



Karen Peace Support Network

# **A Critique of**

## **Burma's Covid-19 Economic Relief Plan**

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## A Critique of Burma's Covid-19 Economic Relief Plan

On April 27 2020, Burma's central government announced its Covid-19 Economic Relief Plan (CERP), titled '*Overcoming as One*.'<sup>1</sup> This multi-billion dollar plan was aimed at addressing the economic effects of the pandemic. The lockdown measures in place as a result of COVID-19 have prevented people from travelling, buying and selling goods, and have blocked trade - all of which have resulted in decreased economic activity.

Many countries around the world are implementing Covid-19 economic relief plans. These protections are meant to stabilize the economy and provide direct relief to people who need it most. This includes marginalized groups, the poor and daily wage laborers. To sustain the economy, loans are being provided to small to medium sized companies, including those that are dependent on travel. Government-provided support through a temporary means is intended to protect vulnerable jobs and maintain a steady flow of income for those who need it most, until the pandemic is over.

Other ways governments are trying to sustain the economy are through funding new infrastructure projects to create new jobs. In some countries, there is also government support for private banks, so that banks who are suffering from unpaid loans from struggling companies or individuals can continue operating. Provided these banks are properly governed and monitored by governments, this can protect the bank deposits of ordinary people and allow new loans to continue to be made, thereby reactivating the economy.

In the midst of trying to control and combat the virus, there has been a significant amount of political debate on how to best design and implement COVID-19 economic relief programs globally. Plans must be transparent and ensure that the public funds allocated are reaching vulnerable people and small to medium sized businesses which are creating the most jobs.

However even in democratic countries, we have witnessed funds from economic relief plans be misused to give financial comfort to big business. For example, in the United States, there is concern that its Covid-19 aid package "excludes informal and undocumented taxpaying workers. It also provides billions of dollars in public support to large companies without sufficient public oversight or restrictions<sup>2</sup>." Furthermore, it is worth considering how the assistance offered by governments will help sustain local livelihoods with transparency and good policy.

In Burma, despite the fact that the CERP is going to require one of Burma's largest ever foreign loans of at least \$US 2 billion<sup>3</sup>, the plan is very limited in details. In addition, due to Burma's long-term conflict, any such plan requires special urgent scrutiny since divisions in our country have been deepened by the escalating civil war, and governance and economic structures are extremely centralized, leaving the government unaccountable to its people and the ethnic states without influence.

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<sup>1</sup> <https://www.mopfi.gov.mm/my/blog/45/11310>

<sup>2</sup> <https://www.hrw.org/news/2020/03/30/us-economic-relief-package-shortchanges-workers>

<sup>3</sup> <https://www.mmtimes.com/news/government-expects-2-billion-international-aid-covid-19-response-plan.html>

An analysis of Burma's CERP reveals several fundamental weaknesses and gaps in accountability. The plan intends to use mainly foreign loans to provide economic relief funds to private banks, private companies, the Ministry of Health and Sport, companies building energy and infrastructure projects, as well as to civil servants and people identified solely by the government as vulnerable. Overall the impact is to strengthen the centralized economic and governance mechanisms under the current 2008 constitution which are themselves a key driver of conflict in Burma's civil war.

As international financial institutions (IFIs), as the World Bank, continue to loan millions to the Burma government, the most vulnerable continue to suffer. International support to CERP is no exception. The government is using these massive foreign loans to exploit the pandemic to fill their coffers, and strengthen their centralized hegemony. This will be disastrous for the ethnic peoples, and for prospects of establishing a genuine federal union, which can end the 70-year-long civil war.

This short paper outlines our concerns in greater detail.

## **Major Concerns Over Burma's CERP**

### **1. Burma's poor track record of responsible investment and loans**

Burma has the seventh worst natural resource governance structure in the world. This alarmingly low status reveals a country "with almost no governance framework to ensure resource extraction benefits society. It is highly likely that benefits flow only to some companies and elites."<sup>4</sup>

In 2014 alone, it was estimated that US\$31 billion from the military controlled jade trade was going to Burma Army officials and their cronies, without benefiting local people or governments.<sup>5</sup> Previously, Burma was unable to pay its own foreign debt in the 1980s due to decades of misuse by the Burma Army and spending on warfare against the various ethnic armed organizations (EAOs) in the country. In 2013, US\$3 billion of this debt was eventually forgiven by Japan, US, UK and other countries.<sup>6</sup>

Despite a significant amount of forgiven debt offered in good faith and in hopes of reforms, the misuse of loans is evident in the continuing widespread poverty. One in four people in Burma are poor, with those living in rural areas nearly three times more likely to be more underprivileged than urban inhabitants.<sup>7</sup> Poverty in Burma is largely a result of mismanagement of natural resources and poor governance - fueled by corruption and inadequate funding to social services. Decades of civil war have also further perpetuated economic hardships for local people caught in the crossfire. And yet, in the CERP overview, it is stated: "Myanmar's strong debt position and stable macro-economy of recent years

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<sup>4</sup> <https://resourcegovernance.org/sites/default/files/documents/2017-resource-governance-index.pdf>

<sup>5</sup> <https://www.globalwitness.org/en/campaigns/oil-gas-and-mining/myanmarjade/>

<sup>6</sup> <https://www.pri.org/stories/2013-05-26/japan-forgives-myanmar-debt-offers-investment-and-aid>

<sup>7</sup> <https://www.mm.undp.org/content/myanmar/en/home/presscenter/articles/2019/mlcs-poverty-report.html>

mean that we are well-placed to meet much of the increased spending we need.<sup>8</sup>”

Currently, huge revenues from Burma’s own natural resources are directly benefiting the military through weak and barely enforced government regulations. Resource mismanagement has been linked to prolonged civil war in Kachin, Shan and Karen states, where extraction is risky and heavily controlled by the military. The fact that local laborers are unfairly compensated speaks to a long history of the Burma Army’s economic interests being prioritized over local people, indicating that they cannot be trusted with fund allocation and distribution. Further, the 2019 Fact-Finding Mission urged the international community, “to sever ties with Myanmar’s military and the vast web of companies it controls and relies on.”<sup>9</sup> The Mission said, “the revenues the military earns from domestic and foreign business deals substantially enhances its ability to carry out gross violations of human rights with impunity.”<sup>10</sup>

It is of further concern that despite this poor record, the International Monetary Fund, World Bank, Asian Development Bank and Japan International Cooperation Agency are continuing to provide loans to Burma’s CERP. This is dangerous and irresponsible, and certain to fuel Burma’s decade-long civil war. The public should not have to carry the burden of unpaid debts and broken commitments by the government to replace what is being stolen from them.

## **2. Putting public funds into a blacklisted financial system and further loosening controls on the system’s private banks**

*(CERP sections: 1.1.2, 2.1.2, 2.1.6, 2.2.1, 2.2.2, 2.4.1,)*

One major component of the CERP is to inject large amounts of foreign loans into Burma’s private banks as well as allow these banks to loan more money with less restrictions and postpone reconciling any non-performing loans.

In fact, Burma’s private banks have huge problems with “non-performing loans” before the pandemic started. Non-performing loans are loans that are no longer being repaid by the borrower. These non-performing loans should be subtracted from the bank’s assets in order to show how much more money the bank can safely lend. However, in Burma’s private banks it is estimated these bad loans amount to over US\$1.5 billion,<sup>11</sup> and so Burma’s private banks are vastly overstretched in what they can safely lend. Additionally, Burma’s private banks already had the lowest amount of capital reserves<sup>12</sup> amongst all ASEAN countries before the pandemic started and these reserves are crucial to protect the banking system against collapse due to non-performing loans.

In early 2020, both the European Union<sup>13</sup> and the Financial Action Task Force<sup>14</sup> put Burma

<sup>8</sup> [https://eurocham-myanmar.org/uploads/7a892-cerp---final-report-\(1\)5713756333092471786.pdf](https://eurocham-myanmar.org/uploads/7a892-cerp---final-report-(1)5713756333092471786.pdf)

<sup>9</sup> <https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=24868&LangID=E>

<sup>10</sup> Ibid

<sup>11</sup> [https://www.krungsri.com/bank/getmedia/a51f8424-fba9-4cad-b8b4-0c55eeb66cbe/RI\\_Myanmar\\_Banking\\_Stability\\_191118\\_EN.aspx](https://www.krungsri.com/bank/getmedia/a51f8424-fba9-4cad-b8b4-0c55eeb66cbe/RI_Myanmar_Banking_Stability_191118_EN.aspx)

<sup>12</sup> Ibid

<sup>13</sup> <https://www.mmtimes.com/news/eu-puts-myanmar-money-laundering-blacklist.html>

on their money laundering blacklist, as lack of banking governance and oversight was allowing Burma's financial system to launder profits from criminal activities such as the illegal jade, amber and narcotics trade.

Burma should not be putting public funds into such a financial system in its current state. It should not be weakening banking transparency and governance restrictions for an already ill-governed, blacklisted private banking sector. It is unacceptable that IFIs such as the World Bank and the International Monetary Fund (IMF) are making huge long-term loans to this flawed financial system before these severe structural problems have been corrected.

In terms of who benefits from these private banks' credit and loans, it is known that 88%<sup>15</sup> of their loans are to construction, trading and service companies. Other sectors, such as small and medium sized enterprises, transportation, and hiring purchases account for only 4.7%, 2.3%, 2.1% respectively, while housing loans account for only 0.4% of the total loan portfolio.<sup>16</sup>

Over 80% of all private bank loans in Burma are made to customers based in Yangon, and a further 12% to those living in Mandalay<sup>17</sup>. Private banks rarely extend loans in Rakhine, Kachin and Chin States, which collectively account for only 0.6% of private banks' total loans outstanding.<sup>18</sup> This means the private banking system in Burma overwhelmingly serves centralized business interests in these two cities, with only a tiny fraction of credit made to anyone living in rural areas or the ethnic states. As the most vulnerable people in Burma live in remote, rural parts of the country, they are at an extreme disadvantage in accessing loans through this means of distribution.

Given the private banking sector's narrow geographic scope, it is not fair to the citizens of Burma to put their public funds into a private banking system which only benefits a narrow sector of the population and which gives such little support to agriculture, the main sector of the economy.

### **3. Lack of transparency regarding whether Burma military owned private companies are receiving public funds, government-guaranteed loans and tax waivers**

*(CERP: 2.1.2, 2.1.3, 2.1.4, 2.1.5, 2.1.6)*

The CERP developed by the National League for Democracy (NLD) led government provides no criteria for forbidding military owned companies from receiving CERP loans or benefits<sup>19</sup>.

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<sup>14</sup> <https://www.google.com/url?sa=D&q=https://www.mmtimes.com/news/fatf-puts-myanmar-money-laundering-watchlist.html&ust=1598159520000000&usg=AOvVaw2XDCXQF0UM1Tg4Vum14BvU&hl=en&source=gmail>

<sup>15</sup> [https://www.krungsri.com/bank/getmedia/a51f8424-fba9-4cad-b8b4-0c55eeb66cbe/RI\\_Myanmar\\_Banking\\_Stability\\_191118\\_EN.aspx](https://www.krungsri.com/bank/getmedia/a51f8424-fba9-4cad-b8b4-0c55eeb66cbe/RI_Myanmar_Banking_Stability_191118_EN.aspx)

<sup>16</sup> Ibid

<sup>17</sup> Ibid

<sup>18</sup> Ibid

<sup>19</sup> <https://www.frontiermyanmar.net/en/we-have-no-money-covid-hit-businesses-rush-to-secure-loans/>

In its June 2020 economic report on Burma, the World Bank admitted the inability of the government to transparently manage the massive CERP program stating that “Monitoring and oversight of Covid-19 related spending is critical for ensuring proper and efficient use of funds .....currently, no internal audit guidelines exist within Myanmar to address these activities”<sup>20</sup>.

The Burma Army has a huge presence in the national private economy through 100% military-owned holding companies such as Myanmar Economic Holdings Limited (MEHL) and Myanmar Economic Corporation, (MEC) which own 133 private companies involved in everything from construction to pharmaceuticals, manufacturing, insurance, tourism and banking.<sup>21</sup> Both the MEHL and MEC, along with at least 26 of their subsidiaries, hold licenses for jade and ruby mining in Kachin and Shan states.<sup>22</sup> Against the backdrop of these investments are state-sponsored, systematic human rights violations perpetuated by the Burma Army who are guarding these projects.

These UN blacklisted military-owned companies should not be receiving public funds through the CERP loans by the World Bank, the IMF, Japan (JICA) and the ADB.

#### **4. Development aid should not be channeled through a government at war with its own people**

*(CERP: 2.1.7, 3.1.2, 4.1.2, 4.1.3)*

*It is estimated that only 3% of all government expenditures in the country are spent at the state or local government level.*<sup>23</sup> In this case, it is unclear how the estimated US\$2 billion of funds will reach ethnic states and more importantly, under such a centralized government structure how CERP activities and projects will be accountable to the needs of local people.

Further, section 4.1.2 indicates that the cash transfers to the most vulnerable will be given with an ‘appropriate amount’ which gives no indication of how much money this is suggesting.<sup>24</sup> This poses the risk of the most vulnerable not being properly identified, or not having the means to access the benefits the government is offering.

A government embroiled in civil war, which actively funds and defends its national security forces while facing charges of genocide at the International Court of Justice, cannot be trusted to care equally for all ethnic nationalities in the country. In conflict zones, civilian ethnic people are targeted by the Burma Army in its war against ethnic armed forces. Without identity cards or formal documents, as well as many being unable to speak the Burmese language, villagers in EAO controlled or mixed areas, may be unable to receive assistance from such a government on the opposite side of the civil war.

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<sup>20</sup> <http://documents1.worldbank.org/curated/en/806001593183687694/pdf/Myanmar-Economic-Monitor-Myanmar-in-the-Time-of-COVID-19.pdf> pg 48

<sup>21</sup> <https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=24868&LangID=E>

<sup>22</sup> Ibid

<sup>23</sup> <https://asiafoundation.org/publication/state-and-region-governments-in-myanmar-report/>

<sup>24</sup> [https://eurocham-myanmar.org/uploads/7a892-cerp---final-report-\(1\)5713756333092471786.pdf](https://eurocham-myanmar.org/uploads/7a892-cerp---final-report-(1)5713756333092471786.pdf)

## 5. “Fast-tracking” large infrastructure and energy projects

*(CERP: 2.3.1, 2.3.2, 2.3.3)*

“Fast tracking” is when governments suspend usual public checks and consultations in order to rush through a project. Given the Burmese government’s history of implementing mega-projects which damage local people’s livelihoods and cultures, and given that most of these projects have taken place in ethnic states, new projects funded by CERP could sharply increase conflict even in areas where there is currently no fighting. Fast-tracking also overlooks community ownership and consultation, which is needed in any development project that takes place in ethnic areas.

Quick approval by the government to go ahead with development infrastructure under the CERP means that controversial large scale projects such as the Myitsone or Mong Ton dams could continue at the expense of local livelihoods. Such infrastructure projects are not supported by local people for very justifiable reasons that include being forced off their land, being unfairly compensated, or suffering from health problems as a result of the environmental impacts.

Development projects also largely fuel conflict in resource rich states, such as in Kachin and Shan states, between the Burma Army and EAOs in the area. Despite the many negative consequences of these projects, government and military stakeholders remain committed to these projects, officially insisting there will be favorable economic outcomes for everyone.

In response to the government’s approval of controversial projects, local people have protested and reinforced calls for moratoriums on mega development projects until a federal democratic union is established and secured.

## 6. Taking on long-term debt means investing in a structurally flawed health system.

*(CERP: 6.)*

According to the last available World Health Organization survey in 2000, Burma’s health system ranked second to last out of 190 performing health systems in the world.<sup>25</sup> The same survey ranked Burma 136<sup>th</sup> in health per capita spending, showing that the problem was not a lack of funding, but that the Burma health system contains serious structural flaws.<sup>26</sup> Burma’s health ministry, set up by the military decades ago, has hardly changed since its formation, and its structure remains extremely centralized, slow and top-down, and unaccountable to the people it serves.

In contrast, ethnic health organisations in Burma have been operating far more flexible and

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<sup>25</sup> [https://www.who.int/whr/2000/en/annex01\\_en.pdf?ua=1](https://www.who.int/whr/2000/en/annex01_en.pdf?ua=1)

<sup>26</sup> Ibid

cost efficient locally governed structures. Based on their own and international experience, they have concluded that:

*“...the current health system in Burma/Myanmar is still comparable to the old health systems of the former Soviet Union and Poland, who have since decentralized their systems during their semi-democratic reforms in the early 1990s. Health sector decentralization has been an important part of political reforms in almost all countries – in Eastern Europe and elsewhere – that have gone through difficult but successful transitions.....*

*[Therefore] transferring decision-making power and health resources closer to those in the localities will not only enhance health performance but augment incentive for citizen participation in the democratization process that the country is embarking on.”<sup>27</sup>*

Given the severely flawed centralized health system in Burma, this is not the time to take out foreign loans to invest in this existing structure without first fixing the design flaws of the current health system. We need to invest in an efficient, effective and devolved health structure for the future federal democratic union, not invest in a failed structure.

## **7. Loss of sovereignty when taking on large debt from IMF or other international donors**

(Taking on large debt from international donors such as the World Bank or IMF is not simply about obligating governments to make annual interest and principal repayments over many decades. It usually involves “structural adjustment” to ensure integration into the global neoliberal system, including through privatization and promotion of foreign investment. Countries are often forced to prioritize international corporate interests over their own sovereign interests as well as have limits placed on their social program spending. )

International financial institutions have their own requirements and policies when lending money. These reasons stem from an interest in wanting to benefit from the economic development from a country, such as Burma. As some would say, “there is no such thing as a free lunch,” – which in this case refers to the fact that investors are not loaning their money without an expectation that it will seek to benefit their long- and short-term interests.

In fact, Burma does not need foreign loans. It is rich in natural resources, which, if properly managed, could enable the entire population to prosper. But these resources, mostly in our ethnic lands, have been plundered for decades by the Burma Army and their cronies, and used to buy weapons against us.

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<sup>27</sup> [https://themimu.info/sites/themimu.info/files/documents/Report\\_Federal\\_Devolved\\_Health\\_System\\_for\\_BurmaMyanmar\\_HCCG\\_March2014.pdf](https://themimu.info/sites/themimu.info/files/documents/Report_Federal_Devolved_Health_System_for_BurmaMyanmar_HCCG_March2014.pdf)

## **8. Channeling funds through one side of the conflict for the intended benefit of the other side, does not work**

The international community has provided aid for the CERP with the intention of helping Burma recover from the impacts of Covid-19. However by negotiating and then channeling these loans through only one side of the conflict, Naypyidaw, a side which is currently funding a large scale war against ethnic peoples, it cannot be expected that this program will benefit those on the other side.

Now is not the time to seek long term loan commitments while our country remains locked in civil war over federal governance rights. If international actors want to support Covid related programming in ethnic regions of the country, they must negotiate directly with these stakeholders, without threats or interference from a central government charged with crimes against humanity against its ethnic peoples by the UN FFM. Any assistance given must be delivered in a way which helps Burma move towards a federal democratic union, rather than fuelling conflict and bolstering a criminal quasi-civilian unitary state.

### **Conclusion**

Moving quickly to provide economic relief in even the most democratic and transparent countries has proven difficult. In Burma, ranked amongst the most corrupt in the world,<sup>28</sup> is not the combination of high corruption and fast-tracking large amounts of money a recipe for disaster?

While the exact costs of the Burma Army's current offensives in Karen, Shan, Kachin, Chin and Rakhine states are difficult to estimate, it is known that Burma's security forces are officially receiving over US \$2 billion a year from the central government.<sup>29</sup> In this case, why should the people of Burma support a further US\$2 billion in foreign loans, when the Burmese military is spending billions of public funds in fighting its own people? In effect, Burma is actually borrowing money to kill its own people.

These massive loans will surely subsidize the war against us, and yet our children and grandchildren, are the ones who will have to pay back the loans and suffer immense environmental and economic consequences.

Therefore we do not support any international loans to Burma until a federal democratic union is established where we can first ensure our existing resources are used equitably and any loans, if necessary, are for the benefit of all citizens, not just those in power.

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<sup>28</sup> <https://www.u4.no/publications/corruption-in-the-time-of-covid-19-a-double-threat-for-low-income-countries>

<sup>29</sup> <https://tradingeconomics.com/myanmar/military-expenditure>



## **About KPSN**

Karen Peace Support Network (KPSN) is the largest network of Karen Civil Society Organizations in Burma/Myanmar. KPSN member organizations have facilitated humanitarian support for vulnerable conflict-affected Karen communities, internally displaced persons (IDPs) and refugees for decades. KPSN works to empower local Karen communities, raise awareness of the peace process, document human rights issues, and facilitate advocacy for a sustainable and equitable peace in Karen areas of Burma

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