

လွိုင်ကော်  
Loikaw

မြစ်ကြီးနား  
Myitkyina

ဘားအံ  
Hpa An

# BUDGET MONITORING AND OVERSIGHT SYSTEM IN MYANMAR

Renu Deshpande

Policy Dialogue Brief Series No.21

ရန်ကုန်  
Yangon

နေပြည်တော်  
Naypyitaw

မန္တလေး  
Mandalay

မြောက်ဦး  
Myauk-U

ထားဝယ်  
Dawei



**The Asia Foundation**

Improving Lives, Expanding Opportunities



# Budget Monitoring and Oversight System in Myanmar

**Prerenu Deshpande**

Policy Dialogue Brief Series No.21

September 2017

This Policy Dialogue Brief is a summary of the original report, Budget Monitoring and Oversight System in Myanmar

for the full report in English please visit: <http://asiafoundation.org/>

citation:

Prerenu Deshpande, September 2017. Budget Monitoring and Oversight System in Myanmar, Yangon: The Asia Foundation.

This Policy Dialogue Brief and the original report were generously funded by the U.S. Department of State.

## PoLiCy no te

### eXeCutive su MMar y

In the last five years, Myanmar has seen a political transition towards a democratic system of government and from a state-dominated to a market-oriented economy. It has also witnessed a transition towards greater decentralization. The union government has taken significant steps to strengthen its public financial management system and improve fiscal transparency, by establishing new institutions, procedures, and practices. Establishing parliament's Public Accounts Committee, granting autonomy to the central bank, and creating a treasury department are some of the initiatives that signal the government's determination to reform and restructure the existing public financial management system. With the publication of the Citizen's Budget and the Union Budget Law on the Ministry of Finance website, the government has demonstrated its willingness to improve budget transparency.

The union government has separated the state/region governments' budgets from the union, or national, budget. The states and regions have been given greater autonomy and responsibility to prepare their own budgets. The state/region governments are also responsible for collecting 19 taxes and fees, although to date they have largely continued to rely on fiscal transfers (a mix of shared revenues and grant transfers) from the union level to fund their activities. The grant pool and the allocations to states and regions for the grant transfers are based on the Medium-Term Fiscal Framework, which uses a simple formula comprising six indicators. The scope and mandate of the states/regions to make public expenditures remains limited, however, as a range of expenditures and the administrative system at the state/region level continue to be under the control of union line ministries.

The budget, being a central policy document of government, is a primary instrument of fiscal policy that affects the functioning and management of the economy. The budget demonstrates how the government will prioritize and resource its annual and multi-year objectives, and allocates resources to achieve the desired outcomes.

The budget process in Myanmar is top driven, elaborate, and guided by past practice. It begins with the Ministry of Planning and Finance (MoPF) issuing the budget circular in September, although for the financial year 2017–2018 there was a delay, and the budget authorities issued the budget circular in late November.

In Myanmar, the budget process is focused on control, with emphasis on controlled processing of transactions and avoiding budget overruns, rather than on broader accountability for the effective use of resources. Further distinction between capital and recurrent expenditures, and the use of inadequate budget classification systems, fails to clearly link plans with budgets on the one hand, and discourages the articulation of expected outcomes and the assessment of success or failure on the other hand.

MoPF receives limited feedback. There is no evidence that appraisal reports, if there are any, are considered in the course of preparing or monitoring the budget. The government relies on reports of the office of the auditor general (OAG) rather than on internal standards and review by MoPF or the departments themselves. The OAG's limited compliance audits and financial audit reports provide some feedback to MoPF about compliance with minimum requirements. The focus of audits is transactions rather than systems and processes. An internal audit has recently been established, and the internal auditors have received some brief training. As of now, the role of the internal audit continues to be limited to checking transactions, before and after the fact,

to verify that all expenditures are booked to the correct accounts and that all the transactions have been recorded. An internal audit manual has been developed with the support of partners, but it has not yet been accepted by the government. The nascent internal audits in spending bodies do not give ministry senior managers sufficient assurance that financial systems and procedures are being well managed, that rules and regulations are being observed and enforced, and hence that government monies are being used efficiently and effectively.

The national parliament has a fundamental role in authorizing budget decisions and holding government to account. Legislators and their constituents should be informed participants in the national discussion of budget policy, for which access to budget documents and data is necessary. Overall, it appears that parliament is able to perform this role, and that government does provide the necessary documents and reports. Some parliamentarians have used social media to inform their constituents about budget proposals and appropriations. The newly constituted Joint Parliamentary Accounts Committee (JPAC) has actively reviewed the budget for FY 2017–2018 and has also suggested budget cuts. The only formal mechanism for holding the government to account is discussion of the audit reports in parliament. In the past, these audit reports have been actively discussed by JPAC and the parliament. The audit report for FY 2014–2015 is yet to be delivered to parliament, and it remains to be seen how actively this report will be reviewed, as most legislators are new to the process.

Inadequate information hampers public discussion of how the government spends its resources on behalf of the public. The government's framework for economic and social reforms, and the Nay Pyi Taw accord on effective Development cooperation, provide

for citizen participation through inclusive policy dialogue, inclusion in the political process, and steps to promote accountability. This implies citizens are aware and informed, however, and the reality is that a large section of the population remains unaware and there are few avenues for people's participation in the budget process. The Budget Law provides a limited snapshot of central government revenues, expenditures, and financing, but there are significant unreported government operations, which undermine budget comprehensiveness and transparency.

The citizen's Budget 2016–2017, or "People's Budget," is a commendable effort to provide some basic information to citizens and a first step to increase awareness and improve budget literacy. Access to meaningful information is a key determinant of the success of public participation in monitoring and evaluating the government budget. The government, civil society, the media, and the public all have a responsibility and a role to play.

## **PoLiCy oPtions**

### **enhancing the transparency of Public Finances**

*Improve fiscal transparency.*

In recent years, the government of Myanmar and other stakeholders have taken commendable steps to improve fiscal transparency. Improved media reporting, televised parliamentary debates, budget analysis by third parties, and initiatives by civil society organizations to improve budget literacy and provide a platform for public debate are some of the fruits of stakeholder initiatives. The enacted budget and the citizen's Budget at the union level are now available in the public domain.

Fiscal transparency would be further improved by publishing comprehensive budget documents,

including information on debt obligations, and making supreme audit institution (Sai) reports and the audited accounts of state-owned enterprises publicly available. The MoPf should consider making public, in a form easily understood by ordinary citizens, the budget documents that it already produces, such as the pre-budget statement, the executive's budget proposal, the in-year report, and the year-end report. This will not only improve fiscal transparency, but also ensure fiscal discipline.

### **Continuing Public Financial Management Reforms**

#### *Strengthen the budget classification system.*

Budget classification is one of the fundamental building blocks of a sound budget management system, as it determines how the budget is recorded, presented, and reported, and as such has a direct impact on the transparency and coherence of the budget.<sup>1</sup>

Myanmar's current classification system does not provide an adequate framework for linking expenditures to programs. This impedes the effective allocation of resources and hampers performance evaluations that ensure accountability. It can also prevent legislators and the public from having any meaningful discussion of the budget. The government should consider improving the budget classification system in line with international best practices.

#### *Establish comprehensive financial rules and procurement guidelines.*

MoPf provides a broad framework for financial rules, and Directive 1/2013 of the president's office, Tender rules in allowing to conduct investment activities and economic activities,

published on April 5, 2013, contains limited guidance for review and approval of public procurements. Each ministry has developed its own set of procurement and financial rules. This proliferation of different rules often compels line departments to seek clarifications and approvals that hamper effective project implementation and lead to inefficient budget management. The MoPf should exercise greater ownership in this area by developing uniform, comprehensive financial and procurement guidelines to increase clarity and efficiency at the operational level.

In addition, for the sake of uniformity, as the country has neither a central procurement authority nor any procurement law, the government should adopt comprehensive financial regulations and procurement guidelines that include internal approval requirements and clear lines of authority. The government should develop a procurement law for public entities establishing the principles and procedures for contracts and purchases. Basic information on all such awards should be made public to improve accountability and transparency in the public procurement system.

#### *Strengthen internal monitoring and evaluation procedures.*

The MoPf receives limited feedback on budget preparation and execution. The existing system focuses more on control than accountability, and the focus of budget monitoring is on avoiding overspending rather than on the performance, efficiency, and effectiveness of a program or activity. Limited budget compliance audits and financial audit reports provide some feedback to MoPf about the observance of minimum requirements. The focus of audits is transactions rather than systems and processes. The nascent

---

<sup>1</sup> Davina Jacobs, Jean-Luc Héris, and Dominique Bouley, *Budget Classification*, (International Monetary Fund, 2009), <https://www.imf.org/external/pubs/ft/tnm/2009/tnm0906.pdf>.

internal audits in spending bodies do not give ministry senior managers sufficient assurance that financial systems and procedures are being well managed, that rules and regulations are being observed and enforced, and hence that government monies are being used efficiently and effectively.

Performance, evaluation, and value for money must become integral to the budget process. The use of supplementary budgets, reappropriations, savings, and surrender suggests that an unrealistic budget preparation process is failing to reflect the needs of the spending agencies, and that there is a disconnect in the budget between needs and allocations. To make budgets credible, the government should routinely and openly conduct prior evaluations of all substantive new policies to assess their congruence with national priorities, clarity of objectives, and anticipated costs and benefits.

expenditure programs should be comprehensively evaluated and regularly and objectively reviewed (including associated staffing resources and tax expenditures) to inform and prioritize resource allocation in line ministries and across government as a whole. The government should build the capacity of the Project Appraisal Progress Report Department to conduct evidence-based performance evaluations to ensure that programs are performing and that outcomes are being achieved. The government should also consider soliciting third-party evaluations of government programs and projects by autonomous institutions such as universities.

internal procedures to allow the government to periodically take stock of overall expenditures (including tax expenditures), reassess their

alignment with national priorities and fiscal objectives, and consider the results of evaluations in the budget execution phase, will make budgets a better tool for the government to translate national resources into allocations for sustained development. Toward this end a fully independent internal audit organization should be established, with trained staff, adequate resources, and a clear mandate and charter, to assure authorities that risk management, governance, and internal controls are working and that the ministries and departments are achieving their objectives.

### **ensuring transparent and rational Prioritization of investment Projects**

criteria, rules, and procedures should be developed for the Planning Department, line departments, and state/region governments to prioritize projects in their capital budgets. This will encourage a transparent and rational process, and prevent projects from being chosen based on the status of their proponents. The Budget Department should devise a similar set of transparent criteria and guidelines for appraising budget proposals.<sup>2</sup>

### **ensuring effective oversight**

*Improve oversight by OAG and enhance its independence.*

Provide security of tenure. Under article 245 of the constitution, the terms in office of the auditor general and deputy auditor general are the same as the president's. Current legislation also allows the president to require the resignation of an auditor general or deputy auditor general who cannot discharge his duties efficiently.<sup>3</sup> To better empower these officials to vigorously and impartially discharge their duties, they

<sup>2</sup> Roger Shotton, Zin Wint Yee, and Khin Pwint Oo, *State and Region Financing, Planning and Budgeting in Myanmar: What are the Procedures and What Are the Outcomes?* (Renaissance Institute and The Asia Foundation, 2016), <http://www.burmalibrary.org/docs23/AF-2017-02-08-State-and-Region-Financing-Budgeting-and-Planning-in-Myanmar-en-tpo-red.pdf>.

<sup>3</sup> Constitution of Myanmar (2008), Article 245(c).

should have greater security of tenure and legal protections from removal, in line with existing international standards.<sup>4</sup>

Reducing the government's control of the OAG's budget will also increase its independence. Currently, the budget process treats OAG like any other government department, but according to international best practices, an SAI, in this case the OAG, "should have a available necessary and reasonable human, material, and monetary resources, the executive should not control or direct the access to these resources," and "SAIs manage their own budget and allocate it as appropriate." Furthermore, "the legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfill their mandate," and "SAIs have the right of direct appeal to the legislature if the resources provided are insufficient to allow them to fulfill their mandate."<sup>5</sup> The OAG should also publish its own audit report once it has been tabled in the parliament, and place it in public domain.

To improve oversight of the use of public monies, OAG auditors need greater capacity to carry out risk-based and performance audits. To improve the department's efficiency, a mechanism is needed to improve audit planning and execution, and to ensure that ministries and departments comply with audit findings and report back to the OAG on action taken. The OAG should invest in information technology, to support better audit planning, and a computerized follow-up mechanism. This follow-up mechanism will enable the OAG to monitor ministry and department compliance with audit results and recommendations.

#### *Enhance parliamentary oversight.*

To improve parliamentary oversight of the budget process, build the capacity of parliamentarians to conduct meaningful budget analysis:

- (a) conduct short training programs to improve understanding of the budget and budget processes and unpack information on government programs, revenues, and expenditures contained in budget and plan documents.
- (b) Develop training programs targeting members of legislative committees such as JPaC, the Joint Bill committee, and the Public accounts committee (PaC) that enable them to scrutinize the budget more effectively and play an informed role in assessing budget proposals.

The committees need adequate staff and funds to carry out their duties. JPaC staff should have the necessary technical expertise in revenue and expenditure forecasting and implementing monetary and fiscal policy. A unit of trained researchers should be available to conduct before- and after-the-fact analysis of the budget and assist JPaC in its debates.

Committees and legislators must have sufficient time to discuss and approve the budget in parliament. The annual budget timetable should be reviewed and revised to allow the Huttaw and the PaC to examine the budget proposals at an early stage.

---

<sup>4</sup> International Organization of Supreme Audit Institutions (INTOSAI), *INTOSAI Guidelines and Good Practices Related to SAI Independence* (Vienna: INTOSAI, n.d.), <https://static1.squarespace.com/static/57019a6db6aa607cbb909ab2/v/5799315f2967f4a1f0619e3/1469657441073/3.4+ISSAI+11+-+INTOSAI+Guidelines+and+Good+Practices+Related+to+S+AI+Independence.pdf>.

<sup>5</sup> Ibid.



## empowering People for Public Participation in the Budget Cycle

Meaningful public fiscal information is quite limited, reducing the chances of public engagement on these issues, and information that is available offers little insight into budget allocations that would allow stakeholders to play an effective role in the budget process.

A first step toward greater citizen involvement would be to make the plan and budget documents publicly available in an easily understandable form. The Budget Law, which contains a comprehensive account of union government revenues, expenditures, and financing, should be published.

Increase budget literacy and build public awareness of the planning and budgeting processes among community-based organizations, nongovernmental organizations, civil society organizations, the media, and the general public. The government could develop instructional modules on the planning and budgeting process and explore the use of TV channels such as the Hluttaw channel to educate the public. The government of Myanmar, its development partners, and civil society all have important roles to play in this.

Establish procedures to increase meaningful public participation. At the budget preparation stage, for example, include the township budgets that incorporate the action plans developed by the village committees into the state/region budgets. Build a mechanism that enables community leaders to monitor how money is being spent at the local level. This will require the government to disclose the budget allocation that is available for a program or a village. Allow citizens to lodge complaints, including anonymous complaints, about misuse of public monies, corruption, or fraud, and create an impartial authority to investigate complaints. The findings of the investigation should also be placed in the public domain.

Community-based, nongovernmental, and civil society organizations could assist the government by conveying lessons learned over the last few years in Myanmar, as well as some of the techniques and tools employed in other countries.

The table below proposes short-term (within the next year) and long-term (within 3–5 years) policy options to improve budget monitoring and accountability.

Objective	Short-term Options	Long-term Options
enhance the transparency of public finances.	<p>Publish the union Budget Law online and in the government gazette.</p> <p>Publish the state/region budget laws online and in the government gazette.</p> <p>Publish the pre-budget statement online.</p>	<p>Publish the budget documents, such as the in-year report and the year-end report, and make them publicly available.</p> <p>Remove the distinction between capital and recurrent expenditures, and reform the accounting and budget classification system in line with international standards.</p>

oBJeCtive	short -ter M oPtions	Long -ter M oPtions
r efine the planning and budgeting process.	<p>announce budget ceilings and the budget calendar early in the budget cycle.</p> <p>Place the Medium-Term fiscal framework analysis in the public domain.</p> <p>Develop comprehensive financial and procurement rules.</p>	<p>Prepare sector strategies with complete costing of investments and recurrent expenditures.</p> <p>Develop a procurement law for public entities establishing the principles and procedures for contracts and purchases. Make basic information on all such awards public, to improve accountability and transparency in the public procurement system.</p>
ensure transparent and rational prioritization of investment projects.	Develop a set of criteria, rules, and procedures to prioritize projects.	Publish the criteria, rules, and procedures, and conduct reviews to ensure that they are consistently applied.
Promote public engagement and feedback.	<p>raise awareness of the planning and budgeting process and increase budget literacy.</p> <p>conduct public consultations and elicit responses to the pre-budget statement.</p>	<p>Develop a mechanism that allows community leaders to monitor how government monies are spent at the local level.</p> <p>incorporate the action plans developed by village communities into township budgets and then into the union and or state/region budget.</p> <p>establish a formal mechanism for citizen complaints, and publish the results of investigations.</p>
Build a performance and evaluation mechanism.	<p>Strengthen the internal audit (ia) system and build the capacity of ia staff.</p> <p>Develop an ia manual.</p> <p>explore the possibility of independent evaluations by autonomous bodies such as universities.</p>	<p>establish an ia charter and an ia committee.</p> <p>refine existing institutional arrangements to periodically evaluate programs and projects, and create a mechanism to ensure that these evaluations inform the budgeting process.</p> <p>Build the capacity of the identified institutions to undertake independent evaluations.</p>
improve oversight of public monies.	<p>Build the capacity of legislators and committee members.</p> <p>Build oag's capacity to conduct performance audits.</p>	Provide secure tenure to the auditor general and deputy auditor general to improve their independence.





# **The Asia Foundation**

Improving Lives, Expanding Opportunities