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Ceremony on Delivering Survey Findings of Myanmar Micro, Small and Medium Enterprise (MSME) Survey (2017)

Nay Pyi Taw, 28 August 2018



Private manufacturing sector

Myanmar's transition to a market-based economy must at the core include rapid development of the private manufacturing sector, which has large potential for improving economic growth

The overall success of the sector, however, should not be taken for granted

Future advances will greatly depend on the policy and business environment in which manufacturing activities take place

This is the fundamental reason why it is so critically important to better understand the business environment and help inform policies conducive to sustainable economic growth



The MEMS Engagement

A policy research and capacity development engagement that aims at:

- Improving information and knowledge about economic policy issues; and
- Strengthening the capability of the Government of Myanmar (GoM) to appropriately address key development challenges associated with the country's reform process, with a focus on enterprise development

Today, after two years of work, we formally present to you the first major output of the Myanmar Enterprise Monitoring System (MEMS) engagement



Myanmar Micro, Small, and Medium Enterprise Survey

The cornerstone of the Myanmar Enterprise Monitoring System (MEMS) engagement is a rigorous quantitative Myanmar Micro, Small, and Medium Enterprise (MSME) Survey focused on private manufacturing enterprises

We now have in hand the completed 2017 survey report (including information from 2,496 enterprises and their 6,722 employees)

The report is the first representative overview of more than 71,000 manufacturing firms in Myanmar, covering both formal and informal firms

The breadth of information is unprecedented



MSME Survey

Allows us to carefully examine enterprise performance and the business environment in Myanmar including:

- The regulatory framework
- Firm performance
- The labour force
- Technology and management characteristics
- Innovation
- Investment and access to finance
- Sales
- Perceptions about the constraints and potentials of the business environment



MSME Survey database and the report

The comprehensive database and the report help give a unique insight into the conditions in the private enterprise sector in Myanmar

Many important insights can be noted from the 2017 MEMS report

In the remainder of this presentation we highlight the most striking sets of results and point to what needs to be done drawing on the 2017 MEMS report



Regulatory environment

The regulatory environment is extremely complex and dispersed among several institutions

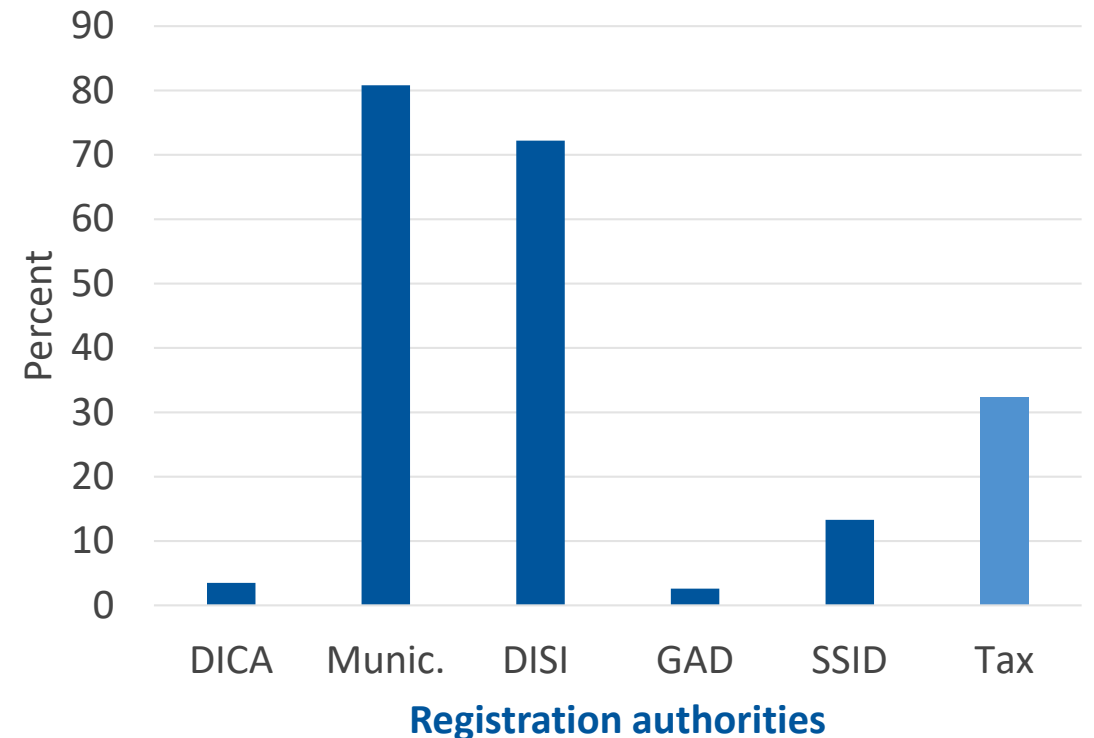
The rate of registration with DICA (Directorate of Investment and Company Registration) is very low (3.5%)

Only one-third of enterprises pay corporate income tax

Very far from sufficient to help develop a modern market-based economy

The government must work decisively towards reducing bureaucratic obstacles to business activity and improve coherence among different government authorities

Rate of registration and tax compliance



Production characteristics (1)

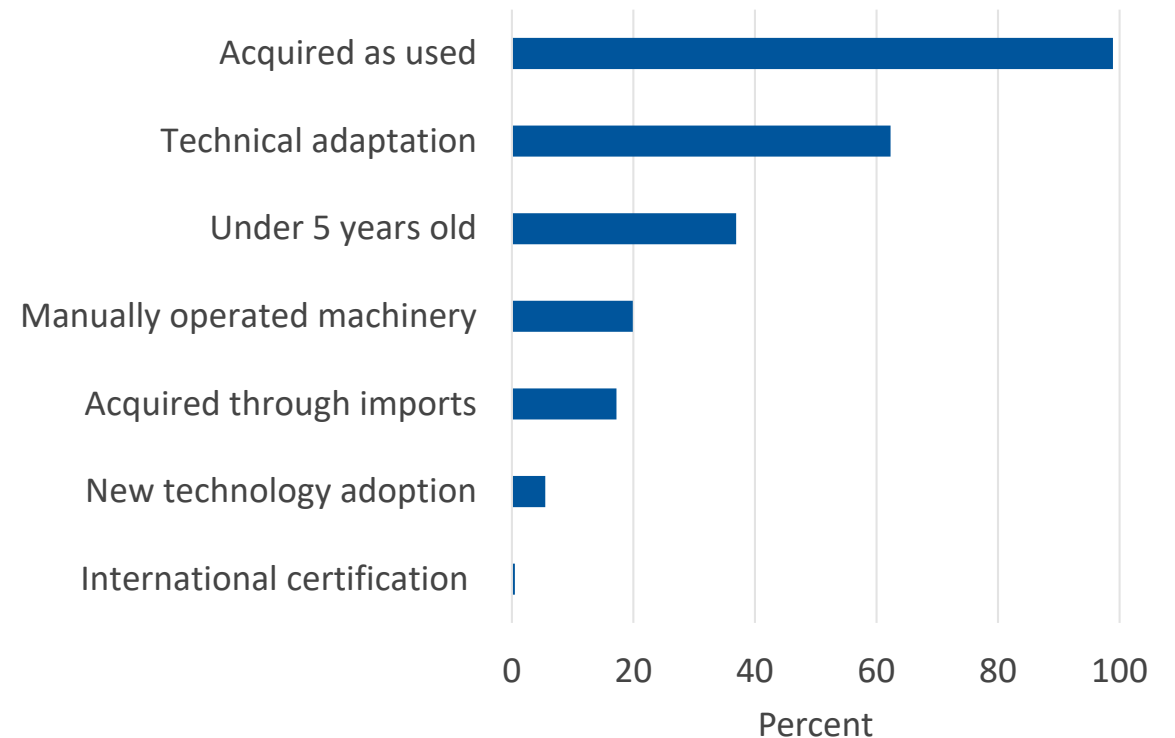
Technology-wise, enterprises in Myanmar rely on hand tools and old, second-hand machinery

Fewer than 20% of the enterprises have acquired technology through imports

Financial constraints are high and direct contact with the producers of technology is scarce, so knowledge transfer is limited

Certification based on international standards, which could facilitate market access, is very low as well, the exception being a handful of larger firms

Technology



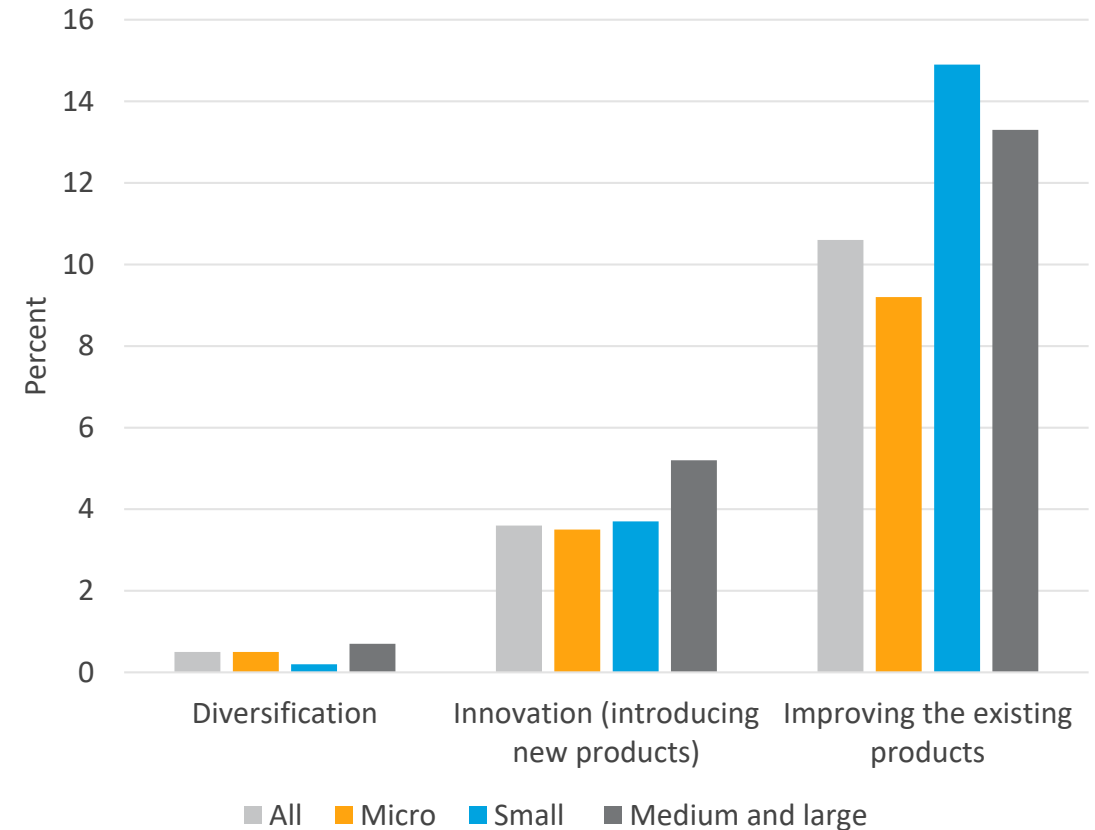
Production characteristics (2)

Enterprises tend to specialize in producing a single product

The innovation rates are low, both in terms of introducing new products and in improving the existing ones

Key actions to address these issues include

- improving access to services and
- supporting the technical and innovative capacity of firms



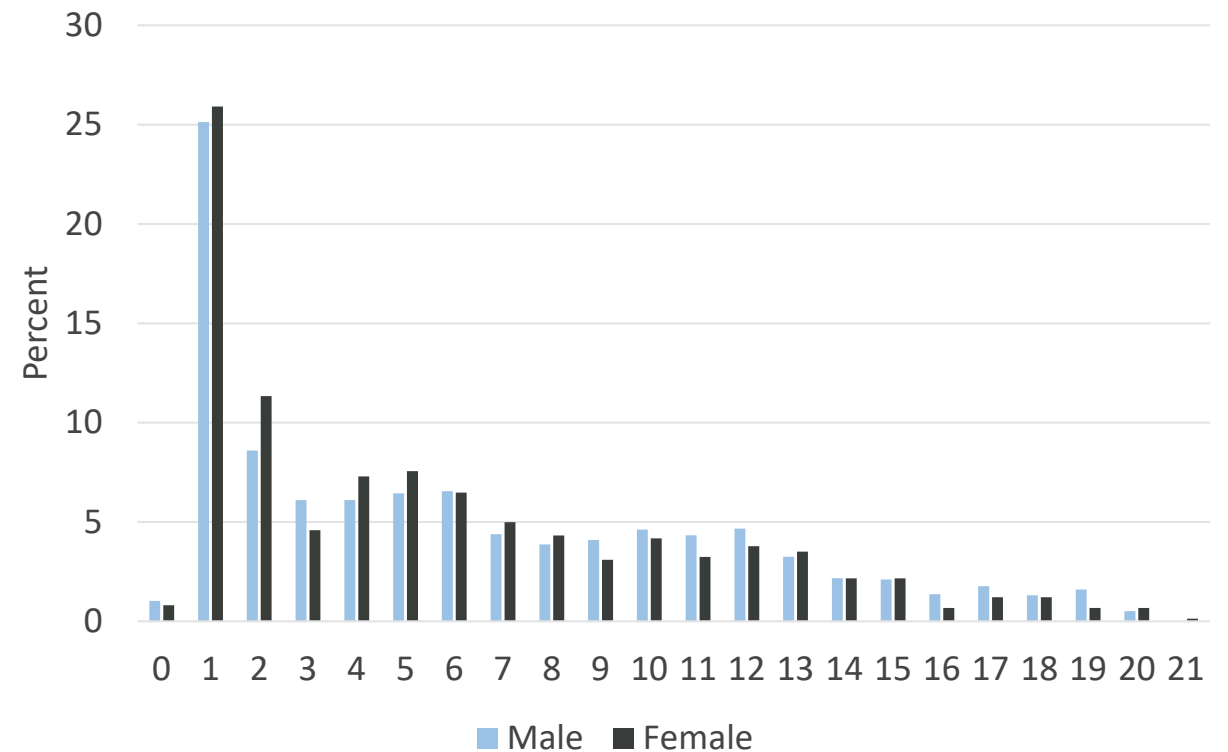
Business practices – Gender differences

The surveyed manufacturing enterprises demonstrate that gender differences go deep and hold back economic and social progress

About 80% of firms are owned and managed by men

Business practices affect firm productivity, but female entrepreneurs do not apply as many beneficial business practices as men

Number of business practices

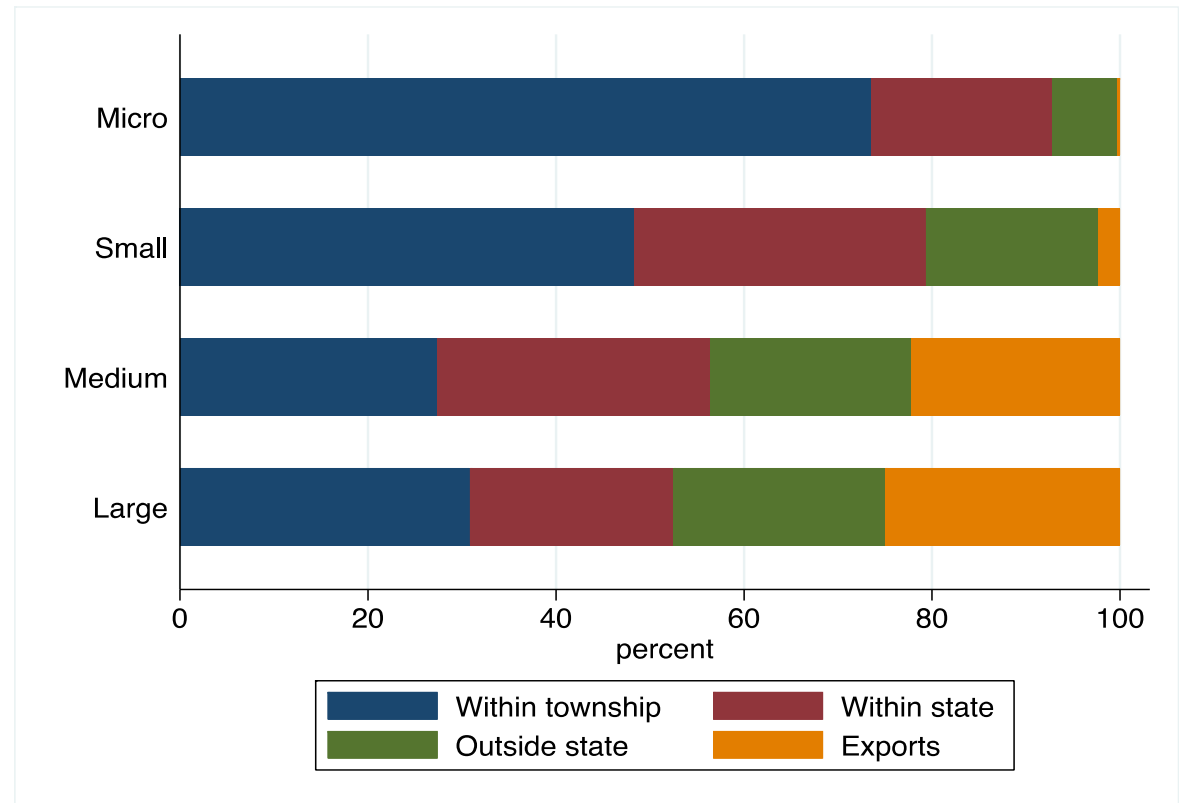


Business practices – Internationalization

Enterprises mainly rely on local trade opportunities

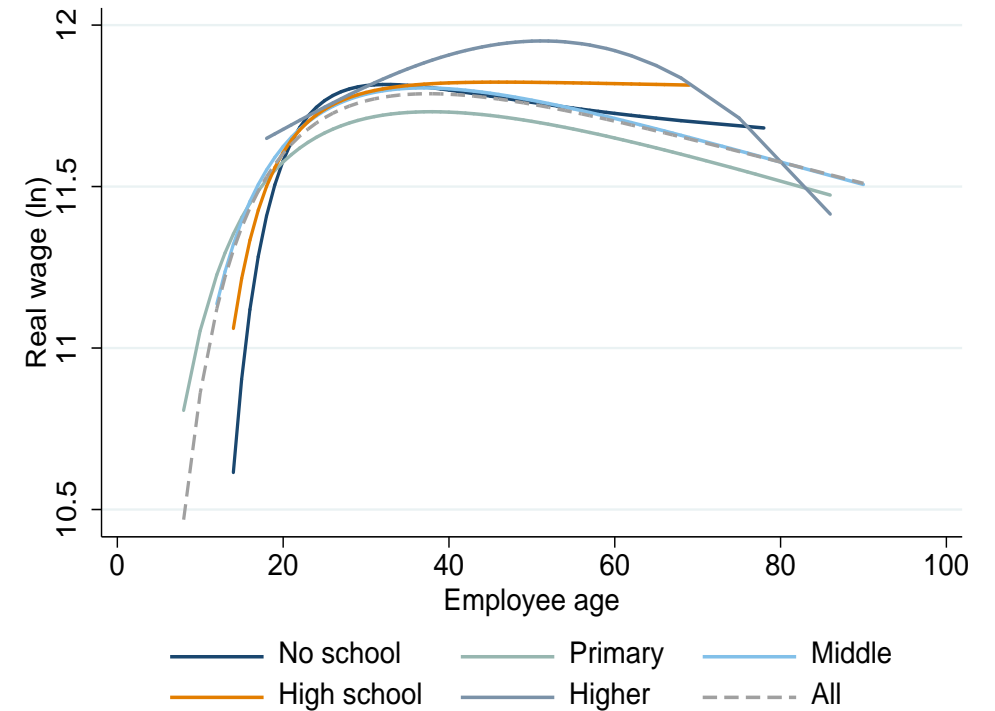
Participation in international value chains is limited

Only 5% of the firms have access to the internet in a rapidly globalizing world where increased information exchange and effective digitalization are fundamental to economic progress



Business practices – Labour (1)

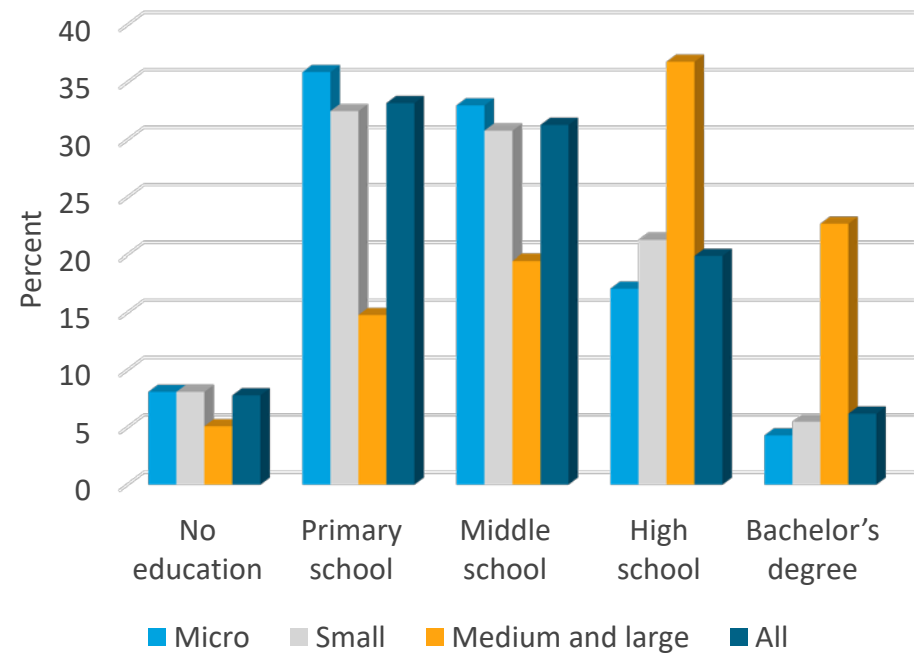
The labour market structure shows, on average, low levels of education and skills of the labour force and a high premium for post-secondary education



Business practices – Labour (2)

Micro and informal enterprises tend to hire less-skilled employees and to replace them more frequently than other enterprises

Providing training to employees is rare (only 2.6% of firms normally train workers)



Access to finance

Around 40% of firms are credit rationed or constrained

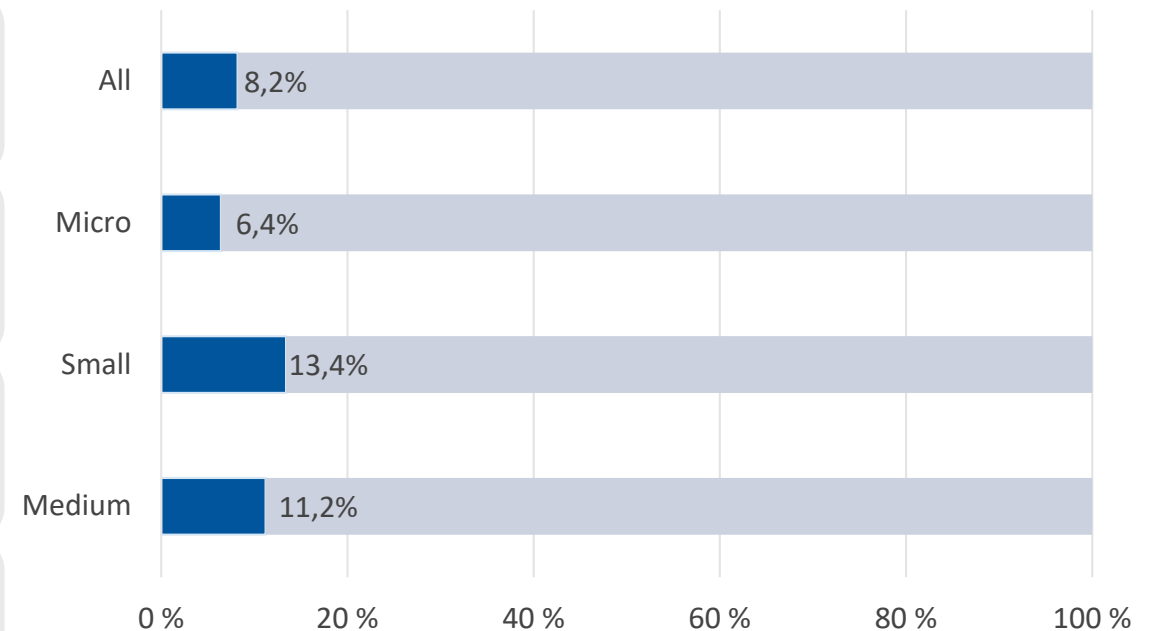
A larger share of small and medium firms (11-13%), as compared to micro firms (6%) apply for credit

All firms share similar challenges: difficulties in assuring collateral, providing appropriate land titles, too-short loan maturity times

Only a part of the demand for finance is met through informal loans

This implies that new investments need to be made from retained earnings, which strongly limits the level of enterprise growth

Percentage of enterprises applying for a loan



Recap

In sum: the circumstances under which private manufacturing enterprises in Myanmar operate are beset by constraints

They include poor access to finance, infrastructure, skilled labour, and technical knowledge

Comprehensive government action is required to facilitate development of better working conditions and increased international economic interaction



Conclusion

The MEMS report reveals the very clear and dramatic need for a radical change in industrial, financial, and educational policies for increasing economic growth and supporting structural change in Myanmar

Otherwise, future growth will not be employment-creating and income will not be distributed more equally

In fact, if informed action is not taken now, the overall structural transformation of the economy, which is absolutely fundamental to the whole development process, will grind to a halt with devastating consequences

Success is possible, as demonstrated elsewhere, but not through 'wait and see policy' that leaves existing constraints in place

These are important findings and recommendations which policymakers in Myanmar and their colleagues from international organizations and partner governments should consider very carefully



Policy Recommendations (1)

1. Reduce bureaucratic obstacles and improve coherence among different government authorities

- **Streamline procedures** for business registration, which requires great coordination effort of different line ministries.
- Have different licensing and registration services under one or as few government authorities as possible with **'one-window' offices** in all townships to facilitate business registration.
 - Where not available, establish at least movable offices to assist businesses with registration and tax payment.
- Create a culture of **trust** in the government by showing a return for taxes paid.
(Transparency)



Policy Recommendations (2)

2. Improve access to services

- Improve access to **credit**
 - simplify procedures and conditions for obtaining loans, introducing longer-term loan options, cutting the loan-processing time, activating more loan programs aimed at small and medium enterprises (SMEs), and opening additional bank branches in smaller townships.
- Increase efforts related to disseminating information about loan opportunities and requirements throughout the country to improve **equality of opportunity**.
- Strengthen the formalization of **property rights**, such as in relation to private property ownership and land titles, which would improve both access to formal loans and investment security.
- Scale up investments and improve access to **public goods**, such as electricity, water, and transport infrastructure.



Policy Recommendations (3a)

3. Support technical and innovative capacity of firms to improve growth and foreign market access

- Improve access to **modern technology**
 - streamline import procedures or opening special lines of credit or grants for this purpose to yield more efficient production processes.
- **Subsidize R&D** efforts or provide tax deductions for purchases of new technology, new product development, and certification according to international standards. Positive externalities may be significant
- Support development of **industry clubs or associations** that could link more and less-successful entrepreneurs in sharing knowledge and market information.
- **Simplify export procedures** related to registration, licensing, and customs requirements, preferably by relaxing existing product-specific restrictions and opening a 'single-window' service.



Policy Recommendations (3b)

- Improve dissemination of **information about export and import procedures, permits, and licenses.**
- **Support logistics services and infrastructure,** as well as use of internet and online commerce platforms through public investment, service-sharing initiatives, and training.
- **Overcome geographic dispersion and language barriers** by establishing an intermediary body between international customers and producers within Myanmar



Policy Recommendations (4)

4. Facilitate development of better working conditions

- Support for **better working conditions**, education, and employee training should become a key part of policies for improving enterprise performance.
- Continue the **expansion of social security**, public health insurance, and pension programs.
- Improve efforts for disseminating information about social protection, insurance programmes, and labor laws, so both employees and employers become **better informed** about their rights and obligations.
- Increase support for higher education, vocational programs, and off-the-job training targeted at **developing industry-relevant skills** and more general management and public administration knowledge.
- Introduce **tax exemptions** for firms that pay **for the education and training** of their employees – especially if the training is embedded within the worker (and not specific to the firm).
- Develop and support **gender-based training initiatives** to address the challenges facing female-owned firms.



Thank you for your kind attention!

