THE MYANMAR BUSINESS ENVIRONMENT INDEX 2020 EXECUTIVE SUMMARY

Measuring Economic Governance for Private Sector Development

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Executive Summary

The 2020 Myanmar Business Environment Index (MBEI) aims to identify constraints in Myanmar's business regulatory environment and provide a tool for identifying reform opportunities that spur growth. The MBEI is an economic governance index (EGI), a specialized instrument pioneered by The Asia Foundation to measure the performance of local authorities and to assess the local business environment through quantitative indicators. Between 2016 and 2018, The Asia Foundation carried out extensive desk research, expert interviews, and focus group discussions to adapt the EGI model to the specific Myanmar context and to find ways to best measure these constraints through survey and administrative data. This led to the 2019 MBEI report and economic governance ranking, which were based on data collected in 2018.[1] After releasing the report in 2019, we again invested heavily in contextual research and upgraded the index to capture Myanmar's efforts to improve governance at the national, state and region (S/R), and township levels.

Subnational EGIs have been used in Indonesia, Sri Lanka, Bangladesh, Cambodia, Mongolia, and Vietnam, and the tool has become widely accepted by diverse governments to understand economic growth, attract investors, and engage in public-private dialogue. In Vietnam, the Provincial Competitiveness Index (PCI) recently celebrated its 15th anniversary and has been deeply incorporated into local- and central-government policies and planning. Currently, all of Vietnam's 63 provinces have published actions plans to improve their PCI scores, and the central government uses PCI data to monitor private-sector development strategy and anticorruption campaigns.

The MBEI represents the voice of private businesses from across Myanmar. The MBEI is based on a nationwide survey of 5,605 firms—many of them small and medium-sized enterprises (SMEs)—in Myanmar's service and manufacturing sectors. To ensure comparability between S/Rs, the MBEI excludes the primary sector (agriculture, forestry, fisheries, and mining) and foreign firms operating in Myanmar, which are not well distributed across the country. To capture the views of businesses, the MBEI uses a two-stage, stratified random sample (SRS) to ensure representation at the state and region level as well as the township level. Survey responses are combined with objective data gathered from observations of township offices, recorded by our field team, taken from statistical yearbooks, and drawn from other administrative sources available from government ministries. This combination ensures highly reliable estimates of economic governance at the local level that are based on business perceptions but also anchored by objective measures.

The MBEI measures 10 core components of good economic governance. The overall MBEI score comprises 10 subindices. A state or region that is considered to perform well on the MBEI is the one that has (1) low entry costs for business start-up, (2) easy access to land and security of business premises, (3) limited time requirements for bureaucratic procedures and inspections, (4) minimal informal charges, (5) sufficient and well-maintained physical and telecommunications infrastructure, (6) a transparent business environment and equitable access to business information, (7) minimal crowding-out of private activity due to policy biases toward state, foreign, or connected

firms, (8) limited pollution and environmental damage, (9) sound labor training policies, and (10) fair and effective legal procedures for dispute resolution and maintaining law and order. The MBEI innovates on the traditional EGI model by measuring the environmental and labor-recruitment dimensions to provide a holistic image of local economic governance that incudes socioeconomic factors.

This report details the results of the second iteration of the MBEI. This year's MBEI features several improvements over the MBEI 2019 report, which was the first of its kind in Myanmar. First, new indicators have been added, allowing for more nuanced and complete analyses by subindex and by S/R that more closely track Myanmar's reform efforts. We also dropped 16 indicators that were deemed problematic by experts for being obviated by Myanmar's national-level reforms or because their impact on business performance was ambiguous. Second, this year's report features a subset of 1,200 panel firms—firms that were surveyed in both this wave and last. Analysis of their performance along core indicators—indicators that were collected consistently in 2018 and 2020—allows for the measurement of improvements of S/Rs over time.

MBEI measurements are weighted to reflect business confidence and expansion. Weighting the index by contribution to private sector performance, offers concrete policy information to officials about what to prioritize. To generate the weights, subindices were regressed on average, annual, firm-level employment growth since establishment. Subindices most strongly correlated with these measures received higher weights in the index (see chapter 5 for methodological details on calibration and regression results). This step allows local leaders to better prioritize reform efforts. The four highest-weighted subindices, each accounting for 15% of the national index, are land access (subindex 2), transparency (subindex 6), environmental compliance (subindex 8), and labor recruitment (subindex 9).

MBEI rankings reflect aggregate economic governance rather than the overall market or the efforts of individual administrators. When comparing Myanmar's S/Rs, it is important to remember the purpose of the MBEI: it is designed to measure economic governance as experienced by domestic businesses operating in the service and manufacturing sectors throughout Myanmar. These businesses are largely SMEs and do not participate in the agriculture, fishery, forestry, or mining sectors. In other words, the MBEI does not purport to rank the overall market, nor the performance of individual administrators. Markets are largely out of control of governments in the short run, and in Myanmar economic governance is determined not strictly by the most recent administrator but by a history of accrued policy and administrative decisions. Rather than point to winners or losers, the MBEI is designed to point to areas of economic governance that S/R governments can focus on to help grow the private sector locally.

National-level findings suggest that businesses remain optimistic despite operating in a challenging environment. While challenges to economic governance remain, there are reasons for this optimism. In addition to describing the variance in economic governance across Myanmar's S/Rs, we also detail national-level and S/R-level findings that apply to all firms in the country. While businesses unsurprisingly report facing many obstacles, in many areas they also show glimmers of optimism and confidence in Myanmar's future. Here are a few highlights from the study's findings:

- *Yangon, Sagaing, Nay Pyi Taw, and Bago have the highest scores for economic governance in the country, although they have achieved this distinction through different constellations of reforms, as shown in Figure 1.* Yangon and Nay Pyi Taw (along with Mandalay) excel at infrastructure, environmental compliance, and labor recruitment, which reflects the benefits of urbanization and the greater fund of human capital in their localities. Sagaing and Bago, with less-dense populations, excel at reducing favoritism towards businesses with connections, regulatory costs, post-entry regulatory compliance, and in instilling confidence in the legal system and law enforcement. Figure 2 illustrates this point by depicting the highest and lowest scores on each subindex.

- *Variation in S/R performance on different subindices helps to pinpoint where subnational governments can innovate and where the challenge lies with central policies.* Some subindices reveal significant differences between the highest and lowest S/Rs, while other subindex scores do not differ much between subnational administrations. The greatest differences between minimum and maximum scores are found in labor recruitment (subindex 9) and infrastruc-

Each state and region in Myanmar demonstrates different strengths and weaknesses with respect to governance. No state or region stands out as superior to all others with respect to overall economic governance.

ture (subindex 5). Favoritism (subindex 7), transparency (subindex 6), and land access (subindex 2) exhibit very little variation and smaller differences between the lowest and highest scores. High variation implies that there are important differences in how S/R and township governments are interpreting and implementing central policies, and what new initiatives they are devising of their own. Combination of low variation and low scores indicates that the governance issues are very similar across S/Rs, pointing to either structural problems in the Myanmar economy or issues with central laws and regulations.

- *Higher scores in land access (subindex 2), transparency (subindex 6), environmental compliance (subindex 8), and labor recruitment (subindex 9) are significantly and positively correlated with employment growth among respondent firms.* Consequently, they receive the greatest weights in the final 2020 MBEI. For local leaders pursuing governance reform, initiatives targeting these subindices will be most likely to improve economic well-being by stimulating firm growth and employment.

- *Differences in economic governance are more pronounced among townships within S/Rs than between S/Rs, pointing to the importance of township authorities to the reform process (see Figure 3).* Less than nine points separate the top S/R from the bottom, and different S/Rs excel in different dimensions of governance. No S/R stands out as a top-ranked performer on every index. Consequently, differences among S/Rs account for just 27% of the variation in firm-level experiences of governance. By contrast, there is a 14-point gap between the highest- and lowest-ranked townships, and differences between townships within S/Rs account for over 39% of the variation in firm-level experiences of governance. This is because most firms in Myanmar, and therefore most respondents in the MBEI, are SMEs, and their primary interactions with government are with bureaucrats at the township level. Economic governance can only improve if these agencies are part of the reform process.

- *Firms in townships with better governance have hired more new workers on average since their establishment than firms in townships with poorer governance, and better-governed townships have higher levels of economic welfare, measured by night light data.* These associations hold true even after accounting for the underlying endowments, location, and wealth of

FIGURE 1
2020 Myanmar Business Environment Index

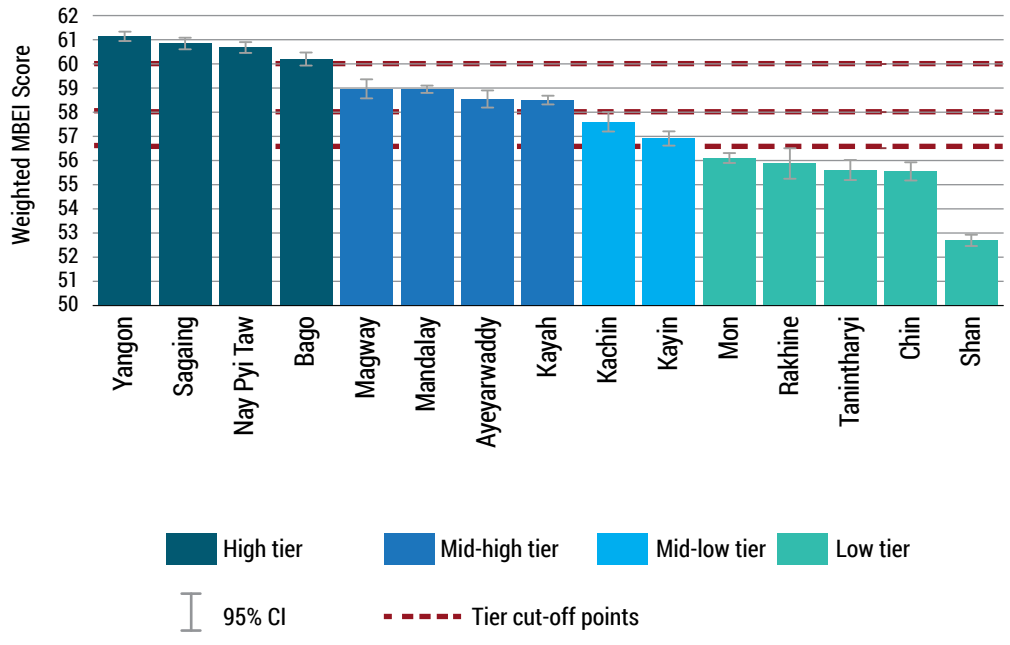


FIGURE 2

The Ten MBEI Subindex Rankings

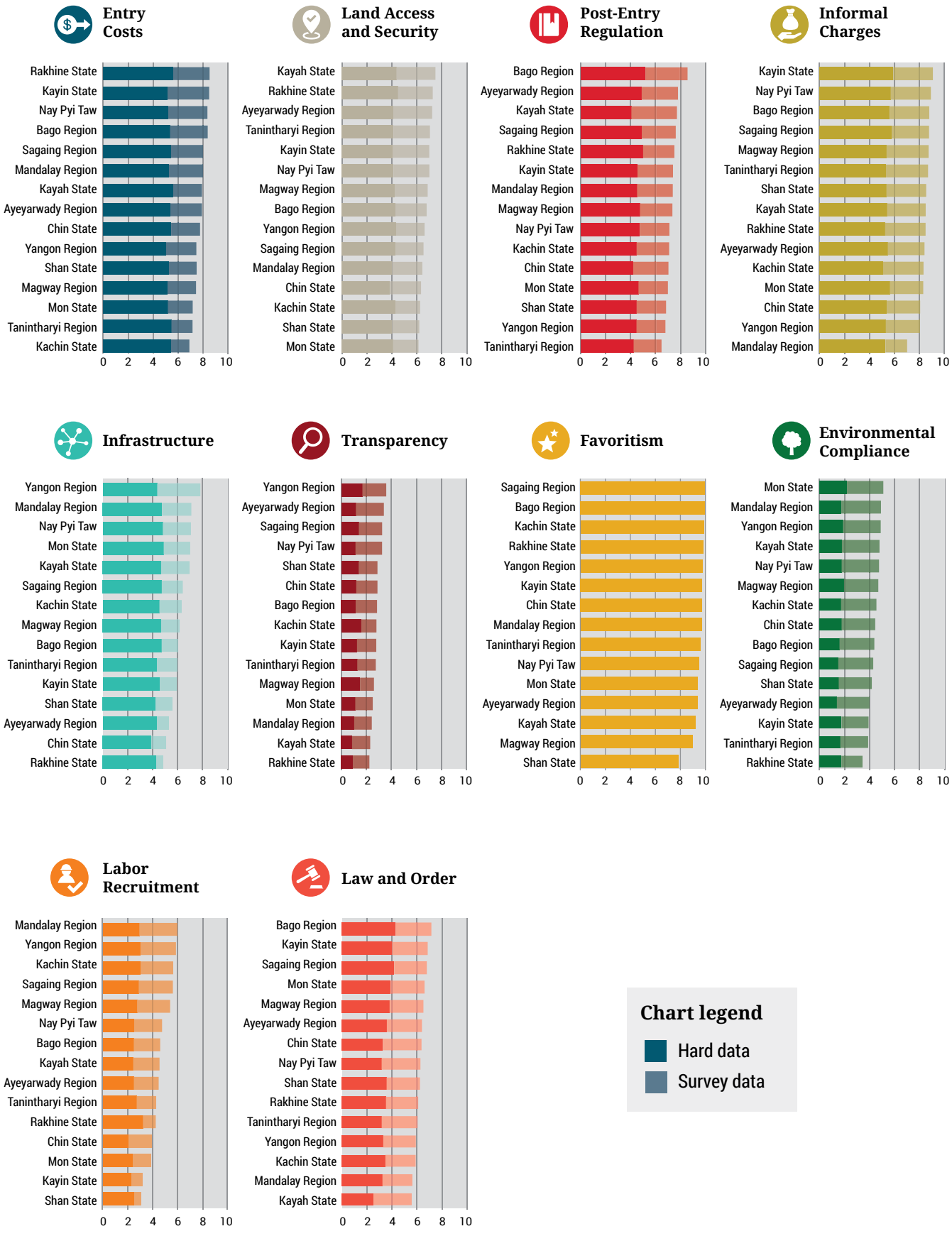


FIGURE 3

MBEI Ranking at Township Level

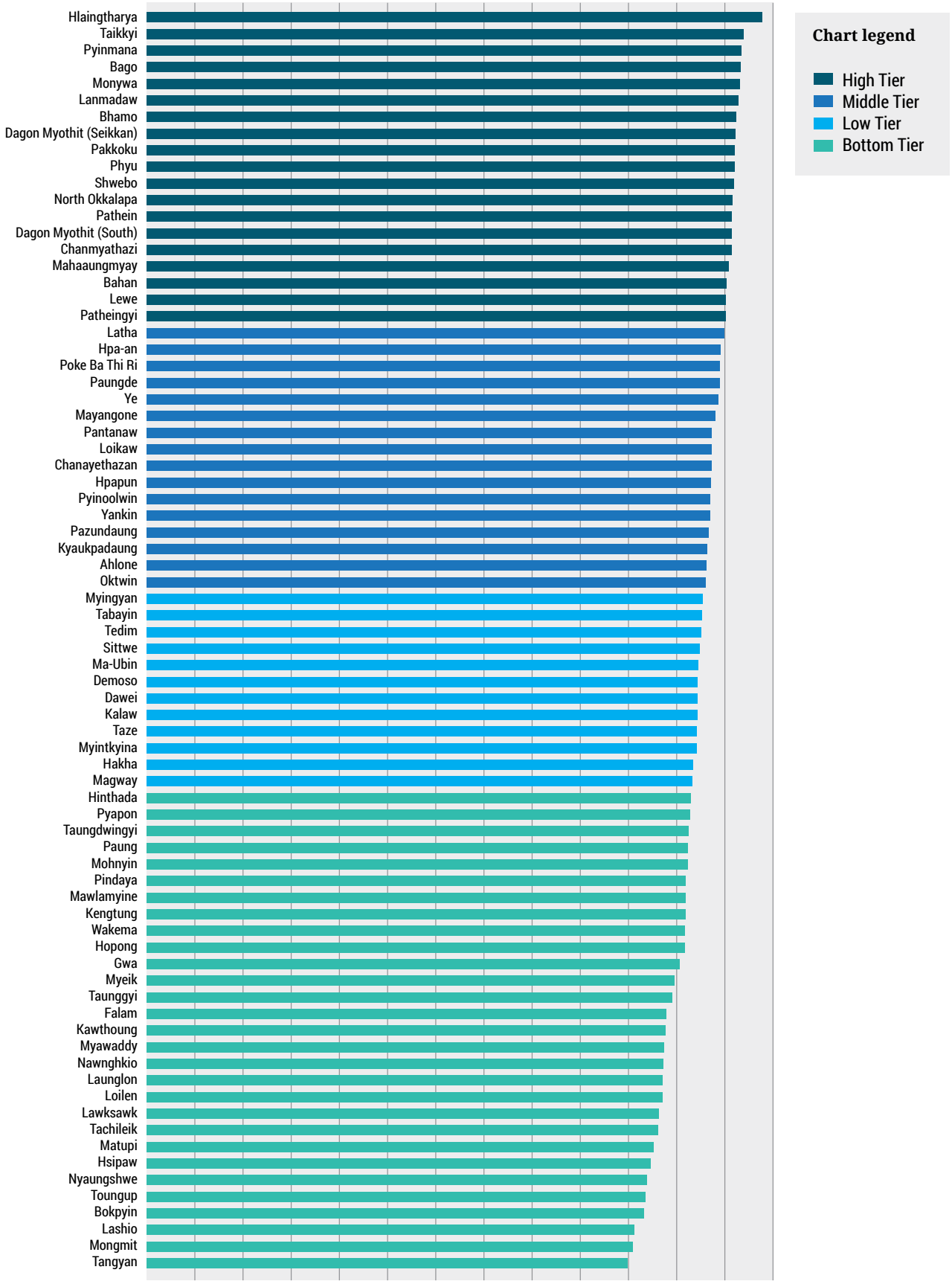
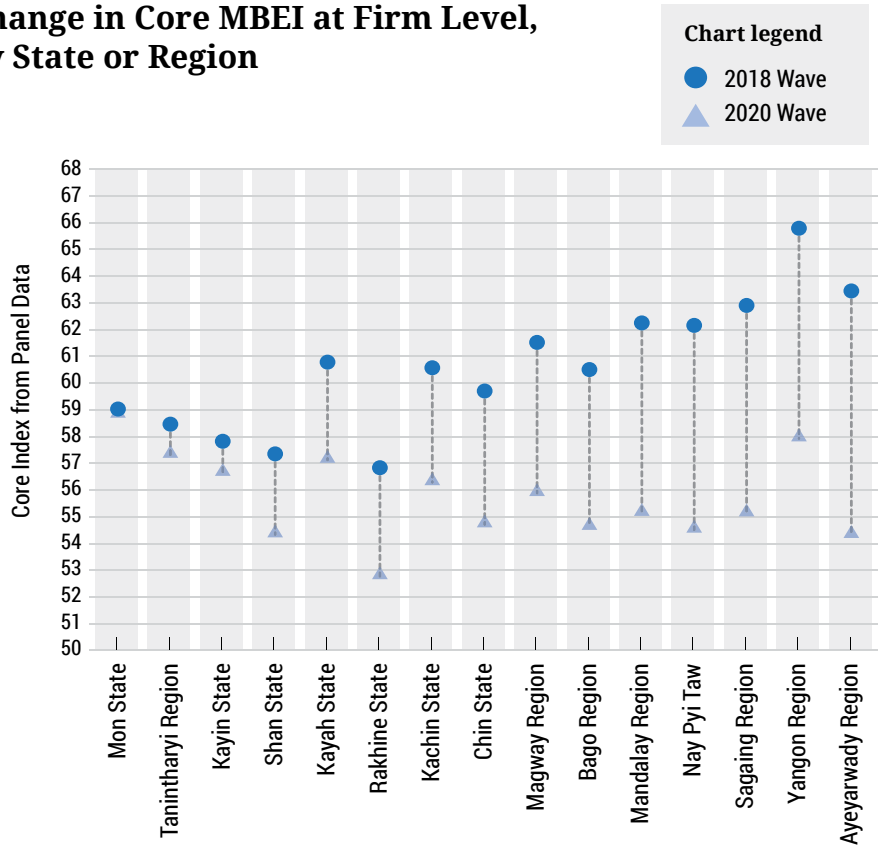


FIGURE 4

Change in Core MBEI at Firm Level, by State or Region



the localities. The finding illustrates how economic governance is correlated with improvements in welfare.

- *Economic governance has improved in Myanmar since 2018.* The Core MBEI rose 5.4 points, from 55.1 in 2018 to 60.6 in 2020, an 10% improvement. And every single S/R improved on the Core MBEI (see Figure 4).

- *Improvements over time were not uniform, but instead were concentrated in a few subindices. Governance improved in six areas measured by the MBEI, as shown in Figures 5 and 6.* Subnational governments in Myanmar, including both S/Rs and townships, recorded improvements in reducing the burden of post-entry regulation (subindex 3), augmenting infrastructure (subindex 5), enhancing transparency (subindex 6), reducing favoritism (subindex 7), strengthening environmental compliance (subindex 8), and facilitating labor recruitment (subindex 9).

- *Three areas of governance did not improve significantly.* These include ease of entry (subindex 1), improving land access (subindex 2), and limiting informal charges (subindex 4).

- *The quality of governance declined in only one subindex, law and order (subindex 10).*

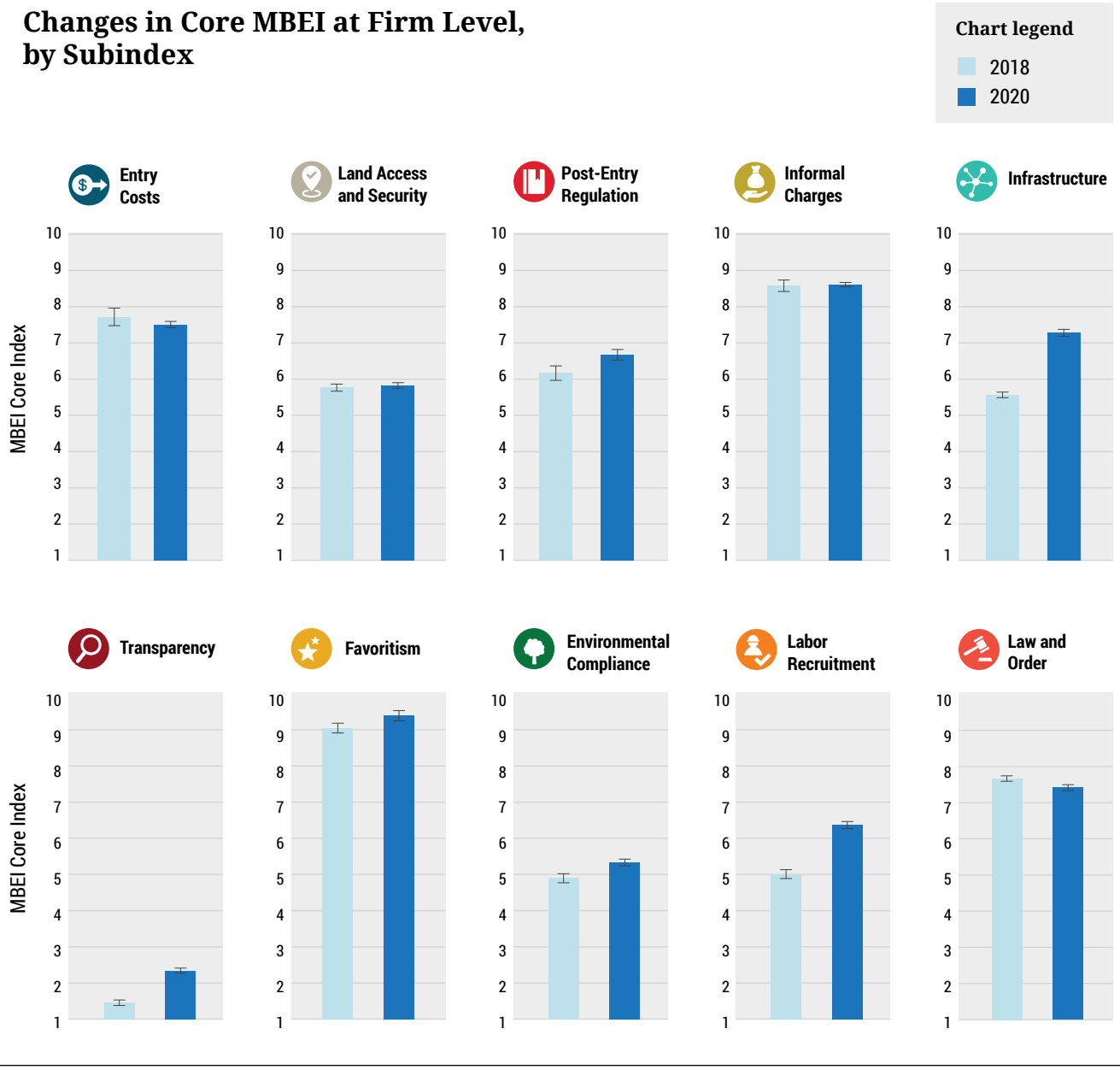
- *Entry costs are reasonable, but not improving.* Only a small share of businesses encountered significant waiting periods or administrative burdens when registering and licensing their businesses. However, panel data indicates that waiting periods are not declining significantly over time.

- *Land-titling issues are less problematic; however, land security remains an issue even when firms have property rights.* Possession of land titles among private businesses is frequent and improving. However, firms still feel uncomfortable about the security of their business premises. Half of all businesses with land titles fear expropriation, and almost all businesses without titles fear changes in rental contracts that might undermine operations.

- *Many businesses perceive administrative procedures for post-entry regulation as satisfactory and improving.* One-stop shops for administrative procedures have proliferated, and firms point to the friendly staff in those offices. Members of the research team confirmed this by observing that

FIGURE 5

Changes in Core MBEI at Firm Level, by Subindex



more OSS desks were occupied during business hours, and OSS and GAD staff were friendly and helpful.

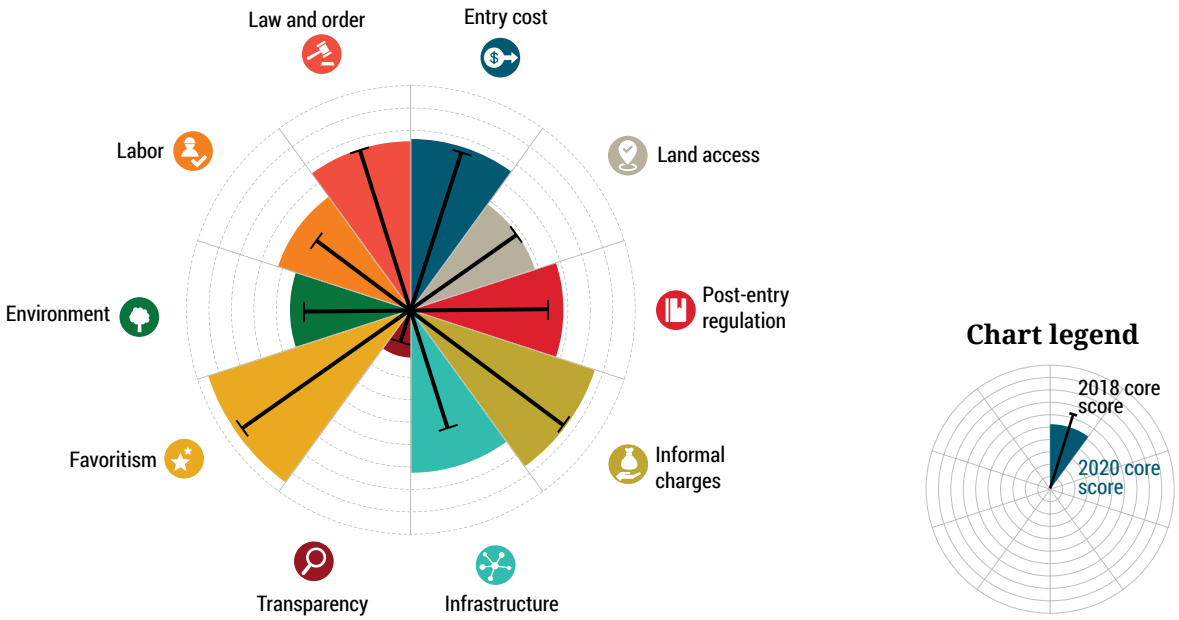
- *Despite improvements in post-regulation procedures, concerns remain about the capacity and efficiency of township offices such as GAD and DAO.* Firms claim to be spending more time on bureaucratic procedures and blame declining efficiency among bureaucrats who handle their paperwork.

- *Informal charges are less of a problem for service and manufacturing SMEs than generally perceived.* As in 2018, very few firms in 2020 admit to paying bribes, either in direct questions or in shielded questions meant to protect their identity. Even when bribes are paid, they are not overly burdensome for firms, accounting for a very small share of total revenue. The widespread agreement that bribery is needed to win procurement contracts, however, shows that, while petty corruption is not a burden, malfeasance at a larger scale may be taking place beyond the experience of most SMEs.

- *A special analysis of corruption confirms the finding that petty corruption is not a problem for respondents in Myanmar, but grand corruption remains a very serious concern.* Bribes during business entry are close to zero, however, nearly 70% of firms pay bribes to receive construction licenses at a cost of 3.4 million Kyat (US$2,430) per firm.

FIGURE 6

National level starburst chart to identify areas that have improved on core MBEI



- *Quality of infrastructure has improved a great deal but remains a significant issue, and this is especially true for construction-heavy physical infrastructure.* Almost 60% of firms say that rural road quality is good or very good. Firms now lose only three days annually due to flooded or blocked roads, a huge improvement from 14 days in 2018. Firms are generally more optimistic about electricity and the internet. Three-quarters of firms believe that their access to electricity, internet, and telephone service is good or very good. Work stoppages and damage from power outages has also declined precipitously.

- *Transparency has improved but remains uniformly poor in all S/Rs.* Only 18.5% of firms in the leading Magway Region have access to plans for public investments such as airports and highway projects. In Kayah State, not even 1% of all firms have access to these plans. The lack of transparency with respect to government documents is not confined to large-scale construction projects. Only 6.9% of firms in the median S/R, have access to its state budget. National-level statistics corroborate these results. Only 18% of firms have access to S/R laws and regulations, presumably easy-to-find public information. Despite the uniformly low scores on this subindex, dramatic improvements are possible, as seen in Yangon, from relatively simple interventions such as posting this information on an easy-to-find website and publicizing its existence.

- *Favoritism towards connected businesses is not widespread, and scores on the aggregate subindex are improving.* Only two S/Rs, Shan and Magway, score under 9 out of 10 on this subindex. The general perception among firms is that bias in favor of connected firms is most common in connection with loans and access to land. Even in these areas, only around 7% of all firms believe that favoritism exists.

- *Environmental compliance has improved over time, but more work needs to be done.* Fewer than 10 percent of firms believe that pollution has a significant, negative effect on their business. In the median S/R, over half of firms believe that state support is lacking. Despite improvements, there is not a single S/R where more than half of businesses believe that inspections

are done to protect the environment, and there is not a single S/R where more than one-third of businesses believe that the government supports water conservation.

- *Access to qualified labor is improving but remains hard to find.* Panel data indicates that labor recruitment and quality have improved, but businesses are still concerned. Labor recruitment is difficult regardless of the position to be filled. In the national sample, only 40.3% of respondents say it is easy to recruit managers, and only 48.3% of respondents find it easy to hire accountants. The situation is equally bad for blue-collar positions. Only 45.6% of respondents find recruiting rank-and-file manual workers easy. Even worse, only 26.7% of respondents find it easy to recruit technicians. Difficult recruiting puts a greater burden on firms to train their workers. On average, it takes a firm 51 days to train a new worker sufficiently to do the job. While there are many explanations for the difficulty of finding and training workers, one reason may be the generally low levels of education in Myanmar. For example, administrative data shows that high school enrollment rates are only 44% (CSO, UNDP, and WB 2018).

- *Firms believe that powerful officials are above the law.* Most firms appear to think that government officials are above the law, and the situation has worsened over time. Just 26.5% of businesses believe that they can appeal an unjust decision to a higher government office, and only 20.1% believe that officials will discipline offending staff.

- *The security situation needs improvement.* Only 26.2% of firms believe that the security situation is good. According to the interviews 8.3% of firms say that they were victims of a crime in the past year. A poor security situation introduces uncertainty that reduces investment, and it creates a barrier to entry for businesses that fear violent crime.

The data contained in the MBEI provides government, businesses, and other stakeholders with a valuable resource for improving economic governance and thereby boosting Myanmar's future prospects for economic growth. The MBEI serves as a diagnostic tool for both Union and S/R governments in Myanmar to better understand local economic governance.

This report is just a summary of the extensive MBEI data, which can be used for more detailed diagnostics at the S/R, township, or subindex level. The next step, taking advantage of this wealth of data, is to facilitate discussions between government, businesses, and civil society to identify solutions that will improve Myanmar's business environment by working to address the challenges outlined in this report.

In addition to providing lawmakers with insights into future policy and administrative reform, the MBEI is a source of information for businesses and investors considering investment or expansion. Finally, it can also be a resource for donors and civil society organizations as they seek to support economic and governance reforms. Ultimately, the MBEI is designed to be a resource for improving the business environment, which is critical to private sector development and Myanmar's goal of sustainable and inclusive economic growth.

This is the Executive Summary of the full report titled **"Myanmar Business Environment Index 2020: Measuring Economic Governance for Private Sector Development".**

The full report can be found on asiafoundation.org. To request copies of the report, please contact country.myanmar.communications@asiafoundation.org.

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