Myanmar's debt:

What's behind the speedy efforts to restructure it?

A Eurodad briefing paper by Diana Hulova

Summary

Myanmar (Burma)[1], one of the world's poorest countries, has been subject to a number of debt restructuring and relief packages during the past few months. In January, debt owed to the World Bank and the Asian Development Bank was refinanced, and the bilateral creditors organized in the Paris Club followed Japan's earlier example and agreed to relieve a substantial share of their claims, thereby clearing arrears of "phantom debt" that have piled up over the past decades. Norway has said it will cancel all debts owed to it by Myanmar.

The sudden creditor rush comes as a surprise. Myanmar's debt indicators were below the International Monetary Fund's (IMF) thresholds for debt distress, and the country does not appear on the list of the Heavily Indebted Poor Countries (HIPC) eligible countries.

Moreover, the majority of Myanmar's debt was in default, not serviced for several decades, so the debt relief has little impact on the actual repayments and as such, does not free up new resources for development.

The main impact of the debt relief is that it opens avenues for new lending. While the official justifications read that the ongoing transformation processes towards more democracy and a more liberal and deregulated economy shall be rewarded, there remain concerns that new lending will primarily serve the interests of foreign powers and local elites keen to exploit the geo-strategically important countries' vast natural resources. If responsible financing standards are not consequently applied, the poor could be side-lined.

Myanmar's debt stock before relief

The information on Myanmar's external debt was not available until February last year, when the government reported a total foreign debt stock of $11 billion. The majority of this debt ($8.4 billion) dates from bilateral and multilateral loans made between 1962 and 1988 to the dictatorship of General Ne Win. The remaining $2.6 billion has been incurred since the military junta took power in 1988. More than three quarters of Myanmar's total external debt is owed to two main bilateral creditors: Japan and China.[2]

Debt figures disclosed by the authorities are different from those on creditors' books, primarily because creditors and the Myanmar government (as the borrower) deal differently with penalties and interest for the large share of the debt that was in default over the past decades, when the international community had imposed sanctions on the military regime. These sanctions also halted new lending from Western creditors and international financial institutions from 1988 onwards. According to the most recent International Monetary Fund (IMF) estimates, Myanmar's external debt stock was at $15.3 billion at the end of 2012. Of this amount, 88 per cent is owed to bilateral creditors, 11 percent to multilateral and just 1 per cent to commercial creditors.[3] The Paris Club - a club of 19 creditor governments jointly negotiating debt restructuring agreements with debtor countries - estimated the debt owed to it by Myanmar at $10.3 billion as of January 2013.[4]

More than two-thirds of foreign debt in arrears

As foreign loans and grants stopped flowing into Myanmar in 1988, after the military junta violently put down the pro-democracy uprising, the country started to fall behind in meeting its debt obligations and a decade later defaulted on most of its debts to foreign lenders. The arrears - missing payments accumulated since country's default in 1997 - now constitute more than two-thirds of the external debt stock. The remainder includes penalties for missing payments and that part of external debt which Myanmar continues to service.

At the end of 2012, total arrears on external debt were estimated at $11 billion (out of total external debt stock of $15 billion). $10 billion is owed to bilateral creditors with the remainder of nearly one billion split almost equally between the World Bank and the Asian Development Bank (ADB). The majority of Myanmar's arrears were with Japan – $6.5 billion.[5]

Moreover, the interest and penalties charged by the creditors for non-repayment caused Myanmar's debt stock to rise. Graph 2 below shows the evolution of Myanmar's debt stock between 1970 and 2011.

Sustainable debt indicators or debt distress?

A debt sustainability analysis (DSA) conducted by the IMF in 2011 found that all external debt indicators are below the IMF's thresholds for debt distress, showing a "moderate risk" of debt distress. At the end of 2010, Myanmar's external public debt stock was 17.8 per cent of GDP and 84.8 per cent of export earnings.[6] The thresholds for debt distress used by the IMF are 30 per cent and 100 per cent respectively. The DSA estimated that Myanmar's debt indicators will further improve, depending on various factors, including the future revenues from the export of natural resources.[7]

The IMF's DSA however primarily assesses if a debtor country is able to service its debt obligations, not what using scarce public resources for debt service implies for its capacity to finance development and poverty eradication.

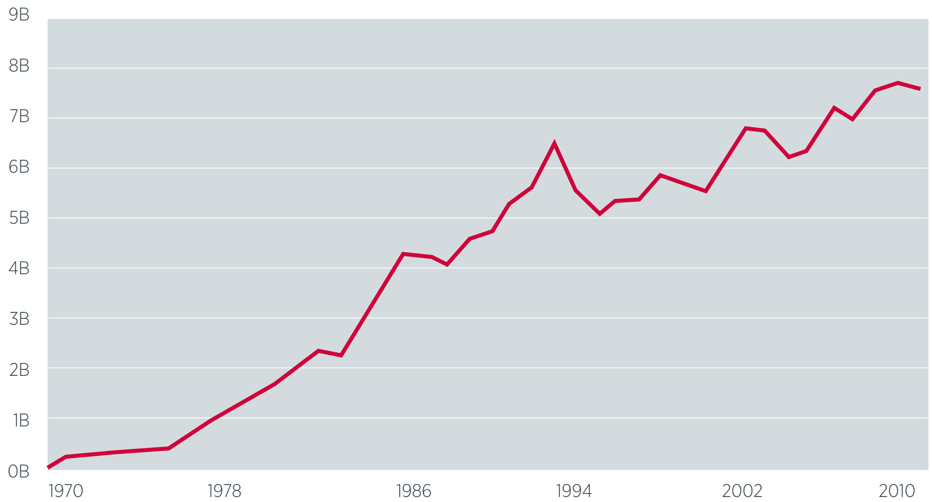
The IMF concluded however, that due to the presence of substantial arrears on Myanmar's external debt, the country classifies as being in debt distress. The IMF Staff-Monitored Program (SMP) assessment carried out this year suggests that resolving country's arrears and reducing its reliance on non-concessional borrowing could change the classification to low risk of debt distress.[8]

Eligible for HIPC debt relief?

The standard procedure for debt relief to poor countries such as Myanmar is the World Bank-coordinated HIPC Initiative, under which both multilateral and bilateral loans can be restructured in one go. Myanmar's potential eligibility however could not be assessed due to the lack of debt data available.[9]

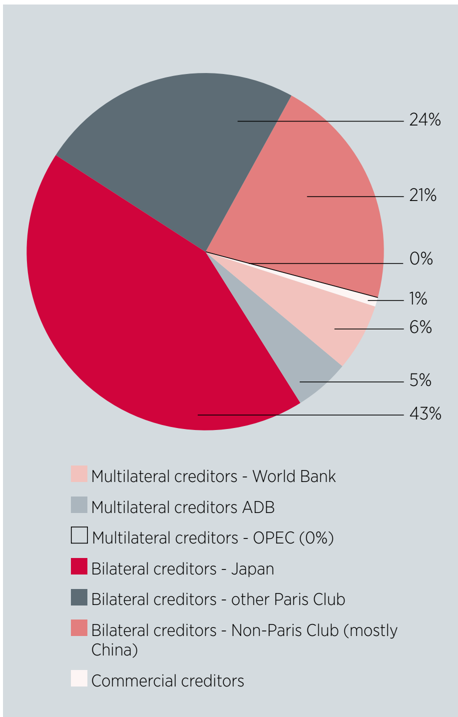
A condition for entering HIPC had been that Myanmar would have to resume debt payments and adopt a set of economic and policy conditions prescribed by the IMF and the World Bank. The latest creditor rush to restructuring fulfilled these conditions. The Initiative however comes to an end the final list of countries that have qualified for debt relief under HIPC (as of January 2013) does not include Myanmar.[10]

Graph 1: Evolution of Myanmar's external debt stock over time
(in billions of USD; the figures are not inflation-adjusted).



Source: World Bank International Debt Statistics 2013

Graph 2: Myanmar's external debt by creditor
(projected at end of December 2012)



Source: IMF 2013, IMF Staff-Monitored Program: Myanmar Country Report

Cancellation and restructuring of Myanmar's debt

The multilateral debt share:

As multilateral development banks cannot lend to countries in arrears, they were blocked from their re-engagement with Myanmar. The World Bank and Asian Development Bank (ADB) had not provided any direct loans since the late 1980s. Myanmar had only received some financial assistance from regional projects funded by these banks.

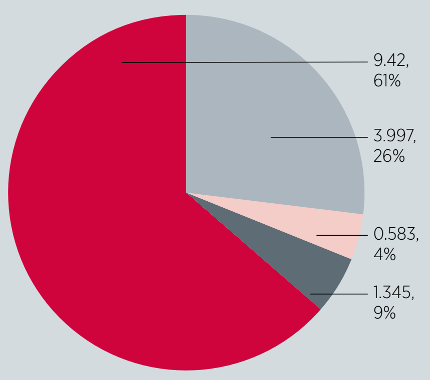
In January 2013, the World Bank and ADB agreed to clear Myanmar's overdue debts owed to them. This action was made possible by a bridge loan of $960 million provided by Japan to the government of Myanmar so it can repay its multilateral arrears.[11] As a result, Myanmar became eligible for new multilateral lending, and the World Bank and the ADB have already approved their first loans of $440 million and $512 million respectively. These will however be mainly used to repay the Japanese loan.[12] Thus, the multilateral share of Myanmar's debt has largely been refinanced, without any real cancellation provided.

The IFIs have expanded to a new client country, 25 years after the international sanctions stopped them from direct lending. The World Bank has opened a new country office, and had approved a grant of $80 million for community driven development project before the debt restructuring deal was made.[13] Similarly, the ADB is intensifying its engagement with the country and has developed an interim country partnership strategy (ICPS) for Myanmar for the period 2012–2014.[14] In February 2013, the IMF announced it was opening a resident representative office, and that it intends to enhance its capacity building programme for Myanmar.[15]

The restructuring of multilateral debt by the World Bank and Asian Development Bank represents only about 10 per cent of the country's $11 billion arrears; the much larger problem to tackle was the bilateral debt in arrears.

> Together with Japan's write-off, the Paris Club debt relief will total $5.9 billion, which is about 40 per cent of Myanmar's total external debt stock.

Graph 3: Debt relief in Myanmar's total external debt stock



Source: Paris Club and IMF data

The bilateral debt share:

Two thirds of Myanmar's external debts in late 2012 were owed to the bilateral creditors of the Paris Club. The arrears owed to Paris Club represent about 90 per cent of Myanmar's total external arrears. After Japan, the country's next five largest Paris Club creditors of Myanmar were Germany, France, Norway, Australia and the UK.

Japan, the country's dominant creditor, started the round of debt restructuring in April 2012 when it agreed to write-off 60 per cent of the total $6.6 billion debt owed to it, and to roll over the remainder with a new loan.[16] The cancellation of $3.7 billion will be provided on Japan's own terms and timing. Japan has also played an important role in organising debt negotiations and re-establishing communication with the Paris Club group of creditors.

The Paris Club and the government of Myanmar agreed on a treatment of the country's debts to its western creditors on the 28th of January 2013. Under the debt agreement, Paris Club creditors other than Japan will provide a 50 per cent write-off of Myanmar's debt owed to them in two phases, with the remainder rescheduled to be paid over 15 years, with a 7-year grace period. [17]

Norway, the country's fourth largest bilateral creditor, went further by deciding to cancel 100 per cent of its debt owed by Myanmar. Together with Japan's write-off, the Paris Club debt relief will total $5.9 billion, which is about 60 per cent of its $10.3 billion claims on Myanmar.[18]

China has not participated in the bilateral debt relief exercises thus far. China became Myanmar's most important new lender when the Western powers and the IFIs stopped their engagement, and has provided loans of $2.13 billion.[19]

The debt cancellations will result in the reduction of about 40 per cent of Myanmar's total debt, leaving the external debt stock at $9.4 billion. Moreover, the cancellations are subject to adopting a set of political and economic conditions monitored by the IMF, which have often proved controversial and not always proved to have positive impacts in borrower countries. Some of the conditions include resuming service on all debts, limits on new non-concessional borrowing and exchange rate unification. [20]

Conclusion: a messy and patchy process

The Myanmar case proves once again that new mechanisms are needed that deal comprehensively with debt workouts – mechanisms that include all creditors along a set of clear criteria. In the Myanmar case, the new loans extended by multilateral development banks will be mostly used to repay the bridge loan provided by Japan, rather than providing fresh money. Different creditor groups negotiated different deals separately. Some bilateral creditors (in this case Norway) cancelled 100%; others (in this case China) did not participate at all in the bilateral debt restructuring.

Civil society groups have long been advocating for the establishment of an international debt workout mechanism, which is predictable, fair and independent of creditors' decisions, and makes binding decisions on debt relief based on an assessment of the sustainability and legitimacy of a country's debt.[21]

> In a country with persisting governance challenges, responsible borrowing and lending standards need to be strictly applied to ensure that resources are used for the benefit of Myanmar's population, rather than that of creditors or ruling elites.

Assessing the Myanmar debt relief deals

What was cancelled?

Phantom debt

The lion's share of Myanmar's external debt to Paris Club creditors was in arrears, not serviced for decades. This implies that the current debt relief does not free up new resources that could potentially be used to fund development and poverty eradication.

Moreover, the debt relief granted by most of the Paris Club creditors will likely be counted as part of their aid budgets. Many rich nations which are, at the same time members of the Paris Club and the OECD's Development Assistance Committee, count debt relief as Official Development Assistance (ODA). In other words, they cancel a paper debt that was not being repaid anyway, and count this as aid – thus potentially reducing the amount of aid they actually give.

So far, Norway is the only one among the Paris Club creditors that will use additional resources to cancel $583 million (NOK 3.2 billion) of debt owed to it by Myanmar, the whole of which dates back to the Norwegian ship export campaign.[22] Many of the debts owed to the Paris Club creditors come from export credits. When these debts are cancelled the Export Credit Agencies (ECAs) are compensated for their losses, using ODA. As a result, the money is transferred from aid budgets to support the export industries of rich countries.[23]

Illegitimate debt

There are indications that a substantial share of the cancelled debt fulfills the criteria for illegitimate or odious debt.[24] Much of the external debt dates back to loans contracted under the authoritarian regime of General Ne Win who for a quarter of century ruled though political oppression against the opposition. The legitimacy of the debts incurred by the military regime since 1988 can equally be contested. According to estimates by CATDM the odious debt contracted after 1988 accounts for 1.7 billion.[25]

The full picture is unclear, as data is patchy and thorough project-level impact assessments did not take place, but it is known that a major share of lending and investments contracted by the undemocratic regimes went into projects in the energy and extractive sectors, many of which had negative impacts on the local populations' livelihoods. There is little evidence that the population benefitted from such projects that produced mainly for export. Creditors were informed about the character of the regimes to which they lent, and the intended use of resources.

More recently, the new projects funded with Chinese loans have been associated with land seizure, relocation and arming of population, human rights abuses or environmental damages. Moreover, the extracted gas and electricity have been exported to China, leaving little capacities available for Myanmar.[26]

A thorough debt audit could have provided better information on the actual beneficiaries of loans and loan-funded activities on both sides of the equation, the creditor and the debtor side. This is a necessary prerequisite for assessing the legitimacy of creditor claims and for providing the basis for fair burden sharing in a debt restructuring process.

The criteria of illegitimacy were the reason for Norway's full cancellation of debts resulting from ship exports to Myanmar. The Norwegian government acknowledged its co-responsibility for the unproductive use of Norway's loan and the predictable debt default resulting from it.[27]

What next for Myanmar?

Against the background of recent political and economic reforms, multilateral development banks and governments are increasingly interested in getting lending and investments back to Myanmar. Foreign investment has increased, and reached an estimated $2.8 billion in 2011. This is mainly concentrated in energy and hydropower, with investments in other sectors being insignificant.[28]

Foreign lending at market terms has also picked up in recent years. According to the IMF, non-concessional new lending to Myanmar started to increase from 2008, reaching 5 per cent of total external debt in 2011 (i.e. before the recent debt restructuring packages were announced). China became the largest emerging creditor, accounting for about 30 per cent of the net increase in non-concessional loans.[29] The gradual lifting of sanctions and the normalization of credit relations with Western nations also open avenues for exports and investments from Western companies, whose activities are often supported by public export credit agencies. Though still extremely poor, Myanmar is rich in natural resources and thus a solvent client, and it is geo-strategically well-located between Asia's largest emerging powers.

Increased access to foreign finance, if used well, can increase a country's development prospects. However, there must be caution with regards to lending from foreign creditors, so that Myanmar does not fall into a new debt trap. In a country with persisting governance challenges, responsible borrowing and lending standards need to be strictly applied to ensure that resources are used for the benefit of Myanmar's population, rather than that of creditors or ruling elites. Only if lending and investments comply with responsible financing standards, can they help to lift the resource-rich country out of poverty and progress on its path towards democracy.[30]

Conclusion

- Myanmar's external debt was treated in a messy way, with different creditor groups negotiating different deals separately. The Paris Club debt relief will result in the reduction of about 40 per cent of Myanmar's total debt, leaving the external debt stock at $9.4 billion. Neither debt relief, nor refinancing by multilateral institutions free up resources for development automatically. The main impact of the debt agreements is that they will open avenues for new lending.

- The lack of information on the use of loans and their actual beneficiaries prevents us from assessing the legitimacy of creditor's claims. The country's debt to Norway, which dates back to Norwegian ship exports of the late 70s, is an example that some of Myanmar's debt has actually been found illegitimate. A thorough debt audit would reveal the necessary information and provide the basis for fair burden sharing in a debt restructuring process.

- Increased access to foreign finance can offer opportunities, but can also be problematic. Responsible financing standards, as set in Eurodad's *Responsible Finance Charter* need to be strictly applied to ensure that resources are used for the benefit of Myanmar's population. A strengthened version of the UNCTAD Principles for sovereign lending and borrowing could offer the route to setting such standards at the international level.

- The measures must be put in place so as to make sure the new lending and investments contribute to mobilising resources domestically, rather than shipping natural resources out of the country.

Endnotes

1 The country long known as Burma was renamed in 1989 by the ruling military junta to Myanmar, which was contested by the local opposition groups and some foreign governments. Myanmar (the Republic of the Union of Myanmar) is currently used as an official name of the country, including by the United Nations.

2 Data officially disclosed by Myanmar authorities in February 2012. See http://www.businessweek.com/ap/financialnews/D9SKMNF00.htm

3 IMF Staff-Monitored Program Myanmar Country Report, January 2013.

4 Paris Club Press Release: The Paris Club and the Republic of the Union of Myanmar agree on a cancellation of USD 5 925 million, January 2013. See http://www.clubdeparis.org/sections/actualites/myanmar-20130128/downloadFile/PDF/PRMyanmar20130128.pdf?nocache=1359361743.23

5 Ibid.

6 IMF Staff report for the 2011 Article IV Consultation – Debt Sustainability Analysis: Myanmar, March 2012.

7 Ibid.

8 IMF Staff-Monitored Program Myanmar Country Report, January 2013.

9 IDA and IMF: HIPC and MDRI status of implementation and proposals for the future of the HIPC Initiative, November 2011. See http://www.imf.org/external/np/pp/eng/2011/110811.pdf

10 See http://www.imf.org/external/np/exr/facts/hipc.htm

11 See http://www.ft.com/intl/cms/s/0/9b2d6e4c-68b2-11e2-9a3f-00144feab49a.html

12 See http://www.reuters.com/article/2013/01/27/us-myanmar-economy-adb-idUSBRE90Q0CJ20130127

13 See http://www.worldbank.org/en/news/2012/11/01/world-bank-group-steps-up-support-reforms-myanmar-new-interim-strategy-improve-lives

14 See http://www.adb.org/countries/myanmar/strategy

15 IMF Press Release: The IMF's intensifying engagement with Myanmar, February 2013. See http://www.imf.org/external/np/sec/pr/2013/pr1339.htm

16 See http://www.reuters.com/article/2012/04/21/us-myanmar-japan-debt-idUSBRE83K08620120421

17 Paris Club Press Release: The Paris Club and the Republic of the Union of Myanmar agree on a cancellation of USD 5 925 million, January 2013. See http://www.clubdeparis.org/sections/actualites/myanmar-20130128/downloadFile/PDF-PRMyanmar20130128.pdf?nocache=1359361743.23

18 Ibid.

19 See http://www.businessweek.com/ap/financialnews/D9SKMNF00.htm

20 IMF Staff-Monitored Program Myanmar Country Report, January 2013.

21 Eurodad, A fair and transparent debt-workout procedure: 10 core civil society principles, December 2009.

22 Between 1976 and 1980, Norway exported 156 vessels, as well as shipping equipment, to 21 countries through government-guaranteed export credits. The cancellation of debt to Norway through this campaign started in 2007. See http://www.regjeringen.no/en/dep/ud/press/news/2013/myanmar_debt.html?id=712740

23 Brynildsen, O.: Exporting goods or exporting debts: Export Credit Agencies and the roots of developing country debt, December 2011.

24 Alexander N. Sack in his book "the Effects of State Transformations on their Public Debts and Other Financial Obligations" defines the odious debt as "debt contracted and spent against the interests of the population of a State, without its consent, and with full awareness of the creditor."
See http://unctad.org/en/Docs/osgdp20074_en.pdf

25 CADTM, Les chiffres de la dette 2012.

26 Bank Track, Dodgy deals: Shwe gas and pipelines projects and Myitsone Hydroelectric Project, January 2013. See http://www.banktrack.org/manage/ajax/ems_dodgydeals/createPDF/shwe_gas_and_pipelines_projects

27 See http://www.regjeringen.no/en/dep/ud/press/news/2013/myanmar_debt.html?id=712740

28 ADB, Asian Development Outlook. See http://www.adb.org/sites/default/files/pub/2012/ado2012.pdf

29 IMF Staff report for the 2011 Article IV Consultation – Debt Sustainability Analysis: Myanmar, March 2012.

30 Eurodad: Responsible Finance Charter, 2011. UNCTAD Principles on promoting responsible sovereign lending and borrowing, January 2012.

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