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Challenges to small and medium-size businesses in Myanmar: What are they and how do we know?☆



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ABSTRACT

We conducted a field survey of owners of small and medium enterprises (SMEs) in Yangon, Myanmar to investigate obstacles to business development in the region. The analysis focuses on access to credit, public services, and electricity. We find that relaxing loan collateral requirements is considered of prime importance, while access to bank loans is seen as problematic (equivalent to a 19 percentage point increase in the interest rate). Yet despite their widespread appeal to governments and donors, SME loans are found to have no discernible impact on perceived access to credit. Access to public services is hampered by cumbersome and time consuming procedures, often necessitating daylong trips to the capital for administrative procedures. Streamlining such procedures could yield annual savings of up to US \$4700 per business. With regard to electricity, the biggest problems are installing new connections and the unreliability of supply. For benchmarking of concerns, we showed respondents vignettes describing hypothetical businesses facing a particular difficulty, and asked them to rate the gravity of the problem. Although we find some differences in response scales across socio-economic and ethnic groups, the qualitative conclusions about which problems are most important generally hold. This suggests that broad-based policy intervention aimed at easing a particular difficulty can be implemented.

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1. Introduction

The Myanmar private sector is still in its early developmental stage. Myanmar has 2.6 registered SMEs per 1000 people, which compares with 27.0 in developing countries and 9.0 in the least developed countries (OECD, 2013). 83% of all private enterprises are in the informal sector, a majority of which are family-owned and self-employed.¹ Frequently cited reasons for the weak private sector include lack of an enabling regulatory environment, inefficient financial industry, lack of regulatory incentives for firms to operate formally, lingering legacy of the centrally planned economic system, influence of crony capitalism, and continuing state and military dominance of the broader economy (OECD, 2013). As the country is

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¹ Nay Pyi Taw News, 2013.

experiencing unprecedented political freedom and potential for economic growth since opening up in 2011, the full development of a well-functioning private sector dominated by small and medium-size enterprises (SMEs) is crucial for Myanmar to realize its full economic potential and for achieving sustained economic growth over time. A series of sweeping legislation acts and policies aimed at strengthening the private sector and revitalizing the economy have been introduced since 2011 when a quasi-civilian government came to power.² Now that a new civilian and democratically elected government has been elected into office since March 2016, efforts to further reform the private sector are likely to intensify in the coming years.³

One major impediment to policy decision making is that official data on SMEs hardly exist in Myanmar. If they do, they are difficult to verify, or not suitable for conducting in-depth statistical analyses. Thus, policy decisions are often not informed by analyses of the underlying policy issues, and it is impossible to objectively assess the impacts of any policies that have been introduced. Academic research analyzing the performance of the Myanmar private sector has been limited, largely due to various political restrictions imposed during the previous military rules that restricted research activities and mobilizations of international academics. As a result, little is known about the characteristics of the Myanmar private sector in general and SMEs in particular. The current research aims to fill this gap.

The goal of our research is to generate a dataset to paint a picture of Myanmar SMEs, the business environment under which they operate, and the factors potentially affecting their growth. Specifically, in this paper, we report results from a study we conducted in the Yangon area of Myanmar focusing on three key areas of the business environment: (1) access to credit, (2) access to public services (PS hereafter)⁴ and (3) access to electricity. These three areas are chosen because they are considered to present the most severe constraints (Kyaw, 2008; OECD, 2013; Abe & Dutta, 2014).⁵ First, we describe our data, examine determinants of SME growth, and analyze the relationship between firm characteristics and the most binding constraints they face. We then ask our respondents to rate difficulties faced by hypothetical firms described in vignettes to identify what the respondents see as the key difficulties in each of the three domains of business environment considered.

Since our results are largely based on respondents' self-reports, there is a possibility that different respondents use different response scales, which would make their answers incomparable. For instance, two individuals belonging to different socioeconomic groups may differ on what it means for an obstacle to be "severe" when reporting an aspect of the business environment (for instance access to public services), which in reality equally affects both individuals.

Self-reported business environment data have been used extensively in cross-country empirical studies, as well as in generating country reports.⁶ Given their potential for influencing policy decisions, it is important to investigate if the self-reported data are affected by biases induced by heterogeneity in reporting behavior and then to propose a statistical method to correct for such biases. For this we will use the vignettes and investigate whether respondents with different characteristics evaluate them differently. We find significant differences, but the differences are modest. Based on this finding we then use self-reports (adjusted for potential heterogeneity in reporting behavior) to assess which types of businesses may face the most severe constraints.

The remainder of this paper is organized into four sections. Section 2 describes the data used in this analysis. Section 3 presents vignette descriptions and the estimated effects of vignette characteristics on evaluations. Section 4 addresses the possibility of differences in response scales across different respondent groups and analyzes which kind of firms face the most severe constraints. The final section discusses the implications of the results, followed by suggestions for future research.

2. Data descriptions

Our study concentrates on SMEs in the Yangon region and focuses in particular on a number of obstacles experienced by business owners. As such it is less broad than surveys like those reported on by Soans and Masato (2015) and DEval (2015). On the other hand, our narrower focus allows us to explore more in depth the dimensions of issues affecting small and

² Key legislation and reforms included the passage of Foreign Exchange Management Law in April 2012, which officially allowed the country's currency, the kyat, to float freely, the introduction of the Myanmar Central Bank Law that supposedly granted greater autonomy to the central bank in its pursuit of the country's monetary policies, the passage of Foreign Investment Law in March 2012 aimed at facilitating inflows of foreign direct investment, and the liberalization of the telecommunications industry, one of the key sectors of the economy; The previous government issued two telecommunications licenses to Telenor Group of Norway and Ooredoo of Qatar in 20014, which allow them to build and operate nationwide wireless network for 15 years. The two private operators, alongside state-owned Myanmar Post and Telecommunication (MPT), have been providing competitive services, which has led to a sharp decrease in the price of SIM cards from US\$1500 to US\$1.50 in less than 2 years, and a ten-fold increase in the mobile penetration rate (<http://mizzima.com/business-domestic/myanmar%E2%80%99s-mobile-revolution>).

³ Business environment can broadly be defined as "policy, institutional, and behavioral environment, both present and expected, that influences the returns, and risks, associated with investment" (Stern, 2002).

⁴ Our working definition of access to public services is the amount of resources a business has to devote (i.e., money or time, or both) to acquiring essential public services; these services can involve the completion of routine administrative paperwork, applying for licenses and permits, travelling to the capital city to complete administrative paperwork, or the time interacting with government officials and agencies.

⁵ For this research, we define SMEs based on employment size similar to the World Bank's definitions: an enterprise is considered small if it employs 5–19 employees and medium if it employs 20–99 employees.

⁶ See <http://www.enterprisesurveys.org/> for a full list of subjective measures of business environment currently used in the literature.

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