



Myanmar

Business Survey

2014

Survey Results



Myanmar Business Survey 2014: Survey Results

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Introductory note

This first-ever nation-wide survey on business aims to capture a comprehensive picture of the current business activities and enabling environments in Myanmar.

With vast natural resources, a young and abundant population and ongoing economic reforms supported by the international community, Myanmar has the potential to achieve fast economic development. The success of this process is highly dependent on the adoption of a coherent and appropriate combination of policy measures in key sectors of its economy. However, a lack of information on the conditions and environment in which businesses operate represents a major obstacle in identifying effective policy recommendations. *The Survey on Businesses in Myanmar 2014* aims to fill this gap and assess the status of the business community by conducting the first-ever nation-wide business survey.

The OECD and UNESCAP have completed the first phase of *the Multi-Dimensional Review of Myanmar*, in coordination with the Government of Myanmar. *The Multi-Dimensional Review*, which is a comprehensive policy diagnostic tool, blends the strengths of proven OECD and UNESCAP analytical instruments, tailored to the context of a multi-faceted economy with multiple opportunities and challenges. In the second phase, the review will provide more specific policy recommendations, particularly in the area of supporting business initiatives. These recommendations need to be underpinned by a more accurate assessment of the business environment.

To address the lack of available data and information on businesses in Myanmar, the OECD and UNESCAP carried out a business survey jointly with the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI). Other cooperating agencies who have contributed to *the Survey on Businesses in Myanmar 2014* include the Government of Japan, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Swiss Agency for Development and Cooperation (SDC), The Asia Foundation and the United Nations Industrial Development Organization (UNIDO).

The results of the survey provide better information on the situation of Myanmar's business sector, allowing UMFCCI and other agencies to contribute to the Government of Myanmar's creation of business-oriented policy frameworks.

This booklet was prepared by Masato Abe and Margit Molnar. Diana Dai edited the booklet, while Gordon Israel designed it in a professional format. The Hanns Seidel Foundation (HSF) contributed to its publication.

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Coverage of the business survey

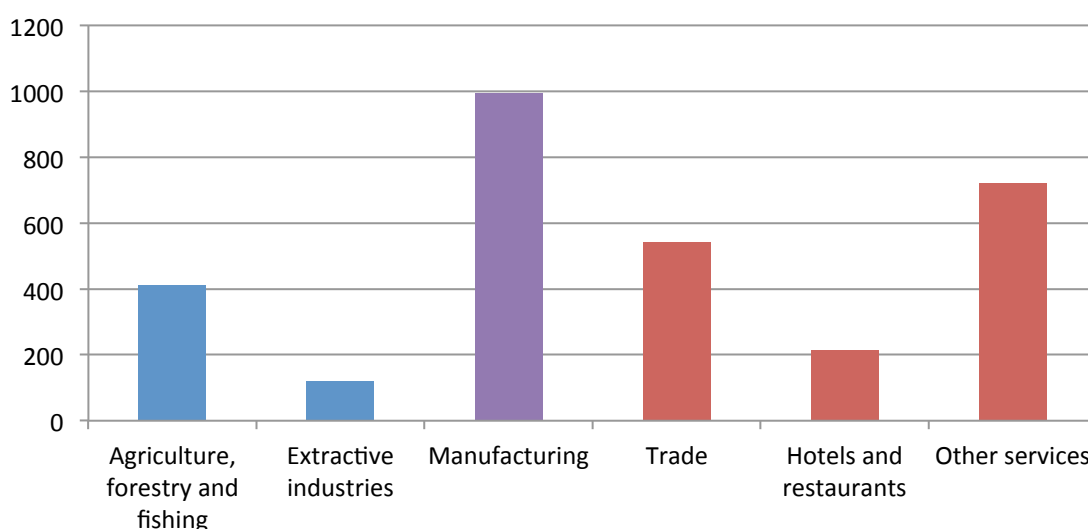
This first ever comprehensive business survey comprises over 3000 firms from all states and regions, of various firm sizes and engaged in a range of economic activities.

Surveyed firms operate in a variety of sectors

Over 3000 firms surveyed are in agriculture, extractive industries, the manufacturing sector, or the services sector, covering almost all economic activities which are categorized by the United Nations' International Standard Industrial Classification of All Economic Activities (ISIC), Rev.4.¹ In the survey, the primary, secondary and tertiary sectors account for 17.7%, 33.1% and 49.2%, respectively. Over 40% of firms in the secondary sector belong to food products and beverages sector.² Among tertiary industries, trade, hotels and restaurants, transport and construction are major sectors. These figures support the comprehensive nature of the present survey which can properly reflect the multi-faceted structure of the Myanmar economy.

THE SURVEY PRODUCES A WELL-BALANCED REPRESENTATION

The number of respondents by sector



Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

¹ See more details at <https://unstats.un.org/unsd/cr/registry/isic-4.asp>.

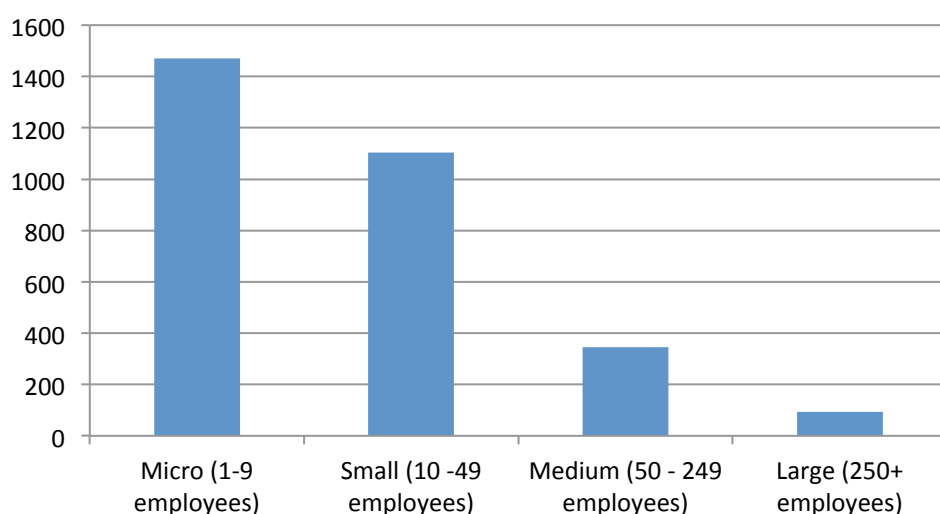
² This is in line with the results of other earlier business surveys in Myanmar (e.g. the Industrial Zone Survey 2005–2010 of the Central Statistical Organization (CSO)).

Nearly 97% of firms in the sample are SMEs³

Sampled firms have a range of 1 to 4000 employees with an average of 40 employees. Nearly half of the sample firms belong to the micro enterprises category with less than 10 employees. One-third of firms are small enterprises with 10 to 49 employees, and one-tenth are medium sized with 50-249 employees. Over 3% of firms surveyed have 250 or more employees. While fewer in number the larger enterprises make a more significant contribution to employment; 48% of total employment among respondents is in firms with 250 or more employees. Among the sampled firms, nearly 15% of them (and typically smaller by size) operate informally,⁴ and 3% are foreign firms.

ENTERPRISE SIZES ARE SMALL IN MYANMAR

The number of respondents by size category



Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

³ The definition of small and medium-sized enterprises (SMEs) varies country by country. The definition used for the present survey is based on UNESCAP (2012), *Policy Guidebook for SME Development in Asia and the Pacific*, Bangkok: United Nations.

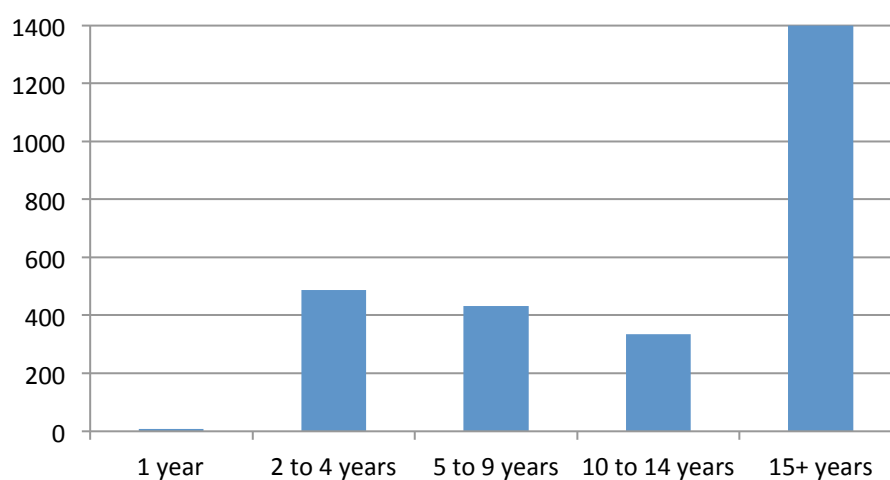
⁴ Interestingly, 20 medium-sized and 6 large enterprises in the survey have never registered with any public authorities.

Most firms are well established firms of over 15 years

Nearly half of surveyed firms have been established for over 15 years, and only one-sixth are younger than five years. One-quarter and one-third of them conduct exporting and importing businesses, respectively. Only one-third of the respondents are aware of the ASEAN Economic Community (AEC) 2015 with mixed perceptions of the AEC's potential impact on their business. Finally, the gender balance of respondents is 30% for female and 70% for male.

MOST FIRMS IN THE SAMPLE HAVE LONG BEEN ESTABLISHED

The number of respondents by firm age



Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

Corruption, lack of skilled labour and technology are major obstacles to business

Among the 34 choices of major obstacles to the current operations of the firm (ranging from infrastructure issues to human and institutional capital), corruption was identified most frequently as a very severe obstacle. Although corruption can be present in various aspects of economic transactions and interactions with public authorities, a particular question inquired about the below-the-table payments required to register a firm or to get a business licence or a permit. While 40% of firms found it not necessary to pay above the officially required fees for registration, half of the respondents calculated the amount of extra payments for registration, license or permit to be MMK 500 000 or less (equivalent to slightly above USD 500). There were about a dozen respondents that perceived the required extra payments exceeded MMK 10 000 000 (over USD 10 000).

Other serious bottlenecks to firms' current operations are the lack of skilled labour and of technology. Access to land, factory or office space also appears to constitute an important barrier to operations, as does political instability. The next group of issues in the ranking relate to financing which indicate difficulties in accessing to financing and high interest rates.

Electricity supply, which is often cited as a bottleneck to any activity in developing countries, not just business, surprisingly ranks below corruption, skills and financing issues.

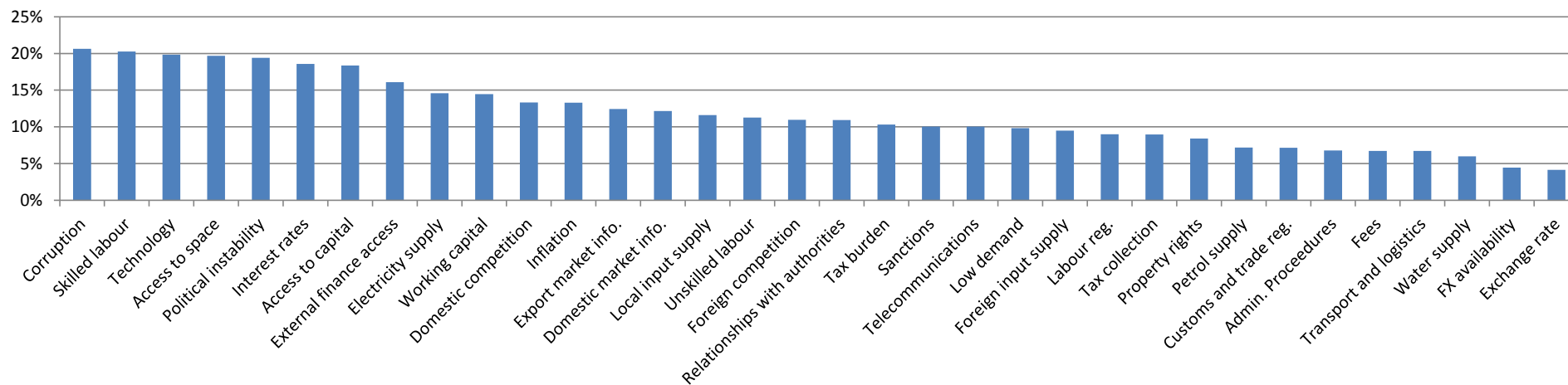
Some aspects of institutional capital, including the protection of intellectual property rights, taxation, business and labour regulation and administrative procedures all appear at the very bottom of the ranking of the major obstacles to business operations.

Explanatory factor analysis and theoretical background indicate that those obstacles for business can be broadly categorized into six groups, namely:

- 1) Access to markets, labours, supplies and technologies
- 2) Regulations and taxation
- 3) Conditions for international business
- 4) Access to financing
- 5) Infrastructures and utilities
- 6) Corruption

CORRUPTION, LACK OF SKILLED LABOUR AND OF TECHNOLOGY CONSTITUTE MAJOR BARRIERS FOR BUSINESSES

The percentage of respondents who see the constraint as a very severe obstacle



Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

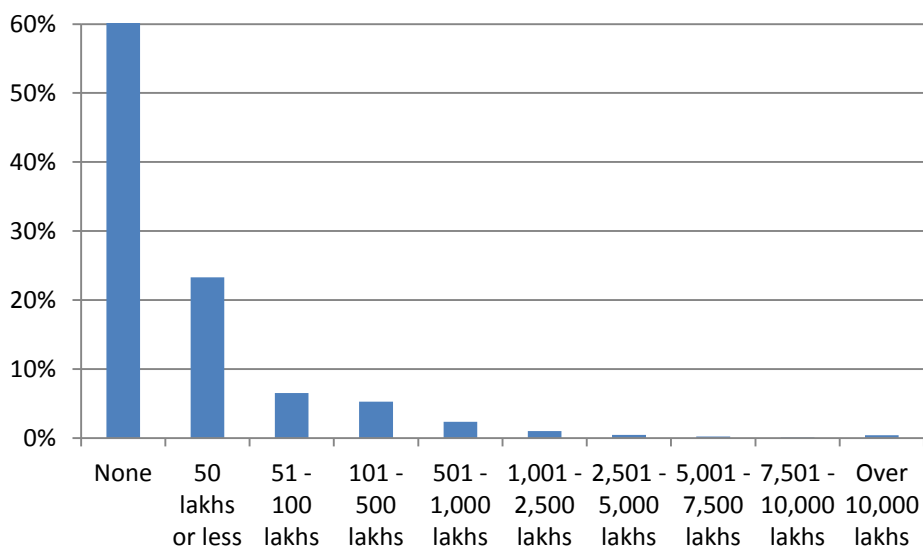
Innovation is considered important but firms spend little on it

Over half of respondents consider innovation to be critical to their business, with extractive industries the sector most likely to hold this view. Innovation is considered less crucial in agriculture and service industries such as trade, transport or personal services. Almost 40% of firms implemented new products or services. Process innovation, however, has been much less common. Almost three-quarters of firms that adopted innovative products or processes did so to increase revenue and nearly half to increase responsiveness to customer needs or to improve quality of goods and services. Less than a quarter of firms implemented innovations to increase their competitive positions, to enhance productivity or to gain market share in foreign markets. Similarly, the reduction of environmental impacts, corporate social responsibility or the improvement of safety and working conditions featured much less as motivations for innovating.

Despite the importance firms attach to innovation, over half of them do not spend at all on innovation. This is likely to be related to the small size of most firms that prevents economies of scale and for which fixed costs of innovation may be prohibitive. The top 1% of firms in the sample, in contrast, spends the equivalent of hundred thousand dollars or more on R&D. Finally, only one-third of respondents protect their intellectual properties mainly through patent applications.

MOST FIRMS DO NOT SPEND ON RESEARCH AND DEVELOPMENT

The share of respondents by the size of R&D spending



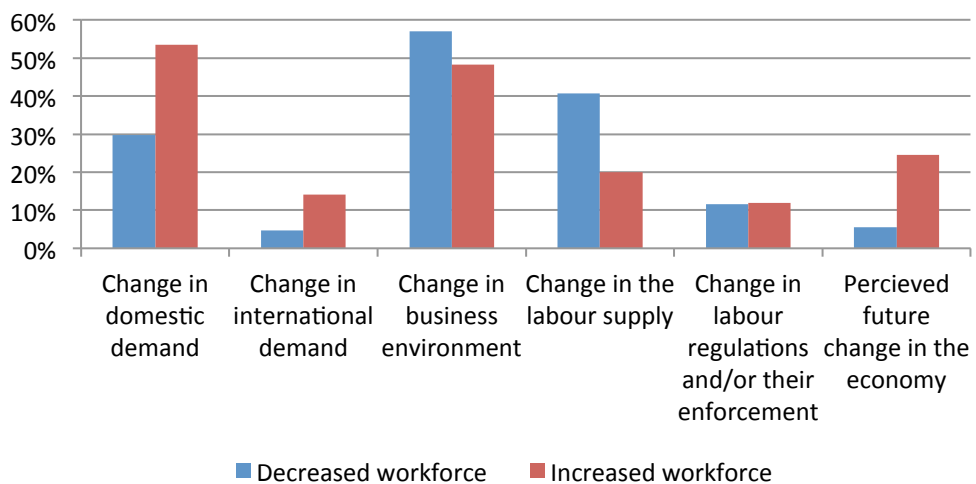
Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

Increases in demand are driving firm expansion and job creation

Close to a third of firms did not change the size of their workforce in the 12 months before the survey. Of those that did, the number of workers increased in 26% of firms and decreased in 13%. The most common motivations for increasing the size of the workforce were changes in domestic demand, the business environment and perceived future economic conditions. The most common motivations for decreasing the size of the workforce were changes in the business environment, the labour supply and domestic demand. Changes in domestic and international demand and expectations about the future were relatively more important among firms that increased their number of employees, while changes in the business environment and labour supply were relatively more important where employment declined.

DEMANDS, ENVIRONMENT AND PERCEPTIONS IMPACT ON HR MANAGEMENT

The share of respondents identifying motivations for changes in their workforce



Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

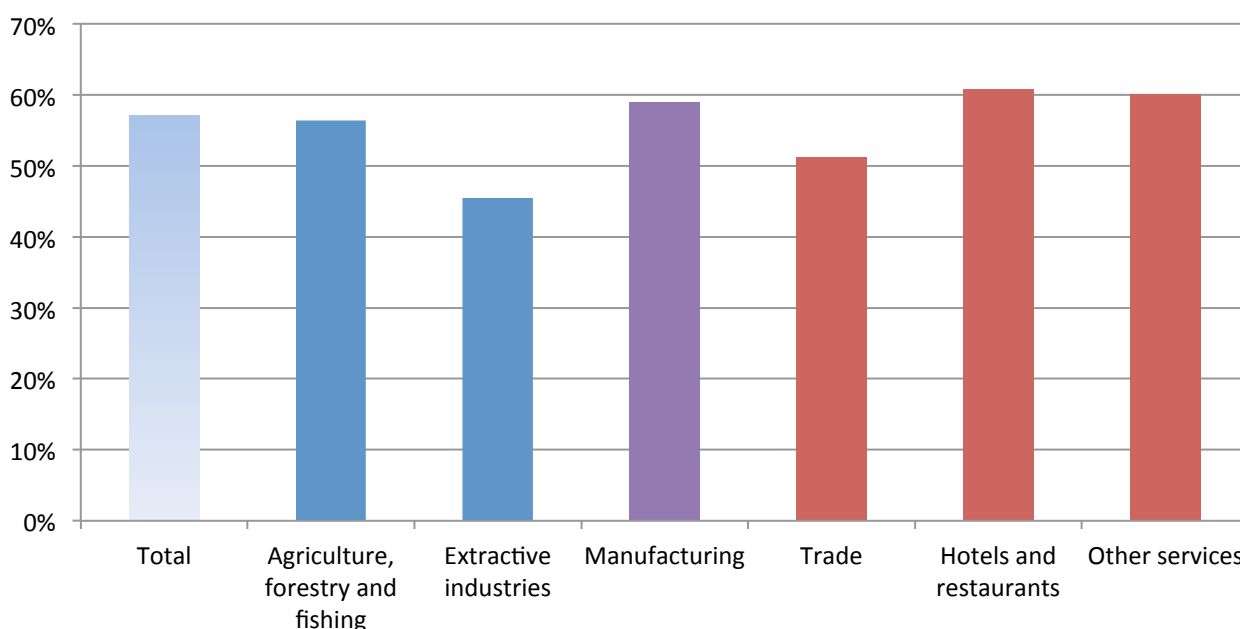
The present trends of firm expansion and job creation in Myanmar are most likely to give salary rise pressures to firms. Nearly 80% of the respondents indicated that they tried to provide their workforce higher wages than the market level in the past 3 years.

Skill shortages are severe barrier to business operations

Nearly 60% of all respondents find skill shortages a major problem, with the highest shares of respondents in hotels and restaurants, other services and manufacturing among the major sectors. Extractive industries and traders, in contrast, face the least severe issues in finding the right skills. The share of respondents concerned about skill shortages in agriculture, forestry and fishing is similar and closer to the average. Among the subsectors, those firms in post and telecommunications, electrical machinery manufacturing, air transport, motor vehicle manufacturing, petroleum product manufacturing, supply of electricity, gas and water, computer related activities, mining of metal ores and chemical products manufacturing find it more difficult than the average to recruit skilled workers.

SKILL SHORTAGES PERSIST IN ALL SECTORS

The share of respondents that find skill shortages as a major obstacle to business



Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

Computer and IT-related jobs are facing the most acute shortage of workers at the skilled, unskilled worker level and also in top management. Jobs requiring other technical skills or analytical thinking, creativity or initiative are also hard to fill. Across job categories, skilled as well as unskilled workers are in greatest shortage but firms would also like to see more interns in most job categories. At the other extreme, there is a relative abundance of people who master foreign languages, have good communications skills or experience in sales and customer service.

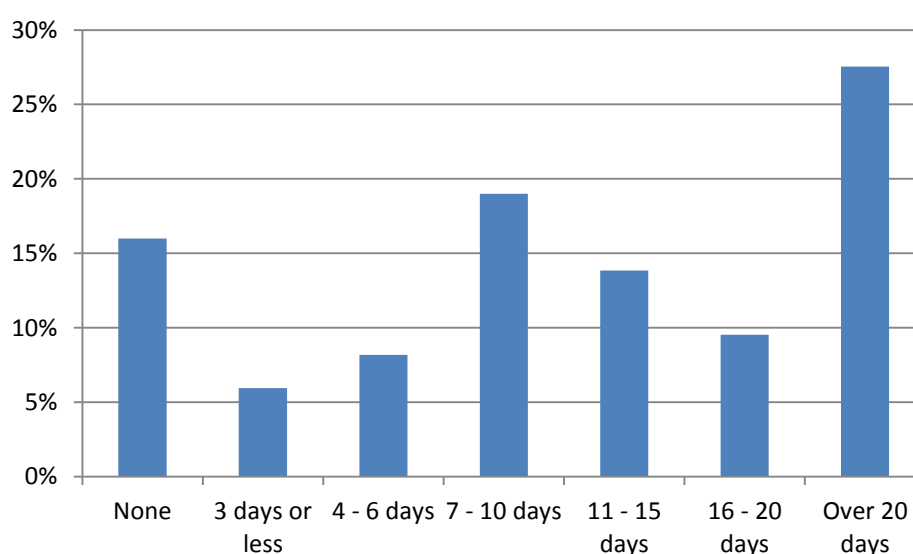
Overall, little investment is made to workforce development as over one-half of the respondents allocate no funding to training for the workforce. The majority of the respondents only provide in-house training to deal with skill shortages, providing a minimal USD 215 per employee per year.

Non-wage benefits are relatively generous

Although about 15% of firms do not provide paid leave in addition to national holidays, a quarter of them provide over 20 days in line with practices in advanced economies. Nearly 10% of firms in the sample do not provide paid sick leave, but 25% provide 7-10 days and 20% over 20 days annually. Roughly 80% of firms cover medical expenses of employees which is a very high share comparable with developing-country standards with a firm size distribution like Myanmar's. In contrast, only 2% of firms provide pension schemes for their employees.

PAID LEAVE IS NOT YET COMMON PRACTICE, THOUGH

The share of respondents providing paid leave by the number of paid leave days



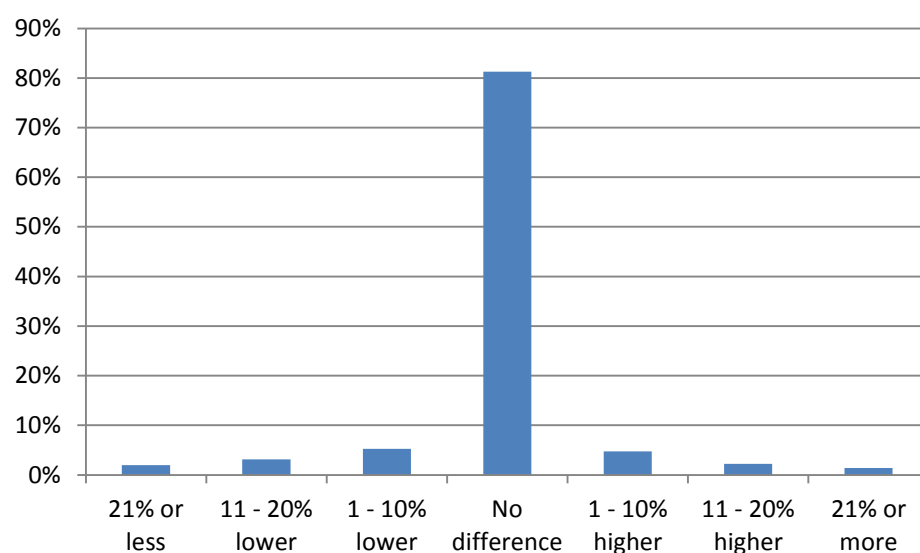
Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

Women are well-positioned to run businesses in Myanmar

Over half of respondents do not think that it is more difficult for a woman than a man in Myanmar to run a business. Moreover, the pay gap appears to be non-existent between male and female employees, with over 80% of firms reporting that there is no wage gap among men and women in the same positions. Employment opportunities for women are also perceived as ranging from somewhat to very favourable by all overall respondents (84% of respondents) and slightly more so by female respondents (87% of female respondents).

THERE IS NO WAGE GAP BETWEEN MEN AND WOMEN

The percentage of people by extent of agreement with whether there is wage differential



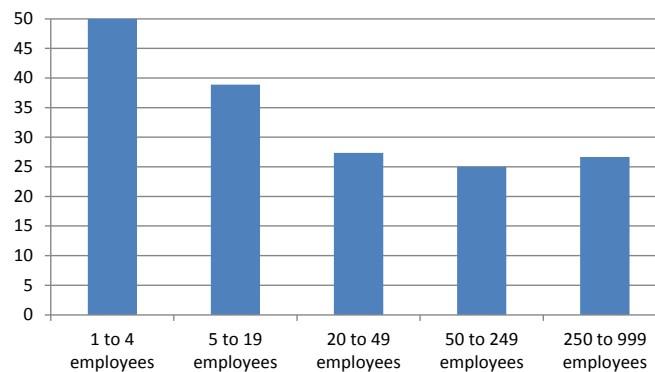
Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

A few small firms tend to be very productive

Labour productivity, measured as gross revenue per worker, tends to be very high in some small firms and lower in medium-sized and large firms. Though the apparent high productivity of micro-enterprises seems to be driven by a few successful businesses and in fact there are only a few large firms with very low labour productivity.

SMALLER FIRMS TEND TO BE MORE PRODUCTIVE

Median revenue per worker by firm size in lakh

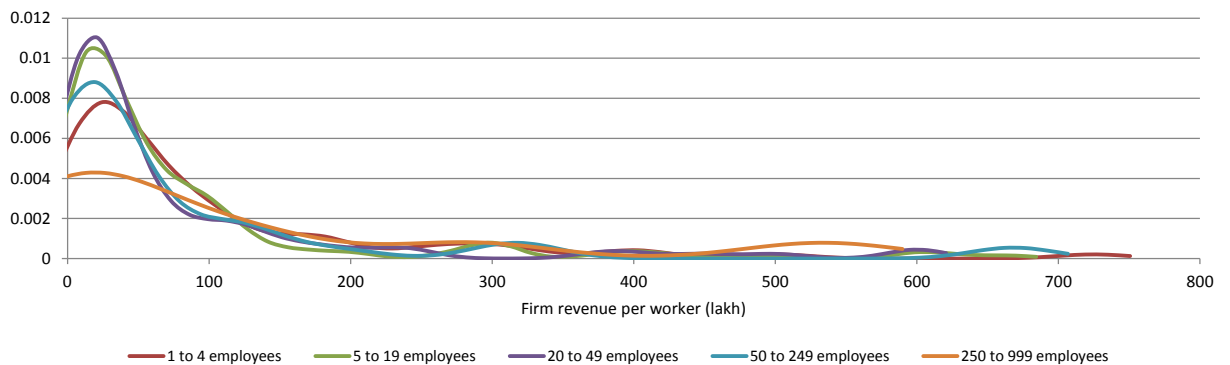


1. One lakh equals to 100 000 kyats or around USD 100. Firms with 1 000 and more workers were excluded due to a lack of sufficient data.

Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

THERE ARE FEW LARGE FIRMS WITH VERY LOW PRODUCTIVITY

The distribution of firms in different sizes by labour productivity



1. Kernel distribution is applied. 1 lakh is 100 000 kyats or around USD 100. Labour productivity is expressed as gross revenue per worker in lakh. Firms in the overall top and bottom 5% of productivity were removed for visual clarity.

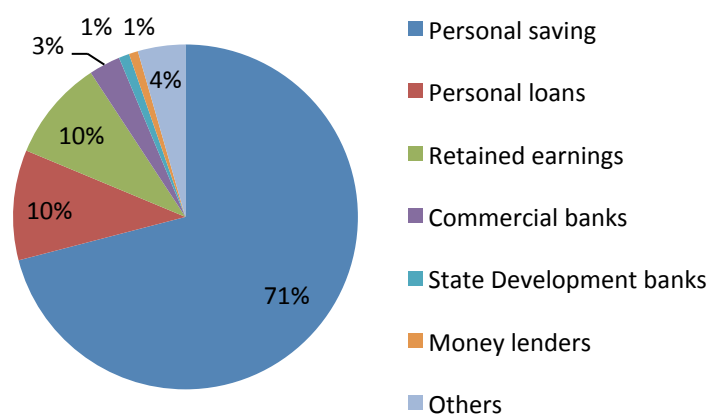
Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

Over half of firms need more financing and roughly a third have external debts

On average, the respondents mobilize more than 80% of financial resources from informal financing such as personal savings and loans. Approximately 10% of financial needs are supported by internal financing (i.e. retained earnings). The share of institutional loans is low at 4% provided by both commercial banks and state development banks. Less than 1% of financing is made by money lenders. As expected, sophisticated financial instruments such as equity financing (e.g. corporate stocks), asset-based financing (e.g. factoring) and leasing are uncommon in Myanmar. Indeed, only a few firms are customers of banks in Myanmar with 27% not using banking services at all although 50% have a current account.

FIRMS TEND TO PERSONALIZE FINANCIAL MANAGEMENT

The share of financing resources

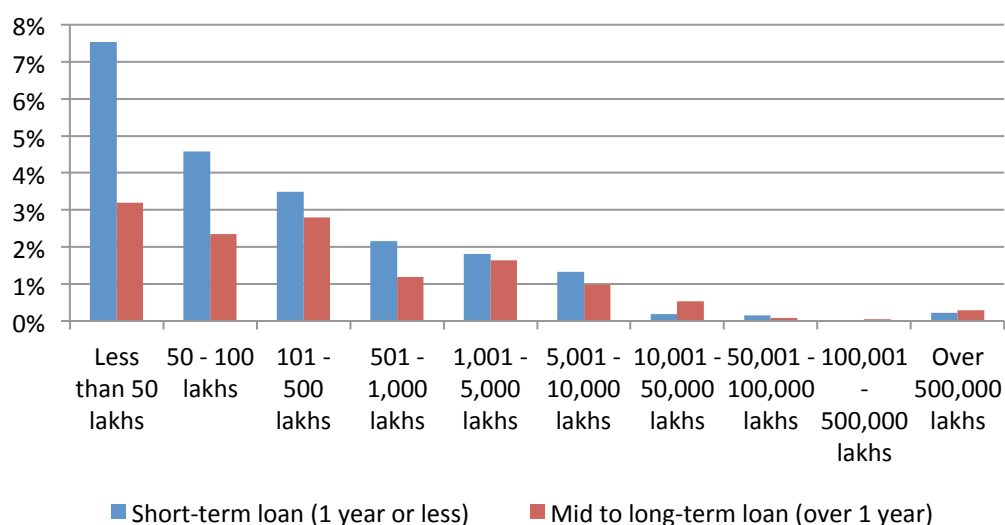


Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

Slightly over half of the respondents think that they do not have adequate financing in general (over 40% of the respondents do not need external loan) and 36% of firms have access to loans. More than 70% of the firms that borrow do so to finance expansion. Firms tend to borrow more to meet working capital needs than to invest which reflects the scarcity of long-term lending in Myanmar. The majority of the firms that borrow obtain loans worth less than USD 5 000 and there are only a handful of firms that borrow over USD 5 million. Most firms borrow at an average of around 13% interest rate, with the median interest rate of 13% which is the official lending rate and is regulated. Although 5% of firms pay a 2% interest rate on their loan and at the other extreme 5% of firms pay 30% which is the official lending rate by micro-finance institutions or credit cooperatives.

FIRMS THAT HAVE ACCESS TO LOANS TEND TO BORROW SHORT TERM

The share of respondents with external debt by the size of their outstanding loans



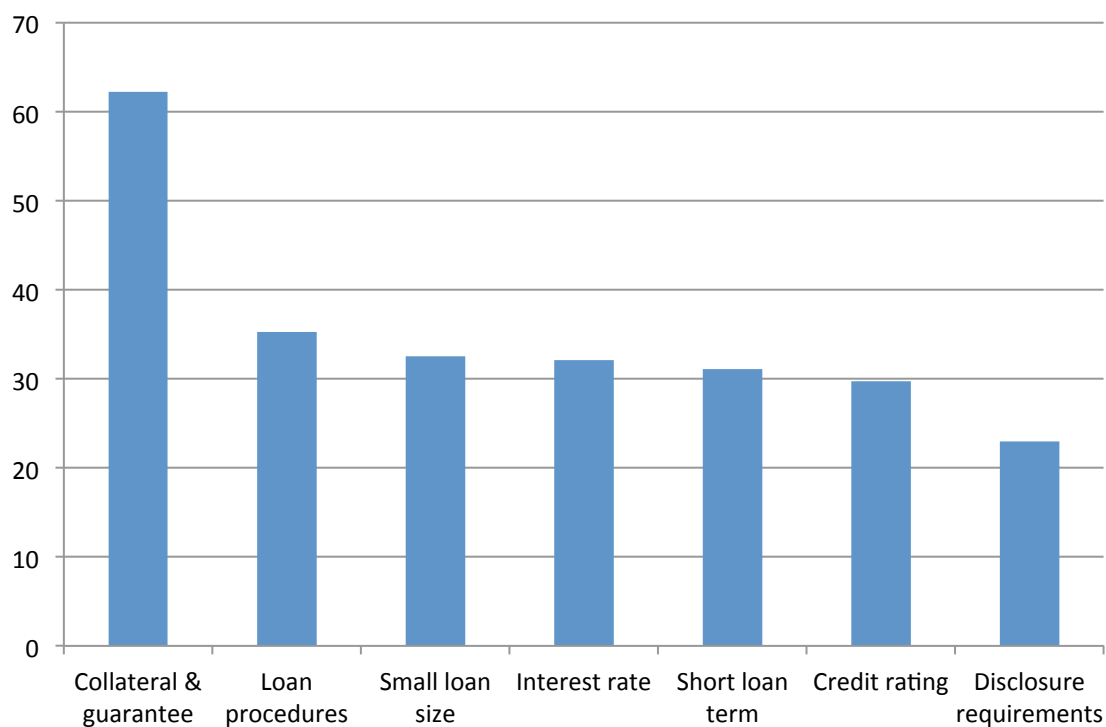
1. One lakh equals 100 000 kyats or around USD 100.

Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

The biggest obstructions to accessing institutional loans in Myanmar are unfavourable borrowing conditions such as stringent collateral requirements, complicated application procedures, small size of loans and high interest rates, while the lack of sophistication and needs at firms has discouraged the use of external financing. Interestingly, the quality of banking services is found to be less crucial to have access to formal loans.

COLLATERAL IS THE BIGGEST OBSTACLE FOR ACCESS TO EXTERNAL FINANCING

The relative degree of major obstacles for external financing



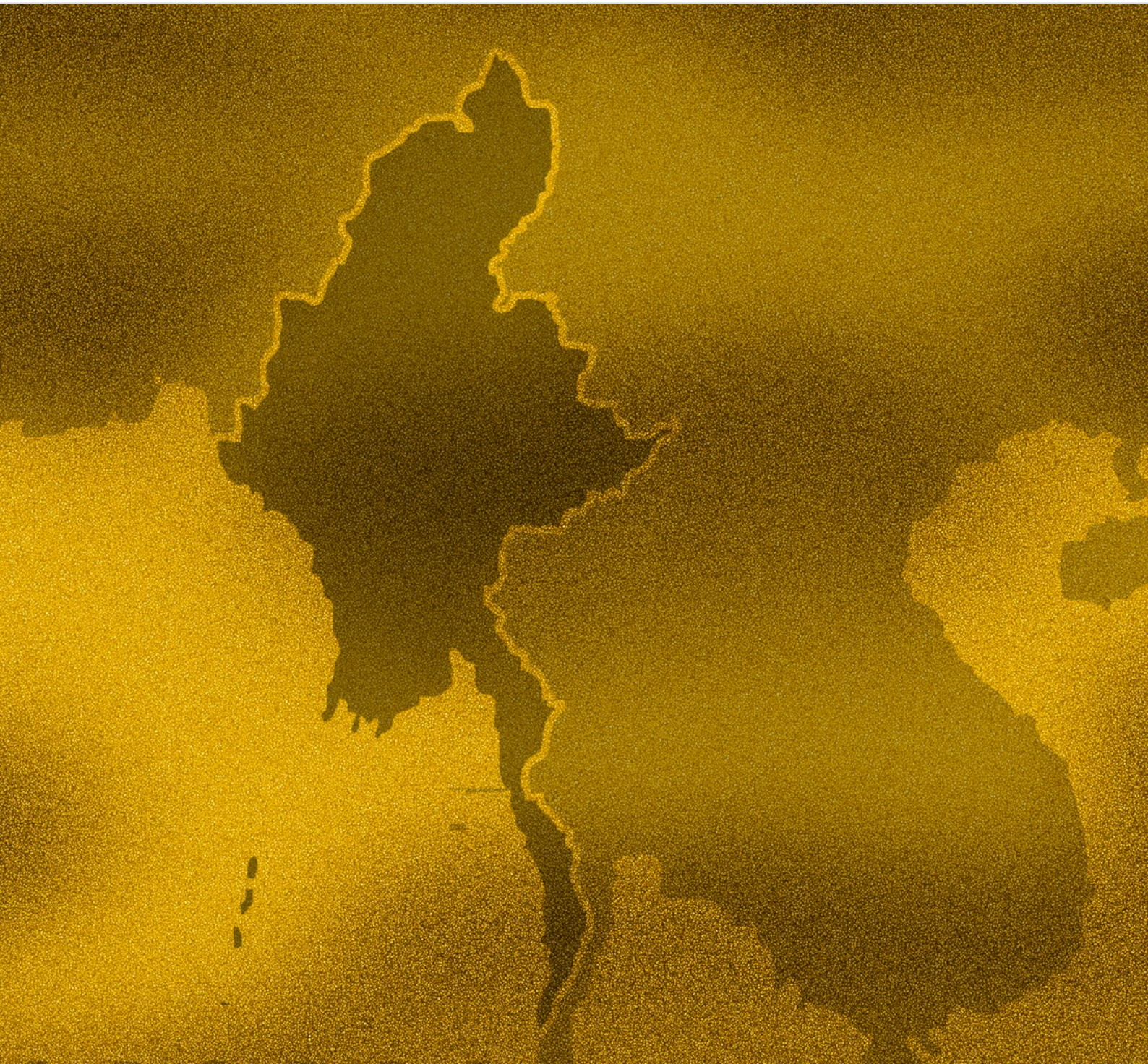
1. The figure is developed based on distances from the mean value of 16 obstacles to obtain formal loans. Other variables include: Lack of understanding; Don't know banking services; Not interesting in borrowing; May not be approved; Lack of timely services; Less able to access loans; Financial statements; Poor services; and Distance to banks.

Source: OECD-UNESCAP-UMFCCI Business Survey 2014.

Annex: The geographical distribution of samples

Area ID	Region/State	Number of samples
AM 1	Hakha	33
	Kalay	68
	Falam	18
	Tamu	46
	Sub-total	165
AM2	Myitkyina	100
	Bhamo	30
	Lashio	100
	Muse	100
	Sub-total	330
AM3	Bago/Taungoo	100
	Pyay	99
	Magway	110
	Naypyidaw	74
	Myin Gyan	9
	Sub-total	392
AM4	Mandalay	428
	Naung - U	50
	Pyinoolwin	46
	Sagaing	24
	Monywa	42
	Sub-total	590
AM5	Yangon and Ayeyarwaddy	960
AM6	Loikaw	59
	Taunggyi	43
	Inlay	27
	Tachilek	50
	Kengtung	10
	Sub-total	189
AM7	Myawaddy	50
	Hpa-an	65
	Mawlamyaing	98
	Sittwe	55
	Kyaukphyu	26
	Dawei	52
	Kawthoung	44
	Sub-total	390
Total		3016

Survey on Businesses in Myanmar



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