

Myanmar Enterprise Survey 2014

Early Findings



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Printed in October 2014

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Foreword

Myanmar's private sector is underdeveloped, even as there is much optimism for the country's future. Improved growth in the private sector is needed for a growing, innovative economy and the full realization of its benefits to the public. Evidence suggests that a critical limiting factor for private sector development, even after the sustained political transition in recent years, is the difficult investment climate.

In order to support the efforts of the government and the people of Myanmar to improve the investment climate, we are happy to share some of the key findings of the World Bank Group's 2014 Enterprise Survey. What are the most urgent issues to be addressed by government for private sector firms to succeed? How do these issues compare with the constraints that firms face in neighboring countries? Through analogous Enterprise Surveys the World Bank Group has collected data from over 130,000 firms in 130 countries, enabling regional and global comparisons. The findings from the survey offer not only a good snapshot of Myanmar's current situation, but also allow comparison across countries and – in the future – across time, in order to assess the progress of the government's current reform program. The survey's results are a major input into the forthcoming Myanmar Investment Climate Assessment.

This work is supported by the United Kingdom's Department for International Development, and has been carried out in close collaboration with the Ministry of National Planning and Economic Development and in particular with the Directorate of Investment and Company Administration.

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Enterprise Survey illuminates private sector constraints

This is the first time the World Bank has carried out an Enterprise Survey in Myanmar.

Enterprise Survey is the world's most comprehensive company-level data in emerging markets and developing economies. The survey

- Is answered by owners and top managers;
- Focuses on manufacturing and services (excluding agriculture);
- Surveys enough firms for nationally representative sample; and
- Focuses on formal (registered) firms with 5 or more employees.

The Enterprise Survey is standardized, so it allows comparisons (i) across countries, and (ii) across time – when the survey is repeated. Therefore, today's early findings are also a baseline for measuring future changes.

These findings will feed into the World Bank's **Investment Climate Assessment** for Myanmar. The assessment will provide a comprehensive analysis of constraints for private businesses, using quantitative and qualitative data.

Similar Investment Climate Assessments have been done in over 100 countries since 2002. When evaluating the assessments' impact, it was found that their effectiveness depends on the frank acknowledgment of constraints and ownership of agenda for reform by the government and other stakeholders. This very discussion of early findings and continued dialogue is a critical ingredient to successful reforms in the future.

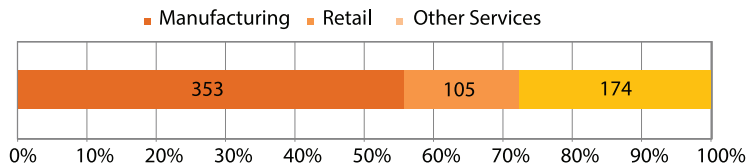
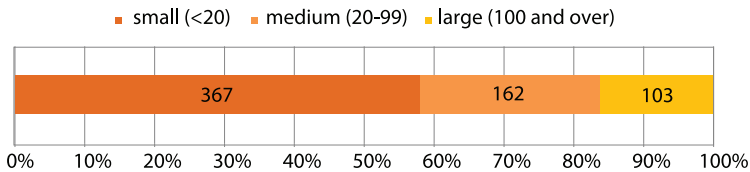
Data collection focused on five main urban areas



Emphasis on making the samples representative

Since there is no reliable registry or list of firms in Myanmar, the survey started with block enumeration (i.e. a census of all firms) in 5 large business cities: literally going door to door. From that collection of firms, a stratified random sample was drawn.

This resulted in a sample of 632 registered¹ small, medium, and large enterprises, classified by number of full-time employees.



Two additional samples were surveyed in Myanmar:

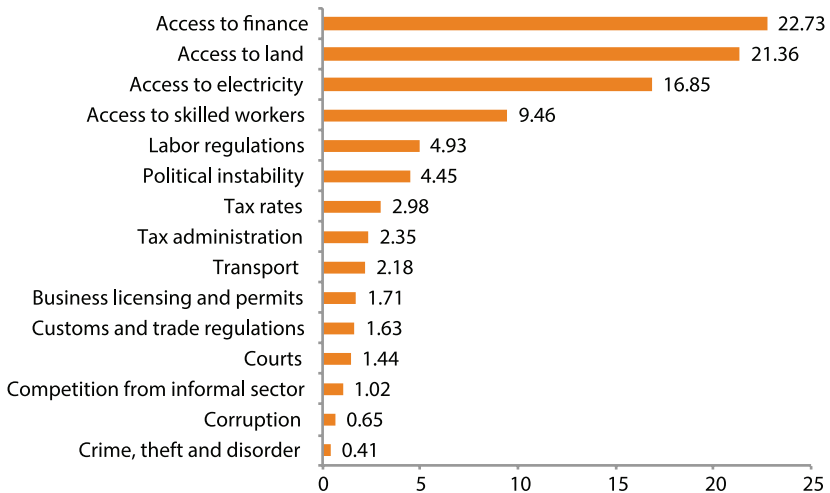
- 460 registered micro enterprises (i.e. firms with less than 5 employees); and
- 300 informal or non-registered enterprises.

¹ Registered or "formal" is any firm registered either with (i) DICA, (ii) Directorate of Industrial Supervision and Inspection of the Ministry of Industry, (iii) City Development Committees or Department of Development Affairs, or (iv) Department of Small Industries under the Ministry of Cooperatives.

What are the main constraints for firms?

The main constraints faced by firms are access to critical inputs, in particular:

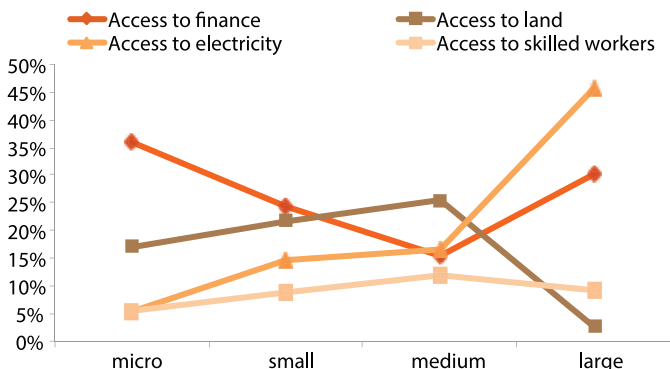
- Almost 23% find access to finance the top constraint;
- Just over 21% indicated access to land is the main problem;
- For almost 17%, the key is access to electricity; and
- For over 9%, it is access to skilled workers.



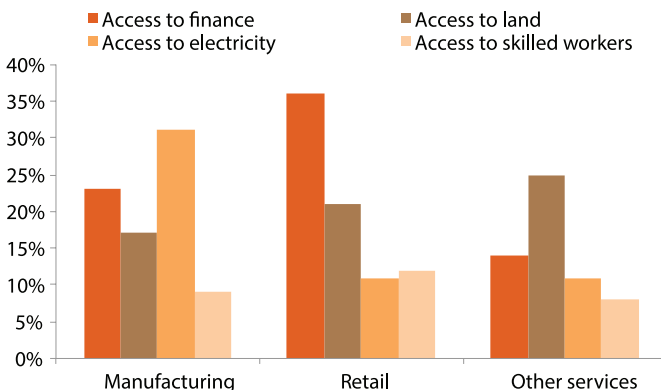
Crime, on the other hand, is not a constraint firms see much of. In fact, crime is – relative to other countries in the region – almost non-existent. The lack of concern about crime, as well as losses due to crime, provides some much needed good news for Myanmar’s investment climate.

Main constraints change with firm size and sector

While access to electricity becomes more important as firms become larger, access to land becomes relatively less important as a constraint.



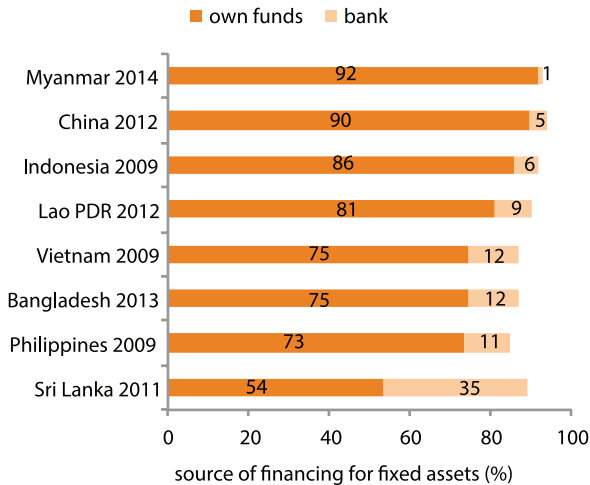
And while access to finance is the top constraint for firms in retail, for manufacturing firms the top constraint is access to electricity.



Access to finance

A remarkable **46%** of private sector firms report having invested in fixed assets in the past year. This is a clear confirmation of the strong prospects for Myanmar's economic growth.

However, almost none of the fixed assets are purchased with bank loans. The use of bank loans for financing is less than in any other country in the region.



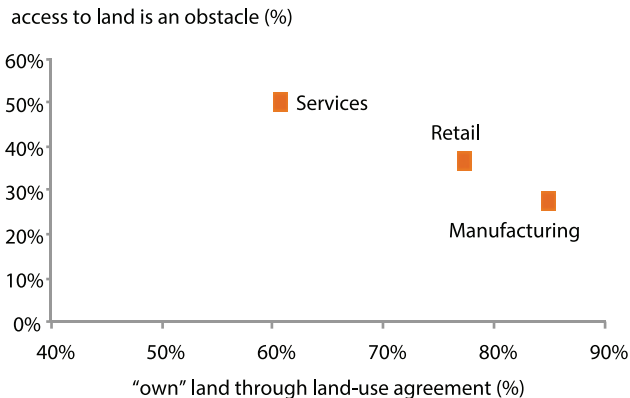
Remarkably, a mere **30%** of firms in Myanmar even have a current or checking account. That too, is the lowest figure by far in the region.

Access to land

Secure access to land is one of the main constraints. Most firms report that they own their land; 72% overall, a high figure in regional comparison. However, all land in Myanmar ultimately belongs to the state and “ownership” refers to some form of land-use agreement.

The **uncertainty** about land ownership is very high and a serious constraint on the private sector. Uncompensated confiscation of land without due process is a source of significant conflict and abuse.

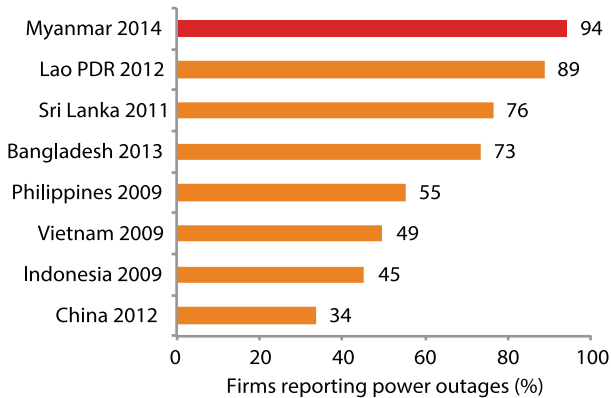
Services firms most often report access to land as an obstacle, and they also revert to renting from other private entities most often. For manufacturing firms, where almost 85% lease their land from the state, access to land is considered less of an obstacle.



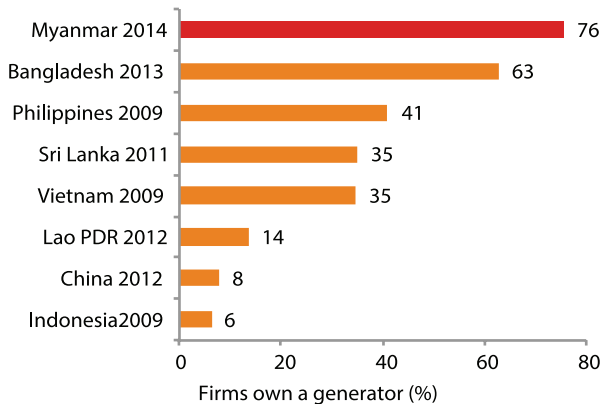
Other measures, such as the Doing Business indicator on registering property on which Myanmar ranks low in international comparison, confirm that even the process of obtaining the uncertain land-use agreement is complicated and lengthy.

Access to electricity

Even in the major cities, where the access to electricity is much better than in rural areas, power outages are pervasive and a serious constraint.



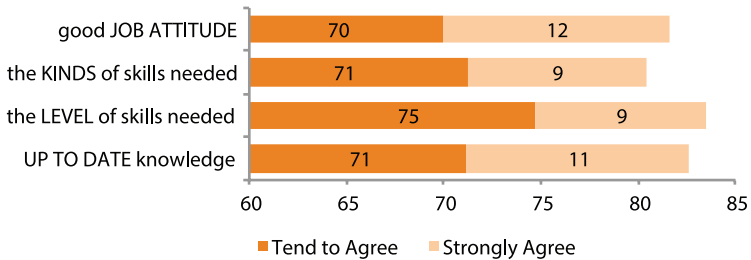
The highest rate of power outages in the region has led to the highest ownership of (inefficient and expensive) generators. The lack of access to electricity is the worst in the region.



Access to skilled workers

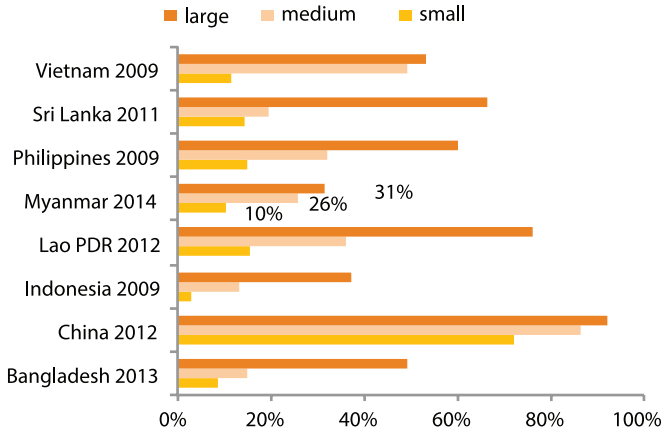
Firms agree that the educational system does not produce workers with the type of skills that they need ...

Percent of employers who agree that the education system does not produce enough people with:



... and yet they provide their workers not nearly the amount of training that other firms in the region typically provide.

Share of firms providing training in manufacturing (%)

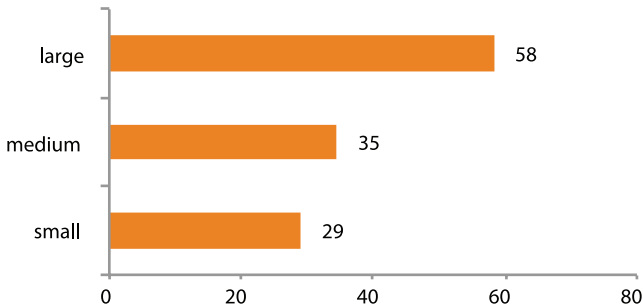


Business regulation

The policies and procedures for entering the formal economy are outdated and cumbersome. Most firms stay either completely informal or register only with the City Development Committees (¾ of firms). Informal firms cite fear of government interference and complicated registration procedures as the main reasons for not registering at all, as well as the perceived lack of benefits from registration.

Larger firms who don't have the option of hiding in (relative) informality, spend more time complying with government regulations.

Senior management spends time on dealing with government requirements (% of firms)



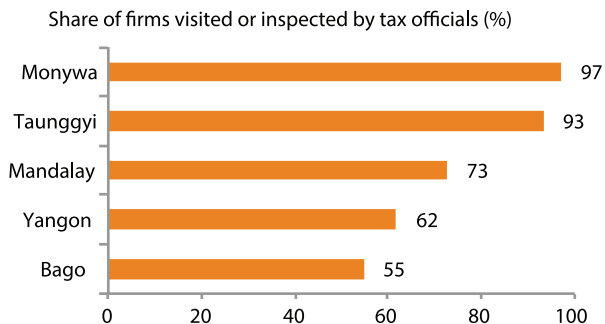
Coordination among government agencies is sorely lacking.

Firms complain about the high number of agencies and ministries they have to visit and the numerous, separate inspections carried out by different government entities.

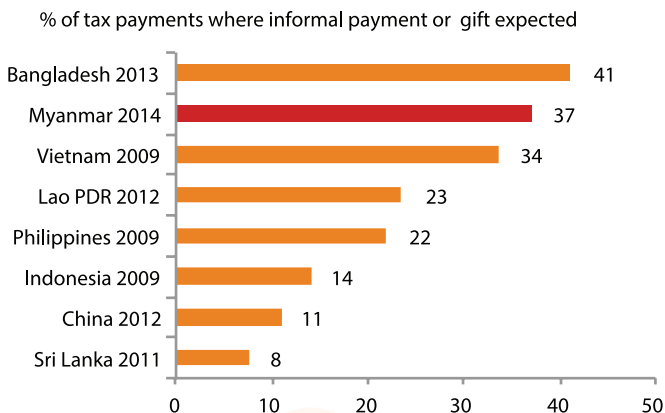
Comparative measures of government regulation, such as the World Bank's Doing Business or the Heritage Foundation's Index of Economic Freedom, echo the impression that **significant reform is needed** especially in the government's approach to regulating the private sector.

Taxes

Most firms are unaware of the rate of tax or current tax laws, even as 65% of firms report being visited by a tax official. There are significant differences: almost all the firms in Monywa, but only about half in Bago are visited.

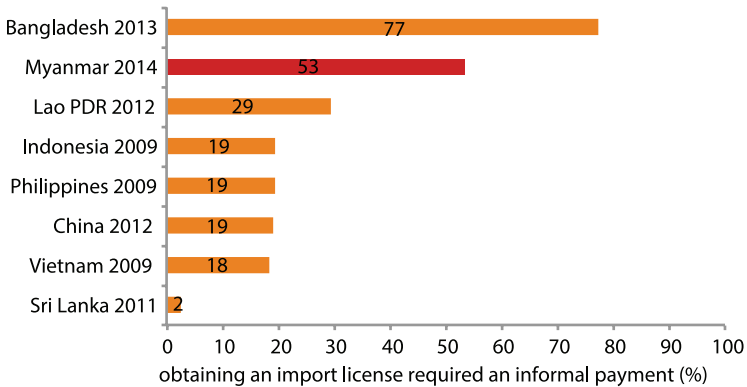


With tax receipts hovering at a very low 5% of GDP, the challenge of broadening the tax base will have to be combined with making it simpler, quicker, and cheaper to pay taxes. Far too often, paying taxes is combined with the requirement to pay a bribe. Only Bangladesh has a higher incidence of bribes accompanying tax payment.



Corruption

Beyond paying taxes, corruption occurs frequently when interacting with the government. Firms report that obtaining an import license requires paying a bribe more than half the time. Again, only Bangladesh reports a higher rate of bribes in the region.



Even though the incidence of corrupt practices by government officials is high – and significantly higher than in most other countries – firms did not identify corruption as one of the major constraints. This may be partly because it is the first Enterprise Survey conducted in Myanmar, and because the political reforms and freedom of speech are still fairly recent. Respondents may accept corruption as an inconvenient ‘fact of life’, even if it is frequent. The perception of corruption may also be low in the context of government agencies that are struggling to design and implement the basic policies and practices of transparent and fair oversight.

It will be interesting to see how the perception of corruption vs. the incidence of corruption changes in future surveys.

In summary

The early findings of the Enterprise Survey tell us that **reforms of Myanmar's investment climate are urgent across a number of areas**. For the private sector to contribute fully to the well-being of Myanmar and its people, the identified constraints need to be addressed.

We learn that for the ambitious economic reforms to be successful, the government itself still needs to complete a shift in how it interacts with the economy. Instead of the state being the primary actor, the most urgent business is **the provision of a level playing field and of fair, transparent oversight for all**. Completing this change is neither easy nor quick.

Among the constraints identified by the private sector, two main groups of policies can be distinguished:

- (i) Policies to improve the access to inputs – their effect on the private sector is indirect (e.g. the government grants new banking licenses, but the expansion of banking services is a response to this policy action); and
- (ii) Direct regulation/taxation of private sector firms – its effect is more immediate since it governs interactions between government agencies and private firms (note: land tenure policies would fall also under this category).

The distinction matters, because the reforms of the two sets of policies imply different challenges. Policies intended to improve the access to inputs tend to be technically difficult, but politically relatively easy. There are fewer opponents to policies that expand the availability of inputs. On the other hand, policies that change the interaction of government agencies with firms tend to be more difficult to implement fully for political reasons.

Emerging policy recommendations

Since 2011, Myanmar has been going through broad political and economic reforms to foster a more open, integrated, and inclusive economy. A key principle of these reforms is ensuring greater participation of the domestic and foreign private sector.

The pace of reforms has been impressive. Indeed, efforts to improve at least some aspects of the investment climate are ongoing along most of the dimensions identified here. Examples of reforms include:

- New banking licenses granted, and new laws passed for the Central Bank, microfinance, and securities exchange;
- New laws to improve land tenure for farmers, even though the laws are not without their critics; and
- Master plans for energy and power sectors, and for national electrification (a declared goal for 2030).

Also improvements in how government agencies interact with private firms directly have been initiated, though clearly more is needed. Here, the government's resolve may be tested for its ability to overcome the political resistance to such change.

Importantly, the government has established mechanisms for exchanging views with the private sector. The new Business Forum, for example, is where priorities for investment climate reform – and inputs like the forthcoming Investment Climate Assessment – can be debated.

The World Bank Group and other development partners are committed to continued support of these efforts. Emerging results are encouraging and let us hope for a more dynamic and more prosperous future in Myanmar.

