Executive Summary
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Gilded Gatekeepers: Myanmar's State-Owned Oil, Gas and Mining Enterprises

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As Myanmar seeks to build more modern and open oil, gas and mining industries, the state-owned economic enterprises (SEEs) active in these sectors will play a critical role. Enhancing the effectiveness of these SEEs will be an important goal of Myanmar's continued economic reform as the country embarks upon its post-election transition. Such reforms will evolve in a context of a broader debate about the role of extractive industries within Myanmar's economy, growing efforts to promote transparency, and ongoing concerns about the links between extraction and conflict.

Within this complex context, the Natural Resource Governance Institute (NRGI) has conducted research into the activities, revenue flows and governance of Myanmar's extractive-industry SEEs. The aim of this research is to help governmental and non-governmental stakeholders within Myanmar assess key challenges surrounding the country's oil, gas and mining SEEs. It builds on preliminary information-gathering within Myanmar and NRGI's global research on the governance of state-owned enterprises.

FINDINGS

Our research highlights several findings that warrant consideration by Myanmar's leaders as they examine how SEEs can contribute to the country's reform agenda:

1. Large influence over public revenues

Oil, gas and mining SEEs exert significant influence over public revenues. Government figures indicate that in fiscal year 2012/13, oil, gas and mining SEEs were responsible for 28.5 percent of all government revenues and 15 percent of all government expenditures. The largest of them, the Myanma Oil and Gas Enterprise (MOGE) alone accounted for almost 16 percent of revenues and 10 percent of expenditures in that year. This influence continues today—the government budget projection for fiscal year 2015/16 is that extractive industry SEEs will account for about 20 percent of revenues and 15 percent of expenditures.

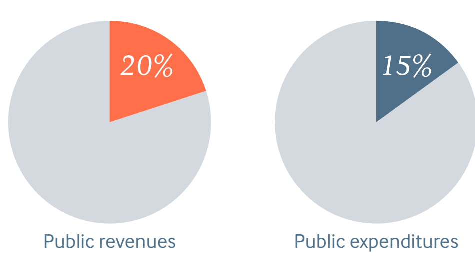

Figure 1. Projected percentage of public revenue collection and public expenditure of petroleum and mineral sector SEEs, 2015/16

2. Increasing financial autonomy and growing accounts

The government has moved in a concerted way to grant SEEs greater financial autonomy, and many SEEs appear to be amassing large reserves in independent accounts that carry over from one year to the next. As a result of reforms begun in 2012, profitable SEEs are allowed to retain almost 55 percent of their net revenues in company-controlled "Other Accounts" that are not subject to the regular annual budget process. Though we have not seen any published figures on the exact size to which these accounts have grown, some of them appear to have reached billions of dollars. The recently-released Myanmar EITI Report for 2013/14 indicates that in that year alone, the five leading upstream extractive industry SEEs transferred $1.6 billion (1.5 trillion kyat) into these Other Accounts. MOGE alone is reported to have transferred approximately $1.4 billion (1.3 trillion kyat) into its Other Accounts. To put these figures in perspective, this is more than Myanmar spent in fiscal year 2013/14 on health ($750 million) or education ($1.1 billion) across the whole country.

There is not a clear link between the activities that SEEs like MOGE are charged with performing and the large sums they are entrusted with retaining and spending. There appear to be relatively few formal restrictions on how the SEEs are allowed to spend or invest the money held in these carried-over accounts. In general, the size of revenues that extractive SEEs are allowed to retain and spend is not easily explained in light of the relatively limited commercial roles they play.

Table 1. Transfers by extractive industry SEEs into "Other Accounts," 2013/14, per EITI report

Company	Transfer to Other Accounts, million kyat	Transfer to Other Accounts, $ millions
Myanma Oil and Gas Enterprise (MOGE)	1,320,175	1,374
Myanmar Gems Enterprise (MGE)	195,516	204
No. 1 Mining Enterprise	2,436	3
No. 2 Mining Enterprise	20,963	22
No. 3 Mining Enterprise	3,563	4
Total	**1,542,653**	**1,606**

3. Unclear roles and responsibilities

SEEs' influence on public financial management suggests that Myanmar would benefit from clear rules on SEE responsibilities and strong performance incentives. However, the contours and boundaries of SEEs' roles are not extensively defined in the legal framework, and are a source of confusion for many actors inside and outside of government. In the upstream oil and gas sector, MOGE dominates licensing and oversight in addition to being a commercial player. In the mining sector, the Ministry of Mines indicates that the SEEs play a more limited non-commercial role. In both cases, the limits and overlaps were not well understood by other stakeholders, who expressed concerns about the mixing of roles. The mechanisms for intra-governmental control of the SEEs—including reporting practices within their supervising ministries, the appointment of executives, and oversight and auditing—also appear to depend principally upon habitual practices rather than formal rules.

4. Contributions to political patronage

Several interviewees suggested that SEEs are used to spread benefits to a network of private political patrons that support the government. Though it was not our goal to investigate such situations in detail, a number of interviewees indicated that such connections present a potentially major issue for the country. Greater public discussion around this topic is important if the country is to build stronger trust in extractive sector institutions and move toward stabilization in conflict-affected regions.

5. Weak transparency

There has been a distinct lack of public transparency in the management of these SEEs. Of the 45 state-owned enterprises assessed in NRGI's worldwide 2013 Resource Governance Index, only one (Turkmenistan's Turkmengas) was found to disclose less information to the public than MOGE. The mining-sector SEEs have been even less transparent than MOGE in many ways. Shortcomings include a lack of public disclosure of information on SEEs' revenues, financial interests, activities and leadership structure.

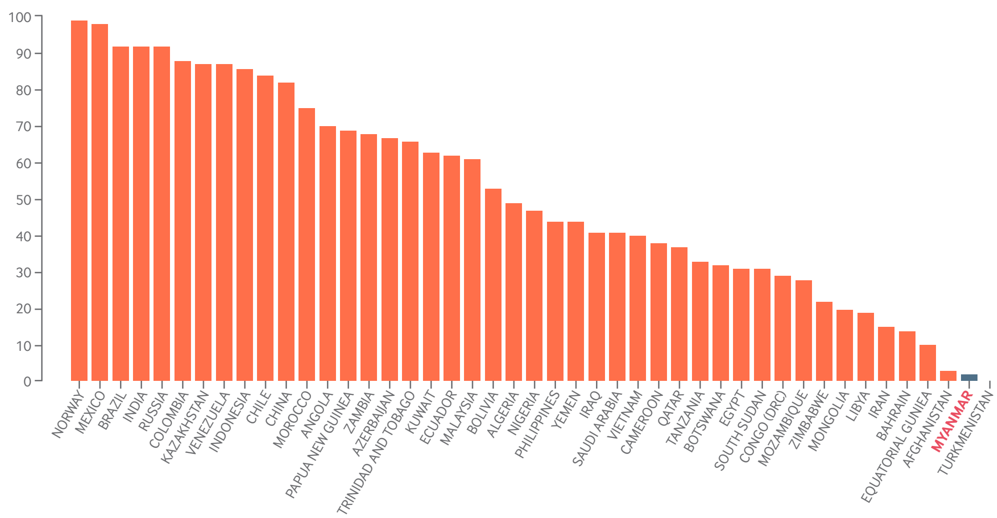

Figure 2. State-owned enterprise scores in the 2013 Resource Governance Index

6. Military involvement

Finally, many interviewees indicated that military-affiliated companies occupy a central position in the mining industry in particular, though their precise roles and activities remain unclear. Companies such as the Myanmar Economic Corporation (MEC) and Union of Myanmar Economic Holdings Limited (UMEHL) are not state-owned enterprises. They are private companies which many believe are largely owned and managed by military officers and other public officials. However, many stakeholders in Myanmar indicated that these companies play important quasi-official roles in determining who gets access to mining projects and in distributing the benefits of extraction, overlapping the authority of SEEs in confusing ways and impeding public accountability.

OPPORTUNITIES FOR REFORM

Some countries have used extractive industry state-owned enterprises as effective vehicles for national development. In other countries, these companies have hindered government efforts to maximize revenue collection, discouraged private investment, exacerbated corruption and conflict, and/or become "states within states" that divert revenues from development priorities outside the normal procedures of public financial management.

Myanmar's reforms present an important opportunity to enhance the positive roles played by its oil, gas and mining SEEs. We suggest that stakeholders consider the following broad goals to help orient this process:

1 *Revenue retention policies matched to commercial strategies.* International research says that giving a state-owned enterprise autonomy to control large shares of public revenue is most advisable where the company is executing sophisticated commercial activities. Myanmar's SEEs do not engage in particularly complex commercial tasks, but have still been entrusted with huge portions of public revenue. As the government seeks to commercialize the SEEs, it should avoid allowing them to control significantly more money than is necessary for executing a well-developed commercial strategy, and should implement strong mechanisms for expenditure oversight.

2 *Enhanced public disclosure of key data.* As part of the government's commitment to greater transparency in natural resource management, better reporting on what SEEs are doing and how they are spending public money will increase public trust, create stronger performance incentives within the SEEs, and make Myanmar a more stable place to invest. A clearer explanation of the roles played by military-affiliated companies is also crucial. The Extractive Industries Transparency Initiative (EITI) process can be an important mechanism for this increased transparency.

3 *Clarified roles and responsibilities, and reduction in any unnecessary overlaps between SEEs and other public entities.* As part of ongoing efforts to reform the legislation and institutions governing the oil, gas and mining sectors, clearer divisions of responsibilities will facilitate more effective administration and enable the SEEs to focus on their commercial agendas.

4 *Strong mechanisms for internal accountability.* The consistent conduct of independent audits is one of the most powerful tools a government can employ to improve state-owned enterprise performance. Stronger requirements for SEEs to report to the Ministry of Finance on the details of their activities and expenditures would provide another important mechanism for oversight. Other factors for Myanmar stakeholders to consider include the appointment of technocratic boards of directors to help guide the companies, and systematic benchmarking of company performance against clear goals.