



Nay Pyi Taw, 28 September 2017



Qualitative Study on Myanmar Micro, Small and Medium Enterprises (2018)

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Qualitative Study on Myanmar Micro, Small and Medium Enterprises

- The purpose
 - To give a more nuanced picture of the SME business environment in Myanmar complement to the 2017 MSME quantitative survey
 - Building on quantitative results
 - Explore in more detail a set of selected topics, as well as specific industries
 - Identify areas in which our quantitative data leave room for improvement in explaining reality
 - Specify guidelines for future modifications of the MSME survey questionnaire, as well as points of attention in future analysis of quantitative data



Sampling approach

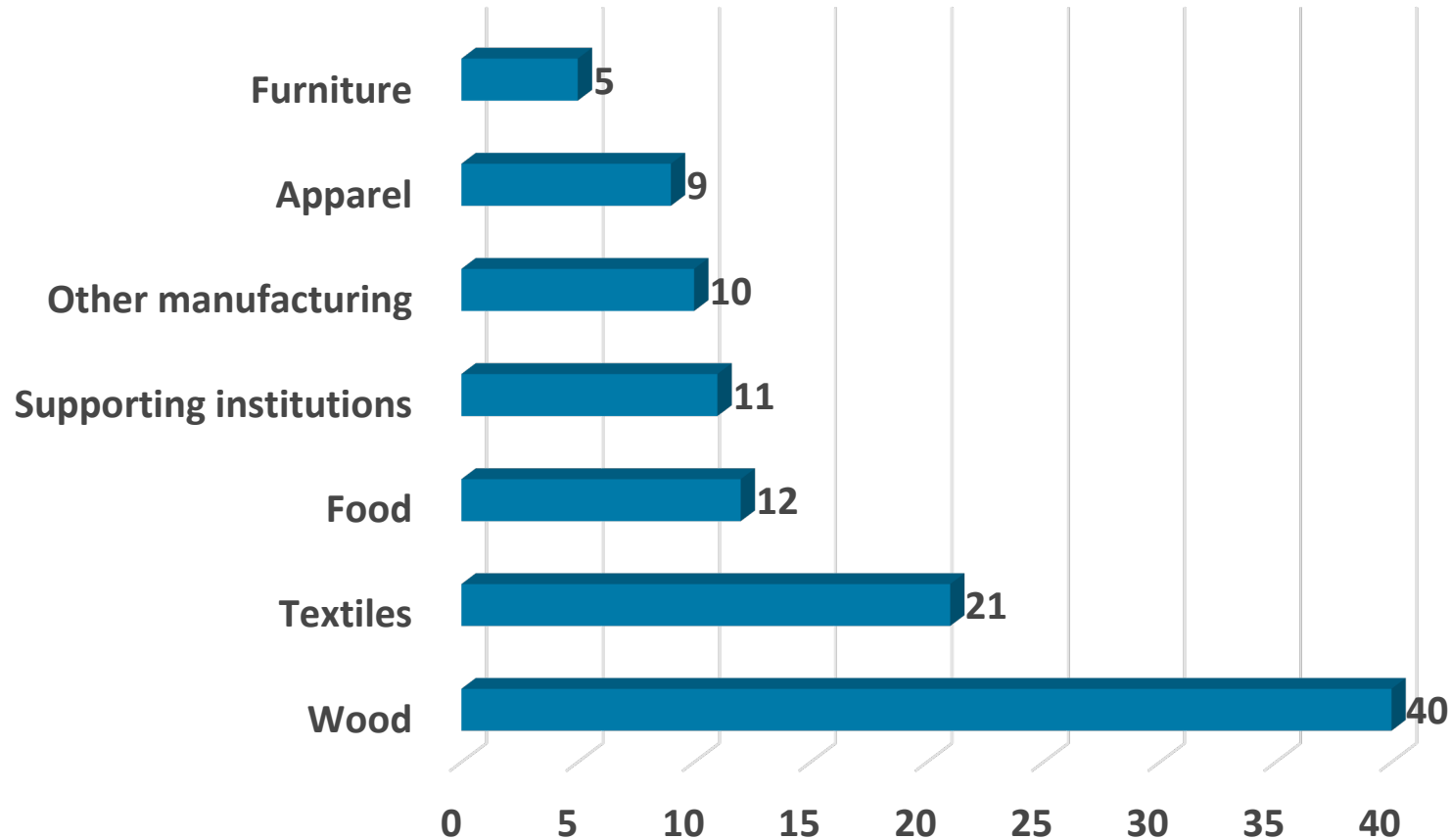
2,496 MSMEs in the quantitative survey

- 97
- Purposeful to maximize information
- Largest industries
 - Location
- Firm size category
- Random within industry-size category



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Sample by sector



Total: 108
- 97 enterprises
- 11 supporting institutions

Data collection

- March – October 2018
- Around 20 days of active interviewing spread over six weeks
- Semi-structured interview technique
- Interview guide: production characteristics, supply chain actors, credit access, registration and informal payments
- The format is open-ended, which allows for follow up questions and clarifications
- Conducted jointly by UNU-WIDER and CSO staff with two-way translation from English to Myanmar language



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Data management

- Following data collection, all interviews were transcribed and reviewed
- We retrieved different themes and patterns throughout the interviews and identified the most dominant themes or topics
- Focused on topics particularly relevant to complement our quantitative data from 2017



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Ethical considerations

- The interview protocol intended to have the maximum regard for all respondents and minimum impact on the daily practices of firm operations, adapting to the firms' schedules and preferences
- All respondents were informed of the objectives and purposes behind the project
- Prior agreement from regional CSO offices with the respondents, as well as in-situ agreement to record the interviews were requested and given on all occasions
- The analysis and conclusions, as described in this study, intend to mirror what respondents perceive of their own structures and the dynamics involved within
- We try to separate our own expectations, focusing on what we 'saw' and what we 'heard' merely offering an informed perspective from SMEs about main issues and potential space for improvement



Results

- Parallel economies and ‘tea money’: Informality in Myanmar
- Sawmilling: Complexities and future of the wood sector
- The seamstress and the dyer: Gender wage gap



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Informality (1)

- We consider an enterprise to be formal when it is licensed (under the municipality), registered (under any other authority) or both
- Myanmar's regulatory environment is complex, comprising different government authorities at the national and local level
 - DICA (Directorate of Investment and Company Administration), DISI (Directorate of Industrial Supervision and Inspection), GAD (General Administration Department), SSID (Small Scale Industry Department), municipality and others, which include industry-specific registrations, such as the Department of Forestry
- While DICA is under the current company law regarded as the sole authority responsible for registration, only 4.5% of enterprises are registered under DICA
 - Licensing with the municipality is more extensive, up to 70%
 - Multiple registrations are required: municipality + others
 - Region-specific: e.g. most SSID registrations in Ayeyarwady Region



Informality (2)

- The rates of registration vary by size: 19% of micro, 8% of small and 1.7% of medium firms operate informally
- Qualitative results reveal that micro firms often do not feel the need to be registered or are somehow exempted
 - One firm owner admits that previously he had to register, but since two years ago, due to him being the only one operating the business, officers “understand the situation” while another firm owner simply stated that she has no registration as she believes her firm is too small
 - Firms in rural areas are often not registered due to their remote location and licensing from municipalities is at times seen as unnecessary, as rural firms often do not benefit from public services such as paved roads or electricity
 - Overlooked by the authorities?
 - Informality within the wood industry is found to be limited to firms dealing with illegal wood, as formal firms are heavily restricted in their raw materials and operations



Taxes (1)

- Myanmar's tax collection process runs independently of company registration
- MSME 2017 survey data show that while all tax-paying companies are in fact registered, only 42% of formal firms pay tax
 - 1/3rd pays corporate income tax
 - 2 types of tax collection procedures in Myanmar: self-assessment system and official assessment system (inspection teams visit the enterprise and determine how much they need to pay)
 - Are all enterprises visible to tax officials?
 - Tax liability depends on firm size:
 - If the net profit is under 10 million Kyats, SMEs are exempted from taxes for three years
 - Enterprises located in industrial or special economic zones are not required to pay taxes in the first five years after starting to operate
 - These factors could explain low level of tax compliance observed in the 2017 survey data



Taxes (2)

- Tax levels are determined through checks of on-the-ground situation
 - Open to modifications but also to subjectivities
- Business owners are often unclear on how tax amounts are determined
- Business owners admit not knowing how why they experience a tax increase from one year to the next
- Fairness is questioned:
 - Enterprises note that IRD asks for the same amount of tax every year, irrespective of whether the business is good or bad
 - IRD does not account for business size and production volume (e.g. tax by number of machines, not whether all are active)



Informal employment (1)

- Defined as employment in an informal firm or lack of social and legal protection for both formal and informal firms
- MEMS survey showed that less than 5 per cent of all enterprises offer contracts to their employees
 - While enterprises do not provide any formal contract, they still provide contributions to social security funds and/or to a township social security programme
 - Informally commit to taking care of their employees in some way or another, e.g. pay for medical bills or to accompany their employees to the doctor if needed
- The qualitative study reveals that enterprises do not seem to regard formal contracts as necessary or as a requirement and often rely on personal agreements between the parties; more so in family-owned enterprises that only employ close relatives
- Enterprises highlight the benefits of informal employment as it allows some flexibility as regards holidays, taking leave or working hours, taking care when children get sick



Informal employment (2)

- The lack of contracts can also be conducive to certain conflicts between employer and employees
- In the event of labour shortage and a highly competitive environment, we observe firms facing severe difficulties when it comes to keeping a stable workforce
 - Two cases illustrate difficulties with labour in absence of written contracts



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Informal employment (3)

- **Textile industry in Wundwin Township**
- 84% of firms operate in the textiles industry, mainly producing longyis
- Serious skilled labour shortage, so newly employed workers demand an advance payment as a precondition for their employment. In return, they commit to stay for a period.
 - This advance payment varies from 500,000 to 1 million Kyats, and it is paid in full at the start of the employment
- All enterprises submit to this demand in fear that the skilled worker would choose to work somewhere else and oftentimes face consequences when employees choose to leave without honouring the agreement on minimum employment duration
- In some cases, owners turn to legal action against employees, but complain that the procedures are costly and time-consuming, and sentences are often in their view too gentle
- Business owners find the problem unsolvable
 - Increasing or upgrading machines would decrease the need for skilled workers, yet it needs capital investment
 - Attracting skilled labour from other regions was attempted but again, it failed, as workers did not remain in the township as promised
 - Another possible solution would be to request formal commitment from workers through written contracts. Yet, workers do not accept the use of contracts.
 - Business owners then face a ‘we all do it or none of us do it’ situation, in which a consensus among all textiles enterprises to require formal contracts would be collectively beneficial



Informal employment (4)

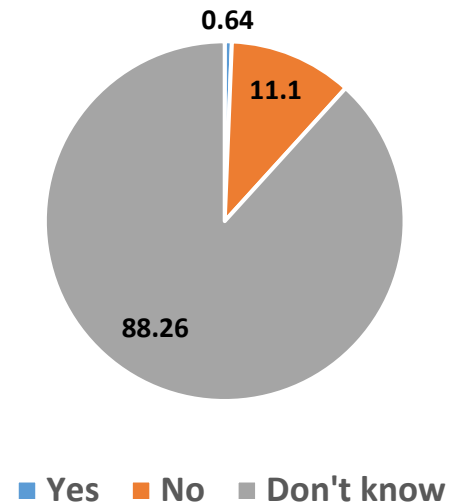
- **Apparel industry in Yangon**
 - Enterprises in and outside of industrial zones
 - Large firms located in industrial zones follow labour laws, namely all employees work under formal contracts and get social security payments
 - Smaller firms located outside the industrial zone pay some form of social security contributions but do not offer formal contracts
 - Both types of firms face labour shortage so they use a lot of subcontractors (unclear whether subcontractors adhere to labour laws)
 - They ascribe the problem to the *mind-set* and not to salaries, as workers often try to work with their relatives and friends, easily being persuaded to switch employers
 - Key challenge is to match wages of their more profitable competitors, such as the exporters
 - Even informal firms cannot compete (e.g. saving on taxes and registration fees does not offset the wage bill pressure)



Informal payments (1)

- According to World Bank (2017) making informal payments is a widespread practice in Myanmar
 - Percent of firms experiencing at least one bribe payment request is 29.3%
- The 2017 MSME survey identified so little informal payments that it created significant concern about the reliability of the data
- We therefore carefully carried out in-depth qualitative interviews and found that informal payments are common

Is it common to pay informal fees?



Amounts and purpose of informal payments

Amount	Purpose	Size category
20,000 per month	To avoid being caught in possession of illegal wood	Small
80,000-100,000 per month	To access illegal wood	Micro
20,000-50,000 per month	To operate informally	Micro
50,000 per year	To reduce the amount of tax payment	Small
100,000 once-off	To speed up documentation processing	Small
5,000-30,000		Small
10,000-15,000 per year	For 'stationery purposes'	Micro
80,000-100,000 on 4-5 occasions per year	Some government staff ask for tip money, for example, if they need to attend some training, they need to pay for transport costs	Micro
50,000-100,000 per year	To reduce the amount of tax payment	Small



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Informal payments (2)

- Many respondents refer to informal payments as a voluntary payment, e.g. ‘tea money’ or ‘tip money’
- Informal payments are seen as a voluntary donation that officers do not ask for, but enterprises nevertheless offer
- Many enterprises state that it is ‘not as bad as with previous regimes’ or they feel ‘it is better with the new government’
- This reflects a situation in which informal payments are often a voluntary action or a sign of hospitality or generosity



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Informal payments (3)

- The discrepancy between the MEMS quantitative and qualitative results can be due to a number of different reasons
- Interviewers being foreign
 - Enterprise owners were perhaps more keen to speak and expand on the issue solely due to the interviewer being a foreigner whom ‘they want to impress’
- Difference in methodology
 - Benefitting from a long and open dialogue between the interviewer and the interviewee, in-depth interviews offer a more personal and trust engaging experience for the respondents.
 - Similarly, the manner in which the question was posed in the quantitative survey questionnaire or the manner it is expressed in the qualitative interview might have played a part both in how the question was received and, in the willingness, to respond with honesty



Wood industry

- Myanmar's forest area now accounts for 44.5 per cent of the land area
- 38% of total forest area is in teak, a high-quality and much valued timber
- Although it remains one of the highest shares in the Asia-Pacific region, deforestation has accelerated since the 1970s
- Drivers of this rapid deforestation include production and consumption of fuelwood, increased commercial agriculture, urbanization, infrastructure, mining and illegal logging
- One of the principal national environmental concerns
- To counteract years of over-exploitation
 - In 2016, a temporary national logging ban (until March 2017) as well as a regional (Bago Region) 10-year logging ban
 - The export ban of raw timber since 2014
 - A ban on private sector involvement in harvesting of timber was set for the 2017-2018 financial year
- Myanmar Timber Enterprise (MTE) as the only permitted producer

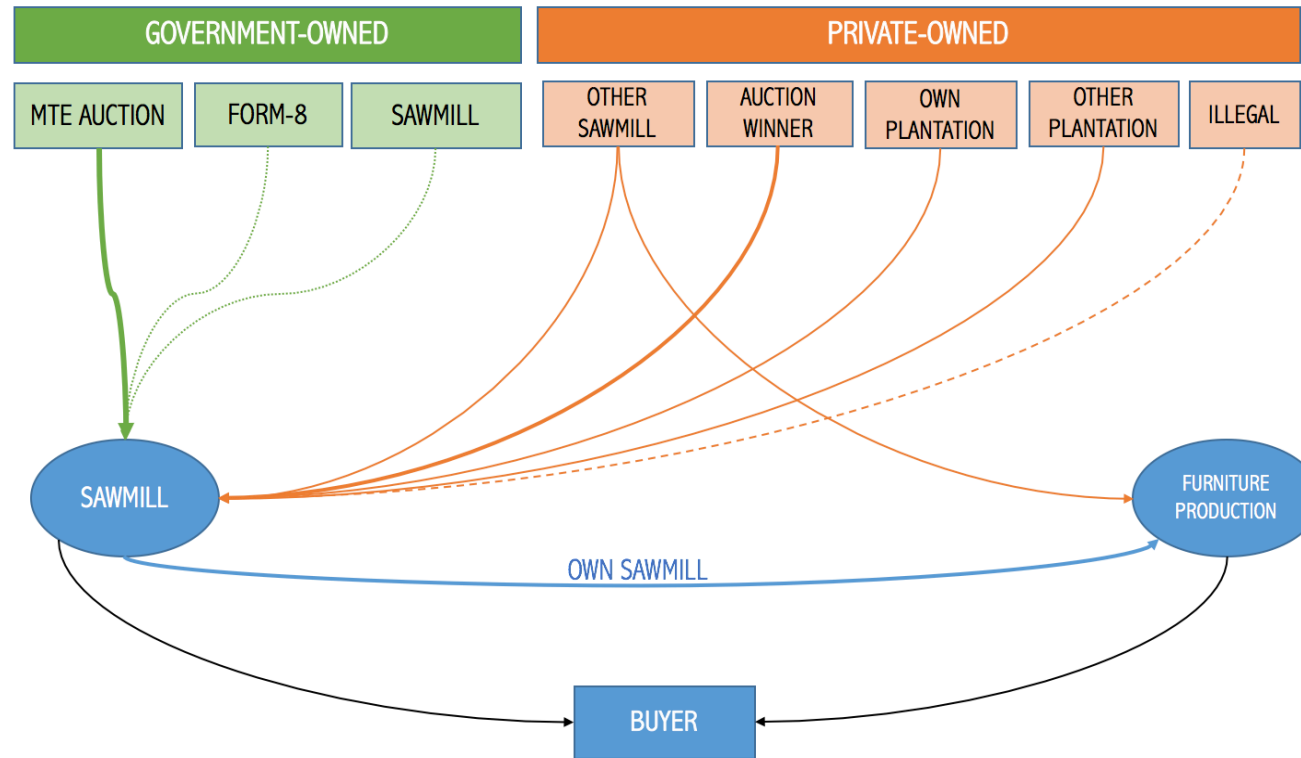


Regulation

- Many respondents criticize the amount of regulation needed to operate in this industry, expressing that “government procedures are too complicated”, “regulations are too hard”, “they need many permits” or go through many “unnecessary procedures”
- Possess both the sawmill and the cutting licenses
- Sawmills are frequently inspected by the Forestry Department, which checks whether the wood is legal, registration, licenses, and size of saw
- Legal wood is purchased at auctions organized by MTE
 - Amounts are limited, prices are high (inaccessible to small sawmills)
 - Illegal wood: The value of illegal timber seizures has increased from 168.51 million Kyats in 2013 to 15.14 billion in 2016
 - Capture wood (Form 8): re-sold after the court case
 - Sold locally by Forestry Department
 - Irregularly available, inferior quality



Value chain



Value chain challenges (1)

- The unreliable access to raw materials is a likely reason for why some of the interviewed enterprises from the wood sector remain informal, that is, unregistered, and why some source wood illegally
- Firms are in many cases unable to access MTE auctions due to increasing bidding prices, transportation costs of raw materials, travel costs to their nearest auction location, etc.
- The auction system inherently harms the smaller sawmills, disproportionately raising barriers of entry and raising prices
- Small and medium enterprises are unable to match the biddings of larger firms who also buy in larger quantities
- One enterprise owner states that in the past, he was satisfied with raw material availability in the auctions, yet in the past three years, the price rose up approximately 250,000 Kyats per ton, which makes it difficult to win the auction
- In these cases, formal firms resort to other methods to obtain raw materials, mostly buying from auction winners



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Value chain challenges (2)

- Not even the formal auction process guarantees access to high quality wood, as prices for good quality wood sometimes reach unattainable levels
- The quality of Form-8 wood, or ‘captured wood’ also seems to vary across different states/regions
- Associations of wood producers and processors have a potential for improving access to auctions but are in practice far from achieving any real coordination among firms in the industry, except in a few townships or when mediating access to ‘captured wood’
 - There is also a lack of trust in said associations, which in certain locations request ‘contributions’ or ‘bribes’ without any real return
- Decrease in the demand for wood cutting
 - While in the past wood was used as the main building material, today it is only used for repairs or extensions
 - Metal has substituted wood in the construction of houses



Value chain challenges (3)

- The wood industry seems to be at a crossroads
- The government-controlled supply of raw materials seeks to balance forest conservation and a need to provide an adequate amount of raw timber to national and regional auctions
- Access to auctions is in itself limited to certain locations and firms able to match the increasingly high prices
- On the demand side, firms also face the challenge of decreasing use of wood for construction
- If both of these trends remain to coexist, the wood industry will most likely disappear or stagnate for small and medium enterprises in Myanmar
- The survival of firms in the industry might be limited, for instance, to those firms with development contracts, with secure supply of raw materials or highly profitable business, such as wooden floor businesses



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Gender wage gap (1)

- The MSME 2017 quantitative report estimates that females receive, on average, 23 per cent lower wages than male employees, which is almost entirely due to firm differences
 - The qualitative study was implemented to help us understand these differences
- There is also an evident gendered distribution of labour in industries in Myanmar
- Female workers are more prevalent in the textiles (66%) and apparel (86%) industries
- male workforce is larger in sectors such as fabricated metal (97%), machinery (96%), motor vehicles and wood related industries (more than 90%)
 - The qualitative study allowed us to explore further occupational segregation within industries



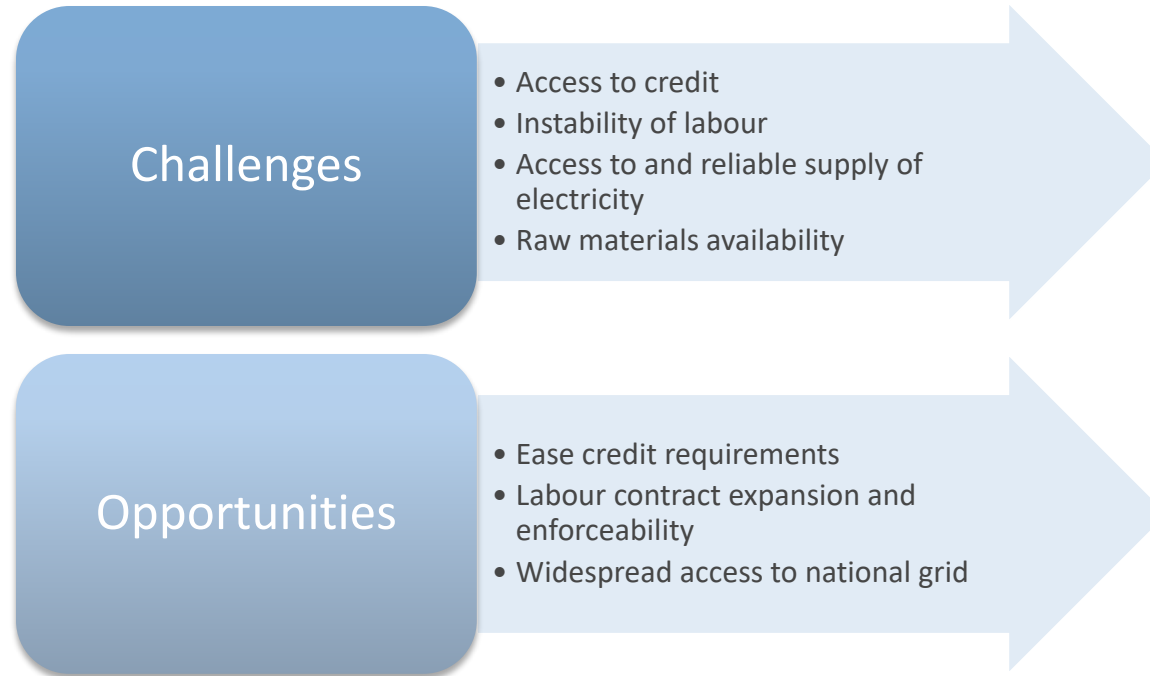
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Gender wage gap (2)

- We observe occupational segregation in two ways
- First, there exists horizontal segregation
 - Females do not occupy the most physically demanding jobs, which are then considered ‘more difficult’ thus deserving of higher wages
 - Example:
 - In two different cotton production firms females and males carry out different tasks: men carry the raw cotton bales while women pick and classify the cotton.
 - Male employees earn 120,000 Kyats per month, while female workers earn 80,000 Kyats per month
 - Another firm pays Kyats 6,000 per day to male and 7,000 Kyats to female workers, as men “carry a heavy burden” while operating the machine and weighing on the scale
- Second, there is evidence of self-selection, whereby female workers seek jobs that allow them to have more flexible working hours
 - Self-selection also arises from cultural standards, including that women must take care of the children and the house



Main challenges and opportunities for interviewed firms



Conclusion (1)

- We build on quantitative results from the 2017 MSME survey, exploring in more detail a set of selected topics as well as specific industries we find relevant for policy focus
- The SME business environment in Myanmar has plenty of space for improvement, both with regard to government policy and SME business strategies
- Government procedures in terms of firm registration and tax collection are in need of simplification and transparency
 - There must be a clear distinction in relation to the type of registrations required for firm formality, accounting for the industry, location and size
 - Tax collection must be transparent to business owners, allowing firms to estimate accurately their tax contribution and to understand the purpose of tax collection
- Informality of employment must also be tackled, so both employers and employees are protected under labour rules and instability minimized
- To achieve employment formality, there must be an increased trust in the legal system and legal protection that written contracts could potentially give to both employers and employees
 - This consequently calls for a better efficiency of the legal system
- Gender gap: Policy focus on gender issues, such as women's education, could also support a decrease in the wage gender gap and occupational segregation leading to increased efficiency



Conclusion (2)

- Gender gap:
 - Difficult to directly tackle this issue, as it is often a reflection of the state of society, this issue might be a useful focus in future and current research
 - Policy focus on gender issues, such as women's education, could also support a decrease in the wage gender gap and occupational segregation leading to increased efficiency



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Conclusion (3)

- Industry-specific findings
 - We find the wood sector to be a declining industry, facing lack of supply of raw materials due to conservation efforts as well as timber production procedures
 - A decline in demand for cut wood, due to changes in the preference of construction materials
 - Increased dominance of bigger firms with easier access to raw materials and bigger markets to the detriment of SMEs
 - This indicates a strong pressure for wood industry firms to diversify into other activities
 - Assistance with loans, technological knowledge, as well as help with foreign market access might be useful to ease the transition
 - Textiles and apparel industries seem to be on the rise
 - High competitive pressure
 - Policy should be focused on formality of employment as well as enforceability of contracts, such that labour instability does not limit firm production and growth
 - Within the textiles industry, specifically longyi production, diversification to other types of textiles might release the pressure of the oversupply of longyis to the domestic market



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