Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 08-Jun-2020 | Report No: PIDC29838

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Myanmar	P173586		Myanmar Public Financial Management Project II (P173586)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EAST ASIA AND PACIFIC	Dec 07, 2020	May 25, 2021	Governance
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Republic of the Union of Myanmar	Ministry of Planning, Finance and Industry	

Proposed Development Objective(s)

Strengthen fiscal stability, transparency and efficiency of core public financial management functions and public services

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	50.00
Total Financing	50.00
of which IBRD/IDA	50.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	50.00
IDA Credit	50.00

Environmental and Social Risk Classification	Concept Review Decision
Moderate	Track II-The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **In 2011, Myanmar embarked on a triple transition: from a planned to an open market economy; from conflict to peace; from military to civilian rule – bringing significant changes to the management of public finances and the economy.**

    - **The transition from a planned to an open market economy** brought about average annual growth rates of 7 percent and a decline in share of the population living in poverty from 42.4 percent in 2010 to 24.8 percent in 2017.[1] Access to electricity has nearly doubled, particularly in rural areas, albeit from a low base, and mobile phone ownership rose from 4.8 percent in 2010 to 82 percent in 2017.

    - **The political transition to civilian rule** has seen the country's first free and fair open elections, with a peaceful transition of power to a new civilian government.[2] Further open elections are expected end of 2020, media and social media enjoy greater freedom and have played an increasingly active role in public debate, and a blossoming civil society has bolstered voice and accountability mechanisms.

    - **The transition towards peace** has seen a Nationwide Ceasefire Agreement (NCA) signed by 10 out of 20 ethnic armed groups. The NCA commits all parties, including ethnic stakeholders and the military, to a political dialogue aimed at negotiating the form of Myanmar's future democratic and federal system of government. While conflict remains, the dialogue is ongoing. The transition is closely linked to reforms in decentralization and increased autonomy of states and regions, including financial.

2. **With progress on many fronts, the transitions are far from complete**. The shortfall in tax revenues and fiscal space are severely constraining development and this is being aggravated by the COVID crisis. This is notably due to large tax exemptions undermining the tax administration reforms. Some of these exemptions are directed at large infrastructure projects, highlighting challenges in public investment management and limited allocative efficiency. Tax collection and enforcement is hampered by cumbersome manual processes. Not all groups or geographic areas have benefited equally from the transitions. Economic growth is spatially unbalanced and concentrated in the growth poles of Yangon and Mandalay. Per capita income differences across geographic regions are large, ranging from MMK 3 million (ca. US$1,986) in Yangon Region to MMK 820,000 (US$547) in Chin State. Around 13 million people remain poor and an additional 6 million are barely above the poverty threshold. Three-quarters of the rural population, in contrast, remains disconnected from the national electricity grid, and around two thirds of rural residents' lack access to all-weather roads. Myanmar has one of the most difficult business environments in the world and ranked 165 out of 190 countries in the 2020 Doing Business index. It is ranked 129th in terms of ease of paying taxes and access to key production factors such as financing (181th), electricity (148th) or land/ property (125th) remains very constrained. The country remains one of the most vulnerable to the risks of climate change, having already experienced widespread natural disasters such as coastal storms, floods and droughts. Furthermore, its reliance on gas exports exposes it to the risks from the global transition to low carbon economies. Ongoing subnational armed conflicts put pressure on fragile gains. Myanmar has been more deeply affected by subnational conflict than any other country in

[1] https://www.worldbank.org/en/country/myanmar/publication/poverty-report-myanmar-living-conditions-survey-2017
[2] Furthermore, the political system is hybrid rather than fully civilian, with the military guaranteed one-quarter of seats in both the upper and lower houses, as well as in the 14 provincial assemblies. It also controls three key ministries and is not under civilian oversight.

Asia. While governments since 2011 have made peace a top priority, clashes continue to occur in several states, especially Kachin and Shan.

3. **Responding to these changes and challenges, the government has launched the MSDP in August 2018.** The MSDP is the most important expression of the government's proposed development strategy and provides a coordinated and comprehensive framework of the country's various existing sector and thematic-level plans. It lays a series of action plans along its 5 goals and 3 pillars to foster sustainable and inclusive economic growth alongside peace and national reconciliation. The plan places emphasis on strong economic management, good economic governance and articulates the modernization of Myanmar's PFM systems as means to enable the efficient, accountable, transparent and responsive delivery of public finances and services.

4. **The COVID pandemic has placed significant pressure on progress made and on the pursuit of government's objectives under MSDP, including financial stability.** Significant economic pain seems unavoidable in all countries around the EAP region. Global and regional growth prospects have been battered first by a supply shock and now a widening shock to global demand. This shock will have a serious impact on public finances, with a revenue contraction estimated at 11%. It is also expected to negatively impact poverty, with estimates that nearly 24 million fewer people in EAP region will escape poverty across the region in 2020 than would have in the absence of the pandemic, lower-case scenario estimates a poverty increase by about 11 million people. These consequences will also be reflected in Myanmar, where GDP growth for fiscal year 2019/20 is estimated to decline to a range of 2 to 3 percent from 6.3 the previous year.[3] Furthermore, the poverty rate could increase from 24.8 to 28.4 percent if incomes from agriculture were to decrease by 50 percent in one quarter and up to 32.3 percent of the population if the 50 percent income loss lasted two quarters.[4]

Sectoral and Institutional Context

5. **Myanmar has taken on major fiscal and PFM reforms to support its ambitious socio-economic development plans laid out in the MSDP.** Revenue reforms and growth have increased general government receipts from 6 to 12 percent of GDP between 2009 and 2015 but have since decreased down to under 11 percent of GDP in 2018. The first Public Expenditure Review for Myanmar (2015) has shown that since the country opened up in 2011 it moved quickly to allocate considerably more resources to priority public services. The government has acted to safe-guard macro-fiscal stability by adopting a medium-term fiscal framework with a target deficit of 5 percent of GDP and slowly phasing out Central Bank financing. Expenditure on education quadrupled during 2009-2013 and expenditure on health increased nine-fold during the same period, all while maintaining fiscal deficits at below 5 percent of GDP.

6. **But the country still faces constraints that hinder its investment and growth potential, in the form of low revenue collection, under and mis-allocated spending, persistent fiscal risks, and low fiscal transparency and public participation.** Even before the pandemic, Myanmar had low fiscal buffers with low tax collection (6 to 7 percent of GDP) and economic activity in either hard-to-tax sectors or dominated by small and micro enterprises. The second Public Expenditure Review (2017) highlighted deteriorating fiscal conditions partly owing to structural challenges - dependence on commodity receipts, vulnerability to natural disasters, and a narrow production base. Myanmar has limited options for financing its deficit with a nascent bond market and has expressed interest in the IMF COVID emergency financing and in the G20 debt moratorium initiative. Myanmar needs significant public infrastructure investment to address critical infrastructure gaps that are holding back private investment and General government spending is still small relative to public service and infrastructure needs.[5] Despite these substantial needs, public

3 East Asia and Pacific in the Time of COVID-19, the World Bank's April 2020 Economic Update for East Asia and the Pacific
4 World Bank Myanmar country office estimates
5 World Bank (2017). "Myanmar Public Expenditure Review: Fiscal Space for Economic Growth".

capital spending in Myanmar is low and falling. Furthermore, the government needs to almost triple its total spending on education and total health spending needed to reach its high-performing peers is estimated at 9.6 percent of GDP by 2030.[6] However, a narrow fiscal base, vulnerability to shocks, and institutional weaknesses prevent public services and infrastructure to keep up with growing needs.

7. **The COVID-19 outbreak has put a strain on public financial management systems and fiscal stability, thus necessitating a stronger focus on key areas of reform.** Preliminary estimates show that Myanmar's budget for 2019/20 FY will be adversely impacted, with the projected deficit rising to 7-8 percent of GDP.[7] Fiscal deterioration is driven by: (i) revenue declines on account of falling natural gas prices, which are expected to lower revenues by 1-1.5 percent of GDP and (ii) income and commercial tax revenue declines of close to 1 percent of GDP on account of slowing growth, and thus a lower tax base. Additional COVID-19 response measures towards tax exemptions and deferrals as well as expenditure interventions to support public health measures and support of vulnerable firms and households will increase the deficit further. Finding additional sources of financing of this fiscal gap is thus an urgent priority. In addition, cash management and procurement functions will be placed under pressure to ensure finances are well positioned to ensure efficient use of public resources, including to procure critical medical equipment. The extent of active cash management - the smoothing of the cash balance through market operations - is quite limited. A paper based and fragmented nature of the government's overall liquidity management means that a lot of liquid assets are likely not being used efficiently. Procurement is highly decentralized across government, which means that the volumes and total values are small for each procuring entity which leads to inefficiencies and can result in delays in procuring medicine and critical medical equipment. All of this suggests that GoM's efforts to reform tax, treasury and procurement functions will require an even greater support to avoid reversal of progress and ensure strong and sustainable recovery from the health and economic shocks brought by the pandemic.

8. **Myanmar has taken important steps towards achieving its visions of digital transformation; however, the COVID-19 crisis has underscored the importance and urgency of MOPFI's IT reforms to mitigate the crisis' impact through increased processing effectiveness, strengthened business continuity and resilience of core PFM functions and systems.** The crisis has and resulted in unforeseen costs and expenditures, highlighting the need for technological solutions to manage the crisis and enable transparency by supporting efficient cash management and the ability to track and report disaster relief and response expenditures. The disruption in public administration caused by spatial distancing requirements has likewise raised the need for IT solutions to enable business continuity through remote and secure access to systems and services. Through World Bank support provided in the first phase of PFM reform, MOPFI articulated an IT Strategy which will support these efforts in the short to medium term. The Strategy aligns with the ICT Master Plan to promote whole-of-the-government approach to digitalization and incorporates analog complements like policy, process and people to achieve optimal outcomes through digitalization platforms. The Strategy is organized into two parts: Part 1 covers the General IT Systems: Vision, Policy, and Strategy; Organization and Governance; Digital Infrastructure, Cybersecurity, Business Continuity; and Part II deals with the Systems and Platforms for MOPFI's 8 key functional areas: GIFMIS, Budgeting, Public Investment Management (PIM), e-Procurement, Payroll, Pension, Asset Management, and Debt Management.

9. **A second wave of reforms is needed to sustain growth by *collecting more revenue* to expand the budget envelope, *spending better* to fund priorities, and *managing risks* from direct and contingent liabilities, as part of an integrated, macro-fiscal and public finance strategy.** Meeting large investment needs to achieve its development objectives while keeping the GoM's commitment to continuing prudent fiscal discipline (and to maintaining the fiscal deficit to no more than around five per cent of GDP) will require a comprehensive strategy for both revenue

[6] Myanmar currently spends about 4.1 percent of GDP on health. About 1.1 percent of GDP is government expenditure; IMF (2019), 2018 Article IV Consultation-Press Release, April 2019

[7] According to the baseline without factoring in proposed expenditure increases. This deficit is 2-2.5 percent of GDP higher than the fiscal target of 5 percent of GDP, which can be sustainably financed through existing domestic and foreign financing sources

mobilization and investment management. The Myanmar Public Expenditure Review 2017 found that while Myanmar can afford to borrow more, it could incur unsustainable debt if economic growth were marginally slower or the fiscal deficit slightly larger than what is projected in the baseline scenario. Growth could be significantly affected by the efficiency of capital spending, SEE operations, and the tax system, and by public-debt sustainability. The MSDP recognizes that a second wave of reforms with large investments in both physical and human capital is needed to achieve sustainable development, along with peace and stability.

10. **Improving public finances and public financial management are a necessity to deliver on the MSDP and therefore a core priority of the Government.** Significant progress was made during the first phase of PFM reforms, yet weaknesses and bottlenecks persist. The 2020 PEFA assessment showed improvements in 64% of the performance indicators since the 2013 assessment, which is very rare. Progress is noted in budget credibility, comprehensiveness and transparency of fiscal information, budget preparation process, foundational elements of modern tax administration, legislative scrutiny and timely approval of the annual budget. The PEFA assessment's more ambitious 2016 framework also highlighted weaknesses which constrain the expected public financial outcomes and the delivery of the MSDP (figure 1). These areas for further development include fiscal risk reporting and management, public investment management, fiscal strategy and medium-term budgeting, public procurement and financial controls. There areas are also prioritized in the second phase of the PFM reform strategy and this project.

11. **Increasing the weak tax revenues, which at just 6.4 percent GDP in 2017/18 is among the lowest in the world, is a priority, as it severely constrains Myanmar's fiscal space and socio-economic development.** Since 2012, Myanmar has tried to balance its short-term need for raising revenue, with its long-term objective of building an effective and equitable tax system. MoPFI has adopted a comprehensive medium-term tax reform roadmap, foreseeing the modernization of tax policies, tax administration and collection, tax information systems, human resource strengthening, improved transparency and integrity. Preliminary reform results are positive but have yet to translate into increased revenues. However, the tax system is still characterized by revenue leakage, a narrow tax base and weak tax administration, with the exception of a few islands of excellence. The focus has been on modernizing tax administration by (i) restructuring tax administration by taxpayer size - the Large Taxpayer Office (LTO), Medium Taxpayer Offices (MTOs) and Small Taxpayer Offices (STOs) have now been established; and (ii) moving from the Official Assessment System – which depends on taxpayer accounts and bookkeeping in order for tax officers to assess liabilities – to the Self-Assessment System coupled with tax audits. Large taxpayers of LTO are now self-assessed and audited. A new tax administration law was just adopted and along with the integrated tax management system is expected to improve the transparency, integrity and efficiency of tax collection. These reforms will be complemented by tax policy reforms, starting with the income tax law, the commercial tax law and the excise taxes. Tax incentives will also need to be rationalized and more transparent to improve tax revenue and justice.

12. **Despite significant public investment needs, capital spending in Myanmar is low and exacerbated by constraints in PIM system.** The 2020 PEFA assessment has highlighted challenges of the existing PIM processes: weak appraisal, lack of guidance to line ministries on prioritization, limited independent review, inadequate public asset management, weak monitoring and absence of impact evaluation of capital investments. Project appraisal and prioritization are hampered by the lack of a formal legal mandate for MOPFI, a fragmented PIM function and information system, insufficient financing, as well as weak capacity, undermining the quality of the pipeline and allocative efficiency. The 2017 PER has also highlighted productive efficacy issues with execution challenges causing long delays in completing projects and cost overruns. In an effort to improve the system the GoM has created a project bank to strengthen the project pipeline, increase transparency and leverage external financing for strategic projects linked with the MSDP. Its implementation and its integration in MOPFI's planning and budgeting practices will require modernizing the legal and regulatory framework and information system.

13. **Public procurement in Myanmar is fragmented across the public sector, source of delays and lacks transparency and competition**. The overall procurement framework is highly decentralized and fragmented with many different rules for different procurement entities. This is source of confusion, discretion and likely time and cost overruns. The legacy of a command economy and history of isolation from the global economy has had a significant effect on public procurement. Potential tenderer (domestic private sector) has remained mostly undeveloped in markets government operates. However, there is a clear recognition of the growing importance of procurement and its impact on the economy, efficiency, lower prices, quality and choice of procured goods / services and overall value for money. This recognition is reflected in the forthcoming draft procurement law. The implementation of the new framework will likely face a number of development issues that will need to be addressed to maximize its impact. The ability of procurement regulation to achieve positive results will need to be supported by the creation of the required organizational and institutional structures and a significant capacity building effort.

14. **The PFM bottlenecks in budget formulation and execution affect the efficient allocation, availability, and use of resources for social service delivery in several ways.** Multiyear planning is hampered by the disconnect between annual budget allocations and the ambitions of sectoral medium-term strategies, such as the National Health Plan. The cumbersome, paper-based budgeting practice is source of delays and errors. Rigid budget rules and practices and the lack of timely information of budget execution hampers the flexibility and responsiveness of service delivery units, as evidenced by the COVID crisis. The absence of clear standard operating procedures, weak monitoring and reporting systems and the lack of risk and performance-based controls hamper managerial initiatives and accountability, as evidenced by the PFM diagnostics in health and education.

15. **Public sector accounting and financial reporting in Myanmar do not reflect internationally accepted standards (IPSAS) and provide little added value over budget execution reporting.** Financial reports are focused largely on budget execution and for compliance controls. Current deficiencies in these cash-based public sector accounting and financial reporting practices affect the quality of financial management in the public sector and the resulting quality of government stewardship, resource allocation, and service delivery. Myanmar is also seeking to prepare ‘whole of government’ consolidated financial statements, as well as disclosures relating to debt and other liabilities, which are encouraged disclosures under the Cash-Basis IPSAS. This will be an important step to continue to strengthen Myanmar’s nascent structures for accountability and thus complement improvements in the quality and transparency of budgetary information.

16. **Financial controls and external oversight continue to follow compliance-based administrative systems rather than risk-based frameworks.** Despite some recent reforms including revised Financial Rules and Regulations adopted in in 2017 and introduction of a risk-based financial audit framework in 2019, there is still a weak delegation of authority in Myanmar, following the change from the previous military regime. Further support is needed to develop and apply a modern risk-based system of internal control and continue to evolve external oversight provided by key accountability institutions, the Office of the Auditor General (OAG) and Joint Public Accounts Committee (JPAC), from nascent stages in order to perform effectively. Moreover, the 2020 election is expected to bring new and inexperienced JPAC members for whom capacity must be developed to provide effective budget and accounts oversight. In response to COVID-19 and the related debt suspension initiative, there is a need and demand for additional oversight of disaster related expenditures.

17. **External audit reports on GoM financial statements are not publicly available, limiting public scrutiny of government spending.** The JPAC report (7/2018) on the Office of the Union Auditor General’s Audit Report for fiscal year 2016/17 was discussed at a full session of the legislature and posted at the Ministry of Information’s website (https://www.moi.gov.mm/moi:eng). Public scrutiny was achieved by transmission of the proceedings by the mass media, i.e., Myanmar daily newspaper, radio and television, which allows citizens to follow what is currently

happening in committees. However, the only report that has been made publicly available concerning the external audit is the summary findings of the JPAC. This inadequate information hampers public discussion of how the government spends its resources on behalf of the public.

Relationship to CPF

18. **The proposed project is consistent with the strategic directions of the Myanmar Country Partnership Framework (CPF).** The CPF's link to the MSDP ensures consistency across higher level objectives and the project's strategic cohesion. The project's focus on strengthening public institutions, accountability and service delivery is aligned with the strategic directions of the CPF. More specifically, focus on strengthening capacity of public institutions to make policies, plan and deliver services more effectively, transparently reflects focus area 1 of the framework. Emphasis to strengthen institutional capacity for macroeconomic management contributes to focus area 2, while the project's aim to establish a foundation for effective public investment management stands as a key pillar contributing to the CPF's third focus area's objective of improving the sustainable management of natural resources.

C. Proposed Development Objective(s)

Strengthen fiscal stability, transparency and efficiency of core public financial management functions and priority public services

Key Results (From PCN)

The PDO indicators which identify key results and aim to measure contribution to fiscal stability and the efficiency and transparency improvements expected from the public financial management and governance reforms supported by the project, are:

1. Improved tax collection from large and medium taxpayers by 10%;
2. Increased vetting of major public investments and disclosure of the summary appraisal reports;
3. Increased transparency and efficiency of procurement in MOPFI and priority public services;
4. Improved budget flexibility, reallocations and contingency fund
5. Improved transparency, accountability and oversight of public finances through improved accounting and greater disclosure of financial information

D. Concept Description

Component 1: Improving fiscal stability and allocative efficiency

19. This component contributes to the PDO by providing financing, technical assistance and capacity building to support fiscal stability, by enabling Myanmar to collect more revenues, spend better by allocating resources more optimally, in line with the MSDP and COVID economic relief plan while managing fiscal risks. The proposed intervention is critical to ensuring macro-fiscal stability and strengthen fiscal management in a comprehensive manner – by increasing the available fiscal space by 'collecting more' revenues (focus of subcomponent 1.1), efficiently utilizing the available

space ('spending better') particularly by strengthening Budget and Public Investment Management (focus of subcomponent 1.2) and by supporting MOPFI to effectively monitor and manage mounting fiscal risks and pension liabilities (focus of component 1.3).

Subcomponent 1.1: Improving revenue mobilization by modernizing tax policy and tax administration

20. The subcomponent aims to improve collection of revenues by supporting the modernization of the tax policy framework, continued modernization of tax administration through the development and roll out of the Integrated Tax Administrative System (ITAS) and by strengthening enforcement (tax audit program) and voluntary compliance (citizen engagement and outreach). To improve tax collection, activities under this subcomponent will complement ongoing tax administration modernization with support for tax policy modernization to reduce leakages and help foster voluntary tax compliance. Support will include: (i) technical assistance for tax policy modernization (Income tax law, commercial tax law, Excises), to strengthen the capacity of the tax policy unit at IRD for revenue forecasting (including resources revenue forecasting) and tax policy simulation and to centralize provision of tax incentives under the new Income Tax law with clear measurement of costs and benefits; (ii) technical and financial support for tax administration modernization**,** including for ITAS rollout and implementation of TAL[8] and risk-based audits; (iii) technical assistance to support fostering voluntary tax compliance through a focus on improving taxpayer services, particularly on outreach, leveraging ITAS rollout for process improvements and exploring options to use behavioral insights to increase tax collection.

21. The subcomponent incentivizes implementation of these reforms through the performance-based conditions (PBC-1), outlined in the results framework and will be complemented by the current and planned (GTP) WB Tax ASA.

Subcomponent 1.2: Improving budget and public investment management

22. Subcomponent 1.2 aims to support Myanmar to modernize is budget management and enable it to be more agile and responsive to crisis and to improve the allocative and operational efficiency of its capital spending, through a strengthened public investment management framework. The current budget management system is largely paper based and suffers from rigidity hampering its proactive response to unforeseen crisis like COVID. The new Public investment law and provisions on budget appropriation and virements is a good opportunity to increase budget flexibility. Despite significant public investment needs, capital spending and execution in Myanmar is low and falling.[9] Whilst this may help with short-term macroeconomic stability, it may be harmful for longer-term economic growth. This challenge is exacerbated by challenges in the PIM system, as reflected in the latest PEFA assessment, including lack of a clear legal framework for PIM, institutional fragmentation, absence of an information system, limited project appraisal and vetting, no systematic prioritization criteria, and largely inefficient paper-based monitoring of project outcomes. These challenges have fed into downstream implementation difficulties, including long delays in project completion and cost overruns for projects, affecting service delivery as shown by the PFM bottleneck studies in health and education. Addressing these challenges is a priority for MoPFI, which has recently issued project appraisal guidelines and established the project bank to improve downstream project selection and leveraging financing. The

[8] TAL = tax administration law
[9] As noted in the Myanmar Public Expenditure Review (2017), capital expenditure in Myanmar has remained at 5 percent of GDP since 2012/13, well below needs and levels of Myanmar's structural economic peers

COVID crisis has increased the urgency to reprioritize Myanmar's public investments towards ready and high impact projects supporting economic recovery and MSDP objectives.

23. Activities under this subcomponent include: (i) technical assistance and financing to improve upstream PIM processes including support to implement the newly formulated project appraisal guidelines, project screening and prioritization tools, including the development of a climate screening tool as part of the appraisal of large projects to strengthen resilience and adaptation to climate change; (ii) support for gradual integration of the capital and recurrent budget preparation for selected large ministries; and support of rollout of a unique project identifier, including geotagging of large projects for improved monitoring and citizen engagement; and (iii) technical assistance for formulation and implementation of the PFM act, which creates a legal basis for fiscal responsibility, budget appropriation and virement rules and contingency financing enhancing budget flexibility, as well as public investment management.

Subcomponent 1.3: Managing risks and pension liabilities

24. Subcomponent 1.3 focuses on improving the capacity to manage fiscal risks, through a strengthened fiscal policy and risk management function at MOPFI. The activities under this subcomponent build on the gains made in aggregate fiscal discipline since 2012/13, which include: maintaining fiscal deficit consistently below the target of 5 percent of GDP, formulating annual budgets in line with a Medium-Term Fiscal Framework (MTFF) and a gradual reduction in overall monetization of the fiscal deficit. Despite these gains, Myanmar continues to face challenges of maintaining stability including the monitoring and management of emerging fiscal risks, particularly from the signing of PPPs that are not well assessed and pension liabilities. These challenges and their functional role in system resilience have been exacerbated by the ongoing COVID-19 outbreak, placing additional pressure on fiscal policy and risk management.

25. This Subcomponent aims to help enhance the monitoring and management of fiscal risks while modernizing the pension systems by providing financing, technical assistance and capacity building to support: (i) technical assistance for improving fiscal risk assessment, recording and reporting, particularly from PPPs, and possibly incorporating risks from climate change and external shocks such as COVID 19. It will further help MOPFI monitor and manage pension liabilities by supporting (ii) the new pension law; (iii) design parameters of a new provident fund; (iv) adoption of a centralized record-keeping and pensions management solution for public pensioners; and (v) capacity building for the pensions department. This intervention supports ongoing reforms to reduce financial burden of pensioners and costs to government.

26. The pension system requires payroll information for calculations, and hence requires tight integration with any payroll system. Two options are available: either implement a separate pension system, and integrate it with payroll, or implement a comprehensive HRMIS with both payroll and pension modules. The second option of implementing a comprehensive HRMIS, with payroll and pension systems integrated, will be more efficient compared to acquiring separate payroll and pension systems, and integrating them ex-post. However, it will require strong leadership for coordination. Intuitional arrangements for pension are centralized, but the payroll intuitional arrangements are decentralized, requiring much stronger coordination efforts to steer the centralization of payroll. This analysis will be closely coordinated with subcomponent 2.3.

Component 2: Improved business continuity and efficiency of core PFM and public services,

27. This component contributes to the PDO by supporting the strengthening critical public financial management functions and systems for government business continuity and the operational efficiency of expenditures, including in key public services. It considers the lessons learned from the COVID crisis which has tested critical PFM functions like procurement, treasury management and payments for example. The component aims to help strengthening the resilience and responsiveness of these critical systems while addressing the bottlenecks and improving the efficiency of public expenditures along the service delivery chain. It is composed of the three following sub-components, which are closely inter-twinned: (i) subcomponent 2.1 to improve the operational efficiency of public procurement; (ii) subcomponent 2.2 to help address PFM debottlenecks affecting service delivery in health and education; (iii) subcomponent 2.3 to strengthen the treasury payment systems and financial reporting.

Subcomponent 2.1: Improving the efficiency of public procurement

28. This subcomponent aims to improve transparency, competition and operational efficiency in procurement through the implementation of the new procurement law by: (i) strengthening MOPFI's regulatory, supervision and monitoring functions and capacity building of procuring entities; (ii) supporting the demand side through an outreach and support program to small and medium-size enterprises and women entrepreneurs to enhance their access to public tenders; (iii) technical assistance for an e-procurement readiness assessment; and (iv) support of rapid procurement protocols to respond to emergencies such as COVID. The intervention supports the ongoing procurement reforms and builds on GoM's efforts to strengthen the legal and institutional framework governing public procurement. This subcomponent also contributes directly to the PDO of enhanced transparency by supporting the disclosure of large tenders and summaries of contract awards on a central procurement website, in line with the recommendation of the IMF emergency financing and the G20 debt moratorium initiative. The subcomponent will also be supported though analytical work to document relevant baselines and efficiency gains (savings in cost and time) and help generate and sustain reform momentum through evidence.

Subcomponent 2.2: Debottlenecking PFM in health and education

29. Subcomponent 2.2 aims to improve quality of expenditure and thus of service provision in education and health by leveraging the national PFM reforms supported by the operation and by providing technical assistance and capacity building to MOPFI and the select sectors to reduce the PFM bottlenecks. The subcomponent will be supporting: (i) the horizontal coordination across MOPFI and service delivery ministries, leveraging the spending better Team; (ii) reviewing and revising costing and prioritization practices during the planning phase; (iii) payment forecast and increased foresight of resource availability at township level and below; (iv) more predictable release of funds; (v) appropriate flexibility in appropriations (at a higher programmatic level rather than line item) and virement rules; (vi) update of the financial rules and regulations; (vii) increase awareness of the regulatory framework and empowerment of managers. Implementation of the Medium-Term Budget Framework (MTBF) with multi-year budget plans and improved budget execution relating to services in health and education will be used as results indicators to measure improvements in efficiency contributing to the PDO.

Subcomponent 2.3: Strengthening core treasury payment systems and financial reporting

30. Subcomponent 2.3 focuses on strengthening core treasury and banking systems by providing financing and technical assistance to support: (i) the roll-out of the MoPFI Core Banking System (CBS) across the country based on the installation and testing of the system in the Head Office under PFM 1 project; (ii) phased implementation of the MOPFI ICT Strategy developed under PFM 1, including the (development and) integration of the web-based budget submission platform and interoperability with CBS and other critical MOPFI IT systems (including FIRST, ITAS, GAS). Improved financial reporting and transparency by upgrading the accounting standards to IPSAS 1. To support the Government's efforts in improving public sector accounting and financial reporting, the subcomponent will include:; (i) implementation of the IPSAS Transition Plan which was adopted by GoM in November 2019; and (ii) capacity building to increase awareness, technical knowledge, and user understanding of IPSAS based accounting and reporting.

31. To further incentivize the reform, the subcomponent is associated to the performance-based conditions (PBC-2), outlined in the results framework.

Component 3: Strengthening transparency, accountability and capacity in PFM

32. This component contributes to the PDO and the indented results by providing financing, technical assistance and capacity building to strengthen transparency, accountability and capacity in PFM. It aims do so with two subcomponents focusing on (subcomponent 3.1) modernizing external oversight and transparency, and (subcomponent 3.2) improving public sector capacity through the new PFM Academy.

Subcomponent 3.1: Modernizing external oversight and transparency

33. Subcomponent 3.1 aims to support the modernization of financial controls from administrative compliance to a more risk and efficiency-based control framework, thereby enabling more managerial flexibility, accountability and improved PFM performance. The subcomponent will continue the support provided to OAG and JPAC to strengthen Myanmar's nascent structures for external oversight and accountability and thus complement ongoing improvements in the quality and transparency of budgetary information and financial reports. It further aims to introduce measures for oversight of disaster relief, response, recovery and rehabilitation efforts in response to COVID-19. Finally, an element of citizen engagement will be introduced to the audit process as an additional measure to modernize external oversight.

34. This project will support the following activities under this subcomponent: (i) review and, if necessary, revision of the legal framework to allow for publication of audit reports; (iii) Support OAG to modernize its audit methodology, including application of key elements of ISSAI disaster management audit framework, use of iCAATs and increased citizen engagement in the audit process; and (iii) continued training and capacity development for JPAC staff and incoming JPAC members. In response to COVID-19, the role of PACs in providing external scrutiny of COVID related expenditures will be supported. Publication of audit reports reflects the subcomponent's contribution to the PDO through improved transparency.

Subcomponent 3.2: Improving public sector capacity through the PFM Academy

35. Subcomponent 3.2 focuses on building capacity in public finance management in MOPFI and key service sectors, thus directly complementing the project's other components. It will build on and deepen the initial support provided through the previous project which led to the establishment of the PFM academy. This component is informed by the findings of the 2020 PFM capacity building assessment which identified the need for improved skills, knowledge and competence of staff across all phases of the PFM cycle as well as a better understanding of core business processes and instructions. The subcomponent will support: (i) the strengthening and implementation of the PFM Academy Institutional Roadmap and training strategy, including the introduction of a monitoring and evaluation system, defined pedagogy and outreach strategy as well as institutional capacity building; (ii) enhancement of the PFM Academy's curriculum, including the development of a Diploma level degree program in PFM, in coordination with the MOE, Yangon Institute of Economics and MOPFI; (iii) facilitation of peer learning through a twinning arrangement and study visits with a successfully established PFM Academies; and (iv) introduction of a research element focusing on how PFM systems can improve public service delivery and inclusion especially women and minorities. The subcomponent will seek to ensure continued learning amidst COVID-19 social distancing restrictions by support distance learning needs and opportunities beyond the pandemic.

Component 4: Project management

36. The MOPFI has formed the PFM Executive Reform Team and a PFM Reform Secretariat to articulate, manage, and monitor the overall PFM reform program, including the current MPFM project. It is supported by a project coordination office, which supports project activity planning, monitoring and reporting, procurement and financial management. This project will build on this strong and high level governance structure and support the establishment of a dedicated project management unit that will be in charge of the day to day project management, procurement and contract management below a threshold of USD 5 million on behalf of beneficiary departments, financial management and monitoring and reporting. This component will cover the cost of this project management unit, its operating costs and support the PFM Executive Reform Team. The component will further support project monitoring and evaluation and communication activities, change management support and cross-cutting activities needed to achieve the PDO and results framework. The project implementation arrangements are specified below.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

TO BE COMPLETED

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