

# Myanmar: Initial Assessment of the Impact of the Coronavirus Pandemic on the Extractive Sector and Resource Governance

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## Key messages

- Although oil, gas, and mining activity has largely continued in Myanmar during the pandemic, production is reduced. Combined with lower prices for several commodities, including gas, extractive sector revenues will drop in 2020.
- It is difficult to assess the full impact on the sector because of limited transparency, including around extractive sector contracts and agreements on gas sales.
- The main revenue sources for the state-owned Myanmar Gems Enterprise (MGE) are licensing and emporium sales. Since it is unlikely the MGE will be able to hold an emporium soon, smuggling and corruption will likely rise.
- The MGE should not restart gemstone licensing in Myanmar without transparent and fair procedures for awarding licenses, including procedures to identify the beneficial owners of entities awarded licenses, and robust management of social and environmental impacts.
- Predictions indicate that the Myanmar Oil and Gas Enterprise (MOGE) may spend more than it contributes to Myanmar's 2020/2021 budget, becoming a net drain on the country's national budget.
- The pandemic may endanger the nascent progress that Myanmar has made on transparency and civil society engagement in its extractive sector. Civil society needs more support to continue operations and not lose ground during this time.

## ABOUT THIS DOCUMENT

This is one of a series of country briefings produced by NRGi to summarize the evolving situation with respect to the pandemic and its economic impacts. The analysis it contains is subject to change with circumstances, and may be updated in due course.

## SUMMARY OF ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

The [World Bank](#) downgraded its growth projections for Myanmar for fiscal year 2019/2020, from 6.3 percent to between 2 percent and 3 percent, due to the coronavirus pandemic's direct and indirect impacts. The [IMF's](#) growth projection for 2020 is lower, at 1.8 percent. These figures are likely optimistic.

Based on data from the 2017/2018 report from the Extractive Industries Transparency Initiative (EITI), an organization that publishes annual government- and industry-based transparency reports on the oil, gas and mining sector, the extractives sector accounts for 35 percent of all exports and 4.8 percent of Myanmar's Gross Domestic Product (GDP). So far, the coronavirus pandemic's impact on the sector has not been as severe as its impact on some other key sectors that have suffered from movement restrictions and decline in global demand. For example, [garment factory closures](#), hoped to be temporary, have seen thousands of workers lose their jobs. In addition, the return of large numbers of migrant workers from neighboring countries will lead to a reduction in remittances.

To address the economic impacts of the pandemic, the government introduced an economic package called *Overcoming as One: COVID-19 Economic Relief Plan (CERP)* and the Myanmar Central Bank reduced policy interest rates by 3 percent over March and April. The government has received some international support, including a \$50 million loan from the World Bank, to strengthen the healthcare system. Myanmar's estimated budget deficit is \$6 billion, but it is likely that the actual deficit will be higher, due to a combination of increased spending and lower tax revenues.

## IMPACT ON THE OIL AND GAS SECTOR

Most of Myanmar's hydrocarbon projects are natural gas projects involving long-term export agreements with Thailand and China. According to government sources, there is no immediate reduction in output because of the long-term nature of the contracts, which require cabinet approval for any change. While the volume of gas sales has not declined, the price at which Myanmar sells the gas will change depending on the international gas price. However, as contracts are not publicly available, it is not possible to fully understand the implications of current global price changes, though industry sources such as Rystad Energy provide projections. (See below.)

Myanmar had planned to commence international bidding for offshore gas fields in 2020 (after the government approves a new production sharing contract). It is not clear if this will proceed in light of the coronavirus pandemic; moreover, with the pandemic eroding the revenue and profit base of multinational corporations, it is likely that there will be less interest from investors.

## IMPACT ON THE MINING SECTOR

At the time of writing, most large-scale mining projects—such as the Letpadaung copper mine and Tagaung Nickel—continued to operate. It is not clear if the pandemic has affected output. However, production volume data from the first two months of 2020 do not show any decline. Restrictions on miners' movements have affected small-scale mining. Mining continues at Hpakant, a major mining site for jade extraction.

While mining is continuing in many areas, the pandemic has impacted the jade and gems sector in other ways. The main revenue for the state-owned MGE, comes from two sources: license allocation and emporium sales. The government had halted new license for jade and gemstones mining since 2016, making MGE's income more reliant on emporium sales. MGE's already modest revenue will likely plummet as it has not been able to host the emporiums. The most optimistic view is that MGE might be able to host one emporium by December 2020, but even that is contingent upon the resumption of international travel to Myanmar and the government establishing appropriate systems to manage inward travel. In the absence of emporiums, we are likely to see a significant increase in smuggling and corruption, in a sector that already loses billions annually to tax evasion and smuggling. Moreover, there may be pressure for MGE to issue licenses in 2020 or 2021 to generate revenue. The risk is that such a move would occur without adequate processes to check the track records of potential licensees, manage the social and environmental impacts, prevent corruption and ensure politically exposed persons do not gain licenses.

Additionally, it appears that the Ministry of Natural Resources and Environmental Conservation is plans to allocate 158 new mining licenses at this time. For example on 29 May PanAust, a copper and gold producer incorporated in Australia, announced it had been awarded an exploration license for a 750 square-kilometer area in the Sagaing region. From a resource governance perspective, issuing of a significant number of licenses at this point raises questions about whether adequate processes are being followed and whether there is sufficient transparency.

## IMPACT ON REVENUES FROM THE EXTRACTIVE SECTOR

Figures for the contribution of oil, gas and mining to government revenue differ depending on the assumptions used for calculation, but NRG1's estimate is that oil, gas and mining represented 12.6 percent of revenue in 2017/18. The vast majority came from oil and gas.

Rystad Energy predicts that lower oil and gas prices will reduce Myanmar's government take by 11 percent in 2020 compared to 2019. This is the smallest decrease of government hydrocarbon revenue among the oil and gas dependent countries in the Rystad sample. Although the oil and gas sub-sector has been the most important contributor in terms of extractive revenues, Myanmar now faces a serious challenge with the state-owned MOGE. MOGE has significant loans and data from Myanmar's citizen budget process has predicted that in 2020/21 MOGE will contribute 2.018 trillion kyat (\$1.48 billion) to the budget, but that its expenditure will be 2.217 trillion kyat (\$1.6 billion), suggesting MOGE may become a net drain on the national budget. This is not a coronavirus pandemic impact per se, but if the pandemic has a greater than anticipated impact on the oil and gas sector, this will put MOGE's contributions to the budget at greater risk.

As noted above, the revenue from jade and gems is likely to drop because MGE cannot hold emporiums. The impact of the pandemic on other mining revenue is unclear. Large-scale mining has continued and prices for many minerals have rebounded following drops earlier in the year.

Overall, extractive revenue will go down in 2020 and 2021, not all due to the coronavirus pandemic. Extractive revenue has declined in the last several years due to a number of factors, such as government not issuing mining and gemstones licenses, the plateauing of production from old gas fields and phasing out others, decreases in mineral prices, and smuggling of minerals and gemstones.

## IMPACT ON NATURAL RESOURCE GOVERNANCE ISSUES

The pandemic may delay several ongoing reforms that were dependent on in-person engagement by civil society organizations (CSOs) with officials. CSOs are actively pursuing alternative approaches to advocacy, training and multi-stakeholder dialogue. CSOs require support to operate effectively in the current context.

The government is committed to the Extractive Industries Transparency Initiative (EITI) process. However, reduced executive capacity as government officials divert resources to respond to the coronavirus pandemic could cause some delays in implementing required actions and new EITI standards. Moreover, we see some risk that the actors currently most adverse to the transparency agenda may try to use the pandemic to justify stalling progress.

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## LOOKING FORWARD

Progress on the following is key for the extractive sector and resource governance:

- Reform of state-owned enterprises (SOEs) is more vital than ever, including separating the regulatory and commercial functions of SOEs and strengthening transparency.
  - Making MOGE more accountable for its expenditure and debts is critical to ensuring the people of Myanmar benefit from resource extraction.
  - The MGE must track jade and gem production more effectively and clamp down on smuggling of minerals and gemstones by private actors, given the significant lost revenue from the jade and gems sector.
- Contract transparency is critical given the range of risks identified above. The absence of contract disclosure makes it difficult to fully assess the risks.
- Ensuring that the MGE does not restart gemstone licensing without transparent and fair procedures for awarding licenses, including procedures to identify the beneficial owners of entities awarded licenses, and robust management of social and environmental impacts.
- Civil society actors need more support to continue operations and not lose ground during this time. The government should establish mechanisms for consultation with civil society on the decisions it is making in this context.

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