out-turn compared to original approved budget</b>	B	(i) A share of budgeted domestic revenue was 103.7 % in 2008-2009, 96.0 % in 2009-2010, and 117.8% in 2010-2011.	Improved in some ways. The share of budgeted domestic revenue was 119.9% in 2011-2012, 131.2% in 2012-2013, 107.1% in 2013-2014, 101.7% in 2014-2015, and 97.9% in 2015-2016. Accuracy of revenue forecasting depends on consistency of the country's legal and institutional capacities. Currently, Myanmar is at the stage of changing rules/laws; further changes to the system and staff capacity are required to make improvements in line with the country's transition.  Data Source: Budget Department
PI -4	<b>Stock and monitoring of expenditure payment arrears</b>	N/R	(i) The existing legislation and regulations in Myanmar do not include any definitions of payment arrears and no coordinating ministries within the government keep a consolidated record of most categories of payment arrears.  (ii) No central repository of data for most categories of expenditures in arrears.	Improved in some ways. Public debt management law was established on January 5 <sup>th</sup> , 2016 and mentioned how to consolidate and submit to Parliament by coordinating ministries, agencies, state and regional governments. The law can be found at the following link: <a href="https://www.pyidaungsu.hluttaw.mm/uploads/pdf/M-PwAek_2.-public-debt-law-1.pdf">https://www.pyidaungsu.hluttaw.mm/uploads/pdf/M-PwAek_2.-public-debt-law-1.pdf</a>  A Government Debt Annual Report was published for the first time for 2015-2016.  To ensure the comprehensiveness of the law, there is a requirement to follow detailed, clear and understandable guidelines, which can help awareness and compliancy of the agencies and concerned partners.
PI -5	<b>Classification of the budget</b>	D	(i) Budget formulation and execution are based on a non-GFS compatible classification. There is a limited capital budget structure with three broad areas and a mix of economic and functional classification as well as a generic revenue structure with broad categories of revenue and types of taxation.	It is an ongoing process. MOPF is compiling annual MMR GFS from 2012 to 2016, including expenditure data based on functional classification, using a new bridge table with IMF Technical Assistance. MOPF is also discussing its data dissemination policy with the IMF. It seems challenging to improve budget codes in line with Government Financial Statistics Manual and to improve the budget classification structure to be able to track easily the poverty-reducing expenditure, categories of social protection, recreation, culture, religion, environmental protection, and so on.
PI -6	<b>Comprehensiveness of information included in budget documentation</b>	D	(i) The budget documentation fulfills two or fewer of the nine information benchmarks, which are (1) macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate, (2) fiscal deficit according to GFS standards, (3) debt financing and anticipated composition, (4) debt stock, (5) financial assets, (6) prior year budget outturn, (7) the	Improved in some ways. A budget submission law was established at July 2015, and it describes that budget documentation shall include a medium term fiscal framework, fiscal strategy statement, macro-economic statement, completed annual budget presentation, information of the finance minister's performance progress on the previous year's commitment, an explanation of previous budget executions, public debt status, citizen budget summary, and both SEE's profit and loss records for their commercial account and their financial status.

			current year budget, (8) summarized budget data, including the current and previous year, and (9) explanation of fiscal implications of policy changes.	It can be found at the link: <a href="http://www.president-office.gov.mm/?q=hluttaw/law/2015/07/16/id-10466">http://www.president-office.gov.mm/?q=hluttaw/law/2015/07/16/id-10466</a> . The challenge is the quality of data and information that is included in budget documentation. Another challenge is examining skill on proposed budgets and adequate time line for scrutinizing. It should be realistic for qualified works.
PI -7	<b>Extent of unreported government operations</b>	D+	(i) The level of unreported extra-budgetary expenditures (other than donor projects) are recorded by MEB and constitute more than 10 percent of total expenditures.  (ii) Information on external borrowing is included in fiscal reports for all loan financed projects, but there is information on only about 50 percent of grant financed projects.	Improved in some ways. Chapters 17 and 18 of the 2017 public finance management regulations describe the recording and reporting procedure of Other Account receives and expenditures. Also, chapter 16 describes the grant receiving and recording procedure. The regulations can be found at the ministry website: <a href="http://www.mof.gov.mm/my/content/laws-and-regulations">http://www.mof.gov.mm/my/content/laws-and-regulations</a> .  The challenge presenting the report and its format in a high-quality way that is comprehensive, realistic, and easy to track.
PI -8	<b>Transparency of inter-governmental fiscal relations</b>	D	(i) There are no horizontal allocation rules, formulae, or even guidelines for the distribution of Union (central) government resources to sub-national governments. Once the Union budget has been approved, the state/regional governments are notified of their allocations; however, the rules of the system mean that states/regions do not know their final allocations until the Union budget is passed by Parliament, which is typically a few days before the start of the fiscal year. This is the first year of the new system, no annual reports have yet been produced.	Improved in some ways. Starting from the 2015-2016 fiscal year, the Union government provides the State and Regional Governments' deficit using a formula under a medium term fiscal framework in a timely manner. Moreover, the Union government shares tax revenue to the state and regional governments according to the ratio formulated under the MTFF. BD established a new division called "intergovernmental fiscal relations" in 2015-2016 FY to monitor the state and regional government budgets in a timely manner. The greatest challenge is to have a clear framework for sharing accountability of responsibilities for expenditure assignments and revenue assignments between union and state and regional governments. Moreover, the capacities of intergovernmental fiscal relation division staff on analyzing intergovernmental fiscal matters to support fiscal advice to union governments as well as state and regional governments is a challenge.
PI -9	<b>Oversight of aggregate fiscal risk from other public sector entities</b>	C	(i) Most SEEs submit fiscal reports to the central government at least annually, but a consolidated overview is missing or significantly incomplete.  (ii) 2012-2013 is the first full year of devoted state and regional budgets.	It is an ongoing process. SEE performance monitoring is a challenge in Myanmar. MOPF is preparing to establish a SEE performance monitoring manual and report template with technical assistance from the USOTA. The challenge is that profitable SEEs are willing to work independently from the outside the government budget. Inefficient and ineffective SEEs are considering changing to administrative agencies. This is not only due to SEES but also due to the requirement of the government's strategic public corporation framework, procedure, follow up rules and regulation.
PI -1	<b>Public access to key fiscal</b>	D	(i) A complete set of documents including (1) annual budget documentation, (2) in-year budget	Improved in some ways. The public can access the following documents: (i) annual budget law, (ii) budget summary (pre-budget statement), (iii) budget speech,

0	<b>Information</b>		<p>execution reports, (3) year-end financial statements, (4) external audit reports, (5) contract awards, and (6) resources available to primary service units cannot be obtained by the public when the budget is under review by the legislature.</p>	<p>(iv) citizens budget, (v) first report of MEITI for 2013-2014 FY, (vi) annual report, (vii) mid-year report, and (viii) quarterly report. These documents can be found at <a href="http://www.mof.gov.mm">www.mof.gov.mm</a>.</p> <p>Myanmar has participated in the Open Budget Survey since 2016. The challenge is to publish in time according to the criteria of the Open Budget Survey and International Budget Partnership (IBP) because when the information reaches the public and its comprehensiveness of feasible and broader policy change are considered. For the 2017 Open Budget Survey, Myanmar got only 7 out of 100 for transparency.</p>
PI - 1.1	<b>Orderliness and participation in the annual budget process</b>	C+	<p>(i) Budget calendar is considered basic because it is not formally set out in the applicable laws and regulations.</p> <p>(ii) There is no budget call circular with indicative recurrent and capital expenditure ceilings for ministries, SAOs, and SEEs.</p> <p>(iii) 2012-13 and the previous three years were approved in the month of March before April 1.</p>	<p>Improved in some ways. The budget calendar is issued with an indicative recurrent and capital expenditure ceiling for line ministries since FY 2015-2016 by practicing a medium term fiscal framework with the technical assistance of the WB.</p> <p>The challenge is giving the time to the spending agencies to prepare and legislatures to scrutinize. The time provided currently is not adequate, and guidelines should be comprehensive with more analysis of fiscal sustainability. Keeping track of effectiveness of the MTFF formula or dimension is needed.</p>
PI - 1.2	<b>Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>	D+	<p>(i) Does not make forward estimates of any fiscal aggregates beyond the next fiscal year, and line ministries do not receive annual guidance on what to expect in outer years for indicative expenditure ceilings, resource constraints, or expected inflation.</p> <p>(ii) The legal and regulatory framework does not require any government office to conduct debt sustainability analysis exercises.</p> <p>(iii) Uses five-year national plans and underlying five-year sector plans, but the plans include estimated recurrent and capital costs arranged by administrative units and do not meet actual costs. They are arranged by programs and by economic categories within programs with main parameters and assumptions stated.</p> <p>(iv) There are no legal or regulatory requirements that recurrent and capital estimates should be linked in any way.</p>	<p>Improved in some ways. Since FY 2015-2016, MOPF is practicing a medium term fiscal framework for three years but providing a ceiling for one year to agencies. The Treasury Department is working with the IMF and the World Bank for debt sustainability analysis and with ADB for strengthening public debt management. Their efforts can be found at the following links: <a href="https://www.imf.org/external/pubs/ft/dsa/pdf/2017/dsacr1730.pdf">https://www.imf.org/external/pubs/ft/dsa/pdf/2017/dsacr1730.pdf</a> <a href="https://www.adb.org/sites/default/files/project-document/79555/47225-001-tar.pdf">https://www.adb.org/sites/default/files/project-document/79555/47225-001-tar.pdf</a></p> <p>The MOF and MNPED was merged into the MOPF in 2016. The MOPF is developing the medium term fiscal framework together with the Budget Department and Planning Department. Other organizations besides MOPF have recently been merged, restructured, or recombined into new ministries, but it is challenging to change the behavior in budgetary outcomes. Also, it is challenging to be comprehensive in a multi-sectoral, multi-year, overall government, policy oriented investment program by covering different needs and wants of fiscal and monetary policy for when there are strong linkages between the planning and budgeting process.</p>
PI	<b>Transparency of</b>	C+	(i) A comprehensive, modern tax	Improved in some ways. Changes have been made to

- 1 3	<b>taxpayer obligations and liabilities</b>		<p>system is emerging but a dedicated set of laws and legislation on tax and customs administration is lacking, and there is administrative discretionary power by different institutions in applying multiple tax incentives tends to undermine efficacy, equity, and transparency of the tax system.</p> <p>(ii) A taxpayer service function has recently been instituted but only covers mostly large taxpayers. The tax culture and compliance of these businesses remains particularly weak.</p> <p>(iii) The non-systemic treatment of taxpayers in appeal combined with the low level of compliance may attribute to the low, declining number of appeal cases, from 234 in 2008 to just 25 cases in 2010.</p>	<p>the tax policy and legislation framework, including an excise tax (known as specific goods tax (SGT)) and a unified tax administration and procedures law (TAPL). Work has commenced on a modernization of the income tax law. Compliance improvement strategy has been developed. Approaches have been adopted to allow taxpayers to amend their returns. Almost 100 percent of large taxpayers submitted their 2016/2017 annual returns on time. Income tax revenue increased from 80.683 billion kyats in 2014-2015 to 1,006.212 billion kyats in 2016-2017. Commercial tax revenue also increased from 55.439 billion kyats in 2014-2015 to 1,353.764 billion kyats in 2016-2017. Annual tax return has also increased over time, with 10,266, 13,851, 15,032, and 16,467 million kyats returned in 2013-2014, 2014-2015, 2015-2016, and 2016-2017, respectively.</p> <p>The challenge is to continuously support tax reform from the view of politicians and to provide the strengthening tax administrative system with improved tax education.</p> <p>Data Source: Internal Revenue Department</p>
PI - 1 4	<b>Effectiveness of measures for taxpayer registration and tax assessment</b>	D+	<p>(i) One of the shortcomings of current General Index Registration (GIR) system is that a master taxpayer database has not been established and there are no central guidelines for systematic periodic surveys to detect potential taxpayers.</p> <p>(ii) Revenue administrations remain reluctant with low compliance to enforce the power conferred to them by the law, weak capacity of revenue administration, and the lack of central manuals or guidance on surveying methodologies to identify potential taxpayers. Many micro/small businesses have incentives to stay in the informal sector, and the IRD is unable to capture them in the system.</p> <p>(iii) Both IRD and the Customs Department have not prepared a comprehensive set of guidelines or manuals for auditing.</p>	<p>Improved in some ways. The Large Taxpayer Office has been established to manage high value taxpayers under a system of self-assessment. The Medium Taxpayer Office at Yangon and Mandalay is now implemented and gradually expanding the self-assessment system to more taxpayers. An interim IT system has been developed (Tax Revenue Management System) to support the Large Taxpayer Office. To introduce the Integrated Tax Administration System (ITAS), IRD is also practicing tax auditing by collaborating with the IMF, USOTA, WB and DPs for improvement of integrity, transparency and accountability in the tax management system under the PFM reform program. The tax administration and procedures law (TAPL) has been drafted and submitted to Parliament.</p> <p>The remaining challenge is to continuously have the commitment of the government and politicians (even after five years presidential term changes have occurred) for tax reform by strengthening the legal guidelines or manuals for tax matters and improving IT infrastructure, both for software and hardware.</p> <p>Data Source: Internal Revenue Department</p>
PI - 1 5	<b>Effectiveness in the collection of tax payments</b>	D+	<p>(i) Neither the IRD nor the CD has introduced an arrears management system, and the aggregate level of tax arrears have not been reduced over the past three years and remain high.</p>	<p>Improved in some ways. The deviation between collected income tax and the estimated budget was 107.56%, 123.37% and 99.23% in 2013-2014, 2014-2015 and 2015-2016, respectively. The deviation between collected commercial tax and the estimated amount was 159.96%, 96.5%, and 97.75% in 2013-</p>

			Income tax arrears collections during the year as a share of total tax arrears at the beginning of the year stood at just 62 and 52 percent in 2009-10 and 2010-11, respectively.	2014, 2014-2015 and 2015-2016, respectively. The public can access the IRD website with required information at the following link: <a href="http://www.irdmyanmar.gov.mm/TaxProcedure.aspx">http://www.irdmyanmar.gov.mm/TaxProcedure.aspx</a> D Data Source: Internal Revenue Department
PI - 1 6	<b>Predictability in the availability of funds for commitment of expenditures</b>	D+	(i) No organizational unit or function established for cash flow monitoring, and in estimating borrowing requirements, broad estimates are made of cash needs based on the level of budgeted deficit and past patterns of expenditures.  (ii) Agencies are able to plan and commit expenditure at least six months in advance in accordance with budgeted appropriations.  (iii) Supplementary provisions are focused on a single annual supplementary budget law, and the process is transparent and follows the same principals as the annual budget process.	Improved in some ways. The Treasury Department was established under MOPF in September 2014 with core tasks of cash management, debt management, accounting and financial reporting. The cash management division under the TD has analyzed the cash deviation through FY 2015-16. The TD is working with IMF technical assistance of to improve cash forecasting and with ADB to strengthen debt management.  The challenge is to run the full treasury function with effective cash management, debt management and expenditure control systems. It is also required to improve ICT infrastructure and software for integrating financial information efficiently.
PI - 1 7	<b>Recording and management of cash balances, debt and guarantees</b>	C+	(i) There is no consolidated reporting and analysis of the debt stock as a whole, but regular quarterly reports are made. There is no process of automatic overnight consolidation of balances, but there is a monthly process within MEB of setting off balances between the center and its branches. The debt ceiling is promulgated by the Finance Commission, but there is no regular production of a debt strategy or some similar form of analysis underpinning it.	Improved in some ways. The Treasury Department is taking responsibility for consolidating the debt stock and reporting according to the public debt management law. Debt strategy is established and can be accessed at the following links: <a href="https://www.pyidaungsu.hluttaw.mm/laws/public-debt-law-2016-january-5">https://www.pyidaungsu.hluttaw.mm/laws/public-debt-law-2016-january-5</a> <a href="http://www.mof.gov.mm/my/">http://www.mof.gov.mm/my/</a>  MEB is implementing a core banking system and a process automatic overnight consolidation of balance.  The challenges are the need for huge IT infrastructure, the staffs' capacities, and the way of fitting processes with both the new IT system and the existing manual system.
PI - 1 8	<b>Effectiveness of payroll statements</b>	D+	(i) There are no centrally generated checks of payroll against establishment records or that correct the grade rates or allowances being paid.  (ii) Up to three months delay occurs in updating of changes to the personnel records and payroll; controls exist, but they are not adequate to ensure full integrity of data. The lack of and variations in the quality of financial management staff makes it	It is an ongoing process. MOPF is leading by collaborating with concerned ministries and agencies for "Pay, Compensation and Human Resource Management Review Mission" with technical assistance from the WB. MOPF is under processing for a central database wage bill, Digital IDs for employees and a human resource management information system (HRMIS). In chapter 23 of the new financial management regulations, the payroll statement process is regulated by an internal audit function for all agencies. Moreover, a report on strengthening the government's internal audit function has been drafted with technical assistance from the IMF, and it includes

			<p>difficult to achieve the necessary degree of separation of duties and necessary checks and balances.</p> <p>(iii) There is an absence of internal audit in the line ministries to provide internal assurance to management about the accuracy and control of payroll processing.</p>	<p>an IA charter and manual. It also gives a detailed road map of the strategy to be adopted in the short, medium, and long term.</p> <p><a href="http://www.mof.gov.mm/my/content/laws-and-regulations">http://www.mof.gov.mm/my/content/laws-and-regulations</a></p> <p>The challenge is to implement the process for the central database wage bill, Digital IDs for employees and human resource management information system (HRMIS). It is hard for MOPF to lead with limited human resources.</p>
PI - 19	<b>Transparency, competition and complaint mechanisms in procurement</b>	D	<p>(i) There is no overarching procurement law that provides a framework for procurement and no central scrutiny of the arrangements put in place by each minister/spending body or quality assurance of those arrangements.</p> <p>(ii) Each ministry has formed a tender committee under the authority of the minister and chaired by a vice-minister, but practices vary with no standardized practices.</p> <p>(iii) There is no common framework for ensuring systematic supply of information and transparency, no procedures for publicly announcing tender results and issuing summary information about tender plans and the value of contracts placed, and no arrangements for post contract review other than the scrutiny carried out by the OAG as part of his audit program or for summarizing and/or making the results of audit scrutiny available to the public.</p> <p>(iv) There is no formal complaints procedure for considering the claims of aggrieved parties.</p>	<p>Improved in some ways. The Presidential Directive (1/2017) "Tender Procedure for Procurement of Goods, Services, Rental and Sale for the Government Departments and Organizations" was issued on April 10th, 2017 and posted at: <a href="http://www.mof.gov.mm/my/content/laws-and-regulations">http://www.mof.gov.mm/my/content/laws-and-regulations</a>. This directive will be applied starting in FY 2017-2018. In the directive, the ceiling amounts are to be advertised in the national newspaper and on the respective minister office's website for transparency, fairness and full competitiveness.</p> <p>MOPF invited all administrative staffs of agencies and departments and held a presentation and discussion on "Tender Procedure for Procurement of Goods, Services, Rental and Sale for the Government Departments and Organizations" on April 2017. Moreover, the Union Hluttaw Legal Affairs and Special Issue Assessment Commission, Procurement Rules and Regulation Supervision Committee (PPRRSC), Office of the Auditor General, and Office of the Attorney General have been cooperating in drafting a government procurement law since August 2016. The law is now in its final draft form.</p> <p>The MOPF is trying to establish the public procurement law in soon. It is challenging but very important to be comprehensive, feasible to meeting with international standards, accessible, and observed in practice.</p> <p>Source: Treasury Department</p>
PI - 20	<b>Effectiveness of internal controls for non-salary expenditure</b>	D+	<p>(i) There is no formal system of commitment control, although some spending bodies take the initiative to make their own records of commitments, largely on a manual basis.</p> <p>(ii) The financial regulations are out of date and are either not covered or are treated very generally without providing a clear</p>	<p>Improved in some way. The New Financial Management Regulation was enacted on 1st April, 2017 and posted at the website <a href="http://www.mof.gov.mm/my/content/laws-and-regulations">http://www.mof.gov.mm/my/content/laws-and-regulations</a>.</p> <p>It covers duties and powers regarding Public Finance Management, Union Fund and Region or State Fund Scheme, Budget Preparation and Approval, Managing over Permitted and Projected Cash, Fund Transfer from Union Fund to Region or State Fund, Accountability and Internal Supervision, Collecting</p>

			<p>framework within the FRs for development in detail under separate regulations.</p> <p>(iii) There is no requirement for supporting documentation to pass to the MEB, such as proof of delivery or evidence of fulfillment of requirements by the supplier/contractor. The MEB only checks the availability of budget sanction at an aggregate level and whether it recognizes the required signatures.</p>	<p>Public Funds, Spending Public Funds, Procurement, State-owned Economic Enterprises (SEEs), Grant, Loan Receiving and Loan Disbursement, Managing Foreign Loans, Managing Foreign Grants, Control over Fund related Bank Accounts, Deposits, Safeguarding fixed assets of the union, Action against Losses, Matters Relating Government Account, Reporting, Internal Auditing, and miscellaneous with a total of twenty four chapters. It is very important to have comprehensiveness, and to be accessible and observed in practice. Also, strengthening public expenditure management capacity of the institutions is still challenging.</p>
PI - 2 1	<b>Effectiveness of internal audit</b>	D+	<p>(i) No guidance or set of standards issued to accompany the order requiring more widespread adoption of internal audit within the ministries.</p> <p>(ii) Reports are either non-existent or very irregular because the current practice in sharing reports between SEEs and their respective ministries appears to vary, and reports are not systematically shared with the MFR.</p> <p>(iii) Few ministries and SEEs have operational internal audit procedures, and actions taken by managers on major issues often occur with delay.</p>	<p>Improved in some ways. In chapter 23 of the new financial management regulation, it is regulated regarding with the internal audit function for all agencies. Moreover, report on strengthening internal audit functions in the government has been drafted with technical assistance of IMF and includes an IA charter and manual. It also gives a detailed road map of the strategy to be adopted in the short, medium and long term.</p> <p>It is very important to have comprehensive but feasible internal audit standards. Moreover, internal audit finding reports need to be open and accessible.</p> <p><a href="http://www.mof.gov.mm/my/content/laws-and-regulations">http://www.mof.gov.mm/my/content/laws-and-regulations</a></p>
PI - 2 2	<b>Timeliness and regularity of account reconciliation</b>	C+	<p>(i) Some lower level spending bodies reconcile and submit their spending reports more slowly than others, statements submitted by MEB branches are sometimes incomplete or inconsistent and there is limited capacity in MEB and CBM to perform the overall reconciliation.</p> <p>(ii) The processes of reconciliation are well documented, appear adequate and are applied with accuracy. The problem is one of timing caused by the disbursed nature of the network and the largely manual processes used.</p>	<p>It is an ongoing process. MEB is implementing a core banking system and a process for automatic overnight consolidation of balance.</p> <p>Moreover, in chapter 17 of the new financial management regulations, it is regulated how and when bank accounts need to be reconciled with MEB and CBM.</p> <p><a href="http://www.mof.gov.mm/my/content/laws-and-regulations">http://www.mof.gov.mm/my/content/laws-and-regulations</a></p> <p>The challenge is that MEB's core banking system needs to be implemented with generally accepted accounting standards in order to track revenues, commitments, payments, arrears, liabilities, and assets by considering broader policy changes, and to have government's support and commitment continuously.</p>
PI - 2 3	<b>Availability of information on resources received by service delivery units</b>	D	<p>(i) It is settled through the township's bank account with the MEB. There is no accounting data that flows upwards from the township about how resources have been distributed at the operational level and only</p>	<p>In chapter 17 of the new financial management regulation, it is regulated that each MEB branch from states and regions need to prepare tables 1 to 9, including an explanation of expenditures.</p> <p><a href="http://www.mof.gov.mm/my/content/laws-and-regulations">http://www.mof.gov.mm/my/content/laws-and-regulations</a></p>

			information about how the township has used the resources in aggregate.	However, improvement of the capacity of the public expenditure management and accounting system is required.
PI - 2 4	<b>Quality and timeliness of in-year budget reports</b>	C	<p>(i) Largely manual and paper-based, overall summaries made by BD (monthly to the Minister of Finance and Revenue and quarterly to the Hluttaw) are at the aggregate level of department without economic classification. Comparison to budget is possible only for main administrative headings, and expenditure is captured at payment stage (not commitment data).</p> <p>(ii) Full reconciliation between CBM, MEB, and the BD normally takes around 3 months to finish. At that point, the summary financial statements are also produced. However, in recent years, this period has remained more or less constant and there has been no buildup of delay.</p> <p>(iii) The process is set out in detail in the OoSa and HtaSa and is applied with some consistency, but the compressed format and delayed timing of the reports combined with the limited degree of analysis that is included in summary reports weakens their capacity to support active in-year management of the emerging position. Controls and responsibilities built into the OoSa and HtaSa are focused largely on the avoidance of overspending of budget provision.</p>	<p>As an effort to improve, the Budget Department now consolidates the reports from the Union level departments and organizations the collected reports for implementation of the budget appropriation for every month and for every three months. These reports are submitted to the Union Government Office via the Union Ministry of Planning and Finance. The BD consolidates and submits six month and annual budget reports to Pyidaungsu Hluttaw with the recommendation of Union Government Office via the Union Ministry of Planning and Finance. The public can access budget reports at the MOPF website: <a href="http://www.mof.gov.mm/my">http://www.mof.gov.mm/my</a>.</p> <p>The Treasury Department prepares a compiled account of monthly Union Fund reports and submits it to the Union Government Office and Union MOPF. A copy is made by the Office of the Auditor General of the Union covering the (a) monthly situation of income and expenditures, (b) comparison between accumulated figures until the account preparation month of current fiscal year and accumulated figures of the same month previous year, (c) implementation of the budget of the organizations for each account, (d) state of changes in foreign and domestic loans, (e) monthly surplus/deficit of the Union, and (f) state of cash balance. For an automation system, the Treasury Department collaborated with the IMF FMIS Strategy Mission from 18th to 29th September, 2017 to improve the Financial Information and Reporting System of the Treasury. MEB is also developing a core banking implementation.</p> <p>Quality and timeliness of in-year budget reports depend on how much unity there is between major agencies such as the BD, TD, IRD MEB and CBM. Also, transitioning from a manual to computerized system is challenging due to budget constraints, limited capacity for implementation, and a limited strategic framework for policy guidance.</p>
PI - 2 5	<b>Quality and timeliness of annual financial statements</b>	D+	<p>(i) Only movements in the overall stock of debt or other forms of financial assets/liabilities are shown, not the opening and closing balances or large number of off-budget accounts (though the movements in these are also recorded).</p> <p>(ii) These are not published or made widely available; the statements are submitted for external audit within six months of the end of the fiscal year.</p>	<p>Improved in some ways. The new financial management regulations (2017) discuss “control over fund related bank accounts” in chapter 17 and “deposits or other Accounts” in chapter 18, and it is needed to open under the state fund account and to report in the financial statement. Each MEB branch from states and regions need prepare table 1 to 9 as well as information on other account expenditures according to table 5. The Treasury Department is collaborating with the IMF for preparation of a new financial statement format that is more clear and understandable.</p> <p>However, quality and timeliness of annual financial</p>

			(iii) The current form of the financial statements does not fully reflect the requirements of the cash-based IPSAS and provide limited information as a basis for active financial management. Both their form and distribution are difficult to interpret and contribute little to fiscal transparency.	statements is dependent on how much unity there is between the MEB and CBM and reconciliation of the modernized bank account system.
PI - 2 6	<b>Scope, nature and follow-up of external audits</b>	C+	<p>(i) OAG has purview over all general government revenue and expenditure, which is approximately 70 percent of total expenditures, including financial statements from SEEs but excluding the Ministry of Defense.</p> <p>(ii) As the Parliament only started full operations in 2011, audit reports have yet to be submitted from the OAG to Parliament.</p> <p>(iii) A formal response is provided by ministries to the audit findings within 1 month of receiving the audit opinion, but there seems to be little evidence of systematic follow-up.</p>	<p>Improved in some ways. OAG amended the Auditor General of the Union Law (2014) and submitted the Auditor General of the Union Law (2017) draft to Parliament.</p> <p>Audit reports are found at: <a href="https://pyidaungsu.hluttaw.mm/reports">https://pyidaungsu.hluttaw.mm/reports</a></p> <p>Other reports or draft laws submitted to Parliament are also available at that website.</p> <p>Some requirements of the law for public accessing that creates a challenge are strengthening the capacity of auditing staffs and having enough human resources in OAG as well as independent experts to assess fiscal and macroeconomic forecasts.</p>
PI - 2 7	<b>Legislative scrutiny of the annual budget law</b>	N/A	(i) The new Parliament only began to operate in 2012, so the relevant FY would be FY 2012-13, which has not yet been completed. The Parliament has established a specialized Public Accounts Committee (PAC) to examine each agency budget proposal, and there are very detailed discussions among the PAC, the Ministry of Finance and Revenue and other respective ministries on specific changes (reductions) in the draft budget proposals.	<p>Improved in some ways. Myanmar got a score of 48 out of 100 at the 2017 Open Budget Survey for budget oversight. The Joint Public Account Committee reviewed the budget proposals and audit reports and submitted his findings and suggestions to the Pyidaung Su Hluttaw in a timely manner. Their findings can be accessed at the following links: <a href="https://www.pyidaungsu.hluttaw.mm/reports">https://www.pyidaungsu.hluttaw.mm/reports</a> <a href="http://www.pacpyithuhluttaw.gov.mm/report/">http://www.pacpyithuhluttaw.gov.mm/report/</a> <a href="http://www.pacpyithuhluttaw.gov.mm/category/reports/pyithu-hluttaw-coporate-report/">http://www.pacpyithuhluttaw.gov.mm/category/reports/pyithu-hluttaw-coporate-report/</a></p> <p>The remaining challenge is to strengthen the capacity of external oversight and have enough human resources in JPAC to support new parliament members for every five-year term.</p>
PI - 2 8	<b>Legislative scrutiny of external audit reports</b>	N/A	(i) The Parliament started in early 2011 and became fully operational over the course of the year. The Public Accounts Committee (PAC) was tasked to review the budget proposal and the audit reports. The PAC reviewed the executive's budget proposal for FY 2012-13. However, as the audit cycle for FY 2011-12 had not been completed, Parliament has not had the	<p>Improved in some ways. Myanmar got a score of 48 out of 100 at the 2017 Open Budget Survey for budget oversight. The Joint Public Account Committee reviewed the budget proposals and audit reports and submitted his findings and suggestions to the Pyidaung Su Hluttaw in a timely manner. Their findings can be accessed at the following links: <a href="https://www.pyidaungsu.hluttaw.mm/reports">https://www.pyidaungsu.hluttaw.mm/reports</a> <a href="http://www.pacpyithuhluttaw.gov.mm/report/">http://www.pacpyithuhluttaw.gov.mm/report/</a> <a href="http://www.pacpyithuhluttaw.gov.mm/category/reports/pyithu-hluttaw-coporate-report/">http://www.pacpyithuhluttaw.gov.mm/category/reports/pyithu-hluttaw-coporate-report/</a></p>

			opportunity to review the same. Hence it is not possible to rate any dimension of this indicator.	The remaining challenge is to strengthen the capacity of external oversight and have enough human resources in JPAC to support new parliament members for every five-year term.
D -1	<b>Predictability of direct budget support</b>	N/A	(i) There is some reporting by development partners on actual project support flows, but there are major limitations on the frequency, timeliness, and coverage of the information provided.  (ii) Most development partners do not provide budget estimates for disbursement of project aid for the coming fiscal year at least three months prior to its start.	The government has organized the Development Assistance Coordination Unit-DACU, led by the State Counselor, and Ten Sector Coordination Groups for implementing and supervising development assistance. The applications 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. Development Assistance Policy was established by the DACU on December 12, 2017. Aid information is also available at the link: <a href="https://mohinga.info/en/">https://mohinga.info/en/</a>
D -2	<b>Financial information provided by donors for budgeting and reporting on project and program Aid</b>	D	(i) There is some reporting by development partners on actual project support flows, but there are major limitations on the frequency, timeliness, and coverage of the information provided.  (ii) Most development partners do not provide budget estimates for disbursement of project aid for the coming fiscal year at least three months prior to its start.	The government has organized the Development Assistance Coordination Unit-DACU, led by the State Counselor, and Ten Sector Coordination Groups for implementing and supervising development assistance. The applications 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. Development Assistance Policy was established by the DACU on December 12, 2017. Aid information is also available at the link: <a href="https://mohinga.info/en/">https://mohinga.info/en/</a>
D -3	<b>Proportion of aid that is managed by use of national procedures</b>	D	(i) There were international sanctions during the period under review and almost all the cooperating partners financed activities operate outside the country's PFM system.	According to chapter 16 of the new financial management regulations (2017), the processes for how to record and describe the budget as well as for how to spend foreign grants within the national PFM system are closely regulated.

Myanmar started from a very low level (mostly scores of D) in the 2013 assessment. Myanmar would be expected to make more progress in future through PFM reform sequencing, where progress requires actually implementing a new law or regulation or coordinating the work of many agencies rather than through adopting a new law, regulation, or technical tool. It is encouraging to achieve the results in functional features because even in the more difficult areas, progress is possible.

### V.3 Analyzing the current PFM system of Myanmar using the IMF's code of good practices

After assessing Myanmar's PFM system using the World Bank's PEFA framework, this study will further analyze Myanmar's current PFM system by comparing it with IMF's code of good practices on fiscal transparency (2007). IMF measures with four dimensions of good practices on fiscal transparency: (i) clarity of roles and responsibilities, (ii) an open budget processes, (iii) public availability of information, and (iv) assurances of integrity.

#### V.3.1 Clarity of roles and responsibilities

IMF's code of good practices states that the government sector should be distinguished from the rest of the public sector and economy, and policy and management roles within the public sector

should be clear and publicly disclosed. For this dimension, the structure and function of the government of Myanmar is clearly presented. Currently, there are 21 Ministries, 104 Departments, 35 State Economic Enterprises, 11 State Administrative Organizations (SAOs) and 1 Naypyitaw Council to form a total of 171 spending units in the Union Government. The fiscal powers of the executive, legislative, and judicial branches of government are well defined in the 2008 new constitution. The responsibilities of the union, state, and regional level of government and the relationships between them are also mentioned in the constitution. Relationships between the government and public corporations such as State Economic Enterprises are modified annually in order to sustain the effective and efficient performance of SEEs. Transparency of government relationships with the private sector are also improving by publishing government information and instructing the private sector on how to conduct business in order to work with the government. Nevertheless, Myanmar's democracy is still young and facing challenges in comprehensiveness of roles and responsibilities of the government.

Moreover, according to the IMF's code of good practices on fiscal transparency (2007), there should be a clear and open legal, regulatory, and administrative framework for fiscal management. In Myanmar, the government has sought to modify the country's legal, regulatory, and administrative framework for fiscal management, and in some points these components are already improved. For example, the government updated 1986 financial rules and regulations as 2017 financial management regulations, promulgated 2015 union taxation law, 2015 public debt management law, 2015 Myanmar Accountancy Council law, and 2017 procurement guidelines. The government is trying to raise the awareness of citizens by holding public discussions, promoting advertisements, increasing public access to clear information regarding laws and regulations related to the collection of tax and non-tax revenues, and expanding the criteria guiding administrative discretion in their application. However, there is still room for improvement in the quality of information, contractual arrangements between the government and public or private entities, and in government liability and asset management. Moreover, it is needed to improve that explicit legal basis for granting of rights to use of public assets. Taking sufficient time for consultation about proposed laws and regulatory changes is required by the government and currently some broader policy changes are not yet feasible.

### **V.3.2 Open budget processes**

According to the IMF's code of good practices, budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives. In Myanmar, the annual budget is prepared and presented within a medium-term fiscal policy framework. The budget calendar is specified and adhered to with provided budget ceilings, but the description of major expenditures and revenue measures, contributions to policy objectives, future budgetary impact and broader economic implications is not very comprehensive. Moreover, the budget calendar does not allow adequate time to prepare line agencies or to consider the legislature. Myanmar submits the budget documentation to MOPF, including a medium term fiscal framework, fiscal strategy statement, macro-economic statement, completed annual budget presentation, finance minister's performance progress on the previous year's commitment, an explanation on previous budget executions by ministry wise, public debt status, citizen budget summary, and SEE's profit and loss on commercial account and their financial status. However, it is necessary to include sensitivity analysis on fiscal sustainability, with realistic and clear assumptions about economic developments and policies. Moreover, clear mechanisms are needed for the coordination and management of budgetary and extra-budgetary activities within the overall fiscal policy framework. Also, it is needed to include outturns of at the two preceding fiscal years together with forecasts and sensitivity analysis for the main budget aggregates for following two years in the annual budget.

Furthermore, IMF's code of good practices mentions that there should be clear procedures for budget execution, monitoring, and reporting. Currently, Myanmar has a newly established Treasury Department for monitoring budget execution and reporting, but unlike other countries Myanmar does not require governments to get expenditure permission or approval from the Treasury Department. It is at the stage of consolidating the executed expenditure and revenue of agencies for financial statement by collaborating with the Budget Department, Myanmar Economic Bank and Central Bank. For government fiscal statistics, it is trying to use the GFS Manual 2014 with IMF Technical Assistance and compile annual MMR GFS reports from 2012 to 2016 that include expenditure data based on functional classification using a bridge table. However, Myanmar needs to further improve its accounting system to provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets. The Budget Department could report on budget developments quarterly, mid-year and annually to the legislature as well as publish on Ministry website; they could also improve the reporting format to be clearer. Supplementary revenue and expenditure proposals during the fiscal year could be presented to the legislature in a manner consistent with the original budget presentation. Audited final accounts and audit reports, including reconciliation with the approved budget, could be presented to the legislature but are not published within a year.

### **V.3.3 Public availability of information**

According to the IMF's code of good practices on fiscal transparency, the public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks. Moreover, a commitment should be made to timely publication of fiscal information. Currently, the Myanmar government has increased fiscal transparency, and the public can access the following documents: (i) the annual budget law, (ii) a budget summary (pre-budget statement), (iii) the budget speech, (iv) citizens Budgets, (v) the first report of MEITI for 2013-2014 FY, (vi) an annual report, (vii) a mid-year report, and (viii) a quarterly report. These documents can be found at the Ministry website: [www.mof.gov.mm](http://www.mof.gov.mm). One challenge is that these documents are not published within the timeline of the criteria of open budget survey and International Budget Partnership (IBP), and there is no mention of any legal documents outlining the legal obligations of the government. Regarding fiscal transparency information, there is no practice in Myanmar to release announcement calendars in advance. Currently, there is no fiscal risk statement describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities as part of the budget documentation on the assessment of all other major fiscal risks. While developing the annual budget, receipts from all major revenue sources, including resource-related activities and foreign assistance, are identified. Yet the central government does not publish information on the level and composition of its debt and financial assets, significant non debt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets. The budget documentation includes the fiscal position of subnational governments and the finances of public corporations, but the government needs to publish a periodic report on long-term public finances.

Furthermore, the IMF's code of good practices states that fiscal information should be presented in a way that facilitates policy analysis and promotes accountability. In Myanmar's case, a summary guide to the budget could be distributed at the time of the annual budget. Regarding fiscal data, reports are based on a gross basis, distinguishing revenue, expenditure, and financing, with expenditures classified by line item, administrative and economic category; however, functional classification standards are needed for preparation of national accounts and government financial statistics. Improvement is also needed regarding Myanmar's standard summary indicators on the government's fiscal position when presenting the overall balance and gross debt of the general government supplemented with other fiscal indicators, such as the primary balance, the public sector

balance, and net debt. Program budgeting is not yet practiced in Myanmar, and to develop good practices Myanmar should present results achieved relative to the objectives of major budget programs to the legislature annually.

#### **V.3.4 Assurances of integrity**

According to the IMF's code of good practices on fiscal transparency, fiscal data should meet accepted data quality standards. Due to the high demands for budget forecasting, Myanmar's institutions are facing challenges in budget forecasting and planning. Moreover, such existing forecasting is not well updated and does not clearly reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments. The Budget Department compiles the annual budget and presents the fiscal data, but generally accepted accounting standards need to be put into place. Also, data in fiscal reports needs to be internally consistent and reconciled with relevant data from other sources by presenting major revisions to historical fiscal data.

Furthermore, the IMF's code of good practices states that fiscal activities should be subject to effective internal oversight and safeguards. In Myanmar, ethical standards of behavior for public servants are clear and well publicized, but documentation for public sector employment procedures and conditions are weak and difficult to access. Currently, the Presidential Directive (1/2017) "Tender Procedure for Procurement of Goods, Services, Rental and Sale for the Government Departments and Organizations" was issued on April 10th, 2017 and posted on the Ministry website. However, public procurement law is under preparation, and it is very important to have meetings that satisfy international standards for accessibility. Moreover, it can help to buy and sell public assets in an open manner and to identify major transactions separately. Regarding internal audits, the procedure is identified in chapter 23 of the 2017 new financial management regulation, but it is challenging to review openly. Currently, a report on "Strengthening the Internal Audit Function of the Government" has been drafted with technical assistance from IMF, and it includes an IA charter and manual. This report also gives a detailed road map of the strategy to be adopted in the short, medium and long term. Tax Administration and Procedure Law has been submitted to Parliament by the Internal Revenue Department, and it can cover legal protection on national revenue administration from political direction to protect taxpayers' rights and require regular reports to the public on its activities.

Moreover, the IMF's code of good practices states that fiscal information should be externally scrutinized. In Myanmar, the Office of the Auditor General has a right to audit all government agencies' accounts and submit audit findings to Parliament through the President. One challenge to this procedure is the restricted capacity of the auditors and lack of any independent experts being invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions. Another challenge is also the lack of a national statistical body with the institutional independence to verify the quality of fiscal data.

#### **V.4 Major Findings on overall analysis of the PFM system in Myanmar**

Based on analysis of the World Bank PEFA framework and IMF's code of good practices on fiscal transparency, Myanmar's current PFM practices have improved in some aspects, such as by establishing a treasury department, practicing a medium-term framework and top down budget ceiling, updating financial rule and regulations as well as procurement guidelines, introducing a self-assessment system on taxation, trying to implement core banking system, and improving external oversight within four years of PFM reform implementation. However, more progress is expected in Myanmar regarding implementation of the new laws and regulations and coordination of the work of many agencies; it would be highly beneficial for Myanmar to achieve these results in functional features. This study found that the following are still obstacles to further development of the current PFM system in Myanmar:

- (1) Myanmar has not yet established a PFM main law, public procurement law, or tax administrative and procedure law.
- (2) Institutions are weak in revenue and expenditure forecasting and budget planning that reflects recent revenue and expenditure trends, underlying macroeconomic developments and well-defined policy commitments.
- (3) The budget calendar does not provide adequate time for either spending agencies or legislatures to include comprehensive guidelines for fiscal targets. There are no assessments for fiscal sustainability, and institutions are weak in presenting their major expenditure and revenue measures, their contribution to policy objectives, their current and future budgetary impact and their broader economic implications.
- (4) There is no strategical guide on government priority investment programs for spending agencies to rely on before making their plans. There are also no multi-year commitments for both capital and recurring costs of those government priority investment programs, which would ensure that the costs of completing, operating and maintaining such projects and related facilities are covered.
- (5) The accounting system does not follow generally accepted accounting standards to track revenues, commitments, payments, arrears, liabilities, and assets. Fiscal reports are difficult to review for making a judgment without explanation of historical fiscal data and any changes to data classification. An internal auditing standard has not yet been established. The external auditing procedure is weak and lacks both independent technical experts and collaboration with a national statistical body.
- (6) Regarding infrastructure, especially ICT infrastructure in both hardware and software, the ICT skills needs of institutions is very high.

Based on these assessments, this study suggests some recommendations in the following section on how to strengthen the PFM system in Myanmar.

## VI. Recommendations for strengthening capacity of institutions for PFM in Myanmar

Myanmar is on the way towards successful PFM reform with strong commitment from the government, and most of the areas are improved to some extent already. However, due to having a broad agenda of PFM, Myanmar needs to implement PFM reform continuously. Therefore, this study focuses on how to strengthen the PFM system in Myanmar. Using a combination of literature review and analysis of the existing PFM system requirements, this study suggests how Myanmar can strengthen its PFM system in seven main areas: (i) legal framework, (ii) policy and strategic framework in budget planning, (iii) budget preparation, (iv) budget execution, accounting and reporting, (v) external oversight, (vi) human resource management and ICT, and (vii) sequencing PFM reform to create outcome-oriented budgets among central and regional governments.

### Recommendations to strengthen the PFM system in Myanmar

Area of PFM	Recommendations
<b>I. To strengthen the PFM legal framework</b>	(1) To revisit, analyze and redefine existing PFM related laws, rules and regulations in order to make sure the providing framework for well-functioning PFM (i) attains short term macro fiscal stability and medium term fiscal sustainability, (ii) enhances allocation of budgetary resources, (iii) improves efficiency of spending, (iv) ensures cash managed optimally, and (v) improves the quality of budget information presented to Parliament and the public. Efforts should be made to strengthen the capacity of PFM core institutions and to “administer the spending institutions and enforce PFM related laws, rules and regulations.”

	<p>(2) To develop Myanmar's main PFM law by designing a strategic framework to guide the budget process that includes (i) basic principles of budgeting, (ii) the budget preparation process, (iii) documents to accompany the annual budget and budget adoption by the legislature, (iv) submission of annual budgets to the legislature, (v) budget execution and audit procedures, (vi) government accounting and reporting, and (vii) external audits that are not mentioned in the annual budget law. This framework should be created in order to execute the budget within clearly defined procedures and regulations.</p> <p>(3) To develop public procurement law, tax administrative and procedure law by including legal obligation of the government for timely publication of fiscal information for fiscal transparency, and legal documentation of liability and asset management, including the granting of rights to use or exploit public assets.</p>
<b>II. To strengthen policy and strategic framework in budget planning</b>	<p>(1) To develop an overall strategic framework by underpinning formulation of sectoral policy, provided that it is a genuine and concrete strategy, in order to prepare line ministries and agencies with their own strategic plan including (i) their mandate consistent with statutory requirement, (ii) a set of outcomes, (iii) the approaches to achieving these outcomes, (iv) a description of how activities and process will be used to achieve these objectives, and (v) a broad cost estimate by strengthening coordination and harmony in decision making as mechanisms for budgeting and policy formulation.</p> <p>(2) To build the capacity of PFM core institutions on macroeconomic forecasting, developing medium term expenditure framework for strategic investment programming, revenue and expenditure forecasting including budget analyzing and reviewing public expenditure, preparation of an annual cash plan and a budget implementation plan to reflect recent revenue and expenditure trends, underlying macroeconomic developments, institution's obligation/mission statement and well-defined policy commitments.</p> <p>(3) To develop a multi-sectoral, multi-year, overall government, policy-oriented investment program in order to link the overall government budget ceiling and ministerial and sector ceilings, to policy priorities, and to public investment allocation by having realistic and systematic assessment of overall public investment commitments and the quality of individual projects.</p> <p>(4) To develop a revenue forecasting model by considering the previous year's actuals as the baseline, assessing if there is a trend over time, understanding what drives the tax, making informed assumptions as to how the drivers will change, applying these assumptions to generate an estimate, making informed assumptions on other factors such as inflation, exchange rates and nominal GDP growth, and stating these assumptions clearly in any documentation, factor in likely gain from improvements in tax administration, factor in any potential impact from policy changes, and factor in new revenue opportunities coming on stream and develop database method in parallel with the output of the revenue forecasting mode.</p>
<b>III. To strengthen budget preparation</b>	<p>(1) To guide strategic government priority investment programs and strengthen the existing Medium Term Fiscal Framework formula for accuracy, effectiveness and efficiency by developing a comprehensive medium-term macroeconomic and fiscal policy framework, fiscal targets, a government policy priority for fairness and sustainability, and to complete a comprehensive framework within the targeted time for a budget calendar.</p>

	<p>(2) To develop and issue a budget calendar including fiscal policy objectives, government policy priorities, and resource availability by indicating fiscal rules clearly in order to be consistent and predictable by spending agencies. This calendar should be released as early as possible to allow adequate time for the budget preparation process.</p> <p>(3) To strengthen the budget preparation process by having decisions with fiscal impact, financial constraints, policy coordination mechanisms (budget-policy link) and operational efficiency (accountability for implementation) and by paying attention to the source of financing and the project approach.</p> <p>(4) To develop multi-year commitments for both capital and recurring costs of those government priority investment programs in order to ensure to fully cover the costs of completing, operating and maintaining such projects and related facilities.</p> <p>(5) To build the capacity of ministries and agencies on “how to link sector strategies/plans to budgeted investment programs by costing credibility for investment programs” and “how to propose realistic budget by developing agency’s strategic framework including (i) their mandate consistent with statutory requirement, (ii) a set of outcomes, (iii) the approaches to achieving these outcomes, (iv) a description of how activities and process will be used to achieve these objectives, and (v) a broad cost estimate by strengthening coordination and harmony in decision making as mechanisms for budgeting and policy formulation” in order to reduce approving supplementary budget by enhancing the capacity of institutions on realistic budget estimation during the fiscal year and improving budget credibility.</p>
<b>IV. To strengthen budget execution, accounting and reporting</b>	<p>(1) To strengthen the budget execution system by improving public expenditure management such as aggregate expenditure control, strategic resource allocation, and operational efficiency, making self-assessments on budget execution, programs review and budget executing survey.</p> <p>(2) To improve the overall institutional framework is to make the informal rules more visible, and to have behavior changes henceforward in budgetary outcomes when organizations and new units are merged, restructured, recombined and created by changing the basic rules, procedures, and incentives.</p> <p>(3) To strengthen government cash management by (i) centralization of government cash balances and establishment of a Treasury Single Account (TSA), (ii) having an adequate transaction processing and accounting framework with modern banking, payment, and settlement systems, (iii) having an ability to make accurate projections of short-term cash inflows and outflow, (iv) having a strong institutional interaction and coordination of debt and cash management, (v) making formal agreements between the MOPF and the central bank on information flows and respective responsibilities, and (vi) improving short-term instruments (treasury bill, term deposits, etc.) to help manage balances and timing mismatches and to minimize borrowing costs.</p> <p>(4) To strengthen the accounting system by (i) having adequate procedures for bookkeeping, security, and systematic comparison with banking statements, (ii) registering all expenditure and revenue transactions into the account, including expenditures from funds and autonomous agencies, and aid-financed expenditures), (iii) having functional and economic classification of expenditure clearly and well-documented, (iv) producing statements regularly for tracking the uses of appropriations, (v) having clear procedures and full disclosure of budget financing operations (“below the line”) and liabilities, and (vi) having clear</p>

	<p>arrangements for the retention, access and security of supporting documentation, including computerized records.</p> <p>(5) Before accrual accounting is introduced, to strengthen cash accounting with functioning well in external audit and the legislature role, and by considering reform for quantity of resources for hiring and training of qualified personnel, installing software and contracting consultants to identify the full costs of activities, enabling improved decision making in resource allocation, and enhancing governmental control and capital investment decisions.</p> <p>(6) To strengthen the reporting system by covering required standards within the timeline of monthly, quarterly, mid- year, year-end reports for integrity and openness by developing clear and understandable new fiscal report framework including clear explanation on historical fiscal data and any changes to data classification in order to make assessment and judgment easily on the other hand to develop comprehensive internal audit manual with publicly accessible and to open and access the report finding, and covering all budgetary and extra budgetary activities of the central government.</p>
<b>V. To strengthen external oversight</b>	<p>(1) To strengthen the external auditing system with separate external audit law by elaborating the powers, roles and responsibilities of the OAG and performing the type of audit compliance and/or performance in order to report on annual budget performance to Parliament within six months, so that the audit report for previous fiscal year outcome can be used by Parliament in pre-budget discussions on the budget strategy for coming fiscal year by ensuring systematic follow-up of external audit findings with better quality governance as well as reduced corruption.</p> <p>(2) To strengthen examination by the Parliament of the government's draft budget proposals by (i) having a number of sectoral committees to deal with specific budget related issues in agriculture, defense, education, health, etc. as well as a specialist budget committee, (ii) balancing the overall consistency of budget policies and fiscal discipline and by enhancing the legislative capacity to deal with budget issues and improving research and information capabilities. In the long term, to establish a parliamentary budget office for analyzing budget policy alternatives, thereby enhancing Parliament's capacity to evaluate the government's proposed budgets.</p> <p>(3) To build the capacity of auditing staffs as well as to increase the audit staff strength by including people with other technical backgrounds, such as engineering skills, analytical skills, research skills, law skills, and IT skills, in technical matters and to enhance the collaboration with independent technical experts and the national statistical body.</p> <p>(4) To build the capacity of legislators and staff and improve the legislature's relationships with other branches of government and the public in order to enhance the legislature's role in the budget process as a powerful tool in developing checks and balances within governance systems.</p>
<b>VI. To strengthen human resource management and ICT</b>	<p>(1) To analyze existing staff strength, educational background and assigned works, and to assess further needs on staff strength and skills: focus on developing mechanisms to drive the reform process by (i) putting the right driver in the driver's seat and by making right decision, right time, and right place and (ii) looking towards the future for having institution's strategic human resource management plan for "how to implement the institution's commitments with many well trained skillful staff."</p> <p>(2) To fully utilize staff capacity in the best way and have strategies in place to train the staff</p>

	<p>not only on subject matter but also on management and communication skills. This can be achieved by using an incentive and reward system in order to encourage staff to be proactive and innovative. Moreover, having a more lateral structure by sharing vision and thoughts in order to have efficient and comprehensive works of institution will also help to fully optimize staff capacity.</p> <p>(3) To have a core team comprised of a small number of highly qualified, trained analysts and an experienced external adviser (if needed), all with excellent communication skills in addition to economic competence. This team should interact with each sector ministry in turn, and they should also interact with its staff to produce better-quality decisions and promote “teaching by doing.”</p> <p>(4) Before introducing sophisticated concepts of budget management, secure fundamental elements of budgeting preparation, implementation, and monitoring that permit effective control, promote transparency, foster accountability, and ensure legitimacy need to be firmly in place.</p> <p>(5) To set the IT strategy based on the organizational culture, such as innovative cultures supported by leading edge IT strategy, free market IT strategy, monopoly IT strategy and scare resource IT strategy; supportive cultures are encouraged to set a necessary evil IT strategy, and bureaucratic cultures are encouraged to set a centrally planned IT strategy, monopoly IT strategy and scare resource IT strategy.</p> <p>(6) To adopt more advanced ICT by meeting the following criteria: (i) fit the user requirements and the real objectives of the activity; (ii) assure that more advanced ICT goes hand in hand with improved rules and processes; (iii) protect data and systems integrity; and (iv) aim at an integrated strategy and avoid a fragmentary approach.</p> <p>(7) To consider advanced ICT tool’s potential and risks because it eliminates corruption opportunities for some but can open up new ones for others who are better able to understand and manipulate the technology.</p>
<b>VII. To have sequencing PFM reform to turn into outcome-oriented budgets among central and regional governments</b>	<p>(1) To have effective control inputs before seeking to control outputs; to strengthen account for cash before accounting for accruals; to strengthen external controls before introducing internal controls; to establish internal controls before introducing managerial accountability; to operate a reliable accounting system before installing an integrated financial management system; to have budgeting for work to be done before budgeting for results to be achieved; to enforce formal contracts in the market sector before introducing performance contracts in the public sector; to have effective financial auditing before moving to performance auditing; to adopt and implement predictable budgets before maintaining that managers efficiently use the resources assigned to them.</p> <p>(2) To implement the required steps in order to create an outcome-oriented budget such as: (i) defining measurable outcomes, (ii) standardizing the unit costs of delivery of services, (iii) benchmarking standards, capacity building for attaining the requisite administrative capacity, (iv) ensuring necessary funding, effective monitoring and evaluation, and (v) making the system far more inclusive through the participation of the community and the stakeholders.</p> <p>(3) To develop a Performance Monitoring and Evaluation System by using the Results Framework Document of the ministries and the government’s evaluation tools (with criteria for Effectiveness, Efficiency, Equity, Manageability, Legitimacy and Political support and</p>

dimensions with *Coerciveness, Directness, Automaticity, Visibility*). The ministries need to prepare an outcome budget and RFD while an outcome budget emphasizes on quantifiable outcomes. The RFD focuses on success indicators with which physical achievement of government programs through which managerial accountability can be ensured.

(4) To develop internal standards evaluating benchmarks for employees including: (i) the extent to which decisions have been decentralized to lower organizational levels, (ii) openness, closeness or the extent of hierarchical decision making, (iii) availability of opportunities for avoiding responsibility, (iv) the extent to which organizational resources have been distributed to employees, (v) the extent to which a multi-level commitment exists toward change, (vi) how well institutional incentive systems reinforce, rather than discourage, cross-functional cooperation, and (vii) the degree of integration of functional units that contribute to the production of goods or services.

(5) To improve fiscal outcomes of regional government by (i) reducing vertical fiscal imbalance, (ii) avoiding discretionary transfers with clear and transparent rules based transfers allocation (such as the number of school children or elderly people residing in a particular jurisdiction), and (iii) assigning each level of government for exclusive expenditure and revenue authority with full accountability and responsibilities.

## VII. Conclusion

Strengthening the public financial management system of a country is important in order to manage limited resources and ensure economic efficiency in the delivery of outputs required to achieve desirable outcomes serving the needs of the community. Since PFM includes all government activities of a country's budgeting process, most of the countries implementing PFM reform are in an earlier stage of national reform. Myanmar authorities have realized the importance of PFM and committed to reforming the country by completing a PEFA assessment in 2013 and implementing PFM reform according to the country's reform strategy starting in 2014. Now, after four years of PFM reform, it is time to examine the extent to which the PFM system has improved and to which extent Myanmar's PFM system needs to be strengthened in future.

Myanmar has already updated financial rules and regulations and established public debt management law, but it needs to further develop the country's PFM main law, public procurement law, and tax administrative and procedure law in the future. The strategic policy framework in budget planning is weak in Myanmar, and developing an overall strategic policy framework involving a multi-sectoral, multi-year policy oriented investment program and macroeconomic forecasting is highly recommended. Myanmar has already introduced a medium term fiscal framework and provides expenditure ceiling information to ministries. However, there is a limited time allowance for budget preparation and an unclear policy and budget guideline for the government's priority program, which needs to be improved. Therefore, to strengthen budget preparation, it is recommended to have strategic guidance for government priority investment programs as well as comprehensive budget guidelines that allow adequate time in the budget calendar, pay attention to fiscal impact, financial constraints, policy coordination mechanisms (budget-policy link) and operational efficiency with multi-year commitments for priority investment programs. For effective budget execution, it is suggested to improve public expenditure management and the overall institutional framework, strengthen government cash management and the accounting system, and strengthen the reporting system with a required standard format and timeline (even though Myanmar already has a strong manual system in accounting control and management). Although Myanmar has little experience with parliamentary budget oversight, as the parliament system was just introduced in 2011, the Office of Auditor General

and Joint Public Account Committee is strongly focusing on budget oversights of the government and external oversight is one of the good practices of current PFM system. It is suggested to strengthen the external auditing system using separate external audit laws and more closely examine the skill of Parliament on the government's draft budget proposals by establishing sectoral and budget committees as well as planning to establish a parliamentary budget office in future. Institutional management improvement is also recommended in order to use staff capacity in the more optimal way. This will allow management to focus on developing mechanisms to drive the reform process, for which the right driver is in the driver's seat, and to make the right decisions in the right time and right place, so that the institution's strategic human resource management plan is sound. Advanced ICT offers many benefits, including: (i) increasing the government's accountability, transparency, and participation, (ii) improving the efficiency and effectiveness of public sector operations as well as the comprehensiveness of budgeting preparation, and (iii) supporting monitoring that permits effective control, promotes transparency, fosters accountability, and ensures legitimacy. With these benefits in mind, it is recommended to set the IT strategy based on the organizational culture. Furthermore, in order to implement PFM reform successfully, it is very important to have sequencing in PFM reform. Before moving towards outcome-oriented budgets, it is suggested to strengthen the Performance Monitoring and Evaluation System and internal standards. These tools help to evaluate benchmarks for employees as well as improve fiscal outcomes of regional governments by reducing vertical fiscal imbalance and avoiding discretionary transfers. Clear and transparent rules during transfer allocation are also recommended.

Nevertheless, it is challenging to meet the fundamental goals of PFM such as prudent fiscal disciplines, credible budgets, reliable and efficient resource flows and transactions, and institutionalized accountability. It is not easy to achieve the good practices of PFM goals in Myanmar because it is very challenging to implement PFM reform in a country with many budget constraints, limited human resources, huge infrastructure needs, little experience in fiscal decentralization, and unstable commitments from internal and external partners due to political and social issues. Despite this, all citizens will benefit from ongoing PFM reform in Myanmar by managing limited resources to ensure the economic efficiency in the delivery of outputs required to achieve desirable outcomes serving the needs of the community.

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