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# Myanmar

## Investment Climate Assessment

*Sustaining reforms in a time of transition*

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## ABBREVIATIONS AND ACRONYMS

|         |                                                                                                                                                       |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| AEC     | ASEAN Economic Community                                                                                                                              |
| CEBSD   | Centre of Excellence for Business Skills Development                                                                                                  |
| CFS     | Committee on World Food Security                                                                                                                      |
| DB      | Doing Business                                                                                                                                        |
| DfID    | United Kingdom's Department for International Development                                                                                             |
| DICA    | Directorate of Investment and Company Administration                                                                                                  |
| EITI    | Extractive Industries Transparency Initiative                                                                                                         |
| ES      | Enterprise Survey                                                                                                                                     |
| FESR    | Framework for Economic and Social Reform                                                                                                              |
| GW      | Gigawatt                                                                                                                                              |
| ICA     | Investment Climate Assessment                                                                                                                         |
| IHLCA   | Integrated Household Living Conditions Assessment                                                                                                     |
| IRD     | Internal Revenue Department                                                                                                                           |
| IFC     | International Finance Corporation                                                                                                                     |
| ILO     | International Labor Organization                                                                                                                      |
| IPP     | Independent Power Producer                                                                                                                            |
| JICA    | Japan International Cooperation Agency                                                                                                                |
| LGAF    | World Bank's Land Governance Assessment Framework                                                                                                     |
| LUR     | Land Use Rights                                                                                                                                       |
| MADB    | Myanmar Agricultural Development Bank                                                                                                                 |
| MBF     | Myanmar Business Forum                                                                                                                                |
| MCA     | Myanmar Company Law                                                                                                                                   |
| MIC     | Myanmar Investment Commission                                                                                                                         |
| MIGA    | Multilateral Investment Guarantee Agency                                                                                                              |
| MOHT    | Ministry of Hotels and Tourism                                                                                                                        |
| MW      | Megawatt                                                                                                                                              |
| NEP     | National Electrification Plan                                                                                                                         |
| NSSA    | National Skill Standards Authority                                                                                                                    |
| OECD    | Organisation of Economic Cooperation and Development                                                                                                  |
| PPP     | Public-Private Partnership                                                                                                                            |
| SABER   | Systems Approach for Better Education Results                                                                                                         |
| SEE     | State Economic Enterprise                                                                                                                             |
| SLRD    | Township Settlement and Land Record Department                                                                                                        |
| SME     | Small and Medium Enterprises                                                                                                                          |
| STEP    | Skills Toward Employability and Productivity                                                                                                          |
| UMEHL   | Union of Myanmar Economic Holdings Limited                                                                                                            |
| UMFCCI  | Union of Myanmar Federation of Chambers of Commerce                                                                                                   |
| UNDP    | United Nations Development Program                                                                                                                    |
| UNESCAP | United Nations Economic and Social Commission for Asia and the Pacific                                                                                |
| UNIDO   | United Nations Industrial Development Organization                                                                                                    |
| VGGT    | United Nations' Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forests in the Context of National Food Security |
| WBG     | World Bank Group                                                                                                                                      |
| WEF     | World Economic Forum                                                                                                                                  |
| YESB    | Yangon Electricity Supply Board                                                                                                                       |
| YESC    | Yangon Electricity Supply Company                                                                                                                     |

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The findings and interpretations expressed here are those of the authors and do not necessarily reflect the views of the World Bank Group, its Executive Directors, or the countries they represent.

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## EXECUTIVE SUMMARY

### CONTEXT

1. **This is the first Investment Climate Assessment (ICA) in Myanmar.** The ICA's preliminary analysis has been discussed with the government and has been used to inform World Bank Group (WBG) support. This ICA is based on an analysis of the 2014 Enterprise Survey, also a first in Myanmar, and on the analysis of other quantitative and qualitative information. The main objectives of this ICA are to (i) provide an up-to-date analysis of the investment climate for the government and other stakeholders to help prioritize and contextualize the reform agenda, and (ii) to offer a baseline for future assessments of progress in terms of the current reform agenda.

2. **Recent macroeconomic indicators reflect Myanmar's re-engagement with the world economy and growing reform agenda.** For the Fiscal Year 2014 (ending March 31, 2015), Myanmar's economy is predicted to grow by 7.8 percent and inflation is expected to be around 6.6 percent. The fiscal deficit declined in 2012/13 to 3.7 percent of GDP, down from 4.6 percent a year earlier. The decline was primarily due to strong revenue growth led by higher gas and tax revenues. However, expenditure also increased, led by increases in civil service salaries and higher allocations to education and health. Growth in trade was led by commodity exports of oil and gas, tourism, garments and agriculture.

3. **Myanmar is a poor country in the midst of an extraordinary transition.** Myanmar is one of the poorest countries in the region, with a GDP per capita of just over USD 1,000 and a poverty rate of 37.5 percent in 2010.<sup>1</sup> Since the political change of direction in 2011, the country has been undergoing a huge political and economic transformation. For most of its post-independence period, Myanmar has been under military dictatorship. Companies owned by the state or the military have long dominated the economy. Furthermore, state controls and economic isolation resulted in suppressed entrepreneurship and a diminished role of the private sector, stagnating infrastructure and technology, under-developed markets, and low levels of foreign direct investment. Now, alongside a political opening including a free press and national elections in 2015, the government has made strong private sector growth a key principle and goal for economic policy, though challenges remain. Given the international interest in Myanmar's transition, the timing is right for creating a more competitive private sector and attracting more investment, particularly foreign direct investment, to help support the reform process.

4. **Now that private sector growth is an official goal, the investment climate will require significant reform.** Not only have companies owned by the state or the military long dominated the economy, there is also a severe lack of access to critical inputs. The urgency for reform is also reflected in the government's direct interactions with private firms, from tackling corruption to making regulations leaner and more effective.

5. **For the reforms to be effective, they need to focus on the key issues first.** Given that there is so much to do, it is imperative to (i) prioritize reform efforts, and (ii) identify areas where the government

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<sup>1</sup> Based on World Bank staff calculations of the IHLCA 2009/10 data (presented in draft World Bank Systematic Country Diagnostics, SCD), compared with the government's official figure of 25.6 percent.

should do less. Improving the investment climate is often about stopping excessive interference by government agencies. The good news is that the government recognizes the seriousness of the problem and has already started to implement a significant reform program, set out in its Framework for Economic and Social Reform. The aim of this first ICA for Myanmar is to support and inform this reform effort.

6. **One of the crucial aspects of the reform program in Myanmar will involve a major transition in the role of the state.** Instead of the state directing the economy by dominating key sectors, in the future its role will need to become one of ensuring that all firms—regardless of ownership or personal connections—have equal access to the supporting elements of the business environment and that government policies are applied to all firms equally. As the government shifts from playing a direct role in the economy to one of regulator, it will need to manage the risk of too rapid privatization and of establishing credibility as a regulator.

## **RESULTS**

7. **Private firms in Myanmar indicate that the top constraints for business operations are access to inputs.** The top four most-mentioned obstacles for firms are access to finance, access to land, access to electricity, and access to skilled workers. Private firms also indicate that the incidence of corruption as measured by bribe payments is one of the highest in the region.

8. **Access to finance is cited most frequently as the main obstacle to doing business in Myanmar.** The data indicate that the financial sector is not playing a sufficiently large role as an intermediary and that, instead, most financing needs are covered by firms' own funds. A mere 1 percent of fixed asset investment costs was financed by bank borrowing, for example, while 92 percent of firms rely on their own funds—a higher level than in any comparator country. Meanwhile, only 30 percent of firms report having a bank account—the lowest level among all the comparator countries. Reforms are underway. However, the current legal and regulatory framework still contains serious structural impediments. These include an interest rate cap, a maturity limit and onerous collateral requirements. While it is vital to address these constraints, among others, doing so is far from straightforward and will require fundamental reforms including the ways in which banks are regulated and supervised.

9. **The second most important constraint is access to land.** Micro, small and medium firms are more adversely affected by this than large firms, and in fact only 2 percent of large firms cite access to land as a major constraint. This is a significant threat to Myanmar's sustained economic growth, as well as its social cohesion, especially in view of the historic and unresolved grievances that affect land tenure issues. At issue is the security of land tenure. The rules and procedures for obtaining, keeping and transferring land use rights are complicated, non-transparent, and uncertain.

10. **Access to a reliable electricity supply is the third most-often cited constraint.** The problem is particularly prominent for medium and large firms. Almost all firms in Myanmar face power outages, the worst level in the region. As a consequence, most firms in Myanmar are forced to rely on their own or shared generators for power, at least during outages. The problem is most acute during the dry season when there is lower power production from hydropower stations. The significant challenge in the power sector has developed despite Myanmar's abundant hydropower potential and natural gas reserves. The government now recognizes that expanding the domestic electricity supply is crucial to both economic growth and also to poverty reduction. It has moved to initiate several master plans related to electricity,

which include further gas exploration and improvements to existing generation and transmission infrastructure. Looking further forward, the long-term sustainable development of the energy sector will require the scaling-up of energy efficiency and also renewable energy sources.

11. **The fourth-most-important constraint that firms cite as an obstacle to doing business is the lack of skilled workers.** Over 9 percent of firms cite inadequate workforce skills as the main obstacle to operations and growth. This compares with China where only 2 percent of employers in manufacturing firms complain about the quality of the workforce. Such a high level of employer dissatisfaction with the local workforce indicates that Myanmar will also have problems competing with its better trained neighbors, especially with the opening of the ASEAN Economic Community (AEC) in 2015. This also indicates that Myanmar will struggle to develop its value-added manufacturing sector, together with expanding and innovating firms, if the skills gaps cannot be addressed and rectified. Eighty percent of firms claim that the educational system does not produce enough workers with up-to-date knowledge and the level and kinds of skills needed in the workplace, while about 75 percent of firms say that the educational system fails to instill an adequate work attitude. These proportions are far higher than Myanmar's neighbors. However, it is also interesting to note that firms in Myanmar rarely provide formal training, with 90 percent of firms citing that they do not need to provide formal training programs. While significant reforms of the basic education system in Myanmar are now underway, specific reforms or programs to address workplace skills have yet to be put in place.

12. **In addition to addressing the lack of access to critical inputs, the challenges faced by firms in their direct interactions with government should be addressed.** After five decades of state-dominated institutions, together with a prolonged period of isolation from the global economy, attuning the interactions of government agencies with the needs of the private sector is only just starting. Making it transparent and easy for firms to deal with the government is only very slowly being accepted or even embraced.

13. **Firms report having to pay bribes very frequently in order to smooth transactions with the government.** The proportion of firms giving informal gifts or making payments is one of the highest in the region, and this seems to be confirmed in Transparency International's survey on corruption, which ranked Myanmar at 157th out of 177 countries in 2013. Less than one-third of firms believe that the court system is fair, impartial and uncorrupted—a lower proportion than all comparator countries with the exception of Mongolia and Bangladesh. The government has started making efforts to address corruption, with an Anti-Corruption Law and an Anti-Corruption Commission that should now accelerate reform implementation. Similarly, Myanmar's acceptance as an Extractive Industries Transparency Initiative (EITI) candidate country suggests potential for future transparency in the extractive industries.

14. **The Enterprise Survey (ES) provides firm-level perception of a broad range of issues about the business environment and performance of firms.** This includes business-government relations, firm financing, labor, infrastructure, informal payments and corruption, and other topics such as training and innovation. The perceptions measured by the ES already include adjustments to, and low expectations of various aspects of the business environment that matter for competitiveness and firms' performance. In reading and interpreting the data, it is useful to complement them with other objective measures of the costs of doing business (such as the Doing Business survey), in order to acquire a comprehensive picture

of the investment climate and shed light on how Myanmar compares to other economies for comparable competitiveness metrics.

15. **When it comes to business regulation, the ES may understate the difficulties experienced by firms entering, exiting and operating in the economy.** Other surveys such as the Doing Business (DB) indicators paint a rather bleak picture: Myanmar ranks 177th out of all the 189 countries surveyed. The government has been making efforts at reform in this area through legislation affecting the investment climate, but what is really needed are regulations and standard procedures for implementing these laws on the ground. Currently, smaller firms manage the risks of regulatory requirements by staying relatively informal. Informal firms state in the ES that the fear of government interference is a major factor in avoiding company registration. There are significant variations in the time spent on government regulations from region to region, indicating that agencies in the various regions may not be using standardized procedures. Another issue is the lack of coordination between the various government agencies in overseeing the private sector, with firms citing an excessive number of visits by government officials from diverse agencies and ministries.

16. **According to the DB survey, taxation of firms is a major issue in Myanmar, and particularly onerous for small businesses.** Few firms are aware of the prevailing rate of tax and the current tax laws and policies. Taxation is not based on self-assessment but instead requires tax officials to visit firms' premises and calculate liability based on documentation provided by the firms. In view of the complexity of the tax system and the lack of transparency, this situation creates considerable scope for rent-seeking. Several reforms of the taxation system are planned in the coming months, such as a move towards self-assessment for large taxpayers in April 2015, and the building of a computerized data management system.

## **RECOMMENDATIONS**

17. **Additional attention is needed on implementation, especially as the pace of reforms remains high.** The importance of careful implementation and even the prioritization of implementation over further reforms should be emphasized. The need for a fast pace of reform across the different areas needs to be tempered with the dangers of attempting to push the reform process too far too fast. The capacity of the government to implement reforms is clearly (still) limited. In building not only the capacity but also the reputation as a capable overseer of the economy, consistent and steady reform is vital, more so than a high pace.

18. **The formation of a permanent dialogue mechanism for investment climate reform marks a significant milestone.** The private sector has taken steps to create a dialogue mechanism through the Union of Myanmar Chambers of Commerce and Industry (UMFCCI), which has established the Myanmar Business Forum (MBF). The Ministry of Commerce has been assigned the role of government MBF focal point. Both the private and public sector participants seem committed to making MBF a success and a forum through which frank discussions of the issues, as well as diligent follow-up of initiated reforms, can be carried out. In order to sustain the reform effort in the coming years great care will have to be taken to continually strengthen the leadership and buy-in for the MBF.

19. **While comprehensive reforms for improving access to finance and electricity have been initiated, improving access to land and to skilled labor are areas where additional attention is warranted.** On land, broad reforms are underway, including a new national land use policy. The process for transferring land use rights, for example, as captured by the Doing Business indicator ‘registering property’ could be made more transparent, simpler, faster, and cheaper. More complicated reforms can then follow such initial reforms. For skilled workers, additional analytical work is needed first, and a discussion about what role the government will take in supporting firms in finding skilled workers. Examples of helpful analytical work include the Systems Approach for Better Education Results (SABER) workforce development and the Skills Toward Employability and Productivity (STEP) household and firm surveys. In order to assess what the appropriate role of the government should be in fostering vocational training and similar programs to improve workplace readiness, more analysis is needed.

20. **The reform agendas in place to improve regulation, taxation and eliminate corruption should be continued and expanded.** While the ICA makes a number of specific recommendations, the full implementation in these categories will be neither easy nor quick. Persistent effort is needed to make sure that the various government agencies, as well as the civil servants themselves, become engaged actors of change in this new role of the government in the economy. This is a long-term endeavor and capacity building in change management will be critical. As a recommendation that is very easy to implement: any old mandates or rules favoring state economic enterprises (SEEs) over private firms as suppliers of goods or services to the government should be eliminated. If Myanmar’s private firms are to be encouraged, then opening government contracts to competition will improve not only the efficiency of scarce public funds, but will also give private firms and investors increased confidence in the government’s commitment to a strong and dynamic market economy in Myanmar.

21. **Ultimately, the real challenge in completing the reform agenda will be political. The reform agenda is broad and ambitious.** A great deal has already been accomplished, but much more remains to be done. The real challenge in fully implementing reforms will be political. This is the common tension in countries seeking to transition to modern economies and to a fair, transparent investment climate. Only with an empowered group of capable and non-corrupt regulators is such a transition possible. The government needs to reconcile this imperative for professionalism within its ranks, on the one hand, with the legacy and the demands of formidable patronage networks, on the other. How this tension is reconciled will ultimately determine whether Myanmar’s staggering potential is realized.

**Table 1: Summary of recommendations, incl. prioritization**

| Recommendation                                                                                                                                                             | Timeline / status                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <b>First priority and quick wins</b>                                                                                                                                       |                                                                                                                                       |
| <b>Start dialogue forum for investment climate reform</b><br>A credible public-private dialogue for stakeholder engagement on investment climate reforms is needed.        | <b>Ongoing</b> – Myanmar Business Forum is being established. Public and private stakeholders now have to make it work.               |
| <b>Eliminate harmful rule</b><br>Mandate for government to procure goods and services from state-economic enterprises should be dropped.                                   | <b>Quick win</b> – This restriction should be dropped, as it is not compatible with the government’s goals.                           |
| <b>Strengthen financial system oversight</b><br>Empower capable bank supervisors, for example through partner- and mentor-ships with supervisors internationally.          | <b>Start now</b> – Building capacity to bring banking supervision up to international standards takes time; an urgent undertaking.    |
| <b>Improve efficiency of existing power infrastructure</b><br>For example by increasing capacity of existing gas-fired power plants and reducing transmission losses.      | <b>Being initiated</b> – Amid other urgent needs in the energy sector, improvements of existing infrastructure should be prioritized. |
| <b>Simplify business regulation</b><br>Better implementation is needed, for example by enforcing standard procedures in day-to-day regulatory work.                        | <b>To be accelerated</b> – With established Business Forum and PSD Committee pace of regulatory reform can be increased.              |
| <b>For access to land: simplify registering property</b><br>Process for transferring land use rights should be made more transparent, easier, cheaper, and quicker.        | <b>Reform blueprint readily available</b> – The Doing Business report provides guidance on the needed reform steps.                   |
| <b>Put in place tax administration reform plan</b><br>Clear plan to guide ongoing and future reforms is needed.                                                            | <b>To be accelerated</b> – As initial reforms have started, clarity on next steps is needed.                                          |
| <b>Encourage broad engagement on anti-corruption</b><br>Full stakeholder involvement is critical to success, for example through the Anti-Corruption Commission.           | <b>Needs to be revitalized</b> – Public participation can give credibility, e.g. to drafting of a freedom of information law.         |
| <b>Reforms with longer time horizon</b>                                                                                                                                    |                                                                                                                                       |
| <b>Build core financial infrastructure</b> , for example by establishing an interbank market and payments system, and reforming collateral registration systems.           | Financial sector reforms are ongoing. Sequencing matters, with supervision and basic infrastructure being first on the list.          |
| <b>Improve land tenure security</b> for all, by addressing land comprehensively including governance review, system for registration and cadaster, and legislative reform. | Ongoing reform efforts should be supported, ensuring benefits from reforms are shared by all; and processes are simplified.           |
| <b>Implement National Electrification Plan</b> , including involvement of the private sector, for example by preparing the financing for the huge investment needs.        | Upgrading generation and transmissions capacity will require time, resources, and expertise from different sources.                   |
| <b>Improve education for the workplace</b> , for example by improving information exchange on labor market conditions, and between firms and educational institutions.     | Additional analytical work needed in order to develop more detailed recommendations, and define appropriate government role.          |
| <b>Pursue further reform for regulation of businesses and investment</b> , with strong focus on full implementation and on building capacity for new role of the state.    | Even where the government should be doing less (simplified processes) establishing required capacity and processes takes time.        |
| <b>Simplify tax laws and revitalize taxpayer offices</b> , following the pilot of the large taxpayer office.                                                               | Building on initial reforms, tax system overhaul is needed.                                                                           |
| <b>Continue anti-corruption efforts</b> , as a part of overall reform, for example by further encouraging transparency across all government agencies.                     | Implementation of EITI should be broadened by appointing civilians or independents to oversight committee.                            |

## Chapter 1. Introduction

22. **This is the first Investment Climate Assessment (ICA) for Myanmar.** The main objectives of this ICA are to (i) provide an up-to-date and fact-based analysis of the business environment for the government and other stakeholders in Myanmar to help prioritize and contextualize the reform agenda, and (ii) to offer a baseline for future assessments of progress in terms of the investment climate reform agenda.

23. **As requested by the government, the Myanmar ICA will directly support the ongoing reform program.** The government has requested an analytical foundation for the ongoing reform program, and a means for prioritizing the legal and institutional changes that are currently being initiated. The timing of the ICA fits well with the launch of the Myanmar Business Forum, for example, and the start of a number of new reform initiatives around improving the investment climate.

24. **This ICA is based on the 2014 Myanmar Enterprise Survey.** As with previous ICAs completed by the World Bank Group in many countries, the Myanmar ICA provides a comprehensive analysis of the country's Enterprise Survey (ES). The ES in Myanmar was carried out between February and April 2014, although significant work preceded and followed the survey itself. Just like the Myanmar ICA, this is the first time an ES has been carried out in Myanmar.

25. **This ICA report is organized into four chapters.** The first chapter provides an introduction into the context of Myanmar's challenges in terms of the overall economy and the investment climate in particular. It outlines the road ahead for the government, as it shifts from being the main actor in the economy to a role of prudent overseer. The context for this ICA includes a discussion on how this assessment contributes to the government's ambitious and urgent reforms. The second chapter analyzes the main constraints faced by firms operating in Myanmar today, in particular the constrained access to inputs like finance, land, electricity, and skilled workers. The data analysis is combined with a summary of the key issues in each of the areas identified, as well as the reforms that the government is currently undertaking in each area. The third chapter looks at policies the government has in place for overseeing the economy, such as firm regulations and taxation. The chapter closes with an analysis of the incidence and perception of corruption. The fourth and concluding chapter provides policy recommendations that follow from the analysis, in terms of the process of reform and the specific reform steps needed over the short and medium terms. The annex to this report provides details on the methodology of the ES itself.

26. **The structure of the report distinguishes between the constraints firms face due to the lack of inputs on the one hand and the constraints they face as a result of direct interactions with the government on the other.** In light of the significant challenges and the impressive scope and ambition of the government's reform program, this distinction is useful. The dichotomy helps us to focus on those policies and reforms that will facilitate access to inputs, and those policies and reforms that will lead to improvements in how the government interacts with firms directly. Both sets of issues and policies are somewhat different from one another, and should be addressed accordingly. The ambitious reform program will need to address the availability of inputs that firms need to expand and thrive. The reforms will have to also fundamentally alter the way the government—as a whole, each agency, and each civil servant—interacts with firms in carrying out the essential functions of regulation and taxation. Fully implementing such changes can take a considerable amount of time and effort.

## 1.1 Context and the challenge ahead

27. **Myanmar is undergoing a huge transformation after decades of stagnation, self-imposed seclusion from the world beyond Asia, and under economic sanctions from the West.** On the one hand, Myanmar is moving from isolation to a new degree of openness and integration, while on the other it is evolving from pervasive state control towards inclusion and participation. This transformation is taking place against a backdrop of broader political reforms that started in 2011, when a new administration took office, and that are gaining momentum towards a more complete transition after planned democratic elections in 2015.

28. **Myanmar is one of the poorest countries in the Southeast Asian region.** For 2013/14, the country's GDP per capita is estimated at around USD1,105, one of the lowest in the East Asian region. The poverty rate is estimated to be around 37.5 percent of the population, and in addition a high concentration of households live very near the poverty line and are thus vulnerable to falling into poverty.<sup>2</sup>

29. **The low level of development can be traced to Myanmar's long history of isolation, conflict, and military control of political and economic life.** For most of its post-independence period, Myanmar has been under military dictatorship and has been ravaged by conflict in the ethnic minority border areas. State controls and economic isolation resulted in suppressed entrepreneurship and a diminished role of the private sector, stagnating infrastructure and technology, under-developed markets, and low levels of foreign direct investment.

30. **Recent macroeconomic indicators reflect Myanmar's re-engagement with the world economy and growing reform agenda.** For the Fiscal Year 2014 (ending March 31, 2015), Myanmar's economy is predicted to grow by 7.8 percent. A similar rate of growth is expected to continue through 2015/16. Growth has been led by increased gas production, services, construction, foreign direct investment, and strong commodity exports. During this time, inflation increased and is expected to be around 6.6 percent for the fiscal year. It is likely to remain at that level or slightly higher for FY2015. Factors contributing to inflation include increases in public sector wages, higher electricity tariffs, and continuing demand pressures.

31. **Myanmar's fiscal position is sensitive to changing conditions.** The fiscal deficit declined in 2012/13 to 3.7 percent of GDP, down from 4.6 percent a year earlier. This decline was primarily due to strong revenue growth led by higher gas and tax revenues. Tax revenues increased from 3.9 percent of GDP in 2011/12 to 6.4 percent in 2012/13. Improved tax administration and the exchange rate revaluation after the introduction of a managed floating exchange rate accounted for most of this increase. During the same period, expenditure also increased, led by hikes in civil service salaries and higher allocations to education and health.

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<sup>2</sup> Based on World Bank staff calculations of the IHLCA 2009/10 data (presented in draft World Bank Systematic Country Diagnostics, SCD), compared with the government's official figure of 25.6 percent.

32. **Trade is predicted to grow in the short to medium term.** Commodity exports of oil and gas have grown. Commodity prices have remained subdued but production capacity, particularly of gas, has supported increased export earnings. Garments and agriculture have contributed to export earnings, as has the rapidly growing tourism sector. The reinstatement of Myanmar to the EU's Generalized System for Preferences (GSP) for least-developed countries has improved access to markets. Risks to export growth include persistently low commodity prices and a further slowdown in China.

33. **Companies owned by the state or the military have long dominated the economy.** The country has 44 formally defined state economic enterprises (SEEs) some of which are operating in areas that do not justify public sector involvement. SEEs enjoy significant subsidies and are the preferred supplier of goods and services to the government. In addition, the Ministry of Defence owns two holding companies with vast business interests: The Union of Myanmar Economic Holdings Limited (UMEHL), which was established to focus on light industries, trading, and services, and the Myanmar Economic Corporation (MEC), which was established to focus on heavy industries. These two holding companies also enjoy privileges that the private sector does not, such as exclusive access to preferential contracts with foreign firms. As Myanmar has opened up, the dominance of the military and groups associated with it in the economy has begun receding, yet the shift is a gradual one.

34. **Having recognized the negative impact of extensive state interference and dominance in the economy, the government has endorsed the encouragement of private sector growth.** Promoting openness and sustainable private-sector-led growth with the aim of creating more, and better, jobs is one of the key pathways to eliminating poverty. Not only is the country opening up and integrating with the outside world in terms of trade and investment, the state is actively encouraging greater private sector participation in many areas of the economy, though implementation challenges remain. Greater participation will also need to be accompanied by greater competition through clarity and certainty in the rules regulating the economy.

35. **Increasing the participation of the private sector in the economy, however, will depend at least in part on a much stronger and more coherent investment climate than currently is the case.** The investment climate in Myanmar is currently not conducive to encouraging a strong private sector. A number of international assessments make this point abundantly clear.

36. **The World Economic Forum's Global Competitiveness Index highlights serious issues in Myanmar's ability to compete.** In the World Economic Forum's Global Competitiveness Index (GCI) rankings, Myanmar comes in at 134th out of 144 overall. Looking in more detail at the GCI indicators, the country ranks outside 100th in 10 out of the 12 pillars. Myanmar scores worst in the areas of infrastructure (2.0 out of 7) and technological readiness (2.1), with its scores not all that much better for innovation (2.3), financial market development (2.6), higher education and training (2.4), and institutions (2.8). The overall ranking is slightly improved on the previous year (ranked 139th), reflecting the initiation of reforms to improve the country's economic landscape and prospects, albeit from a very low starting point. Going forward, Myanmar has the opportunity to leverage its extraordinary assets, which include an abundance of natural resources, favorable demographics, and a strategic location in the heart of Asia. Competitiveness will need to be at the core of this strategy. However, the needs for reform are many and the road to prosperity will be a difficult one.

37. **Addressing the challenges that Myanmar faces “will take time, particularly the question of capacity, while some [other challenges] may be tackled in a shorter timeframe.”** As the 2014 Investment Policy Review of Myanmar by the Organisation for Economic Co-operation and Development (OECD) further states, “failure to [tackle short-term challenges] will affect both the credibility and effectiveness of reforms in achieving the desired outcomes in terms of inclusive and sustainable development”. As the review confirms, the task ahead is immense. It states further that “the challenges for Myanmar in simultaneously engineering a political and economic transition are enormous.” The review also emphasizes correctly that solutions will have to be achieved with a sustained effort over time.

38. **The size of the challenge is also reflected in the WBG’s Doing Business indicators for 2015 and the Economic Freedom Index.** The 2014 Economic Freedom Index from the Heritage Foundation ranks Myanmar 162nd in the world out of 178, and the country is ranked 40th out of 41 countries in the East Asia Pacific region. In the 2015 edition of Doing Business, Myanmar ranks 177th out of 189 economies. This ranking is a slight improvement from the 2014 ranking (182nd) and reflects some of the early reform efforts by the government, such as the elimination of import and export licenses on a number of goods.

39. **The good news is that the government has already started to implement a significant reform program.** Policymakers have set out their ideas in a Framework for Economic and Social Reform, which includes: budgetary and tax reforms; monetary and financial sector reforms; the liberalization of trade and investment; food security and agricultural growth; addressing land issues; and improvements in infrastructure availability and quality.

40. **This first ICA supports and informs the reform efforts.** The ICA offers a means for prioritizing and contextualizing the reform agenda. The pace of recent reforms and their overall ambition are remarkable. A host of new laws and regulations has been passed and more are currently in preparation. As increased attention will have to be placed on implementation and building capacity to implement, the government is asking for support in prioritizing reforms. The available data for Myanmar are scarce and there are currently still too many blind spots and areas that are poorly understood. The ES and this ICA aim to fill in some of the gaps. In addition to providing an assessment of the current situation, the ICA also serves as a baseline for future assessments of progress of the investment climate reforms. This prospect is important now, during the current reform efforts, as concerns about uneven implementation of the reform plans persist. The risk that reforms will favor the already-well-connected or will stall without a transparent stock-taking can be partly mitigated with the monitoring that this ICA along with subsequent ones will allow.

## 1.2 Role of the state

41. **In addition to the content of the ICA, its format and process fits well into the changing approach to designing and monitoring the implementation of reforms.** Along with the expanded role that the government is seeking for the private sector comes the necessity of giving the perspective of private firms a more prominent place in prioritizing and monitoring reforms. Paying attention to the current and future ICAs, signals a shift in the attitude of the government from one of dominance and control, towards encouraging private sector growth and listening to what the private sector has to say about it.

42. **The basic change in Myanmar involves a transition in the role of the state.** Through the planned and ongoing reforms, the role of the state has to change fundamentally. Over the past few decades, the government established a direction for the economy by dominating key sectors and directly supervising economic activity through companies owned by the state or the military. Instead, going forward the government will need to ensure that all firms, irrespective of ownership or personal connections, have equal access to the key supporting elements of a business environment. Instead of doing so as a main actor in the economy, the state has to establish a direction for the economy through policies and interventions that affect all firms equally. This is not a trivial undertaking.

43. **The challenge of fully implementing such a change should not be underestimated.** Changes in policies and strategic statements of a new direction are critical first steps. However, implementing the change towards prudent oversight and enabling services for the private sector will also require new capacities, new procedures, and new attitudes at all levels of the government. Not only the government as a whole, but also the different government agencies, and the individual civil servants carrying out the day-to-day work need to embody this changing role.

44. **Correspondingly, the private sector and other stakeholders have to develop their organization and their behavior as well.** The importance of private sector associations and groups that can represent the disparate elements of the private sector increases significantly in a setting where the government is actively trying to provide an enabling environment. It is critical for the sustainability of such reforms that the interests of the whole private sector are represented vis-à-vis the government, including small firms that do not have a significant voice by themselves.

45. **Notwithstanding the shift towards greater reliance on market mechanisms to grow the economy, safeguarding the public interest by protecting the environmental, cultural, and social endowments of the country and its people, remains a key function of the government.** Ensuring that elements which the market tends to undervalue remain protected is and remains a critical function of the government, especially during a time of transition. By understanding the role of the government as an impartial and honest steward of the economy the protection of the public interest can be carried out more effectively as well.

### 1.3 Role and implications of a firm survey

46. **Firm surveys provide important information on perceptions and experiences of the private sector.** In addition to the ES, other business surveys have been conducted in Myanmar, such as the 2014 Business Survey conducted by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the OECD, in cooperation with the Union of Myanmar Federation of Chambers of Commerce (UMFCCI). The survey's results echo to a large extent the findings of the ES. However, it should be noted that the ES is the first nationally representative business survey. One area where the findings seemingly diverge, on corruption, is discussed in greater detail in Chapter 3.

**Box 1: Current and future data availability in Myanmar**

**The relative dearth of reliable data is a serious constraint in Myanmar.** Without reliable data it is difficult to analyze the present, draw conclusions and formulate policy recommendations. The ICA and the ES in particular help fill this gap for the investment climate, even as the ICA is limited to an overall- or a birds-eye view. Generating more data and more frequently will have to be an overarching priority not only for the government but also for all stakeholders in Myanmar. Policy formation and the necessary ongoing adjustments of policies require reliable data for assessing their impact.

**Although based primarily on the 2014 Enterprise Survey, the ICA draws on several other data sources,** primarily the WBG's Doing Business survey, the OECD's 2014 Investment Policy Review and the 2014 OECD and UNESCAP Myanmar Business Survey. In addition to these main sources of data, the ICA also draws on more specific data from The Heritage Foundation's Economic Freedom Index, Transparency International's Corruption Perception Index and the 2014 World Economic Forum's Global Competitiveness Index. Reference is also made to the UNDP's 2014 Myanmar Business Census.

**These data sources are the most relevant to, and also the most up-to-date sources of information on, the business climate in Myanmar.** However, with the recent surge in interest in the country, numerous other useful and informative sources of data have also appeared. These are listed in the references at the end of the report. It is worth noting that a number of potentially useful surveys are currently ongoing, including an enterprise cluster mapping and industrial zoning survey by UNIDO and a labor force survey by ILO.

**In order to better understand several of the issues highlighted in the ICA, not only further analysis will be needed, but also more data.** Further research will have to be carried out to analyze in greater detail some of the key constraints identified in the report. But in several cases, the data for additional, in-depth analysis has yet to be collected. One good example of an area where considerable further data need to be collected and analyzed concerns the broad and complex issue of corruption. As discussed below, corruption is an important, multifaceted issue. The Enterprise Survey and other surveys clearly show that corruption is a huge problem in Myanmar. Further research will be needed, for example to delve into the socio-cultural aspects of corruption in Myanmar that appear to have turned it into an accepted 'fact of life' for many businesses.

**Going forward, more data is needed for the prioritization of reforms.** Much of the data does not yet exist or is not collected frequently enough to enable the government and relevant stakeholders to understand where the most urgent issues are, let alone measure what impact initial reforms are having. As the government seeks to be as efficient as possible with its scarce attention, improving the availability and reliability of information will be a critical contribution.

47. **Basing the assessment on employers' perceptions has both advantages and limitations.** The advantage is that the responses are given relative to the actual demand and requirements of firms. The disadvantage is the unavoidable subjectivity of judgments. Employers may either overstate or understate the severity of constraints, depending on the reference points that they use. Employers in different countries may also use different reference points. This is true especially for a first-time survey, and subsequently reference points may change over time. All those participating in the ES were doing so for the first time and this may have implications for their answers and also for the opinions they express in subsequent ES.

48. **An important consideration is that the supply of inputs, such as finance, electricity, land, or skills, is evaluated relative to existing current demand.** There are two limitations with evaluating the availability of inputs in this way. First, it leaves out the demand for inputs by firms that did not enter the market or did not survive, in particular due to a lack of inputs (selection bias). Second, it does not capture

the future demand for inputs, which is particularly relevant given that supply responds with a lag to changes in demand. These caveats notwithstanding, the subsequent sections make it clear that firms in Myanmar experience the lack of access to inputs as a serious constraint.

49. **The assessment of firms' interactions with government agencies, and the degree to which these interactions are an obstacle for firms, provides another critical perspective.** Coordination of individual government departments and their respective roles in overseeing the economy is a task of the government, not of the private sector. However, firms' responses to the survey questions dealing with interaction with government agencies can give the government valuable insight into the strengths and weaknesses within its own systems and departments. These responses can also highlight problems of coordination and overlapping authorities within the government that complicate the investment climate.

50. **A key priority for the government should be to develop the ability to respond to the feedback provided by the ICA and other channels of communication.** The capacity of government agencies has to be strengthened; not only to carry out restrained oversight over the private sector, consistent with government policy priorities and well-coordinated with other agencies, but also to respond to input provided by the private sector. This will enable the government to improve its reform efforts on a continuous basis.

## 1.4 Brief description of the Enterprise Survey sample

51. **Significant preparatory work is done for the Enterprise Survey in order to ensure that the results are nationally representative.** In a country with very little data regarding private firms, obtaining a nationally representative sample of firms requires additional work.<sup>3</sup> In countries that have a reliable and comprehensive company registry, it is relatively straightforward to construct a sample based on the registry. Since such a registry does not exist in Myanmar, the process is more complicated, but all the more important. The methodological details of the ES are provided in the annex. A brief description is included here.

52. **Ensuring the sample of firms is nationally representative provides significant advantages.** The survey's results have greater external validity, so it can be said with greater confidence that firms that were not included in the survey would have responded similarly, statistically speaking. In addition, the combination of achieving a nationally representative sample and having the identical core questionnaire in all countries allows comparisons across two dimensions. First, it allows the comparison across time: comparing Myanmar now with Myanmar in a few years' time, and analyzing what has changed. This is important for assessing the progress of the current round of investment climate-related reforms, for example. Second, it allows the comparison across countries: comparing Myanmar now with other countries, where the exact same survey has been carried out and analyzed.

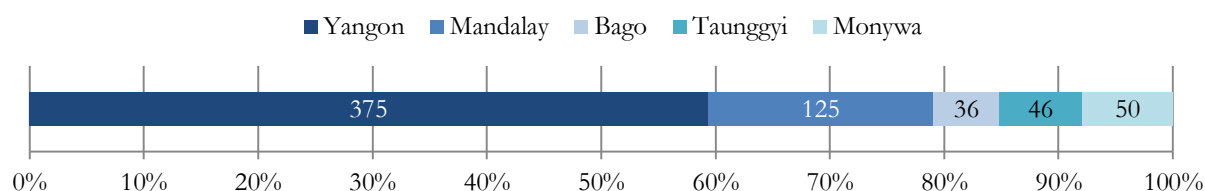
53. **A sample of 632 small, medium, and large firms is collected for the comparable ES sample.** All of the cross-country comparisons have to be carried out using only the standardized sample. Also, simple country averages are typically shown for just the standard sample. Micro firms are included, where

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<sup>3</sup> The Enterprise Survey is the most comprehensive survey undertaken so far. However, it has limitations in capturing regional differences in the investment climate and providing a detailed description of the informal economy.

appropriate, as a separate category. Including the micro firms would skew country averages heavily in favor of micro firms. This would risk discounting the opinions of non-micro firms, where much of the economic dynamism is expected to come from in the coming years. The firms were sampled from the five major cities in Myanmar, with the majority of firms located in Yangon.

**Figure 1: Sampled firms by region<sup>4</sup>**



54. **Very few firms are large or trade internationally.** Indeed, the numbers in the sample overstate the proportion of large firms and the number of exporting firms in Myanmar, since large and medium firms were oversampled. Among all firms in Myanmar, even fewer are large or engaged in exports. Within the sampled firms, less than 10 percent of firms export some of their products. It is a reflection of the long period of being closed off internationally. This observation also aligns with more detailed findings discussed below, that private sector firms are not very sophisticated in terms of their integration with global markets, and the use of technology or international standards.

**Figure 2: Sampled firms by size**

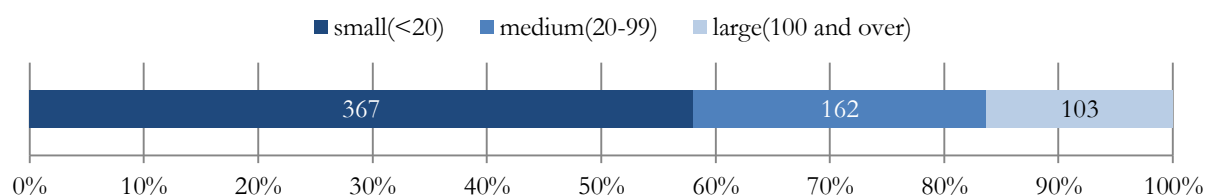
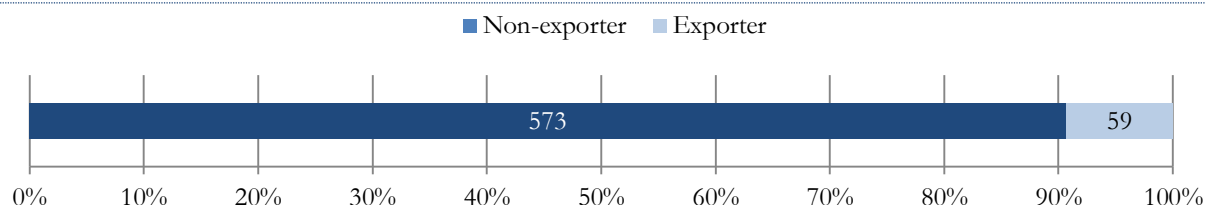


**Figure 3: Sampled firms by exports**

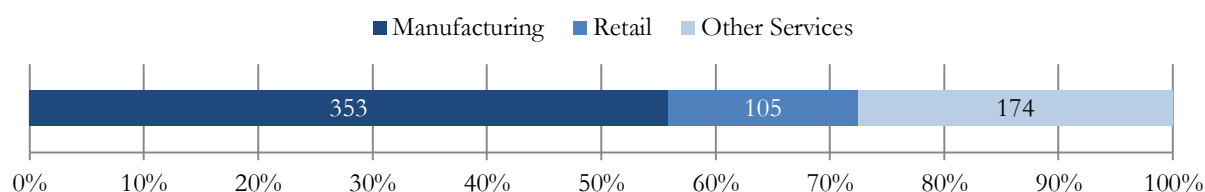


55. **The ES distinguishes between three main sectors.** Agricultural firms are excluded from the ES, not only in Myanmar but globally. The majority of firms in the sample are in manufacturing, with the rest being in retail and other services. However, given the importance of agriculture in Myanmar and the

<sup>4</sup> Unless otherwise specified, the source for all figures and tables in the ICA report is the Enterprise Survey data, and team calculations.

impact of the reform process on the sector, the ICA includes a case study of the investment climate for agriculture as a Box 3 in Chapter 2.

**Figure 4: Sampled firms by sector**

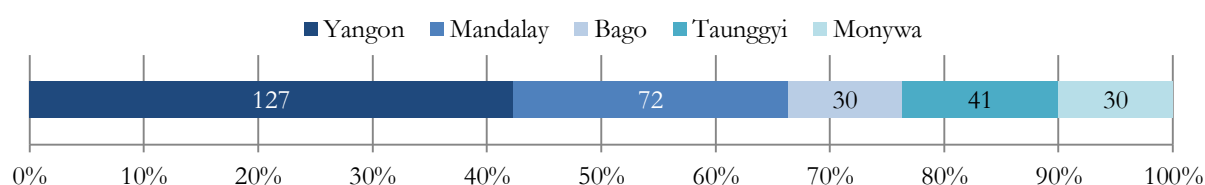


56. **Population estimates and corresponding weights are used in all calculations, unless otherwise noted.** Based on the sampling methodology described in detail in the annex, the population of firms in Myanmar, including the breakdown by size, is estimated. These estimates are used to calculate population weights which, in turn, are used to turn the results into nationally representative ones. With regards to firm size, for example, the breakdown in the population estimate is: 80 percent small, 16 percent medium, and 4 percent large.

57. **In addition to the standard ES sample, data were collected on micro firms in Myanmar.** Micro firms are categorized as those with fewer than five employees. A total of 460 micro firms were surveyed.

58. **Also, a separate survey was carried out with 300 informal firms.** While the standard sample contains firms and micro firms that are all formally registered, in Myanmar an additional survey was carried out with firms that were not registered anywhere. The survey for the informal firms is significantly different from the survey of the other firms. Therefore, only limited comparisons can be made between informal firms and others.

**Figure 5: Informal firms sampled by region**

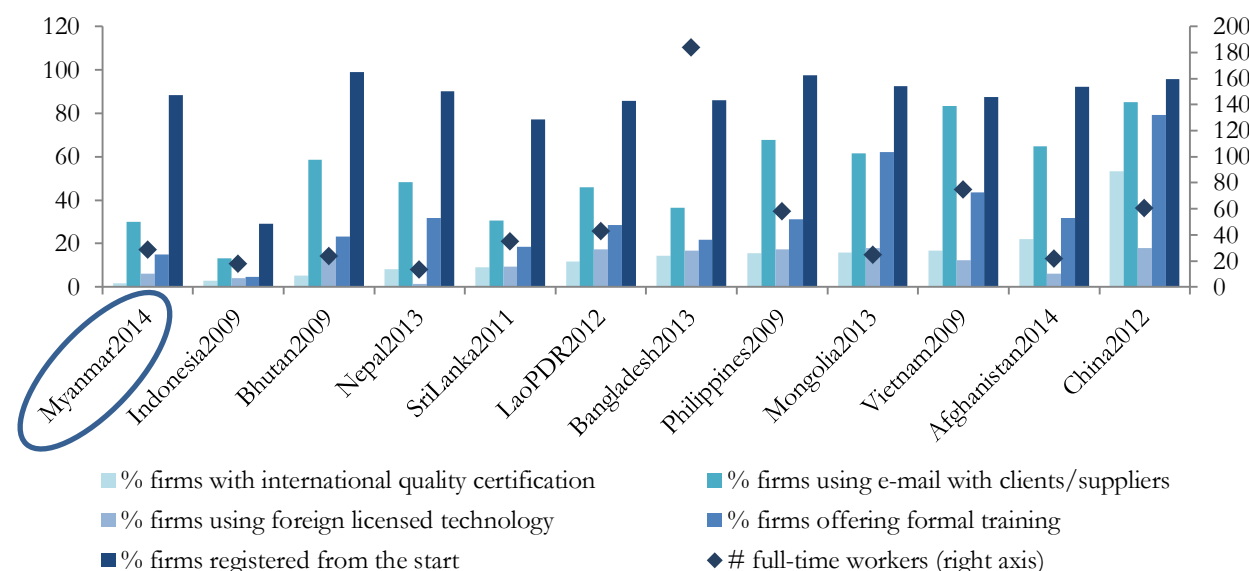


## 1.5 Characteristics of private firms

59. **Compared with the average firm in other countries in the region, the average firm in Myanmar is fairly small, uses very little technology or international standards, and offers little training.** When it comes to the average size of the firm or its registration at start up, firms in Myanmar look fairly similar to firms across the region. On the other hand, the proportion of firms with international quality certification, at less than 2 percent, is the lowest by far in the region. In terms of the use of emails

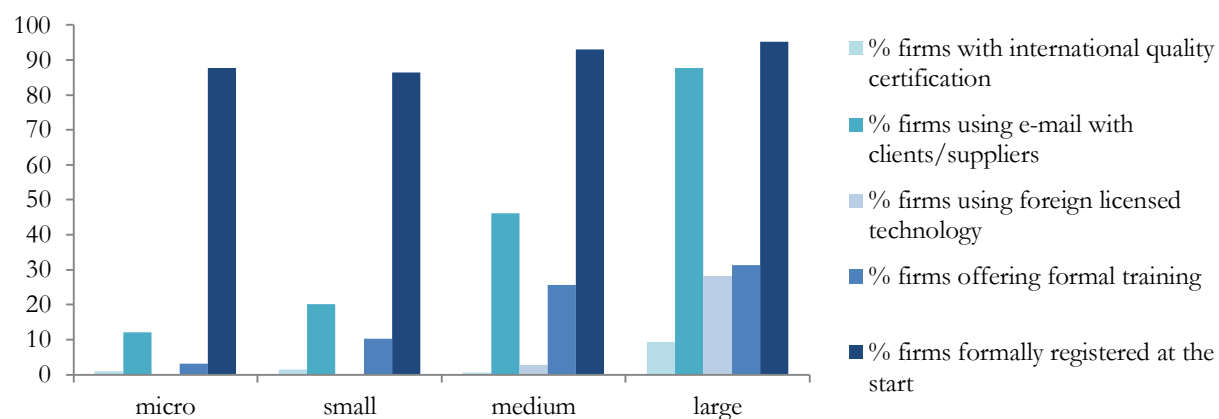
or foreign licensed technology, firms in Myanmar also rank very low.<sup>5</sup> Only in Indonesia is the use of email less common than in Myanmar, where 30 percent of firms report using it to communicate with customers and/or suppliers. The proportion of firms using foreign licensed technology is lower in Myanmar than in most other countries, at 6 percent. Only in Nepal (2 percent) and, again, in Indonesia (4 percent) is that proportion lower. Only 15 percent of firms in Myanmar report offering training to their employees. That is significantly lower than in most other countries, with the exception of Indonesia where only 5 percent of firms offer training.

**Figure 6: Characteristics of private firms in international comparison**



60. **Looking across the different firm sizes within Myanmar, including micro, the pattern is as expected.** It is notable that most firms, irrespective of their size, report having had a registration from the start. On all other dimensions, however, firm size is clearly correlated with sophistication. The larger the firm, the more likely it is to use email, foreign technology, quality certification or training for its workers. The pattern of less use of technology continues for informal firms, although due to the different questionnaire, they cannot be included directly in the comparison.

<sup>5</sup> Technology licensed from a foreign-owned company measures access to foreign technology. The license may be held by the establishment's parent company. Computer software is one of the most common items of ownership of foreign licensed technology.

**Figure 7: Firm characteristics by size**

61. **When comparing the characteristics of firms' performance, very few differences exist between the top 25 percent and the bottom 25 percent.** Using real annual sales growth, annual employment growth and annual labor productivity (sales per worker), the main difference is that those firms in the top group are between a third and a quarter younger than their bottom comparators. This conforms to the literature that finds younger firms are often more dynamic. For all other measured characteristics, such as exports, ownership, gender and access to finance, there are no significant differences.

## Box 2: Gender roles within private sector firms

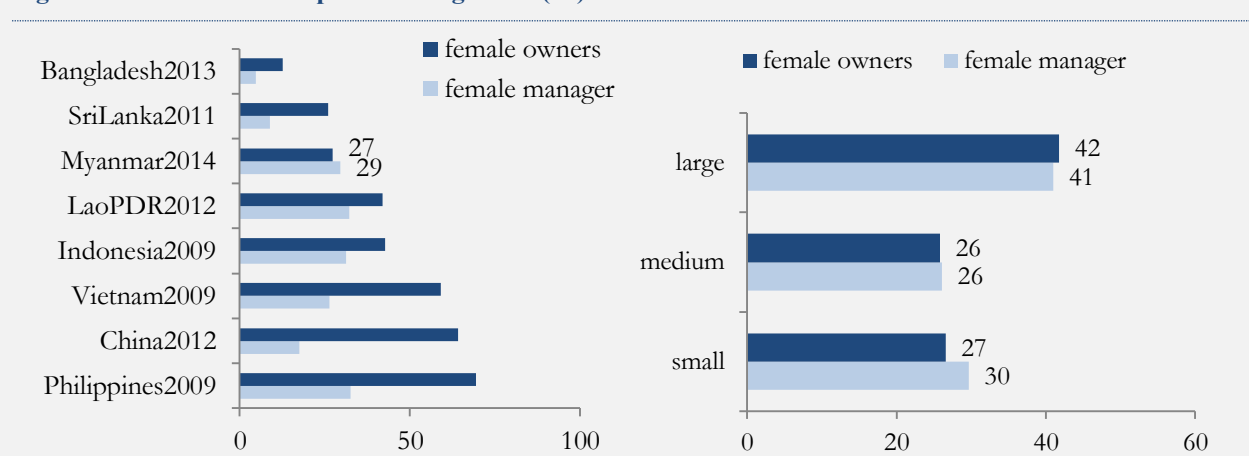
**The overall participation of women in the labor force is similar to other countries in the region and also internationally.** About a third of full-time workers are female, in Myanmar and on average in other countries. Interestingly, however, large firms have workforces comprising over 60 percent women, far more than smaller firms and more than the international average.

**Table 2: Proportion full-time female workers (%)**

|                     |      |
|---------------------|------|
| Myanmar average     | 33.5 |
| Small (5-19)        | 32.8 |
| Medium (20-99)      | 30.6 |
| Large (100+)        | 61.1 |
| East Asia & Pacific | 36.9 |
| All Countries       | 33.6 |

**Female ownership and management of private firms is significantly lower than in most comparator countries.** Only Bangladesh and Sri Lanka have a lower proportion of women as owners or managers. Again, it is the large firms in which women are more prevalent. Over 40 percent of owners and managers of large firms are women compared with about 25 percent for small and medium firms.

**Figure 8: Female ownership and management (%) across countries and firm size**



**According to the ES results, the experience of women owners or managers does not differ significantly from that of their male counterparts.** One exception to this is that women seem to have a significantly better impression of the courts.

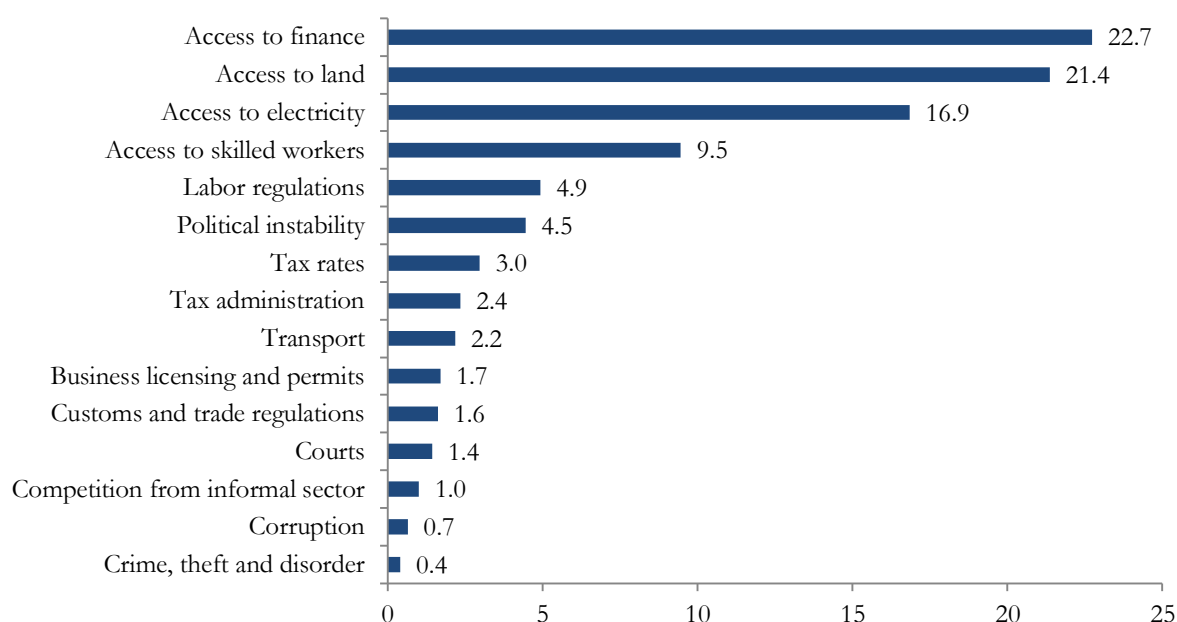
## Chapter 2. Constraints faced by firms operating in Myanmar

62. **The current investment climate in Myanmar is well behind its peers and faces major challenges going forward.** As indicated in the introduction, this first Investment Climate Assessment for Myanmar, based on the Enterprise Survey completed in 2014, confirms that the current investment climate in Myanmar is much less conducive than in comparable countries and faces huge challenges.

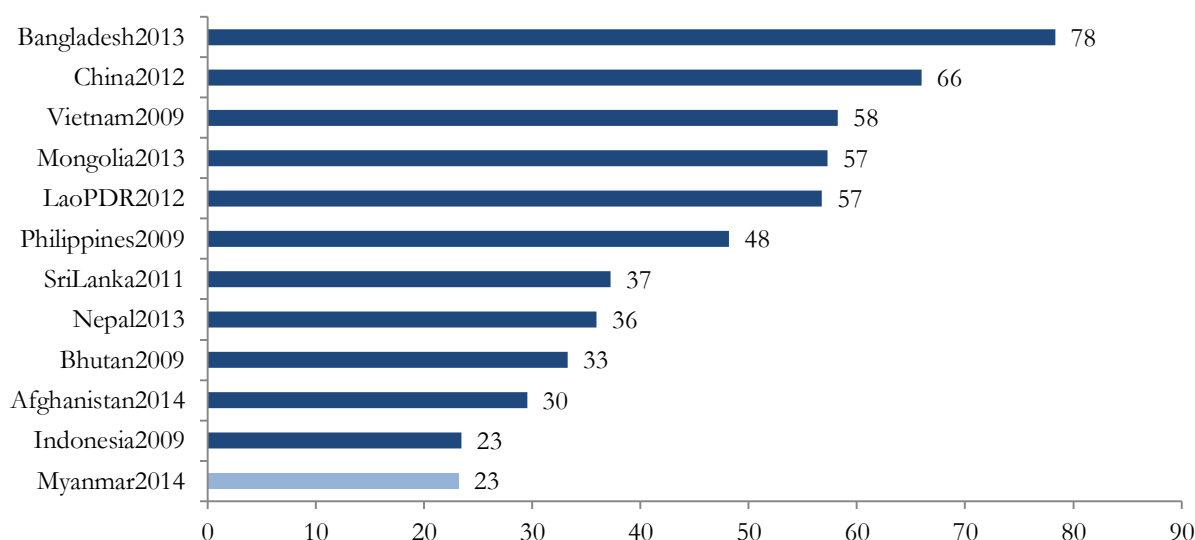
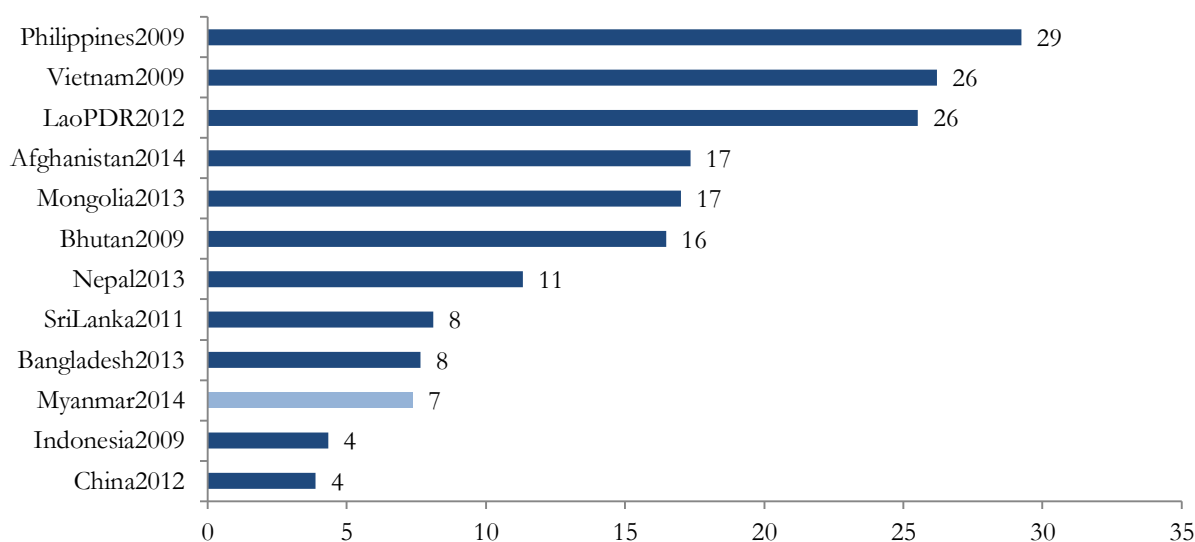
### 2.1 Main constraints

63. **The ES of small, medium and large firms can identify what the main obstacles to the firms' success are.** The two most important constraints are seen as access to finance, followed closely by access to land. The third constraint is access to reliable electricity supply and the fourth constraint an inadequately educated workforce or the access to skilled workers.

**Figure 9: Share of firms identifying the main obstacle (%)**



64. **Crime, theft and disorder are a low priority for firms in Myanmar.** Before focusing on the considerable challenges that Myanmar faces in improving its investment climate, it is worth briefly acknowledging one area where Myanmar offers a positive picture. Crime, theft and disorder are a low priority, with only about 0.4 percent of firms citing these as the main obstacle. When looking at international comparisons in Figures 10 and 11, it is clear that firms in Myanmar are in a good position with regard to security compared with other firms in the region.

**Figure 10: Share of firms that need to pay for security (%)****Figure 11: Share of firms with losses as a result of theft, robbery, vandalism or arson (%)**

65. **As measured by the ES, Myanmar has a low level of crime.** Perhaps influenced in part by the strong presence of the military in Myanmar since the 1960s, there are relatively low levels of crime, with violent crime extremely rare. The presence of organized crime in the country seems to be confined primarily to drug trafficking. As a result, Myanmar has the lowest level of expenditure by firms on security in the region, while only Indonesia and China have lower levels of losses due to theft, robbery, vandalism or arson. This is about a quarter of the level seen in Myanmar's ASEAN neighbors, such as the Philippines, Vietnam and Lao PDR.

## 2.2 Access to finance

66. **Access to finance is the most frequently identified obstacle to business in Myanmar.** Looking across small, medium and large firms, an average 23 percent of firms cite access to finance as the main obstacle to doing business. Access to finance is also among the top three obstacles cited by firms across all firm sizes and the main obstacle for micro (36 percent) and small (25 percent) enterprises. In addition, access to finance is one of the most frequently identified main obstacles in all three broad industry sub-sectors, namely manufacturing (23 percent), the retail trade (36 percent) and the services sector (14 percent).

**Figure 12: Constraints faced by businesses of different size**

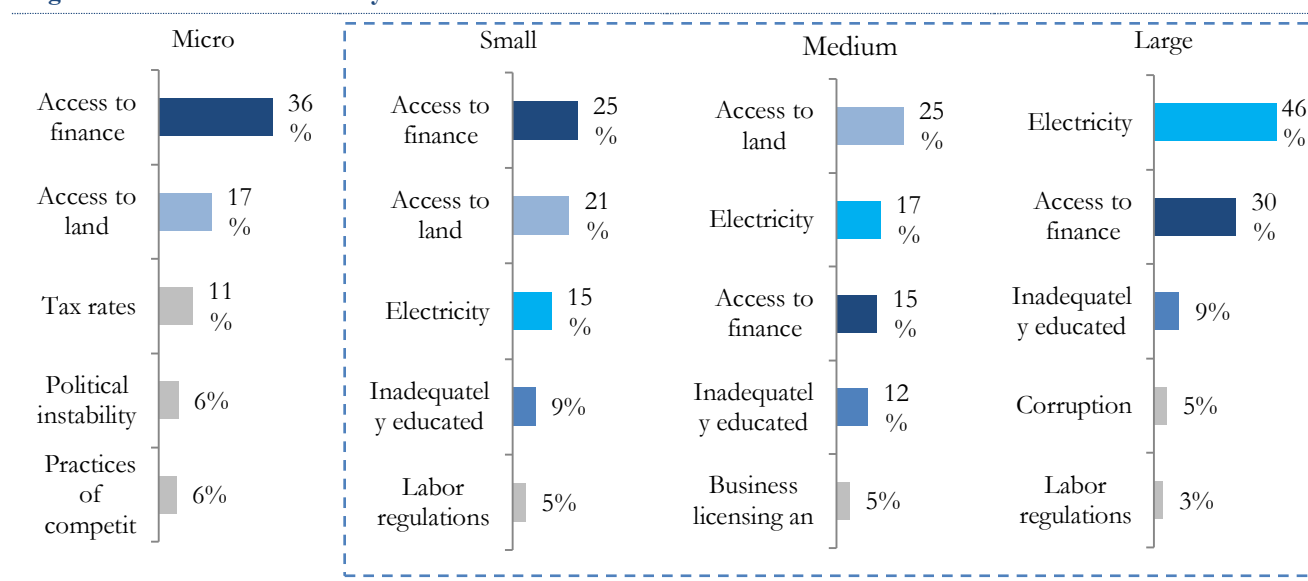
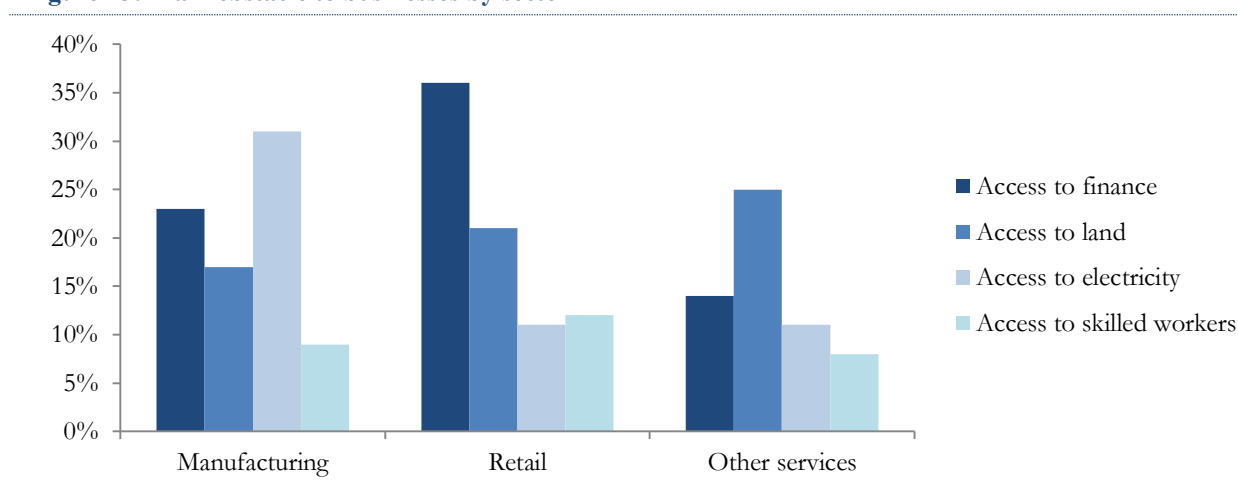


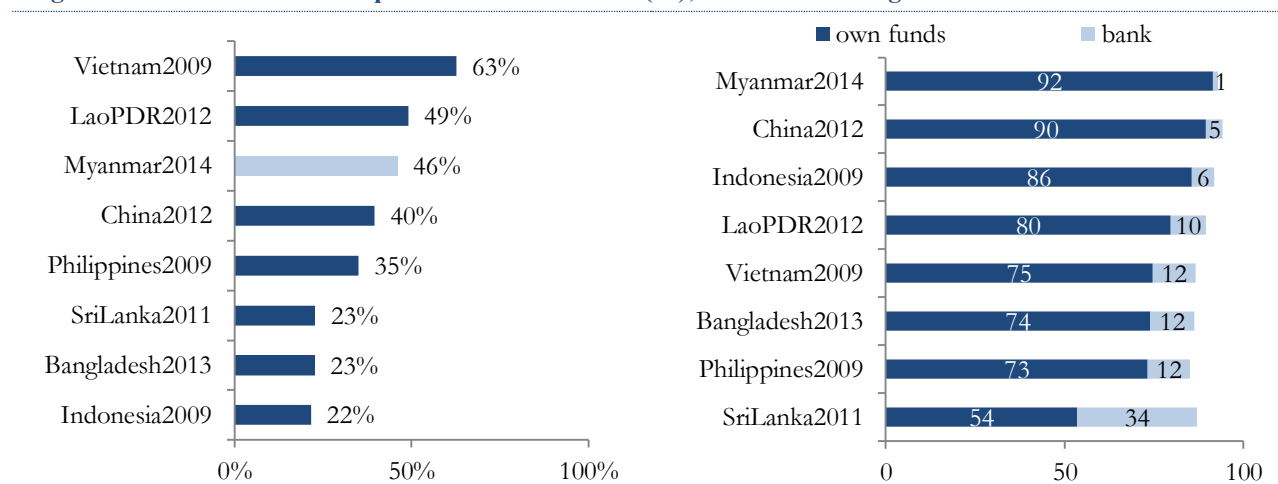
**Figure 13: Main obstacle to businesses by sector**



67. **Myanmar has a large share of firms reporting investments in fixed assets, reflecting an acceleration in economic growth, but with most financing needs covered by own funds.** About 46 percent of firms reported acquiring fixed assets in the recent fiscal year—a relatively high share reflecting rapid economic growth in Myanmar driven by a new climate of economic openness and liberalization

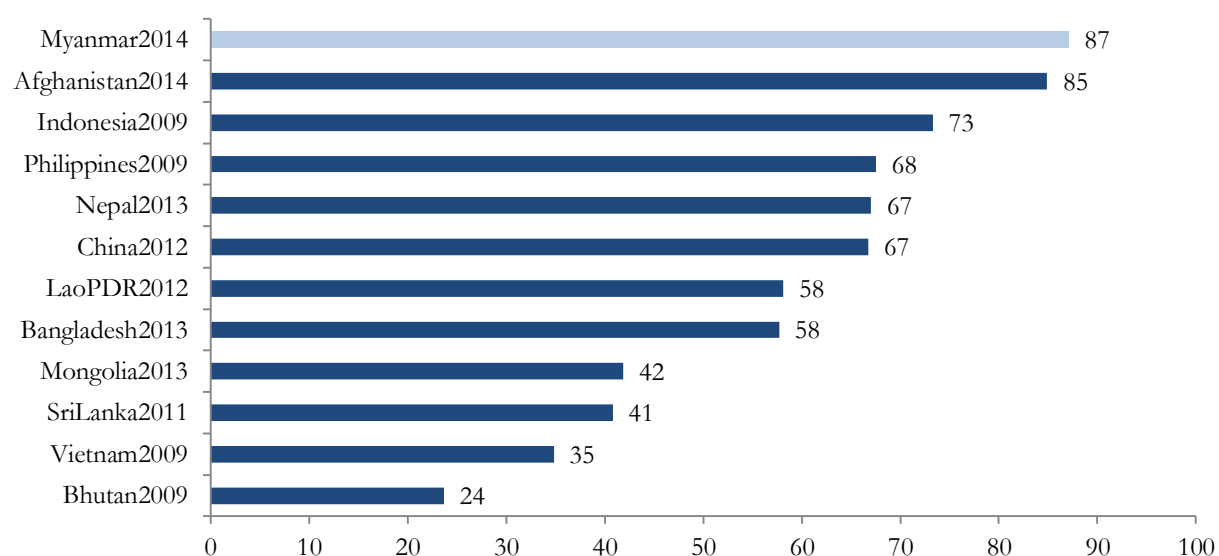
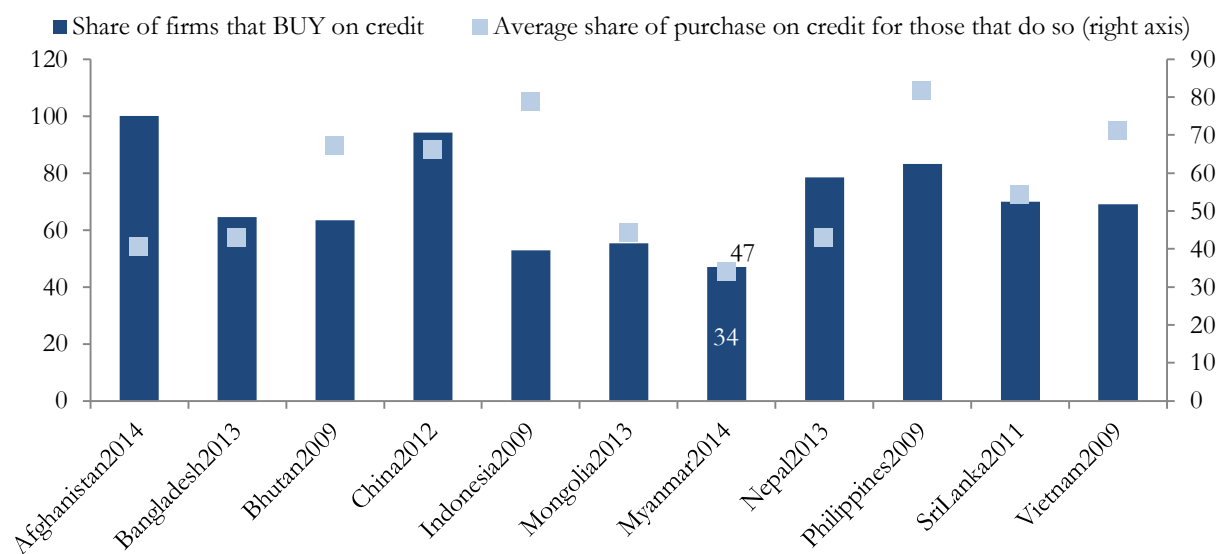
(Figure 14).<sup>6</sup> On average, a mere 1 percent of fixed asset investment costs was financed by bank borrowing, while a staggering 92 percent was financed by using their own funds—a higher level than in any comparator country.

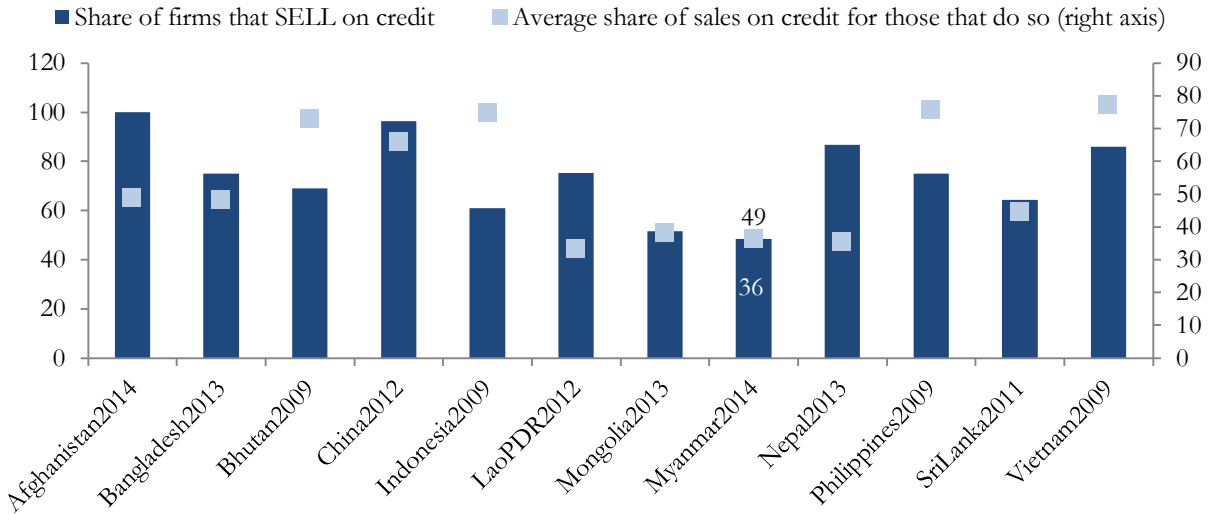
**Figure 14: Share of firms that purchased a fixed asset (%); source of funding**



68. **Working capital needs are also largely financed by using own funds.** In Myanmar, 87 percent of firms use own funds for working capital needs—also a significantly higher share than in any of the comparator countries (Figure 15). Moreover, there is only limited use of trade credit. Fewer than half of firms in Myanmar purchase or sell goods or services on credit (Figure 16). For example, only 27 percent of responding firms said that they purchased any goods or services on credit, compared with 94 percent in China, 84 percent in the Philippines, and about 70 percent in both Sri Lanka and Vietnam. Not only do fewer firms purchase goods and services on credit, but those that do also purchase a smaller share. Firms buying goods and services on credit on average made 34 percent of their purchases on credit, compared with 66 percent in China and 81 percent in the Philippines. Only 49 percent of firms in Myanmar sell any goods or services on credit, and those that do also sell a lower share. On average, firms in Myanmar that do sell on credit only do so for 36 percent of their sales. This compares with 96 percent of firms in China selling at least some goods or services on credit. On average, these firms sell about 66 percent of all their sales on credit.

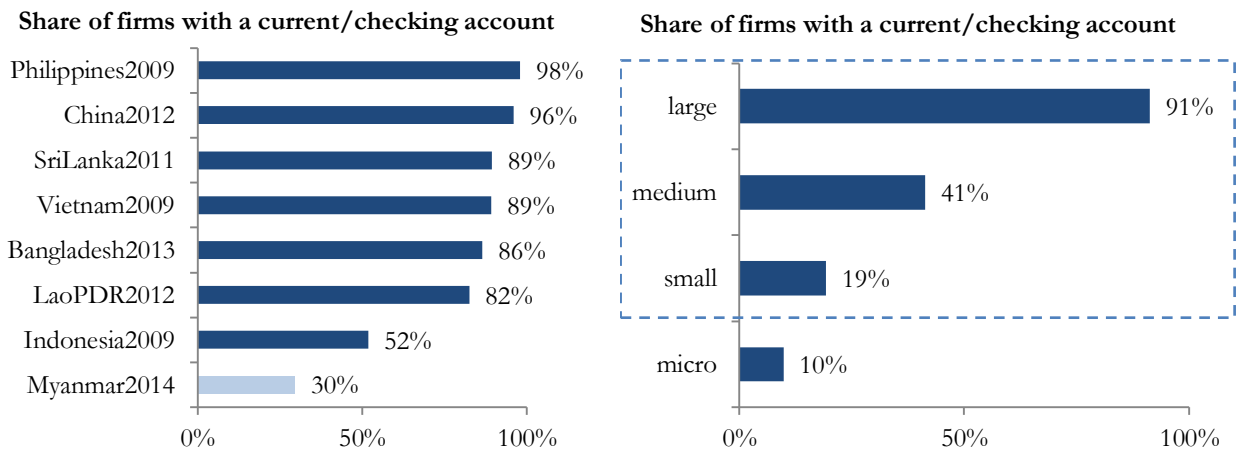
<sup>6</sup> Due to differences in survey years the indicator needs to be interpreted carefully as it does not aim to compare current levels of investment by firms but rather point in time indicative estimates.

**Figure 15: Share of firms using only own funds to finance (%)****Figure 16: Trade credit use in Myanmar (% firms and % purchase/sale on credit)**

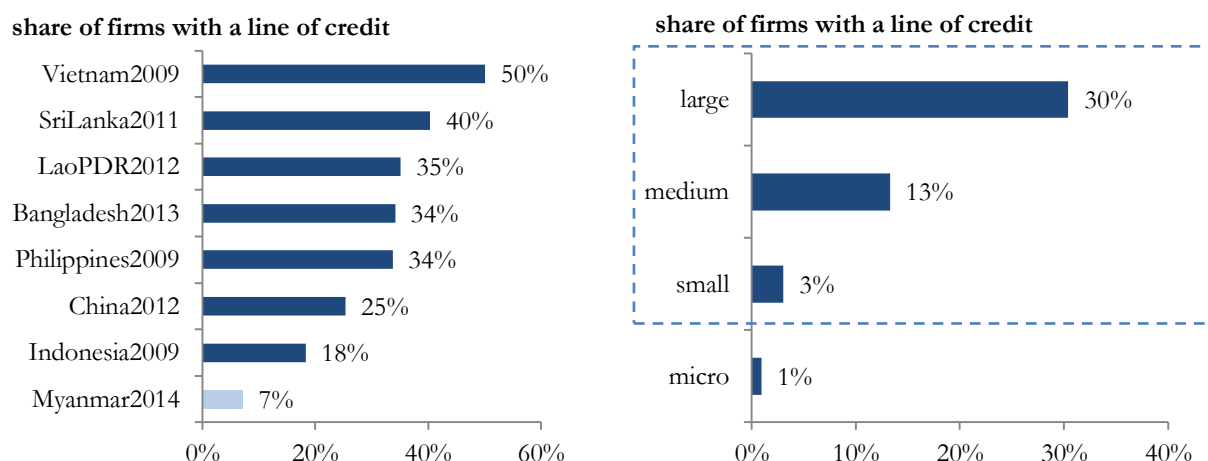


69. **Reliance on the banking system for basic transactions is very limited.** Only 30 percent of firms in Myanmar report having a bank account—the lowest level among all the comparator countries. For example, 98 percent of firms in the Philippines and 96 percent of firms in China have accounts with banking institutions to conduct their business (Figure 17). In terms of using bank accounts there is a significant difference among firms of different size in Myanmar. While 91 percent of large companies have a bank account, fewer than half of SMEs report having an account. Only 10 percent of microenterprises have an account.

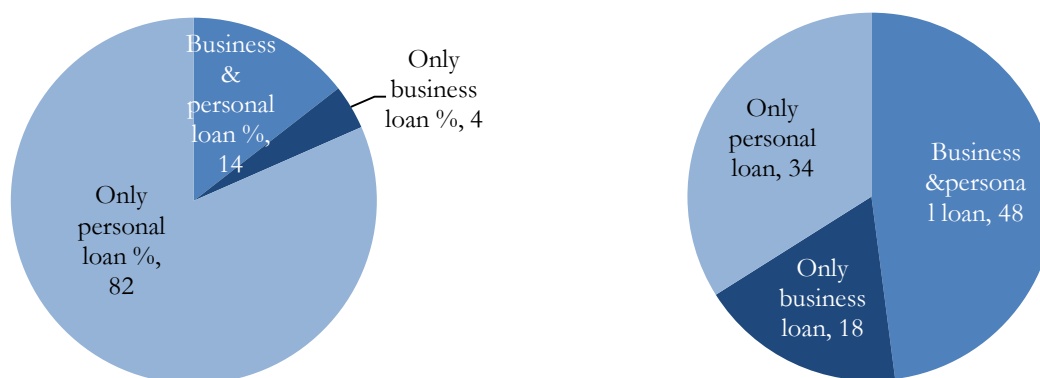
Figure 17: Share of firms with account (%), in comparison and by size



70. **Few firms have lines of credit or a loan with a financial institution.** Only 7 percent of firms report having a loan in Myanmar—significantly lower than in the comparator countries. There is a significant divergence by firm size: while 30 percent of large companies use credit facilities, only 1 percent of microenterprises and 3 percent of small firms report having a loan.

**Figure 18: Share of firms with a line of credit (%), in comparison and by size**

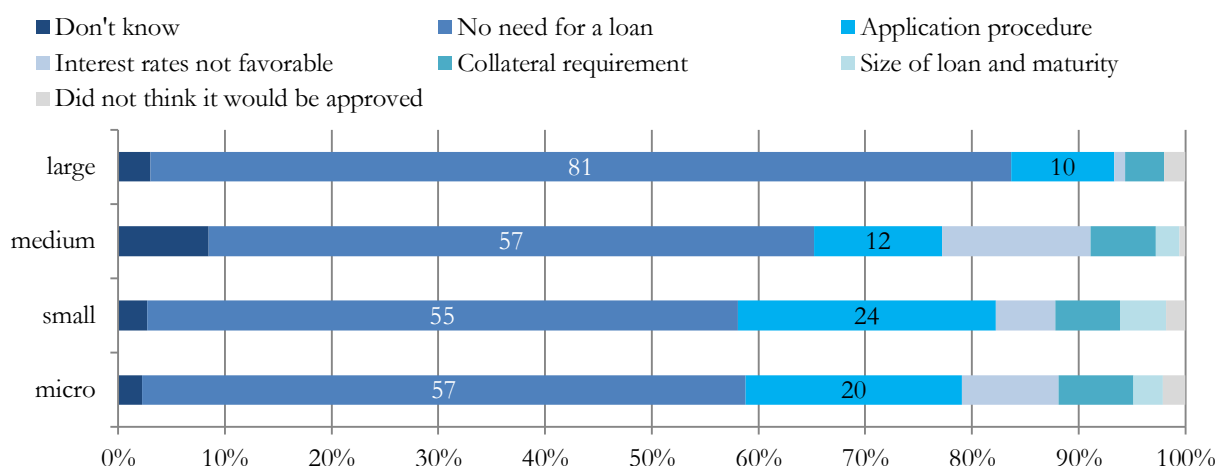
71. **Consequently, most firms in Myanmar rely on personal borrowing to finance business activity.** Among small enterprises, 82 percent report using only personal loans to finance business activities, and another 14 percent report using both personal and business loans (Figure 19). While the use of personal finance for financing small enterprises is common due to a variety of constraints relating to titles, it is unusual for large businesses to rely on personal loans to finance business activities. Despite this, in Myanmar 82 percent of large companies report personal loans or a combination of personal and business loans to finance business activities. This practice diverges significantly from that observed in other countries. For example, in China and Bangladesh, the vast majority of large businesses relied exclusively on business loans (92 percent and 79 percent, respectively).

**Figure 19: Source of financing for firm borrowing, small (left) and large firms (right)**

72. **Very few firms in Myanmar report applying for a loan in the most recent fiscal year.** Only 4 percent of firms in the survey say that they applied for credit in the past year, compared with 54 percent in Vietnam, 35 percent in Lao PDR, and 22 percent in China. Most firms (56 percent) cite no need for financing as the main reason for not applying for a loan, while 20 percent say that the loan application procedures are too complex. There are significant variations by firm size. While 80 percent of large firms state that they have sufficient internal funds and do not need a loan, over 40 percent of micro, small, and

medium enterprises identify complex procedures, unfavorable interest rates, and strict collateral requirements as the primary reasons for not applying for a loan. About 26 percent of those firms that state they do not need a loan also rate access to finance as the main obstacle to business. If the current business environment and borrowing terms are unsuitable, borrowers may refer to the available products, replying with “no need for the type of loan products available”, rather than “no need for external funds”. Alternatively, there is a possibility that firms in Myanmar have a strong preference for equity financing rather than debt financing. Consequently, they rate access to finance as the main obstacle while at the same time they are not willing to borrow. It will be important to clarify the access to finance constraints faced by firms with targeted follow-up interviews.

**Figure 20: Stated reasons for not applying for a loan**



73. **Overall, the survey results show a business sector in Myanmar largely reliant on its own financial resources with minimal interaction with the formal financial system, especially in the case of MSMEs.** Even in cases when firms do borrow, funds are largely borrowed by business owners in their own name. At the same time, firms rate access to finance overall as the main constraint to business. As Myanmar modernizes its economy, its financial sector will have to undergo a transformation in order to meet the needs of a growing economy with increasing demands for formal financing.

74. **Myanmar’s banking sector is small relative to the size of the economy although it has grown rapidly over the past three years.** Private credit as a share of GDP increased from 5.1 percent in 2010 to 14.9 percent in 2013, with nominal annual growth of about 60 percent during the period.<sup>7</sup> Myanmar’s banking system consists of four state-owned banks and 23 private banks.<sup>8</sup> State banks are significant and account for 65 percent of total banking system assets, although only 22 percent of total loans. The private banking industry is concentrated in the three top banks, accounting for more than 50 percent of total private bank assets and about 60 percent of loans and deposits. In October 2014, nine foreign banks obtained limited licenses to operate in Myanmar. This potentially represents a major shift in Myanmar’s

<sup>7</sup> IMF Article IV consultations report, October 2014. <http://www.imf.org/external/pubs/ft/scr/2014/cr14307.pdf>. It is important to note that statistics and accuracy of reporting is gradually improving and some of this increase is due to better reporting.

<sup>8</sup> As of October 2014, with plans to issue more licenses.

banking landscape, although restrictions on domestic deposit and credit operations will provide for a gradual adjustment of the domestic sector to future competition from foreign banks. In addition, reforms are underway to establish a credit information system (credit bureau) to allow sharing of credit information. More is needed to enable collateral use such as moveable asset financing through secured lending rules and collateral registries.

### ***Recent and ongoing reforms***

**75. Microfinance in Myanmar has expanded significantly since the enactment of the Microfinance Law in late 2011.** Organizations, including private domestic and foreign companies, NGOs, INGOs and cooperatives, can provide microfinance once licensed under the Microfinance Law. Over 200 institutions have been granted such licenses over the past two years. As a result, the microfinance sector now reaches about 900,000 clients, according to the Ministry of Finance and Revenue. Recent reforms have allowed microfinance institutions (MFIs) to borrow funds, and an increase in loan sizes has made the sector more viable. More needs to be done, however, to remove the interest rate ceiling and deposit rate floor to allow better commercial viability.

**76. Myanmar has laid the foundations for the development of a stock market with the enactment of the Securities and Exchange Law in July 2013.** Regulations for listed companies and market infrastructure are expected to be ready in 2014-15. However, despite the potential this could create, experience in the region with countries of similar, or even larger, financial sectors has not involved many listings, or much new funding. For example, in Lao PDR, only two companies have been listed since the market opened in 2011, while in Cambodia only one public sector utility has been listed, with two more companies considering listing. Based on the survey results illustrated above, Myanmar firms largely rely on own financing, reflecting lack of adequate institutions to raise external funds. The ability of larger companies to raise public funds through listings and bond issuance is a potentially important source of funds in the future. It is important to take into consideration experience of other countries and adopt the correct sequencing of actions, including the development of a money market and a debt instruments market.

**77. Myanmar's financial system is undergoing a fundamental transformation, including a revamping of the entire legal and regulatory framework for the financial sector.** The Central Bank Law passed in 2013 provided for an independent central bank and defined its key roles and functions, including its role in bank supervision. The Financial Institutions of Myanmar Law is currently being finalized and will define a broad framework for financial institutions operating in Myanmar. The scope and implementation of these laws will shape the structure of Myanmar's financial sector for years to come.

**78. The current legal and regulatory framework contains structural elements significantly affecting the ability of financial institutions to intermediate effectively.** The existing legal and regulatory framework to a large extent reflects a history of weakness in the financial sector culminating in a major banking sector crisis and a run on Myanmar's banks in 2003, significantly undermining trust in the domestic banking system. The regulatory system that emerged after the crisis, while severely restricting basic banking operations, did nonetheless bring to a large extent a return of stability. As the financial system evolves, authorities are gradually adapting the regulatory framework. In terms of loan financing as currently available, there are three key constraints: (i) an interest rate cap; (ii) a maturity

limit; and (iii) collateral requirements, combined with onerous documentary requirements for processing. Addressing these constraints, however, is far from straightforward and requires deep and fundamental reforms in the way banks are regulated and supervised.

79. **The country's interest rate cap limits the ability of financial institutions to provide financing, especially to smaller businesses.** There is a regulatory cap on the maximum lending rate of 13 percent per year, a floor on deposit rates of 8 percent per year, and a limit on the fees that banks can apply to loan products. The resulting margin of 5 percent may not be sufficient to allow banks to provide finance in a sustainable manner, especially to SMEs and the retail segments. On average, the loan-to-asset ratio for private banks in Myanmar stands at 55 percent and the loan-to-deposit ratio at 65 percent, indicating scope to expand lending, especially given recent relaxation of the loan-to-deposit requirements. However, in the presence of rate caps, fee-based income such as the remittance business, for example, presents a more attractive opportunity for many market participants. Microfinance providers are also subject to interest rate caps on loans of 2.5 percent per month or 30 percent per year, and deposits of 1.25 percent per month or 15 percent per year. Gradual liberalization of interest rates would enable the financial industry to expand financing to the sectors that it currently does not serve.

80. **The limit on loan maturity restricts the use of bank financing for investment purposes.** At present, private sector banks can provide loans of maturity of up to one year, with prolongation for up to two years. This restriction eliminates the possibility of banks offering investment loans. The regulatory restrictions, however, also reflect the nature of the deposits maturity structure. With most lending funded through deposits and the vast majority of deposits being short term, banks even in the absence of regulatory limits would find it difficult to offer longer-term financing. In view of the history of the banking crisis in Myanmar a decade ago and the low levels of trust in the overall system, it may take time for depositors to take up longer-term deposit products. Addressing this challenge will require continued efforts to sustain banking-sector stability through improved regulation and supervision.

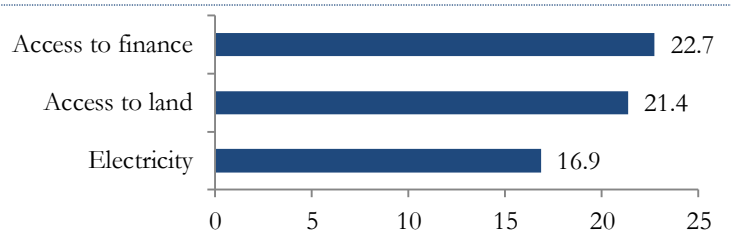
81. **Other countries in similar circumstances have been successful in extending loan maturities by accessing longer-term funding facilities from international sources.** Extending loan maturities by accessing international finance not only allows long-term financing but also increases the leverage in financial institutions. Allowing greater leverage to extend loan maturities needs to be matched by efforts to strengthen bank supervision. Enabling borrowing in an environment with an uneven playing field in terms of deposit and loan cap regulations could expose both MFIs and banks to risks and unintended consequences. Regulatory reforms to address these issues will require close cooperation between the banks and microfinance supervisors.

82. **Collateral restrictions and reliance on land as the main form of collateral significantly restricts the ability of MSMEs to access finance.** Survey results show that many firms identify secure access to land as one of the major constraints to doing business in Myanmar. Given that banks primarily rely on land as collateral means that firms without clear land titles are unable to obtain financing. Reforming legislation and a regulatory framework for acceptable forms of collateral, as well as institutional structures for movable and immovable collateral registration are an essential step in improving access to finance for SMEs, most of which do not own land. A shift to other forms of collateral or non-collateral-based lending also needs reform of the supervisory framework for bank risk management, together with extensive capacity-building among banking professionals and supervisors.

## 2.3 Access to land

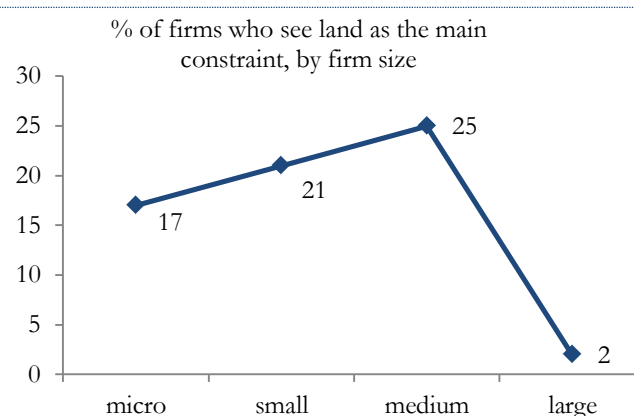
83. **Access to land is the second-biggest constraint for firms in Myanmar.** On average, 21 percent of firms cite access to land as the main constraint. This is with just 1.5 percentage points behind access to finance as a constraint, and well ahead of access to electricity as a constraint.

**Figure 21: Access to land is the second-biggest constraint for firms in Myanmar**



84. **Smaller firms are more adversely affected by access-to-land issues than large firms.** Smaller firms cite access to land as a major constraint, while large firms hardly see it as an issue at all. About 25 percent of medium firms and 21 percent of small firms cite access to land as a constraint to business, while for large firms access to land only ranks seventh as a constraint and only 2 percent of large firms mention it as the main constraint (Figure 22). Microenterprises cite land as a major obstacle in 17 percent of cases. Many of them may be too small to involve themselves in acquiring land for their businesses, and some operate from people's homes. Indeed, a majority of informal firms (64 percent) are located within a household and therefore do not require access to land on their own. Micro firms would be most similar to informal firms and a significant number of them are likely to operate within a household as well.

**Figure 22: Access to land is not a big problem for large firms**



85. **Access to land is more of a constraint to the services sector than to manufacturing.** Manufacturing firms see land access as less of a constraint than services sector firms. Only about 17 percent of manufacturing firms cite access to land as a major constraint, while 21 percent of retailers see it as a constraint, rising to 25 percent of firms in other services sector firms (Figure 13).

86. **In Myanmar, with a few exceptions, all land in the country is owned by the State.** Although the State owns almost all land in Myanmar, private companies and individuals can enjoy a degree of ownership of parcels of land as prescribed by the law. There are broadly three types of “property rights” in the country, namely:

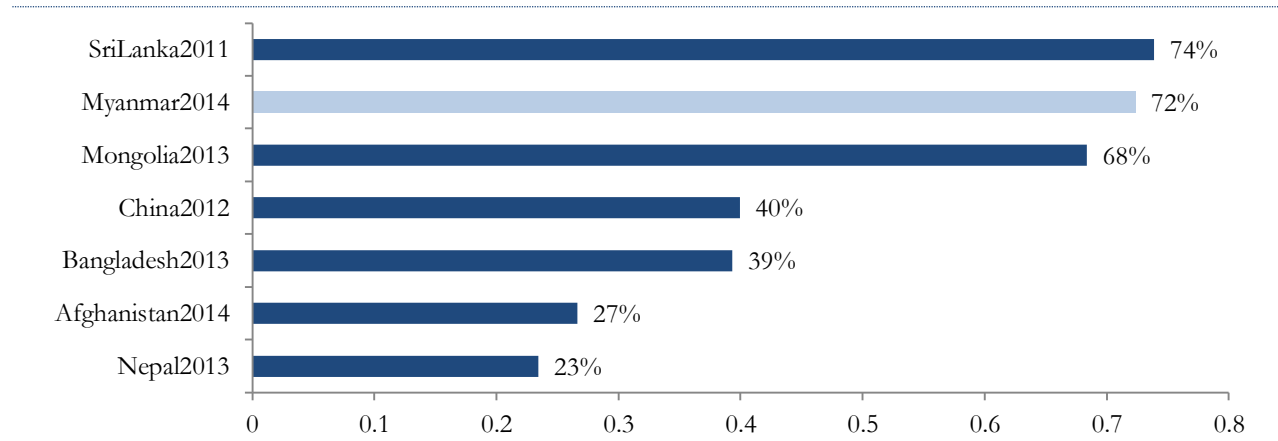
- **Freehold:** Mostly exists in large towns and cities such as Yangon and Mandalay, this is the exception rather than the norm. The owner is not required to pay land revenue and the land is inheritable and transferrable.
- **Grant, lease, license:** The right to make use of land at the disposal of the government can be awarded to public agencies, private companies or individuals for approved purposes, for periods of 10, 30 or 90 years. The land is transferrable and the occupier is required to pay land revenue.

However, such land can still be reacquired by the State in accordance with the Land Acquisition Act of 1894 when this is perceived to be in the interests of the State.

- **Agricultural land:**<sup>9</sup> In the case of agricultural land, the Farmland Law 2012 establishes a land use right, which can be sold, mortgaged, leased, exchanged or donated in whole or in part. Limited land use restrictions and control remain, but a permission to change land use can be applied from the farmland management structure. The land use rights are recorded in the Township Settlement and Land Record Department (SLRD), but while some by-laws to the Farmland Law have been prepared, no regulations for processing or registering farmland sales or mortgages exist, and no policies for transaction fees or taxes have been established. Also, the SLRD records and offices are established for maintaining land revenue records and not to serve customers as registers of rights. Thus, while farmland land use rights (LURs) are tradable by law, there is no supporting system in place to trade farmland in Myanmar.

87. **A relatively high proportion of firms enjoy land use rights on their land in Myanmar**, which for the purposes of this questionnaire has been categorized as “ownership”. Firms have a right to use the land for a specified purpose and for a specific term. Alternatively, companies “rent” land from non-government entities, or lastly obtain access to land in “other” ways. Land use right “ownership” is the most common form according to the survey. About 72 percent of firms state that they have official permission from the government to use the land for their stated business activities (i.e., ownership). The proportion of firms that report “owning” their land, or enjoying a direct land use right, is relatively high in the regional comparison (Figure 23).

**Figure 23: Share of firms that report “owning” their land (%)**



88. **The combination of a high percentage of “ownership” —as defined by the ES—in Myanmar and the fact that land is one of the most critical constraints for businesses illustrates the challenges with land tenure.** What is critical for firms’ investment decisions is the security of tenure. Companies invest in land that they have a secure land use right for. The ES results show that secure access to land is

<sup>9</sup> Notwithstanding the explanations to agricultural land, the ES and thus the ICA itself focus on firms in manufacturing and services, and on access to land for these non-agricultural firms.

extremely constrained. Lack of secure land transaction mechanisms is a major obstacle for access to land and financing.

89. **Secure access to land, or secure land rights, in Myanmar are crucially important for sustainable economic development.** Secure access to land is necessary for economic growth and social equity. In Myanmar, land is subject to historical land grievances, which can cause reputational and social risks for enterprises. Sustained economic growth, foreign direct investment, poverty reduction, environmental protection and social harmony all depend at least in part on resolving some of the issues relating to land tenure security and land conflict. Currently, Myanmar's institutional arrangements for land tenure are fragmented and outdated, despite some recent changes.

90. **Despite some recent progress to improve tenure, land disputes and conflicts persist.** Myanmar has 73 laws, amendments, orders and regulations that define its land tenure system, many of which date back to when the country was under British administration. Since Myanmar's transition started to take hold, two new land laws have been passed with the aim of improving land rights, namely the Farmland Law (2012) and the Vacant, Fallow, and Virgin (VFP) Lands Management Law (2012). These two laws enable farmers to acquire formal and tradable land-use rights, but no regulations or institutions for land transactions have been established in the interim. The laws have also been criticized by local civil society organizations and external observers for failing to adequately address important issues, such as gender equality, recognition of customary land tenure, land reclassifications, and independent land dispute procedures (there is currently no access to the judiciary for those seeking redress in rural land disputes), or failing to curtail large-scale issuance of land concessions to investors despite the underperformance of their existing concessions. Furthermore, despite the passage of the two laws, acquisitions and compensation are still governed using the colonial-era 1894 Land Acquisition Act. Lack of clarity in procedures and provisions in this law, together with lack of clarity on practices and guidelines on property valuations and compensation, has led to uncertainty, sometimes resulting in conflict. Compounding the situation, there are significant weaknesses in the institutional framework for handling disputes. In terms of the reconciliation of past issues, in order to remove the uncertainty that historical land grievances create, land policy and land law development is important. Similarly, further reforms are needed to address discriminatory practices against women in terms of land ownership and property inheritance in customary laws of individual ethnic groups.

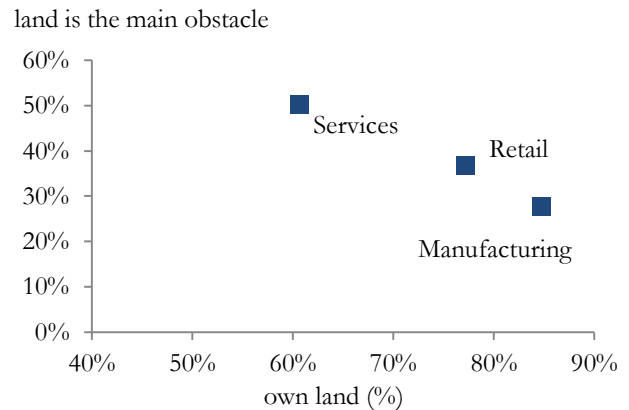
91. **Access to land as a constraint to business varies significantly from one region to another.** There are big differences in how firms perceive land tenure as an issue depending on the region. At one extreme, firms in the Yangon region are much more likely to cite access to land as the major constraint, with over 25 percent of firms surveyed holding this view. At the other extreme, only just over 2 percent of firms in the Monywa region cite access to land as a major obstacle to business (Table 3).

**Table 3: Land issues for firms, by region**

| Description                            | ALL  | Yangon | Mandalay | Bago | Taunggyi | Monywa |
|----------------------------------------|------|--------|----------|------|----------|--------|
| Access to land as biggest obstacle (%) | 22.7 | 25.1   | 17.9     | 11.4 | 3.6      | 2.2    |
| % of land owned                        | 72.3 | 71.0   | 74.2     | 82.5 | 91.8     | 73.5   |
| % of land rented                       | 27.7 | 29.0   | 25.8     | 17.5 | 8.2      | 26.5   |

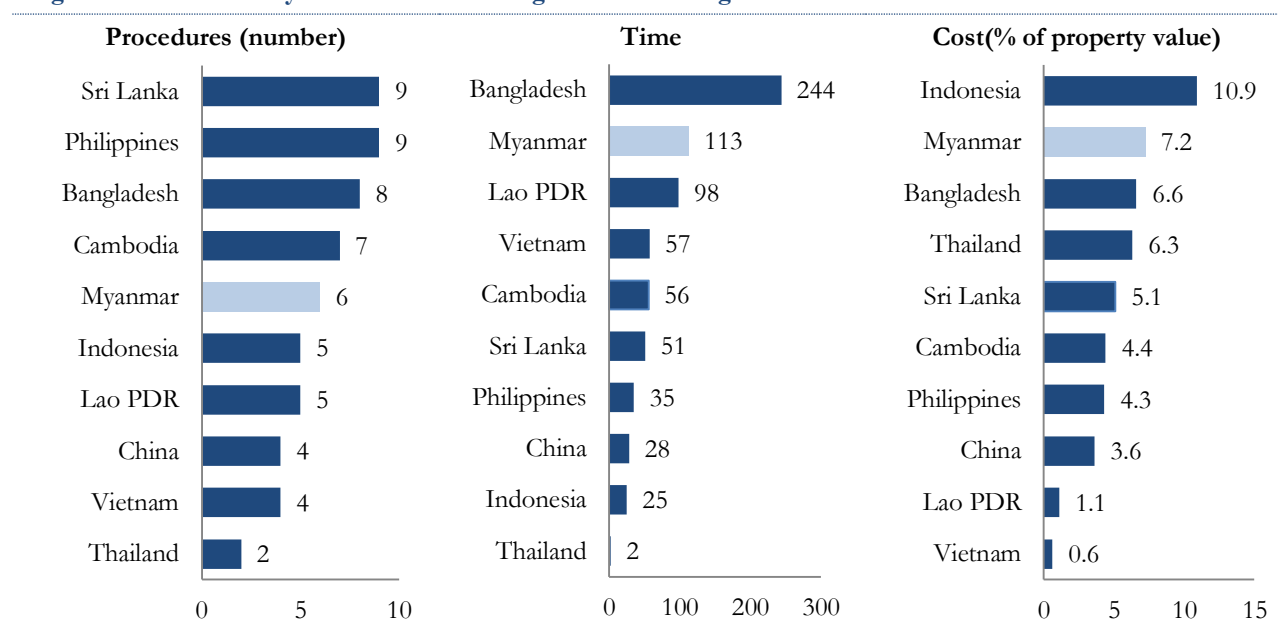
92. **Manufacturing firms tend to enjoy land use rights on their land more often than other sectors.** About 85 percent of manufacturing firms report that they “own” their own land (i.e., had obtained land-use rights from the government), a rate significantly higher than retail firms (77 percent) and other services-sector firms (61 percent) (Figure 24). This may be related to generally higher costs of investment for manufacturing firms, requiring them to have longer and more secure land-use agreements in order to achieve adequate returns on investment.

**Figure 24: Firms owning their land and seeing land as the main obstacle, by sector (%)**



93. **Firms in more industrial regions enjoy land use rights of their land more often than in other regions.** Direct land use rights seems to be more common in some regions than in others (Table 3). In particular, firms in the Taunggyi and Monywa regions, which are Myanmar’s most industrial regions, report 92 percent and 73 percent, respectively, “own” their land, while in the Bago region, which is more services sector oriented, this is the case for 82 percent of firms. The lowest level of direct land use rights is in the Yangon region, Myanmar’s capital, at 71 percent.

94. **According to Doing Business, registering property in Myanmar is very complicated, slow, and costly.** The latest DB report shows that the bureaucratic process to register property is particularly onerous. The survey indicates that on average 113 days are needed to complete the process, the longest time required among the peer countries analyzed in Southeast Asia, and only less than the time needed in Bangladesh—an outlier at a staggering 244 days (Figure 25). It takes one month to obtain a land clearance certificate in Yangon (where Doing Business collects its data), up to three weeks for appraisal by the relevant Township Inland Revenue Department, another month to register the new land use right certificate, one more month to announce the transfer, before the change can be legally completed. Further, it takes one month to register the land use right with the Ministry of Agriculture. This compares with ASEAN countries such as Indonesia and Thailand, where only 25 and 2 days are required, respectively, to complete the whole process. Meanwhile, in terms of the number of procedures required, Myanmar is about average compared with its peers, at six procedures, with only two procedures required in Thailand but nine procedures required in the Philippines. The costs of registering property, however, are also relatively onerous in Myanmar. On average, the costs come to 7.2 percent of the value of the property, compared with far lower costs in ASEAN peers, such as Vietnam (0.6 percent), Lao PDR (1.1 percent), and Cambodia (4.4 percent). Such high costs can of course be prohibitive for firms looking to invest in new sites or expand their operations.

**Figure 25: Bureaucracy involved in obtaining land use/leasing documents**

Source: *Doing Business 2015*

95. **Land reforms are a long-term process requiring strong political commitment.** Experience with land reforms in the region and internationally is that they are long-term processes. The importance of political will cannot be overstated, and ongoing engagement and support of the government at all levels, including local governments (provincial, municipalities, etc.), are essential for the successful implementation of land reform projects. Beyond the local government, engagement with the public is also essential for developing a legitimate policy and regulatory framework for implementing reforms, settling disputes and introducing necessary land administration systems. Gender issues are especially delicate and an important part of equitable tenure security. Tenure issues tend to be polarized and politicized with a general discourse debating titling vs communal and customary systems. This is an old-fashioned debate with modern thinking being that transparency over the individual, group, indigenous and communal land rights is the key for their protection. Therefore, comprehensive land records registering all lands and all tenure types are needed. Administrative systems for land registration and dispute resolution need to be inclusive and accessible.

#### ***Recent and ongoing reforms***

96. **Recently, the government has set up a Land Loss Enquiry Commission in parliament to investigate claims of land confiscation by the military.** In an effort to demonstrate sensitivity for some of the historical grievances related to confiscation of land, especially rural/agricultural land, the government is putting in place mechanisms to review past practices.

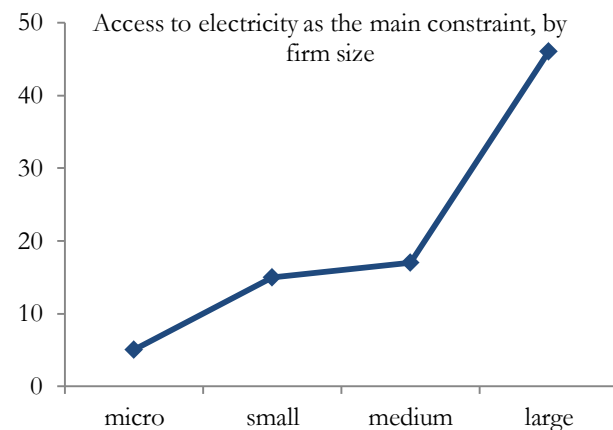
97. **In October 2014, the government unveiled for public consultation the draft of a new National Land Use Policy.** The goal of the policy is to guide the establishment of a new framework for the governance of tenure of land and related natural resources, such as forests.

98. **With concerns about land governance widespread, established guidelines and frameworks for reform could be useful.** Land governance is one of the biggest challenges facing Myanmar. The United Nations' Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forests in the Context of National Food Security (VGGT), which is based on global best practices, provides useful principles for adoption in Myanmar's land based sectors. The VGGT have been endorsed by the Committee on World Food Security (CFS) and have received global recognition, including at the recent G8, G20, G77 and Rio +20 meetings. These guidelines are fundamental principles for land governance. The World Bank's Land Governance Assessment Framework (LGAF), which has already been undertaken in 38 countries globally, may prove helpful in Myanmar too. LGAF provides a diagnostic tool for assessing the state of land governance across the land-based sectors through a locally driven, participatory evidence-based approach. LGAF will result in vetted policy recommendations for improving land governance and provides a base for monitoring progress.

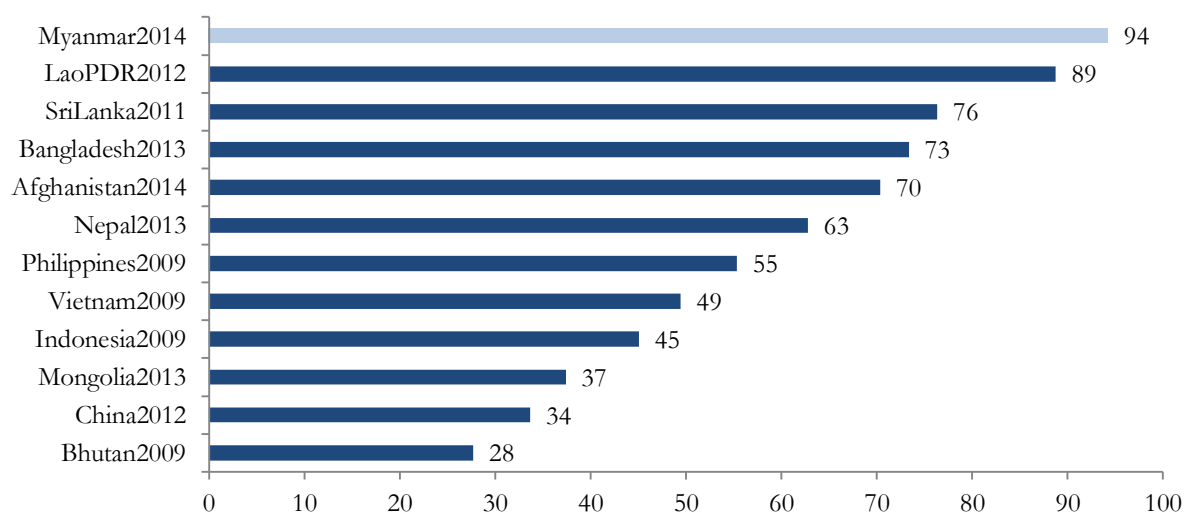
## 2.4 Access to electricity

99. **Access to electricity is identified by firms as the third-most-important constraint to doing business in Myanmar.** Overall, 17 percent of small, medium, and large firms state that electricity is the main constraint in business, third in importance behind access to finance and access to land. Interestingly, the importance of electricity as a constraint grows in size with the size of firms in Myanmar. While cited as the main constraint by only 5 percent of micro firms, about 15 percent of small firms feel electricity is the main constraint, rising to about 17 percent for medium firms. Finally, among large firms access to electricity is most often stated as the main obstacle to business, at 46 percent of firms.

**Figure 26: Access to electricity increases as a constraint for larger firms**



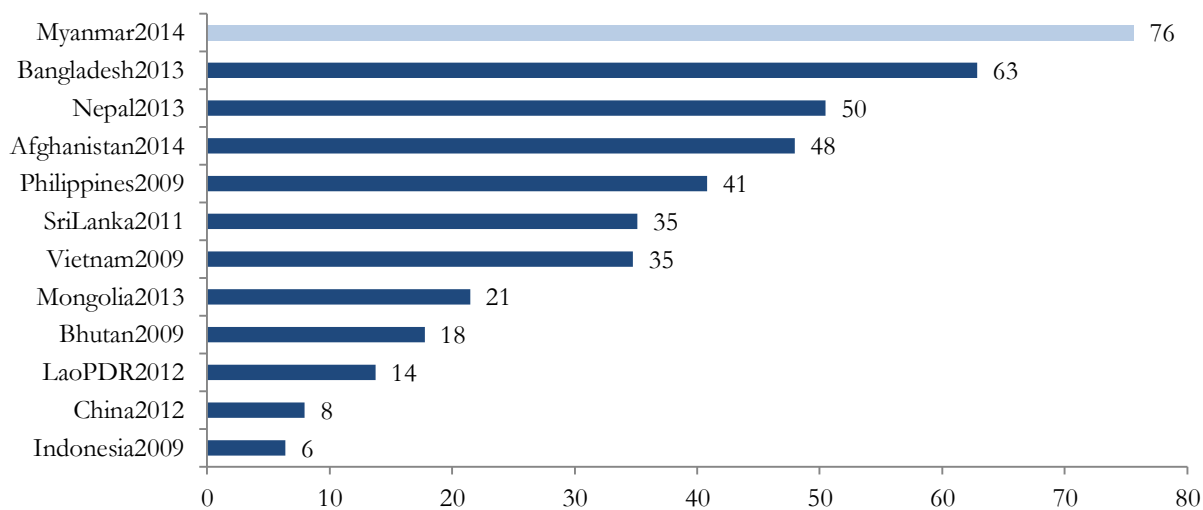
100. **Almost all firms face power outages in Myanmar.** Given that Myanmar has one of the lowest levels of electrification in Southeast Asia, and in view of the rapid economic growth in recent years (and corresponding increase in the demand for electricity), it should not come as a surprise that the country suffers from a lack of supply of electricity. This lack of supply creates power outages and these, in turn, cause disruptions for firms. About 94 percent of firms in Myanmar experience power outages—by far the highest level among all countries in the region (Figure 27).

**Figure 27: The share of firms experiencing power outages in the region (%)**

101. **Consequently, many firms in Myanmar are forced to rely on their own or shared generators for their power needs.** As a result of the shortage of electricity, Myanmar also has one of the highest rates in the region for firms using or sharing their own generators for power. Among the comparator countries, firms in Myanmar choose to rely on back-up generators the most, by far, at 76 percent of all firms (Figure 28).

**Figure 28: Myanmar has the highest level of generator ownership by firms**

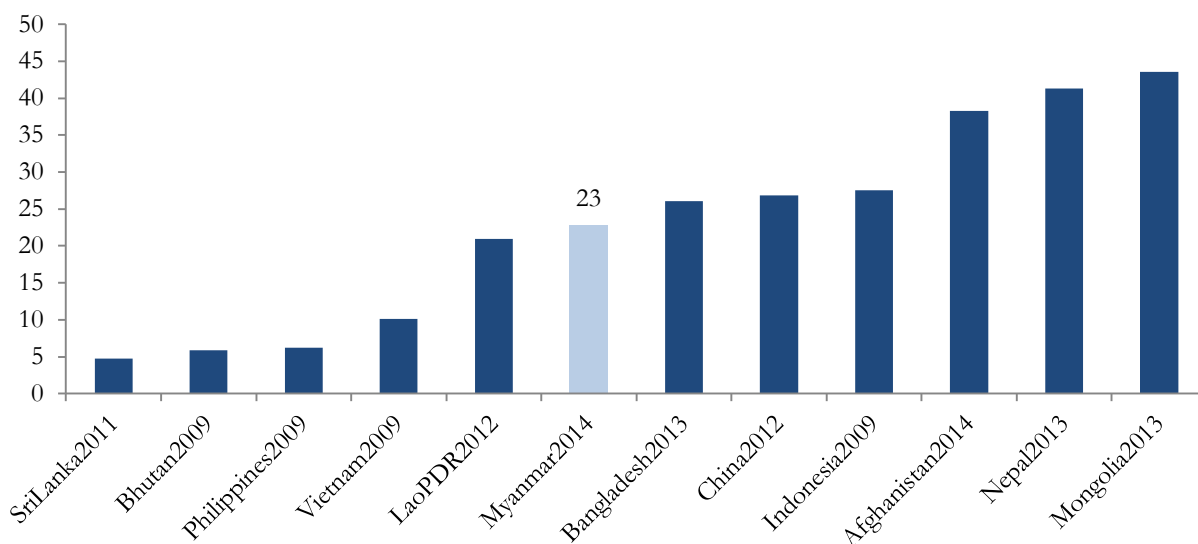
Firms own a generator (%)



102. **High full or partial ownership of generators does not reflect high use.** For firms that have access to a generator, they take 23 percent of their electricity from these generators. That is more than in Lao PDR or Vietnam, for example, with 21 and 10 percent, respectively, but much less than in Mongolia or Nepal, with 44 and 41 percent, respectively (Figure 29). The probable reason for this is to be found in Myanmar's seasonal pattern of electricity production. Myanmar's power shortage is most acute in the dry season months due to low power production from hydropower dams. Power outages therefore, while

pervasive, are mostly clustered around the dry season. While some firms may need to run generators continuously during the dry season, this is probably less the case throughout the year. But since the supply of electricity through the grid is uncertain, especially during the dry season, almost all the firms choose to have a generator as a backup.

**Figure 29: Share of power from generator if generator owned (%)**



103. **Getting an electricity connection after an official request may take a full year.** The distribution of waiting times for an electricity connection is very wide. Some firms report waiting almost a full year before getting the requested connection (Figure 30). It is not surprising, therefore, that only few firms actually apply for an electricity connection (Figure 31). While lack of electricity is manageable for micro enterprises, growth of the formal economy and large enterprises requires more efficient access.

**Figure 30: Distribution of waiting times for electricity connection (days)**

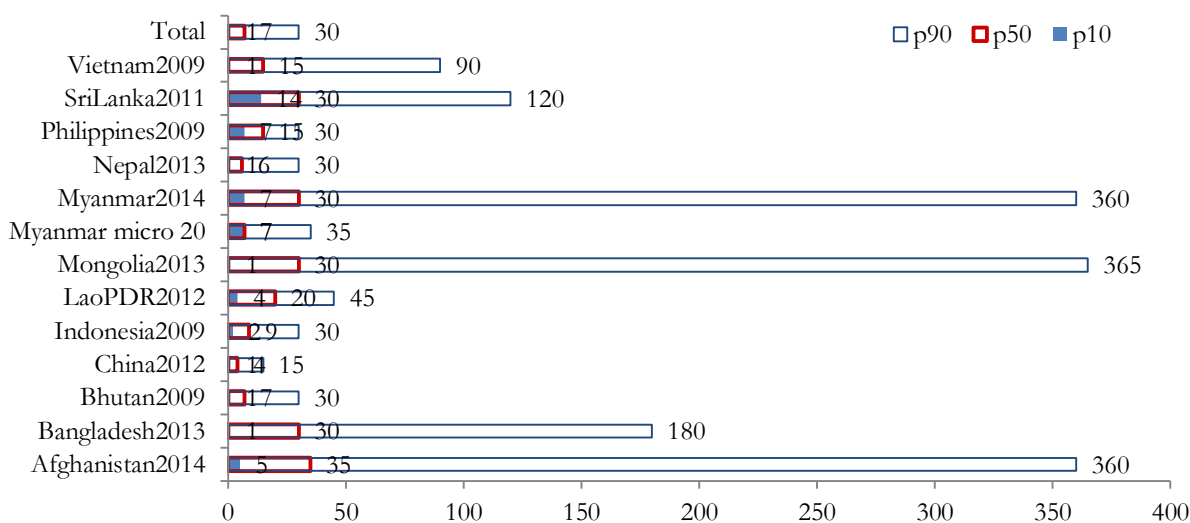
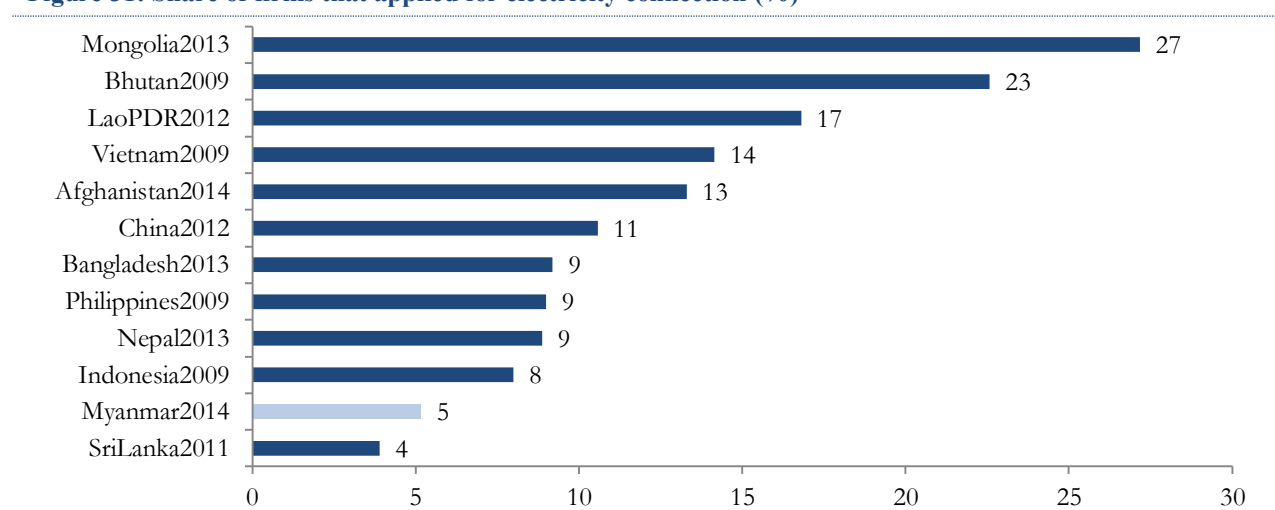


**Figure 31: Share of firms that applied for electricity connection (%)**

104. **Manufacturing sector firms in Myanmar tend to be more adversely affected by electricity supply problems.** Table 4 shows in more detail how the shortage of electricity affects firms in different sectors of the economy, and the nature of the problems that those firms face. As might be expected, manufacturing firms cite access to electricity as a far more important constraint to business than other sectors, at 31 percent of firms in the survey. Meanwhile, retailers firms and other services sector firms consider access to electricity to be a major obstacle in about 13 percent and 11 percent of cases, respectively. Unsurprisingly, manufacturing sector firms also rely more heavily on their own sources of power, at about 22 percent, while for retailers and other services firms the numbers are 12 and 16 percent, respectively. However, this is not as high as some other regional comparators. These results show that improving electricity infrastructure for manufacturing firms will be critical in attracting investment into the manufacturing sector. It is likely that many potential investors in Myanmar's manufacturing sector are deterred by concerns over reliable electricity supplies.

**Table 4: Problems of electricity supply facing various sectors in Myanmar**

|   | Description                                       | ALL  | Manufacturing | Retail | Other services |
|---|---------------------------------------------------|------|---------------|--------|----------------|
| 1 | Electricity as biggest obstacle (% firms)         | 17.9 | 31.2          | 12.7   | 11.1           |
| 2 | No. of electrical outages in a typical month      | 12.5 | 13.3          | 13.6   | 11.4           |
| 3 | Duration of electrical outages (hours)            | 1.5  | 1.8           | 1.3    | 1.4            |
| 4 | Value lost due to electrical outages (% of sales) | 2.1  | 2.6           | 2.3    | 1.7            |
| 5 | % of firms owning or sharing a generator          | 75.7 | 86.7          | 62.4   | 75.9           |
| 6 | Electricity from generator (%)                    | 16.8 | 21.7          | 11.8   | 16.0           |

105. **There are very wide regional variations in electricity supply in Myanmar.** As Table 5 below highlights, there are significant differences in firms citing access to electricity as a constraint depending on the region. This could be partially due to major differences in the quality of local infrastructure networks for transmission and distribution. However, the direction of causation is unclear. For instance, at only 8 percent, Mandalay has the lowest level of firms' complaints concerning access to electricity, but also the highest use of generators, at 89 percent. This contrasts with the Bago region, which has the

lowest use of generators outside Yangon, at 81 percent, but the highest level of complaints concerning access, at 33 percent. Clearly, therefore, more research is needed in order to better understand the reasons behind the significant differences between firms' responses in the regions.

**Table 5: Regional differences in firms' access to electricity**

|                                                   | All  | Yangon | Mandalay | Bago | Taunggyi | Monywa |
|---------------------------------------------------|------|--------|----------|------|----------|--------|
| Electricity as biggest obstacle (%)               | 17.9 | 17.8   | 8.2      | 33.2 | 20.1     | 30.2   |
| No. Of electrical outages in a typical month      | 12.5 | 13.1   | 12.7     | 7.8  | 8.3      | 6.1    |
| Duration of electrical outages (hours)            | 1.5  | 1.3    | 2.1      | 2.2  | 1.3      | 3.5    |
| Value lost due to electrical outages (% of sales) | 2.1  | 1.9    | 2.3      | 6.3  | 2.6      | 2.0    |
| % of firms owning or sharing a generator          | 75.7 | 72.4   | 89.4     | 81.3 | 81.7     | 95.5   |
| Electricity from generator (%)                    | 16.8 | 14.9   | 32.8     | 11.3 | 10.4     | 18.0   |

106. **Firms exhibit clear compensatory behaviors through the use of generators.** Based on the survey responses, there appears to be a clear correlation between firms in regions reporting the highest complaints regarding access to electricity and the percentage loss of sales due to outages of firms in those regions. For example, firms in the Bago region complain most about access to electricity being the main constraint to business, at about 33 percent, while also indicating the highest level of lost sales due to electricity outages, at just over 6 percent. However, there are also contradictions in the responses. Taking the Bago example once again, this is the region where firms rely for only 11 percent on electricity from generators, despite the high level of ownership of generators and the high level of sales losses due to outages. These anomalies could be due to other factors not picked up by the survey, such as fuel shortages in some regions preventing generators from being used.

### ***Recent and ongoing reforms***

107. **Myanmar has abundant hydropower potential and natural gas resources, as well as significant renewable energy potential (wind, geothermal and solar).** In the past, the development of energy resources in Myanmar was mainly driven by plans to export natural gas and hydroelectricity to Thailand and China. As a result, the lack of attention to the domestic market has led to large shortages in both gas and electricity supply (50 and 30 percent, respectively). This shortage of energy has now become a major obstacle for economic activities, job creation, and improvement of health and education services. Furthermore, plans for the development of industrial parks and gradual industrialization of the country depend on adequate supplies of reliable and affordable electricity and gas.

108. **The government recognizes that expanding the quantity and quality of electricity supply and improving access to modern energy is crucial to both economic growth and poverty reduction.** To address these challenges and set the energy sector on a sustainable development path, the government recently adopted the National Energy Policy based on the guiding principles set in the national Framework of Economic and Social Reforms (FESR-2012). The new energy policy focuses on sustainable energy development and balancing the need to continue energy exports as a major source of public revenue with the longer-term development objectives of improving security, reliability and quality of energy supply in the domestic market. The new policies embrace principles of diversification of the

energy mix, reducing energy intensity by means of energy conservation and energy efficiency measures, and the introduction of energy pricing policies that reflect the economic costs for both suppliers and users of energy in the domestic market.

109. **The government has initiated the preparation of the Energy Sector Master Plan, the Power Sector Master Plan, and the National Electrification Plan aiming to achieve universal access to electricity by 2030.** Strategic issues of the future energy mix in power generation and the role of the private sector in power generation and distribution are under consideration through the preparation of the Power Sector Master Plan (supported by the Japan International Cooperation Agency, JICA). The Power Sector Master Plan will also include a least-cost generation expansion plan, which will be the basis for assessment of the long-run marginal cost of electricity supply in the country. With help from the Sustainable Energy for All initiative, led by the World Bank and the UN, the government is preparing a National Electrification Plan (NEP), which will include the assessment of least-cost solutions for achieving universal access to electricity by 2030, and prepare an Investment Prospectus for the phased financing of the investment needs. The NEP will also propose institutional reforms required to ensure alignment of funding sources and accountabilities for effective and timely implementation of the electrification program.

110. **The new energy policy envisages a significant role for the private sector in meeting the fast growing electricity demand and improving efficiency in the power sector.** In order to mobilize urgently needed investments and improve efficiency in the power sector, the government plans to attract additional independent power producers (IPP), promote public-private partnerships (PPPs) to accelerate construction of modern power generation plants, and reduce losses in the power distribution sector. The first IPPs (about 270 MW in total) have commenced operation using a “tolling arrangement” under which the government has a responsibility to supply gas and off-take electricity, while the private investor takes the risk of making the new plant available on time and of being able to convert gas into electricity at an agreed fixed price. However, the availability of gas is likely to remain a major constraint for the construction of new gas-fired power plants in the near to medium term. Specifically for industrial zones, the government has established a framework for self-generation of reliable power for those zones.

111. **The government plans to eliminate gas shortages by attracting investment in new off-shore gas fields and increasing the share of gas allocated to the domestic market.** Recently, the government announced that a new off-shore gas field (expected to start production in 2017) will be fully allocated to the domestic market and most of its production will be earmarked for power generation. The government recognizes that the reduction of gas shortages will also require adoption of market-based pricing for the domestic gas supply, implementation of a transparent and efficient gas allocation mechanism, and investment in the primary and secondary gas networks (gas infrastructure). Currently, the available gas networks are underdeveloped and are causing a bottleneck in the improvement of the gas supply to the domestic market.

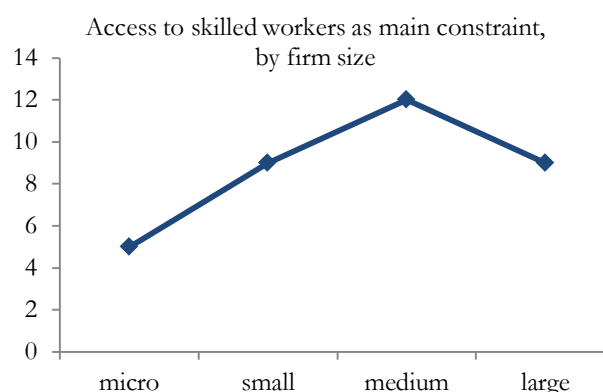
112. **The sustainable development of the energy sector requires the scaling-up of energy efficiency and renewable energy.** Past policies, particularly the electricity pricing policies, failed to provide incentives for efficient production and use of energy, and failed to stimulate the development of renewable energy. An exception is hydropower, which was mainly developed in collaboration with China. Going forward, the new energy policy calls for improvements in the institutional capacity and regulatory

framework for energy efficiency and renewable energy. This includes capacity-building for environmentally and socially sustainable development of hydropower. The government has identified 92 large-scale hydropower projects with a total capacity of 46 GW out of an estimated 100 GW of total hydropower potential in the country. The Ministry of Electric Power plans to build 13 hydropower plants, adding 2,572 MW of installed capacity, while 44 further projects are planned as joint ventures with independent (and private) investors for another 42 GW of total capacity.

## 2.5 Access to skilled workers

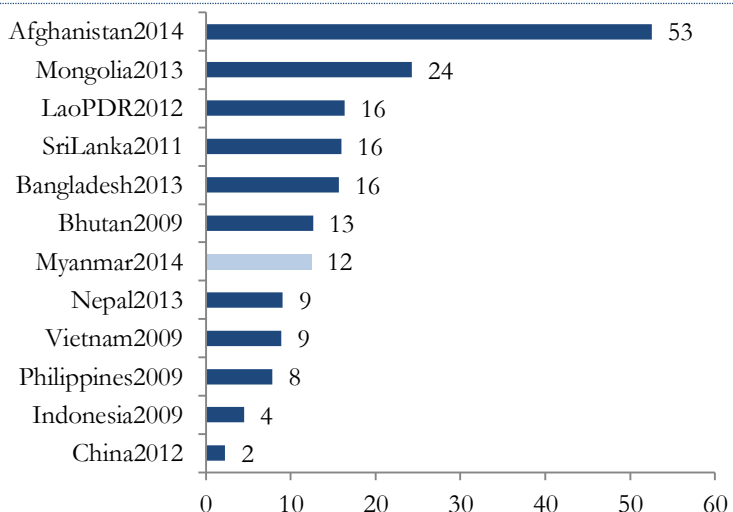
113. **Lack of access to skilled workers is the fourth most frequently mentioned constraint for firms.** In other countries' results of the Enterprise Survey, inadequately skilled workforce is rarely the most important constraint mentioned, with other constraints being seen as more severe. Myanmar is no exception, but the lack of access to skilled workers still ranks high among the obstacles. It is the fourth obstacle mentioned by firms, more often than taxes, regulations and bureaucratic barriers. Over 9 percent of firms cite inadequate workforce skills as the biggest obstacle to the operations and growth. This is by no means a negligible proportion and indicates that skills shortages are the binding constraint for a significant number of firms. Access to skilled workers as the main constraint changes only little with firm size (Figure 32). While only 5 percent of micro firms name skilled workers as the main constraint, for small and large firms it is 9 percent, and for medium sized firms 12 percent.

**Figure 32: Inadequately educated workforce is one of the biggest obstacles facing firms in Myanmar**



114. **A regional comparison reinforces the view that a skills shortage is an important issue.** Myanmar firms more often consider an inadequately educated workforce a major obstacle than their competitors in Vietnam, the Philippines, Indonesia or China (Figure 33). The best performing country sets the benchmark and, in this case, that country is China, where only 2 percent of employers (from manufacturing firms) complain about workforce skills. This would be a highly ambitious target for Myanmar.

**Figure 33: Firms identifying low workforce skills as major or severe constraint (%)**

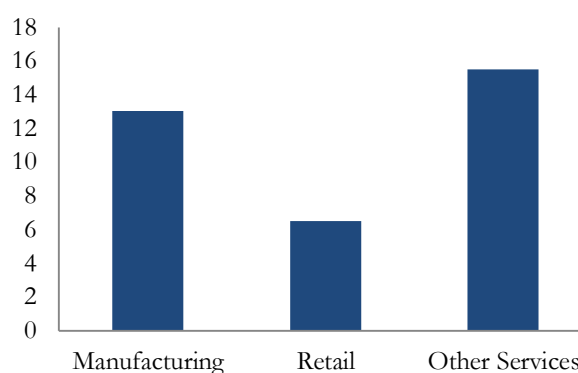


**115. Formal growing firms in manufacturing suffer most from a skills shortage.**

It is also the type of firms that suffer from a skills shortage that is important. In most countries registered and expanding firms are most affected by a skills shortage. Myanmar fits into this pattern. Hit hardest by a skills shortage are manufacturing firms, young and medium-size firms, and innovating and expanding firms. Manufacturing firms more often report inadequately educated workforce as a major obstacle than services sector firms (Figure 34). The difference is likely to reflect the fact that manufacturing tends to be more skill intensive

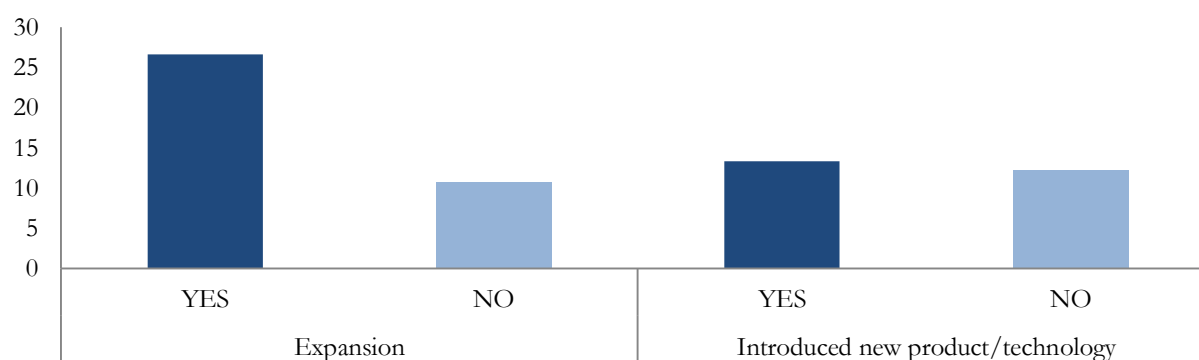
than retailing and other services. Accordingly, finding workers with the right skills is often more difficult for manufacturing firms. The results imply that the skills shortage, if not addressed, may hinder modernization and growth of the economy, especially in manufacturing.

**Figure 34: Inadequately educated workforce as major or severe obstacle to firm operation by sector**



**116. Inadequate workforce skills are a constraint for expanding firms.** Figure 35 shows that firms that increased employment during the past three years are more than twice as likely to report an inadequately educated workforce as a major constraint than firms that did not. Firms that introduced new products or methods of manufacturing goods report skills as a major obstacle slightly more frequently than firms that did not introduce any innovation. The pattern whereby innovative and growing firms suffer from a skills shortage more than traditional and stagnant firms is quite typical and found in many other countries. Modern or innovative firms tend to require higher skills than traditional firms. Firms that are growing need to hire workers who possess skills that meet the requirements of the newly created jobs, and often this is difficult because the supply of skills does not match the demand.

**Figure 35: Low workforce skills as major or severe obstacle by growth and innovation status**



**117. There is also a substantial regional variation in employers' perceptions of a skills shortage.** While poor workforce skills are seen as a major obstacle by over 50 percent of employers in the Monywa region, few employers see skills as an obstacle in the Taunggyi and Bago regions. These differences are not easily explained. For example, both the Monywa and Taunggyi regions are industrial regions, with a similar share of employment in manufacturing (in contrast, the Bago region is services oriented). One

possible explanation is that the profile of manufacturing firms in the Monywa region is different from that in the Taunggyi region, but the exact nature of the difference still needs to be determined. For example, the proportion of growing firms is somewhat higher in the Monywa than in the Taunggyi region, while the proportion of innovative firms is slightly higher in the Taunggyi region. It is recommended that the substantial regional variation is further investigated with follow-up qualitative interviews.

**Table 6: Types of problems hiring firms encountered when trying to recruit workers**

|                                                     | Firms hiring workers in last 2 years |                | Of which:<br>% of firms that encountered following problems when trying to hire |                                   |                                  |                                           |
|-----------------------------------------------------|--------------------------------------|----------------|---------------------------------------------------------------------------------|-----------------------------------|----------------------------------|-------------------------------------------|
|                                                     | N                                    | % of all firms | no or few applicants                                                            | applicants lacked required skills | applicants expected higher wages | applicants didn't like working conditions |
| Managers and professionals                          | 56                                   | 8.86           | 12.5                                                                            | 33.93                             | 37.5                             | 12.5                                      |
| Technicians, associate professionals, sales workers | 208                                  | 32.91          | 20.67                                                                           | 54.33                             | 50.96                            | 20.67                                     |
| Unskilled workers                                   | 307                                  | 48.58          | 22.15                                                                           | 44.95                             | 49.84                            | 14.66                                     |
| Skilled production workers a)                       | 217                                  | 61.47          | 13.36                                                                           | 42.86                             | 43.32                            | 15.67                                     |
| Unskilled production workers a)                     | 215                                  | 60.91          | 16.28                                                                           | 38.6                              | 35.81                            | 19.07                                     |

*Note: Unweighted data for all firm sizes.*

*a) Manufacturing firms only.*

118. **Job applicants often lack the skills sought by employers.** There are two main reasons why hiring a worker often is difficult in Myanmar: job applicants lack the required skills or they expect wages higher than the employer offers. Both point to a skills shortage. The focus is on two groups of workers: (a) technicians, lower grade professionals and sales workers, and (b) skilled production workers, the first group representing skilled white collar workers, and the second representing skilled blue-collar workers. Table 6 shows that among firms hiring skilled white-collar workers, 54 percent report that job applicants lacked the required skills and 51 percent report that they expected wages higher than the firm could offer. Among firms hiring skilled blue-collar workers, about 43 percent claim that job applicants both lack the required skills and have excessive wage expectations. The fact that job applicants bargain for wages higher than some firms can afford indicates a skills shortage, because workers who possess scarce skills that are in high demand expect adequate returns to those skills. A similar combination of high wage demands and lack of skills is reported by employers for example in Lao PDR. There, about half of all firms indicate excessive wage expectations from applicants and up to 70 percent of firms find the applicants' lack of skills a constraint.

119. **Myanmar firms complain about a number of different things when trying to recruit workers for unskilled jobs.** Close to 49 percent of firms were hiring unskilled workers. In this case the problem is likely to be not so much technical job specific skills, but rather inadequate social and behavioral skills (e.g., job attitudes). Another interesting fact concerning low-skilled jobs is that often there are no or few applicants. As many as 22 percent of vacancies for jobs requiring only elementary skills were hard to fill because there were few applicants. As the Lao PDR Development Report indicates, that is a higher percentage than in Vietnam or China (Yunnan Province), for example, but a significantly lower percentage of low skilled jobs that are hard to fill due to lack of applicants than in Lao PDR. Better

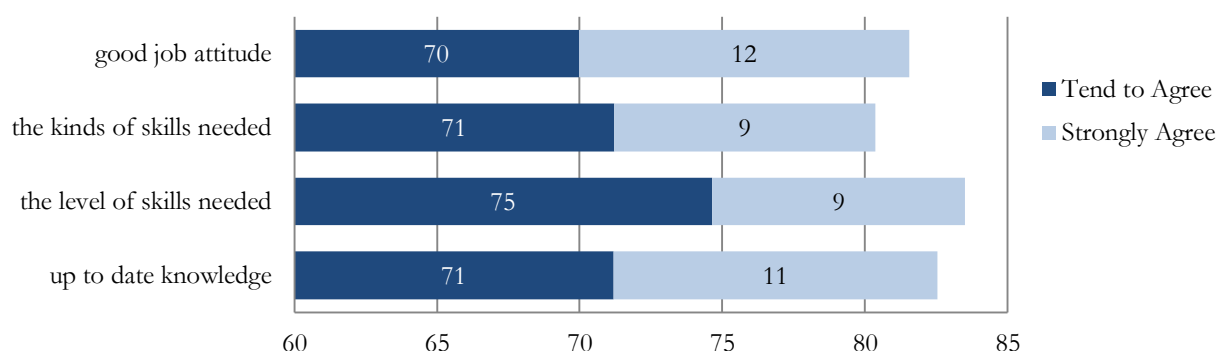
data and further research, on wages and the evolution of the wage gap between farming and manufacturing jobs, are needed to understand why firms in Myanmar are facing difficulty in filling vacancies even for unskilled labor.

120. **The educational system does not meet firms' needs.** Most firms claim that the educational system does not respond to labor market demands. It does not equip prospective workers with up-to-date knowledge and the level of skills needed in the workplace. This is likely to translate into lower productivity and competitiveness of Myanmar firms, especially given the better quality of education in some regional competitors.

121. **Firms have a very negative assessment of the quality of the educational system in Myanmar.** The results in Figure 36 illustrate firms' negative assessment of the quality of educational system in Myanmar. Over 80 percent of firms claim that the educational system does not produce enough workers with up-to-date knowledge and the level and kinds of skills needed in the workplace. These are very high proportions. For comparison, in Vietnam less than 50 percent of firms express a negative opinion about the quality of the educational system. Even if firms are unduly harsh in their assessment of the quality of education, the comparison indicates substantial room in Myanmar to make the educational system more responsive to labor market needs. These findings are supported by an ADB-led education sector review on Myanmar focusing on technical and vocational education and training. The review found that vocational training is very supply-driven and the subjects taught have “no or little affiliation” with the labor market or the world of work.

**Figure 36: Educational system does not meet firms' needs**

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

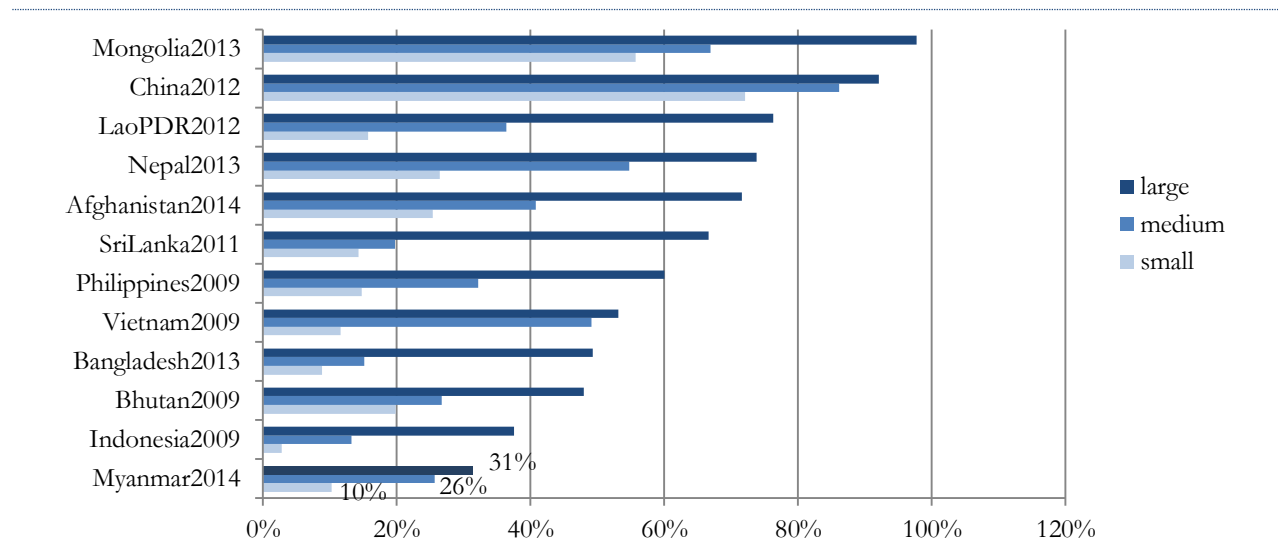


122. **Myanmar needs to improve the overall quality of the educational system.** The above results suggest that Myanmar needs to improve both the quality of the educational system, as well as make it more responsive to labor market demands in order to prepare students for the world of work. This will ultimately make Myanmar's workforce more productive and competitive.

123. **Notwithstanding the negative assessment of Myanmar's educational system, firms rarely provide training to their workers.** Firms do not seem willing or able to compensate for the low quality of education and to address the skills gap. Training is rarely provided because most firms see no need to provide formal training, or they fail to see the benefit to the firm of providing it. As in virtually all countries, large firms provide training more often than small ones. Importantly, modern, young,

innovative and growing firms provide training more often than traditional, old and stagnant firms. This suggests that firms that employ skilled labor are more likely to provide training to further enhance their human capital and productivity.

**Figure 37: Share of firms in manufacturing that provide training (%)**



124. **Modern and young firms are more likely to provide training than traditional and old firms.** The incidence of training among firms that introduced new products or technology is 26 percent compared with less than 12 percent among firms that did not. Start-ups (firms aged 0-4 years) are much more likely to provide training than older firms (29 percent vs. 6 percent among firms aged 5-9 years, and 4 percent among firms older than 20 years). This implies that a firm's young age is an important factor behind the provision of training.

125. **Myanmar firms seldom provide formal training to their workers because they do not see a need to do so.** About 90 percent of firms claim that they do not need to provide formal training programs. This is surprising given the widespread dissatisfaction with the quality of education received by the workers and complaints about a skills shortage. Probably firms use informal on-the-job training to address the purported skills gap and equip workers with the practical job-specific skills. Contrary to expectations, few firms mention affordability and the high cost of training programs as a factor. Some firms, however, report the lack of relevant training programs. The last reason points to room for improving the capacity of training providers and enhancing the scope of training programs offered. The insufficient availability of training programs may adversely affect the productivity of some Myanmar firms.

### ***Recent and ongoing reforms***

126. **Education reform is one of the key priorities set out by the government.** The 30-Year Education Development Plan (2001/02-2030/31) lays out strategies to promote greater access and to improve the quality of basic education. Some progress has been made.

127. **Some vocational training centers have sprung up in urban areas.** As the need for more and better workplace education has become more prominent, different groups and organizations have tried to respond with a variety of vocational training centers. These training centers are not (yet) coordinated in

any meaningful way, while the government is not involved in promoting such activities, or aligning them with overarching goals. Nonetheless, a National Skills Standard Authority (NSSA) was established in 2007 to improve the quality and relevance of vocational training, and improve access to it. The NSSA has developed skills standards for 155 occupations of which 55 have been applied in curriculum development.

128. **Reforms or programs to address workplace skills in particular have yet to be designed or implemented.** There are significant reforms underway to improve the basic education system in Myanmar, including those supported by development partners, including the World Bank Group. Programs that seek to address the workforce skills issue fundamentally and at scale are still rudimentary, however. The World Bank Group's Systems Approach for Better Education Results (SABER) and Skills Toward Employability and Productivity (STEP) survey tools would be useful in helping to inform which workplace skills reforms and programs are most required. The NSSA should be encouraged to continue developing a national vocational qualifications framework in close cooperation with stakeholders in the private sector, among others.

**Box 3: Case study – The investment climate for agriculture**

**Agribusiness has great potential in Myanmar, but is suffering from a lack of access to inputs and the consequences of inappropriate or inadequate government intervention.** Agriculture represents 35 to 40 percent of GDP and employs more than 50 percent of the country's workforce. However, these figures are mostly accounted for by smallholder subsistence production, mainly of rice. Subsistence farming in Myanmar is characterized by low yields, lack of input use, lack of mechanization, and poor quality outputs.

**Access to finance is especially problematic in agriculture.** The Myanmar Agricultural Development Bank (MADB) is the only major formal financial service provider in rural agriculture. Microfinance institutions are only just entering this market and commercial banks are not allowed to lend to farmers by law. And yet MADB lacks the capacity to provide adequate services and products to farmers. MADB's coverage, loan sizes, and tenors are all insufficient, with the result that farmers borrow in the informal market, increasing the overall cost to borrow in agriculture.

**The recently reformed framework of laws relevant to agriculture, the Farmland Law and the Seed Law, constitute useful steps toward liberalization, but more reform is needed.** Tight controls on rice exports through export licensing and the threat of export bans continue. These practices are stifling investments in the rice value chain and pulling down the entire sector.

**While the government is intervening too much in the rice value chain, it is not playing an adequate role in the input sub-sector.** The regulations for the recently passed Seed Law are suboptimal. In order to accommodate more private sector participation as the seed sub-sector grows, the focus should be on building capacity to inspect and certify increasing volumes of multiplied seed, including supporting the development of locally-adapted varieties of seed for its major crops. Myanmar invests only 20 percent as much as its regional counterparts in agricultural research. More is needed.

**Fertilizer use in Myanmar is one of the lowest in the world at only 6 kg/ha, which is directly related to the yield gaps experienced in its major crops.** The high costs of port clearance, transport, and distribution are keeping fertilizer prices unnecessarily high. Another factor contributing to Myanmar's relatively low rate of fertilizer usage is that many spurious fertilizers (and pesticides) reach farmers. Truth-in-labeling requirements are needed for inputs, including mechanisms to enforce such requirements.

**Finally, improvements in rural infrastructure are critical for the development of agriculture.** Roads along key trade corridors, coupled with well-placed rural feeder roads, can increase smallholders' access to market and reduce the cost and the time it takes to trade. As Myanmar's entrepreneurs strive to claim a larger and higher-value share of the international rice market, while also growing their exports of beans, pulses and corn, investments in road and irrigation infrastructure would support both domestic and foreign investors in filling the voids in input supply and distribution, equipment sales/leasing, aggregation, storage, processing and export.

## Chapter 3. Direct influence of government oversight

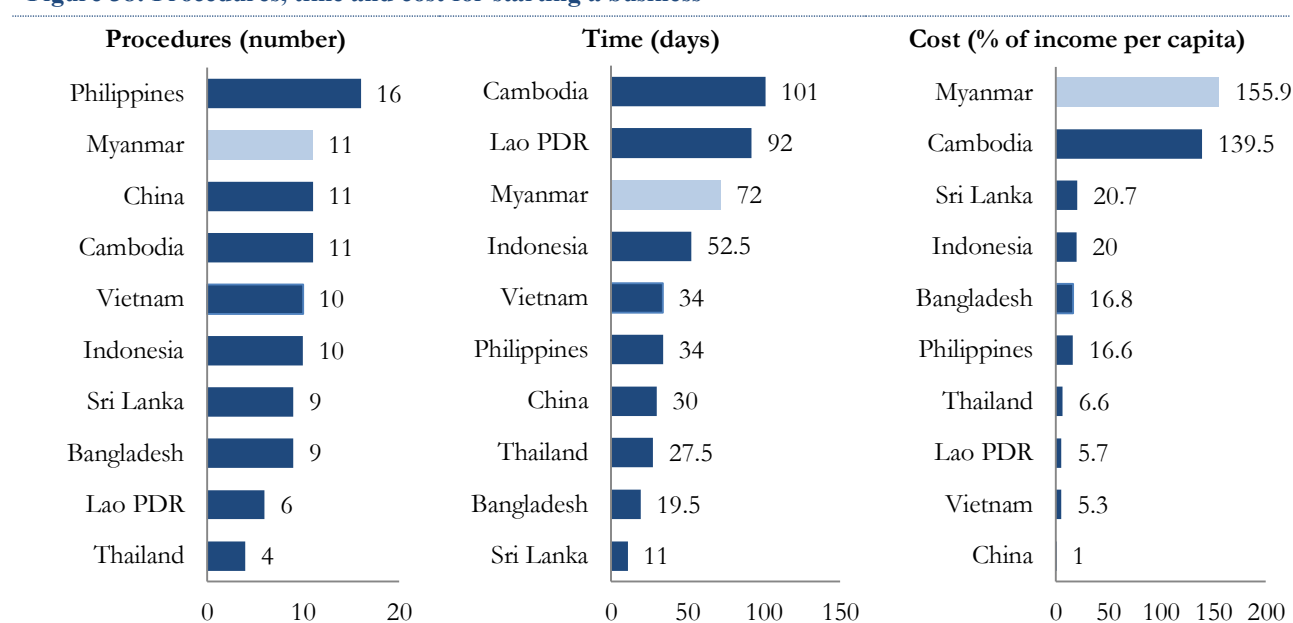
129. **As outlined above, this report distinguishes between the constraints that firms face due to the lack of inputs, and those they face in their direct interactions with the government.** This chapter now turns to the latter, in particular the regulation of firms, taxation, and the cross-cutting issue of corruption.

130. **The challenges that firms face in their direct interactions with government agencies should be relatively easier to identify and address, from a technical standpoint.** Since the government directly controls when and how it interacts with private firms, reforming such interactions should be relatively more straightforward, at least from a technical standpoint, since the challenges reside within the apparatus and operations of the government itself. By contrast, constraints to doing business caused by a lack of access to inputs are more indirect. Improving the access to finance, for example, ultimately requires actions by banks, even as such actions may be the result of a change in government policy. By contrast, if the government has one particular area that it should be well-placed to transform it is the direct interaction with firms in the private sector.

131. **Modern and efficient institutions to manage a competitive and innovative economy, and interact directly with firms, are only recently under development.** It is useful to remember the context of Myanmar's public administration. After five decades of a state-dominated economic system, coupled with a prolonged period of isolation from the global economy, institutional interactions that are attuned to the needs of the private sector are only now being established—and even then only very slowly. The goal of making it as transparent and easy as possible for firms to deal with the government has yet to be fully embraced by the various agencies. As a result, some of the potential for inclusive economic growth is not yet being realized. In the following sections the report looks at some of the most pertinent areas where reforms could have the greatest impact.

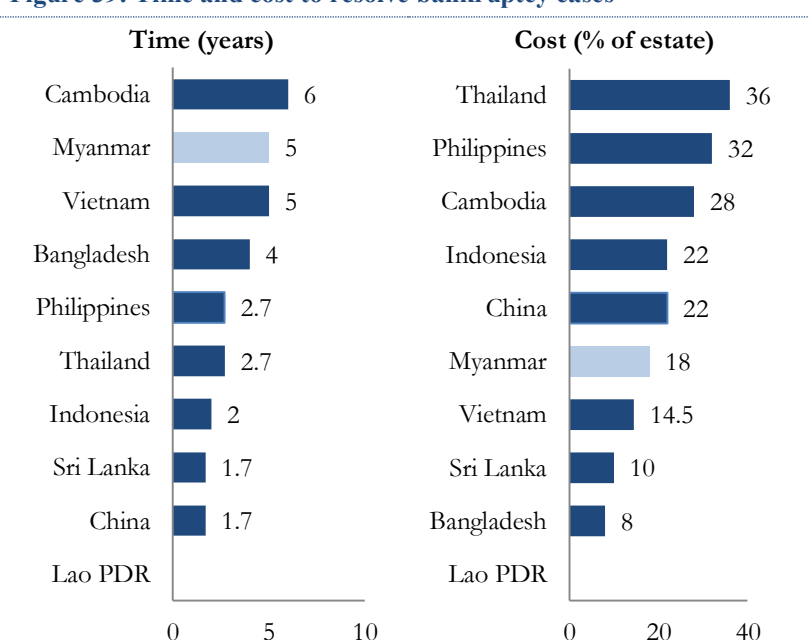
### 3.1 Firm regulation

132. **Myanmar ranks low for firms entering, exiting and operating in the economy.** Indicators that capture the constraints for firms to enter and exit the economy, such as the Doing Business indicators, paint a bleak picture. In terms of starting a new business, Myanmar ranks 189th, that is last out of all the countries surveyed. As illustrated in Figure 38, it takes 11 procedures, 72 days, and costs 156 percent of income per capita to start a business. It should be noted that recent reforms related to starting a business have not yet been reflected in the most recent report, and additional reforms are underway. It is expected that these will improve Myanmar's DB indicator on starting a business in future iterations, albeit from the lowest possible base. In terms of enforcing contracts and protecting investors, Myanmar ranks 185th and 178th, respectively. For firms exiting the economy, as captured by how difficult it is to resolve insolvency, Myanmar ranks 160th out of 189 countries.

**Figure 38: Procedures, time and cost for starting a business**

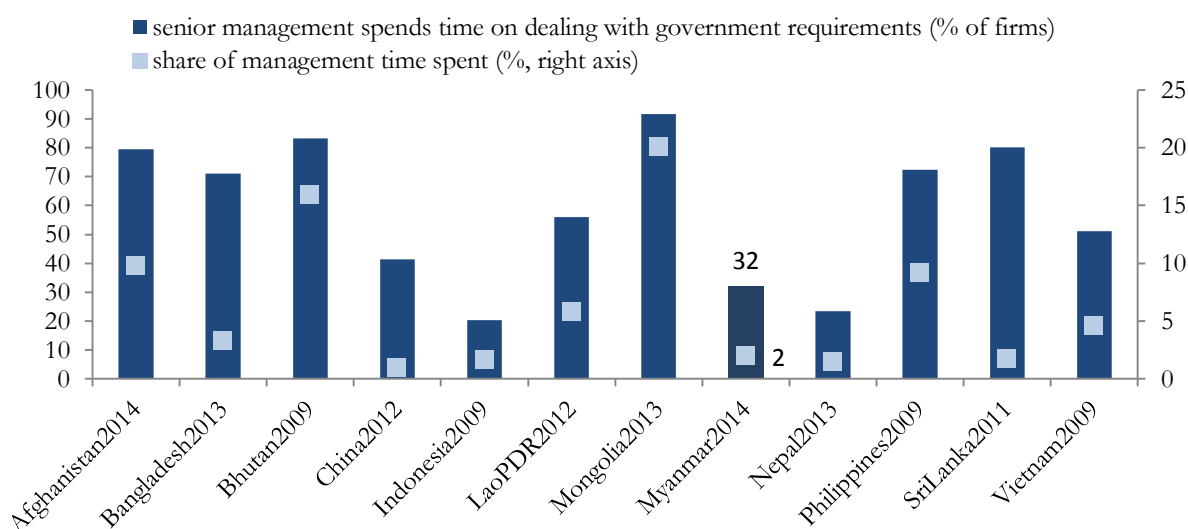
Source: Doing Business 2015.

133. **Similar to entering the market as a private firm, exiting is difficult in Myanmar.** The DB indicator on resolving insolvency shows that along with entry, exit is unduly costly and time consuming (Figure 39). Resolving bankruptcy takes a full five years in Myanmar; only in Cambodia does it take longer. And while resolving bankruptcy is costly in many countries of the region, 18 percent of the asset value is still a steep (and prohibitively steep) price. A difficult process for exiting constrains the dynamism in the private sector and thus reduces the contributions it can make to the economy as a whole.

**Figure 39: Time and cost to resolve bankruptcy cases**

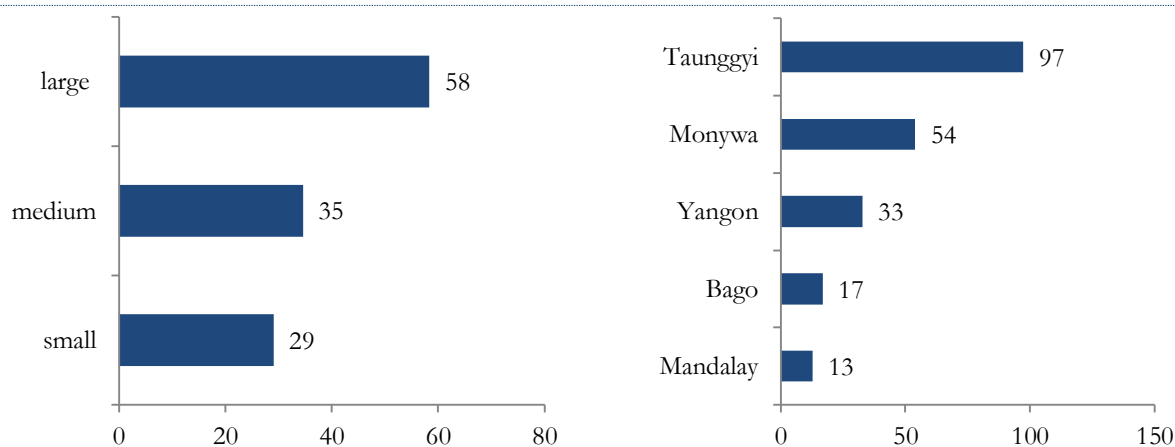
Source: Doing Business 2015.

134. **The Enterprise Survey suggests that most senior managers in firms do not spend much time dealing with government requirements.** For those who do, the time involved is relatively small compared with other countries in the region (Figure 40). In fact, among Myanmar's ASEAN peers, only Indonesian senior managers spend less time on government requirements. The share of senior management time spent on government requirements does vary across regions and size of the company (Figure 41), but remains overall low.

**Figure 40: Time spent by senior management dealing with government requirements**

135. **Firms manage to save time on regulatory requirements, because most of them are able to remain relatively informal.** As the description of the ES sample and estimated population in Chapter 1 indicated, only a small portion of businesses are registered as companies. Most businesses are registered at the municipal level only ( $\frac{3}{4}$  of the formal firms in the ES sample), or remain entirely informal. By contrast, it is the large firms that are more affected by government regulatory requirements. Not surprisingly, senior management in larger firms spends more time dealing with government requirements than smaller firms. About 58 percent of senior managers from large firms say that they need to spend time on dealing with government requirements, while the proportion in small firms is only 29 percent.

136. **There are significant regional differences in the burden of government requirements.** Only 13 percent of firms in the Mandalay region state that they spend time on government requirements, as opposed to almost all the firms (97 percent) in Taunggyi. Such huge differences between regions suggest that government agencies are not following the same standardized procedures from one region to another.

**Figure 41: Senior management spends time dealing with regulation (%), by size and region**

137. **Informal firms report to the Enterprise Survey that the fear of government interference is a major reason for avoiding registration.** Among the informal firms surveyed, the majority do not really see any benefit in registration. This could be due to the under-utilization of formal finance, which is even lower than it is for the formal firms. And yet, a third of informal firms report their desire to have their business registered, but about half of all firms cite time, fees, and paperwork required to complete registration as reasons why they are not registered.

138. **Notwithstanding recent reform efforts, the government approval processes to start up and operate a business in Myanmar are still very costly and time consuming.** Businesses are sometimes wary of the fact that government approval processes are not time-bound, leading to uncertainty in planning. While in some instances specific laws or policies may be relatively easy to comply with, at times the practices followed may be different and discretionary. The company registration process for rice millers and the hotel licensing process mentioned in greater detail below provide specific examples of bottlenecks and areas where improvements are needed.

139. **In addition, the inspection regime is non-transparent and unclear, particularly for small businesses.** Inspection for sectors such as rice milling currently does not provide adequate information (or no information at all) to businesses on what they are inspected on, and what criteria are followed for inspections, etc. While in some instances the information may be available within agency websites (such as the tax authority website on tax rates), the access to such information is uneven, at best. Therefore, enhancing transparency and greater provision of information to the private sector on selected areas would be an important signal to investors.

140. **Coordination among government agencies in overseeing private sector activity is sorely lacking.** A common issue that has been raised across the private sector is the number of agencies and ministries that businesses typically have to visit and the numerous inspections carried out by different government agencies. There are examples of good practices within the Asia region and around the world where inter-agency coordination has improved using different tools to enhance service delivery to the private sector. Examples include the (online) single window interfaces for licensing or customs processes that have been employed in the ASEAN region, but also worldwide, as they put the burden for coordination of any sub-processes squarely on the government as the operator of the single window.

141. **There is significant scope for improving and streamlining procedures.** Detailed reviews of economy-wide general licenses<sup>10</sup> and registrations, such as company registrations, small business registrations, inspections and taxation, have shown some of the potential. Similarly, reviews of typical licensing requirements to start up and operate a rice mill or a hotel suggest the potential for removing constraints on private sector activity in the formal sector. For large local businesses and foreign companies, the current company registration process governed by the Burma Companies Act of 1914, the Burma Companies Rules of 1940, and the Burma Company Regulation of 1957 (together: MCA) is burdensome and costly for businesses. The two-step procedure for obtaining temporary and then

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<sup>10</sup>Any ex-ante authorizations required for any business to commence commercial activities and operate. This includes all licenses, clearances, permits, approvals, certificates, recommendations, authorizations, accreditations issued by any regulatory authority such as ministries and agencies. Licenses typically impose on businesses a range of conditions, obligations and rights. See *IFC Licensing Policy Framework, 2010*.

permanent certificates is unnecessary and lengthy, and not in line with good practice. Lawyers' fees vary from USD 5,000 to USD 18,000 depending on the complexity and size of the business for completing the case, which includes the preparation of the documents and their presentation to the Directorate of Investment and Company Administration (DICA) as well as to the Myanmar Investment Commission (MIC).

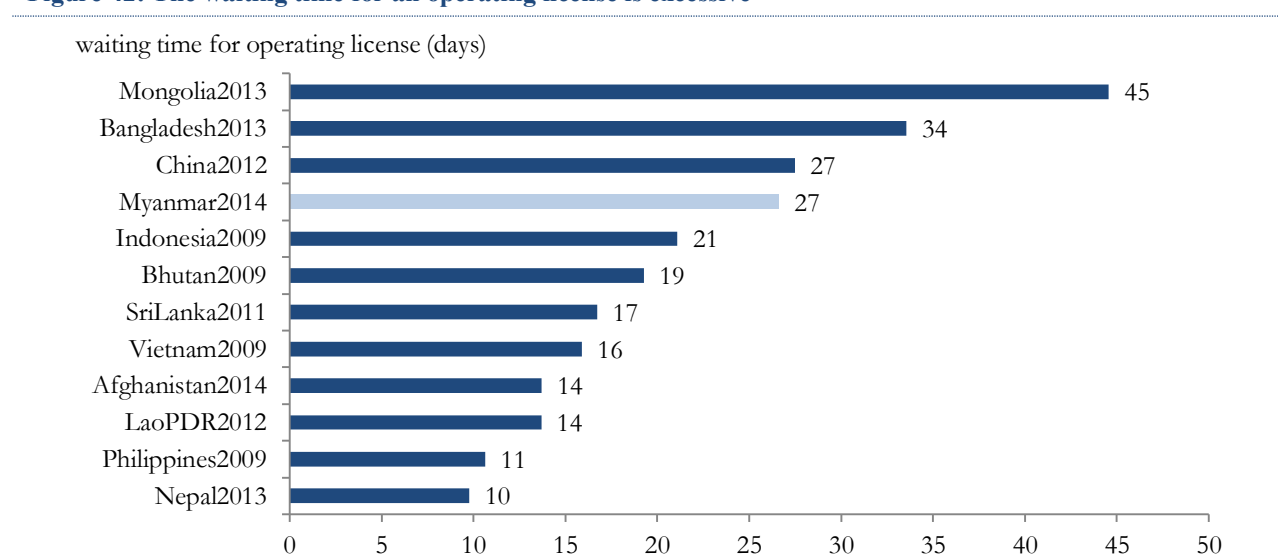
142. **The government has been instituting reforms to reduce and eliminate very high minimum capital requirements.** The paid-in capital required amounted to USD 50,000 for certain types of companies (services companies), while for infrastructure and manufacturing companies it was USD 150,000. This is in stark contrast to 90 economies globally that have no paid-in minimum capital requirement at all, according to the Doing Business data. For foreign firms, the fund transfer process from abroad to Myanmar is complex and lengthy. There is a lack of clarity over whether local banks require foreign firms to produce two specific forms (Forms No. 6 and 26) from the DICA or not, and there is inconsistency in applying such practices among different banks. Although the Company Law allows for share transfers, in practice, share transfers in a local company from a local shareholder to a foreign shareholder have been problematic.

143. **Sector-specific licensing requirements are overly onerous in Myanmar.** For example, the many licensing requirements for a rice mill to start up and operate act as a hindrance to further growth. These requirements are very costly and time consuming for rice millers to comply with. For example, to be able to operate, rice millers have to obtain seven different licenses and permits, and can expect on average about seven inspections annually. A rice miller has to comply with requirements and separate regulations and inspections from at least four ministries. The cost of complying with the current licenses and inspections cost around USD 1,400 per rice miller annually.<sup>11</sup> It takes about 45 days for a rice miller to obtain all the required licenses/permits. The inspection regime for rice millers is also burdensome. The current practice is that inspections are carried as a requirement for relevant agencies to renew licenses every year. Rice millers are inspected seven times annually on average and there is no risk-based approach to inspections. The requirements and criteria for inspections are arbitrary and non-transparent.

144. **Firms in Myanmar generally have to wait longer for operating licenses to be granted than in comparator countries.** About 69 percent of firms report having applied for an operating license, a number that is fairly similar to other countries. However, on average firms have to wait 27 days for an operating license, while in Indonesia the wait is 21 days, and only 11 days in the Philippines. With 27 days waiting time for an operating license, firms in Myanmar face the longest wait among the ASEAN countries.

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<sup>11</sup> Interview with the Rice Millers Association.

**Figure 42: The waiting time for an operating license is excessive**

145. **Similar to rice-millers, licensing for hotels is overly complicated and presents a constraint to high-quality growth.** Myanmar is currently experiencing rapid growth in international tourist arrivals and tourism receipts, being strategically located in Southeast Asia. In 2012, there were around 1 million tourist arrivals in Myanmar and tourist arrivals grew by almost 30 percent compared with 2011.<sup>12</sup> To cater for in-bound tourists from abroad, Myanmar has about 787 hotels/motels/guest houses (28,291 rooms available) operating in the country. The hotels and other tourism businesses are governed by the Myanmar Hotel and Tourism Law of 1993. Hotel businesses in Myanmar obtain necessary licenses from the DICA, the Yangon City Development Committee (YCDC), and the Ministry of Hotels and Tourism (MOHT) to start operating. The process to start up a hotel is complicated and costly.<sup>13</sup> The overall process may take between 3 to 6 months to comply with all the requirements, including preparation and submission of all supporting documents. The official fee to obtain the hotel license is around USD20 per room.

146. **A major problem is the sheer complexity of the current regulatory framework.** Half a dozen laws currently regulate firm entry, depending on the sector and location of the investment and on whether or not the investor is foreign. In addition, the approval process is just as complex, with firms sometimes requiring overlapping approvals and facing time-consuming and unclear criteria for scrutinizing individual projects. If these regulatory processes are not streamlined, they risk creating bottlenecks as investment proposals jostle against capacity constraints in DICA.

### ***Recent and ongoing reforms***

147. **Significant progress has been made in terms of the legal framework for investment, though the real difficulty lies in the implementation.** A new Foreign Investment Law was promulgated in 2012, the Myanmar Citizens Investment Law in 2013 and Special Economic Zones Law in 2013, all of which provide generous tax holidays and duty exemptions to investors. The Foreign Investment Law in

<sup>12</sup> Myanmar Tourism Master Plan 2013-2020

<sup>13</sup> Interview with selected group of hotels.

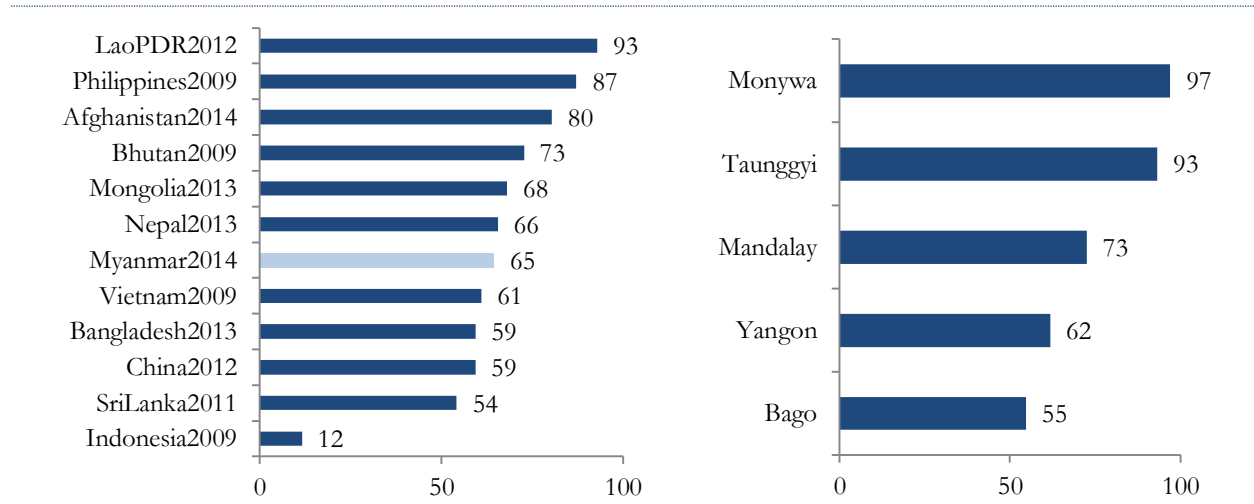
particular is a major step forward in creating a more secure legal environment for foreign investment, but still leaves questions regarding investor protection and the criteria for admitting foreign investors. A key issue according to investors is the opaque and onerous procedures for obtaining approvals from MIC. MIC is the gateway for approval of domestic investors seeking incentives and virtually all foreign investors. Without MIC approval, foreign investors have no right to lease land for over one year, import or export, hire expat workers or repatriate funds. The government has recognized the need to strengthen investor protections, streamline entry and screening procedures for domestic and foreign investment, and rationalize incentives. The WBG is supporting the design and implementation of such reforms through technical assistance.

148. **Myanmar’s initial rounds of reforms related to legislative and institutional strengthening over the past couple of years have started to have some effect.** Myanmar hopes to continue the reform momentum in the coming years and make significant strides in terms of ease of business, investment facilitation, and job creation with the ultimate objective of sustained growth and shared prosperity. As many of the reforms in firms’ entry, exit and operating licenses lie within the government’s realm of responsibilities and their interactions with the private sector, there is hope that rapid progress can be made. If so, Myanmar’s international ranking in terms of ease of doing business should begin to rise more noticeably, and such a signal would not be lost on private sector investors.

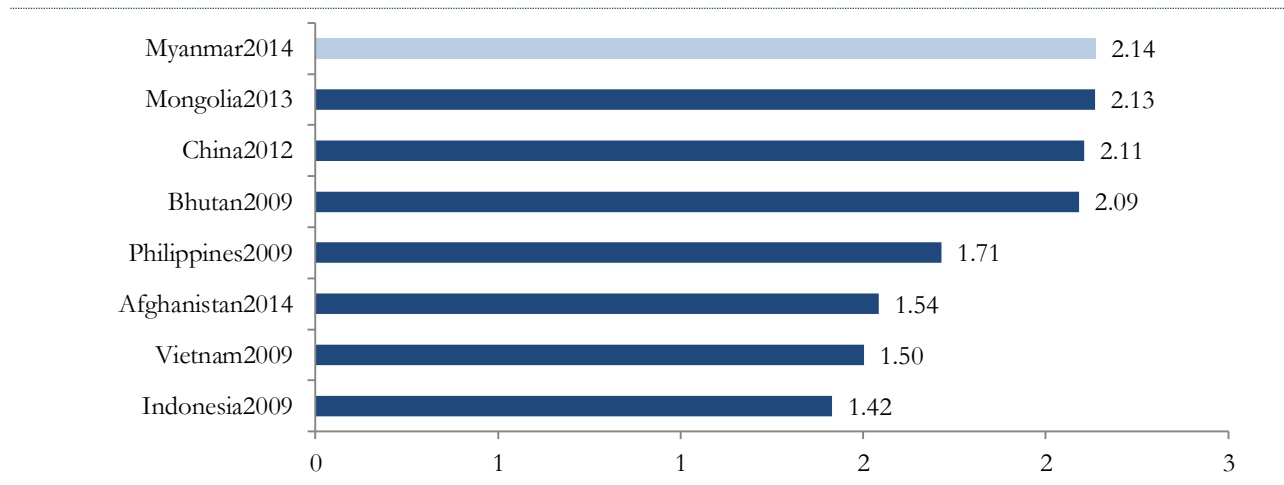
## 3.2 Taxes

149. **Similar to business regulation, the ES results are likely to underestimate the problems that firms face with regards to taxation.** Businesses are not generally aware of the actual tax rate or exactly how the amount of tax due is calculated. Businesses often end up paying a “minimum amount” of tax based on the size and type of business and the frequency of paying taxes. In that sense, similar to business regulation, firms are able to avoid some of the administrative burdens of taxation, by staying relatively informal.

150. **The number of visits that firms receive from tax officials is relatively high and very uneven.** According to the ES, about 65 percent of firms report having been inspected by tax officials (Figure 43). This puts Myanmar roughly in the middle of the pack, compared with other countries in the region. But across Myanmar, this percentage varies dramatically. While almost all firms in Monya (97 percent) are visited by a tax official, barely more than half of the firms in Bago (55 percent) report a visit in the past year.

**Figure 43: Share of firms visited or inspected by tax officials (%)**

151. **In order to pay taxes, firms in Myanmar have to meet with tax officials more frequently than in many other countries.** Although the overall tax revenue collected by the state is very low in Myanmar, the average number of visits by a tax official is higher for firms in Myanmar than for their competitors elsewhere. The frequent interaction between taxpayers and tax officials is largely a result of the lack of a system for self-assessment and for risk-based compliance management.

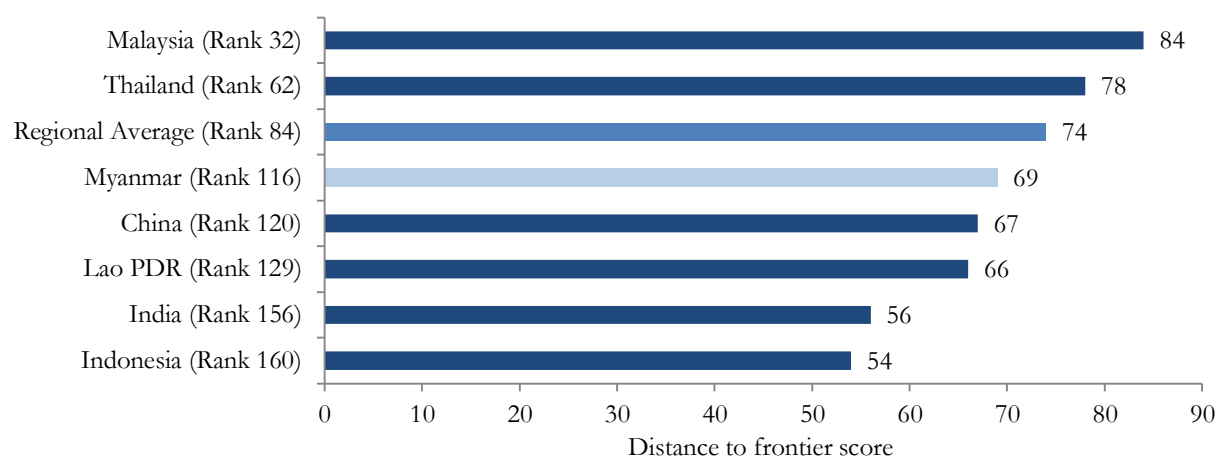
**Figure 44: Average number of times in a year firms met with tax officials**

152. **One of the most critical deficiencies of the current tax system is the absence of a dedicated law on tax administration.** Without a dedicated law on tax administration, business processes and procedures for various types of tax may be interpreted inconsistently across tax laws and regulations. Currently, the tax structure is overly complicated, with 15 different types of taxes and duties collected by seven different departments falling under six ministries. In practice only two taxes, commercial tax and the income tax, contribute more than 90 percent of total tax revenues, with state economic enterprises (SEEs) being the main revenue source for income tax collection.

153. **Taxation is very cumbersome for firms to comply with, and overall tax revenue in Myanmar remains low.** Most firms find it difficult to comply with the taxation system, and this is reflected in the low ratio of tax-to-GDP of less than 10 percent. This is extremely low by any international comparison and insufficient to sustain the desired levels of economic growth for a country such as Myanmar. Such a low tax ratio also forces the government to be over-reliant on unstable revenues from natural resources in order to meet its spending needs.

154. **Myanmar is 116th in the ranking of 189 countries on the ease of paying taxes.** According to the WBG's Doing Business survey, on average firms spend 154.5 hours annually filing, preparing and paying taxes, including the time needed for meeting with local tax officials to discuss tax receipts, and make 31 tax payments a year. On average firms in Myanmar pay total taxes amounting to 47.7 percent of profits. Although Myanmar scores significantly lower than the East Asia and Pacific average, which is equivalent to a ranking of 84th, it still scores higher than some of its ASEAN peers. For example, Lao PDR and Indonesia rank lower, at 129th and 160th, respectively.

**Figure 45: How Myanmar compares with other countries on the ease of paying taxes**



Source: *Doing Business 2015*.

### **Recent and ongoing reforms**

155. **A number of important reforms are planned for the coming months.** Self-assessment for income taxation is scheduled to be implemented in the large taxpayer office starting in April 2015. At the same time a dedicated taxpayer service and assistance program, as well as a taxpayer risk assessment capacity is planned. In addition to the self-assessment system, a Tax Procedures Code, is currently being developed and is expected to enter into force in 2015. The large taxpayer office is now responsible for the administration of around 460 large businesses. Following the large taxpayer pilot it is planned to also establish functionally organized medium and small taxpayer offices.

156. **On the tax policy side, several reforms are being envisaged to better align the tax system with standard international practice.** Of key importance will be the replacement of the existing commercial tax by a value-added tax (VAT). The current commercial tax is a turnover tax with cascading features and a relatively low tax rate of generally 5 percent. To at least reduce the impact of cascading on export competitiveness, commercial tax on most exports has now been eliminated. However, cascading

remains an issue for domestic production and distribution. Authorities are taking a prudent approach with regard to the timing of VAT introduction and the immediate emphasis is put on building administrative capacity for VAT administration. The actual operation of the VAT system will therefore probably not start before 2018.

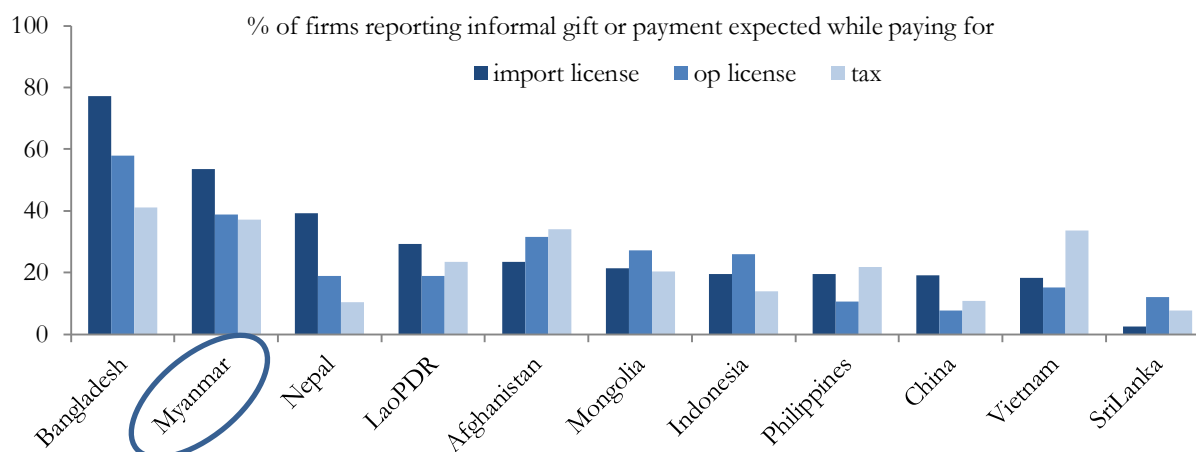
157. **More imminent is the reform of the excise tax regime.** Excises currently are part of the commercial tax, and Schedule 6 of the Commercial Tax Law lists 18 items that are taxed at a higher rate than the standard commercial tax rate. A special excise tax law is expected to streamline the regime, align the excise tax burden with regional and international standards, and contribute to additional revenue mobilization from excises.

158. **Finally, a new tax law was recently issued, although there is already discussion of revising it.** A clearer and more transparent definition of the income tax regime and reduced possibilities for tax planning and tax avoidance are particularly needed, for example, through creating the legal base for transfer pricing adjustments. An issue for further reform of the direct tax regime will be the introduction of a simplified tax regime for small businesses.

### 3.3 Corruption

159. **Firms do not report corruption as being a main constraint in the ES, and yet they pay bribes very frequently in order to facilitate specific transactions with the government.** While corruption is mentioned only barely more often than crime, as a main obstacle, the ES confirms previous findings that the incidence of corrupt practices in Myanmar is high. Frequent bribes to facilitate transactions with the government undermine and complicate the enforcement of the formal regulatory environment. The percentage of key transactions where firms are expected to pay a bribe is very high in international comparison. As Figure 46 below shows, only firms in Bangladesh report having to pay a bribe more frequently in order to obtain an import license, an operating license, or pay their taxes.

**Figure 46: Informal payments required for getting specific things done**



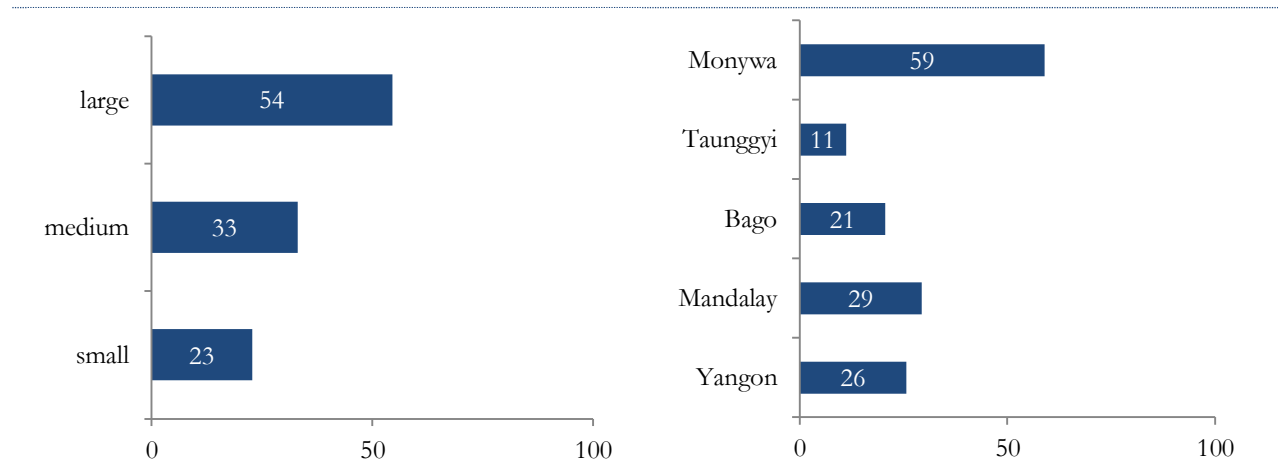
160. **The high incidence of corruption aligns with other comparative assessments.** The size of the problem that corruption presents seems to be confirmed in Transparency International's Corruption Perception Index, which ranks Myanmar 157th out of 177 countries in 2013. The differences between the

ES and other indicators may be partly explained by frequent payments being accepted as the norm and therefore not perceived as a constraint. However, further research will need to be done to provide insight into perceptions on corruption.

161. **The seemingly low perception of corruption as the main obstacle in ES must be kept in perspective.** It is important to keep in mind that questions regarding the perception of constraints are sensitive to the manner in which the question is asked and to external factors, such as macroeconomic conditions (Kaplan and Pathania, 2010). If respondents are given the choice to name several obstacles, as was the case in the recent Myanmar Business Survey for example, instead of naming the single most important obstacle, it is easily possible to get a very different result. It is possible to assume a scenario where two different types of questions are given to the same respondents. These respondents all feel corruption is the second or third most important obstacle to their business, but they all have different opinions as to what is the single most important obstacle (financing, land, etc.). In such an example, the main obstacle identified by the survey would depend entirely on how many answers are allowed in the question. If multiple answers are allowed, corruption (mentioned most frequently, in second or third place) is the most important obstacle; if only a single answer is allowed, corruption (never mentioned first) would not even appear. Aside from the methodology of the question influencing results, corruption can also be so commonplace that firms do not perceive it as a serious obstacle, even as bribes are frequently paid. Firms in Myanmar have been to some extent conditioned by decades of interactions with government agencies and officials who did not feel it was their job to make life particularly easy for them. Corruption, in that sense, is just ‘how it works’ rather than an obstacle. This nuance matters because changes in attitudes may influence the answers given in future surveys.

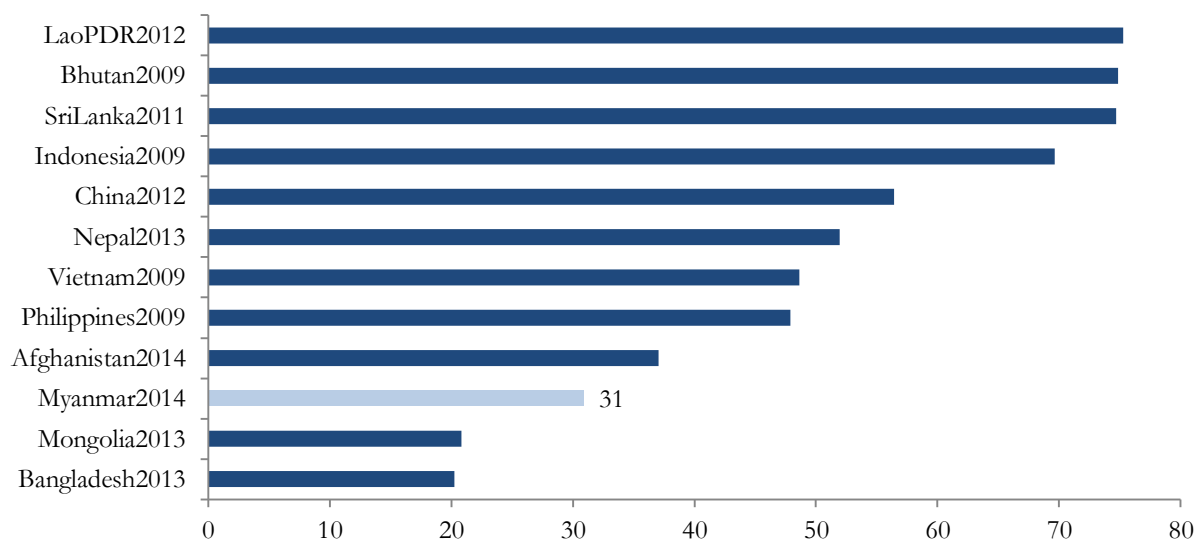
162. **Larger firms are expected to pay more bribes than smaller firms, as are firms from Monywa region.** Twenty-seven percent of firms report paying bribes generally, independent of any particular transaction. The firms’ experience here differs depending on their size and the region they are from. While a majority of large firms report having to pay bribes/ offer gifts, less than a quarter of small firms do so (Figure 47). This finding is in line with the number of large firms reporting that senior management spend more time on government requirements in the first section of the chapter. There is significant regional variation in Myanmar when it comes to the frequency of paying bribes. For example, firms in Monywa are five times more likely to be expected to pay a bribe than firms in Taunggyi.

**Figure 47: Firms paying bribes/informal payments/gifts (%), by size of the firm and by region**

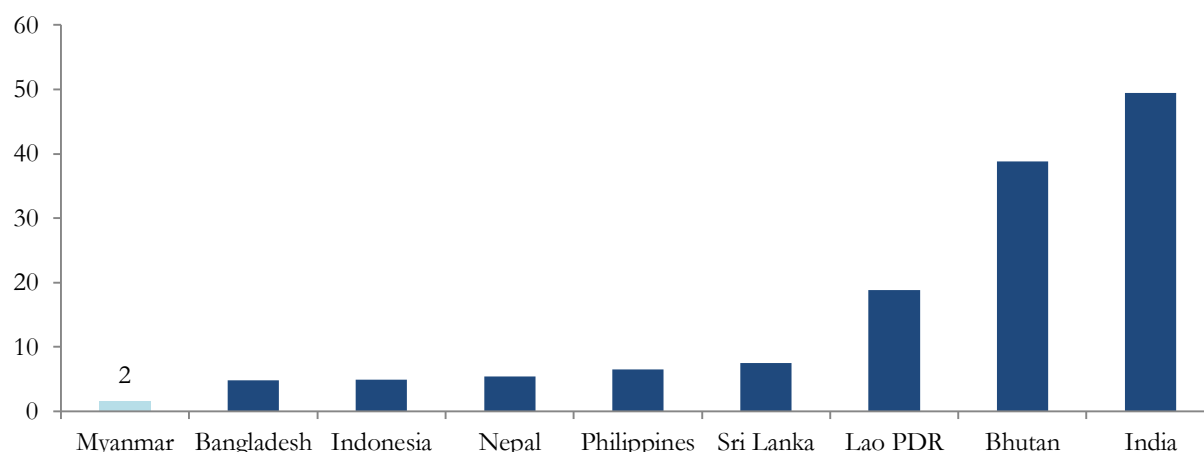


163. **Additional measures of firms' perception of corruption and the strength of the rule of law reveal the challenge further.** According to the ES, less than a third of respondents believe that the court system is fair, impartial and uncorrupted. That is a lower percentage than in all comparator countries with the exception of Mongolia and Bangladesh. The proportion of firms in neighboring Lao PDR or even Indonesia believing that courts will treat them fairly is more than double. Given the history of military rule, there remains a strong perception within civil society that judges are susceptible to corruption and bribery. Moreover, judges have seldom given any explanation or written justification for decisions.

**Figure 48: Share of firms believing the court system is fair, impartial and uncorrupted (%)**



164. **An additional vector of quasi-corruption is the overall disadvantage that private firms have relative to firms owned by the state or the military.** As mentioned in Chapter 1, the SEEs and the military-owned holding companies enjoy significant privileges that private firms do not get. One such privilege is being a preferred supplier for goods and services to the government through regular procurement mechanisms. Private firms are given the opportunity only when SEEs or military-owned companies cannot deliver. Even though the practice may have a legal foundation, it clearly runs counter to the declared goal of encouraging private sector participation. Therefore, insofar as this practice continues to this day it constitutes an important form of corruption or state capture, as it constitutes a misappropriation of public resources by systematically favoring a particular set of firms to the detriment of many firms. More generally, it prevents the establishment of a level playing field in the economy. Indeed, a mere 2 percent of firms have actually tried to obtain a government contract. That is the lowest figure in the region. It is less than half of the proportion in Bangladesh and Indonesia, at 5 percent each, the two next lowest countries.

**Figure 49: Share of firms who attempted to obtain a government contract (%)**

### ***Recent and ongoing reforms***

165. **The government is making efforts to start reforms and an Anti-Corruption Law was enacted by parliament in 2013.** After a year of deliberation, a new Anti-Corruption Law was passed by parliament in August 2013. The Anti-Corruption Law aims to improve transparency within the government, to take effective action against corrupt public officials, improve the country's economic development, and attract foreign investment. Once it enters into law it will, among other things, require all officials in the executive, judicial and legislative branches of government to declare their assets. This stipulation was the subject of a vigorous debate among lawmakers, illustrating the challenges that could lie ahead.

166. **A new 15-member Anti-Corruption Commission was announced early in 2014.** As required by the Anti-Corruption Law, a new Anti-Corruption Commission has been established and tasked with implementing the Anti-Corruption Law. The commission's members were chosen in February 2014 from a list of former senior civil servants, lawyers, auditors, lawmakers, and military generals submitted to parliament by the President.

167. **As part of the overall reform program, the government is seeking to improve its capacity for good public financial management.** Improving the way the government manages public finances in general will help to tackle corruption. Procurement reform, for example, may serve to address some of the issues identified in the report.

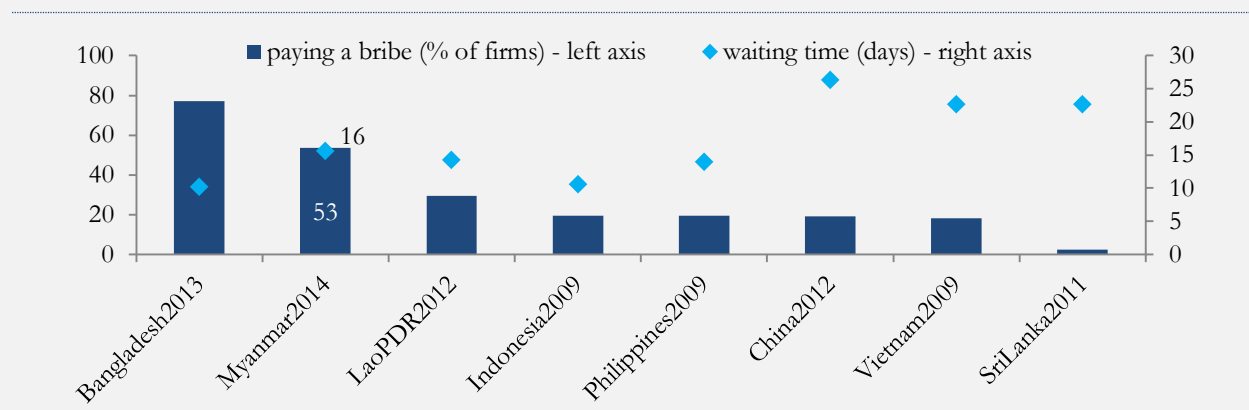
168. **The Extractive Industries Transparency Initiative (EITI) has accepted Myanmar's application to become a candidate country.** EITI has evolved to become a global standard encouraging better governance of the extractive sector in each of its member countries. A new Myanmar EITI (MEITI) Coordination Office has recently been established and Myanmar's application to become an EITI candidate country was approved by the EITI Board in July 2014. Myanmar joins 45 other countries that have committed to improved transparency of government revenues from the extraction of natural resources through implementing EITI's global transparency standard. EITI provides a global framework that enables countries to ground its practices in national priorities for extractive sector reform as a means of delivering meaningful change.

169. **As an EITI candidate country, Myanmar will be required to disclose details on its extractive industries.** As an EITI candidate country, Myanmar, which has significant mineral and hydrocarbon deposits (including oil, gas, gold, copper, jade and gemstones, among many others) will now be required to publicly disclose a range of information about its extractive industries in an annual EITI report. In particular, this information will include payment and revenue data, and production data, as well as information about how licenses are allocated, who the license-holders are and other contextual information about the extractive industries. Myanmar has 18 months to produce its first EITI report and will need to meet all of the requirements of the EITI Standard within three years in order to become an EITI compliant country.

#### Box 4: Case study – Trade

**Excessive and outdated government regulations and compliance procedures are the critical constraint on trade.** This problem undermines the connectedness of the economy to international markets and global value chains. It also exacerbates the fact that most firms do not export, as outlined in Chapter 1, and the economy as a whole is not well integrated with the markets of its neighbors, let alone global markets.

**Border management follows an archaic process.** There are burdensome requirements for obtaining trade licenses. Plus, for trade-related regulations, there is a lack of transparency. In addition, the automation of processes and use of ICT is still very low. The combination of these two factors enables a high level of discretion in the border clearance process. The resulting uncertainty is prohibitively costly for many would-be traders. The figure below illustrates the comparison of obtaining a trade license. For firms in Myanmar, a majority have to pay a bribe to get their license. Only firms in Bangladesh pay a bribe more frequently than in Myanmar, although the Bangladeshi firms do not have to wait as long. By contrast in Myanmar, the process takes on average more than 15 days.



**Burdensome regulation is further limiting the ability and incentives for private firms to respond to trade opportunities.** Logistics service providers, for example, are often unclear about the regulation. The Logistics Performance Index, a global benchmarking tool, shows that Myanmar's sizable gap with the rest of the region in terms of trade logistics has remained roughly the same.

**Finally, the lack of access to financing impacts trading firms especially.** The financial sector does not seem to catch up with the needs of traders. This is partly due to regulations making it difficult to transfer money out of the country, and partly due to the overall weakness of the financial system.

**The government has undertaken a number of important reforms.** Among the Doing Business indicators *trading across borders* is where Myanmar does best in the 2015 report, thanks to the recent elimination of a host of import and export licenses. Myanmar now ranks 103<sup>rd</sup> out of 189 economies. Expanding on this partial success, a comprehensive diagnostic on barriers to trade is underway, setting up a broader reform program.

## **Chapter 4. Reform agenda – next steps**

170. **Building on the analysis of the Enterprise Survey (ES) data, as well as the qualitative analysis, a number of policy recommendations can be made.** The emphasis is on addressing the lack of competition in the economy by introducing greater certainty and consistency in the rules and regulations. In this chapter, potential next steps are discussed, both for the reform process, as well as for the content of the reforms.

171. **To put the recommendations below into context, it is worth acknowledging the reforms that this ICA does not deal with.** There are a number of policy areas where reforms are needed and where reforms are underway or planned. These will impact, at least indirectly, the investment climate. And yet, the ICA does not discuss these topics in detail. The reason for excluding them is primarily to follow through on the prioritization that the government has explicitly asked for. The topics not discussed further include public financial management; improvements in ICT infrastructure; improvements in transportation networks, especially rural roads; and access to essential services and safety nets to facilitate labor mobility.

172. **The recommendations from this ICA are also about what the government should do less of.** The preceding analysis clearly points towards areas where the government should become active to develop an effective and streamlined mechanism to process issues such as access to secure tenure of land, or tax payments for small businesses. Just as important, however, are the areas where the government should do less, for example by eliminating unnecessary procedures or doing away with burdensome or unfair restrictions. Such areas for reform are perhaps even more important, because there is no technical reason for the government to delay the implementation of reform.

173. **The rapid transition from a state managed economy toward one in which the government plays a role as regulator has inherent risks.** There are lessons to be learned from several countries' past experience of rapid transformation. This includes: (i) the need for sustained and high-level political will; (ii) avoiding too rapid and poorly sequenced reforms; and (iii) clear delineation of the divisions of responsibility and coordination between the different levels of government. Furthermore, as the government takes on more of a regulatory role, this will also require building and sustaining greater credibility and trust with the private sector. Similarly, privatization of state-owned enterprises will need to be carefully sequenced so as to avoid disruption to services and economic activity.

174. **Focusing on implementation cannot be overemphasized.** Especially as the pace of reforms looks to remain high, careful implementation is critical. Pushing the reform process too far too fast can be dangerous. Instead, it is important to acknowledge that the capacity of the government to implement reforms is clearly (still) limited. In some instances, so-called second-best reforms may be preferable if their implementation is stronger. Building a reputation as a capable overseer of the economy will be a longer-term proposition for the government, which will require consistent and steady reform, rather than speed.

## 4.1 Reform process

175. **In order to sustain the reform momentum and ensure appropriate implementation, the process of reform matters just as much as the content.** Just as important as what to reform is how to reform. Maintaining the reform effort and institutionalizing achieved reforms depend on a mechanism for making all stakeholders part of the process and making them believe that their voice is being heard.

176. **The private sector has established, with the full participation and endorsement of the government, the Myanmar Business Forum (MBF).** Prior to the establishment of the MBF, the government lacked the necessary long-term and sustainable platform for consulting with the private sector, relying instead on ad hoc consultations. To ensure private sector involvement in the reform process an effective public-private dialogue mechanism is needed. The private sector has taken steps to create such a platform through the Union of Myanmar Chambers of Commerce and Industry (UMFCCI), which has established the MBF. The Ministry of Commerce has been assigned the role of government MBF focal point.

177. **The formation of the MBF is a major milestone for future investment climate reforms.** Although the current capacity to coordinate and sustain such a public-private dialogue is scarce among the relevant private and public institutions, the initiation of the MBF constitutes a critical step for ongoing and future reforms. Development partners have pledged to support this mechanism for prioritizing, specifying, and monitoring the implementation of reforms related to the investment climate. As of this writing, several thematic working groups organized by business sectors have begun their discussions to come up with a reform action plan to present to and discuss with the government.

178. **In the medium term, it will be particularly important to extend the membership of MBF so that as broad a range of private firms feel represented in these discussions.** While the launch of MBF is an excellent start, once its work becomes more routine and initial successes are achieved it will be important to ensure that a large proportion of private firms feel represented. This is important not only for providing input to an action plan, but also to become more aware of and engaged in a general sense with the ongoing reforms.

### Box 5: Protecting the public interest during time of transition

**The protection of the environmental, cultural, and social endowments of the country and its people, remains a key function of the government.** If the high pace of reforms and the desired rate of economic growth are to be maintained over a longer period, it is critical to avoid the appearance that the country's most precious, irreplaceable assets are being neglected or even sacrificed for abstract ends.

**Greater participation of the private sector in the economy has to be accompanied by more deliberate protection of Myanmar's public goods.** The private sector, by itself, does not protect the public's interest in, for example, a clean natural environment very well. Therefore, as Myanmar's private sector grows, it is important for the government and relevant stakeholders in civil society to improve their protection of public goods. Such an emphasis is especially important during a time of economic transition.

**Protection of natural resources matters especially in rural areas.** The rural population is particularly vulnerable to environmental degradation and so its protection is also a matter of equity and social cohesion. To better protect Myanmar's forests, there is a role for the government to enable and promote institutions like community forest user groups. To protect water resources, more sustainable water management is needed throughout the country. Freshwater resources in Myanmar are abundant, but water quality has rapidly deteriorated as a result of urbanization, industrialization, mining activities, and a lack of adequate sanitation facilities. When it comes to mining, Myanmar currently lacks the necessary laws and enforcement mechanisms to protect its environment and vulnerable populations against the impacts of mining. Over the past two decades, this has led to conflict and severe environmental degradation in the wake of a rapid increase in large-scale mining.

## 4.2 Policies to facilitate access to inputs

### Finance

179. **Myanmar has an ambitious and far-reaching reform program for the financial sector that is being implemented cautiously.** The reforms have the potential to significantly improve access to finance across the country. However, the reforms have triggered concerns in the domestic banking sector over exposure to competition. Going forward, key areas for further reforms to improve access to finance should include the following.

180. **There is a need to strengthen supervision of banks and microfinance institutions.** Efforts to liberalize the regulatory framework must be matched by strengthening the capacity of regulators to effectively implement and enforce rules and regulations. The quality of financial system supervision must be brought into line with international standards. As reforms are being considered, the authorities need to take into consideration the regulatory impact of certain restrictions on access to finance and carefully balance measures to minimize risk in the system without unduly restricting access to finance. Ultimately, financial stability is the key prerequisite for building an inclusive financial system. And a critical component to secure financial stability is to build and maintain the capacity of banking supervision.

181. **A core financial infrastructure needs to be put into place, along with the development of capable and well-resourced supervision of the financial system.** In the short term, the core infrastructure should include an interbank market and a payments and settlement system, including as a minimum the architecture to allow retail payments and the eventual use of mobile banking. In the medium term, a sound accounting and auditing system, strengthened corporate governance, depositor protection, a

government securities market, credit information, and an adequate consumer protection framework, together with a dispute resolution mechanism should be developed.

182. **Reform of the legislation and registration systems for movable and immovable collateral will make a big difference in terms of access to finance.** A major shift away from land as collateral is important in order to open up access to finance for firms. Legal reforms enabling the use of movable collateral and the institution of a unified national collateral registration system, as well as improvements in land titling and registration, are fundamental steps that would help to enable a functioning credit market in Myanmar.

183. **Improving efficiency and strengthening governance of state financial institutions.** The government needs to carefully consider the changing roles and functions of the four state-owned banks as it overhauls the overall financial system. Ideally, this should be done within the context of banking supervision by giving the supervisors the mandate to protect the financial system from any risk that the state financial institutions might pose. In countries around the world, state-owned banks when poorly managed pose a significant fiscal risk. They also have the potential to undermine the development of a viable private banking sector. From the access-to-finance point of view, there needs to be a level playing field among state-owned banks and private-owned banks, and a clear delineation of roles. In many countries, state-owned development banks play an important role, for example by providing longer-term financing through wholesale activities, without undermining the private sector.

184. **Strengthening the financial sector will require building capacity and skills.** Given the rapid expansion of the financial industry in Myanmar in the past few years there is an enormous need to train a cadre of financial professionals to run the country's modernized financial system. There is a need for a coordinated effort by both private and public sectors in the financial sector to put in place a financial skills development framework, including regular training and exchanges with international professionals, both private bankers and regulators.

## **Land**

185. **Land tenure issues in Myanmar remain a serious constraint on business despite some recent progress to improve the regulatory framework.** Also due to historical grievances, land disputes and conflicts over land continue to impact the security of tenure. Looking to the future, the following key areas for further reforms should be considered.

186. **The process for transferring land use rights should be made easier, cheaper, and quicker.** A good start in the near term would be to improve the processes captured by the Doing Business indicator "registering property". Making the official transfer of a land-use right easy and quick would make a big difference. This should be initiated right away and should be able to be accomplished relatively quickly.

187. **The government should consider the implementation of the World Bank Group's tried-and-tested Land Governance Assessment Framework (LGAF) in Myanmar.** This would contribute to ongoing land policy initiatives in the country and provide properly vetted information to all land actors. Such a reform initiative could be initiated with the support of development partners.

188. **The government should initiate analytical work on establishing a unified and transparent system of real property (land and built property) registration and cadaster in Myanmar.** The rolling-out of land registration systems or the implementation of first registration campaigns will need the involvement of development partners due to the volume of required financing. International experience in supporting the establishment of modern and transparent systems of real property registration and cadaster is also needed. Analytical work could start with a situational analysis on the real property registration and cadaster systems to provide cost estimates and detailed recommendations.

189. **In the medium term, the government should seek to develop a comprehensive land law and related implementing rules and regulations.** The body of law governing land in Myanmar is expansive, complex and fragmented, with many of the legal instruments dating back to the late nineteenth century. Although the government enacted several major land-related laws in 2012, their effect on pre-existing laws is unclear. This ambiguity should be resolved through the development of a comprehensive land law and the implementing rules and regulations that would follow it.

190. **In the medium term, land tenure security needs to be improved for vulnerable populations, including women.** Populations relying upon customary tenure arrangements, which have not been registered, as well as smallholder farmers who possess land outside classified lands, or whose land use rights have not been registered, are vulnerable to being ejected from their land without receiving compensation. Tenure security for these populations could be improved by supporting the development of (i) a policy and regulatory framework that recognizes customary tenure, and (ii) registration campaigns for the registration of customary and communal land rights. Similarly, cultural norms and practices often marginalize women within their marriages and households, and women may lack awareness of their rights as joint owners of family land, or as family members with rights of inheritance. Women's land rights can be better protected and improved through educational programs and legal literacy campaigns.

191. **Compulsory acquisition, property valuation and compensation policies, standards and procedures should be brought into line with international best practice.** Myanmar's laws permit the state to use compulsory acquisition to acquire land for public purposes and for business purposes. The law defines neither purpose in detail, leaving landholders vulnerable to losing their land through arbitrary processes. Compulsory acquisition policies should be improved by providing technical, legal and policy support for the development of a law that embodies minimum international standards for fair and effective compulsory acquisition procedures. Equally importantly, international valuation standards should be applied for defining land acquisition compensation.

## ***Electricity***

192. **While Myanmar has abundant hydropower and natural gas resources, as well as significant potential for renewable sources of energy, many firms in the country suffer from electricity outages.** The development of energy resources in Myanmar has been largely driven by plans to export power to its neighbors. The government now recognizes the crucial importance of improving access to energy for economic growth and poverty reduction. Regarding electricity, several issues are beyond the scope of this report but worth flagging. These include: (i) the relationships with Thailand and China; (ii) the status of subsidies on electricity tariffs; and (iii) the role of civil society and ethnic armed groups with regards to the development of hydroelectric power. In addition to the Energy Sector Master Plan, the Power Sector

Master Plan and the National Electrification Plan, the following further reforms would also help to improve access to energy.

193. **As a first priority, existing gas-fired power plants should be made more efficient and better able to work at higher capacity, while the problem of transmission losses should be addressed.** The existing gas-fired power generation plants are obsolete and operate at a half of their nominal capacity and very low efficiency levels (less than half of standard efficiency of modern plants). The overall efficiency of the power supply system is further reduced by large losses (25 percent) in the transmission and distribution networks. Therefore, increasing the efficiency and capacity of existing gas-fired power plants and cutting losses during transmission and distribution should be prioritized. The overall objective should be to reduce electricity shortages, balance supply and demand, and improve the reliability and quality of the domestic power supply.

194. **The government should aggressively pursue the implementation of the National Electrification Plan (NEP) in order to reduce the rural-urban divide and eliminate absolute energy poverty.** NEP implementation will require institutional reforms and investment activities, so that access to grid-based and off-grid electricity can be scaled up, particularly in rural areas. Affordability barriers are likely to be significant in these areas, requiring efficient and targeted subsidies. The on-going Poverty and Social Impact Assessment in the power sector should provide key inputs for further policy recommendations on the design and implementation of subsidies. These inputs will help design policies that protect the poor and vulnerable groups from future tariff increases, while ensuring that the electrification program benefits them as well. The support of development partners will be crucial in order to enable faster implementation of the NEP.

195. **The private sector should be encouraged to play a key role in meeting large investment needs in the energy sector.** The investment needs in the energy sector (particularly gas and power) are huge and growing rapidly. If the government is to achieve its target average annual GDP growth rate of 7.7 percent, then annual electricity demand of about 10 percent will need to be met. In order to achieve this, the government plans to attract independent power producers (IPPs) and promote public-private partnerships (PPP)—a PPP framework is in development—to accelerate construction of modern power generation projects and reduce distribution losses. Support from development partners, including IFC and MIGA from the WBG, should continue. For example, this could be through support in introducing a transparent and efficient competitive process for selection of IPPs, long-term financing support including through MIGA guarantees, corporatization of the Yangon Electricity Supply Board (YESB) and facilitation of the commercialization and efficiency improvements in the future Yangon Electricity Supply Corporation (YESC).

196. **It is crucial to build institutional capacity in the energy sector, particularly from the perspective of environmentally and socially sustainable development.** Energy choices have significant environmental and social impacts that require comprehensive assessment and adequate mitigation measures. The legal and regulatory framework and adequate institutional capacity for dealing with environmental and social impacts of energy projects, such as hydropower, are cornerstones of sustainable sector development. Therefore, institutional development and capacity-building in this area are essential to ensure the sustainability of energy solutions.

## Skills

197. **Myanmar faces a challenge of improving the quality of education so as to equip workers with the skills that are demanded by the labor market.** Employers in Myanmar find it difficult to hire workers with the required skills and are highly critical of the quality of the education system. There is a skills gap indicating that the education system is not responsive to labor market demands. It does not produce enough workers with up-to-date knowledge and the level of skills needed in the workplace. Addressing this challenge is critical for improving the productivity and competitiveness of Myanmar's firms, especially those operating in the modern and growing sector of the economy. There are two policy priorities associated with the improvement of workforce skills and their labor market relevance. First, the education system needs to be reformed so as to make it more responsive to the changing labor market demand. Second, the quality and scope of labor market information has to be improved. Both priorities are closely related.

198. **Myanmar should promote regular institutionalized interactions between firms and representatives of educational institutions.** It is critical for the educational system to have information on the demand for skills and to incorporate this information into the curricula design. In order to make the education system more responsive to labor market needs, employers need to be actively and systematically involved in the process of curricula design. This is the way to ensure that students are equipped with the knowledge- and job-related skills that are needed in the workplace. The general education system needs to teach students not only basic but also higher-order cognitive skills (such as problem-solving, creative and critical thinking), as well as socio-behavioral skills (such as work ethics, team-work and communication skills) that are required in the modern workplace. The vocational and technical education and training systems need to provide students with adequate occupation specific technical skills (such as skills of a mechanic, electrician, IT specialist). The worlds of education and work need to be brought closer together. The key point is that educators need to regularly communicate with employers in order to learn about their demands and to revise the curricula accordingly. The National Skill Standards Authority (NSSA) is well-placed to facilitate this dialogue and help ensure that vocational curricula meet the needs of the labor market.

199. **Private-public partnerships (PPP) should be considered as an alternative in developing and improving technical and vocational institutions.** The recent PPP in education involving PepsiCo, UNESCO, and the Myanmar Ministry of Education was celebrated in September 2014 by the launch of Myanmar's first Centre of Excellence for Business Skills Development (CEBSD).<sup>14</sup> The establishment aims to expand employment prospects for youth in Myanmar by offering courses and training especially focusing on business skills, career counselling, and networking opportunities. It will facilitate the development of industry-responsive vocational training courses to prepare young people entering the workforce. In addition to PPP, various cost-sharing arrangements and income-generation programs aimed at higher education institutions should also be explored by taking into account the involvement of all stakeholders in education.

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<sup>14</sup> Source: <http://www.unescobkk.org/news/article/public-private-partnership-in-education-pioneered-with-the-launch-of-the-centre-of-excellence-for-bu/> last accessed 2014/11/02

200. **The introduction of a national skills training program to improve labor outcomes should be considered.** There is a gap in providing skills for those seeking jobs and the needs of the labor market. International experience shows that non-formal skills training interventions (for example, the Jóvenes programs in Latin America) can be successful in improving labor market outcomes both for participants and for firms. Rather than simply providing classroom-based learning, these programs offer a broader array of services that include: internships, job search assistance, on-the-job training, and wage subsidies.

201. **Better labor market information is necessary to inform education, training and employment policies, and to guide career choices of students.** By facilitating rational choices of labor market actors, better information contributes to reducing the mismatch between the supply of and demand for different occupation and skills. The demand for skills is constantly changing due to technological progress and economic restructuring. Thus, in order to make informed choices, the stakeholders (education and training authorities, students, jobseekers, vocational counselors and job brokers) need to know what are the occupations and skills for which the demand is growing, and for which it is falling. The information on occupational trends can be either quantitative or qualitative. Quantitative information comes from regular labor market monitoring and shows trends (past and projected) in employment, unemployment, job vacancies and wages by occupation. Qualitative information comes from focus group discussions with employers and shows their expectations concerning changes in the demand for different occupations and skills in relation to the current supply. Both approaches allow one to determine (although with different degrees of precision) the occupations in short and excess supply. Compared with quantitative methods, qualitative methods provide a better insight into the specific skills that employers demand. Additional information on career prospects associated with a choice of different types of schools and fields of study comes from graduate tracer studies, which have recently gained in popularity.

202. **The government plays a critical role in generating (directly or indirectly) and disseminating information on labor market conditions.** Labor market observatories are institutions established in many countries in order to improve the quality and scope of available labor market information and to analyze labor market developments. Their analysis is tailored to the diverse needs of various users (government agencies including public employment services, education and training institutions, investors, etc.). It is also critical that the relevant labor market information reaches students and job seekers so that they can make informed career choices. This function of turning information into knowledge is played by career development centers, as well as by public employment services. These institutions still need to be developed in Myanmar to address the skills mismatch and improve worker-job matching.

203. Additional work will be needed to develop more detailed policy recommendations along the priorities outlined here in order to improve the access to skilled worker for Myanmar.

### 4.3 Policies to improve direct oversight of the economy

#### Regulation

204. **As highlighted in the Enterprise Survey, regulatory barriers are holding back the private sector.** There is a need to develop the manufacturing sector, expand SMEs, and exploit business opportunities created by the country's growing engagement with the global economy. Looking at the regulation of firms and the regulation of investment, the following recommendations emerge.

205. **As a matter of priority, reforms of the stock of existing business regulation should be continued and accelerated.** The recent DB report, this ICA, and a forthcoming diagnostic on trade can give specific guidance for the government in further pursuing the urgent reforms of existing business regulation. In particular, the recently formed Private Sector Development (PSD) Committee of the government will need to carry out its mandate to provide needed coordination of regulatory reform, identify reform options and track progress on reform implementation. The PSD Committee is in a position to formulate a reform action plan targeting at first Doing Business indicators and expanding to a wider reform agenda based on other diagnostics and then, crucially, the Myanmar Business Forum dialogue. These reforms should include trade-related regulations, as identified in the forthcoming diagnostic. Overall, the focus on follow-up and implementation, along with the engagement of all stakeholders cannot be overemphasized.

206. **The government should further rationalize the current regulatory framework governing investors' entry and operations and ensure easy access to, and wide comprehension of, relevant laws.** The regulatory framework governing investors' entry and operations remains unnecessarily complicated. There is considerable scope for further rationalization of the regulations to make them simpler to follow, while at the same time access to the relevant regulations and laws should be made more accessible by making them available on the websites of government agencies. The framework should be simple, straightforward and designed to inform investors in a practical and accessible way.

207. **Specifically, progress towards a unified Investment Law should be continued with prudence.** The government is currently developing the foundations and principles for improved investment policy, with support from development partners, including the WBG and the OECD. This work includes combining the Foreign Investment Law and the Citizen Investment Law into a new unified Investment Law, revising screening and approval procedures for investment, assessing investment protection gaps, and decoupling incentives from the approval process. The government is also reviewing the role of relevant agencies that are responsible for investor protection and engaging them in future reforms.

208. **The government should accelerate its efforts to improve administrative processes governing domestic and foreign investment.** Through simplification of procedures and establishment of supporting mechanisms around investment entry and protection, Myanmar can become far more attractive for both domestic and foreign investment. One example relates to the role of MIC in screening investments. Currently, MIC screens all investments regardless of the size and level of sensitivity. Numerous screening and reporting requirements add significant administrative costs for investors. On average it takes six months to obtain MIC approval. Sharpening MIC's focus so that it approves only sensitive and large projects and implementing streamlined procedures for other projects would reduce the burden on both

investors and the government, as would reforms to eliminate any unnecessary steps in the approval process.

209. **Investment incentives need to be rationalized and used more sparingly.** Currently, incentives in the form of tax holidays and duty exemptions apply to all approved projects and are not used in a selective manner to promote strategic sectors. The IMF estimates that 6.9 percent of total tax revenue is foregone as a result of tax exemptions and tax collection (excluding royalties from natural resources) was only 3.4 percent of GDP in 2010. The government should identify strategic sectors where incentives would be beneficial and rationalize incentives in sectors where incentives are not warranted.

## **Taxation**

210. **As the government is encouraging greater participation of the private sector in the economy, a more deliberate and more sophisticated approach to collecting taxes is needed.** The following key areas for further reforms should be considered.

211. **As a matter of priority, the development of the overall tax administration reform plan should be finalized rapidly and its implementation initiated.** The draft strategic plan for the reform of the Internal Revenue Department (IRD) is currently awaiting approval. Key elements of the plan are the roll-out of the functional organizational structure, the move to overall self-assessment, the improvement of staff skills, and the introduction of an integrated tax administration IT system. International experience shows that such a strategic plan is an effective tool to set clear reform objectives and the sequencing of prioritized activities within an appropriate time frame. Indicators, such as increased tax revenue, raised taxpayer awareness, higher levels of taxpayer compliance, and improved efficiency and effectiveness of internal processes, all need to be included. The strategic plan should also help the tax administration to secure sufficient human and financial resources to effectively implement its responsibilities, and also establish how to coordinate with various other members of the state apparatus to work harmoniously towards achieving the same goals. An in-depth diagnosis aimed at identifying major problems and defining reform objectives is a crucial first step in developing such a plan.

212. **As part of the strategic plan implementation, a number of technical recommendations should be adopted.** Implementation of the strategic plan should focus on the following issues: (i) simplify the complexity of Myanmar's current tax laws; (ii) develop programs to provide higher quality services to taxpayers and also education programs about tax and tax compliance; (iii) build capacity in the tax administration staff to improve the currently low levels of integrity and professionalism; (iv) revise the current penalty system so it is no longer punitive and unfair; (v) strengthen systemic weaknesses in auditing programs; and (iv) introduce an integrated tax administration IT system. The support of development partners should be solicited for the implementation of reforms to address these issues.

213. **In the medium term, new medium and small taxpayer offices should be established, after the success of the pilot of the large taxpayer office.** With the recent establishing of the large taxpayer office organized along functional lines and servicing about 460 large firms, the government should move on to establish functionally organized medium and small taxpayer offices. The roll-out to medium and small firms will require the building of an integrated computerized data management capacity within the IRD.

214. **A simplified tax regime specifically designed for small firms should be introduced.** In view of the current complexity of the taxation regime and given the capacity constraints of small firms in Myanmar, there is a strong case for developing a simplified tax system specifically designed for small firms. This would not only help to broaden the tax base, but would also increase the levels of tax compliance among small firms.

215. **In the medium to longer term, focus should turn to the commercial tax, the income tax, and the excise tax.** The existing commercial tax should be replaced with a new value-added tax (VAT). This will first require the building of administrative capacity to implement a VAT administration. The Income Tax Law should be revised with a view to making it clearer and providing a more transparent definition of the income tax regime. This should reduce the possibilities for tax planning and tax avoidance. The revised Income Tax Law should also incorporate the simplified tax regime for small firms. The current excise tax regime should also be reformed.

216. **Building a culture of tax compliance through concerted outreach activities will be a valuable complement to the broader tax reforms.** The government should design an outreach program to raise awareness among businesses of the need for tax compliance and the consequences of tax evasion.

### **Corruption**

217. **Corruption is a huge and complex problem in Myanmar, and one that is also intertwined with the areas of regulation and taxation discussed above.** There are a number of additional steps that Myanmar should take to strengthen its fight against corruption—efforts that should be supported by development partners.

218. **As an easy and quick fix, the mandate for government agencies to procure goods and services from state-owned or military-owned enterprises should be dropped.** While establishing proper procurement processes and capacity takes some time, any formal directive that disadvantages private firms should be dropped. In the medium term, efforts should be undertaken to make sure the capacity and the practice exists for the government to procure from the private sector on a regular basis.

219. **Starting now, all stakeholders should be encouraged to critically review the operations of Myanmar's new Anti-Corruption Commission.** The quality of the new commission's work will be critical in the fight against corruption. Its independence, in particular, should be scrutinized on an ongoing basis to ensure the Anti-Corruption Commission can carry out its mandate and can work to fight impunity in an effective and meaningful way. This will be crucial in overcoming public skepticism that the commission is a toothless body. The government should encourage not only private sector associations, but also civil society organizations more broadly to engage on this topic.

220. **The government should be encouraged to draft a freedom of information law to enable public scrutiny of government documents.** Public participation and debate should be encouraged in both the government's law-making and decision-making processes, with ample space provided for civil society and the media. Such participation would be supported by the introduction of freedom of information laws. While Myanmar's Central Statistical Organisation occasionally provides some country-specific information to development partners and multinational agencies, members of the Myanmar

public are prevented from accessing government documents showing public revenue, public expenditure and government procurement details. Without a public reporting system enshrined in freedom of information laws, corruption in Myanmar will likely remain widespread and continue to be a major obstacle for firms in the private sector and future investment in the country.

221. **Anti-corruption mechanism such as the Extractive Industries Transparency Initiative (EITI) should be encouraged and not allowed to be compromised.** Myanmar needs to continue to establish credible anti-corruption mechanisms, such as it has recently started to do with its application to join EITI. Great care will be needed for the appointment of civilian or independent members to EITI's high-level committee responsible for overseeing the EITI's implementation. The appointment of individuals who are perceived to be less independent should be avoided (e.g. former military generals who were once on EU and US blacklists). It will be critical to maintain momentum and to win credibility in the fight against corruption.

### ***Summary of recommendations***

222. **The reform agenda, as it is outlined here, is broad and ambitious.** So far, the government has, by and large, shown a remarkable willingness to maintain a high pace of reforms. Much has already been accomplished. Yet, as the ES analysis in the ICA clearly shows, much more remains to be done. The technical challenges themselves are formidable. In the end, however, the real challenge in fully implementing reforms will be political. It is the common tension in countries seeking to transition to modern economies and to a fair, transparent investment climate. Only with an empowered group of capable and non-corrupt regulators is such a transition possible. The government needs to reconcile this imperative for professionalism within its ranks, on the one hand, with the legacy and the demands of formidable patronage networks, on the other. How this tension is reconciled will ultimately determine whether Myanmar's staggering potential can be realized.

223. **Among the urgent reforms to improve Myanmar's investment climate, clear priorities can be identified.** The reforms represent a range of actions required, from more immediate policy or regulatory changes to longer-term large-scale investments. The table below summarizes the report's recommendations and distinguishes between reforms that are first priority and/or have some potential to show results sooner, vs. reforms that will take more time to show results.

Table 7: Summary of recommendations, incl. prioritization

| Recommendation                                                                                                                                                             | Timeline / status                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <b>First priority and quick wins</b>                                                                                                                                       |                                                                                                                                       |
| <b>Start dialogue forum for investment climate reform</b><br>A credible public-private dialogue for stakeholder engagement on investment climate reforms is needed.        | <b>Ongoing</b> – Myanmar Business Forum is being established. Public and private stakeholders now have to make it work.               |
| <b>Eliminate harmful rule</b><br>Mandate for government to procure goods and services from state-economic enterprises should be dropped.                                   | <b>Quick win</b> – This restriction should be dropped, as it is not compatible with the government's goals.                           |
| <b>Strengthen financial system oversight</b><br>Empower capable bank supervisors, for example through partner- and mentor-ships with supervisors internationally.          | <b>Start now</b> – Building capacity to bring banking supervision up to international standards takes time; an urgent undertaking.    |
| <b>Improve efficiency of existing power infrastructure</b><br>For example by increasing capacity of existing gas-fired power plants and reducing transmission losses.      | <b>Being initiated</b> – Amid other urgent needs in the energy sector, improvements of existing infrastructure should be prioritized. |
| <b>Simplify business regulation</b><br>Better implementation is needed, for example by enforcing standard procedures in day-to-day regulatory work.                        | <b>To be accelerated</b> – With established Business Forum and PSD Committee pace of regulatory reform can be increased.              |
| <b>For access to land: simplify registering property</b><br>Process for transferring land use rights should be made more transparent, easier, cheaper, and quicker.        | <b>Reform blueprint readily available</b> – The Doing Business report provides guidance on the needed reform steps.                   |
| <b>Put in place tax administration reform plan</b><br>Clear plan to guide ongoing and future reforms is needed.                                                            | <b>To be accelerated</b> – As initial reforms have started, clarity on next steps is needed.                                          |
| <b>Encourage broad engagement on anti-corruption</b><br>Full stakeholder involvement is critical to success, for example through the Anti-Corruption Commission.           | <b>Needs to be revitalized</b> – Public participation can give credibility, e.g. to drafting of a freedom of information law.         |
| <b>Reforms with longer time horizon</b>                                                                                                                                    |                                                                                                                                       |
| <b>Build core financial infrastructure</b> , for example by establishing an interbank market and payments system, and reforming collateral registration systems.           | Financial sector reforms are ongoing. Sequencing matters, with supervision and basic infrastructure being first on the list.          |
| <b>Improve land tenure security</b> for all, by addressing land comprehensively including governance review, system for registration and cadaster, and legislative reform. | Ongoing reform efforts should be supported, ensuring benefits from reforms are shared by all; and processes are simplified.           |
| <b>Implement National Electrification Plan</b> , including involvement of the private sector, for example by preparing the financing for the huge investment needs.        | Upgrading generation and transmissions capacity will require time, resources, and expertise from different sources.                   |
| <b>Improve education for the workplace</b> , for example by improving information exchange on labor market conditions, and between firms and educational institutions.     | Additional analytical work needed in order to develop more detailed recommendations, and define appropriate government role.          |
| <b>Pursue further reform for regulation of businesses and investment</b> , with strong focus on full implementation and on building capacity for new role of the state.    | Even where the government should be doing less (simplified processes) establishing required capacity and processes takes time.        |
| <b>Simplify tax laws and revitalize taxpayer offices</b> , following the pilot of the large taxpayer office.                                                               | Building on initial reforms, tax system overhaul is needed.                                                                           |
| <b>Continue anti-corruption efforts</b> , as a part of overall reform, for example by further encouraging transparency across all government agencies.                     | Implementation of EITI should be broadened by appointing civilians or independents to oversight committee.                            |

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## Annex – methodological notes on the Enterprise Survey

The following methodological details are largely based on the implementation report for the 2014 Myanmar Enterprise Survey and on the Block Enumeration Report. The data and further details on the survey and methods are available at [www.enterprisesurveys.org](http://www.enterprisesurveys.org).

### **Sampling Structure**

The sample for Myanmar was selected using stratified random sampling. Stratified random sampling was preferred over simple random sampling for several reasons:

- a. To obtain unbiased estimates for different subdivisions of the population with some known level of precision.
- b. To obtain unbiased estimates for the whole population. The whole population, or universe of the study, is the non-agricultural economy. It comprises: all manufacturing, construction, services, and transport, storage, and communications sector. Note that this definition excludes the following sectors: financial intermediation, real estate and renting activities, and all public or utilities-sectors.
- c. To make sure that the final total sample includes establishments from all different sectors and that it is not concentrated in one or two of industries/sizes/regions.
- d. To exploit the benefits of stratified sampling where population estimates, in most cases, will be more precise than using a simple random sampling method (i.e., lower standard errors, other things being equal.)
- e. Stratification may produce a smaller bound on the error of estimation than would be produced by a simple random sample of the same size. This result is particularly true if measurements within strata are homogeneous.
- f. The cost per observation in the survey may be reduced by stratification of the population elements into convenient groupings.

Three levels of stratification were used in this country: industry, establishment size, and region. Industry stratification was designed in the way that follows: the universe was stratified into one manufacturing industry, and two service industries (retail, and other services). Size stratification was defined following the standardized definition for the rollout: small (5 to 19 employees), medium (20 to 99 employees), and large (more than 99 employees). For stratification purposes, the number of employees was defined on the basis of reported permanent full-time workers. This seems to be an appropriate definition of the labor force since seasonal/casual/part-time employment is not a common practice, except in the sectors of construction and agriculture. Regional stratification was defined in 5 regions (city and the surrounding business area) throughout Myanmar.

### **Sampling implementation**

Given the stratified design, sample frames containing a complete and updated list of establishments as well as information on all stratification variables (number of employees, industry, and region) are required to draw the sample. Great efforts were made to obtain the best source for these listings.

In consultation with the contractor, the World Bank decided to undertake block enumeration, i.e. the contractor would physically create a list of establishments from which to sample from. In total, the

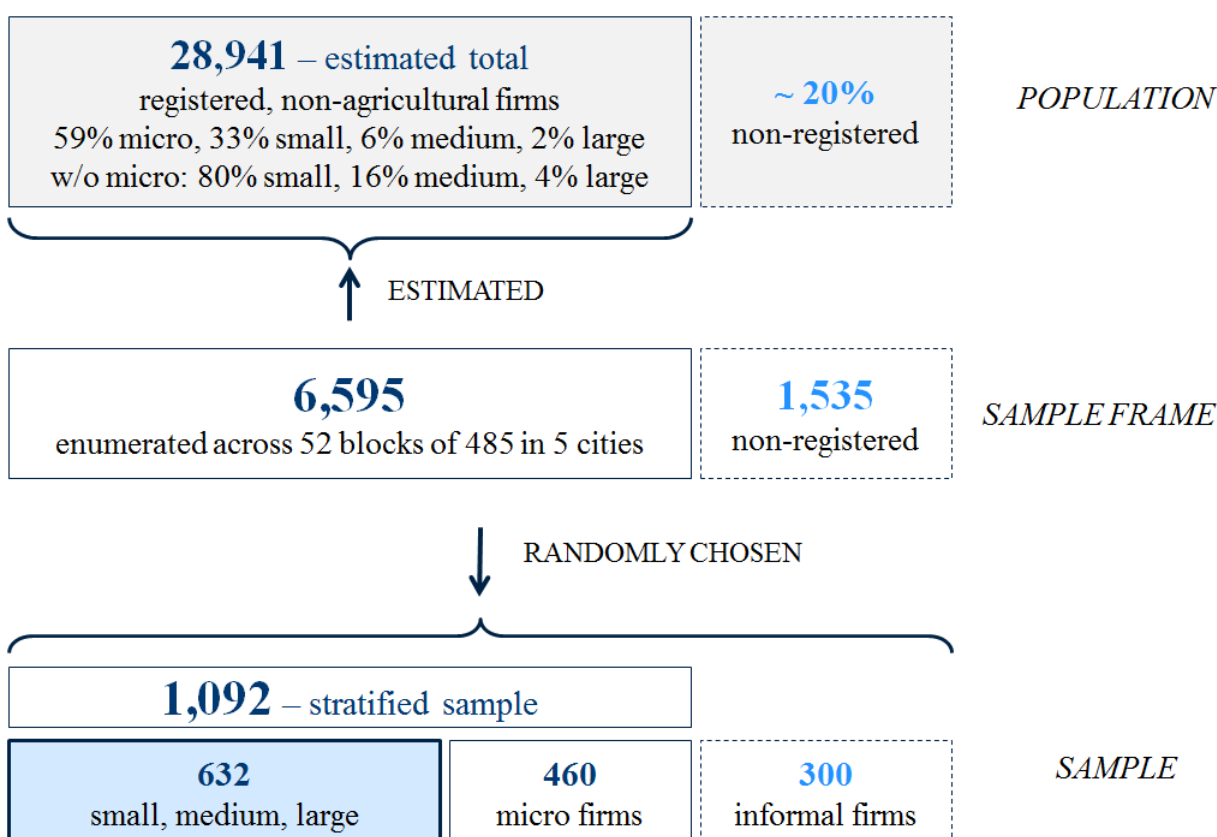
contractor enumerated 8,130 eligible establishments for the survey fieldwork; the block enumeration elicited firms for both the Enterprise Survey and the Microenterprise Survey (a total of 6,595 registered businesses), as well as the Informal Survey (1,535 unregistered businesses).

Since there isn't any government list or database in Myanmar which allows categorizing firms as per their level of employment and sector, the list generated from the block enumeration serves as the sample frame. The list contained the following information:

- Business name;
- Business address;
- Business sector classification code;
- Total numbers of employees;
- Registration status

Note that businesses were classified as formal enterprises if they were registered with either (i) DICA, (ii) Directorate of Industrial Supervision and Inspection of the Ministry of Industry, or (iii) City Development Committees or Department of Development Affairs. Figure 50 below summarizes the sampling approach:

**Figure 50: Summary of sampling approach**



It should be noted that three quarters of firms surveyed are registered only with the City Development Committee or Department of Development Affairs. In addition to the firms included in the sample frame

(regular and micro samples), another 19 percent of firms were not registered anywhere; completely informal. Just under 20 percent is probably a lower-bound estimate, since the block enumeration (i.e., a door-to-door “census” of all firms in each chosen block) only targeted firms that were readily identifiable as such. Of the registered businesses, the ES estimates that there are around 30,000 firms in the five surveyed metropolitan areas.

The following section provides additional detail on the block enumeration, based on the Block Enumeration Report.

### ***Block enumeration***

The first task of block enumeration was obtaining aerial map of the 5 cities and dividing into blocks and then classifying blocks by using local knowledge into different business types. A total of 485 blocks were obtained after carrying out the block enumeration stage. Random selection of the 52 pilot blocks was done using a column of random numbers and then sorting the list.

The second task was to randomly select 20 pilot blocks in two cities, Yangon and Bago, from the list among the blocks and undertake full enumeration. Undertaking full enumeration of the 20 pilot blocks is essential because 1) it starts the process of block enumeration, 2) it allows the researchers to double-check the classification of blocks in stage 1 for those 20 blocks and may cause reclassification of other blocks, 3) allows the researchers to have a glimpse of on average, the number of eligible sector-specific business establishments in each block type.

The third task was to carry out the pilot census study using a combination of visual surveys and face-to-face interviews by the enumerator at the randomly selected 20 blocks.

Later, the actual enumeration census was conducted over randomly-selected 32 blocks in 5 cities.

### ***Issues during Division of Blocks***

Clusters in Yangon and Mandalay were divided into blocks based on its townships, i.e., for Yangon, there are 31 townships according to Yangon City Development Committee and therefore, there are 31 clusters in Yangon. However, in remaining three cities, Bago, Monywa and Taunggyi, the clusters are based on wards unlike Yangon and Mandalay. The constraints in dividing clusters into blocks, it is difficult to set clear area boundary of blocks due to its city area and other geographic area. Therefore, by using aerial maps, clusters were divided into blocks defined by practical boundaries such as ward and township boundary.

From a total of 104 clusters and 485 blocks, 52 blocks were randomly selected.

A total of 18 enumerators (9 teams of two enumerators each) were used during block enumeration across over 4 weeks. Each of the teams were sent out to their respective area of blocks, all later finish to help with enumeration of larger clusters/blocks in Yangon after finishing their respective blocks. The teams conducted the survey within 2 week simultaneously at 5 cities.

The enumeration of enterprises was carried out. A total of 9,300+ enterprises were enumerated during the block enumeration process from the selected 52 blocks.

The data process team consisted of 5 people, supported by 2 people for verification of enterprise information during the data entry process. The block enumeration data was entered into data-entry forms. The data were entered as block enumeration progressed along with simultaneous verification and cross checking. The verification and filtration process removed 884 enterprises based on their non-eligibility (e.g. due to business type: clinic, polyclinic and special clinic, beauty spa, barber shop and education agency and copying and typing business, which are excluded from ES) to end up with a total of 8,481 enterprises in the final database.

The following issues arose during Block Enumeration:

- During enumeration, since residential and businesses are mixed together, it was difficult to find especially in residential wards or street.
- Majority of factories were shut down and security or others present could not answer the questions.
- The main factor of formal or informal businesses is based on "Registration in Directorate of Investment and Company Registration (DICA) and got Business License from City Development Committees and Development Affairs".
- It was seen that there was a sense of hesitancy, especially in retail business to state the number of employee and they usually "would like to identify themselves as small". Combination of enumerators' observation and numbers provided by the enterprises were used to get to the number of employees.
- For the number of employees, the permanent and temporary staff are mixed and the answers tend to consist both. So it was essential to ask clearly how many are permanent and how many are temporary.
- Some businesses refused to participate since they do not have any experience like this type of survey before.
- Businesses such as barber shop, education agency, clinic, watch repair and co-employee which are not eligible, were not enumerated.
- Retail business, mostly comprises of provisions stores and clothing store and are often managed by owners themselves, along with their family. Thus, many more people are involved in the business than actual "employees".
- In retail business size of the employees seems to be a very bad indicator for size of the business volume or size of the business.
- Getting in touch with relevant person to answer about the business usually prolongs the process more than planned.

Counts from the blocks enumeration are shown below for formal enterprises.

**Table 8: Sample frame**

| Region             | Employees    | Manufacturing | Retail       | Other Services | Grand Total  |
|--------------------|--------------|---------------|--------------|----------------|--------------|
| <b>Yangon</b>      | 1-4          | 233           | 1,402        | 789            | <b>2,424</b> |
|                    | 5-19         | 712           | 415          | 799            | <b>1,926</b> |
|                    | 20-99        | 474           | 18           | 139            | <b>631</b>   |
|                    | 100+         | 194           | 3            | 8              | <b>205</b>   |
|                    | <b>Total</b> | <b>1,613</b>  | <b>1,838</b> | <b>1,735</b>   | <b>5,186</b> |
| <b>Mandalay</b>    | 1-4          | 9             | 124          | 80             | <b>213</b>   |
|                    | 5-19         | 29            | 37           | 84             | <b>150</b>   |
|                    | 20-99        | 46            | 0            | 11             | <b>57</b>    |
|                    | 100+         | 8             | 0            | 1              | <b>9</b>     |
|                    | <b>Total</b> | <b>92</b>     | <b>161</b>   | <b>176</b>     | <b>429</b>   |
| <b>Bago</b>        | 1-4          | 4             | 118          | 113            | <b>235</b>   |
|                    | 5-19         | 6             | 9            | 29             | <b>44</b>    |
|                    | 20-99        | 1             | 2            | 3              | <b>6</b>     |
|                    | 100+         | 0             | 0            | 0              | <b>0</b>     |
|                    | <b>Total</b> | <b>11</b>     | <b>129</b>   | <b>145</b>     | <b>285</b>   |
| <b>Taunggyi</b>    | 1-4          | 13            | 107          | 111            | <b>231</b>   |
|                    | 5-19         | 43            | 1            | 29             | <b>73</b>    |
|                    | 20-99        | 5             | 0            | 3              | <b>8</b>     |
|                    | 100+         | 0             | 0            | 0              | <b>0</b>     |
|                    | <b>Total</b> | <b>61</b>     | <b>108</b>   | <b>143</b>     | <b>312</b>   |
| <b>Monywa</b>      | 1-4          | 17            | 77           | 84             | <b>178</b>   |
|                    | 5-19         | 92            | 25           | 75             | <b>192</b>   |
|                    | 20-99        | 11            | 1            | 1              | <b>13</b>    |
|                    | 100+         | 0             | 0            | 0              | <b>0</b>     |
|                    | <b>Total</b> | <b>120</b>    | <b>103</b>   | <b>160</b>     | <b>383</b>   |
| <b>Grand Total</b> |              | <b>1,897</b>  | <b>2,339</b> | <b>2,359</b>   | <b>6,595</b> |

The enumerated establishments were then used as the frame for the selection of a sample with the aim of obtaining interviews at 1,092 establishments. The quality of the frame was assessed at the onset of the project through visits to a random subset of firms and local contractor knowledge.

**Table 9: Achieved sample**

| Region             | Employees    | Manufacturing | Retail     | Other Services | Grand Total  |
|--------------------|--------------|---------------|------------|----------------|--------------|
| <b>Yangon</b>      | 1-4          | 70            | 65         | 24             | <b>159</b>   |
|                    | 5-19         | 81            | 45         | 38             | <b>164</b>   |
|                    | 20-99        | 62            | 15         | 34             | <b>111</b>   |
|                    | 100+         | 95            | 1          | 4              | <b>100</b>   |
|                    | <b>Total</b> | <b>308</b>    | <b>126</b> | <b>100</b>     | <b>534</b>   |
| <b>Mandalay</b>    | 1-4          | 14            | 46         | 26             | <b>86</b>    |
|                    | 5-19         | 27            | 31         | 35             | <b>93</b>    |
|                    | 20-99        | 17            | 2          | 9              | <b>28</b>    |
|                    | 100+         | 4             |            |                | <b>4</b>     |
|                    | <b>Total</b> | <b>62</b>     | <b>79</b>  | <b>70</b>      | <b>211</b>   |
| <b>Bago</b>        | 1-4          | 4             | 35         | 32             | <b>71</b>    |
|                    | 5-19         | 5             | 6          | 19             | <b>30</b>    |
|                    | 20-99        | 0             | 4          | 2              | <b>6</b>     |
|                    | 100+         | 0             | 0          | 0              | <b>0</b>     |
|                    | <b>Total</b> | <b>9</b>      | <b>45</b>  | <b>53</b>      | <b>107</b>   |
| <b>Taunggyi</b>    | 1-4          | 8             | 23         | 33             | <b>64</b>    |
|                    | 5-19         | 30            | 2          | 8              | <b>40</b>    |
|                    | 20-99        | 4             | 0          | 2              | <b>6</b>     |
|                    | 100+         | 0             | 0          | 0              | <b>0</b>     |
|                    | <b>Total</b> | <b>42</b>     | <b>25</b>  | <b>43</b>      | <b>110</b>   |
| <b>Monywa</b>      | 1-4          | 28            | 22         | 30             | <b>80</b>    |
|                    | 5-19         | 22            | 16         | 7              | <b>45</b>    |
|                    | 20-99        | 3             | 1          | 1              | <b>5</b>     |
|                    | 100+         | 0             | 0          | 0              | <b>0</b>     |
|                    | <b>Total</b> | <b>53</b>     | <b>39</b>  | <b>38</b>      | <b>130</b>   |
| <b>Grand Total</b> |              | <b>474</b>    | <b>314</b> | <b>304</b>     | <b>1,092</b> |

## **Weights**

Since the sampling design was stratified and employed differential sampling, individual observations should be properly weighted when making inferences about the population. Under stratified random sampling, unweighted estimates are biased unless sample sizes are proportional to the size of each stratum. With stratification the probability of selection of each unit is, in general, not the same. Consequently, individual observations must be weighted by the inverse of their probability of selection (probability weights or pw in Stata). Once an accurate estimate of the universe cell (projections) was available, weights were computed using the number of completed interviews.

## **Universe Estimates**

Given the impact that non-eligible units included in the sample universe may have on the results, adjustments may be needed when computing the appropriate weights for individual observations. The percentage of confirmed non-eligible units as a proportion of the total number of sampled establishments contacted for the survey was 1.8% (24 out of 1365 establishments), based on out of target contacts and impossible to contact establishments (the firm discontinued businesses or was unattainable, education or government establishments, establishments with less than 5 employees, no reply after having called in different days of the week and in different business hours, no tone on the phone line, answering machine, or fax line, wrong address or moved away and could not get the new references).

The information required for the adjustment was collected in the first stage of the implementation: the screening process. Using this information, each stratum cell of the universe was scaled down by the observed proportion of ineligible units within the cell. Once an accurate estimate of the universe cell (projections) was available, weights were computed using the number of completed interviews.

Universe estimates for the number of establishments in each cell in Myanmar were produced based on strict, median and weak eligibility definitions. The estimates were the multiple of the relative eligible proportions.

For some establishments where contact was not successfully completed during the screening process (because the firm has moved and it is not possible to locate the new location, for example), it is not possible to directly determine eligibility. Thus, different assumptions about the eligibility of establishments result in different adjustments to the universe cells and thus different sampling weights.

Three sets of assumptions on establishment eligibility are used to construct sample adjustments using the status code information.

**Strict assumption:** eligible establishments are only those for which it was possible to directly determine eligibility.

**Median assumption:** eligible establishments are those for which it was possible to directly determine eligibility and those that rejected the screener questionnaire or an answering machine or fax was the only response.

**Weak assumption:** in addition to the establishments included in points a and b, all establishments for which it was not possible to contact or that refused the screening questionnaire are assumed eligible. This

definition includes as eligible establishments with dead or out of service phone lines, establishments that never answered the phone, and establishments with incorrect addresses for which it was impossible to find a new address. Under the weak assumption only observed non-eligible units are excluded from universe projections.

The indicators computed for the ICA, as well as the indicators computed for the Enterprise Survey website use the median weights. The table of population estimates below also uses median weights.

**Table 10: Firm population estimates**

| Region             | Employees    | Manufacturing | Retail        | Other Services | Grand Total   |
|--------------------|--------------|---------------|---------------|----------------|---------------|
| <b>Yangon</b>      | 1-4          | 457           | 7,616         | 3,342          | <b>11,414</b> |
|                    | 5-19         | 1,488         | 2,405         | 3,610          | <b>7,502</b>  |
|                    | 20-99        | 903           | 95            | 573            | <b>1,572</b>  |
|                    | 100+         | 414           | 18            | 37             | <b>468</b>    |
|                    | <b>Total</b> | <b>3,262</b>  | <b>10,134</b> | <b>7,561</b>   | <b>20,957</b> |
| <b>Mandalay</b>    | 1-4          | 24            | 1,217         | 502            | <b>1,743</b>  |
|                    | 5-19         | 83            | 387           | 561            | <b>1,032</b>  |
|                    | 20-99        | 120           | 0             | 67             | <b>187</b>    |
|                    | 100+         | 23            | 0             | 0              | <b>23</b>     |
|                    | <b>Total</b> | <b>250</b>    | <b>1,605</b>  | <b>1,130</b>   | <b>2,984</b>  |
| <b>Bago</b>        | 1-4          | 17            | 1,144         | 560            | <b>1,721</b>  |
|                    | 5-19         | 28            | 93            | 153            | <b>274</b>    |
|                    | 20-99        | 4             | 19            | 15             | <b>38</b>     |
|                    | 100+         | 0             | 0             | 0              | <b>0</b>      |
|                    | <b>Total</b> | <b>48</b>     | <b>1,257</b>  | <b>728</b>     | <b>2,033</b>  |
| <b>Taunggyi</b>    | 1-4          | 18            | 995           | 483            | <b>1,496</b>  |
|                    | 5-19         | 63            | 10            | 135            | <b>207</b>    |
|                    | 20-99        | 7             | 0             | 12             | <b>19</b>     |
|                    | 100+         | 0             | 0             | 0              | <b>0</b>      |
|                    | <b>Total</b> | <b>88</b>     | <b>1,004</b>  | <b>630</b>     | <b>1,723</b>  |
| <b>Monywa</b>      | 1-4          | 19            | 453           | 248            | <b>721</b>    |
|                    | 5-19         | 110           | 157           | 236            | <b>503</b>    |
|                    | 20-99        | 12            | 5             | 3              | <b>20</b>     |
|                    | 100+         | 0             | 0             | 0              | <b>0</b>      |
|                    | <b>Total</b> | <b>141</b>    | <b>616</b>    | <b>487</b>     | <b>1,243</b>  |
| <b>Grand Total</b> |              | <b>3,789</b>  | <b>14,616</b> | <b>10,536</b>  | <b>28,941</b> |