Fiscal Management Reform in Myanmar

(Lessons drawn from Japanese Experiences)

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ABSTRACT

Budget deficit is the fundamental cause of unstable macroeconomic instability. To cover the budget deficit, cutting expenditure is not the only way but also spending in an efficient and effective way is also important. Revenue mobilization is another important part of the fiscal management strategy. Moreover, persistent reducing and cutting of government expenditure could not be a right way of reducing fiscal deficit. For a developing country, infrastructure development is a fundamental need for economic development. We could not expand any fiscal activities without infrastructure development. Therefore, we need to find a way to improve efficiency and the effectiveness of resource allocation and financing ways that can contribute to better infrastructure development. Therefore, sound budget allocation and stable financing system are important issues for the country's economy. The primary objective of this paper is to contribute to better ways of developing an efficient Public Financial Management reform system that is based on the tradeoff between the keeping of a sustainable budget deficit and expending public expenditure of much needed public service through the learning experiences of Japan. Priorities on infrastructure development, a sound method of resource allocation, and financing ways are necessary for an efficient and effective fiscal management reform program.

In this research paper, firstly we will explain why Myanmar needs to implement a Public Financial Management Reform system and what we are doing now. After that, we will explain about the Myanmar Budget System, learning the Japanese Budget System and how the Japanese government runs the economy. Finally, it will highlight the lessons learned from the Japanese government's successful experiences such as infrastructure development and saving mobilization on investment after World War II.

This research paper is presented by SAN SAN OO, a visiting scholar at the Policy Research Institute (PRI) of the Ministry of Finance in Japan, in line with the capacity building program for officials from the Ministry of Planning and Finance of Myanmar by the Ministry of Finance of Japan, 2016. The views expressed in this in paper are based on the personal view of the author and not those of the Myanmar government.

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CHAPTER I: INTRODUCTION

1.1 Background and Objective of Paper

The budget preparation process of Myanmar is largely an incremental bottom-up exercise and guided by prior practice. The allocated time for the spending agencies to prepare their budget proposal is insufficient to accommodate a policy review. In addition to the issue of timing, lack of a strategic framework to pave the budget process is a fundamental weakness for the existing budget process. There is little guidance of existing laws and regulations for preparing budget. The spending agencies prepare their budget proposal irrelevance with future resource availability or constraints. Major policy decisions or options are not fully considered in terms of estimates of forward expenditures and not described in sector strategy documents. Moreover, strategic views of priorities are not taken until very late in the cycle. Recurrent budgets are based on average three year spending adjusted to inflation.

At the same time, the size of the capital budget is determined by setting the investment to GDP ratio as a planning target. In addition to this, future year impacts of approved projects are not recognized and planned ahead because of a single-year budget base. Though the deficit to GDP target should be guided by the overall fiscal policy, budget deficits have targeted 5% of GDP as a fiscal constraint since many years ago. The budget deficit is financed by issuing Treasury bills and bonds. Furthermore, macroeconomic forecasts are not inclusive to determine aggregate expenditure ceilings on both the current fiscal year and medium term. In the absence of expenditure ceilings and policy priorities, the size of the budget proposal is significantly higher than potential available funding. Besides, the resource envelope is not known at the time of issuing the budget circular and is worked out at a much later date in the process. As a result, the negotiation process takes place at each level of budget vetting to bring expenditure estimates within the available fiscal envelope.

Moreover, the government has faced deficit financing issues due to overestimate of expenditure and underestimate of revenue by the spending agencies. Therefore, early guidance on the budget process is needed not only to constrain budget submission but also to guide priority sectors in order to support policy objectives of the country. Budgets are structured agency-wide and not program-wide in Myanmar. Therefore, it is difficult to establish direct linkages between policy objectives and the resources needed to deliver services in support of those objectives.

Before FY2016, recurrent budget and capital budget are determined in parallel by two ministries, the Ministry of Finance and the Ministry of National Planning and Economic Development. In addition, there is a weak connection between capital budgets and their recurrent consequences. The important consideration is that there are no legal or regulatory requirements that recurrent and capital estimates should be linked in any way. In Myanmar, there is a need for strong linkages between policy, planning and budgeting to use limited resources effectively and efficiently. In order to plan and measure policy changes, Myanmar needs multi-year fiscal forecasts of revenue, medium term expenditure aggregates and potential deficit financing as important tools for fiscal management.

Therefore, it is supposed to enable policy makers and other stakeholders to internalize the impact of current policies on future financial positions, provision for future fiscal needs, and provide tools for medium term policy implementation by developing medium term perspectives to budgeting.

The purpose of this study is to learn lessons from Japanese fiscal management reform through its successful experience in the area of public infrastructure investment, and saving mobilization, analyzing the budget system, financing the budget deficit and central government grant policy to local governments.

The result of this research may lead to the contribution of identifying appropriate tools for policy recommendations toward the Myanmar Public Finance Reform Program which will guarantee promoting socio-economic development by allocating effective and efficient public expenditure in the short run and supporting long run economic growth.

1.2 A Brief Review of Myanmar Fiscal Reform

The Government of the Republic of the Union of Myanmar has been embracing wide-ranging reforms since 2011. The government has undertaken four phases of reform processes with momentum; namely political reforms, economic reforms, public administration reforms and private sector development reforms. The government has identified public finance management reform as central to managing the transition and establishing the foundations for further reforms and Public Finance Management reform has been undertaking in line with the Framework of Economic and Social Reforms (FESR). On behalf of the Ministry of Finance, the Budget Department is implementing fiscal policy oriented toward supporting continued macroeconomic stability. In the past, we have relied only on the State Budget but are now counting on the Seven States and Seven Regions Budget. In this regard, it needs a strategy to systematically mobilize these resources and for allocating sector and regional development programs and projects effectively.

Moreover, based on the results of the diagnostics of PEFA assessment and focusing on the government’s own priorities, the ministry also prepared **“Public Finance Management**

Reform Strategy" to address the key transitional challenges. To align with the strategy, the Myanmar-Modernization of Public Finance Management Project (M-MPFMp) has been implemented and it aims to support efficient, accountable and responsive delivery of public services through the modernization of the PFM systems and strengthening institutional capacity.

The Myanmar Public Financial Management Modernization project has been embarked in line with the PFM reform strategy. The M-MPFMp comprises five components, namely:

Component A. Improving Revenue Mobilization

Component B. Responsive planning and Budget preparation

Component C. Budget execution and Financial Reporting

Component D. Fostering external oversight and accountability

Component E. Establishing a strong capacity and Institutional Platform

This project has been implemented by eight agencies, namely, IRD, BD, TD, MEB, Planning Department, PAPRD, the Union parliament public account joint committee and office of Auditor General. The World Bank provided the USD 30 million IDA credit for the M-MMPFMp. This project was also co-financed by a grant of USD 20 million from the multi-Donor Trust Fund which is financed by DFID and Austrian aid, and Aus-aid had already confirmed to finance another USD 5 million for the project.

Under component B of the project, we have to fully comprehend the cost of priorities to government budget allocations and the implementation and credibility of the recurrent and the development of planning across key sectors. Our department's main task is to allocate the resources efficiently and effectively for contribution to the nation's development purposes through budgetary measures. Moreover, we would contribute to the fostering of the country's sustainable economic growth and development.

CHAPTER II: LITERATURE REVIEW

Many impractical studies also point out the importance of doing the reform programs. Andres Velascos (1998) pointed that "deficits resulting from common pool problems (debt accumulation, tax and expenditure burden) can be eliminated through fiscal reform".

The "IMF staff visit mission 2015" suggested in a press release that maintaining macroeconomic stability should remain a top priority for economic policy. This press release mentioned that *"The fiscal deficit needs to be placed on a gradual consolidation path to keep Myanmar's debt at a low risk of distress. This could be achieved by keeping the overall fiscal deficit below 4.5 percent of GDP over the medium term. In this context, the improvement in tax* *administration is commendable but continued efforts in mobilizing domestic revenue will be essential to creating greater fiscal space for development while keeping the deficit in check"*.

The use of public spending affects economic growth. According to Cheryl Gray (2007),[1] "High levels of spending in 'unproductive' areas can have a negative impact on economic growth, while spending in 'productive' areas (investment, social sectors) can promote growth". Moreover, he supported that countries with better governance are generally able to collect taxes and spend public funds more efficiently and effectively.

Hiromitsu Ishi (1996) mentioned that public expenditure and taxes are used to stabilize the economy. Government fiscal activity can be reported through the budget to the nation. The main tasks of the budget are to control fiscal activities, review previous actions and identify government programs.

Using public expenditure, especially capital expenditure (investment expenditure), is important for economic growth. Nicolus Stern (1991)[2] pointed out the importance of investment, the third factor of economic growth. Adequate infrastructure is essential for productivity and growth and government action could influence the long-run rate of growth.

Furthermore, the World Development Report (ibid.) concluded that a one percent increase in the stock of infrastructure is associated with a one percent increase in GDP across all observed countries. Davies and Hallet (2002) also proved that in the case of Ireland, they have also invested in infrastructure strategically with a positive effect on national growth.

Moreover, the quantity and quality of infrastructure is a key factor of the development of any country and the quality of investment enhances economic growth. Calderon and Serven (2004) found that "Growth is positively affected by the stock of infrastructure assets, and that higher infrastructure quantity and quality also reduce income inequality". They used a large global panel dataset covering 40 years. "Infrastructures" are many and diverse: roads, tunnels, bridges, railways, airports, harbors, canals, subways and tramways, dams, irrigation networks, water pipes, water purification plants, sewers, water treatment plants, dumps and incinerators, power plants, power lines and distribution networks, oil and gas pipelines, telephone exchanges and networks, etc. Infrastructure and infrastructure-related services have always been together.

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[1] Cheryl Gray, "An overview of Fiscal Policy and Economic Growth in Europe and Central Asia" (The book of "Fiscal Policy and Economic Growth" (Lessons for Eastern Europe and Central Asia, Edited by Cheryl Gray, Tracey Lane, Aristomence Varoudakis, 2007 The International Bank for Reconstruction and Development/The World Bank).

[2] Nicolus Stern (1991), "The determinants of growth", *The Economic Journal*, Vol. 101, No. 404, pp. 122-133.

Prud'homme (2004)[3] expressed that, in the paper of Adam Smith's 1776 vision of economic development, transport in particular is an important factor for development. Smith expressed this as "no roads, no transport, no trade, no specialization, no economies of scale, no productivity progress, and no development." Infrastructure spending predominates in public capital investment.

The World Bank Group's "Myanmar Economic Monitor 2016" also suggested about Myanmar's economy that "*Over the medium to longer-term, the manufacturing and processing sectors continue to hold strong promise as potentially important drivers of inclusive growth. Structural transformation towards higher value added manufacturing will depend in big part on the growth of infrastructure and services as discussed above, but also investment in skills. The garments sector could help address binding constraints in services and infrastructure that affect the manufacturing sector as a whole, whilst also absorbing unskilled labor. This is important for laying the foundations to gradually move up the value chain, and avoid getting stuck in a low equilibrium dominated by trading, low value services, and basic assembly".*

The above literature reviews show that fiscal reform programs and investment in infrastructure affect budget allocation in public spending and are important matters for economic growth and fiscal sustainability in the long run.

CHAPTER III: FISCAL SITUATION IN MYANMAR

3.1 Fiscal Policy in Myanmar

The objectives of fiscal policy in Myanmar are to strive for economic recovery in the short run, to sustain an accelerated growth rate for the long run, to increase investment, to improve infrastructure support, to create new job opportunities and to improve the living standard of the people.

Myanmar has adopted and implemented an economic policy which would engender such development and at the same time is keeping up with the changing development pattern of the world. By its fiscal policy, the government aims to raise efficiency of state owned economic enterprises, develop and expand the private sector, promote exports by increasing production, create more employment opportunities and enhance regional development within the state.

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[3] Prud'homme, R. (2004), "*Infrastructure and development*, Paper prepared for the Annual Bank Conference on Development Economics", Washington, D.C.

In Myanmar, fiscal policy is a major factor determining macroeconomic performance. Fiscal policy is constituted by the state budget law, the tax law, etc. In Myanmar, fiscal policy is formulated and implemented by the Budget Department on behalf of the Ministry of Planning and Finance (MOPF).

The fiscal policy of Myanmar is to promote infrastructure development which is essential for the socio-economic development of the nation and to achieve sustainable economic growth for the long run. Fiscal policy can be operated both through government expenditure and government revenue. Myanmar has taken measures both in terms of revenue and expenditure consistent with the fiscal consolidation plans. In line with the government policies, MOPF is trying to reduce the budget deficit by increasing revenue and reducing expenditure.

To increase revenue, tax reforms have been made in some areas to strengthen tax administration and tax policy. These areas include establishing a Large Taxpayer Office (LTO), shifting from an office assessment system to a self-assessment system and preparing for the Value Added Tax (VAT) introduction. The government added 5 new taxes to the current tax system, such as Tax on Extraction of Oil and Gas, Tax on Extraction of Minerals and Gems, Tax on Power Generation of Electricity, Tax on Communication Services (in FY 2014-2015) and Tax for inserting an irritant in the oyster (FY 2016-17). Moreover, other fee such as license fee for tour licenses, hotel and guesthouse license, transportation license, and tour guide business license are added in (FY 2016-2017).

On the other hand, the government pays attention to more effective processes of budgetary management from indicative planning and budget allocation to a policy-based fiscal regime. On expenditure side, it has been an increasing allotment of social sector development, including on education, health and poverty reduction programs and at the same time reducing unproductive expenditures.

In Myanmar, government expenditure composes the current expenditure and capital expenditure. Expenditure on construction, agriculture, trade and administration and organization are increased. Myanmar is lacking infrastructure. Therefore, the government needs to spend a lot of expenditure to invest in infrastructure, such as roads and railways, and building large bridges to span rivers. In the agriculture sector, we have spent heavily to build irrigation canals, and dams and reservoirs to provide water for cultivation purposes for the development of the agricultural sector.

The social services sector's expenditure has also increased. For the promotion of educational services, the state is spending on primary, middle, and high schools and vocational schools, upgrading the expansion of universities and colleges, and appointing more teachers to improve the teacher and pupil ratio. The government has increased expenditure on the health sector year by year. People's health plans are being carried out in various townships in order to improve the general level of health of the people. Hospitals, dispensaries, rural health centers, and mental and child health centers were expanded and health personnel were also appointed.

The public sector in Myanmar has faced fiscal deficits. Controlling the fiscal deficit is a necessary condition for economic development. In Myanmar, there are two ways of reducing fiscal deficit. One way is to reinforce the basic tax system and the other way is the effective allocation of resources in the public sector. Myanmar needs to reform both the revenue and expenditure system. Consideration of the appropriateness of the fiscal policy stance focuses on the size of the budget deficit. Regarding the economic impact on budget deficits, public deficit is associated with higher inflation. Therefore, it is necessary to control the public deficit in order to achieve macroeconomic stability.

In order to attain continuous growth, it is desirable to: (a) improve methods of covering the budget deficit, (b) improve the budget balance by reinforcing the tax collection base and (c) promote the State Economic Enterprises (SEEs) reform.

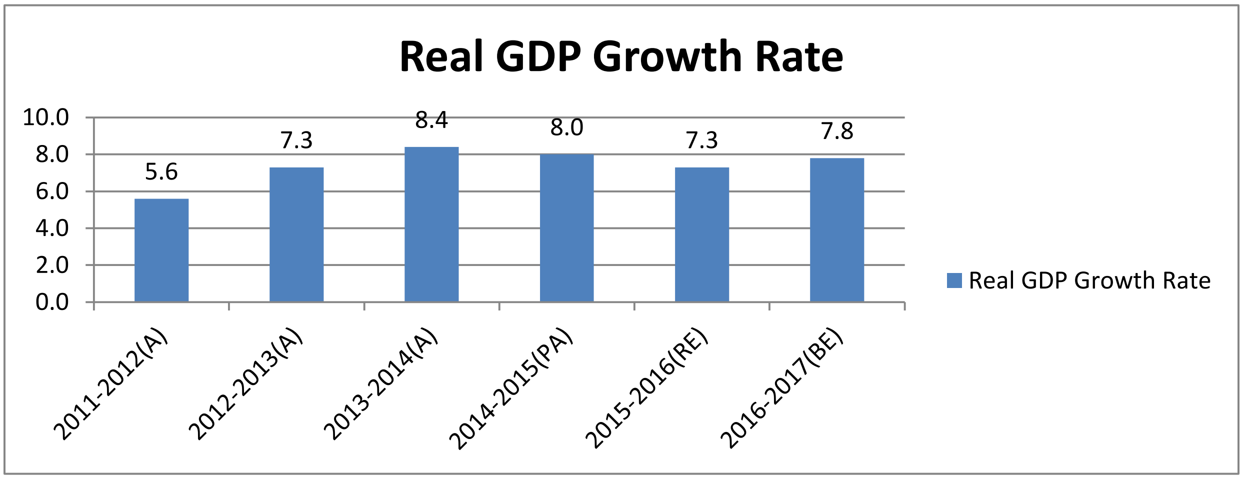
In Myanmar, although the government has done its best to improve the economic development of the country by using fiscal policy, the government has faced the problem of a growing budget deficit. The main reason for the budget deficit is the decrease of the ratio of SEEs profit to revenue.

Therefore, it is important to control budget deficit by strengthening the tax collection base and implementing the SEEs reform. Myanmar people have a lack of knowledge on tax. There is a need to increase the public awareness of tax. A feasible way such as business tie-ups with the private sector rather than sales to the private sector should be considered as a priority to improve the performance of SEEs.

3.2 Key Macroeconomic Indicators and Budget Preparation Process

The figure shows the real GDP growth of Myanmar. For FY 2016-17, the GDP growth estimate is 7.8%.

Figure 1: Real GDP Growth in Myanmar

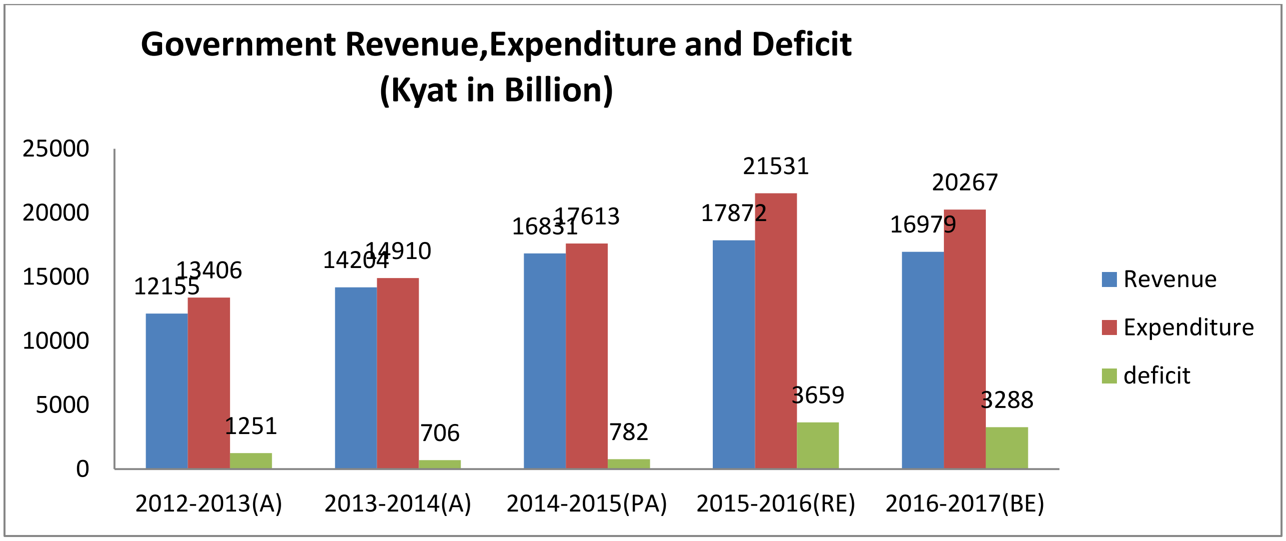


Sources: Planning Department, Ministry of Planning and Economic Development

In Myanmar, the budget deficit to GDP ratio is maintained at not more than 5%. According to the FY 2016-17 estimates, the government revenue is about 17 trillion kyat, government expenditure is about 20.2 trillion kyat and budget deficit is about 3.2 trillion kyat. Estimate GDP is about 84 trillion kyat.

Government expenditure is divided into three parts, current expenditure, capital expenditure and financial expenditure. The biggest potion is current expenditure. Current expenditures are salaries, wages, travelling allowance, maintenance fees, interest payments, entertainment, government subsidies, etc. Capital expenditures include three parts; building, purchasing of machinery and equipment, and other related capital expenditure. Financial expenditures are repayments of principle for external debt and domestic debt. Based on the FY 2016-17 estimate, the current expenditure is 74% of total expenditure, capital expenditure is 23% of the total expenditure and financial expenditure is 3%, respectively.

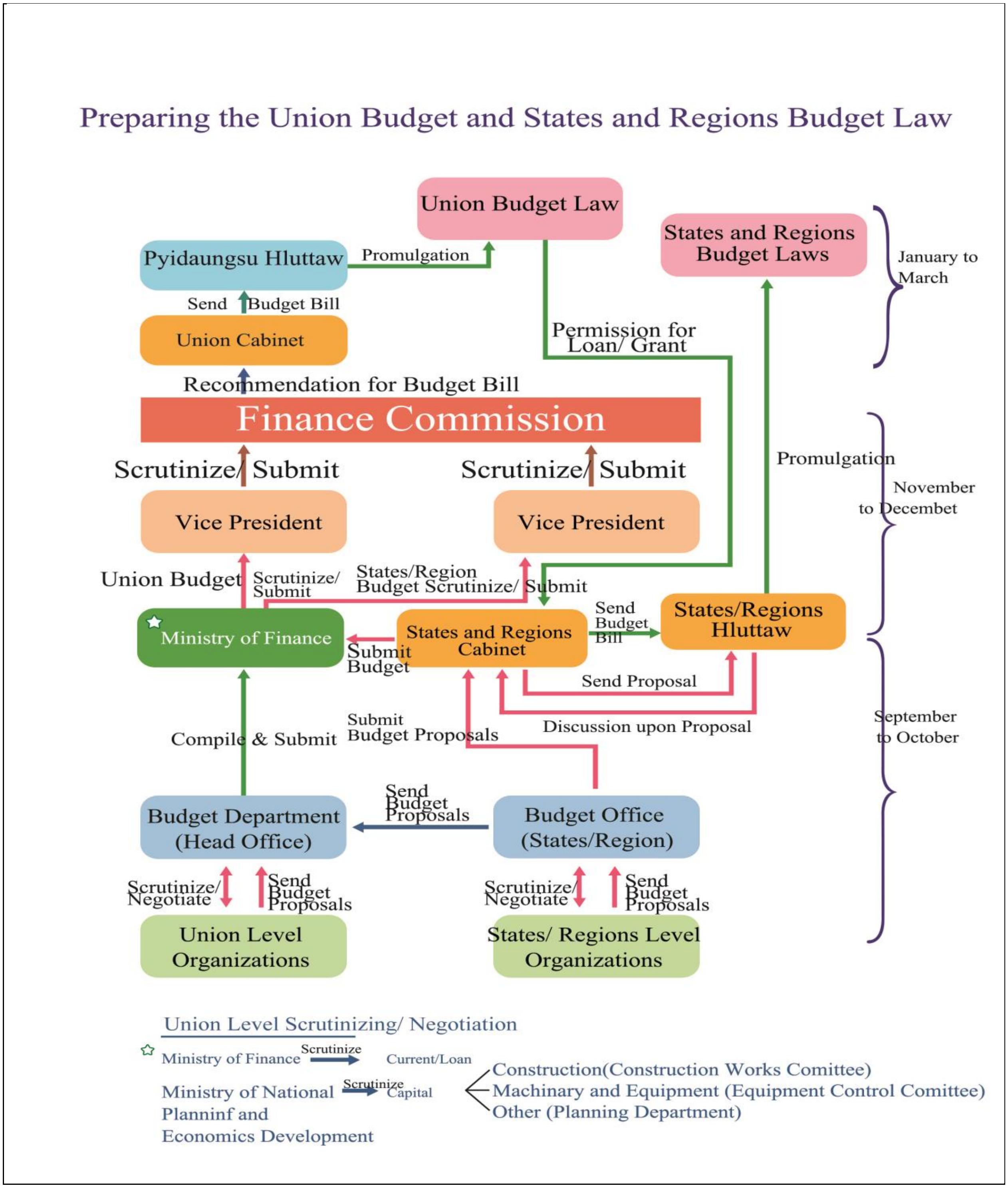
Figure 2: Government Revenue, Expenditure and Deficit Position



Source: Budget Department, Ministry of Planning and Finance Myanmar

According to the new Constitution of the Republic of the Union of Myanmar, the budgetary process had already changed. Before 2011, the budgetary process has only practiced "State Fund Account" for spending on the public sector. It has introduced the "Union Fund Account" and "States and Regions Fund Account" since October 2011.

Figure 3: The Flow Chart of Budget Preparation Process in Myanmar



Source: Budget Department, Ministry of Planning and Finance, Myanmar

The budget of the union ministries and union level organizations are to be vetted by a vice-president assigned by the president and the estimated budget of the union level organizations including the union ministries are to be submitted to the Financial Commission.

The budget of the region or state are to be vetted by the other vice-president assigned by the president and the estimated budget of the region or state are to be submitted to the Financial Commission.

The Financial Commission shall submit to the Pyidaungsu Hluttaw with recommendation for the union budget which includes the expenditure of the union territory, supplementary financing as suitable to the regions or states from the Union Fund, giving grants as a special matter and permitting loans.

The fiscal year in Myanmar begins on April 1st and ends on March 31st of the following calendar year. The state budget is compiled for each fiscal year.

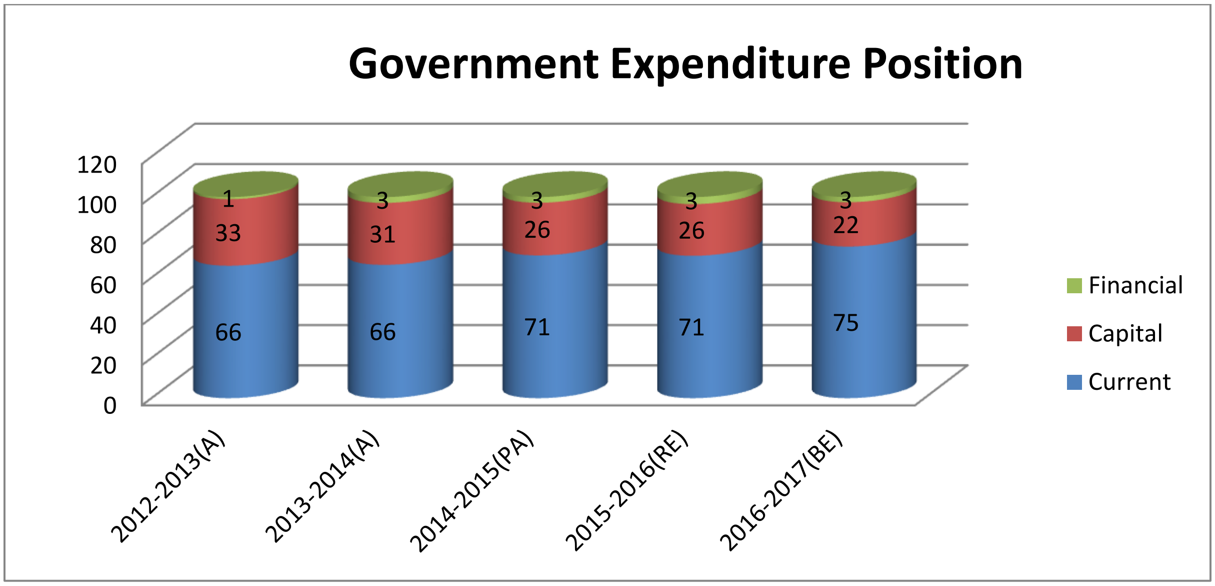
The state budget is drawn on the basis of the State Administrative Organizations (SAO) and Ministries and Departments (M&D), the State Economic Enterprises (SEEs) and the Cantonment Municipalities (CMs).

The SAO and M&D operate their financial matters on an administrative basis whereas the SEEs operate on a commercial basis. The CMs subsist on their own funds and carry out their functions in accordance with their budget programs. The government may permit them to obtain expenditure required for carrying out their functions or for the investments from loans and grants. However, city and town development committees are operating on the basis of self-financing and financial viability in line with the City and Town Development Laws.

The state budget is prepared by three segments, the current budget, the capital budget and the financial budget. All of these budgets are divided into receipts and expenditures. The Capital Budget is significantly prepared and reviewed by the Planning Department, the Construction Department, the Equipment Control Committee (ECC) and the Regional Development Works Control Committees. The Budget Department is responsible for the formulation of the other segments and it has been assigned both to consolidate and present the state budget as a whole.

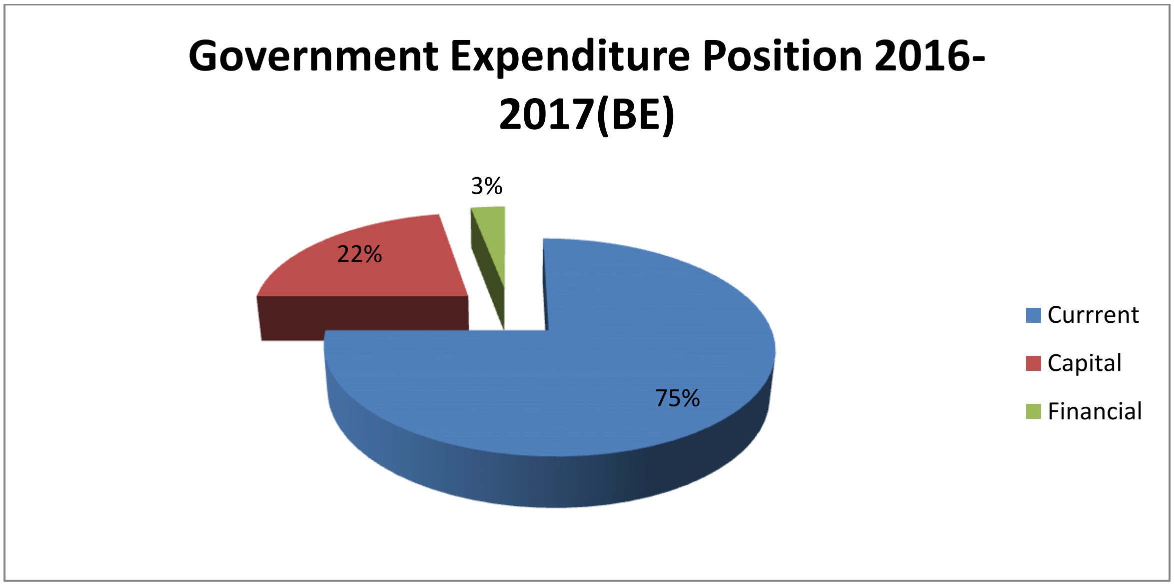
In government expenditure, current expenditure is the biggest potion and is more than 70% of the total expenditure. **(See Figure 4)** In FY 2016-17 estimates, the capital expenditure potion is about 23% of the total expenditure. (**See Figure 5)**

Figure 4: Government Expenditure by Type



Source: Budget Department, Ministry of Planning and Finance Myanmar

Figure 5: Government Expenditure Position of FY 2016-2017 (BE) (Budget Estimate)



Source: Budget Department, Ministry of Planning and Finance Myanmar

The following figure shows the net acquisition of nonfinancial assets; using capital expenditure to total expenditure of some selected countries. Compared with some developing countries' net acquisition of nonfinancial assets (using capital expenditure) to total expenditure, Myanmar's ratio is lower than other countries.

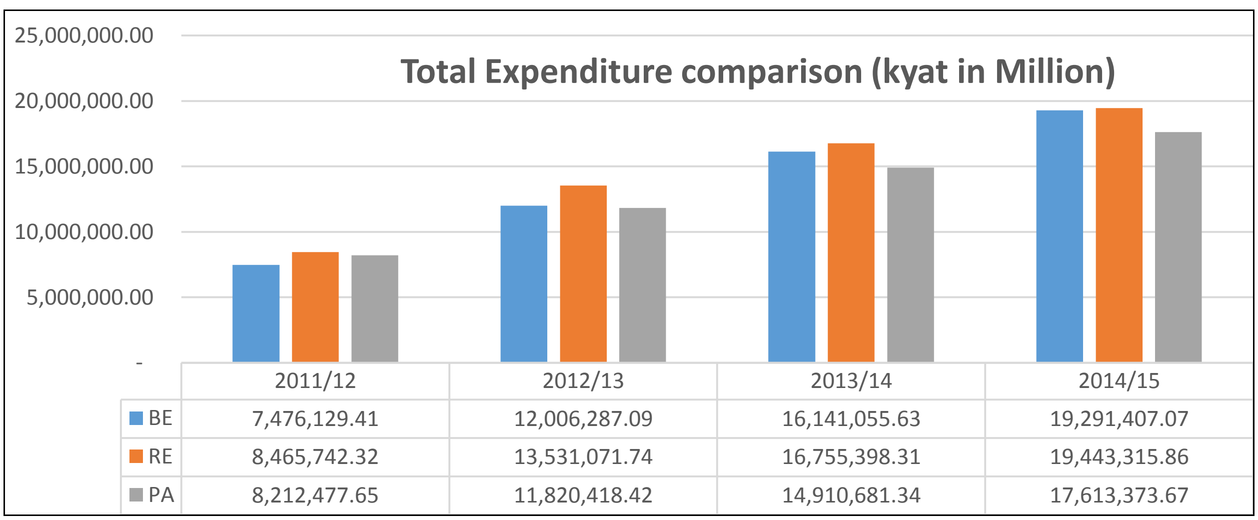
Table 2: Net Acquisition of Nonfinancial Assets, using Capital Expenditure to Total Expenditure (Selected Some Countries)

Country	2012-2013	2013-2014 (Est.)	2014-2015 (Proj)	2015-2016 (proj)
Myanmar	32.7	32.2	27.3	27.3
Mongolia	27.5	32.7	27.5	25.7
Cambodia	41.9	42.0	36.3	34.7
Laos	51.1	41.6	44.2	40.0

Source: IMF Article IV Consultation Staff Reports (2015, 2014)

The line ministries request a supplementary budget every year. The Budget Revised Estimate (RE) is always higher than the Budget Estimate (BE). However, the disbursement of Provisional Actual (PA) is lower than the revised estimate. The disbursement is underestimated and shows that the line ministries could not use the expenditure perfectly. (**See Figure 6**)

Figure (6) Actual Budget Disbursement Position (FY 2011-2012 to 2014-2015)



Source: Budget Department, Ministry of Planning and Finance Myanmar

3.3 Financing Budget Deficit and Bond Issuance

Our country has undertaken ongoing reforms in many areas that include the fiscal sector since 2011. In the guidance with the IMF (SMP) mission, the budget deficit has been introduced to take around 5% of GDP since 2013. Financing the fiscal deficit is important for economic development.

Table 3: Tax, Revenue, Expenditure, and Budget Deficit as a Percentage of GDP

Year	2011-2012 (A)	2012-2013 (A)	2013-2014 (A)	2014-2015 (PA)	2015-2016 (RE)	2016-2017 (BE)
Tax to GDP	3.65%	6.58 %	7.69%	9.99%	8.78%	7.39%
Revenue to GDP	13.94%	23.71%	24.49%	25.79%	24.56%	20.18%
Expenditure to GDP	17.46%	26.15%	25.71%	26.99%	29.58%	24.09%
Deficit to GDP	3.52%	2.44%	1.22%	1.20%	5.03%	3.91%

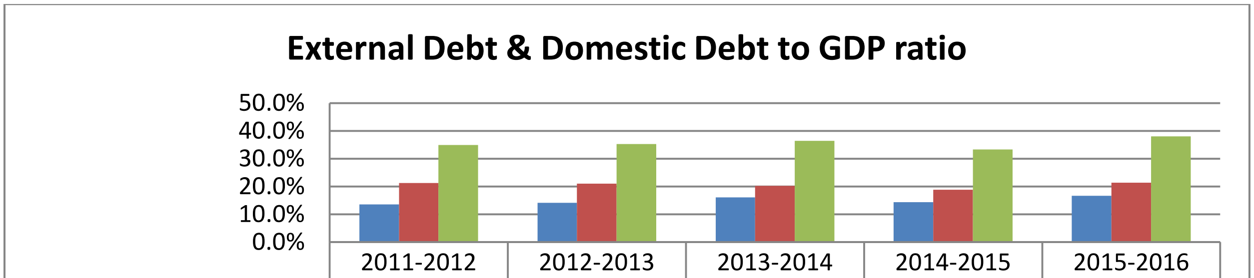
Source: Budget Department, Ministry of Planning and Finance (FY 2016-17 Citizen Budget)

There are two ways of financing the budget deficit. One way is external financing, foreign grants and loans, which makes many burdens on our country because of interest rate and debt burden. The government resolved external arrears and once implement these initiatives will lower Myanmar's risk of debt distress. The government has been working with international organizations such as ADB and in collaboration with the International Monetary Fund, the World Bank and bilateral creditors on the arrears clearance.

The second way the government may finance the deficit is by selling treasury bills to the Central Bank of Myanmar and treasury bonds to the public. This would result in persistently high expansion in money supply and lead to macroeconomic instability. Therefore, the money supply growth rate become very high and result in inflation.

In FY 2011-2012, the government debt to GDP ratio was about 34.9% of GDP. According to FY 2016-17 estimates, the government debt to GDP ratio was about 38.1% of GDP. The external debt to GDP ratio was 16.7% and domestic debt to GDP ratio was 21.4%, respectively. (Figure 7)

Figure 7: Public Debt as a Percent of GDP



	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
External Debt to GDP	13.6%	14.2%	16.1%	14.4%	16.7%
Domestic Debt to GDP	21.3%	21.1%	20.3%	18.9%	21.4%
Total Debt to GDP	34.9%	35.3%	36.4%	33.3%	38.1%

Source: Budget Department, Ministry of Planning and Finance, Myanmar. (Citizen Budget 2016-2017)

The government is financing for budget deficit by issuing treasury bonds and treasury bills. The Treasury Bill Auction has commenced from January 2015 to June 15, 2016, up to 33 times. In Myanmar, the financing of the budget deficit mainly on bank financing, in order to finance the deficit, the Central Bank of Myanmar has been buying government treasury bills every three months. The other method of selling government treasury bonds took effect from 1993. The Central Bank of Myanmar has been issuing 2 year, 3 year and 5 year treasury bonds with a denomination of kyat 10,000 (ten thousand), kyat 100,000 (hundred thousand), kyat 1,000,000 (one million), and kyat 10,000,000 (ten million) to the public. The interest rate of 2 year, 3 year and 5 year treasury bonds is 8.75%, 9% and 9.5% per annum, respectively, in 2015.

3.4 New Government's Economic Policy 2016

In Myanmar, the Ministry of National Planning and Economic Development (MNPED) is responsible for drawing up the National Plan. On behalf of the MNPED, the Planning Department draws the annual plan, five year plan and Twenty Year National Comprehensive Development Plan. A five year plan is a medium term plan, and is based on the Twenty Year National Comprehensive Development Plan's perspectives and national vision. The National Plan is based on the state/region and township plans.

On behalf of Ministry of Finance (MOF), the Budget Department draws the Medium Term Fiscal Framework (MTFF). Based on the MTFF, the line ministries have to submit their budget proposal to the Ministry of Finance. In the annual budget, the capital expenditure must be in line with the annual plan.

In fiscal year 2016, the Ministry of Finance (MOF) and the Ministry of National Planning and Economic Development (MNPED) merged as the Ministry of Planning and Finance (MOPF) according to new administrative government guidance.

Before fiscal year 2016-2017, the Ministry of Finance and Ministry of National Planning and Economic Planning were formed as separate ministries. In fiscal year 2016-2017, these two ministries merged as the Ministry of Planning and Finance (MOPF).

For the FY 2016-17 financial year, priority is given to budget expenditure which results in direct benefits for the people. The amended budget reflects the new administrative structure of the Union Government.

The Government Economic priorities are as follows.

(1) Targets “people-centered” development and the reduction of poverty.
(2) Increases support for access to electricity, drinking water, transportation, communication, health, education and employment.
(3) Promotes agriculture and sector-wide development.
(4) Promotes national stability and development across all states and regions.
(5) Promotes a fair sharing of benefits from natural resources, and their development in a sustainable manner.
(6) Reflects the overall economic and fiscal situation – especially affordability.
(7) Improves efficiency of management of expenditures, revenues and debt.

The Economic Policies of the State (The Union Republic of Myanmar) 2016 are as follows.

(1) Expanding our financial through transparent, effective public financial management.
(2) Improving the operations of state owned enterprises, privatizing those state owned enterprises that have the potential to be reformed, while promoting and assisting small and medium enterprises as a generator of employment and growth.
(3) Foresting the human capital that will be needed for the emergence of a modern development economy, and improving and expanding vocational education and training.
(4) Prioritizing the rapid development of fundamental economic infrastructure such as electricity generating, roads, ports and establishing a Data ID card System, Digital Government Strategy and an e-government System.

(5) Creating employment opportunity for all citizens including those returning from abroad and giving greater priority in the short term to the economic enterprises that create many job opportunities.
(6) Establishing an economic model that balances agriculture and industry, and supports the holistic development of agriculture, livestock and industrial sectors, so as to enable rounded development, food security, and increase exports.
(7) Asserting the right of individuals to freely pursue the economic opportunities they choose, so as to private sector growth in line with the market economy system; formulating specific policies to increase foreign investment; and strengthening property rights and the rule of law.
(8) Achieving financial stability through a finance system that can support the sustainable long term development of households, farmers, and business.
(9) Building environmentally sustainable cities, upgrading public service and utilities, expanding public spaces, and making greater effort to protect and conserve our culture heritage.
(10) Establishing a fair and efficient tax system in order to increase government revenue, and protecting individual rights and property rights through enhancing laws and regulations.
(11) Establishing technical systems and procedures to support intellectual property rights that can encourage innovation and development of advanced technology.
(12) Identifying the changing and developing business environment both in ASEAN and beyond, so as to enable our own business to situate them to take advantage of potential opportunities.

CHAPTER IV: FISCAL MANAGEMENT REFORM IN MYANMAR

The Government of the Republic of the Union of Myanmar is embracing wide-ranging reforms with three waves to become a successful democratic country by making reform since 2011. The first wave is to walk the way of multiparty democracy for the change of an era or system. The second wave is to reform private sector, political, economic, social and government mechanisms. The third wave is to lay down a concrete foundation for building a modern developed democratic nation and to fulfill the public's social and economic needs. In the short run, we are trying to support "quick win" success in seven prioritized areas; "electricity, water supply, agricultural development, employment creation, tourism development, financial service and trade and investment".

To undertake the second wave, the Framework for Economic and Social Reform (FESR) was laid down according to the Naypyitaw Accord 2012. The Public Financial Management reform was a part of FESR. The aim of the PFM reform is to build a systematic and effective financial system in Myanmar.

4.1 Public Finance Management Reform

Myanmar has undertaken the Public Expenditure and Financial Accountability Assessment (PEFA Assessment) cooperation with a World Bank Mission in 2002. The PEFA Assessment analyzes with 28 indicators and the scores are A, B, C and D. Score A is the best and D is the worst. Most of the scores of Myanmar are C and D. The Public Financial Management Performance Report has been finished on May 2013 and we could see the successes and weaknesses of the current public financial management system.

Based on the results of the diagnostic assessment of Public Expenditure Financial Accountability (PEFA) and focusing on government national priorities, the Ministry of Finance prepared the "**Public Finance Reform Strategy"** to address the key transitional challenges. In alignment with that strategy, the Myanmar-Modernization of Public Finance Management Project (M-MPFMp) has been implemented in order to support efficient, accountable and responsive delivery of public services through the modernization of the PFM systems and strengthening institutional capacity.

This project is a five-year project and its implementation period is 2014 to 2019. The project is financed with USD 30 million of IDA credit by the World Bank and USD 20 million of grants by DFID (UK) and Aus-aid.

This project is being implemented by eight agencies named the Internal Revenue Department, Budget Department, Treasury Department, Myanmar Economic Bank, Planning Department, Joint Public Account Committee, and Office of Auditor General. Under component B of the Project, we have to fully cover the cost of priorities in the Government budget allocations and the implementation and credibility of the recurrent and the development of planning across key sectors. The main task of our department is to allocate resources effectively and efficiently for the nation's development purposes through budgetary measures. Furthermore, PFM reform would contribute to the fostering of the country's sustainable economic growth and development.

4.2 Tax Resource Management

The weak fiscal situation is primarily due to poor tax revenue performance. The Myanmar government's budget has faced fiscal deficit. To reduce the budget deficit is to reinforce the basic tax system and then to effectively allocate resources in the public sector. It is important to reduce the budget deficit and control inflation by strengthening the tax collection base. Tax revenue is the main resource revenue in Myanmar.

Public awareness of the tax plays a crucial role. The introduction of value added tax is important to make an effort to have public understanding that the tax is imposed on consumption and should be passed on to the consumer. In the Fiscal Reform Process, the government changed the tax collection system from the Office Assessment System (OAS) to the Self-Assessment System (SAS). The government has established and implemented the Large Taxpayer Office. Moreover, the government has a plan to implement the Medium Taxpayer Office and Small Taxpayer Office.

Resource revenues are substantive and expected to increase based on investor interest in the sector. Thus, the government will have to ensure optimal inter-temporal allocation of consumption and savings of the gas and mining revenues and mitigation of the impact of price volatility of natural resources. Moreover, transparency with respect to the management of resource revenues needs to be increased. The government is considering to join the Extractive Industries Transparency Initiative. Increasing spending through revenue collection will require strengthening revenue mobilization and administration. Limited revenue collection has resulted in suppressed public spending, especially in social sectors such as education and health. Revenue management is challenged by limited sources of revenue, complicated tax structures, weak tax administration, revenues from resources and revenues from licensing.

The two main sources of tax revenue for the Ministry of Planning and Finance are direct income tax and commercial taxes on goods and services. According to the 2016-17 estimates, income tax is about 38% of the total tax revenue and biggest portion of union government tax revenue and commercial tax is 26%, respectively.

The corporate tax rate (25%) is competitive with other countries in the region. The personal income tax rates are also competitive with the highest marginal tax rate at 20% for incomes over MK 20 million a year. However, the structure of personal income tax rates reduces the tax base and collections. The largest share of income tax collection is from state economic enterprises.

The tax system applied during the military regime was a centralized system and the tax collecting authority is not distributed to the state and regions' authorities. When the new civilian government came to power in 2011, the tax authority is distributed to the state and region governments according to the 2008 constitution. Therefore, the law related to the tax system has to be changed in accordance with the constitution and the reform policies of new government. In 2012 and 2014, the government enacted the new Income Tax Law (ITL), the Stamp Duty Act and the Court Fee Stamp Act, the Commercial Tax Law (CTL), and the Special Economic Zone Law (SEZL). These laws are included in the tax reform agenda which was set by the parliamentary government in 2011.

In 2011, the new government conducted political and economic reforms in order to develop the country. The government updated the tax legislation to meet the needs of modernized economy and increase the tax revenue to cover the government's budget deficit problem. Concurrently, they tried to educate the people about the tax system and were concerned about public participation in the tax system. Since the political situation of the country was changed, enormous foreign investments came into the country and the economy grew. The Income Tax Law, the Commercial Tax Law and Foreign Investment Law enacted in 2012 reinforced the tax system and the tax revenue was increased within 2 years. In 2014, the Union Tax Law was enacted and the commercial tax shifted from a positive list system to a negative list system, which means all the products or services have to pay commercial tax if they are not exempted by the law. In order to avoid the impact on daily essential goods and services, the Union Tax Law exempted several food products and public services in the law. Since the foreign investment flows have increased during the previous first civilian government administration, the government tried to enact new law for Special Economic Zones in order to strengthen economic growth and the Special Economic Zone law was successfully enacted in 2014. In 2015, the new Union Tax Law (2015) was updated to solve controversial issues in the previous law and to provide new opportunities for the future economy. In FY 2015, the revised estimate of tax yield was 8.78% of GDP and in FY 2016 the tax yield was estimated to be 7.39% of GDP.

In 2014, the Union Taxation Law (UTL) was introduced and applied for the 2014/2015 fiscal year in order to accelerate the reform process. The Union Taxation Law (2014) had some controversial weaknesses that were found during its application within the 2014/2015 fiscal year, and then the Parliament tried to upgrade the law in 2015. On 2 April 2015, the Parliament passed the Union Taxation Law (2015), which would be effective for the 2015/2016 fiscal year, including several substantial changes. The process of the tax system reform was conducted under the supervision of the Ministry of Planning and Finance and cooperating with the union government, state and regional governments and international organizations.

The tax system of Myanmar is currently modified yearly to meet the requirements of a modernized economy and its own target of 10% tax-to-GDP ratio by 2018, since 2011. As the government applied major political and economic reforms, the requirements are also large to meet the goals of the government, and the tax system is one of the requirements to modify in accordance with the current situation. Window of opportunity for the tax system happened several times during the previous administration and there will be more opportunities in the current new administration.

4.3 State Economic Enterprises Reform

The government budget SEEs (State Economic Enterprises) account is a major contributor for the Myanmar Government's fiscal operation. In 2016, 50% of the government revenue comes from SEEs. The SEEs have made a contribution to the union budget, 25 % of the tax and non-tax. However, SEEs revenue is mainly depending on the selling of oil and gas and it could be facing an uncertain future. Some of the SEEs are running by the loss. Therefore, ongoing SEEs reform will have important fiscal implications on the state budget.

In the implementation of a new state fund account system for SEEs, every state owned enterprise has to follow the regulations of the new state fund account system and they have to fulfill the requirements of the new state fund account system. Moreover, the related ministries of SEEs also need to monitor and supervise their owned enterprises to improve their efficiency and profitability. To monitor and evaluate the performance of the SEEs, they need to submit their monthly financial reports to the Ministry of Planning and Finance through their concerned parent ministries. In order to increase the transparency of financial performance of SEEs, the Ministry of Planning and Finance mentioned the revenue and expenditure of SEEs in the Citizen Budget publication book. By this way, public awareness is increasing in the government budget allocation on SEEs. The SEEs have to submit their internal audit reports to the Office of Auditor General biannually. The Office of Auditor General conducts financial audits annually in order to review whether the SEEs' financial statements are consistent with general accounting principles or not. The Office of Auditor General conducts performance and operational audits in order to evaluate whether SEEs use their resources effectively and efficiently.

The new state fund account system for SEEs can reduce the budget burden and fiscal deficit of state owned accounts which occur by losses of the state economic enterprises within the last five years. In the near future, it is expected to improve the efficiency of SEEs because they have to stand totally on their own budget and to operate commercially.

State Economic Enterprises (SEEs) include the important sectors of fiscal policy. At present, SEEs have been reformed in accordance with the new financial system. According to the new financial system, SEEs have to change from the State Fund Account System to their Own

Fund Account System. In the State Fund Account System, the profitable enterprises contribute 30% of income tax and 70% of contribution to the state fund.

Therefore, the Ministry of Planning and Finance has laid down a new reform program. The main objectives of the SEEs reform is to get more profit by commercial operation, to get sustainable economic development, to implement corporatization and privatization and to improve Public Private Partnership (PPP). The SEEs' capacity can be widened and business will be operated efficiently aiming to achieve private sector development outside the government budget.

The SEEs reform started from 2012-2013 (FY), and a quasi-expenditure system (government fund account and their own fund account) is used for SEEs. If they face a deficit, they are permitted to borrow at a 4% interest rate from the state owned banks in line with existing financial rules and regulations. Their Own Fund incurred some purchasing of raw materials and the Union Fund incurred some purchasing of raw materials, other current expenditure, capital expenditure and financial expenditure.

Moreover, if the profitable SEEs get profit, they have to pay a contribution of 20% of their net profit to the state fund, they have to pay an income tax of 25% of their net profit to the state fund, and they can carry 55% of net profit to their owned fund account to the next year. The non-profitable SEEs do not need to contribute to the income tax and contribute to the state fund account. Thus, they efficiently and commercially performed their enterprises but some enterprises were faced with losses and challenges such as low receipts, did not find and compete in the open market and did not perform as well in terms of quality (Example: Industries). These problems are a disturbance to the SEEs reform.

In 2013-2014 and 2014-2015, some enterprises transformed into ministries and departments because they couldn't stand their capacity. The SEEs under the Ministry of Transport were undertaking the outstanding budget of the Union Fund Account (UFA). In those fiscal years, the profitable SEEs, their own fund, incurred their purchasing of raw materials, contribution to the state fund, and income tax. The union fund incurred their other current expenditure, capital expenditure and financial expenditure. The non-profitable enterprises incurred some of their purchasing of raw materials in their own fund and incurred their other current expenditure, capital expenditure and financial expenditure in the union fund. Most of the non-profitable SEEs run for public services such as electric power and railway transport. These SEEs have been subsidized from the Government Budget.

4.4 Intergovernmental Fiscal Relation

Before 2011, Myanmar's budget system was only one state Fund Account. According to the 2008 constitution, the state fund is divided into union, state, and region funds. The Ministry of Finance established 7 state and 7 regional budget departments, 1 self-administered department and 5 self-administered regional departments in October 2011. Chief ministers of 7 regions and 7 states are responsible for their respective regional budgets.

The state and region governments are allowed to collect taxes for its required fund as prescribed in schedule 5 of the Constitution of Myanmar (2008) (Appendix 1).

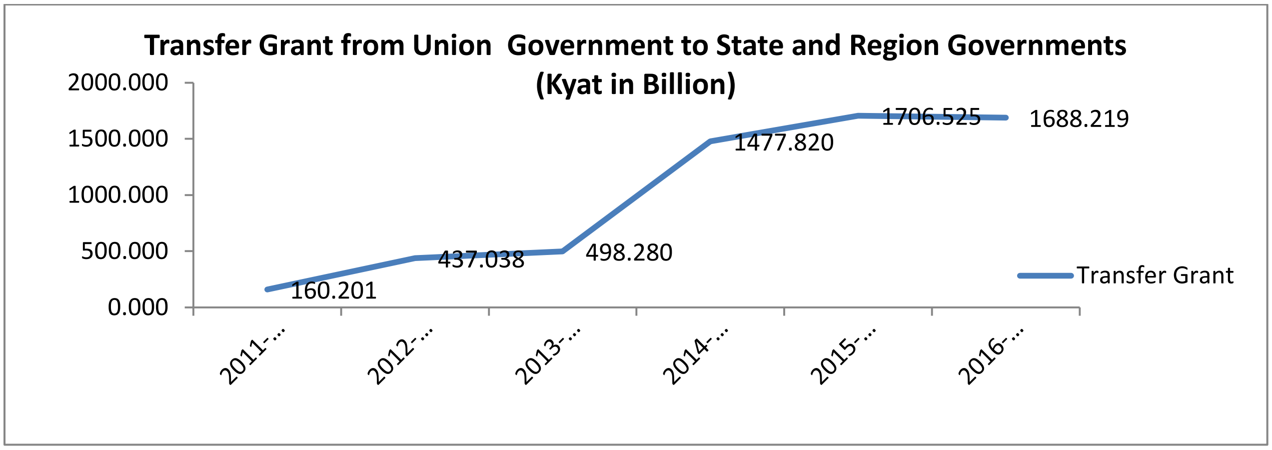
The Union Government is provided grants or loans to regional and state governments for their budget deficit and special matters. In previous fiscal years, the deficit of the regional level departments will be financed by grants from the union fund. If the regional level SEEs face budget deficits, it will be financed by borrowing from the union fund as a loan with a 4% interest rate. However, starting from FY 2015-16, the Union Government has been provided grants for all financing of budget deficits.

Although the union fund provides the grants to regional and state governments for their budget deficit, the Union Government forecasts approximation for grants to regional and state governments by using the Medium Term Fiscal Framework. For the budget preparing stage, the Union Government is considering six indicators for providing grants for state and region. These indicators are total population, poverty index, area, urban population as percent to total state population, per capita tax collection, and per capita GDP. This forecast has started for the FY 2015-2016 budget request.

The union government provides grants for financing in order to address budget deficits, special matters and loans to state and regional governments. The below graph shows that the union government provided grants to region and state governments has been increasing year by year.

In FY 2012-2013, the grant was 437 billion kyat and in FY 2016-2017, estimates increased up to 1,688 billion kyat.

Figure 8: The Trends of Grant Allocation from Union Government to Region and State Governments from Fiscal Year 2011-2012 to 2016-2017

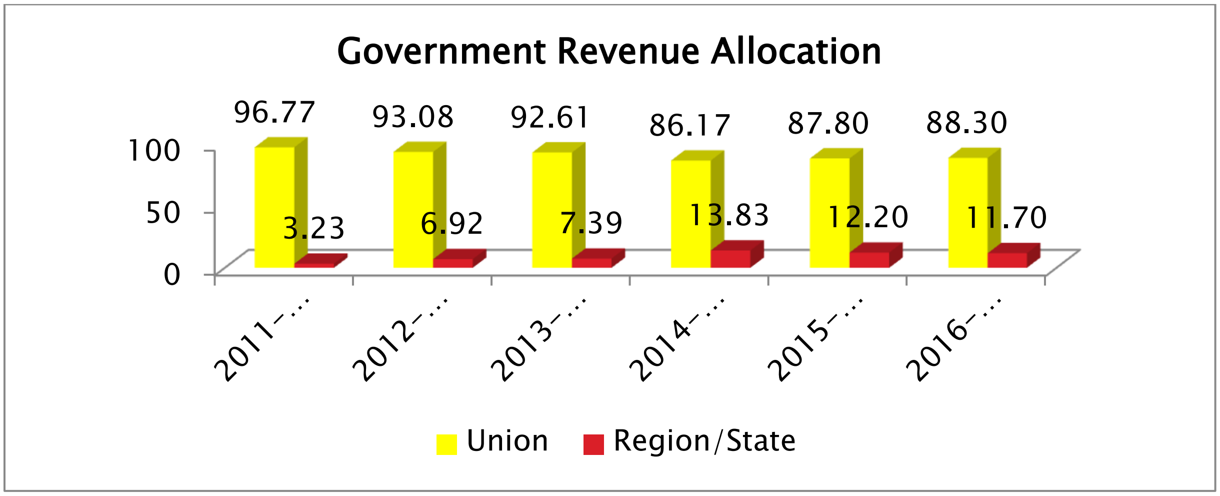


Source: Budget Department, Ministry of Planning and finance, Myanmar

The union government provides grant financing for budget deficits, special matters and loans to state and regional governments. Special matters are according to the government's policy guidelines every year. These funds are the Regional Development and Poverty Alleviation Fund (from FY 2012-13 to 2015-16), Regional Development Fund (from FY 2014-15 to FY 2015-16), Township Development and Management Fund (from FY 205-16), One Stop Service Office for District/Township (FY 2015-16), Rental Housing Project (FY 2015-16), and Farmland Development Fund (FY 2015-16). In FY 2016-17, the union government planned to provide the Regional Development Fund to state and regional governments.

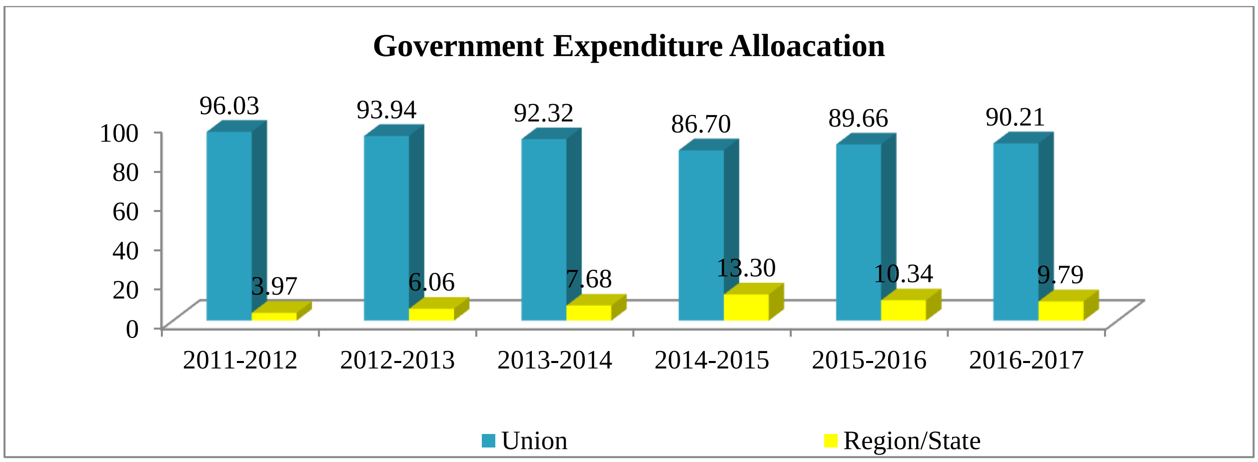
Regional and state governments' revenues and expenditure ratios increased year by year from FY 2011-2012 to FY 2014-2015 as shown in Table 1. It is clear that the union government increased more grants to regional and state government. But the ratio is greatly less than revenues and expenditures of the union government.

Figure 9: Union Government's Revenue Allocation to State and Region



Source: Budget Department, Ministry of Planning and Finance, Myanmar

Figure 10: Union Government's Expenditure Allocation to State and Region



Source: Budget Department, Ministry of Planning and Finance, Myanmar

The budget process of the state and region is the following. Firstly, the Ministry of Finance (Union Level) issues guidelines and instructions (ceiling by MTFF for grants by the union government) to region and state MOFs. On behalf of state and region MOFs, state and region budget departments issue guidelines to concerning regional level agencies for the preparation of the budget estimates. Under these guidelines, regional level organizations and agencies draw up their budget and then submit it to their concerning ministers for approval. After getting the approval of the concerning ministers, all agencies submit to the region and state budget department for scrutinizing and analyzing.

The regional budget department scrutinizes the current budget and financial budget and also scrutinizes the capital budget together with the regional planning department according to their regional plan target set. They have to scrutinize whether this capital budget is consistent with the plan target set. The regional budget department consolidates current, capital and financial budgets. And then they submit it to the State and Region Finance Minister. After the minister examines the budget, it is submitted to their regional government to get approval and after that it is submitted to the regional parliament (State and Region Hluttaw) for discussions. After discussions and approval by the regional parliament, the regional budget is submitted to the vice president according to the constitution. When the vice president determines the regional budget, it is submitted to the financial commission. After approval from the financial commission, region and state budget union budgets are submitted together to the Union Parliament (Union Hluttaw) to provide grants for regions. The share of available grants for states' and regions' financing and to implement union policy in states and regions is approved finally by the parliament. After the Union Hluttaw's approval, regional budgets are resubmitted to the respective State and Region Hluttaw for final approval and the region or state budget law is signed by the respective chief minister. The region and state governments are allowed to collect taxes for its required fund as prescribed in schedule 5 of the Constitution of Myanmar (2008) (Appendix 2). The Union Government provides grants or loans to region and state governments for their budget deficit and special matters. The deficit at regional level departments will be financed by grants from the union fund. If the regional level State Economic Enterprises will be financed, their deficit will be covered by borrowing from the Union Fund as a loan with a 4% interest rate.

Although the Union Fund provides the grants to region and state governments for their deficit, the Union Government forecasts an approximation for grants to region and state governments by the Medium Term Fiscal Framework during the budget preparing stage, considering six indicators as follows: Total population; poverty index; area; urban population as percent to total state population; per capita tax collection; and per capita GDP. This forecast has been established since 2014, for the FY 2015-2016 budget request. Figure 12 gives the trends of grant allocation from Union Government to region and state governments in the transition fiscal year 2011-2012 to 2015-2016, by each of the regions and states.

4.5 Medium Term Fiscal Framework and Budget Transparency

The Government of Myanmar has undertaken ongoing reforms in many areas that were included in the fiscal sector since 2011. In this fiscal sector reform, fiscal management is a key role to stabilize Myanmar's macro-economy. Therefore, the Budget Department on behalf of the Ministry of Finance, has been implementing reviewing processes on budget law, budget submission law, budget monitoring system, budget allocation, budget resources for effective fiscal management and fiscal policy.

Myanmar's budgeting system was a "bottom-up" system and annual budgeting system. The Medium Term Fiscal Framework has been introduced in fiscal year 2015-2016. The Medium Term Fiscal Framework (MTFF) is a policy based budgeting system combined with "bottom-up planning" and a "top-down budgeting system". The Medium Term Fiscal Framework specifies a "ceiling" for ministry-wide budget expenditures with macroeconomic assumptions calculated.

The Budget Department of the Ministry of Finance is responsible for analyzing, scrutinizing, preparing and delegating the recurrent budget and foreign exchange budget and the Ministry of National Planning and Economic Development is responsible for collating the capital budget. Line ministries are needed to discharge through Myanmar Economic Bank (MEB) by using the check of transfer. All of the line ministries are needed to make monthly reports and quarterly reports for budgeting. The Auditor General Office undertakes the auditing per 6 months for every Ministry. According to the public financial management reform, the Public Account Committee (PAC) is responsible for reviewing the budget bill and audit report and also the Planning and Finance Committee has a responsibility to review the national development plan and legislative matters. On behalf of the Ministry of Finance, the Budget Department implemented the Public Financial Management Reform Program.

After 2011, the Myanmar government performed the published airing of budget debates on radio and television to increase budget transparency and public budget discussion. To increase parliamentary activity, the public account committee (PAC) and national planning and finance committee were formed and started to provide budgetary oversight. According to the Open Budget Survey of multilateral organizations (2015), the score of budget oversight by supreme audit institutions is 25 out of 100 index, the score of the open budget index in 2015 is 2 out of 100 index, public participation is 6 out of 100 index, and budget oversight by legislature is 27 out of 100 index (open budget index, 2015). According to the open budget survey of multilateral organizations, they measured budget transparency by using 109 indicators of 140 questions and the Myanmar open index in 2015 is 2 and it has slightly increased since 2012. In November 2015, the Ministry of Finance released the 2015-2016 citizen budgets to the public and general auditor office published by the auditing report. However, the Government of Myanmar is trying to publish the pre-budget statements, executive's budget proposal, enacted budgets, in-year reports, mid-year review and end-year report. According to the MTFF, the government can control the deficit at a 5% level of deficit to GDP.

CHAPTER V: OVERVIEW OF THE FISCAL SITUATION IN JAPAN

5.1 Budget situation in Japan

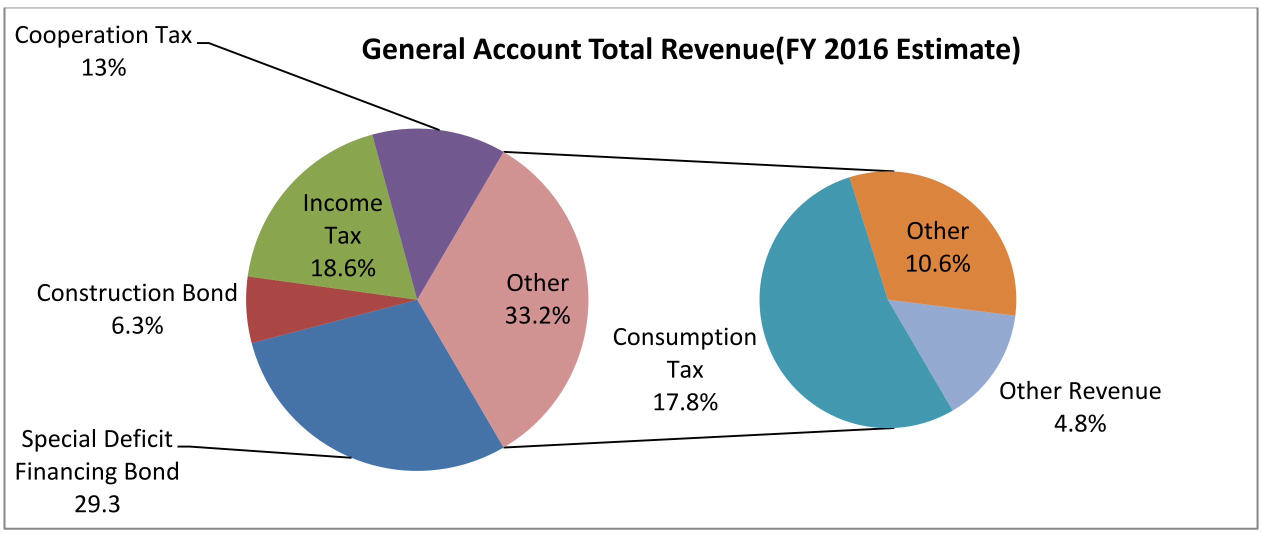
In Japan, the government's financial year runs from 1 April to 31 March. The total revenue in the general account budget consists of income tax, corporate tax, consumption tax, other tax, non-tax revenue, and government bond issues.

The income tax and corporate tax and consumption tax are major sources of revenue for Japan. In FY 2016, income tax is 18.6%, corporate tax is 12.6%, consumption tax is 17.8%, and other tax is 10.6% of total revenue, respectively. All of the revenues from the consumption tax shall be used for the financial resources for social security.

Non tax revenues are gasoline tax, liquor tax, inheritance tax, tobacco tax, custom duties, petroleum and coal tax, motor vehicle tonnage tax, stamp revenues and other taxes. Non tax revenue is 4.8% of total revenue in FY 2016.

Revenue from the issuance of bonds is 35.6% of total revenue and issuance from construction bonds is 6.3% and special deficit financing bonds is 29.3%, respectively.

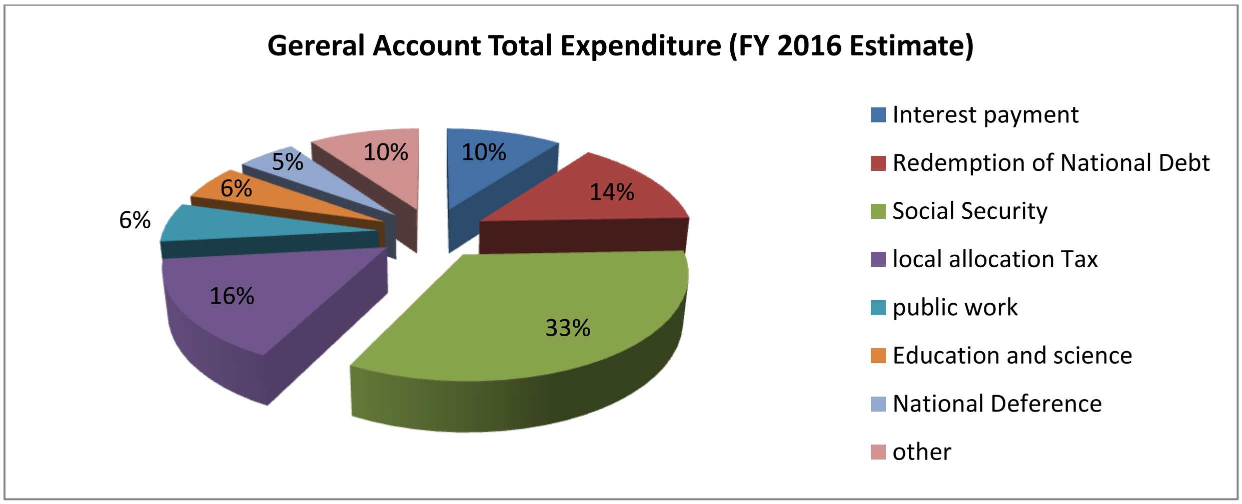
Figure 11: General Account Total Revenue Position (FY 2016)



Source: Japanese Public Finance Fact Sheet 2016, Ministry of Finance, Japan.

The expenditures of social security, national debt service, and local allocation tax grants are a main part of the general account total expenditure. Social security, national debt service, and local allocation tax grants are a main part of the general account total expenditure. Social security expenditure is 33% and local allocation tax is 16% of the total expenditure in FY2016. National debt service includes interest payments and redemptions of the national debt. The interest payment is 6% and redemption of national debt is 16% of the total expenditure in the FY 2016 estimate.

Figure 12: General Account Total Expenditure Position (FY 2016)



Source: Japanese Public Finance Fact Sheet 2016, Ministry of Finance, Japan

In Japan, the government sector is stratified mainly into two levels; the national and local government.

The Japanese national government has three types of budget: a general account budget, a special account budget, and a government-affiliated agencies' budget. However, the term of "government budget" usually refers to the general account only.

In the general account, the expenditures are classified by major government programs, such as public work, social security, education and science, national defense, economic cooperation, and energy measures.

Special accounts are set up for various reasons. Some are for specific purposes such as social security accounts. Each special account basically has its own distinct source of revenue. There were 31 special accounts in April 2004.

Government-affiliated agencies are granted special legal status from the government and also have their own budget. There were nine government affiliated agencies in 2004, seven finance corporations and two banks, including the Development Bank of Japan, the Japan Highway Corporation, and so on. Their activities are in line with government policies and their budget must be submitted to the Diet for approval.

The budget principle is a single year budget principle that each fiscal year is treated independently with another fiscal year.

The Public Finance Law prescribes the composition of the budget to be submitted to the Diet. These are general provisions, a revenues and expenditures budget, continued expenses (multi-year expenses), approved carried-over expenses, and contract authorization.

General provisions provide a general rule to be commonly applied to all of the individual budget components. These are the ceilings on the amount of government bonds, treasury bills and temporary borrowings or of guaranteed loans, and other matters necessary for the budget implementation. The revenues and expenditures budget include estimates of total national receives, and permitted expenditure.

Continued expense items are the payments over a period of several years, and the maximum is five years. These payments are for projects in construction, production, and others. Prior approval from the Diet is required.

The approved carried-over expense items are not spent within the fiscal year due to the nature of expenditure or due to unexpected circumstances arising after the formulation of the budget. Prior Diet approval is necessary for these expenditures.

The contract authorization system allows the government to make contracts for projects in which it is necessary to incur a liability within a given fiscal year and make all or part of the outlays in subsequent years. Prior approval of the Diet is needed to incur such a liability.

5.2 The Budget Cycle in Japan

The budgeting system of Japan is running the PDCA (Plan, Do, Check and Action) cycle which is a kind of performance based budgeting and is contributing to strategic policy planning. The processes of the PDCA cycle are as follows.

(a) Planning the budget (Plan)

(b) Executing the budget (Do)

(c) Evaluating the budget execution in the context of achieving the policy agenda (Check)

(d) Making use of evaluation results for the budget planning (Action).

According to the PDCA cycle, the National Audit, Budget Execution Survey, Policy Evaluation, and Administrative Programs Review are implemented every fiscal year.

The national audit is conducted by the board of the audit, which is independent of the cabinet, based on the Constitution of Japan and the Board of Audit Act. The board of the audit shall constantly audit and supervise public accounts from the aspects of accuracy, regularity, economy, efficiency and effectiveness. The results are reported to both the Cabinet and Diet and are published in order to ensure.

The officials and budget examiners from the Budget Bureau of the Ministry of Finance and officials of local finance bureaus cooperated on and implemented the budget execution survey. They conduct survey examinations of the activities of selected policy programs from the viewpoints of effectiveness and efficiency of those budget executions. The survey points out the matters to be improved, and eventually revise the budgets and rationalize their budget execution. The result of the survey is published on the website of the Ministry of Finance. The Ministry of Finance requests other ministries to reflect the survey results for the next year's budget request accurately and for future budget executions.

The policy evaluation is conducted by Ministry of Internal Affairs and Communications and line ministries based on the Government Policy Evaluations Act. Each ministry sets organizational policy goals and assesses their achievements by evaluating their policies from the standpoints of necessity, efficiency, and effectiveness.

The administrative programs review is conducted by the cabinet secretariat and line ministries based on cabinet decision. The line ministries conduct a comprehensive review of policy programs in the government (over 5,000 programs) by themselves prior to the next year's budget request. The results of the review are reflected in the next year's budget requests and executions.

The Budget process can be learned in three steps. These are (1) budget preparation and transmittal (2) congressional action, and (3) execution and settlement of the budget with audit.

(1) Budget preparation and transmittal process

The "Economic Outlook and Basic Policy Stance on Economic Management" is published by the government at the end of the every calendar year for budget preparation for the upcoming fiscal year. The Ministry of Finance issues a ceiling for the total budget of each ministry or government agency under the guideline of the Cabinet in July of the previous current budget year. According to this ceiling, the ministries and agencies submit their budget request to the Ministry of Finance by the end of August.

Then MOF negotiates a budget plan during the fall. The MOF compiles detailed estimates, hearing from and negotiating among relevant ministries from September to December.

The cabinet approves the tentative government budget plan. Although the details of the plan has to be worked out and submitted to the Diet for approval at the end of December or at the beginning of January of the current fiscal year.

The plan incorporates the "government forecast" of economic growth and inflation for the fiscal year is usually announced at the end of January or the beginning of February. The Diet approves the cabinet plan around the beginning of the fiscal year.

The Cabinet issues the "General Principle of Budget Formulation" in December. According to the guideline of the Cabinet, the MOF prepares the first draft and publishes it. Final negotiations among the MOF Minister, relevant ministers and Director General of agencies after that budget draft is finalized and officially approved by the Cabinet at the end of December.

(2) Congressional action:

Every year the Cabinet submits the Draft Budget to the Diet in the latter part of January. In the House of Representatives, the Draft Budget is deliberated by the Budget Committee, including the opening of statutory public hearings. After approval by the Committee, the Draft is then put to a vote at a plenary session of the House of Representatives. In a plenary parliament, the Minister of Finance makes a budget speech with the government's fiscal and monetary policies. After approval by the House of Representatives, the Draft Budget is sent to the House of Councilors. After approval of the House of Councilors, the Budget becomes effective on April 1st, the beginning of a fiscal year. If the Conference Committee cannot come to an agreement, or if the House of Councilors does not make a final resolution within 30 days after the receipt of the Draft Budget approved by the House of Representatives, the conclusion made by the House of Representatives shall be that of the entire Diet. After approval of the budget by the Diet, the budget to be executed is distributed from the cabinet to the heads of the ministries and agencies, according to the value decided by the Diet.

The Diet has the authority to deliberate on the budget bill. After being discussed at the budget committee and plenary session, the budget bill is passed. After the budget bill is passed, the Diet provides the Cabinet with the authority to execute the budget.

(3) The execution of the budget

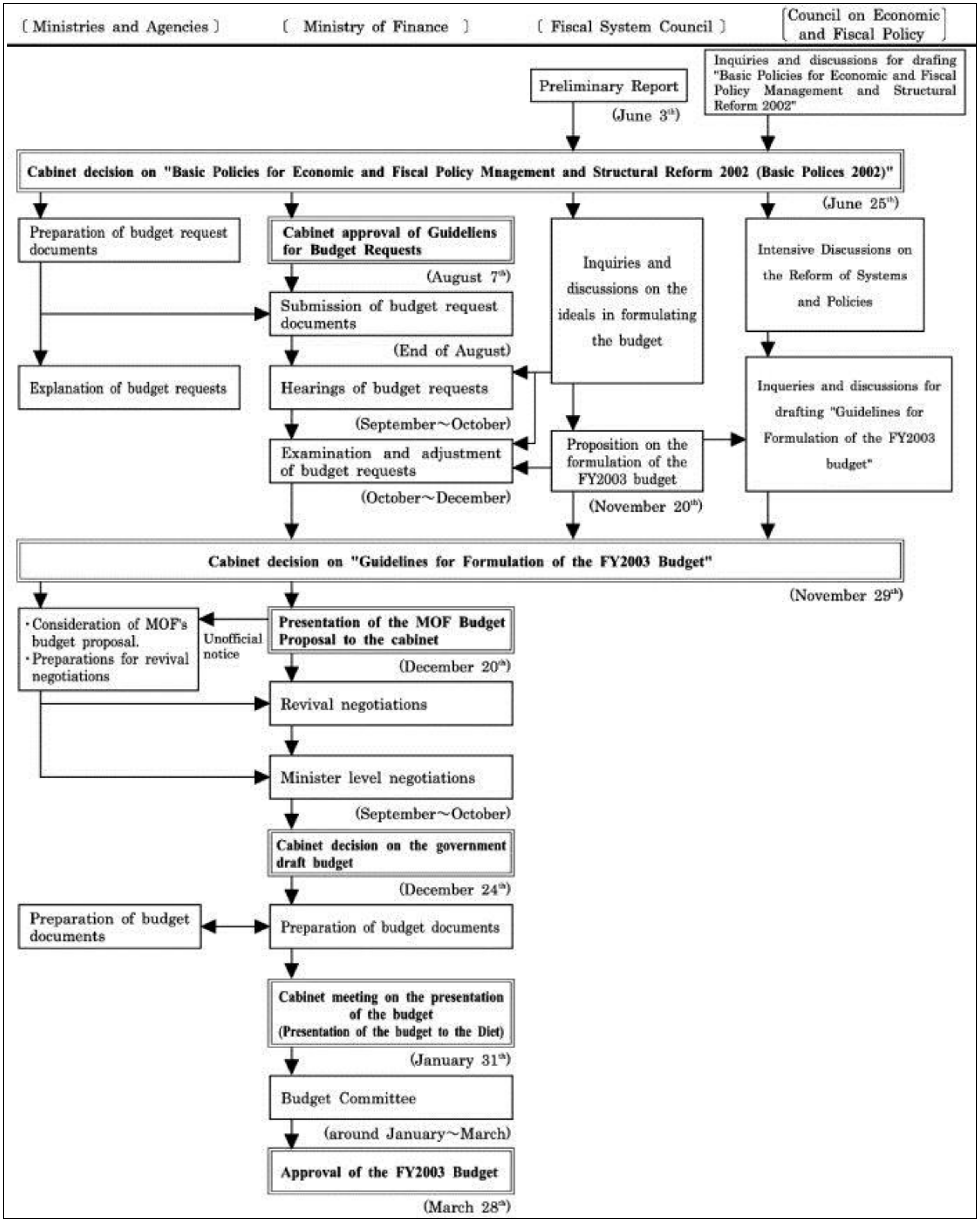
The Cabinet approves the budget relevant time period. However, when the Cabinet expects that the regular budget cannot be approved by the 1^{st} of April, a provisional budget is specially compiled for a specific period from the beginning of fiscal year and submit to the Diet. The provisional budget must be limited to the minimum requirement payments and is replaced by the regular budget once it is approved with time lag.

During the fiscal year, the budget may be revised to reflect evolving economic conditions. It could be twice. The actual government expenditures are determined on March 31 of the next fiscal year.

A supplementary budget is prepared for and submitted to the Diet when a shortage of revenue sources or special needs for expenditures occurs during the current fiscal year.

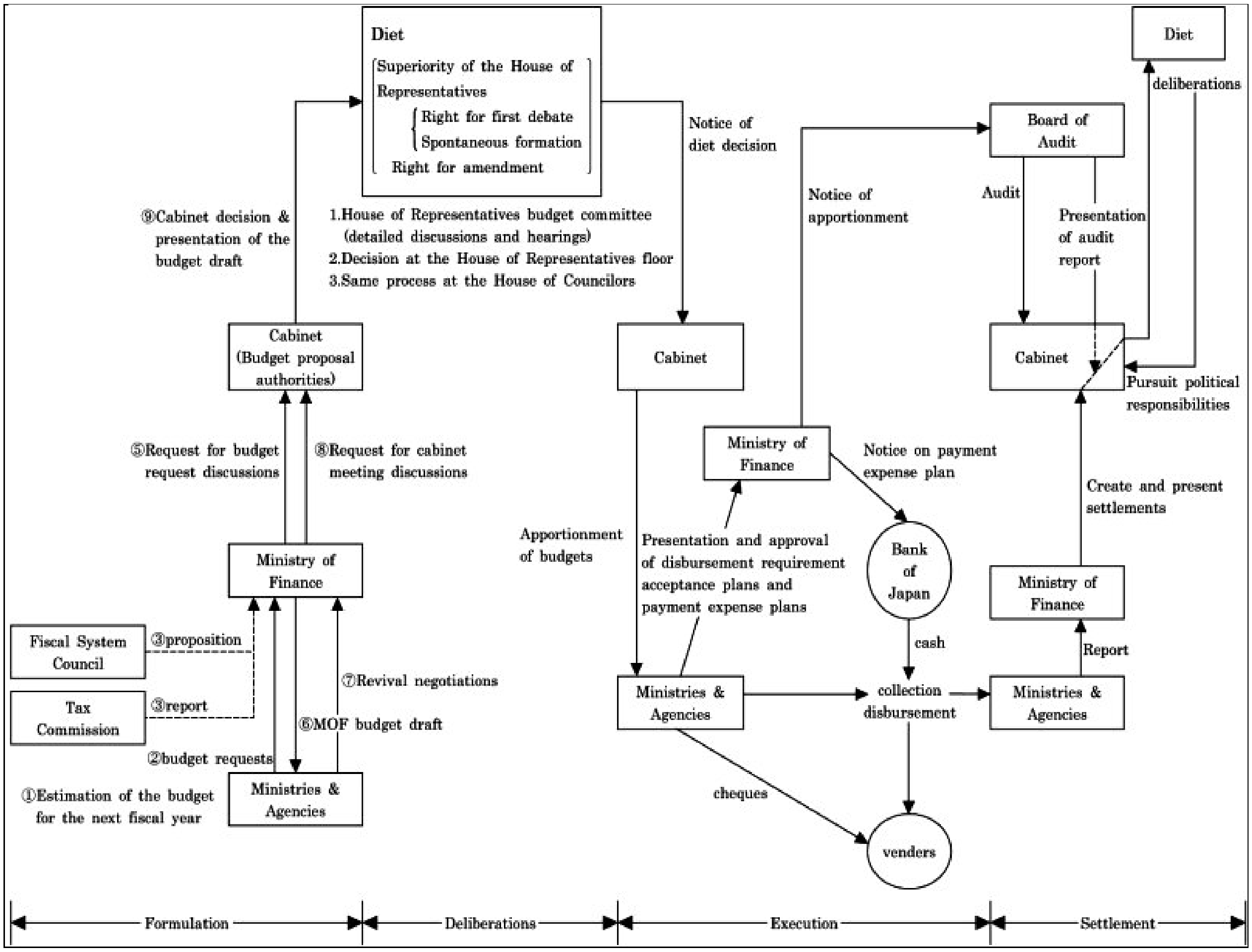
The execution of the budget for expenditures is separated into two phases; the phase to form contracts for the expenditures (acceptance of disbursement requirements), and the phase to expense cash in cheques, etc. (expense of payments). Considering the execution of public work expenditures, the heads of ministries and agencies are required to create a plan for the acceptance of disbursement requirements (schedule for contracts to be made within one fiscal year), and receive approval from the Finance Minister. Moreover, the heads of ministries and agencies must create a plan for the expense of payments (quarterly schedule for expenditures in main). The Finance Minister also notifies the plan for the expense of payments to the Bank of Japan. In general, to make the disbursement of expenses, the officer in charge of expense payments writes a check to the Bank of Japan.

Figure 13: Budget preparation process in Japan



Source: "Understanding of the Japanese Budget", 2003, Budget Bureau, Ministry of Finance, Japan

Figure 14: Budget formulation and execution process in Japan



Source: "Understanding of the Japanese Budget", 2003, Budget Bureau, Ministry of Finance, Japan

5.3 Financing of Budget Deficit (Bond Issuance and FILP program)

In Japan, generally the amount of national bonds issued during the year is called "fiscal Deficit". However, the different budget systems between Japan and other countries (for example, the U.S.) is social security contribution. The revenues of the social security program are not included in the general account revenue and only transfers to social insurance special accounts appear on the expenditure budget of the General Account.

The social insurance system in Japan contains programs of health insurance public pensions and unemployment compensation. Different groups of employees belong to different pension schemes; employees of private companies belong to the employee's pension

(KoseiNenkin), government employees belong to the cooperative pension (Kyosai Nenkin) and the self-employed to the people's pension (Kokumin Nenkin).

General government account, local government accounts and social security fund accounts are included in System of Nation Account (SNA). General account deficit is defined as fiscal deficit.

In Japan, financing budget deficit has been used by two types of government bonds: construction bonds and deficit financing bonds. In 1965, a large unexpected shortfall in revenue caused the government to issue construction bonds ear-marked for public construction. The downturn that followed the first oil crisis led the Japanese government to issue deficit financing bonds in 1975. No deficit financing bonds were issued by the Japanese government in the fiscal year 1990. The government budget was a balance in FY 1990.

Bond issuance in Japan

From the end of the Second World War II to FY 1965, the Japanese government strictly followed a balanced budget policy. In FY 1965, because of the revenue shortfall the Japanese government has been running a budget deficit. The Public Finance Act (1947) was amended in 1965. According to this law, the government issued "Construction Bonds" from FY 1966 to 1974. These bonds were for financing public work projects such as the construction of roads, bridges and other facilities.

In 1973, because of the oil crises, tax revenue had fallen. The Japanese government passed the Public Finance Law to permit the issuance of special deficit financing bonds. Based on the special law enacted annually, "Special deficit financing bonds" were issued from FY 1975 to FY 1989.

In the late 1970s, the fiscal deficit expanded rapidly and the ratio of bonds to total expenditure reached the first peak of 34.7%. However, the rapid expansion of expenditure caused improvement in social security service (FY 1973 is known as the first year of High Level Social Welfare) and increased public work.

After the "Bubble Economy" (1980s) period, the Japanese government formulated a budget without issuing special financing bonds. It started in FY 1990. Government bond issuance declined in the 1980s and in FY 1991 recorded 9.8% of total expenditure. However, due to the unexpected natural disaster of Great Hanshin-Awaji Earthquake, the government formulated a supplementary budget for FY 1994 and government bond issuance increased 22.4% of total expenditure.

In 1997, the government raised the consumption tax rate from 3% to 5%. On the expenditure side, all sorts of expenditures were thoroughly examined and reviewed according to the “Fiscal Structural Reform Act (November 1997)” that provided concrete fiscal consolidation targets and spending limits on major expenditure categories. As a result, bond issues declined 21.6% of total expenditure.

However, due to the Asian financial crisis, the government decided to carry out a temporary tax cut for FY 1998. The budget was targeted as a priority on promoting economic recovery. In November 2000, a policy package for new economic development towards the rebirth of Japan was issued and government issuance for bonds increased by 38.5% of total expenditure.

The FILP (Fiscal Investment and Loan Program)

According to a World Bank policy research report (1993), East Asia has a remarkable record of high and sustained economic growth in the period of 1965 to 1990. High performing Asian Economies (HPAES) took place in Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, Indonesia, Malaysia and Thailand. They had the diversities of experience, a variety of institutions and a great variation in policies.

After World War II, private sector industrial funds were in short supply in Japan. At that time, the government policy was focused on establishing a core industrial base such as heavy and chemical industry, electric power and on the development of social infrastructure such as railroads, etc.

The government utilized the FILP to meet the need of the people and changing economic and social conditions and compliment private-sector business. In Japan, the postal saving system is an effective way of mobilizing household savings, minimizing overhead and fixed costs. The region’s first postal savings program was established in 1875, with the explicit goal of fostering the savings of rural dwellers and people with low to moderate income in cities and towns. The Japanese government heavily promoted postal saving among low-income households and made the interest income on small postal saving deposits tax free.

The Fiscal Investment and Loan Program (FILP) plays an important role, as a capital budget of the national government. The FILP draws on funds from the postal savings and makes loans to special accounts and government agencies.

The financial institutions created under the FILP allocate funds to the private sector. From the period after World War II to the high growth era (since late 1950s), the government focused on establishing core industrials. During the stable growth period, the government was active in the areas of housing, water supply, roads, and so on, and recently priority has been placed on SMEs.

During 1953-1966, 31 projects on infrastructure development were implemented by FILP through a World Bank loan, such as bullet trains ("Shinkansen"), steel works, highway projects (Tomei and Meishin), hydroelectric dams (Kurobe dam), and so on.

The FILP (Before the reform in 2001)

The Fiscal Investment and Loan Program (FILP) was established in 1953. Mandatory deposits of FILP funds came from postal savings, pension reserves and other sources to the national government.

Most of the funds deposited in post offices are transferred by the Ministry of Port and Telecommunication to a special account in the Ministry of Finance. Some funds are managed in the security market directly by the Ministry of Port and Telecommunication. Through this special account, the fund is distributed as capital funds and loans to government agencies and invested in projects managed in other special accounts.

The FILP absorbed 20-40% of household savings during the rapid growth period. FILP funding was decided with priority on operational needs. At that time, the interest rate was 4.7%, based on the interest rates of government bonds. And FILP agencies made loans to private corporations and individuals as interest rates were 4.7-5.2%. In some cases, interest rates were lower than 4.7% from policy considerations.

From the period after the war to the high growth era, FILP loans were focused on establishing a core industrial base and during the stable growth period the government focused on improvement of the living environment.

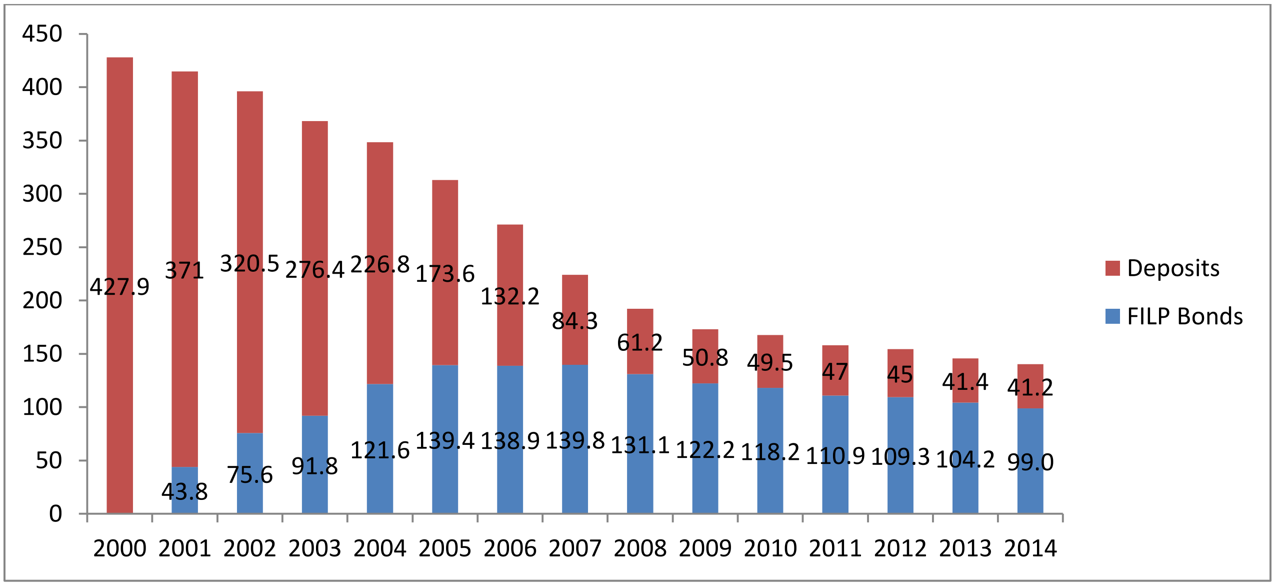
The FILP (After the reform in 2001)

After the FILP reform in 2001, the mandatory deposit of all postal savings and pension reserves were eliminated and market based fundraising had been introduced.

The main financial source for FILP funds is from fiscal loans through the issuance of FILP bonds by the government. Surplus of special accounts and other public entities were also deposited with the fiscal loans as usual. The second source is industrial investments, which are dividends from private companies such as Electric Power Development Company Ltd., Japan Tobacco Inc., Nippon Telegraph and Telephone Corporation, Japan Bank for International Cooperation, and so on. The third source is FILP agency bonds, government guaranteed bonds issued by the FILP agencies.

Two types of bonds were issued under FILP. They are FILP agency bonds and government FILP bonds. FILP agencies are government affiliated financial institutions such as housing-related institutions, supporting institutions for small and medium sized business, other government financial institutions, corporations, other agencies and local governments. FILP agency bonds are public offering bonds and issued individually. They are used in private financial markets and have no government guarantees.

Figure 15: Outstanding Amount of Deposits and FILP Bond Issue (Trillion Yen)



Source: FILP Report (2015), Financial Bureau, Ministry of Finance, Japan.

The government FILP bonds were issued only for further funding demands. The national government would procure funding for loans on the market. The FILP plan is formulated every year together with budget formulation and is submitted to the Diet.

FILP loans go to such areas as infrastructure, trade financing, housing, SMEs and micro enterprises, education and social welfare, base industrials and innovation, disaster recovery, loans for local governments, and overseas investment and loans.

The FILP bond interest rate is the same as Japanese Government bonds. The FILP interest rates are set based on the yield for Japanese government bonds and correspond to their lending terms, and form of redemption.

Moreover, the FILP plan has to be submitted to the Diet as a part of the budget and needs to get approval. The FILP also uses the PDCA circle. Every fiscal year, in December, the FILP plan is submitted to the Diet to get approval. The execution process starts during the fiscal year. The checking process is the reporting on actual loans, balances, and so on. This step will be done in July and the FILP report is published in August. The next year of the FILP plan preparation starts in September to December using the policy cost analysis.

The FILP plan for FY 2016

The estimated amount of the FILP plan for FY 2016 initially was 13.4811 trillion yen. FILP for FY 2016 was planned to actively provide long term risk money to catalyze investment from the private sector, in line with government growth strategies, including promotion of infrastructure export, and the deepening of regional revitalization. The industrial investment amount was 297.3 billion yen in FY 2016. The programs are promoting the strategy of global outreach, support for regional revitalization, education, welfare and medical services, and local government.

The government's decision on the collection and distribution of these funds constitute the Fiscal Investment and Loan Program (FILP).

Table 3: The FILP plan and disbursed as Fiscal Loan (In Billion Yen)

Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
FLIP Plan	36,602.40	23,971.10	20,218.10	20,043.80	19,872.30	15,320.90	13,595.00	12,259.10	13,946.00
Fiscal Loan	26,570.40	19,249.60	15,180.70	14,011.20	13,497.20	9,475.80	8,725.40	7,683.50	10,042.50
Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	
FLIP Plan	16,765.40	13,825.20	13,879.80	14,738.30	15,163.70	12,977.50	14,621.5*	13,418.1*	
Fiscal Loan	13,116.50	10,630.80	10,287.90	10,447.80	10,412.00	9,335.80			

**Initial Estimate*

Source: Summary of the Fiscal Loan Fund Management Report for FY 2014, 21 July 2015, Financial Bureau, Ministry of Finance.

5.4 Fiscal Decentralization

The local government is organized with two tiers, municipalities and prefectures. As of record on 1 April 2016, the local government consists of 47 prefectures (including Tokyo, Hokkaido, Osaka, and Kyoto) and municipalities cover 790 cities, 745 towns, 183 villages, and 23 metropolitan special wards. The municipalities, the first tier of the local government, provide a wide range of personal services, including education, social protection and services, public health, policing, fire protection, water and sewage, and infrastructure provision and maintenance.

The prefectures, the second tier of the local government, supplement municipal activities. These function as a liaison between municipalities and central government, provide services whose benefits spill over municipal boundaries, conduct projects that are too large to be undertaken by municipalities, and offer assistance to municipalities, when required.

Local Government Revenue

Local government revenue is based on local taxes, collection of fees, intergovernmental transfers from central government and the issuance of local bonds.

Intergovernmental transfers from the central government include central government subsidies, local allocation tax and local transfer tax. Central government subsidy is a grant and disbursed directly from the budget of central ministries.

Local allocation tax (LAT) is a general purpose grant and disbursed though the special account. Special allocation tax is distributed in the case of unexpected fiscal shocks. (Example: natural disasters, under estimation of original local allocation tax).

Local transfer taxes are a sharing tax, collected as a national tax and transferred to local governments according to the specified rules. The government has been allocated 33.1% of the personal income tax and corporate income tax, 50% of alcohol tax (since FY 2015), 22.3% of consumption tax, and 100% of local corporate tax (since FY 2014).

Local government bonds can be issued for financing of capital expenditure such as public facilities, welfare facilities, firefighter facilities, and developing road construction transport, water supply, sewerage services and so on. Since 2012, local governments have to notify the upper levels of government with prior notification if they finance from the private sector. If local bond repayment periods are longer than one fiscal year, the central government could subsidize most payments of the local bonds through allocation tax grants. In FY 2013, the issuance of local government bonds was 12.285 trillion yen. The prefectures issued 55% and municipalities issued 45% of the local government bonds.

Local Government Expenditure

The local budget has two types of accounts, the general account and special account. The general account records the expenditure that is principally financed by tax revenue. Special accounts are set for specific purpose expenditures that are financed by public insurance contributions.

Local government expenditures are used for areas such as safety, infrastructure, education, welfare, and economy. Local expenditure rations are higher in the area such as public health, sanitation, school education and police and fire services.

Central Government Grant Policies

The central government transfers three types of fiscal transfers to local governments. These are central government subsidy, local allocation tax and local transfer tax.

Central government subsidies are granted to the local government for two main purposes, it helps local governments maintain uniform services in specific areas required by national laws and function as incentives for local governments to adopt specific projects that contribute to national projects. Classification of subsidies was defined by local finance law.

Two types of grants are provided from central governments, unconditional and conditional grants. Unconditional grants are simply lump-sum transfers from central to local governments, called tax-sharing grants. In FY 2015, financial sources for the fiscal equalization programs are earmarked from a certain percentage of specific national tax; 33.1% from income tax, 50% from liquor taxes, and 22.3% from consumption tax. Japan's VAT are included in the tax sharing sources under the unconditional grant system.

Conditional grants are given on condition that the recipient local government would match a certain proportion of them with their own expenditure. They are tied to specific types of expenditures and known as specific purpose grants.

Allocation of the local allocation tax grants

To allocate the local allocation tax grants, first we have to find the financing gap between standard financial requirements and standard financial revenues. The financing gap (amount of LAT grants) is a maximization of differences between Standard Financial Demand and Standard Financial Revenues.

LTA grant= max (SFD-SFR, 0)

<u>**Demand estimate = Individual demand estimate + Comprehensive demand estimate**</u>

In the demand estimate, the individual expanse estimate is 90% of the total demand and comprehensive expense estimate is 10% of the total demand.

(1) Individual demand estimate

Standard financial Demand = ∑ (Adjustment coefficient × Unit cost × Measurement unit)

$$SFD\ i = \sum a\ ij.\ C\ j.\ Xij$$

Where,

aij = adjustment coefficient

Cij =Unit cost

Xij = measurement unit of each administrative scope.

The adjustment coefficient is a modification coefficient reflecting region-specific conditions. For example, the coldness adjustment calculates extra expenses due to degree of coldness or snow such as expenses for heating and snow clearing. The investment situation adjustment reflects actual financial requirements in investment expenses for each local government's portion or interest and repayments for public work bonds.

Unit expense is expense per one measurement unit of each administrative scope. It is determined by using standard local governments assuming a prefecture or municipality. The standard of prefecture is that with a population of 1,700,000, an area size of 6,500 km^2, a number of households of 690,000, and a length of roads of 3,900 km. The standard municipality is that with a population of 100,000, an area size of 160 km^2, number of households of 41,000 and a length of roads of 500 km. However, it does not determine unusual, natural, or geographical conditions.

Measurement unit for prefectures and municipalities are based on the item subjects. **(Appendix...)** And the measurement unit for public debt payments are public debt repayments for specified debts (50-100%), bonds for disaster recovery (95%) and extra fiscal measure bonds (100%). (**Appendix…)**

(2) Comprehensive expenses demand estimate = a × population +b × area
As of 2007
… a = 12,390 (prefecture), =23,220 municipality)

… b = 1,114,390 (prefecture), =2,357,000 (municipality)

Here, to estimate for *Standard Financial Demand* is as follows.

The measurement unit specified for public services. The measurement unit for prefectures and municipalities are based on item of subjects (Appendix 3).

An equation for calculating standard fiscal revenues (SFR) of local governments is as follows:

***Standard financial revenues* = (Standard local tax revenues × 0.75) + Local transfer tax**

Where, a coefficient of 0.75 (75%) is the reservation ratio because of allowing local governments to execute their own policies which are not included in the standard financial requirements and to secure incentives for local governments to increase tax revenue.

Standard local tax revenue is the estimated tax revenue of local governments calculated with the standard tax rate.

Local transfer tax is collected nationally and transferred to local governments on an objective basis (e.g., local road tax).

In FY 2014, only Tokyo prefecture and 54 municipalities' standard financial revenues are more than their standard financial requirements. They did not depend on the local allocation tax grants.

5.5 Budget System Reform

Japan's budget system reforms have been introduced in 2002. The aim is for a more transparent, efficient and effective budget. The procedure is focusing on performance and results to be inputted into the process of budget examination through improved analytical instruments. Budget examiners of the Budget Bureau of the Ministry of Finance and officials of the local finance bureaus start inspections in April, and publish their inspection reports mostly in July before budget requests from line ministries.

Budget examiners are expected to reflect their findings in the budget examination in July or August and publish how their findings have actually been taken into account in the budget. In case they find that the projects are not implemented as effectively and efficiently as previously expected, they take necessary actions:

① scrap or reduce the budget for the items; or

② review the implementation, check bottlenecks and urge the implementing ministries to take corrective actions for better results.

The government is currently implementing the comprehensive reform of social security and taxes for achieving "fiscal consolidation" and "enhancement and sustainability of the social security system" simultaneously. The government has introduced a fiscal consolidation plan called "The Plan to Advance Economic and Fiscal Revitalization" according to the Cabinet decision on June 30, 2015. The first three year plan (FY 2018-18), as an "intensive reform period," the government will proceed with "Integrated Economic and Fiscal Reforms" intensively and will use benchmarks of the reform efforts such as ratio of the primary deficit to GDP to around -1% for FY 2018. The government is making effort for expenditure without presupposing an increase except in social security expenditure. Local government expenditures also shall be controlled in line with the efforts by the central government.

The Japanese called this "Abenomics". In the first stage of Abenomics, the government is using a three-arrow strategy. The first arrow is aggressive monetary policy, and it will introduce a price stability target of 2%, quantitative and qualitative monetary easing with a negative interest rate. The second arrow is flexible fiscal policy, and the government aims to achieve economic revitalization and fiscal consolidation simultaneously and aim to achieve a primary surplus of the central and local government by 2020. The third arrow is a growth strategy for promoting investment including establishment of national strategic special zones.

The second stage of "Abenomics" also has a three-arrow strategy. The first arrow is a robust economy that gives rise to hope, and its target is to achieve a nominal GDP of 600 trillion yen by around 2020. The second arrow is dream-waving childcare support and the target is to raise the birthrate to 1.8 per woman by mid-2020. The third arrow is social security that provides reassurance, and the target is to reduce to zero the number of people who leave employment to provide nursing care by early 2020.

CHAPTER VI: FINDINGS AND RECOMMENDATIONS

6.1 Prioritizing Expenditure Allocation on Infrastructure Development

After World War II to FY 1965, the Japanese government strictly followed a balanced budget policy. From FY 1965, the Japanese government started implementing a budget deficit policy. The government had issued “Construction Bonds” from FY 1966 to 1974. These bonds were to financing public work projects such as construction of roads, bridges and other facilities. At that time the Japanese government prioritized their government expenditure on infrastructure development which focused on establishing core industries and spent large amounts of capital expenditure on construction projects.

Japanese public finance law (1947) stipulated that the national expenditure must be financed by revenue rather than government bonds or borrowing. However, there was an exception that the government could issue bonds or borrowing for the purpose of public work, investment and loans. After the oil crisis period, there was a tax revenue shortfall because of the economic recession. The government issued deficit financing bonds, according to a special law enacted in FY 1975. The aim of bond issuance was not only to cover tax revenue shortfalls, but also to stimulate the economy with the hope of ensuring economic recovery. In the late 1970s, the fiscal deficit expanded rapidly. The bond to expenditure ratio was reaching its peak of 34.7%. However, the rapid expansion of expenditure caused an increase in public work and improvement in social security service. In Japan, FY 1973 is known as the first year of High Level Social Welfare. The expansion of capital expenditure would result in an increase of future tax revenue. Now, the biggest expenditure portion in the government general account is the social security expenditure.

As a developing country, Myanmar’s priority is to improve infrastructure development. Compared with some of its neighboring countries, Myanmar’s capital expenditure ratio is lower than some other developing countries. **(Table 2...)**. Many empirical studies and international organization surveys also pointed out the importance of infrastructure development. In the government budget, capital expenditure is approximately 23% of the total expenditure in FY 2016-17 (initial Budget Estimate - BE) **(see Figure 5).** In Myanmar, revising the budget during the fiscal year is a common practice which is called a “Revised Estimate (RE)” and the RE is always higher than the BE. However, actual disbursement is always underspent. It shows that the line ministries could not use budget expenditure efficiently. **(Figure 6)** It would be difficult for countries like Myanmar to implement new projects and extend other activities without public infrastructure development. To achieve fiscal sustainability and long-term development, prioritization of the government’s expenditure policy is an important issue. Therefore, learning from the Japanese experience of infrastructure development**,** the Myanmar government should consider "a trade-off between maintaining sustainable fiscal deficit targets and increasing capital expenditure allocation" and "prioritization of infrastructure development projects" as a policy implementation.

6.2 Other Related Issues

Other related issues include a budget allocation system. The Japanese Budget System reform has been started in FY 2002. Every spending ministry started to perform their self-evaluation report on FY 2001. The budget examiners, then, started an annual inspection of Budget Execution in 2002 and published inspection reports before budget requests for the line ministries. This report is used as an input for the budget examination to achieve higher efficiency and effectiveness in the use of the budget. The budgeting system of Japan is running by the "PDCA cycle" (Plan, Do, Check and Action) which is considered as a type of performance based budgeting and contributes to the strategic policy planning.

In Myanmar, the Budget Department analyzes the budget requests from line ministries in accordance with existing government policies, existing rules, regulations and instructions. The line ministries, then, prepare the budget proposal based on the ceiling issued by the Budget Department. The ceiling was calculated using the MTFF (Medium Term Fiscal Framework) projection method. The line ministries must spend their expenditure according to the enacted budget law for the respective fiscal year. One of the lessons learned from the Japanese Budget Reform System is the inspection reports which contribute to the budget analyzing method. Moreover, performance based budgeting proved to be an effective way of budget allocation and provide incentive for the spending agencies to perform their work effectively. Therefore, "the performance based budgeting system" should be considered as a policy priority to achieve effective budget allocation.

On the issue of State Economic Enterprises (SEEs) reform in Myanmar, San San Oo's (2004) research paper proved that government subsidies to SEEs would cause negative effects on the economy through capital productivity where significant negative impacts of subsidies could be realized three years later.[4] According to a study group of the Myanmar Economy (2000) (Institute of Fiscal and Monetary Policy, Ministry of Finance, Japan), in order to maintain the people's standard of living, SEEs' performance improvement should be prioritized for SEEs reform. It is important to define the role of SEEs, separate the SEEs' budget from the state

[4] San San Oo, (2004). "Government Subsidies to State Owned Enterprises and Economic Growth: Case of Myanmar", International University of Japan.

budget, keep accounts at each SEE and implement increased management autonomy. Therefore, the performance and fiscal management of SEEs need to be emphasized comprehensively because SEEs' revenue is the main source of government budget. Therefore, the ongoing SEEs reform should be aligned with the National Economic Policy for the achievement of its reform program.

Second, tax revenue management is also an important issue for fiscal management in Myanmar. The reformation of the tax system should be progressive taxation that promotes equity, inclusive development and effective revenue mobilization. The Japanese government used a spending cut versus revenue increase policy during the 1980s to 1990s.[5] In 1979, the Japanese government generated revenue through bond issuance at 39.6% of total expenditure, the bonds outstanding were 25% of GDP, and the debt service costs exceeded 10% of the budget expenditure. A decreasing ceiling system started in FY 1984. According to this system, the spending ministries were only allowed to request an amount that was below the authorized amount of the ongoing processes. The current expenditures were not allowed to exceed 90% of the previous year's amount and investment expenditures were not to exceed 95% of the authorized amount of the previous year. During that time, the consumption tax was introduced in 1989 with a 3% rate. In 1996, it was raised to 5% and started in April 1997. As a result, the government terminated the issuance of deficit financing bonds in 1990. In Myanmar, the government kept the deficit to GDP ratio ceiling to under 5%. Currently, the tax system is improved every year trying to meet the requirements of the modern economy and its own target is to reach a tax to GDP ratio of 10% by 2018 (currently at 7%). Compared with other neighboring countries, the tax to GDP ratio in Myanmar is lower than other countries. An administration reform has been taken to strengthen tax administration and tax policy including the establishing of a Large Taxpayer Office (LTO). This is a system of shifting from an official assessment to a self-assessment system. Moreover, the government is preparing for the introduction of Value Added Tax (VAT). The Myanmar Government added 5 new taxes from natural resources including "Tax on Extraction of Oil and Gas, Tax on Extraction of Minerals and Gems, Tax on Power Generation of Electricity, Tax on Communication Services and Tax for inserting an irritant in the oyster". Resource tax revenues are substantive and expected to increase based on investor interest in the sector. The government is considering to join the Extractive Industries Transparency Initiative (EITI) for transparency of exhausting natural resources. It would be promoting public awareness about how countries manage their oil, gas and

[5] Masato Miyazaki (2006), "Framework for Fiscal Consolidation: Successes and Failures in Japan", OECD Journal on Budgeting, Volume 6-No 4.

mineral resources. Therefore, the coordination between the expenditure policy and revenue policy is important for the sustainable of the economy through the Japanese experience.

Moreover regarding the saving to investment mobilization, according to a World Bank policy research report (1993), East Asia has a remarkable record of high and sustained economic growth during the period of 1965 to 1990. High-Performing Asian Economies (HPAEs) took place in Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, Indonesia, Malaysia and Thailand. They had the diversities of experience, a variety of institutions and a great variation in policies.

The Japanese government successfully implemented saving to investment mobilization through the FILP (Fiscal Investment and Loan Program) program. The FILP was established in 1953 and plays an important role as a capital budget for the national government. Mandatory deposits of FILP funds came from postal savings, pension reserves and other sources to the national government. The FILP makes loans to special accounts of the government and government agencies. The government utilized the FLIP to meet the needs of the people and changing economic and social conditions and compliment private-sector business. The FILP absorbed 20-40% of household savings during the rapid growth period. From the period after World War II to the high growth era, the FILP program focused on establishing a core industrial base and, during the stable growth period, the government focused on the improvement of the living environment. After the FILP reform in 2001, the mandatory deposit of all postal savings and pension reserves were eliminated and market based fund raising had been introduced. The main financial source of the FILP program is from fiscal loans through the issuance of FILP bonds by government and the FILP agencies' bonds. In Myanmar, saving is moderate. However, the saving system is a traditional saving system and most of the people are interested in buying gold and jewels for savings and use. Therefore, changing people's mindsets on saving and public awareness of financial inclusion needs to be improved. The spending through revenue collection will require "strengthening revenue mobilization and administration". Not only an extension of the tax base but also taxes and saving awareness of the people is needed for policy consideration. Moreover, changing the mindset of the people needs to be improved.

The third issue is public debt and bond issuance. In many developing countries, public debt is held mostly by foreign investors; however, in Japan it is held mostly by domestic investors. In Japan, household savings are shrinking rapidly and interest rates are negative which induces investors to invest. For Myanmar, the government is maintaining the fiscal deficit at about 5% of GDP, over the medium-term. It is expected that about 60% of this deficit will be financed through foreign financing, with non-concessional external borrowing. The remaining 40% of the deficit will be financed through domestic financing, with an increasing proportion of such financing coming from the bond market, and less from the Central Bank of Myanmar (CBM). It will be important to enhance the Myanmar bond market. The government has been issuing 3 and 5-year treasury bonds since 1993 and currently also issues bonds with a 2-year maturity; however, the market is still at a very early development stage. The range of treasury bonds needs to be diversified and the process of issuing bonds needs to be improved. Bond trading with a focus on the secondary market needs to be supported, a corporate bond market developed, and a regulatory system for bond trading needs to be improved. A bond settlement system and a securities depository system needs to be developed. Moreover, public awareness and understanding of bond trading needs to be increased. For a number of years, the government has been receiving technical assistance from the ASEAN secretariat for bond market development and stock market development is from the Japanese Stock Exchange. This support is expected to continue into the future. Debt sustainable analysis will also be important so the government strengthens its public debt management system. Through learning Japanese experiences, to get sustainable economic growth in the long run, "the budget deficit financing method through the bond issuing system needs to be improved".

Regarding the central and local fiscal transfer of Japan, the Local Autonomy Law which was enacted in 1947 provided the local governments, such as the fundamental principle, with a relationship to the central government and among the local governments.[6] Learning from the Japanese grant policy for the local government, central government transfers three types of fiscal transfers to the local governments including central government subsidy, local allocation tax and local transfer tax, and a systematic calculation method for the allocation tax grant. In Myanmar, the union government is trying to promote a better allocation of government subsidy on state and regional governments. The union government is considering the six indicators for providing grants for state and regional government according to the calculation of the MTFF forecasts to region and state governments. These indicators are total population, poverty index, area, urban population as percent to total state population, per capita tax collection, and per capita GDP. Learning the central government's grant calculation method contributed to finding a better way of intergovernmental fiscal transfer. For intergovernmental fiscal relations, "the reasonable and credible budget transfer method between central and local government" is needed for the intergovernmental relations of Myanmar.

[6] Aung Myat Kyaw, (2015) "Myanmar's Budget System Reform (Considering Japanese Experiences)", Visiting Scholar, Policy Research Institute, Ministry of Finance, Japan.

CHAPTER VII: CONCLUSION

In conclusion, my opinion is that "the tradeoff between maintaining deficit targets and increasing allocation of capital expenditure portion" and "giving priority on infrastructure" should be implemented as a policy priority.

The budget allocation method is important to the effective fiscal management system. The budget allocation method based on line ministries' performance would contribute to efficient budget allocation. Therefore, "the performance based budget system" also should be considered as a policy option.

Spending through revenue collection will require "strengthening revenue mobilization and administration". Not only an extension of the tax base, but also tax awareness among the people is needed for policy consideration. Moreover, changing the mindset of the people needs to be improved.

Moreover, the "improving budget deficit financing method through the bond issuance system" is necessary for efficient and effective fiscal management. The process of issuing bonds, bond trading in the secondary market, a regulatory system, settlement system, public awareness and understanding of bond trading needs to be improved.

Myanmar is a union country. Therefore, "the reasonable and credible budget transfer method between central and local governments" is also an important issue for Myanmar. The Japanese central government grant calculation method also contributes to finding a better intergovernmental fiscal transfer formula for Myanmar.

These policy suggestions could contribute as guidance to the successful path of the Myanmar Modernization of Public Finance Reform Program. Therefore, learning lessons from the experience of the Japanese fiscal system have enlightened us on how the Japanese budget system is contributing to the government's policies and priorities in which we can efficiently apply the knowledge in the Myanmar context to achieve our Public Finance Reform agenda.

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Appendix (1)

SCHEDULE FIVE
Taxes Collected by Region or States
(Refer to Section 254)

The Constitution of the Republic of the Union of Myanmar (2008)

1. Land revenue.
2. Excise revenue.
3. Water tax and embankment tax based on dams and reservoirs managed by the Region or State and tax on use of electricity generated by such facilities managed by the Region or State.
4. Toll fees from using roads and bridges managed by the Region or State.
5. (a) Royalty collected on fresh water fisheries.
(b) Royalty collected on marine fisheries within the permitted range of territorial water.
6. Taxes collected on vehicles on road transport and vessels on inland waterway transport, in accord with law, in a Region or a State.
7. Proceeds, rent fees and other profits from those properties owned by a Region or a State.
8 Fees, taxes and other revenues collected on services enterprises by a Region or a State.
9. Fines imposed by judicial courts in a Region or a State including Region Taya Hluttaw or State Taya Hluttaw and taxes collected on service provision and other revenues.
10. Interests from disbursed by a Region or State.
11. Profits returned from investment of a Region or State.
12. Taxes collected on extraction of the following items from the forests in a Region or a State:
(a) Taxes collected on all other woods except teak and other restricted hard woods;
(b) Taxes collected on firewood, charcoal, rattan, bamboo, bird nests, cutch, thanetkha, turpentine, eaglewood and honey-based products.
13. Registration fees.
14. Taxes on entrainments.
15. Salt tax.
16. Revenue received from the Union Fund Account.
17. Contributions by development affairs organizations in a Region or State concerned.
18. Unclaimed cash and property.
19. Treasure trove.