

International Financial Institutions In Myanmar's Transition : Potential Implications For The DPRK

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국문요약

이 글은 미얀마에서 2010년 11월 총선 전후 기간 동안 국제금융기구의 활동과 역할에 대해 두 시기로 나누어 조사해보고자 한다. 첫 번째는 제한적이지만 총선 전 20년의 기간으로, 미얀마에서의 주된 활동은 경제개혁을 장려하고 국제 사회에게 발전하는 경제상황을 알리면서 인도주의적 필요에 부응하는 전문적인 지식을 기여하는 등의 역할을 하였다. 두 번째는 총선 이후 시기로, 국제사회와 새로운 정부로부터의 격려와 함께 국제금융기구는 미얀마의 경제정부와 미래 발전 전략의 도전을 지지하는 활동을 다양하고 선택적인 방법으로 증가시켰다. 이 글은 북한에 대한 국제금융기구 개입의 이 같은 두 단계의 타당성에 대한 접근을 제시해 주고자 한다.

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Introduction

Myanmar's remarkable transition in governance and international relations from authoritarian military rule and sanctions to democracy and opening up to the international community, is not on the surface a likely precedent or model for the DPRK. The political, social, economic, historical, cultural and geo-strategic differences between these two countries situations are too large easily to draw parallels that could translate Myanmar's experience into lessons for the DPRK context. Even so, there are certain features of their experience since the end of World War 2 that have created dilemmas for managing change in these countries that are similar in some respects. One is the post-colonial effort to shape a future less dependent on foreign influences. Burmese xenophobia and North Korea's Juche philosophy of self-reliance, are manifestations of the reluctance of the military-dominated governments of these countries during this period to adopt international norms while at the same time seeking to chart a national development path that emphasized domestic stability and security. Another similarity is the pursuit of economic policies that centered on the dominance of the State and deprived a large portion of the population of improvements in their standard of living, suppressed the growth of the middle class, and isolated the economy from the regional and global economies and especially the dynamism of Asian economic growth of the last 60 years. Isolation and poor economic performance are thus common features of the Burmese and North Korean legacies, similar also to the situation of Vietnam in the late 1980's.

The International Financial Institutions(IFIs) comprising the International Monetary Fund(IMF), World Bank, and Asian Development Bank(AsDB) played an important role in Vietnam's opening up to the international community and transition to a market economy in the early 1990's. Since then, the landscape for

international development cooperation has changed significantly and the IFI's have sought to adapt their role and modalities of operation to the changing international environment for development assistance.

The intersection of economic and political factors surrounding international engagement with both Myanmar and the DPRK created a situation over the past 20 years where IFI involvement was both needed but not allowed in these countries. The absence of any significant IFI involvement was due in part to reluctance on the part of military governments to engage in serious dialogue on the need for economic reforms and in part to the reluctance of prominent IFI member governments to uphold the status quo political situation in these countries by IFI supporting improvements in economic performance without more fundamental governance reforms. For Myanmar, while the space for IFI involvement was deeply circumscribed after the political events of 1988, because it was a member of all three IFI's some limited engagement was in fact possible off and in during the this period. This has not been the case for the DPRK, which has not become a member although exploratory contacts have taken place from time to time.

This paper examines two phases of activities and roles that the IFI's have played in Myanmar in the period before and after national elections in November 2010. In the 20 years prior to the elections, the primary but limited focus was on encouraging economic reform, helping educate the international community about evolving economic conditions, and contributing specialized expertise to addressing humanitarian needs. Since the elections, with encouragement from the international community and new government, the IFI's have ramped up their activities to support the challenges of Myanmar's transition in economic governance and future development strategy in diverse but selective ways. The paper then assesses the relevance of both phases of IFI involvement for the DPRK.

II Historical Context

Myanmar was one of the first developing countries to become a member of the IFI's, joining the IMF and World Bank(International Bank for Reconstruction and Development) in 1952 and the AsDB in 1973. Following the trauma of World War 2 and with national independence, Myanmar aimed to become a democracy with active involvement in international institutions. The creation of the United Nations and the Breton Woods institutions were seen by Myanmar authorities as important innovations in global governance that would protect the interests of weak countries from powerful ones. During Myanmar's initial democratic period in the 1950's, three World Bank loans were approved for railways and ports. Following the military coup of 1962, IFI relations continued. World Bank lending was modest, focusing largely on agriculture and infrastructure. Total lending through 1987 amounted to US\$804 million equivalent. New lending ceased in 1987, although implementation and supervision of approved projects continued until their completion. AsDB provided 32 loans totaling US\$530.9 equivalent from 1973 through 1987, mainly in the agriculture sector, and 38 technical assistance grants totaling US\$10.7 million, of which 28 were for project preparation and 10 were advisory.¹⁾ The World Bank chaired a Consultative Group for Myanmar until 1987 and has not played any donor leadership role in the country since then.

1) Data for World Bank is from the IMF Country Report 13/250 dated August 2013 and data for the AsDB is from the IMF Country Report 12/104 dated May 2012.



The Sanctions Period: 1990–2008

During the period between 1990 and the devastation caused by Cyclone Nargis in May 2008, the World Bank and AsDB were not involved in any direct financial assistance activities, but both maintained low key contacts through participation in IMF-led Article IV Consultation missions which occurred on a 12–18 month cycle throughout this period and through meetings with Myanmar officials attending their Annual Meetings. Typically, staff from both development banks provided support to the IMF missions on structural aspects of the economic assessment, supplementing the financial and macroeconomic management focus of IMF staff.

The IMF Article IV Consultations were thus the primary vehicle during the sanctions era for maintaining IFI staff contacts with technocrats in the Ministry of Finance and Revenue and Ministry of Planning and Development and opportunity to engage senior officials in dialogue on economic policy and management issues. While the Myanmar authorities were responsive to some recommendations and sought technical assistance on specific issues from the IMF, there was an abiding lack of willingness to address fundamental issues creating major distortions in the economy, notably the exchange rate regime and inflationary financing of the public budget deficit by the Ministry of Finance and Revenue. Requests for technical assistance were resisted by the IMF Board of Directors, largely for political reasons of not wanting to help the government to succeed in the face of international criticism of its political and human rights record.

In 1995 the World Bank produced an Economic Report that assessed efforts by the Myanmar government to introduce economic reforms to attract foreign investment and stimulate the private sector and recommended elements of a potential structural adjustment economic reform program. But a change in leadership that occurred that year brought Senior General Than Shwe to power and he refused

to endorse these proposals and reshuffled the economic leadership team, effectively sidelining all efforts at economic reform. This leadership transition also hardened antagonism to the National League for Democracy and its leader Aung San Suu Kyi and changed the name of the governing authority from State Law and Order Council(SLORC) to State Peace and Development Council(SPDC).

Speeches at World Bank and AsDB Annual Meetings made by the Myanmar Governor to these institutions during this period tended to complain about unfair treatment of a member country's rights to receive development assistance under the Articles of Agreement, which were ignored both by the larger shareholders and by the managements of the development banks. In January 1998, the Governor announced that Myanmar would no longer make payments on outstanding loans from the World Bank and AsDB and in September that year the country was formally declared in arrears, a step that foreclosed any future lending until the arrears were cleared.

In 1998 the Special Envoy for Myanmar under the Good Offices of the Secretary General of the United Nations Alvaro Desoto sought to bring economic development needs for Myanmar into the political dialogue addressing democracy and human rights concerns that dominated the agenda of the international community in its relations with the country. This led to informal World Bank participation in a meeting held at Chilton Park in the U.K. to assist in putting economic perspectives into the strategies being discussed about how to influence constructive change in Myanmar. This was followed by an initiative of the World Bank to prepare a full-scale Poverty Assessment report in cooperation with the Myanmar authorities and informal consultation with Aung San Suu Kyi. The idea was to seek some space of common ground where cooperative efforts could be started to address needs of vulnerable groups within Myanmar society and to provide an incentive to address the political issues with prospects for international economic assistance on the poverty alleviation agenda. In the end, the report never was finalized although it was widely circulated in draft form and the dialogue process was suspended after

the resignation of the Special Envoy in October 1999. While the Government of Myanmar wished to proceed with formal review and discussion of the report, the political support among member countries for proceeding evaporated and World Bank management placed high-bar conditions linked to willingness to engage in a serious dialogue on economic reform to the Bank's willingness to continue the review process on the report, and consequently the initiative died. The ultimate impact, however, was a deepening recognition among the international community of the humanitarian issues needing to be addressed in Myanmar in addition to political and human rights issues, and this contributed to another review of future Good Offices strategy in a meeting held in Seoul under the auspices of the South Korean Government in March 2000 in which addressing these humanitarian needs was endorsed in principle. Following this meeting the lead in formulating humanitarian assistance strategies for Myanmar fell to the UN Country Team in Yangon with no IFI involvement.²⁾ The World Bank's only involvement in this agenda was supporting an "Avian Influenza Support" project, which was funded by an Avian and Human Influenza European Union Trust Fund at the World Bank and executed by the Food and Agriculture Organization.³⁾

AsDB's only independent activity involving Myanmar during this period was its Program of Economic Cooperation in the Greater Mekong Subregion(GMS) that included Myanmar as one of the GMS countries. This primarily involved participation in regional meetings and studies organized and funded by the AsDB.

2) The source for this information is the personal involvement of the author who was responsible for World Bank relations with Myanmar during this period.

3) International Development Association and International Finance Corporation Interim Strategy Note for The Republic of the Union of Myanmar for the Period FY13-14, October 30, 2012, p. 11.

IV

IFI Role in Responding to Cyclone Nargis and Pre-Election Period 2008–2010

Cyclone Nargis inundated the coastal areas and Irrawaddy River Delta of Myanmar in 2008, causing widespread loss of life and a huge humanitarian crisis far beyond the capacity of the Government to manage on its own. The event fundamentally changed the context for Myanmar's relations with the international community and brought humanitarian concerns to the forefront, trumping the longstanding denial of significant foreign aid flows to the country and placing other political and human rights issues on the back-burner. While the UN and ASEAN took the lead in organizing international humanitarian support and coordinating its implementation with the Government through a Tripartite Core Group (TCG), the IFIs played a supportive role that was low key but very important for the management of the crisis.

The IMF took the lead in assessing the macroeconomic impacts of the cyclone and proposed policies and strategies to mitigate the issues created for the economy. The World Bank undertook to design and support under ASEAN leadership a TCG-sponsored damage assessment and identification of priorities for recovery. The World Bank subsequently as part of this effort also undertook to design Social Impact Monitoring studies carried out in cooperation with local civil society organizations and local governments to assess both the impact of the cyclone and post-disaster assistance on local communities. This later led to the World Bank to provide monitoring and analysis for a multi-donor livelihoods assistance trust fund, on a fee for service agreement with the concerned development partners. This assessment activity is ongoing through 2015.⁴⁾ AsDB also participated in the initial damage and needs assessment.

4) World Bank Interim Strategy Note for the Period FY13–14, p. 11.

From 2003, the Government of Myanmar committed itself to a seven-step process leading to a new Constitution and national elections. This was widely viewed skeptically by the international community, especially in view of the continued house arrest of Aung San Suu Kyi and marginalization of any meaningful role in a national reconciliation process or in preparing a new Constitution for the National league for Democracy. During the post-Nargis period from 2008 until national elections were held in November 2010, the primary activities of the World Bank and AsDB were limited to monitoring developments in Myanmar, participating in informal information sharing meetings in Bangkok among the development partners, building relations with civil society groups in Myanmar, and participating in the ongoing post-Nargis monitoring studies.



IFI Roles and Activities in the Transition Period after National Elections

The national referendum approving a new Constitution in May 2010, followed by the release of Aung San Suu Kyi from house arrest and the holding of national elections in November, changed both the domestic and international context for IFI involvement in Myanmar. While considerable skepticism greeted the new Constitution with its tilt towards continued high level of military participation in the new political system and the election results in which the military-affiliated Union Solidarity and Development Party(USDP) dominated both legislative houses, the new Government was established with civilian leadership and both democratic national parties and ethnic-affiliated parties were given legitimate voice in parliamentary proceedings and committee assignments.

After decades of denial of external assistance to the central Government, the problems emerged of extremely low level of capacity of the civil service to adjust

to demands to improve governance performance and delivery of new programs and projects, as well as design and implement major reforms under intense time pressure. Both the international community and domestic advisors to the new Government recognized that to meet its challenges, the new Government needed advice and support from the IFIs that it had long been denied and that their re-engagement was desirable to nurture the nascent reform process. The same was true for the UNDP, which had been operating under severe mandate restrictions under the sanctions era.

1. Leading Role for the IMF

The role of the IMF during the initial transition period was extremely important. Building on its routine practice of fielding Article IV Consultation missions annually, the IMF gave initial attention to the issues of macroeconomic stability. Priority attention was given to addressing plans to unify the exchange rate, remove exchange restrictions, establish a consistent monetary policy framework, and improve public financial management. Also, a medium-term agenda was identified to modernize the economy and remove impediments to growth by enhancing the business and investment climate, promoting agricultural productivity, modernizing the financial sector, and further liberalizing trade and foreign direct investment. Building human capital and reducing poverty were also identified as critical to the success of this agenda.⁵⁾ Both an intensification of policy dialogue and expansion of technical assistance with a receptive new Government led to follow-up work on actions on these issues with a recognition that reforms must be designed and implemented taking into account logical steps forward and capacity constraints. IMF initial technical assistance focused on plans to unify the exchange rate and lift foreign exchange restrictions, monetary operations, organization of the Central Bank, and

5) IMF 2011 Article IV Consultation Report, pp. 1~13.

drafting a new Central Bank law and foreign exchange law. The willingness of the Government to pursue exchange rate unification after decades of intransigence on this issue was a highly visible sign of the credibility of its commitment to pursuing reforms that went a long way to build confidence among the international community in the reality of change and sincerity of the intentions of the new Government to make fundamental changes in economic policy and management.

In 2013, the IMF has deepened its policy dialogue on macroeconomic management and financial system reform, ramped up technical assistance, and established local staff presence in Myanmar to support its expanding activities. Priorities are: monetary policy and operations, financial sector development, economic statistics, tax administration and policy, and public financial management. The Myanmar Government is in agreement with the agenda and recognizes that implementation of reforms needs to be sequenced in line with their capacity to absorb and implement technical assistance.⁶⁾

2. Normalization of Relations with the World Bank and AsDB

Resolving Myanmar's external arrears, both to governments(notably Japan) and the World Bank and AsDB were also identified as high priority in order to improve the investment climate and pave the way for future development assistance from these historically major sources prior to the sanctions era. Japan agreed on a bilateral debt-restructuring plan in April 2012 and arrears to the World Bank and AsDB were cleared in January 2013 using bridging loans provided by Japan. Also in January 2013, the Paris Club reached agreement with the Government of Myanmar on a concessional treatment that will write off 50% of all arrears and reschedule the remainder over a 15-year period with 7years grace starting in 2014.⁷⁾

6) IMF 2012 Article IV Report, Annex on Fund Relations, pp. 4~6.

7) IMF 2012 Article IV Report, p. 4.

Both the World Bank and AsDB have begun to resume normal operational planning in their relations with Myanmar, with international political support for step-by-step re-engagement deepening following the strong showing by the National League for Democracy in the bi-elections to the National Parliament in April 2012, including the election of Aung San Suu Kyi, and growing international confidence in the Government's reform efforts. Interim Country Strategies were prepared by both the World Bank and AsDB in October 2012 to serve as guides for their activities prior to the elections scheduled for 2015 and have been approved by their Boards of Directors.

3. World Bank Interim Strategy for FY13–14

The aim of the World Bank Group Interim Strategy is to “support the Myanmar Government in the country's triple transition ... from an authoritarian military system to democratic governance, from a centrally-directed economy to market-oriented reforms, and conflict to peace in boarder areas ... for the benefit of the people of Myanmar”.⁸⁾ It is noteworthy that this strategy was significantly influenced by the World Bank's recent focus on issues affecting conflict-affected States, and especially the World Development Report of 2011 with its emphasis on transforming institutions and building confidence. The major elements of the strategy are:

- (1) Transforming institutions through policy advice and capacity building, together with technical assistance and investment to support building domestic institutions. Priority areas are in public financial management and private sector development. An initial activity undertaken in mid-2013 was a Public Expenditure and Financial Accountability Assessment that will underpin formulation of specific policy advising and capacity building activities.

⁸⁾ World Bank Interim Strategy, p. 11.

This will be deepened by a Public Expenditure Review and complemented by a demand-driven program of knowledge support for the Government in macroeconomic and public sector management. Specific activities will include just-in-time policy notes, short diagnostic reports, South-South exchanges to learn from other developing country experiences first-hand, and workshops and seminars to discuss emerging economic issues.

For private sector development, an Investment Climate assessment will be undertaken jointly with the International Finance Corporation (IFC) affiliate of the World Bank Group to analyze constraints on small and medium-sized firms and assess the policy and regulatory environment. A financial sector development program is also planned to run through 2014 that will include a master plan, building a legal and regulatory framework, enhance supervision of financial institutions, establish financial infrastructure including payment systems, and provide policy advice to support expanded banking services to small and medium-sized enterprises.

Other planned institution-building activities include support for project design and implementation and public sector governance improvement.

- (2) Building Confidence in the long-term reform process by delivering visible interim results. Specific activities are focused on support to the peace process through financing community-driven programs to promote the economic and social recovery of conflict-affected communities; support to civil society through re-establishing links between civil society and communities with local institutions and authorities; and supporting financially activities that deliver tangible impacts and quick-wins at the community level. A National Community Development Support Project grant was approved in November 2012 for \$80 million as an initial operation pending full normalization of relations through clearance of arrears and preparation of a future lending program.

(3) Preparing for a full-scale normal country assistance program. The Interim Strategy provides for a Development Policy Operation linked to the arrears clearance that took place in January 2013 that supports the Government's economic reform program aimed at macroeconomic stability, improving public financial management and enhancing the investment climate, with proceeds of the loan used to support Myanmar's foreign exchange needs including refinancing of the bridge loan for clearance of arrears. In parallel, assessments of financial management and procurement capacity for future project implementation and studies of longer-term issues needing to be addressed for development of the economy will be initiated, including a household income and expenditure survey.

Initial priorities for World Bank lending activities are focused on energy infrastructure pending a development of a Poverty Reduction Strategy Paper to guide future operations based on reliable data and broad consultation. World Bank involvement in education and health sectors is expected to be limited and focused on technical support in light of the high degree of priority and financing being given to these sectors by bilateral donors.

At the World Bank Annual meetings in October 2013, an \$140 million IDA Credit for power generation in Mon State was signed and Myanmar joined the Multilateral Investment Guarantee Agency affiliate of the World Bank group that provides non-commercial risk insurance to private investors.

At the IMF-World Bank Annual Meetings in October 2013 a proposed new strategy for the future evolution of the World Bank Group was discussed and approved by its Governors. Many of the features of this new strategy are fully compatible with the World Bank's existing interim strategy for Myanmar, notably: the focus on issues relevant to conflict-affected States, desire to work in a less fragmented way; selectivity in areas of World Bank Group comparative advantage among development partners; efforts to connect more fully with the private sector,

local communities and civil society; forming effective partnerships; and focusing on results. Similarly, the Bank's new mission focus on eliminating absolute poverty by 2030 and boosting shared prosperity for the bottom 40% of the population in all client countries means that the Bank will seek to identify and concentrate its resources on those issues that most directly impact on the achievement of this mission, which will vary by country. The Bank also plans to strengthen its internal capacity to mobilize global knowledge to support its country-level programs and cross cutting issues such as global warming.

4. AsDB Interim Country Partnership Strategy 2012–2014

The AsDB interim strategy aims to “reengage in Myanmar and develop a comprehensive country partnership and program in support of sustainable and inclusive economic development and job creation. In the interim strategy period ADB will emphasize three program areas: (i) building human and institutional capacity in ADB's areas of focus and strength to help lay the foundation for medium-term engagement and effective development processes; (ii) promoting an enabling economic environment, which is needed to achieve macroeconomic stability, promote trade and investment, diversify the economy, create jobs, improve financial intermediation, and increase agricultural productivity; and (iii) creating access and connectivity for rural livelihoods and infrastructure development by promoting enhanced access to markets and basic social services, improving rural infrastructure to boost farm productivity and incomes, lowering transaction costs, enhancing opportunities for domestic and cross-border trade and investment, and improving access to reliable and sustainable utility services. Links between these priority areas will be leveraged to the extent possible. While ADB's reengagement will initially cover relatively broad areas, it will become increasingly selective as ADB's assessments, government priorities, and division of labor with other

development partners evolve.”⁹⁾

In implementing this strategy, AsDB intends to emphasize five themes: environmental sustainability, good governance, private sector development, regional cooperation and development, and gender equality. Knowledge building is also a major area for focus, through conducting economic and sector assessments as the basis for developing sector support strategies; providing analytical and advisory support to selected government agencies, sharing international good practices, and fostering exchanges with other developing economies; and providing analytical work, advisory services and training in project development and project management.

AsDB's primary operational modalities are technical assistance grants and after clearance of arrears lending through the Asian Development Fund, its concessional lending window. Funding for technical assistance grants is expected to be about \$3 million per year during the interim strategy period.

As of early October 2013, AsDB has approved 22 technical assistance grants for a wide variety of projects linked to the interim strategy objectives and one loan for Support for Myanmar's Reforms for Inclusive Growth January 2013 linked to the clearance of arrears in parallel with that of the World Bank. Future proposed operations under preparation include four grants linked to civil service capacity building, institution-building for a better investment climate, financial sector reform support, and strengthening public debt management. Three grant-funded projects for enhancing rural livelihoods, providing pro-poor community infrastructure and basics services, and a regional capacity building for HIV(AIDS) are also planned as are two loans for power distribution improvements.

5. The IFIs and Other Donors in the Interim Period

Many bilateral development assistance agencies and NGOs have opened active

⁹⁾ AsDB Interim Country Partnership Strategy, pp. 5~6.

programs in Myanmar since the 2010 elections, posing significant challenges for aid coordination and making high demands on limited civil service capacity to plan and manage donor-assisted projects and activities, and to ensure effective internal coordination both among agencies and between levels of government. In January 2013 the Government organized an international Development Cooperation Forum and presented its own proposed Nay Pyi Daw Accord for Effective Development Cooperation as a framework to guide priority setting among the Government and development partners and as foundation for agreeing on assistance modalities and aid coordination. This was approved by acclamation. It was also proposed at the time to establish a Union of Myanmar-Development Partner Working Group to prepare a Government performance framework and action plan to guide implementation of the agreement and set standards and benchmarks for monitoring progress. In September 2013, the Government also announced an overhaul of its internal development assistance coordination organizational arrangements.

The international development community has evolved its policies in recent years following the Paris Declaration of Aid Effectiveness on March 2, 2005. This declaration highlighted core principles to guide future development assistance cooperation, emphasizing country ownership, harmonization and alignment of donor funded activities, results-orientation, and mutual accountability. Myanmar did not participate in this process and thus was not exposed to the new thinking in development circles except through a multi-donor funded program supported by UN agencies active in Myanmar and some bilateral donor agencies addressing HIV(AIDS) to meet humanitarian needs during the sanctions era. The IFIs were not directly involved in these efforts until much later.

While the World Bank chaired a Consultative Group for Myanmar before 1987, this has not been re-established. The Government's Development Cooperation Forum and proposed working group of development partners effectively have replaced the Consultative Group mechanism and are more in line with Paris Accord principles of development cooperation. A separate informal Partnership Group on

Aid-Effectiveness(PGAE) was established for Myanmar by a group of major bilateral donors.¹⁰⁾ This group acts as a forum for increasing aid effectiveness in Myanmar emphasizing principles of building on existing information where possible; building capacity of the Government to coordinate and deliver aid services; avoiding drawing skilled labor from the Government; prioritizing analysis and joint ownership; managing expectations about the speed with which development gains will occur; ensuring coordination between diplomatic, development, and security actors; building flexibility into engagement and programming; and engaging with all relevant donors including non-traditional donors. Chairmanship of PGAE rotates by consensus. The UN Resident Coordinator for Myanmar has a standing invitation to attend meetings as an observer and representatives of the World Bank Group and other international and regional organizations may be invited to attend meetings, as may a NGO liaison officer. Multi-donor trust funds established by PGAE members for Myanmar include the Multi-Donor Education Fund Phase 2(2012-2016), Three Diseases Fund(2006-2012), Three Millennium Development Goal Fund (2012-2016), and the Livelihoods and Security Trust Fund(2009-2016).

Apart from technical support and informal coordination with these programs and other bilateral donor activities, the principal focus of IFI coordination in Myanmar at present is with each other on overlapping areas of their individual strategies, notably in financial system reform, public management, and macroeconomic policy support. The IMF and World Bank have established a Joint Managerial Action Plan for June 2013-May 2014 that details specific planned activities for close coordination during this period.¹¹⁾ Specific focus areas are: macroeconomic management policy advice and capacity building and structural reforms for a better investment climate, private sector development and social development.

10) Myanmar Donor Profiles, March 2012.

11) IMF Article IV Consultation Report 2012, Annex on Bank-Fund Collaboration, p. 9.



Comments on the IFIs Roles in Myanmar's Transition and Implications for Potential Future Role in the DPRK

1. A Limited Presence is Better than None

Throughout the sanctions era in Myanmar all three IFIs were able to maintain a limited engagement with economic technocrats, mainly under the auspices of the IMF Article IV Consultation mechanism and their Annual Meetings, where the Governor from Myanmar had a right to participate regardless of the location of the meetings and policies on visa restrictions imposed by some Member States on travel for senior Government officials. Because the DPRK is not a member of the IFIs as was Myanmar, it is not possible to replicate the Myanmar experience there. Nevertheless, one lesson from the Myanmar experience is that the benefits of even limited contacts in updating understandings of economic developments and Government policies, engaging in policy dialogue at a senior if not supreme level, and maintaining relations with mid-level technocrats were important in several respects. First, such engagement provided a platform on information and relationships on which it was possible to build rapidly when the Government proceeded with its process to approve a new Constitution and hold national elections and pursue a robust economic reform agenda. Second, it provided pro-reform elements within the Government encouragement and confidence in seeking to influence change from within the system in a difficult domestic and international political environment. And third, it enabled the international community to have a more realistic understanding of the economic dimension of the country's circumstances and opportunities to meet development challenges. This was important input to strategic thinking about engagement policies to achieve political goals in relations with Myanmar on the part of various countries, which

in fact adopted rather different engagement policies depending on their national values and interests.

2. IFI Involvement in Political Initiatives

World Bank involvement in the political dialogue process led by the UN Special Envoy for Myanmar under the Good Offices of the Secretary General was an unusual and perhaps unprecedented form of IFI involvement in an isolated and difficult country. This was a situation where consensus did not exist among concerned countries in the international community about what policies of engagement or sanctions would be most effective for inducing externally desired change in the country and where national interests at stake varied considerably. The invitation to seek World Bank inputs on economic assessment and development needs and the decision to add the prospect of development assistance to the political dialogue agenda placed the Bank in an awkward position vis-à-vis the Government of Myanmar and complicated its ability to maintain independent objectivity and abide by its Articles of Agreement to not take political considerations into account in its dealings with Members.

The DPRK poses a similar dilemma both for the international community and for the potential involvement of the IFI's in political processes aimed both to eliminate its nuclear program and to resolve the longstanding conflict on the Korean Peninsula with an eventual Peace accord and stable relations between the two Koreas. To date, there has been no direct involvement by any of the IFI's in the political process, although a senior World Bank economic official and IMF official participated in a workshop on economic issues facing the DPRK on the sidelines of a Northeast Asia Security Dialogue Conference in Tokyo in April 2006. The potential does exist for involving the IFIs in some form as part of a future diplomatic effort to re-start the stalled Six Party Talks process or enter into some new form

of multi-lateral negotiations with the DPRK. Holding out the prospect of supporting IFI relations has also been a feature of political positions taken by some Government officials over the years as an inducement for DPRK to engage in serious political talks, but there is no evidence that this has had any effect on North Korean negotiating behavior. In light of the earlier experience with Myanmar, any such initiative should be carefully planned with advance consultation among concerned parties, including the DPRK Government, for IFI involvement to be helpful and in line with their missions and Articles of Agreement.

3. The Critical Role of the IMF being in the Lead

The IMF's role in Myanmar during the transition period has been particularly important both to anchor a meaningful economic reform process within the new Government and to build confidence in the international community of the sincerity of the Government's reform intentions and commitment to addressing longstanding issues of contention. For the DPRK, this is equally important, especially in light of the lack of any statistical reporting on national accounts or balance of payments, poor macroeconomic management capacity and rudimentary financial system not suited to an increasingly mixed economy with growing market activities of both households and enterprises. In September 1997, the IMF did send a fact-finding mission to the DPRK at a time of economic crisis when it was willing to explore the potential for pursuing IFI relations, and this was a useful step. The DPRK did not follow-up at the time because of concerns about transparency requirements and conditionality associated with IMF membership, and while some informal visits were made to Washington in subsequent years, there has been no official IMF contact in the past decade. Looking ahead, it would be highly desirable that the IMF be given a lead role in engaging the DPRK on the same agenda of issues that it has been addressing in Myanmar, even before a membership process is politically feasible.

4. Comparative Advantages of the World Bank and AsDB

Both the World Bank and AsDB have comparative advantages in addressing structural issues in transition economies and in providing both knowledge and financial resources to support institutional changes needed, capacity building, and investments required for transition adjustments and stimulating economic growth. Their interim strategy activities in the post-sanctions period in Myanmar are good models for potential initial activities in the DPRK, concentrating on policy advice, data collection and analytical assessments to underpin policy dialogue and assistance programming in the medium-term; supporting institutional development through capacity building training and technical assistance; nurturing confidence in the civil service in implementing a demanding new workload of economic reform and development activities; building bridges to local communities and enterprises; and forming effective partnerships with other development partners. The World Bank's new mission definition and organizational strategy are also well aligned with its potential future role in the DPRK and national priorities to improve the livelihoods of ordinary North Koreans and expand trade and investment with other countries. Both development banks are potentially significant suppliers of investment capital for critically needed public infrastructure in the DPRK, especially in energy and transport, and in supporting agricultural development and social services targeted on the most impoverished segments of the population.

The World Bank Group also has an advantage in its integration of private sector support arms in its programming, both through the International Finance Corporation(IFC) and Multilateral Investment Guarantee Agency(MIGA). As the DPRK intends to establish a number of Special Enterprise Zones as part of its economic development strategy, both the IFC and MIGA could provide important support to both the Government and private investors.

One potential drawback for the AsDB in its potential future activities in the DPRK is fact that Russia is not a Member State of the AsDB. To the extent that future

AsDB involvement in infrastructure projects might involve collaboration with Russia, special arrangements would need to be set in place.

5. Political Aid, Humanitarian Aid and Development Aid

Both Myanmar and the DPRK have experienced the dilemmas of balancing political aid with humanitarian aid and development assistance on the part of the international community as it has shaped engagement with these countries over the past 20 years. While the focus of international attention in Myanmar was on relinquishing military rule for democracy, inter-ethnic and religious reconciliation, and reduction of human rights abuses, the focus in the DPRK has been on its nuclear, missile and conventional weapons threats both globally and locally. While Myanmar's poor and vulnerable populations suffered from a combination of Government aggression and neglect in different parts of the country, in the DPRK the famine of the mid-1990s affected large segments of the population, especially in urban and remote mountainous areas. Human rights abuses in the DPRK linked to the regime's social control policies and security apparatus have been receiving increasing attention in the international community, but political engagement is still primarily driven by the security agenda.

The question of how to integrate humanitarian aid with political aid has been one that neither the Myanmar nor DPRK experience has handled well. In the case of Myanmar, humanitarian aid was denied or severely limited for over a decade after the imposition of sanctions, further exacerbating a downward trend in human capital in the country driven largely by domestic policy of limiting social expenditures and closing universities. Humanitarian aid only was introduced in a meaningful way after 2000 and then was interpreted differently by different donors limiting its overall impact and cohesiveness. The IFIs played no significant role in this effort until the devastation of Cyclone Nargis when both the volume and quality

of humanitarian aid increased dramatically and the IFI's played an important role in impact assessment and monitoring mitigation efforts and results.

In the DPRK case, the infusion of humanitarian aid in response to the famine of the mid-1990's did not lead to lasting impacts on donor relations with the Government and by the early 2000's had dwindled to near insignificance, swamped by the ongoing political standoff over the DPRK nuclear program and increasing willingness of major providers of humanitarian assistance, ... the U.S., Japan and (later) South Korea ... to curtail humanitarian aid in the absence of meaningful progress on the security agenda. While some humanitarian aid provided by NGOs and some European governments had elements of development assistance integrated in the activities, these have been modest and without significant traction. In the current environment of the DPRK, it is hard to see a potentially meaningful role for the IFI's in the humanitarian assistance agenda for the time being.

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6. Development Effectiveness and Aid Coordination

Aid coordination and ensuring aid effectiveness in Myanmar's transition have

been a major challenge. Part of the reason is weak Government administrative capacity and lack of understanding of how policies of donors and coordination modalities for development assistance have evolved since the late 1980's at the time of the last Consultative Group meeting for Myanmar. Another factor is the rush of new donors, NGOs and potential private investors into Myanmar since the 2010 elections, with attendant risk of conflicting or overlapping programming objectives and conflicting advice on policies and priorities. In this environment, the IFI aid coordination role has been modest. Most important has been the IMF Article IV Consultation process and its lead role in assessing and advising on macroeconomic policy and formulating an agenda of core economic reforms linked to the Government's absorptive capacity in close collaboration with the Government and World Bank. Informal support for the Government's own efforts to set the development agenda and manage relations with the development assistance community is a useful role for the IFIs in the current situation, but one shared with advice and support being provided by the UN system and some bilateral donors. The World Bank's public expenditure review and analytical studies being sponsored by both the World Bank and AsDB are also important for future aid coordination by providing sound information-based frameworks to help guide development assistance programming for all development partners in the medium-term. Since Myanmar's transition process is still at an early stage, it is too early to assess the longer-term impact of the IFIs from both aid effectiveness and coordination perspectives. Further adjustments in the arrangements are likely.

The DPRK poses both some similarities and important differences in considering a potential future role for the IFIs in aid effectiveness and coordination. Like Myanmar, the DPRK has been isolated from international development assistance policies and practices that have been applied in other transition countries. The Government administrative apparatus is also not well suited at present for engaging on development coordination issues, as relations with both Governments and NGOs tend to be handled by separate counterpart organizational arrangements with little

internal coordination across different parts of the bureaucracy. During the famine of the mid-1990's, when there was a high level of humanitarian aid flowing to the country, both an inter-agency government coordinating body and an informal coordination group of donors established by the UN functioned fairly successfully. Both were dismantled when humanitarian aid flows dwindled. While Myanmar is now fully committed to economic reform and opening up to the international community in new ways, the DPRK is resistant to pursuing a robust economic reform agenda and reluctant to open up, despite its desire to make improvements in economic management and to expand trade and investment with other countries.

In contemplating a potential future IFI role in the DPRK, it is likely that a combination of IFI and UN leadership will be needed to help establish and develop capacity for aid coordination and management. A multilateral rather than bilateral approach is more likely to be acceptable both to the Government and development partners than reliance on one or two leading bilateral relationships. If IFI relations begin with some commissioned activities under the auspices of a multilateral political negotiation process, then the IFIs can be expected to be looked to by all parties involved to provide information and technical support for effective coordination of these activities and efficient use of any resources that may be provided. This can also play an important role in trust building needed to advance the negotiation process. Beyond that, it is unlikely that as in Myanmar the DPRK process will evoke a rush of donors, NGOs and investors if there is a significant change in the policy for opening up and international political environment. Thus the challenges for aid coordination and effectiveness are likely to be very different, influenced less by competition among donors and more need for the IFIs and UN to provide frameworks for expanding development assistance involvement with appropriate safeguards against various downside risks perceived by the donors.

VII Conclusion

It is important to recognize the limitations of seeking to draw lessons from the IFI role in Myanmar's transition for the DPRK. One is the need to take into account South Korean interests in anything the IFIs do with North Korea and the various issues related to inter-Korean relations and stake that South Korea has in IFI relations with both countries. Another is the overriding preoccupation of the U.S. with the North Korean nuclear program and desire that any significant IFI involvement be linked to the process of achieving a resolution of the longstanding security threats on the Korean peninsula. Nevertheless, the constructive if limited role that the IFIs have been playing in Myanmar's transition is relevant to discussions of conceiving a possible way forward in meeting the challenges that the DPRK faces both in its own internal transition process and in reshaping its relations with the international community. If a new multilateral negotiation process gains traction in addressing the political and security challenges posed by the DPRK and also aims to help put the North Korean economy on a sustainable growth path and better integrated in the international economy, it may be possible and desirable to build a role for the IFIs that could contribute in a meaningful way. In any case, eventually developing a relationship and membership in the IFIs will be important for the DPRK as a visible and substantively significant part of the process of normalizing relations with the international community and creating an environment conducive to expanding foreign investment and trade necessary for its long-term economic success. 