A COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN MYANMAR

Building Markets for a Sustainable Economic Recovery

May 2020

WORLD BANK GROUP
THE WORLD BANK IBRD • IDA
IFC International Finance Corporation

A COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN MYANMAR

Building Markets for a Sustainable Economic Recovery

WORLD BANK GROUP
THE WORLD BANK IBRD • IDA
IFC International Finance Corporation

ABOUT IFC

IFC—a sister organization of the World Bank and member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work with more than 2,000 businesses worldwide, using our capital, expertise, and influence to create markets and opportunities in the toughest areas of the world. In FY17, we delivered a record $19.3 billion in long-term financing for developing countries, leveraging the power of the private sector to help end poverty and boost shared prosperity. For more information, visit www.ifc.org.

© International Finance Corporation 2018. All rights reserved.

2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433

www.ifc.org

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC does not guarantee the accuracy, reliability or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon.

The findings, interpretations, views, and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the Executive Directors of the International Finance Corporation or of the International Bank for Reconstruction and Development (the World Bank) or the governments they represent.

This publication uses U.S. spelling. All mentions of dollars refer to U.S. dollars, unless otherwise indicated.

Cover Photos: Bagan, Myanmar / World Bank

CONTENTS

ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CBM	Central Bank of Myanmar
CMP	cut-make-pack
CPSD	Country Private Sector Diagnostic
DAO	Development Affairs Office
DICA	Directorate of Investment and Company Administration
EAO	ethnic armed organization
EBA	everything but arms
EU	European Union
FDI	foreign direct investment
FOB	free on board
FY	fiscal year
GDP	gross domestic product
GSP	Generalized System of Trade Preferences
HCI	Human Capital Index
ICT	information and communication technologies
IFC	International Finance Corporation
InfraSAP	Infrastructure Sector Assessment Program
LSLA	large-scale land acquisition
MADB	Myanmar Agricultural Development Bank
MCL	Myanmar Companies Law
MCRC	Myanmar Communications Regulatory Commission
MEC	Myanmar Economic Corporation
MEHL	Myanmar Economic Holdings Limited
MFI	microfinance institution
MIC	Myanmar Investment Commission
MIL	Myanmar Investment Law
MIPP	Myanmar Investment Promotion Plan
mmcfd	million cubic feet per day
MoC	Ministry of Commerce
MoPFI	Ministry of Planning, Finance and Industry
MoTC	Ministry of Transport and Communications
MPT	Myanmar Posts and Telecommunications
MSDP	Myanmar Sustainable Development Plan

NAQAC	National Accreditation and Quality Assurance Committee
NLUC	National Land Use Council
NLUP	national land use policy
NTDP	National Transportation Development Plan
OEM	original equipment manufacturing
PPP	public private partnership
SEE	state economic enterprise
SMEs	small and medium enterprises
SEZ	special economic zone
SOEs	state-owned enterprises
TFP	total factor productivity
TVET	technical and vocational education and training
UMEHL	Union of Myanmar Economic Holdings Limited
USF	Universal Service Fund
VFV	vacant, fallow, and virgin land
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

ACKNOWLEDGMENTS

The Myanmar Country Private Sector Diagnostic was prepared by a team led by Philippe De Meneval, Hans Anand Beck, and Philip Chang and included Sjamsu Rahardja, Fang Guo, and Gautam Vishram Mehta. The report was prepared under the guidance of World Bank Group managers including Deepak Mishra, John Nasir, Paramita Dasgupta, and Irina Astrakhan.

The team is grateful for the industry-specific inputs from Jessica Farmer, Sadig Aliyev, and Claudia Vasquez (transport and energy); Carlos Luis Clemente and Rajendra Singh (information and communication technologies); Vanessa Vizcarra, Jason Yang Guo, and Smita Wagh (banking and microfinance); Jose Ricardo Silva and Bradford Roberts (agriculture and agribusiness); Ananda Ghose and Sjamsu Rahardja (manufacturing); and Ashani Alles, Ananda Ghose, and Thitsar Thitsar (tourism).

This work was carried out at the request and under the guidance of the senior management of the IFC and the World Bank. The team is grateful for the ongoing support and overall guidance by Mona Haddad, Vivek Pathak, Vikram Kumar, Hassan Zaman, Gevorg Sargsyan, and Bronwyn Grieve. Our thanks also go to the peer reviewers Wendy Jo Werner, Xavier Forneris, Claire Honore Hollweg, and Siddharth Sharma for their valuable comments and inputs.

Furthermore, the team thanks the Department of Foreign Affairs and Trade of Australia and the Department for International Development of the United Kingdom for their financial support toward this study.

Finally, the team is also grateful to numerous IFC and World Bank colleagues, government counterparts, private sector representatives, and civil-society leaders who generously shared their time and insights.

INTRODUCTION

This report was prepared in 2019 and completed in February 2020, when the COVID-19 outbreak was largely limited to China. Since then the outbreak has spread rapidly around the world, becoming a pandemic, and the impacts have spread from trade and the real sector to global financial markets. Global and regional growth prospects have been battered, first by a supply shock and now by a widening shock to global demand as travel and movement restrictions are enforced in different parts of the world.

Myanmar reported its first cases of COVID-19 on March 30, and the direct and indirect impacts on the country are rising. Lower trade, tourism and supply chain disruptions, weaker domestic investment, decreased consumption of goods and transport services, and reduced foreign remittances have severely affected the economy. The government of Myanmar has implemented both health and macroeconomic policies to mitigate the adverse impacts.

The current crisis has exacerbated the structural weaknesses of the Myanmar economy. It is now even more urgent for Myanmar to deepen economic reforms to support a sustainable recovery and accelerate the country's economic transformation toward a higher middle-income economy. The short- to medium-term policy measures proposed in this Country Private Sector Diagnostic are designed to address the structural constraints that limit private sector–led recovery and sustainable development. These recommendations are also consistent with the recent emergency measures and action plans adopted by the authorities to address the deep-rooted cross-cutting constraints that may slow down economic recovery and limit the creation of markets for sustainable growth.

EXECUTIVE SUMMARY

ES.1. TOWARD A PRIVATE SECTOR–LED AND PRODUCTIVITY-DRIVEN GROWTH PATH

Like many successful transition economies, Myanmar has the potential to sustain a high growth rate for the next two decades. The country began a historic triple transition in 2011: from conflict to peace, from military to democracy, and from isolation to global integration. Economic transitions are complex to manage but hold great promise, as they can dramatically boost growth, create jobs, and reduce poverty through a more efficient allocation of resources and increased productivity. After transitioning from a planned to a socialist market economy, China's economy grew at an average rate of 11 percent and created 12 million jobs annually between 1979 and 2009. In the first two decades of its transition, Vietnam achieved 7 percent annual growth and reduced its poverty rate from 72 percent to 17 percent. Poland, beset by authoritarianism and socialism at the time of its transition, raised its per capita income from US$1,700 in 1990 (similar to Myanmar's current level) to more than US$15,000 in 2018. Myanmar, seen as the next successful transition economy, has shown considerable promise. But it is also encountering many pitfalls as it negotiates not only an economic and political transition, but also the transition from decades of conflict to peace.

After a spectacular takeoff, Myanmar's transition has been losing momentum as realization of its complexity and as recent conflicts have dented the optimism that characterized the early transition years. The country's opening, marked by democratic, trade, and investment reforms, as well as people's movements, delivered significant gains: gross domestic product (GDP) growth increased at an average rate of about 7 percent per year between 2011 and 2017, and poverty was reduced by one-third between 2005 and 2015. The change in the economic and political regime, coupled with its strategic location between India and China, a young workforce, and abundant natural resources drove investors' interest in Myanmar. However, progress has been uneven across the country as well as income and population groups. Moreover, the transition from military to civilian rule has been only partial, while the transition from conflict to peace has seen modest progress, undermining the success of the economic transition.[1] Large inequalities in income and wealth persist, and exclusion dynamics have fueled violence in many states, notably in Rakhine State.

To emulate the East Asian miracle, and considering ongoing global growth and trade uncertainties, it is imperative that Myanmar builds on the recent pickup in reforms and that it implements changes to make growth more sustainable, more inclusive, and more resilient. With the right policy choices, Myanmar could, in a high-case scenario, achieve upper-middle-income status in 15 to 20 years. Ongoing World Bank analysis shows that Myanmar's growth has so far followed the successful East Asian model, as capital accumulation accounts for 90 percent of the country's growth, with negligible contribution from total factor productivity (TFP) (Krugman 1994; World Bank 1993, 1–6). Fed by both domestic and foreign investment and led by low-cost manufacturing exports, Myanmar is the latest of the "flying geese of Asia"—countries that have grown rapidly by imitating the successful growth policies pursued by their regional peers, starting with Japan (Ozawa 2005). Going forward, it is essential for the country to sustain its level of capital accumulation and accelerate TFP growth to further boost economic growth and fulfill its potential. Higher levels of TFP growth will require the private sector to become the main engine of growth, especially because the public sector is constrained by limited resources and capacity. This report focuses on ways Myanmar can nurture the private sector and strengthen market institutions, while a forthcoming report from the World Bank Group—the Country Economic Memorandum—will explore the role of the public sector in the economy (World Bank, forthcoming a).

The government of Myanmar is uniquely burdened to unwind the legacy of a military-commercial complex while nurturing a responsible private sector that is both competitive and inclusive. During the military regime, a small elite controlled and benefited from land and natural resources, especially extractives, and the illicit and unregulated economy was at least as large as the formal one. By dramatically reducing red tape and creating a transparent business environment, Myanmar can (a) accelerate the formation of market-based institutions appropriate for the new economy driven by businesses that are not tied to vested interests; (b) comply with national laws; and (c) uphold international good practices with regard to social and environmental responsibilities, equal opportunity, and protection of human rights. To unleash the potential of the private sector, the country will need to foster a stable macroeconomic environment, improve the business environment, fill the large physical and digital infrastructure gap, close the skills gap to move up the value chain, and integrate into the global economy. A thriving and competitive private sector will stimulate innovation and widen the tax base, allowing the state to make the development process more inclusive.

Aware of the need to deepen reforms to sustain long-term inclusive economic growth, the authorities have adopted comprehensive strategies. The Myanmar Sustainable Development Plan, launched in February 2018, provides an overarching medium-term economic road map. It includes a second wave of reforms and identifies the country's development priorities, including reaching the Sustainable Development Goals. The framework aims to maintain peace, stability, and prosperity while improving the quality of life for citizens and conserving the environment. The Myanmar Investment Promotion Plan (MIPP) adopted in October 2018 provides a detailed road map for facilitating and supporting private investments, both domestic and foreign. Its objective is to support responsible and quality investments necessary for Myanmar to become a middle-income country through fundamental policy improvements organized around five pillars: (a) fair and transparent investment regime, (b) institutional development for investment promotion, (c) improved infrastructure, (d) supportive business-related systems, and (e) competitive industrial links and human resources.[2]

In addition, the authorities have increased the pace of economic reforms in 2018–19, driven by the need to attract foreign investments and boost economic growth. The government of Myanmar has managed to accelerate structural reforms in recent months, particularly in the financial sector. The Central Bank of Myanmar (CBM) now allows foreign banks to lend directly to local businesses, and it permits uncollateralized lending at an interest rate of 16 percent (instead of 13 percent for collateralized lending), which is expected to deepen the local foreign exchange market and provide greater access to finance. In January 2019, the insurance sector was also liberalized, allowing foreign ownership. Other notable reforms include the launch of the Myanmar Project Bank (the country's first prioritized public investment program), the adoption of the Condominium Ownership Law, and progress toward the creation of a customs national single-window system.

To support this process, the Country Private Sector Diagnostic (CPSD)—a joint World Bank–IFC report—identifies and analyzes key binding constraints to private sector development and proposes recommendations for crowding in responsible private sector investment and financing. The CPSD recommendations are aligned with the recent strategies and action plans adopted by the authorities, with an emphasis on the need to solve deep-rooted cross-cutting constraints that prevent the creation of markets. Proposed reforms are well known by the authorities, but appropriate sequencing, targeting, and implementation remain a challenge in a low-capacity environment. Ongoing transitions in neighboring countries, such as Vietnam and Cambodia, and solutions developed by other countries, such as Singapore and Thailand, may offer interesting lessons for Myanmar. Beyond the technical aspect of the content of the reforms, success in their implementation will largely depend on the capacity of the authorities to structure markets that will clarify the relationship and establish synergies between the different levels of government (central, subnational, agencies) and the various segments of the private sector (for example, large domestic firms, foreign investors, small and medium enterprises [SMEs], and microfirms).

ES.2. ACCESS TO AND REALLOCATION OF RESOURCES ARE KEY TO RAISING PRODUCTIVITY

Myanmar's private sector is small but rapidly expanding. It is dominated by microfirms and small firms (most of which were established after 2011) operating in the informal economy and concentrated in urban areas (that is, Yangon and Mandalay). While most of the country's microenterprises and small enterprises are in traditional sectors such as agriculture, large firms typically operate in natural resource extraction (that is, gas, mining, and wood processing), agro-processing, chemicals, construction, financial services, and transport services. Myanmar has a small but growing number of foreign-owned enterprises (around 1 percent of all businesses) operating mostly in manufacturing, logistics, communication, and information services. Firms with foreign ownership employ on average more workers, have higher labor productivity, and pay higher wages than domestic enterprises. While state economic enterprises (SEEs) account for only about 7 percent of the country's GDP and employ less than 1 percent of the labor force, some SEEs operate in strategic sectors, create an uneven playing field for private enterprises, and are a drain on the public budget.

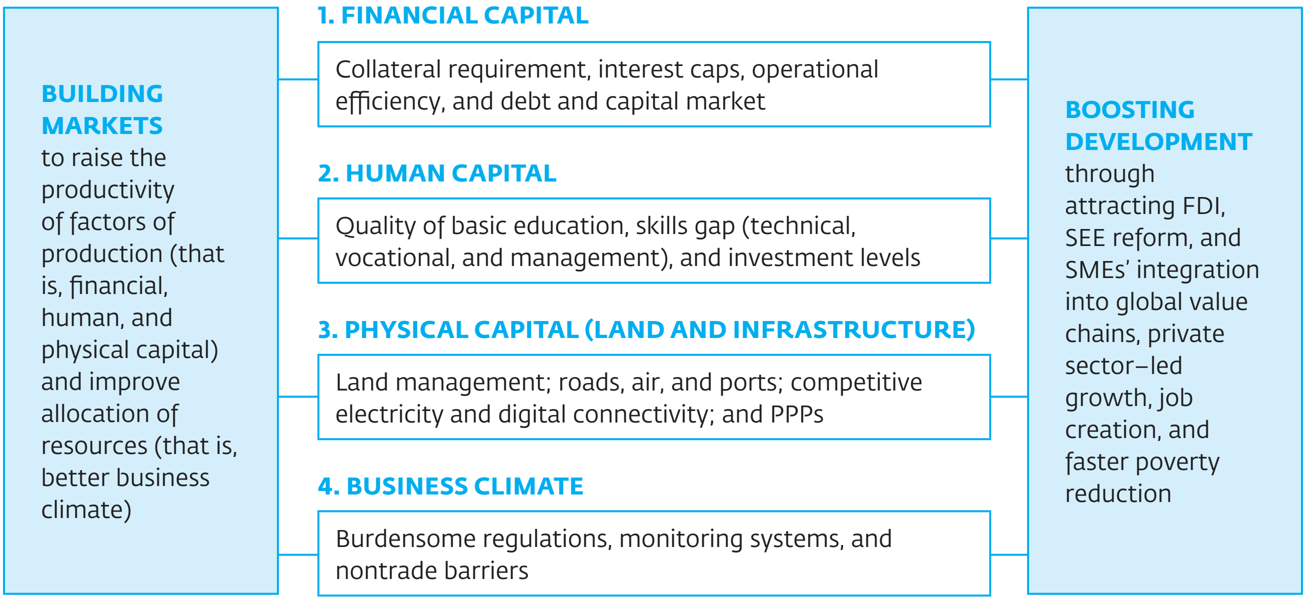
Decades of isolation and economic sanctions continue to hamper the development and external orientation of Myanmar's firms. A mere 5 percent of Myanmar's firms are linked to global value chains, limiting their ability to expand, use imported inputs, acquire updated and better technologies, and learn new management and organizational techniques. Compared with other countries, SMEs in Myanmar are less likely to innovate and use information and communication technologies to support their operations. Weak basic education, lack of basic management skills, and poor market knowledge impair the capacity of the country's entrepreneurs to innovate and prepare bankable projects.

Ensuring an optimal relocation of resources between firms and removing barriers to growth could dramatically raise productivity. The country's labor productivity is highly dispersed across firms and sectors because of various distortions in the labor market. This situation suggests that Myanmar could potentially benefit from reallocating labor from very small and large firms (that is, both ends of the labor distribution) to medium enterprises, which tend to be more efficient. Furthermore, there is likely an opportunity to raise productivity by removing barriers to growth that face firms in the private sector, including limited options to access financial, human, and physical (for example, land and infrastructure) capital.

ES.3. FIRMS NEED GREATER ACCESS TO FACTORS INPUTS, BETTER CONNECTIVITY, AND AN ENABLING BUSINESS ENVIRONMENT

Private sector growth is primarily hampered by cross-cutting supply-side constraints. The top three impediments to firms' ability to grow in Myanmar are access to factors of production (that is, finance, land, and skilled workers), poor physical and digital connectivity, and a restrictive business environment. The World Bank's Doing Business 2020 report (published in October 2019) shows that, in spite of some recent progress, the country's overall performance on the ease of doing business lags the average for economies in East Asia and the Pacific. Its overall rank was 165st of 190 economies and 24th of 25 economies in the East Asia and the Pacific region in 2020. To understand how Myanmar can achieve higher levels of private sector–led growth, this report is organized around four themes: (a) improving access to finance, (b) expanding the human capital endowment, (c) bridging the infrastructure deficit, and (e) improving the allocation of resources through a better business environment (figure ES.1).

FIGURE ES.1: THE REPORT'S ORGANIZING FRAMEWORK



Note: FDI = foreign direct investment; PPP = public private partnership; SEE = state economic enterprise; SMEs = small and medium enterprises.

Many firms in Myanmar face difficulties obtaining finance, which is a major constraint to private sector development. Domestic credit to the private sector was 25.3 percent of GDP in 2018—one of the lowest in the East Asia and the Pacific region. The low level of domestic credit is largely due to (a) stringent collateral requirements and regulatory restrictions on loan maturities that prevent banks from financing long-term investments; (b) interest rate caps, as there is a floor on deposit rates at 2 percent below the CBM reference rate and a ceiling on lending rates at 3 percent above the reference rate,[3] which have restricted access to credit by micro, small, and medium enterprises and rural households; (c) a small, shallow, and inefficient financial system; (d) underdeveloped debt and capital markets; and (e) weak capacity of businesses to provide standard financial reporting to facilitate credit risk assessment and the bankability of their projects.

Limited access to skilled employees is the second most reported constraint faced by firms, particularly SMEs. According to the most recent World Bank Enterprise Survey, more than 80 percent of employers expressed that the country's education system does not provide the knowledge or skills needed for today's jobs, and "inadequate education of the workforce" is the primary obstacle to firms' operations. Myanmar's workers are underperforming across a broad set of skills: more than half of employers note skills gaps ranging from management and communications to writing and foreign language. Moreover, the quality of management is found to be among the lowest in the world, with fewer than 4 percent of students ages 15 to 19 studying management. According to the World Bank's Human Capital Index (HCI), Myanmar ranks 107th of 157 countries with an HCI score of 0.47. This means that a child born today is likely to fulfill only 47 percent of his or her potential economic contribution. Investment in human capital remains insufficient, as public spending on education and health represents a mere 1.8 percent and 1 percent of GDP, respectively—well below the average of both regional (average of 3.7 percent and 4.8 percent of GDP, respectively) and income (average of 5.0 percent and 4.0 percent of GDP, respectively) of Myanmar's peers.

Moreover, land issues continue to depress the level of investment and finance in the country. Access to land is the third-biggest constraint identified by firms in the World Bank Enterprise Survey. Myanmar is facing complex problems surrounding land governance, with recurrent ownership disputes, management difficulties, conflicting laws, and corruption. There is no unified land law, and a number of different pieces of legislation govern farm land, forests, and property registration. Legislation and policies related to land are implemented by more than 20 government agencies. The work of these agencies is usually not well coordinated, and their records are not shared, exchanged, or harmonized. As a result, Myanmar's land use is low, as it uses almost the same amount of land as Vietnam despite being double the size. Although a national land use policy (NLUP) was endorsed in January 2016, implementation is slow, and the process around land reforms is unclear for both businesses and households.

Whereas Myanmar is strategically located in one of the fastest growing regions in the world, it is not yet well prepared to take advantage of its favorable position. It shares land borders with Bangladesh, China, India, Lao People's Democratic Republic, and Thailand, which together account for about US$15 trillion in GDP, or one-fifth of the world's total GDP. Myanmar is also located in the growing Indian Ocean rim, with proximity to dynamic markets in Bangladesh, India, and East African countries. But the challenge is not only to connect Myanmar to these markets but also to connect remote areas in the country to trade corridors. The connectivity challenges facing Myanmar are enormous: (a) over 60 percent of highways and railways are in poor conditions, and about 40 percent of the population lack basic access to all-season roads; (b) a majority of ports and airports are underused or not operational; and (c) 60 percent of the rail network serves fewer than 1,000 passengers a day. Not surprisingly, Myanmar ranked 137th of 160 economies on the World Bank's Logistics Performance Index in 2018, the lowest ranking in the Association of Southeast Asian Nations. For instance, estimated total loading and port charges of Yangon port were US$145,000 per 20,000-ton vessel in 2014, compared with US$60,000 in Ho Chi Minh City (World Bank 2014b). Inadequate investment and inefficient execution explain the country's large infrastructure deficit.

Access to competitive and reliable electricity is also a major challenge facing firms in Myanmar. Myanmar ranked 148th of 190 economies on the "getting electricity" indicator in World Bank's *Doing Business 2020* report. Blackouts and brownouts are common, especially during the dry season. The situation is likely to get worse: peak demand is expected to reach 8.6 gigawatts by 2025 and 12.6 gigawatts by 2030, which represents a substantial increase from the current level of 3.6 gigawatts. This challenge is the result of decades of underinvestment in infrastructure and inadequate policies. To meet the growing demand, investment requirements are estimated to be around US$2 billion per year. By 2025, 5 gigawatts of new generation capacity need to be added, which is equivalent to about three times what was built over the past three decades. To close the investment gap, the Myanmar government is seeking participation from the private sector. The performance of state-owned entities in the power sector needs improvement, specifically through programs to improve system management and the quality of service.

Digital technologies hold considerable promise in Myanmar, although their underlying infrastructure needs strengthening. Myanmar has one of the lowest broadband penetration rates in Asia, with 47 percent mobile (active and unique) broadband penetration and 8 percent fixed broadband penetration. Also, the country does not have data-center infrastructure. Myanmar ranked 133rd out of 139 economies on the World Economic Forum's Networked Readiness Index. Poor fiber network and key enabling core infrastructure (for example, transportation and power generation) are key challenges affecting all telecommunications companies and network operators, especially those involved in telecom towers and datacenters. Although there is infrastructure sharing in the telecommunications sector, it is mostly limited to telecommunication towers and needs to be extended to fiber infrastructure. Also needed is greater coordination among infrastructure players; the liberalization of the telecommunications sector since 2012 has established the initial foundations. Myanmar has drafted legislation to establish the Myanmar Communications Regulatory Commission (MCRC) and separate the policy, regulatory, and operational functions of the Ministry of Transport and Communications (MoTC). Once the law is approved, the MCRC will be the first independent infrastructure regulator in the country. The Ministry of Posts and Telecommunications and Mytel (majority owned by Vietnamese telecom company Viettel), however, control substantial fiber infrastructure, thereby restricting access by other operators.

While benefiting from recent policy improvements, the country's business environment is still burdened by red tape and lengthy processes that can be linked to controlling transactions rather than facilitating firms' growth. Myanmar has seen recent progress in its business environment as measured by the annual Doing Business survey (World Bank 2019b), being one of the 20 top reformers identified in the recently published 2020 report. While business registration and obtaining investment approval have improved, receiving postinvestment approval and obtaining local and municipal licenses remain major bottlenecks for firms. Compared with other countries, Myanmar's performance in trade facilitation lags considerably. Myanmar ranked 168th of 190 countries on the "trading across borders" indicator in the Doing Business 2020 report (World Bank 2019b). The country needs to strengthen the role and means of critical cross-cutting departments to better coordinate the simplification of business processes, reduce the amount of paperwork, delegate decisions, allow full online payments, and introduce registration systems for traders on the basis of their compliance record.

Restructuring SEEs, fostering transparency and competition, supporting foreign direct investment (FDI), and integrating domestic firms into the global value chains would act as an important driver in upgrading the workforce and firms. Such efforts would create demand for new products and skills, provide new know-how, and guide the development of new productive capacities. Hence, these actions may contribute to diversification into new sectors and activities and improve domestic value addition. However, supply chain links do not happen automatically, and it is important to capture FDI spillovers though enhancing the absorptive capacity of domestic firms as well as to continue improving the country's investment climate and institutional environment. In this respect, authorities will need to (a) upgrade the management and planning of Special Economic Zones and Industrial Zones, (b) further facilitate the approval and implementation of foreign investments, (c) provide access to business advisory, and (d) provide technical support to upgrade the capacity of domestic SMEs. Finally, enhancing market contestability with the corporatization or privatization of SEEs, progressive opening of critical sectors to foreign investments, and developing a better understanding of the benefits of competition through the recently established Myanmar Competition Commission (MCC) will be equally important.

The binding cross-cutting constraints on firms in Myanmar affect private sector development in key areas such as the agriculture and agribusiness, garment, and tourism sectors. For example, farmers without land titles cannot access credit from formal sources and are instead forced to borrow from informal lenders at exorbitant rates of 5 percent per month. Such rates raise their cost of production and make their products uncompetitive. In the garment sector, locally owned firms lack the technical expertise to upgrade their low-value-added "cut-make-pack" operations to higher-value-added "free-on-board" manufacturing activities. A shortage of skilled labor, from workers on the shop floor to middle and top management, is also a major obstacle for firms that want to upgrade their operations. In addition, difficulties in converting fallow or agricultural land into industrial use and the country's unreliable electricity supply hinder the expansion of manufacturing activities. In the tourism sector, limited air travel connectivity, an underdeveloped road network, and limited domestic road and rail connections constrain the expansion of tourism activities. Furthermore, unclear rules and regulations on hotel construction permits, coupled with unclear business-licensing practices, constitute obstacles to tourism development. Myanmar needs to address these cross-cutting constraints to be able to lift its productivity and deepen its integration into the global economy.

ES.4. POLICES FOR RAPID PRIVATE SECTOR–LED GROWTH

A key challenge will be to efficiently coordinate the implementation of reforms and the involvement of stakeholders that can support the creation of new markets. For example, ministries need to develop their strategic functions and improve their capacity, autonomous agencies need to regulate and enforce best standards, private companies should be able to compete on a level playing field, and stakeholders need to ensure the sustainability of reforms. Although creating an efficient implementation framework can be complex and time consuming, it could have a long-lasting effect on private sector investment growth.

Myanmar has the advantage of learning from the experience of successful transition economies. There are certain distinctive characteristics of economies that have experienced rapid growth over a sustained period of time. For example, high-growth economies tend to rely on a functioning market system, decentralized decision making, and incentives for supply to meet demand (Growth Commission 2008). Therefore, Myanmar, which is currently undergoing its transition to a market economy, should do the following: (a) foster the expansion of its economy, including creating new and improving existing markets by expanding access, increasing endowments, and building the underlying infrastructure of a market economy; (b) improve the allocation of resources, including making markets operate more efficiently by facilitating entry and exit and increasing the transparency and predictability of regulations; and (c) develop the capacity of market participants, including regulators, investors, producers, and consumers (table ES.1).

The following bullets points expound on and clarify those three requirements.

- **Upgrade the market rules and systems.** Market participants need clear and transparent regulations and minimum bureaucracy. Because of a long period of economic sanctions and lack of access to technologies, many of Myanmar's systems and procedures are manual, outdated, and slow. They need to be modernized, such as by (a) creating an electronic registry for collateral, a single-window system for trade facilitation across all government agencies, and a national single-window electronic platform for businesses; (b) updating laws and regulations, such as the Road and Inland Water Transport Law; and (c) standardizing documents and forms for government agencies. All of these policy reforms will need improved coordination among government agencies.
- **Improve the allocation of incentives and resources.** Policies that could incentivize firms and individuals to invest more include (a) creating tier-based regulations for microfinance institutions (MFIs); (b) consolidating land for agricultural use; (c) creating effective procedures to convert land; (d) having open, fair, transparent, and competitive public procurement; (e) outsourcing to private sector; (f) converting key departments involved in commercial activities into corporations (for example, railways, inland water transport, and construction); (g) implementing a progressive

and sequenced deregulation of interest rate caps; (h) clarifying the guidelines and framework for foreign ownership in banks; and (i) reducing the number of products requiring export licenses.

- **Develop the capacity of public and private market participants.** A critical area of reform involves strengthening the capacity of the government of Myanmar to become a more effective regulator. To achieve this, Myanmar should consider (a) unbundling policy, regulatory, and delivery functions of the MOTC; (b) creating an independent regulator in telecommunications; (c) improving the capacity of financial regulators; (d) adopting regulations on infrastructure sharing, intellectual property rights, privacy, and cybercrime; (e) implementing an NLUP policy; (f) supporting the use of business-development services (for example, training and mentoring programs on management, accounting, and auditing, as well as designing bankable projects that provide access to market information), SME-specific financial products and e-payment and e-commerce services; and (g) expanding technical and vocational education and training programs in great demand.

TABLE ES.1: SUMMARY OF REFORM MEASURES

REFORM AREA	SHORT-TERM MEASURES	OVERARCHING AND MEDIUM-TERM MEASURES
A. TACKLE CROSS-CUTTING CONSTRAINTS IN CRITICAL ENABLING SECTORS		
Access to finance	• Adopt new secure transaction regulations and establish an electronic registry for movable collateral. • Introduce flexibility on the maximum maturity authorized for term loans (three years currently). • Progressively deregulate interest rate caps and review deposit rates to support risk-based loan pricing. • Promote the use of e-commerce and provide support to upgrade bank interoperability and e-payment services.	• Support the development of specific financial instruments for small businesses. • Introduce tier-based regulation for MFIs. • Develop regulations for modern capital markets. • Update and enforce corporate auditing and accounting standards to improve transparency.
Access to skilled labor	• Increase the number of available short-term TVET courses to enable workers to acquire the skills that are in demand. • Upgrade the management and curriculum of key public training institutes (such as in industry). • Establish public-private partnerships to expand access to quality TVET and to strengthen the partnership between the public and private sector.	• Develop an employer-driven skills strategy to supplement the National Education Strategy Policy. • Adopt relevant national and external qualification standards and program accreditation and create an auditing framework/manual.

Access to land	• Clarify the rules for the consolidation of land for agricultural use and define the effective procedures for converting fallow/agricultural land for industrial use. • Reform land services at an initial group of land management and statistics township offices by improving capacity building, by providing new surveys and mapping, and by digitizing records.	• Support the implementation of the country's NLUP by providing the NLUC with adequate human and financial resources and by broadening its membership to include representatives from civil society. • Develop a comprehensive land law through an open and multistakeholder consultative process.
Business climate	• Put into operation a coordination framework for interconnecting government registration databases (including, the company registry, tax registry, social registry, and collateral registry). • Design common quality standards for regulations, standard operating procedures (SOP), and application forms across departments and agencies (in particular for procedures measured by the annual Doing Business survey). • Improve customs clearance and procedures by aligning them with the WTO Trade Facilitation Agreement.	• Implement a national single-window electronic platform that provides access to critical business investment procedures and is connected with the main nontransactional portals (that is, the Myanmar National Portal, Trade Portal, Tax Portal, Special Economic Zone Portal, and Legal Portal). • Develop a national single-window electronic platform for trade operations.
B. ESTABLISH A NEW GOVERNANCE FRAMEWORK FOR INFRASTRUCTURE DEVELOPMENT		
Transport infrastructure	• Review the MoTC existing long-term concession/BOT contracts to ensure that maintenance and investments are properly planned and financed. • Design an action plan for unbundling the policy, regulatory, and delivery functions of the MoTC and improve the preparation and adjudication of PPP agreements. • Transfer selected government functions to private sector management (such as, road vehicle inspection, road construction, and freight rail services).	• Review and modify user fees to finance transport investments (such as tolls and heavy vehicle license fees) and remove fees for low-traffic roads. • Convert key departments into corporations: Myanmar Railways, Inland Water Transport, and construction units under the Ministry of Construction. • Amend and upgrade the Road and Inland Water Transport Law to include the sharing of functions between government and private operators.

Energy (InfraSAP Report)*	• Increase tariffs to cost-recovery levels while maintaining an adequate lifeline tariff and ensuring that low-income households are protected. • Review fiscal terms for upstream gas, finalize negotiations for blocks recently discovered, and launch a new bidding round. • Approve a least-cost power development plan and announce a priority list of projects to be developed over the next five to seven years.	• Support the development of renewable energy through the adequate identification and management of environmental and social risks. • Implement a competitive and transparent tendering process for energy projects and adopt a standard format for power purchase agreements.
Digital connectivity	• Establish an independent regulatory entity in accordance with the Telecom Law, which was adopted in 2013. • Draft regulations needed to enforce the new laws on intellectual property rights and adopt modern laws on privacy, the right to information, and cybercrime.	• Develop policy and regulations on infrastructure sharing and connectivity.
Governance of infrastructure sectors and PPPs	• Improve the capacity of the PPP Unit established in accordance with the Notification in 2018 to coordinate the prioritization of projects and support line ministries in project procurement.	• Implement the strategic corporatization/unbundling of key infrastructure SEEs and government departments. • Develop clear criteria for government support to PPP projects, such as government guarantees or viability gap funding.
C. FOSTER A RESPONSIBLE AND INTERNATIONALLY INTEGRATED BUSINESS SECTOR		
Market contestability	• Design and adopt the legal and regulatory framework, performance monitoring, and the procedures for corporatization and/or privatization. • Facilitate selected foreign investment transactions in sectors in which attracting knowledge and capacity can have a major effect (industrial sector, banking sector, insurance sector, PPPs in infrastructure) • Shorten the negative list of products that require an export license from the MoC.	• Restructure and privatize progressively the SEEs having the potential to compete as for-profit corporations in a transparent and competitive environment. • Enhance the capacity of the Myanmar Competition Commission established in 2018.

Foreign investment	• Reduce the number of remaining restrictions to foreign investment in manufacturing and services (food and beverage, finance, insurance, and so on). • Continue strengthening the capacity of DICA and its branch offices to support and monitor investments (after care, investor grievance mechanism).	• Assess the cost-benefit of incentives for SEZs with a view to better target exemptions and reduce distortions between the SEZ regime and ordinary investment regime.
Integration of medium-size firms into domestic and global value chains	• Establish a domestic suppliers' database, to encourage links with international firms in sectors with strong spillover effects. • Upgrade the quality of business development services available in-country and provide SMEs with access to quality business advisory and technical services to reach international standards. • Upgrade the governance and planning framework applicable to industrial zones, with attention to strategic location and social and environmental standards.	• Clarify the status, coordination, and respective functions of key agencies and organizations involved in business registration and private sector development (DICA, SEZ management, Ministry of Commerce, SME agency, Chamber of Commerce and Industries).

Note: BOT = Build-Own-Transfer; DICA = Directorate of Investment and Company Administration; InfraSAP = Infrastructure Sector Assessment Program; MFI = microfinance institution; MoC = Ministry of Commerce; MoTC = Ministry of Transport and Communications; NLUC = National Land Use Council; NLUP = national land use policy; PPP = public-private partnership; SEE = state economic enterprise; SEZ = special economic zone; SME = small and medium enterprise; TVET = technical and vocational education and training; WTO = World Trade Organization.

*. See the June 2019 "Myanmar: Energy Infrastructure Sector Assessment" (World Bank, forthcoming b) for detailed recommendations regarding the energy sector.

1. MYANMAR'S UNFINISHED TRANSITION

1.1. TRIPLE TRANSITION BRINGS SIGNIFICANT GAINS

In 2011, Myanmar embarked on a momentous triple transition from a legacy of isolation, conflict, and underdevelopment, which has delivered rapid results. The first stages of the economic transition stabilized the country's macroeconomic environment, boosted trade and foreign direct investment (FDI), and invigorated the domestic private sector.[4] Between 2011 and 2017, Myanmar's real gross domestic product (GDP) grew by an average of 7.2 percent per year (or 6.4 percent per capita), placing it among the fastest-growing countries in the world. Investment growth accelerated from an average of 15 percent of GDP in the 2000s to 30–35 percent of GDP between 2011 and 2017 (figure 1.1).[5] Capital accumulation, from a low base in 2010, has been extremely rapid, accounting for most of the growth acceleration between 2012 and 2017 (figure 1.2). However, growth in total factor productivity (TFP) has been close to zero during this period.

FIGURE 1.1: INCREASE IN PRIVATE INVESTMENT, INCLUDING FDI, RESULTS IN SIGNIFICANT CAPITAL ACCUMULATION

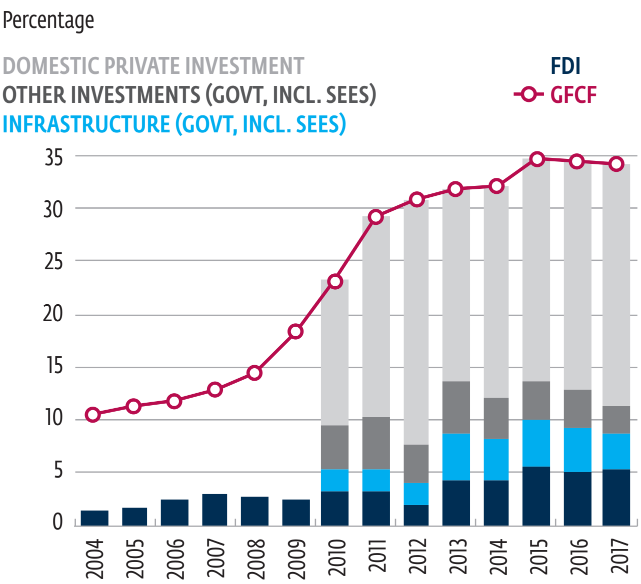
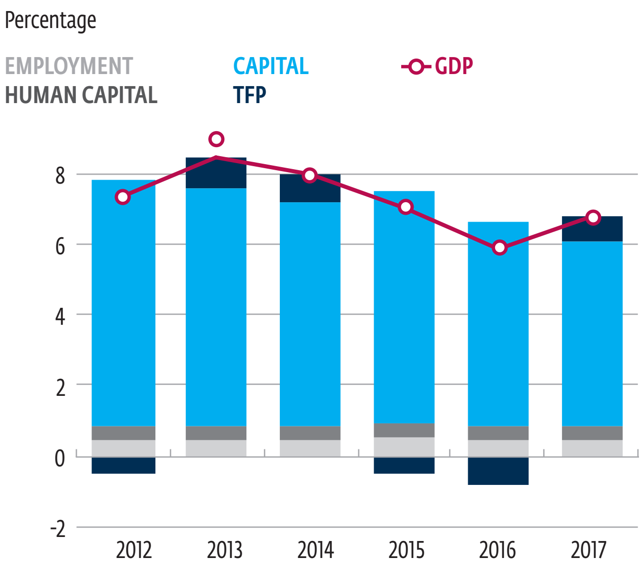


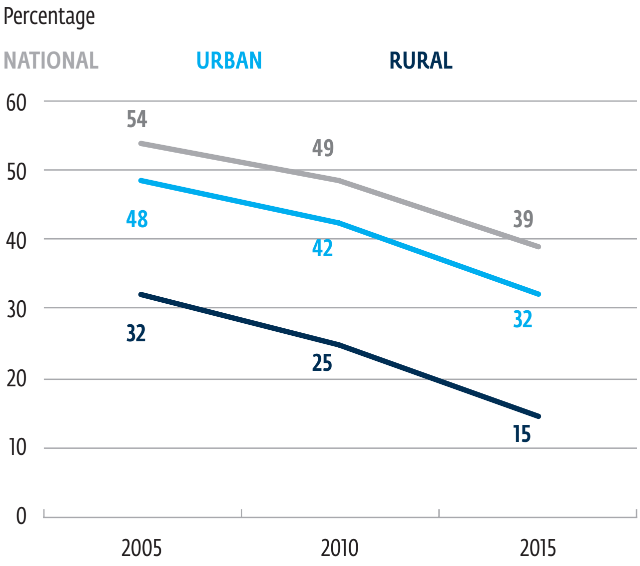
FIGURE 1.2: CAPITAL ACCUMULATION ACCOUNTED FOR MOST OF THE COUNTRY'S GROWTH, 2012–17



Source: World Bank, forthcoming a.
Note: FDI = foreign direct investment; GDP = gross domestic product; GFCF = gross fixed capital formation; SEEs = state economic enterprises; TFP = total factor productivity.

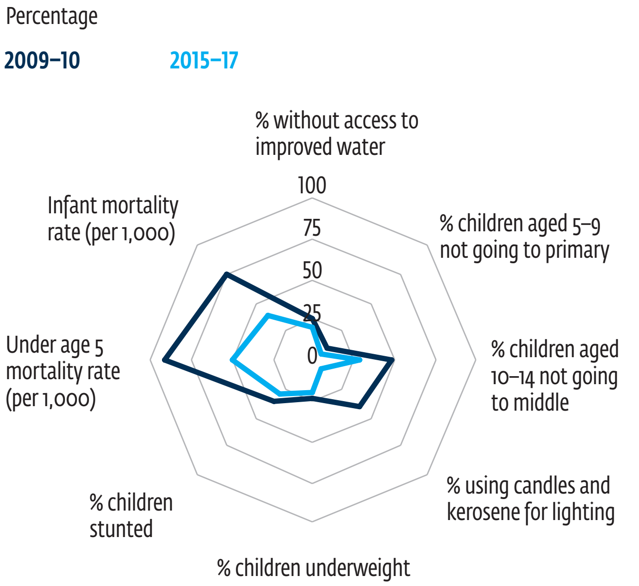
The country's transition has also led to a steady improvement in the standard of living, lifting millions out of poverty. The poverty head-count ratio dropped by one-third between 2005 and 2015, from 48 percent to 32 percent (figure 1.3). The strong economic performance also translated into improvements in social and nonmonetary indicators, including expanded infrastructure and services as well as increased digital connectivity (figure 1.4). For example, mobile penetration was 90 percent in 2017, up from 56 percent in 2014.

FIGURE 1.3: MYANMAR'S POVERTY HEAD-COUNT RATIO, 2005–15 (%)*



Source: World Bank 2019a.
* The poverty head-count ratio is based on the national poverty estimate.

FIGURE 1.4: CHANGE IN NONMONETARY INDICATORS OF WELL-BEING BETWEEN 2009–10 AND 2015–17



The political transition saw the country's first free, fair, and competitive elections in 2015, with a peaceful transition of power from a military to a civilian government. The new government headed by the National League for Democracy, elected at the end of 2015, continues to support efforts to increase private sector development. The Private Sector Development Framework and Action Plan were adopted in 2016 and 2018, respectively. The country also adopted the Myanmar Sustainable Development Plan (MSDP) in 2018, which is an ambitious reform agenda aimed at accelerating reforms in various areas and identifying the policies and institutions necessary to achieve genuine, inclusive, and transformational economic development. In addition, the removal of international sanctions on trade, investment, and financial flows in 2016 generated both optimism and high expectations among domestic and foreign investors.

The pace of economic reforms increased in 2018–19, driven by the need to attract foreign investments and boost economic growth. Following criticism from the international community, the government of Myanmar has managed to navigate vested interests and accelerate structural reforms in recent months, particularly in the financial sector. The Central Bank of Myanmar (CBM) now allows foreign banks to lend directly to local businesses, and it permits uncollateralized lending at an interest rate of 16 percent (instead of 13 percent for collateralized lending), which is expected to deepen the local foreign exchange market and provide greater access to finance. In January 2019, the insurance sector was also liberalized, allowing foreign ownership. Other notable reforms include the launch of the Myanmar Project Bank (the country's first prioritized public investment program), the adoption of the Condominium Ownership Law, and the creation of a customs national single-window system.

1.2. MYANMAR'S TRANSITION FAR FROM COMPLETE

In spite of significant progress at the political and policy levels, Myanmar's transition to a market economy is at a nascent stage.[6] The country has one of the most challenging business environments in the world, as there is still considerable government discretion in investment and operations, and key inputs for economic activity remain constrained.[7] Moreover, the political system is a hybrid of civilian-military rule, as the military is guaranteed one-quarter of the seats in both the upper and lower houses of the legislature as well as in the country's 14 provincial assemblies. The military, which is not under civilian oversight, also controls three key ministries. While peace is a top priority for the government, clashes continue to occur in a number of states, especially Kachin, Shan, and Chin. In August 2017, the military's response to attacks by the insurgent Arakan Rohingya Salvation Army resulted in around 725,000 people who self-identify as Rohingya fleeing to Bangladesh.

Economic growth has not benefited all income groups or geographic areas. While rapid growth in recent years has reduced poverty, it has also increased inequality between income groups and between urban and rural populations. The Gini coefficient was 0.38 in 2015. The welfare of the bottom 40 percent of the population grew at the same pace as the national average (2.8 versus 2.5 percent annualized growth) during 2005–17. The country's growth disproportionally benefited those with greater access to land, financial capital, and human capital (World Bank 2019a). The poverty rate in urban areas was 11 percent in 2017, compared with 30 percent in rural areas. Inequality also varied widely between states/regions in terms of GDP per capita, access to public services, and human development outcomes. For example, access to improved water sources is particularly dire in states/regions such as Rakhine and Ayeyarwady, where 45 percent and 53 percent of their respective population has no access during the dry season, compared with only 5 percent in the capital, Nay Pyi Daw (UNDP 2018). Moreover, states and regions such as Ayeyarwady, Chin, Shan, Kayin, and Tanintharyi suffer from low health and educational outcomes, and Rakhine State is the area with the lowest level of development outcomes in Myanmar.[8]

The country's structural transformation has also been uneven and incomplete. While economic activities have shifted from agriculture to industry and services, a majority of the workforce remains employed in the agriculture sector. The share of agriculture in GDP fell from 56 percent in 2001 to 26 percent in 2017, but the agriculture sector still employed more than half of the country's workforce in 2017 (figure 1.5 and figure 1.6). By contrast, the share of the industrial sector in GDP increased almost threefold over the same period but employed only 16 percent of the workforce in 2017. As a result, a majority of workers remains employed in sectors, such as agriculture and wholesale or retail, with low productivity and high informality. In addition, the relatively narrow and low-value-added food-processing industry represents around one-third of manufacturing activities.

FIGURE 1.5: SHARE OF GDP BY SECTOR

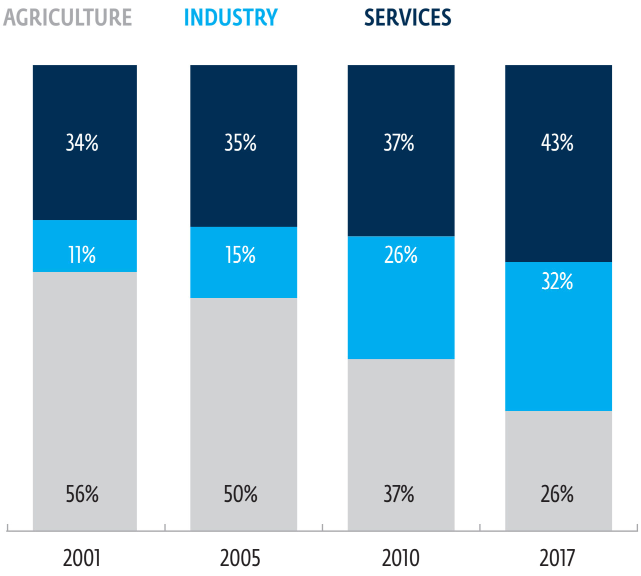
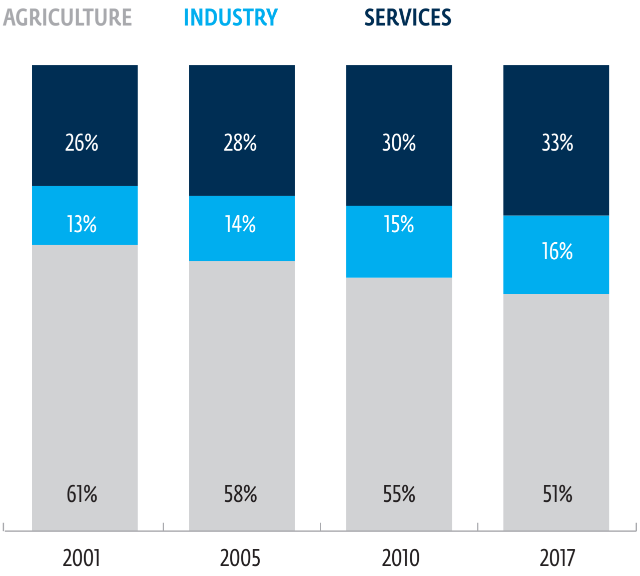


FIGURE 1.6: SHARE OF EMPLOYMENT BY SECTOR

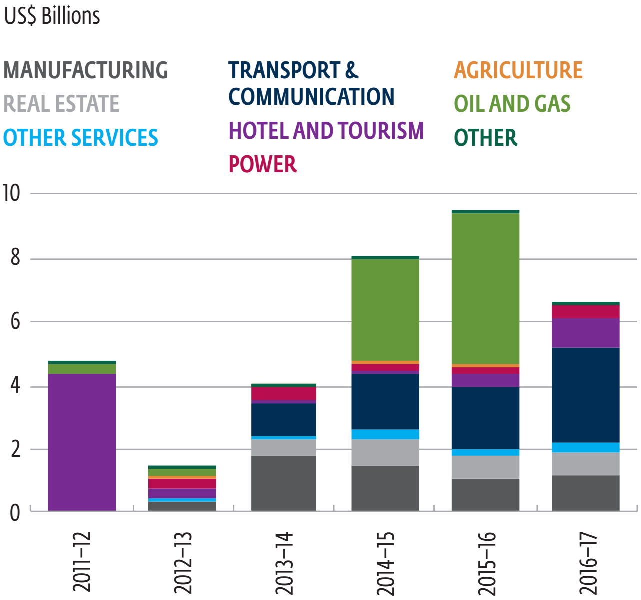


Source: World Development Indicators (database), World Bank.
Note: GDP = gross domestic product.

Although FDI has increased in Myanmar, it is still low compared with regional peers. Since the opening up of new sectors for foreign investment in 2013–14, FDI has increased substantially, especially in the telecommunications, manufacturing, and tourism sectors (figure 1.7). Myanmar is well positioned to benefit from increasing wages in traditional manufacturing centers, such as China and Vietnam, as well as from the launch of the Association of Southeast Asian Nations (ASEAN) Economic Community. However, Myanmar's ratio of FDI to GDP (7.0 percent of GDP in 2016–17) is still relatively low compared with that of Lao People's Democratic Republic (9.5 percent) and Cambodia (12.6 percent) and similar to that of Vietnam (6.3 percent), which has been receiving high levels of FDI for a long time.[9]

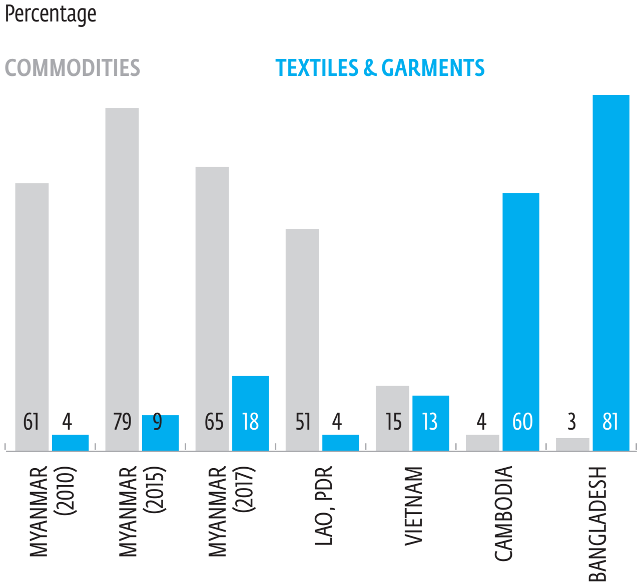
Myanmar's booming exports are still heavily driven by natural resources. The country's goods exports almost doubled in value from US$6.8 billion in 2008 to US$12.5 billion in 2014, before falling to US$11.1 billion in 2015.[10] While textiles and garments increased their share of exports from 4 percent in 2010 to 18 percent in 2017, the export of commodities, including natural gas and gems, increased from 61 percent of total exports in 2010 to 79 percent in 2015, before settling at 65 percent in 2017 (figure 1.8).[11] Unlike in countries such as Cambodia and Vietnam, Myanmar's merchandise export basket has remained relatively unchanged in recent decades. Manufacturing accounted for around 16 percent of the country's exports in recent years, made up almost exclusively of garments and footwear. Data from the 2016 World Bank Enterprise Survey suggest that only around 5 percent of private enterprises in Myanmar export directly or indirectly, compared with 14 percent in Cambodia and 17.5 percent in Vietnam. Also, only 28 percent of firms in Myanmar use imported inputs, lower than the average 41 percent for countries in East Asia and the Pacific.

FIGURE 1.7: SHARE OF FDI IN MANUFACTURING SMALLER THAN IN COMMODITIES AND NONTRADABLES



Source: World Bank 2019a.

FIGURE 1.8: EXPORTS REMAIN HIGHLY CONCENTRATED IN COMMODITIES



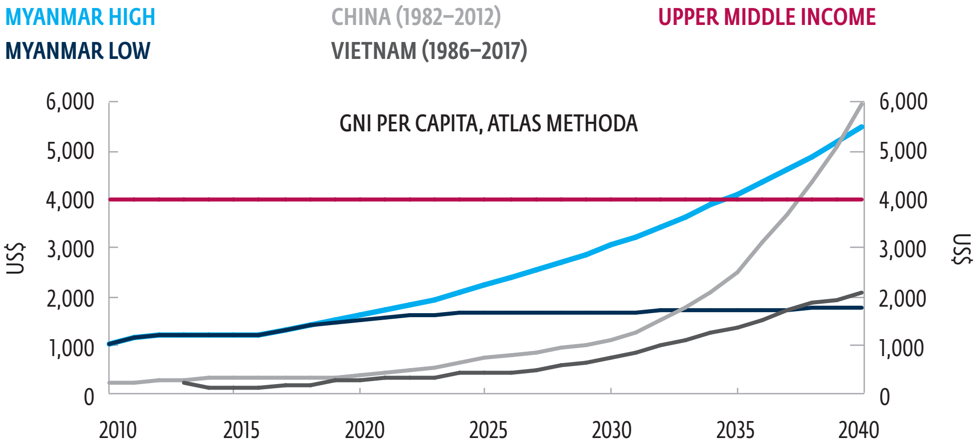
Source: World Trade Organization data.

The country needs to maintain its reform momentum to reinvigorate the market optimism that characterized the early transition years. However, the government of Myanmar is facing numerous challenges in implementing reforms. Economic growth decelerated from an average of 7 percent in 2011–16 to 6.2 percent in 2017–18, and the exchange rate and inflation remain volatile. As a result, fiscal resources remain extremely limited, with a tax-to-GDP ratio among the lowest in the world. While state economic enterprises (SEEs) have historically provided the largest share of public revenues, they have recently become net loss makers, contributing to the fiscal deficit. The decision making of SEEs remains highly centralized, and public institutions fall short of representing Myanmar's diversity. In addition, progress on the Nationwide Ceasefire Agreement has stalled, and violence has intensified. Little progress has been made in addressing the underlying causes of violence and exclusion in Rakhine State, including the lack of freedom of movement and a viable pathway to citizenship for Muslim communities.[12] Exclusion along ethnic, religious, and geographic lines has fueled grievances that at times have resulted in violence in many states, underscoring the nation's fragility as it transitions (World Bank 2019a; UNDP 2018).

1.3. AUTHORITIES NEED TO DEEPEN MARKET-BASED REFORMS TO BOOST DEVELOPMENT

Myanmar needs to sustain its current high-growth rates to further reduce poverty and accelerate the income growth of the bottom 40 percent of the population. A forthcoming study (World Bank, forthcoming a) suggests that if Myanmar accelerates and deepens reforms set out in the MSDP, real GDP growth could be sustained at an average of roughly 6 percent per year until 2040. Under this high-case scenario, the country would become an upper-middle-income country by 2035 (figure 1.9) and achieve per capita income levels akin to China five years ago. In an alternative scenario in which Myanmar does not accelerate reforms, its real GDP growth would slow from 6.1 percent in the initial year to an average of 3 percent per year until 2040. In this scenario, the country would fail to reach upper-middle-income status by 2040.

FIGURE 1.9: MYANMAR'S FUTURE GROWTH PATHS



Source: World Bank forthcoming a.
Note: GNI = gross national income.
a. The World Bank uses the Atlas Method to estimate the size of a country's GNI in US$.

TFP growth needs to be the main driver of economic growth going forward, with continued contribution from capital accumulation. Increased productivity is associated with a sustained increase in income per capita, which can raise the demand for goods and services and lead to more jobs in the long run. Improving productivity is also important in an increasingly connected and competitive global market (World Bank 2018a). To boost productivity growth, Myanmar needs to unlock the full potential of its private sector, which would involve deepening reforms aimed at eliminating constraints on private businesses that inhibit them from growing and integrating into global value chains. To support this effort, the Country Private Sector Diagnostic (CPSD) analyzes key binding cross-cutting constraints to private sector development in Myanmar and proposes recommendations for crowding in private sector investment and financing in the short-to-medium term.

The CPSD recommendations are aligned with the recent strategies and action plans adopted by the authorities, with an emphasis on the need to solve deep-rooted cross-cutting constraints that prevent the creation of markets. Aware of the need to deepen reforms to sustain long-term inclusive economic growth, the authorities have recently adopted comprehensive strategies and actions plans. The MSDP, launched in February 2018, provides an overarching medium-term economic road map. It includes a second wave of reforms and identifies the country's development priorities, including reaching the Sustainable Development Goals. The framework aims to maintain peace, stability, and prosperity while improving the quality of life for citizens and conserving the environment. The Myanmar Investment Promotion Plan (MIPP) adopted in October 2018 provides a detailed road map for facilitating and supporting private investments, both domestic and foreign. The MIPP is an update of the Foreign Direct Investment Promotion Plan adopted in 2014, with the assistance of the Japan International Cooperation Agency. Its objective is to support responsible and quality investments necessary for Myanmar to become a middle-income country through fundamental policy improvements organized around five pillars: (a) a fair and transparent investment regime, (b) institutional development for investment promotion, (c) improved infrastructure, (d) supportive business-related systems, and (e) competitive industrial links and human resources.

The main body of the report is organized as follows: section 2 examines the current state of the business sector in Myanmar; section 3 analyzes the main cross-cutting constraints to private sector development, with examples from the sector analysis; and section 4 proposes key policy and regulatory measures to tackle cross-cutting constraints and crowd in private sector investment and financing.

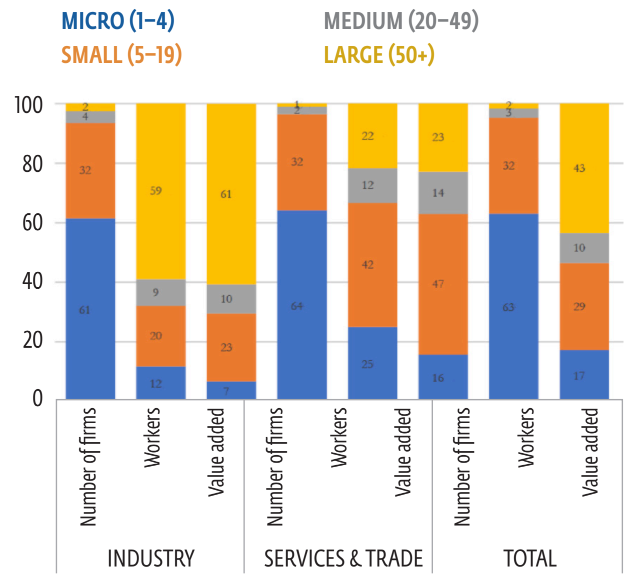
2. STATE OF THE PRIVATE SECTOR

2.1. MICRO AND SMALL FIRMS REPRESENT A LARGE SHARE OF BUSINESSES

The private sector in Myanmar is largely dominated by micro and small firms concentrated in urban areas. Most of the country's private businesses are small in terms of their number of workers. According to the United Nations Development Programme's 2015 Myanmar Business Survey,[13] 63 percent of firms have 5 workers or fewer (micro), 32 percent of firms have between 5 and 19 workers (small), 3 percent have between 20 and 49 workers (medium), and 2 percent have 50 or more workers (large). See figure 2.1. Moreover, about 60 percent of the country's enterprises were established after 2000, in particular after 2011 when the economic transition began.[14] There is also a strong concentration of firms in two of Myanmar's largest cities, Yangon and Mandalay. Firms in these two cities represent over one-third of all enterprises, employ more than half of all workers in private businesses, and contribute half of the total value added and capital owned in the country (figure 2.2). Also, large family farms in rural areas are involved in agricultural processing (that is, packaging and storage), which are not well captured in business surveys but appear in the employee responses of household surveys. Data from the Myanmar Poverty and Living Conditions Survey reveal that 30 percent of Myanmar's workforce is employed by family farms (World Bank 2019a).

FIGURE 2.1: SIZE OF FIRMS BY INDUSTRY

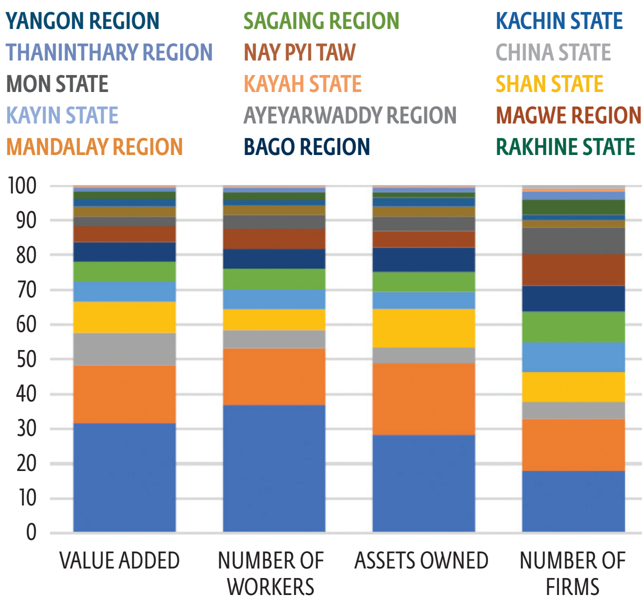
Percentage



Source: UNDP 2017; World Bank 2018b.

FIGURE 2.2: FIRMS, WORKERS, AND OUTPUT BY REGION

Percentage



Source: UNDP 2017.

Most micro and small enterprises are in traditional industries, while large firms operate in only a few sectors. Ninety percent of domestic enterprises in Myanmar are sole proprietorships, of which 28 percent are manufacturers or service providers in the food and beverage industry and 11 percent are in retail services (UNDP 2017). Most firms in retail services are small and medium enterprises (SMEs) or household enterprises with five to six workers. Larger domestic enterprises are typically in natural resource extraction, for example, gas, mining, or wood processing (World Bank 2019a).

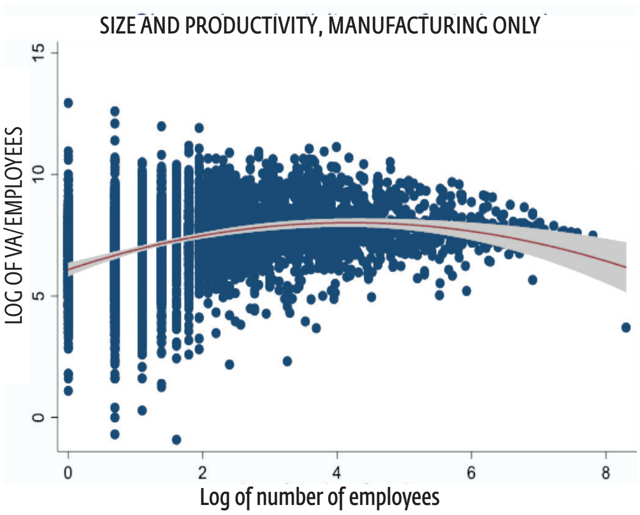
Labor productivity is highly dispersed across firms and sectors. Myanmar's median labor productivity is about half of its mean labor productivity, and the 90th-to-10th-percentile ratio is about 37 times, from Myanmar Kyat (K)200,000 of value added per worker (per year) to K7.5 million (figure 2.3). Furthermore, an increase in the number of workers by 1 percent is associated with a 0.4 percent rise in productivity, with a plateau around 100 workers (figure 2.4). This suggests that Myanmar's economy can potentially benefit from reallocating labor from very small and large firms (that is, both ends of the labor distribution) to medium-size enterprises. Additionally, there is likely an opportunity to raise productivity by removing the barriers to growth that private sector firms face, including limited access to capital.

FIGURE 2.3: DISTRIBUTION OF LABOR PRODUCTIVITY BY SECTOR

SECTOR	MAN-UFAC-TURING	OTHER INDUS-TRIES	TRADE	SER-VICES
Pctile 10	138	131	278	337
Pctile 25	493	844	848	818
Median	1,298	2,393	1,828	1,795
Mean	3,135	4,858	3,959	3,226
Pctile 75	2,950	8,713	3,894	3,447
Pctile 90	6,810	9,187	8,493	6,649

Source: World Bank 2018b.

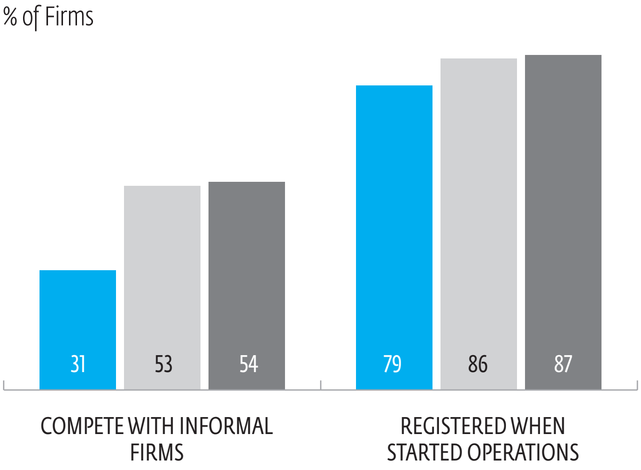
FIGURE 2.4: SIZE AND LABOR PRODUCTIVITY IN THE MANUFACTURING SECTOR



Source: World Bank 2018b.

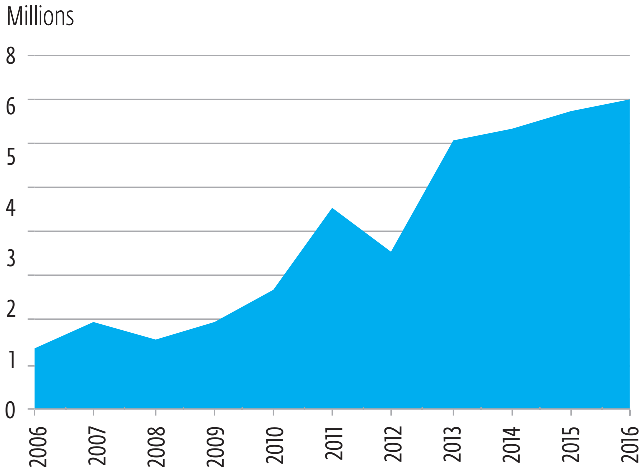
Myanmar has a sizeable informal sector. Given Myanmar's repressive and market-unfriendly polices of the past and prevalence of large-scale illegal and illicit trade, the size of its informal economy as a share of the total economy is one of the largest in the world (figure 2.5).[15] Excluding illicit activities, the informal economy is still much larger than the formal. About 83 percent of all businesses in Myanmar operated informally in 2013, according to data from the Organisation for Economic Co-operation and Development (OECD 2013). Moreover, data from World Bank Enterprise Surveys in 2016 show that about 21 percent of the country's registered businesses were not registered when they started their operations. A large informal sector may represent a challenge for formal firms, because informal firms often do not comply with prevailing rules and regulations, which can give them an unfair advantage.

FIGURE 2.5: FIRMS AND INFORMALITY



Source: World Bank 2017a.

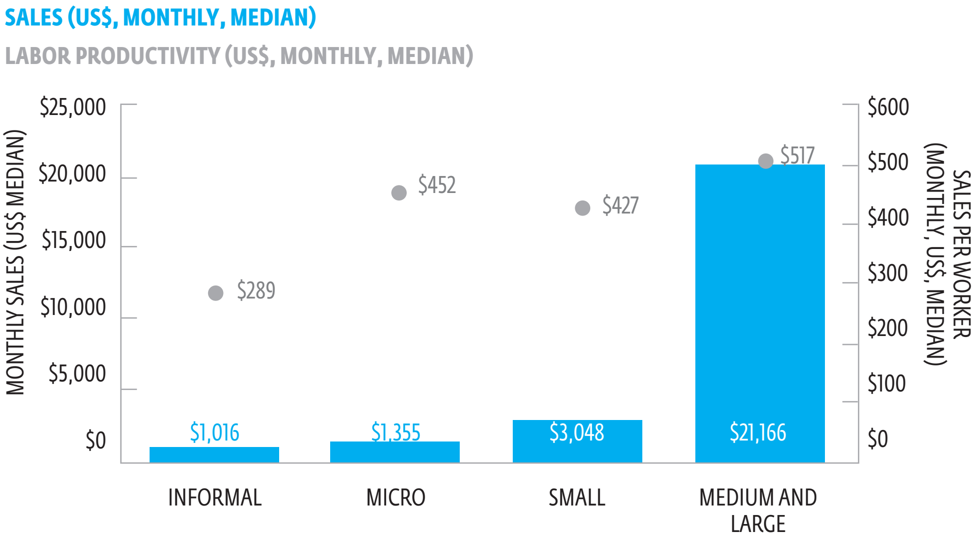
FIGURE 2.6: NEW REGISTERED BUSINESSES



Source: World Bank's Doing Business, http://www.doingbusiness.org/en/data/exploretopics/entrepreneurship.

About 79 percent of firms were registered when they started their operations in Myanmar, compared with 89 percent in the East Asia and the Pacific region, according to World Bank Enterprise Surveys. Yet, the number of new registered businesses in Myanmar increased between 2006 and 2016, with the exception of 2007–08 (figure 2.6). The government of Myanmar needs to continue to incentivize firms to register, and thus abide by rules and regulations, as well as to pay taxes. Moreover, firms in the formal sector are more productive than firms in the informal sector, which is confirmed by Enterprise Survey data that show that Myanmar's informal firms are smaller and have lower sales per worker (labor productivity) than their counterparts in the formal sector (figure 2.7). The majority of informal firms surveyed reported that avoiding registration is linked to the fear of excessive government regulations and limited interest in access to formal finance; however, one-third of firms reported their desire to have their businesses registered provided that time, fees, and paperwork are reduced.

FIGURE 2.7: MYANMAR INFORMAL FIRMS SMALLER AND LESS PRODUCTIVE THAN FORMAL COUNTERPARTS

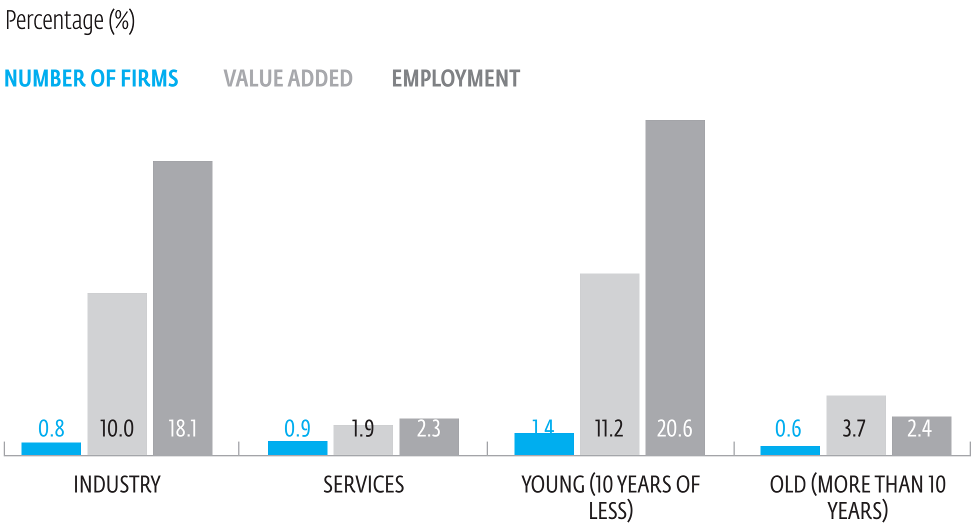


Source: Amin 2016.

2.2. SMALL BUT GROWING NUMBER OF FOREIGN-OWNED FIRMS

Myanmar has a small but growing number of foreign-owned companies with modern operations. The number of enterprises with foreign ownership (full or joint venture) is still relatively low, about 1 percent of total firms (UNDP 2017; World Bank 2017a). They tend to operate in manufacturing, accommodation services, and information technology and other information services. On average, firms in Myanmar with foreign ownership employ more workers than domestic enterprises (World Bank 2017a). Foreign-owned enterprises account for 20 percent of workers among firms with less than 10 years of operation in Myanmar (figure 2.8). Moreover, foreign-owned enterprises have higher labor productivity and pay higher wages than the country's domestic enterprises (World Bank 2019a).

FIGURE 2.8: SHARE OF FOREIGN-OWNED ENTERPRISES IN MYANMAR



Source: World Bank 2018b.

Foreign investors can benefit from a package of tax exemptions, infrastructure access, and simplified business formalities in dedicated Special Economic Zones (SEZs). The government of Myanmar has promoted industrial zones and SEZs to address the lack of availability of adequate industrial sites, a concern among foreign investors in the manufacturing sector. Three pioneer SEZs were developed—namely, the Thilawa SEZ in Yangon Region, Dawei SEZ in Tanintharyi Region, and Kyauk Phyu SEZ in Rakhine State. At this stage, the Thilawa SEZ can be considered the most developed SEZ in Myanmar (box 2.1).

BOX 2.1: THILAWA SPECIAL ECONOMIC ZONE

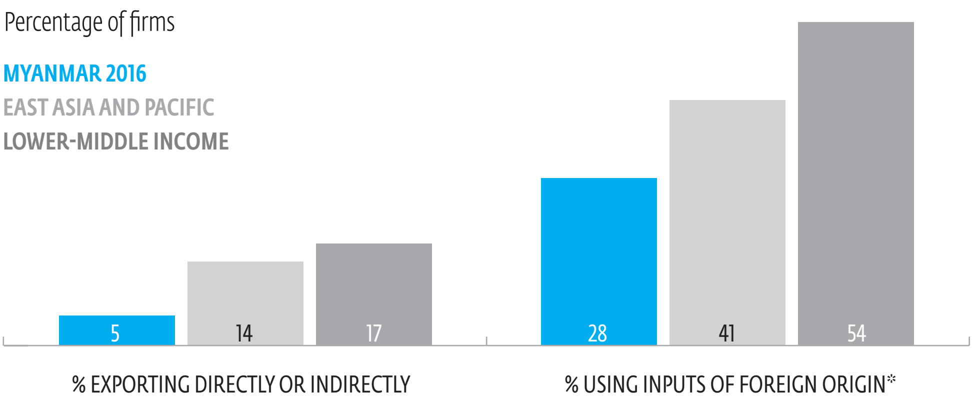
Thilawa Special Economic Zone (SEZ) is approximately 2,400 hectares located in a strategic area on the banks of Yangon River. It is about 40 kilometers from Mingaladon International Airport and 20 kilometers from Yangon Commercial District, with easy access to maritime, air, and road transport for domestic and international business. It was realized under a public-private partnership between a Myanmar and Japanese public and private consortium. Since its opening in 2015, more than 100 investments have been approved, with 90 firms under full foreign ownership and 13 foreign–Myanmar joint ventures, all largely from Japan, with some Thai and Korean investors. Around 9,000 employees work for a wide variety of sectors, including apparel, toys, building materials, packaging, food and beverage, and the growing automaker and auto-part maker sector. To simplify administrative procedures, Thilawa SEZ Management Committee has established the One-Stop Service Center representing various government departments under its close supervision to provide efficient and fast services to investors.

The Mingaladon Industrial Park in the North Township of Yangon constitutes an example of a well-developed industrial zone that has attracted foreign investors. Although industrial zones have not been developed for foreign investors and instead usually target domestic SMEs,[16] the Mingaladon Industrial Park was initially developed in 1998 as a joint venture between Myanmar and a Japanese conglomerate for foreign investors. It benefits from international standards of infrastructure and utility facilities for manufacturing. A large number of industrial zones have been established across Myanmar (around 100 zones), yet few can be considered fully operational because of unclear governance and a lack of adequate planning and infrastructure development. A law has been prepared by the Myanmar government for improving the planning and governance of these zones, which could benefit from the relatively successful experience of Mingaladon.

2.3. SMES SUFFER FROM LIMITED INTEGRATION AND WEAK INNOVATION AND MANAGEMENT

The low participation of Myanmar's firms in global value chains limits their ability to expand, raise efficiency, and acquire updated and better technologies. Only a small portion of the country's firms participate in international trade. According to Enterprise Survey data, around 5 percent of firms in Myanmar are directly or indirectly exporting, much lower than 14.0 percent in Cambodia, 17.5 percent in Vietnam, and an average of 14.0 percent in the East Asia and the Pacific region (figure 2.9). Moreover, only 28 percent of manufacturing firms use foreign inputs, much lower than an average of 41 percent in the East Asia and the Pacific region.

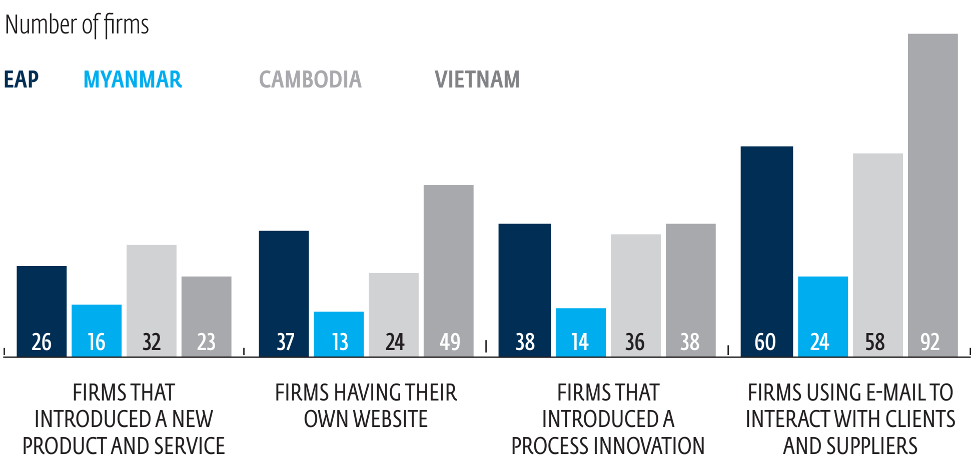
FIGURE 2.9: PORTION OF FIRMS PARTICIPATING IN INTERNATIONAL TRADE



* only for manufacturing firms
Source: World Bank 2017a.

Compared with firms in other countries, firms in Myanmar are less likely to innovate and use information and communication technologies (ICT) to support their operations. In 2016, 47 percent of firms in Myanmar acquired fixed assets, similar to the proportion of Cambodia and Vietnam firms, but higher than average in the East Asia and the Pacific region. However, Myanmar's firms introduced fewer new products and processes—only 13 percent of small firms and 22 percent of medium-sized firms innovated their processes. The country's firms are also less likely to use ICT to support their operations, as only 13 percent of small firms have a website, compared with 49 percent of small firms in Vietnam. There is an opportunity for firms in Myanmar to use ICT to connect with markets and suppliers, because mobile and internet penetration has increased significantly since liberalization of the telecommunications sector in 2012 (figure 2.10).

FIGURE 2.10: PERCENTAGE OF FIRMS THAT INNOVATE AND USE ICT



Source: World Bank 2017a.
Note: EAP = East Asia and the Pacific; ICT = information and communication technologies.

A weak basic education system, lack of basic management skills, and poor market knowledge hinder the ability of Myanmar's entrepreneurs to innovate and prepare bankable projects. Myanmar suffers from the lowest level of innovation, measured by research and development expenditure and the portion of firms with quality certification, relative to peers (World Bank 2018a). Entrepreneurial education is almost nonexistent, and the education system is not producing the pool of talent needed for sustained innovative research and development. Moreover, coaching, mentoring, and specialized training opportunities for innovative entrepreneurs are limited, with some courses in entrepreneurship and small business management offered by chambers of commerce. Employers report that workforce education is severely limited in Myanmar (World Bank 2017a). Highly qualified graduates are in limited supply for innovative firms, which will constrain long-term growth. For Myanmar to grow as an innovation- and knowledge-based economy, it will need to expand its talent pool.

SME surveys and interviews with local entrepreneurs identified a high, unmet demand for business services. According to a 2014 survey of 315 micro, small, and medium enterprises conducted by the International Labor Organization (ILO 2014), there is a very low use of business services among SMEs in Myanmar (only about around 20 percent report having used some services), mainly because of lack of availability (26 percent) and lack of information and awareness on how to access these services (34 percent). The most sought-after business development services identified by respondents included information on markets, marketing skills to reach customers, workers' technical skills, links to new buyers and suppliers, and access to new technology and tools. Considering those results, SMEs may benefit from a government program to encourage acquisition of business development services to improve managerial and business capacities, marketing, innovation, product quality, and compliance with international and foreign direct investment standards. In Myanmar, this may be particularly recommended considering that access to finance is a top challenge for most SMEs, taking into account the need to fine-tune and adapt this type of support to the varied needs and potential of SMEs (box 2.2).

BOX 2.2: ECONOMIC RATIONALE FOR SUBSIDIZING SMES' ACCESS TO BUSINESS DEVELOPMENT SERVICES

Campos and others (2012) provide a useful synthesis of the possible justifications for the use of public funds for business development services (BDS). In a nutshell, such subsidies generally aim at addressing a perceived underinvestment by small and medium enterprises (SMEs) in BDS within two main possible contexts:

- BDS are a profitable investment, but various market failures prevent firms from purchasing them. This can be, for instance, because of the credit constraint faced by SMEs with limited working capital, as lenders are reluctant to finance "soft" services that cannot be collateralized and whose return on investment is difficult to assess ex ante. SMEs may also be risk averse and avoid investing in services with a high but uncertain potential return. Finally, SMEs may not have sufficient information on the BDS available and their potential return or on their relative performance compared with competitors. Similarly, BDS providers may lack information about the type or quantity of services demanded, leading to inadequate supply and underinvestment from the providers. By providing a mechanism to screen and strengthen business development projects and reduce the effective cost of the needed services for SMEs, grant schemes can address some of these market failures and catalyze the market for BDS.
- The expected private return of investing in BDS might not justify its cost for profit-maximizing SMEs, but it could have positive externalities for the economy. Subsidizing the use of such services might still be justified in this case as it brings net benefits for the economy at large. This can be the case, for instance, (a) if grants are used by a firm to train workers who then leave to work in other companies or (b) if the improvements and innovations introduced by firms as a result of their investment in BDS are copied by other firms.

Although the theoretical economic justification for the use of grants may be convincing, there are serious potential pitfalls in their implementation. In cases where SMEs are not constrained in their capacity to purchase BDS and where such services do not have significant positive externalities, subsidizing these services can create distortions in resource allocation and constitute a public subsidy for a private gain. The most common criticism of grants is the risk of limited additionality, meaning that grants may benefit firms that would have paid for the services anyway. Finally, if grants give SMEs only a temporary incentive to procure more BDS but do nothing to solve the inherent market failure that prevented them from using these services in the first place, the effect of the grant program on the BDS market would be questionable.

Source: World Bank 2016d.

2.4. PERVASIVE CRONYISM REMAINS AN OBSTACLE TO MARKET CONTESTABILITY

Beginning in the 1990s, military holding companies, state economic enterprises (SEEs), and business people benefited from government policies and decisions. Public policies were adopted, at least nominally, to develop the country's export-oriented agribusiness around industrial and other export crops. During this time, large-scale land acquisitions (LSLAs) benefited military-controlled holdings, state agencies, and prominent large enterprises. From 1991 to 2016, about 5.1 million acres of land were allocated through LSLAs, representing more than 20 percent of all cultivated arable land in the country. However, less than one-quarter of LSLAs were used as farmland to grow crops for soldiers or for SEE-related employees or used as collateral for bank loans, rather than used for agribusiness.

As the state prepared for the transition to semi-civilian rule under the 2008 Constitution (which came into force in 2011), property ownership became more concentrated. From 2006 to 2014, the state sold off land, buildings, and other state- and military-owned properties. The state privatized hundreds of small gold, ruby, and jade mines. In December 2009, around 260 state-owned buildings, factories, and land plots were transferred to private ownership. The country's 256 state-run gas stations, three ports, and most shares of the national airline were also sold to private enterprises. While the country's top 20 businesses acquired many of the country's most profitable entities and properties, other businesses also entered the bidding fray, creating a second tier of state-tied businesses that constitutes many of today's rising new companies.

In conflict-affected areas, businesses are often not impartial private sector actors. The emergence of a rent-based economy in conflict-affected areas is linked to Myanmar's historical development model for these areas, focused on the distribution of rents and development of patronage systems between ethnic leaders and the government and military—often in exchange for both a degree of peace and a cut in the spoils. This has been at odds with creating an inclusive business environment for private sector development. Some businesses are wholly owned and operated by conflict actors. Others may be nominally private but have familial or other links to conflict actors. Others may simply maintain relationships or pay "taxes" to armed actors as part of their operations. With such a complex political economy, it is extremely difficult for firms of any size to operate in conflict-affected areas without some form of connection to armed actors. Businesses that are operated, owned, or closely connected to armed actors are active in a wide range of economic sectors. Because of the number of armed actors in Myanmar and the opacity of ownership, it is not possible to systematically document all the businesses in which armed actors engage.

Overall, Myanmar's private sector appears to be at a crossroads, with former military-controlled firms being slowly replaced by firms run by a new class of entrepreneurs with diverse backgrounds. Historically, a high proportion of cronies' assets consisted of property and construction investments, which appreciated in value. By 2015, however, the real estate market had slowed down and the construction sector collapsed. While these sectors face political headwinds—as Myanmar's government seeks to overcome vested interests and the public remains split over the importance of business and capitalism in general—a new class of entrepreneurs is emerging with diverging interests and views on capitalism, the market economy, and the protection of local interests and the ruling elite (Box 2.3).

Conditions for competition are further distorted by instances of market concentration in the manufacturing sector and the dominance of SEEs in others. The latest World Bank Enterprise Survey suggests a relatively high degree of monopoly and oligopoly market structures in Myanmar's manufacturing sector compared with aspirational peers, thereby lowering productivity (World Bank, forthcoming a). State-owned monopolies remain in sectors such as oil, gas, and electricity, although in 2013 the monopoly was broken in the telecommunications sector, where there are now three firms competing with Myanmar Posts and Telecommunications. In all these sectors however, the SEE also acts as a regulator and, as such, monitors private companies' compliance and contracts. SEEs, therefore, are often seen as barriers to entry in a given market, as well as an inefficient fiscal burden on the economy. (See section 2.5. SEEs Are a Fiscal Drag and Policy Capture.)

Improvements in transparency of the procurement process and implementation of the competition policy may support a level playing field for the private sector to engage responsibly in Myanmar. To level the playing field for all enterprises and promote fair competition, the government of Myanmar enacted the Competition Law in February 2015,[17] but it took another two years for the law to become effective.[18] Following the issuance of the Competition Rules by the Ministry of Commerce (MoC) in October 2017, the Myanmar Competition Commission (MCC) was established in October 2018 to implement and enforce the Competition Law. Given the infancy of the MCC, it would need time and resources to build up the capacity and expertise to effectively enforce the Competition Law. In addition, use of transparent and competitive tendering processes was recommended for the procurement of publicly financed projects, including public-private partnerships. Whereas the 2017 Tender Directive clearly states that all purchases of goods or services with public funding of more than Myanmar Kyat (K)10 million (US$6,000 equivalent) are subject to a competitive tender, there is evidence that unsolicited proposals and direct negotiations have been used. Although these modalities have not reduced the time line for the procurement and negotiation of projects in sectors such as energy, they have reduced fairness and resulted in subpar agreements and private sector involvement.

BOX 2.3: MYANMAR ECONOMIC HOLDINGS LIMITED AND MYANMAR ECONOMIC CORPORATION

While Myanmar Economic Holdings Limited (MEHL) and Myanmar Economic Corporation (MEC) are not state-owned enterprises under Myanmar's Economic Enterprise Law, all shares in MEHL are held and managed by current or former military officers, regiments and units, and organizations led by former service members. Although they serve as the capital funds for the military pension system, information about the accounts and revenues of MEHL and MEC is scarce. The financial reports of MEHL and MEC are not publicly available. Much of the funds generated through MEC and MEHL bypasses formal government channels, with indications that government revenue from the oil and gas, copper, jade, rubies, amber, and forestry sectors may therefore remain unaccounted for.

MEHL and MEC were highly politically connected to the military, which allowed them to develop a large-scale presence in most sectors and drive away potential competitors during the 1990s. MEHL was especially prominent, because it was the preferred choice for foreign companies establishing joint ventures in the country. For many years, MEHL held a virtual monopoly over car imports, which led to what may have been the most distorted car market in the world until October 2011, when the minister of railways announced an end to the monopoly and began issuing import licenses more broadly. As of 2018, the status of these enterprises, particularly those under MEHL, seems less secure. Some of MEHL's companies have faced legal action since 2012: its passenger bus system was shut down, and its monopolies over beer and other import and production licenses were eliminated between 2011 and 2015.

2.5. SEES: A FISCAL DRAG AND POLICY CAPTURE

While Myanmar's SEEs no longer constitute a large segment of the economy, some operate in strategic sectors and create an uneven playing field for private enterprises. SEEs are present in important sectors such as natural resources and extractives, infrastructure, industry and services, and banking and insurance. They accounted for 35 to 45 percent of public sector expenses and receipts in the past four years. It is estimated that their sales accounted for about 7 percent of GDP and they employed 145,000 people (World Bank 2017b). Most of the country's SEEs are governed by sector legislation overseen by the relevant line ministry, which also adopts sector-specific policies and acts as a regulator. Some SEEs also influence private sector investment. For example, they can recommend specific tax emptions to the Myanmar Investment Commission (MIC) on behalf of joint-venture partners in the private sector. This would determine which companies operate in Myanmar and how much public revenue is collected from the private sector (Bauer and others 2018).

Myanmar's capacity to oversee and monitor the performance of the country's SEEs is weak and spread across several agencies. SEEs suffer from unclear objectives, performance benchmarks, and financing needs. Their operations and finances also lack transparency, which makes it difficult for supervisory bodies to effectively monitor SEE performance. For instance, the SEE Division under the Budget Department of the Ministry of Planning, Finance and Industry (MoPFI) is responsible for overseeing SEEs' fiscal transfers. The Budget Department also oversees SEEs that have converted to administrative units. The Debt Department under the Treasury Department of the MoPFI oversees the debt of SEEs. In addition, joint ventures between SEEs and private business must be approved by the MIC, unless they are joint ventures that are less than five years old. Major changes to SEEs require cabinet approval (World Bank 2017).

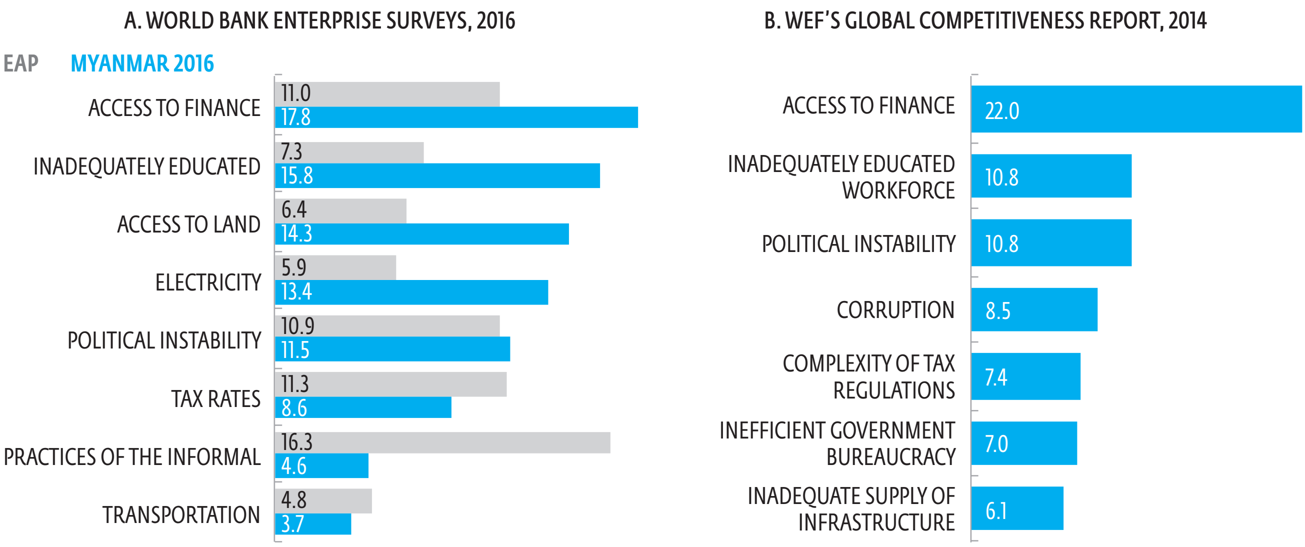
SEEs are becoming a drain on the fiscal budget. Although the number of SEEs was reduced from 44 in 2011–12 to 32 in 2017–18, they still account for more than one-third of public expenses and receipts. SEE revenues have been declining significantly over the years, from 10.0 percent of GDP in 2013–14 to 6.4 percent in 2017–18, driven by declining profitability because of lower natural gas prices, inefficient production methods, and exposure to market competition (World Bank 2018b. While SEE expenditures have also been declining (especially with respect to capital expenditures), from 6.6 percent of GDP in 2013–14 to 5.3 percent in 2017–18, they have not been able to offset the fall in revenue. As a result, Myanmar's SEEs are increasingly becoming a drag on public finances.

3. ANALYSIS OF KEY CROSS-CUTTING CONSTRAINTS

3.1. FIRMS CONSTRAINED ON THE SUPPLY SIDE

Limited access to factors of production—mainly financial, human, and physical capital—and a restrictive business environment impede private sector growth in Myanmar. According to World Bank Enterprise Survey data (World Bank 2017a), firms have identified access to finance, skilled workers, land, and electricity and transportation as the major binding obstacles to private sector development.[19] See figure 3.1. Among the 607 firms interviewed, almost 18.0 percent identified access to finance as the main obstacle, compared with the regional average of 11.0 percent. An inadequately educated workforce was the major obstacle for almost 16.0 percent of firms. Access to land was the main obstacle for 14.3 percent of firms, compared with the regional average of 6.4 percent. Furthermore, obstacles faced by small firms are different from those faced by medium and large firms (figure 3.2). The challenges of limited access to finance and an unskilled workforce were also reflected in the World Economic Forum's Executive Opinion Survey 2014–15, where a similar share of firms indicated that these factors were significant impediments to business in Myanmar. It also highlighted an inadequate supply of infrastructure, complex regulations, and an inefficient government bureaucracy as key constraints to the competitiveness of surveyed firms.

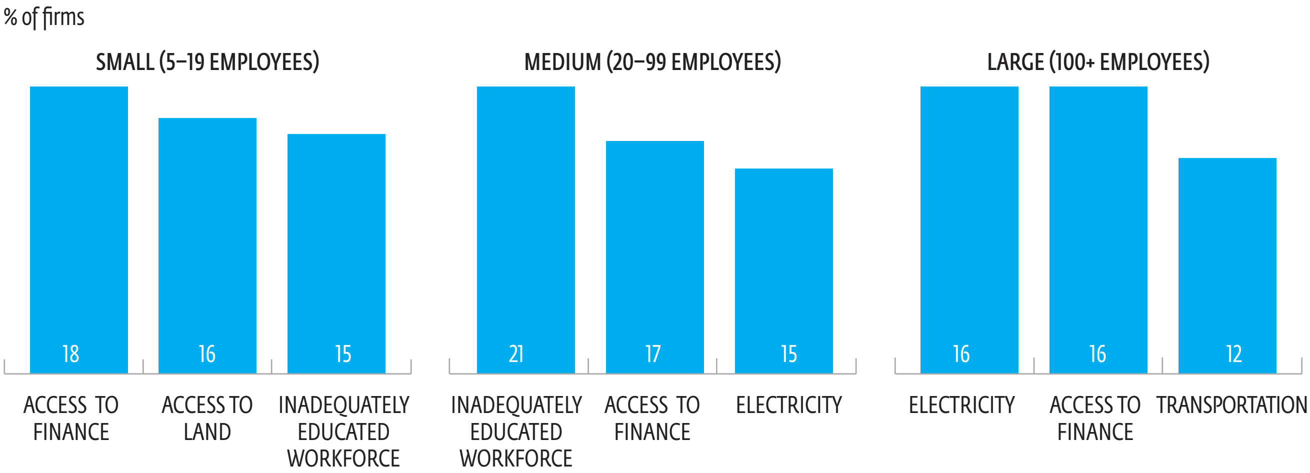
FIGURE 3.1: TOP OBSTACLES TO GROWTH REPORTED BY FIRMS IN MYANMAR, BY % OF FIRMS



Source: World Bank 2017a.
Note: EAP = East Asia and the Pacific.

Source: Schwab 2014.
Note: WEF = World Economic Forum.

FIGURE 3.2: TOP THREE BARRIERS TO GROWTH FACED BY SMALL, MEDIUM, AND LARGE FIRMS IN MYANMAR



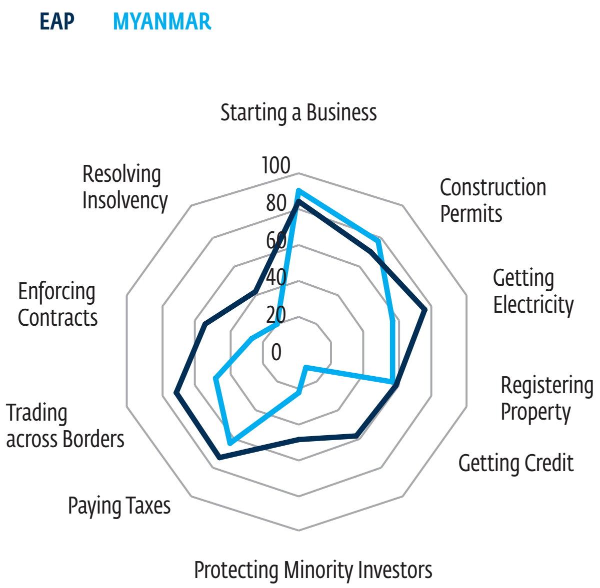
Source: World Bank 2017a.

Myanmar has made tremendous progress on the ease of doing business, but it still lags the average for East Asia and the Pacific economies in most areas. According to the World Bank's Doing Business 2020 report (World Bank 2019b), Myanmar's overall ranking was 165th of 190 economies, up from 171th in the previous year. But it still ranked 24th of 25 economies in the region (figure 3.3). Vietnam and Cambodia fare better; they ranked 70th and 144th, respectively. Myanmar trails its East Asia and the Pacific peers in most areas, an indication that there is room for substantial improvement, especially in the activities measured by the indicators getting credit, protecting minority investors, resolving insolvency, and enforcing contracts.

FIGURE 3.3: PERFORMANCE ON DOING BUSINESS INDICATORS, MYANMAR AND EAST ASIA AND THE PACIFIC, 2020

DISTANCE TO FRONTIER (100 = GLOBAL BEST PRACTICE)

	MYANMAR	EAP
Starting a Business	89.3	83.9
Dealing with Construction Permits	75.4	70.0
Getting Electricity	56.7	75.1
Registering Property	56.5	57.5
Getting Credit	10.0	58.0
Protecting Minority Investors	22.0	49.7
Paying Taxes	63.9	73.6
Trading Across Borders	47.7	71.6
Enforcing Contracts	26.4	53.0
Resolving Insolvency	20.4	40.9

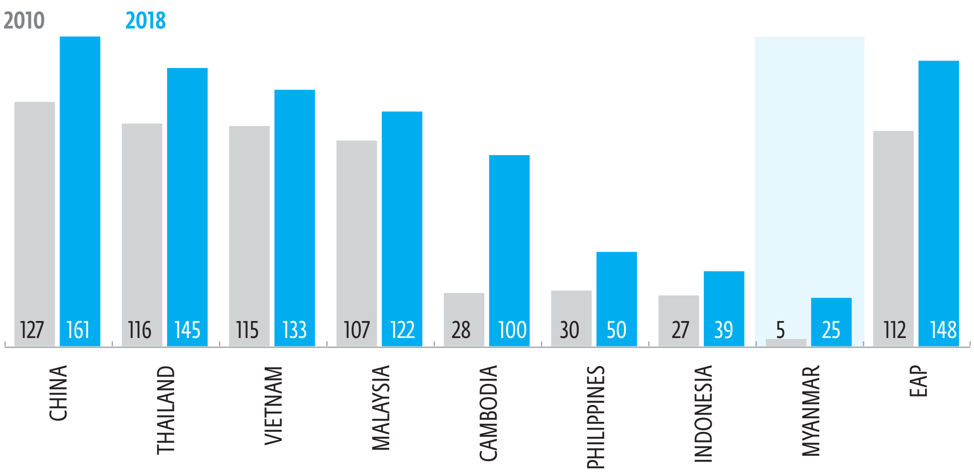


Source: World Bank 2019b.
Note: EAP = East Asia and the Pacific.

3.2. ACCESS TO FINANCE

Difficulties in accessing finance remain a major constraint to private sector development in Myanmar despite the adoption of multiple reforms in recent years. The country's financial system is small, shallow, and inefficient. It excludes more than 70 percent of the population, does not adequately meet the financing needs of private firms, and is unable to fund critical infrastructure (box 3.1). Moreover, it is dominated by banks, which held more than 90 percent of total financial sector assets in 2017.[20] Domestic credit to the private sector was 24.2 percent in 2017—one of the lowest in the East Asia and the Pacific region (figure 3.4). The legacy of central control, inadequate policies, and economic isolation has resulted in underdeveloped financial markets and a concentration of credit in large enterprises in urban areas, leaving agricultural enterprises and small and medium enterprises (SMEs) poorly served (IMF 2017). While vulnerabilities in the credit system persist, a string of recent reforms, including opening up the banking sector to foreign investment, points to a progressive transition of Myanmar's financial system to a regulatory and prudential framework that is more in line with international standards.

FIGURE 3.4. CREDIT TO THE PRIVATE SECTOR (PERCENTAGE OF GDP)



Source: World Development Indicators (database), World Bank.
Note: EAP = East Asia and the Pacific; GDP = gross domestic product.

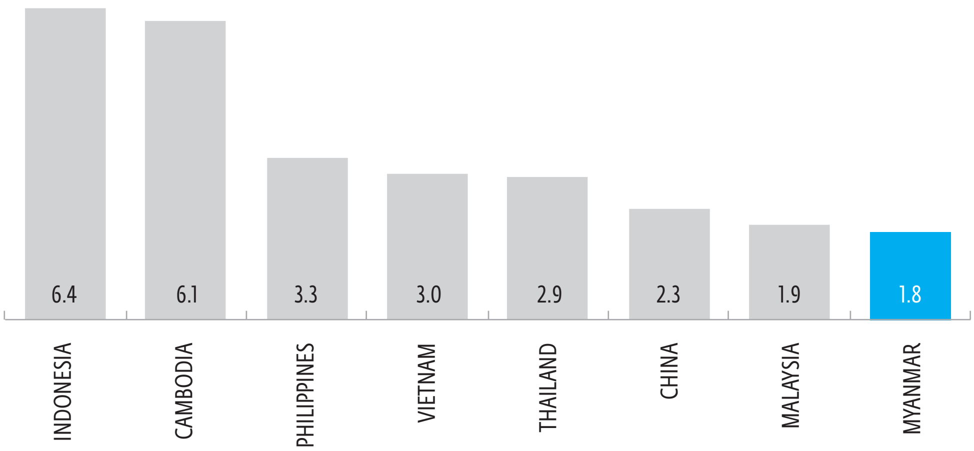
Access to finance is hampered by stringent collateral requirements and regulatory restrictions on loan maturities that prevent banks from financing long-term investments. Following Myanmar's banking crisis in 2003, the Central Bank of Myanmar (CBM) imposed restrictions on the banking sector in 2005 that required loans to be secured by solid collateral, and it limited loan maturity to one year to avoid a mismatch between short-term deposits and long-term loans (GIZ 2018). However, the loan maturity restriction created a mismatch between the demand and supply of loans, in which local businesses demand loans with long-term maturity, but banks can only offer loans with short-term maturity. In practice, banks have sidestepped this restriction by allowing borrowers to use overdrafts to extend the one-year loan maturity. The continuous rollover of overdrafts was at one point estimated to be 70 to 75 percent of banks' total loan portfolio, a situation which has created potential risks for the banking sector. As a result, from January 2018 the CBM required banks to convert overdrafts to maximum three-year-term loans and to reduce the share of overdrafts in individual banks' loan portfolios by 50 percent in July 2018, 30 percent in July 2019, and the remaining 20 percent in July 2020.

Another factor limiting access to finance is the interest rate caps. In response to the banking crisis in 2003, the CBM also imposed both a floor on deposit rates at 2 percent below the CBM reference rate and a ceiling on lending rates at 3 percent above the reference rate on banks.[21] Interest rate caps were also imposed on microfinance institutions (MFIs) that offer micro loans and micro savings, with the exception of some banks serving specialized groups.[22] Interest rate caps create inefficiencies because (a) they do not reflect changes in inflation and market conditions, (b) they limit banks' and MFIs' ability to price risks for projects with different returns, (c) they constrain banks' and MFIs' ability to compete on the rates they offer, and (d) they inhibit banks and MFIs from expanding financial services to new customers or areas. For instance, interest rate caps on banks result in low net interest margins in Myanmar relative to other countries in the East Asia and Pacific region, which in turn limits the profitability of banks and their ability to lend (figure 3.5). As a result, a sizable informal credit market with high interest rates has been created in Myanmar (World Bank 2019a). Additionally, caps on interest rates and MFIs' high-risk portfolios have restricted the ability of MFIs to raise funds for their operations.[23]

Recent reforms by the CBM increased the interest rate ceiling to 16 percent for noncollateralized loans. The CBM issued a directive—effective February 1, 2019—that allowed borrowers to pledge other forms of collateral than what is currently listed by the CBM. Also, even borrowers that are unable to provide any collateral are eligible to be approved for a loan with an interest rate of up to 16 percent. The CBM's list of collaterals includes land and buildings, gold, diamonds and precious stones, savings certificates, government treasury bonds, fixed deposits, credit certification, and credit guarantees. The maximum lending rate will stay at 13 percent for loans with collateral, and the minimum deposit rate will remain at 8 percent.

Interest rate caps, collateral requirements, and limited capacity of firms to present bankable proposals have restricted access to credit by micro, small, and medium enterprises as well as rural households. The share of SME loans in banks' total loan portfolio is low. SME loans accounted for less than 0.2 percent of private bank loans in December 2017 (GIZ 2018). Most SMEs finance their operations with own funds, bank overdrafts, and informal loans. In addition, while the agriculture sector represents 30 percent of GDP and employs about half of the working population, a mere 2.5 percent of all outstanding loans are related to agriculture (IMF 2017). It is estimated that more than 3.5 million farmers are not served by the Myanmar Agriculture Development Bank because of a lack of land titles (World Bank 2014a). Moreover, it is challenging for domestic banks to assess the creditworthiness of potential borrowers because of a lack of credit information and capacity. Also, companies' financial statements are often not reliable because of a lack of credible auditing. In this respect, both the banking sector and SMEs would benefit from an ambitious support program aimed at improving the preparation of bankable investment projects and the supply of custom financial products. The financing gap is made worse by the absence of alternative finance providers, such as nonbanking financial institutions, that typically provide products suited to SMEs such as leasing and factoring.

FIGURE 3.5: NET INTEREST MARGINS OF SELECTED EAST ASIA AND THE PACIFIC COUNTRIES (PERCENTAGE)



Source: Finstat, https://worldbankgroup.sharepoint.com/sites/Finance/Pages/SitePages/FinStats-data.aspx?&tab=sitepages&page=managecontentadmin.

Myanmar's small, shallow, and inefficient financial system has also limited the financing of investments that could help close the infrastructure gap. The limited long-term institutional savings (for example. insurance and pensions) available in the domestic market is not sufficient to keep pace with the demand for infrastructure financing. In addition, domestic lending practices are not conducive to infrastructure financing because most bank loans have relatively short-term tenure and tend to be given to well-established private corporates. Moreover, local banks do not have the necessary technical skills, experience, or motivation to lend on a basis of limited recourse.

Moreover, underdeveloped debt and capital markets in Myanmar constrain access to finance for private firms. There is no domestic private bond market, and the Yangon Stock Exchange, established in 2015, has only five listed companies. The corporate bond market is almost nonexistent. While potential bond underwriters, issuers, and investors acknowledge that it is imperative that Myanmar develop debt and capital markets to boost financing for private sector firms, it is also recognized that this would be challenging given the underdeveloped government bond market, truncated yield curve, absence of capital-market regulations, and risk assessments for companies.[24] The impending entry of foreign insurance companies is expected to create a pool of long-term savings that will, in the long run, facilitate the development of the long-term finance market.

BOX 3.1: IMPACT OF FINANCING CONSTRAINTS ON KEY SECTORS

Agriculture and Agribusiness. The Myanmar Agricultural Development Bank (MADB) provides the main source of funding for farming landowners, with an estimated 90 percent of its portfolio going to paddy production (CEPA 2015). Meanwhile farmers without land titles rely on informal loans at rates of 5 percent per month, effectively preventing them from accessing inputs, machinery, and irrigation equipment (World Bank 2016d). Additionally, the MADB does not provide financing to participants in value chains such as traders and logistics providers. In agribusiness, many large companies note that the lack of financing in Myanmar is a key constraint to growing their business. A survey of firms revealed that the financial system is characterized by excessive controls and high costs for borrowers, both in borrowing terms and transaction costs. There are a few ongoing efforts to improve the access to finance in the agriculture sector such as the creation of a multidonor guarantee facility for mechanization and the development of leasing products for mechanization and irrigation. Moreover, the Myanmar government has made good progress on the diagnostic and restructuring plans for the MADB so that it can play a more significant role in agricultural financing.

Garments. It is difficulty for locally owned garment firms to access finance because local banks do not offer financing for free-on-board (FOB) production, and they require collateral for loans. In addition, FOB production needs substantial investment in capital equipment, which requires longer maturity than what the banks can offer. The high cost of finance constitutes another barrier. While the interest rate charged by local banks to local firms is, on average, around 13 percent, international banks are able to provide competitive rates at 6 percent to joint ventures and foreign-owned firms. Moreover, a lack of financial instruments is also a barrier for locally owned firms to finance their operations. For example, back-to-back letters of credit, a key element for FOB production, is not offered by national banks in Myanmar.

Tourism. Limited access to finance and the high cost of finance constitute binding constraints on private firms in Myanmar's tourism sector. Banks tend to require private firms to have collateral before they can be approved for a loan. While the loan tenor is usually short-term (for example, 12 months), the payback period for investments are much longer. Furthermore, the cost of finance is extremely high in Myanmar, which stifles entrepreneurial and business activities in the sector—especially by small and medium enterprises.

In parallel to the current regulatory overhaul of the banking system, policy makers have opened up the banking and insurance sector to foreign investors. On January 2, 2019, the Ministry of Planning, Finance and Industry (MoPFI) released Announcement No. 1/2019 on Insurance Market Liberalization for Foreign Entities, which grants permission to insurance businesses, underwriting agencies, and insurance brokers to accept foreign investment. Then, on January 29, 2019, as part of its reforms aimed at improving the financial sector, the CBM issued a notice that allowed foreign banks to own 35 percent of domestic private banks—in line with the new Companies Act. The new directive will allow foreign banks to invest in the local market, which could provide Myanmar's banks access to funds to address their capital needs and modernize their loan-screening processes and data systems.

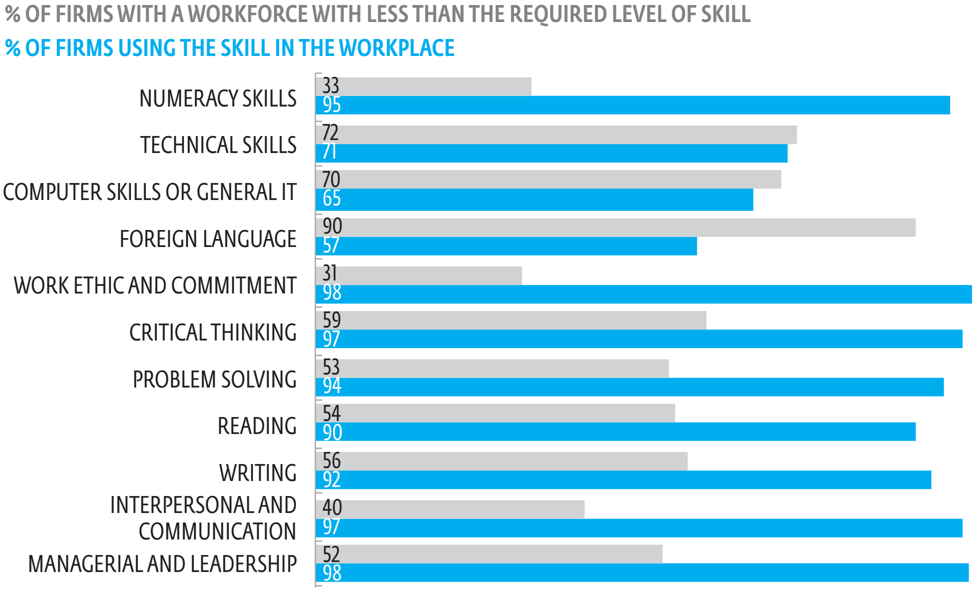
3.3. ACCESS TO SKILLED WORKERS

Access to skilled employees is the second most reported constraint on firms, particularly SMEs, in Myanmar. According to Enterprise Survey data, more than 80 percent of employers state that the country's education system does not produce workers with the knowledge or skills needed for today's jobs, and the "inadequate education of the workforce" is the primary obstacle to their operations, second only to financial constraints (14 percent compared with 15.8 percent). Myanmar's workers are underperforming across a broad set of skills, as more than half of employers note skills gaps ranging from management and communications to writing and foreign language (figure 3.6). Boosting the skills of the country's sizeable working-age population—nearly 35 million people—would unlock the potential for higher productivity across sectors (box 3.2).

Investment in human capital remains insufficient. Secondary school enrollment in Myanmar remains relatively low at 64 percent in 2017, compared with nearly universal enrollment in secondary education in Vietnam. Similarly, gross enrollment in tertiary education remains low at 16 percent (versus 29 percent for Vietnam). According to the World Bank's Human Capital Index (HCI), Myanmar ranks 107th of 157 countries with HCI score of 0.47, substantially below the average of 0.62 in the East Asia and the Pacific region. Myanmar's HCI score means that children born in the country today will be 47 percent as productive when they reach adulthood than they could have been had they had access to a complete education and enjoyed full health. Myanmar suffers from severe public underinvestment in education and health. For instance, budgeted public spending on education and health represents 1.8 percent and 1.0 percent of GDP, respectively, well below the average of Myanmar's regional and income peers. While public spending on health and education increased rapidly between 2015 and 2018, it only partly reversed the historical neglect of human capital investments. Moreover, actual expenditure by the Ministry of Education has remained stagnant at 1.7 percent of GDP, and the Ministry of Health's expenditure declined from 1.0 percent of GDP to 0.8 percent in the same period (World Bank 2018c).

Skills may improve with the next generation of workers, although the current labor force will likely remain at a disadvantage. Recent trends show a shift toward higher educational attainment, with two-thirds of the youngest workers (ages 15–24) having attended secondary school or above. While the National Education Strategic Policy for 2016–21 emphasizes education quality in terms of cognitive skills (for example, reading literacy and mathematics), it also identifies the need to develop socio-behavioral skills (for example, teamwork and self-discipline) and higher-order cognitive skills (for example, problem solving and leadership), exactly the skills that employers identify as crucial to work performance. In the short run, technical education remains sporadic and weak, and firms are largely responsible for training their own workers, although only 5 percent offer formal training programs. There is a nascent effort by the Myanmar government and development partners to enhance the skills of current workers by developing a system of short and applied technical training courses for prevalent occupations, with the first pilot programs being launched in 2017.

FIGURE 3.6: MYANMAR'S SKILLS GAP



Source: World Bank 2018a.
Note: IT = information technology.

The country's technical and vocational education and training (TVET) centers remain largely focused on advanced, multiyear diploma programs targeted at high school graduates while neglecting workforce upskilling and reskilling. There were more than 370 TVET centers in Myanmar as of 2015. The system is highly fragmented, with training services offered by public and private institutions and by numerous ministries—at the national and local level. The majority of TVET programs that are undertaken by ministries other than the Ministry of Education are considered nonformal TVET. Among the most important TVET institutes of other ministries are the six Industrial Training Centers (ITCs) of the Ministry of Industry. These ITCs provide one-year training programs with plans in place to expand these programs to two years. Each ITC has been established with assistance from development partners.

There are no quality standards applied across institutions and no accreditation system for students to gauge the effectiveness of training. Upon completing coursework, graduates do not receive skills certificates that they can take to potential employers. Training institutions are supply driven, with little attention to the skills demanded by the labor market or the job placement of graduates. The recently established National Accreditation and Quality Assurance Committee (NAQAC) has started to develop quality assurance standards as required by the Myanmar National Education Law (2014–15), but its capacity needs to be strengthened if it is to fulfill its mandate that covers the whole education system. For quality assurance of the nonformal TVET sector, the National Skills Standard Authority (NSSA), authorized by the Employment and Skills Development Law, plays a central role. The NSSA was formed in 2007 and is headed by the Ministry of Labor.[25]

The quality of management in Myanmar's private sector is among the lowest in the world. Fewer than 4 percent of students age 15 to 19 are studying management. Enterprise Survey data reveal that the lack of skilled management personnel is a major constraint on the operations of private firms and development.

BOX 3.2: EFFECT OF SKILLS ON KEY SECTORS

Garments. Locally owned garment firms do not have the technical know-how or expertise to engage in free-on-board production. The skills shortage, from workers on the shop floor to middle and top management, is a major obstacle to growth. For example, most of the employees in the garment sector are untrained and unskilled young women from rural areas. The lack of management and human resources skills is a major problem for line leaders and supervisors. Managers and supervisors play a crucial role in determining productivity levels, worker relations, the potential for upgrading operations, and service performance. They determine the efficiency of the cutting room, sewing operations, quality control, finishing, packaging, and logistics. Locally owned factories are completely dependent on international buyers for sourcing inputs and developing designs. While some international buyers, including some Japanese firms, provide in-house training, it is not sufficient to significantly improve the technical know-how of local firms. In addition, locally owned firms cannot afford to hire foreign experts, who would facilitate knowledge and skills transfer, as the average salary of foreign experts is about three times higher than the average of domestic experts. As a result, upgrading of skills is limited among local firms, which impedes growth. Skills transfer is also constrained by a lack of knowledge about concepts like "productivity" among local middle and top management, the high turnover of the workforce, and language and communication difficulties.

Tourism. The diversity of tourism activities requires a range of knowledge, skills, and attributes from tourism workers and employees of tourism-related industries, professions, and government agencies. Myanmar's tourism workforce is under significant strain to provide services that meet international expectations. The lack of skilled workers in the tourism sector is one of the main barriers to improving service quality and competitiveness. The high demand for skilled workers underscores the need to further expand access to quality technical and vocational education and training (TVET) that is relevant to the needs of the tourism industry. The key barriers that prevent access to tourism TVET include high direct and indirect costs, lack of facilities, and inadequate academic preparedness that begins in primary school. Language, cultural factors, and disabilities further inhibit access, especially for the poor.

3.4 ACCESS TO LAND

Land issues continue to affect investment and finance.[26] Access to land is the third-biggest constraint to firm-level growth in Myanmar, according to employers surveyed in the Enterprise Survey. The country is facing complex land-governance problems, with recurrent ownership disputes, management difficulties, conflicting laws, and corruption. There is no unified land law, and a number of different pieces of legislation govern farm land, forest land, and property registration. Legislation and policies related to land are implemented by more than 20 public agencies in Myanmar, including the Department for Agricultural Land Management Statistics (DALMS), under the Ministry of Agriculture, Livestock, and Irrigation, which is in charge of deed registration and a variety of other land administration services, and the General Administration Department (GAD), under the Ministry of Home Affairs, which provides land leases for parcels of land in towns and villages. Finally, city development committees provide land services in Myanmar's three main cities instead of DALMS and GAD. The activities of the country's land-related government agencies are usually not coordinated well, and their records are not shared, exchanged, or harmonized.

Myanmar's land use is low, despite its being the second-largest country in Southeast Asia. Vietnam uses almost the same amount of land despite being only half the size of Myanmar. There is an additional 5.8 million hectares of land that is considered cultivable in Myanmar, representing a potential 40 percent increase in use. The Vacant, Fallow, and Virgin Land (VFV) Law of 2012, amended in 2018, is an important step toward clarifying land claims and reducing landlessness, but its implementation presents important social challenges. The total area of land currently estimated as VFV by the government of Myanmar is almost one-third of the total area of Myanmar and concerns the livelihoods of millions of people. This law legalized land concessions of "unused" land, which are often large grants given to investors or companies for commercial cultivation. The law also allows small-scale concessions to smallholder farmers, although these latter concessions are rare. Despite its potential, the VFV Law has not achieved its stated purpose of increasing productivity; cultivation of VFV land amounts to only 14.9 percent of the total land allocated under the law. Furthermore, large-scale land acquisitions that are more characteristic of this law's implementation have led to conflicts with local communities that use the land for nontraditional farming purposes. It also raises questions on the recognition of customary land rights through a land permit.

Myanmar's land administration system needs to be reformed, and authorities should focus on completing records and maps and improving land administration services. The country's land records are in poor condition, and people often choose not to register land transactions. The limited coverage of land records, along with a lack of updated records, compromises the goal of providing reliable land services and avoiding land disputes. Many maps must be updated, land use certificates contain many errors, and there are often inconsistencies between land records. A lack of awareness and knowledge among government staff, businesses, and civil-society professionals regarding land laws, policies, and regulations increases the chance of dispute and conflict over land.

While a national land use policy (NLUP) was endorsed in January 2016, it has not yet been fully implemented, and the reform process is unclear both for businesses and the public. To successfully implement the NLUP, Myanmar needs to develop a legal and regulatory framework that ensures a fair and inclusive land governance system that is piloted and tested before implementation. The policy includes the creation of a national land use council (NLUC) to coordinate drafting the national land law, but the council was established in January 2018 and has not yet generated a consensus around the country's land policies. The Land Acquisition, Resettlement, and Rehabilitation Law (Law No. 24/2019), adopted on August 19, 2019, repealed the 1894 Land Acquisition Act and constitutes an important milestone in Myanmar's efforts to create new land policies.[27]

An inclusive process is needed to ensure that land policies and rules are applied effectively. The stakeholder engagement process should include input from farmers' unions, civil-society organizations, communities that will be affected by land laws and policies, representatives of ethnic nationalities, women, and other vulnerable groups. Without a truly inclusive process, land governance decisions, particularly regarding the drafting of the national land law, will be questioned and challenged. Moreover, the NLUC requires the necessary human and financial resources to successfully implement the NLUP. NLUC membership should also be broadened to include civil-society and agricultural organizations, ethnic minority groups, and representatives from the private sector. The implementation of the NLUP should be guided by the principles of the sustainable use of land, transparency and accountability of land administration practices, citizen participation, the protection of property rights, and the promotion of international good practice.

3.5. ACCESS TO INFRASTRUCTURE

Transport Connectivity

Located on the ancient Silk Road, Myanmar holds a strategic location to facilitate trade, which is key to further unlocking its economic potential. It shares overland borders with China, India, Lao People's Democratic Republic, and Thailand, which together account for about US$15 trillion in GDP, or one-fifth of the world's total GDP. Myanmar is also located close to dynamic markets in Bangladesh, India, and East African countries. Developing strategic corridors will play a pivotal role in growing Myanmar's domestic and international trade. There are four major trade and transport arteries in Myanmar that appear critical to the country's development in the medium term and in unlocking latent trade (appendix A). But the challenge is not only to connect Myanmar to critical markets but also to connect the country's remote areas to trade corridors. While the Myanmar government has focused on linking industrial areas with foreign markets through trade, it will be important to make a coherent effort to connect local and remote areas with industrial agglomerations and nearby international markets. This will require a coherent approach to reduce hard and soft bottlenecks in logistics infrastructure, which has the potential to generate huge competitive gains.

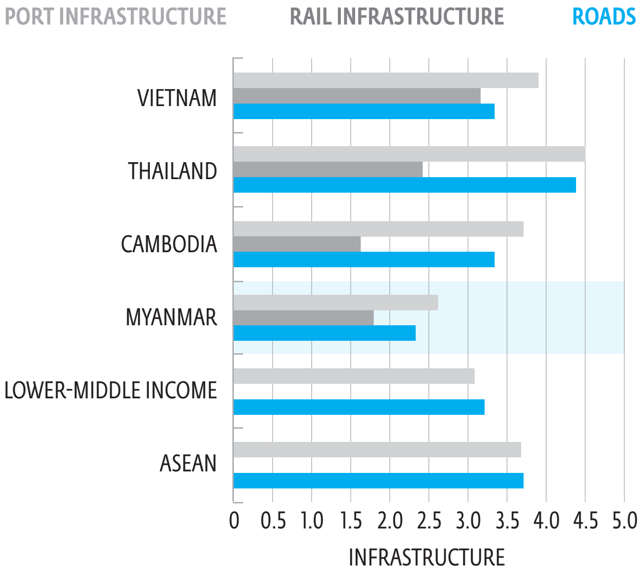
However, Myanmar's transport connectivity challenges are unique in the region in both scale and complexity (figure 3.7). More than 60 percent of the country's highways and railways, which connect main economic centers, are in poor condition, and about 40 percent of the population—and more than half of the rural population—lack access to all-season roads. Furthermore, of 69 airports, only 33 are operational and 3 are international (Yangon, Mandalay, and Nay Pyi Taw). Although Myanmar has nine functioning sea ports, the majority are river ports and unsuitable for larger vessels. The Port of Yangon is the largest and handles 85–95 percent of the country's maritime trade, although the port's capacity is constrained, and the low depth of the Yangon River limits large vessels from docking.[28]

The low quality of the country's transport infrastructure is a barrier to private sector growth and raises transport and logistics costs significantly, hampering Myanmar's trade and export competitiveness. Myanmar ranked 137th of 160 economies on the Logistics Performance Index in 2018, the lowest in the Association of Southeast Asian Nations (figure 3.8).[29] It scored below its regional comparators across all the indicators covered in the assessment: customs; infrastructure; international shipments; logistics competence; and tracking and timeliness. Myanmar's potential to act as a regional hub for goods in Asia is limited by the poor quality of its roads and ports and the lack of railways. For example, estimated total loading and port charges of Yangon port were US$145,000 per 20,000-ton vessel in 2014, compared with US$60,000 in Ho Chi Minh City (World Bank 2014b). Higher costs and delays in moving goods to markets put Myanmar's agribusiness products at a competitive disadvantage.

Additionally, 60 percent of the rail network caters to fewer than 1,000 passengers per day—partly because of unreliable, slow, and inefficient rail service and poor conditions of trains. Expenditures on road and rail maintenance are about two-to-three times below the level that is needed. Myanmar Railways operates its trains at 50 percent of their potential speed because of poor track conditions. Moreover, the main waterways are not operational for three months of the year because the water levels are too shallow. The country's road network is of low quality—only 20 percent of roads are paved, compared with 53 percent in Thailand. Myanmar needs to also enlarge its road network (for example, more trunk highways and rural roads) because it is three times less dense than that of Thailand (ADB 2016a).

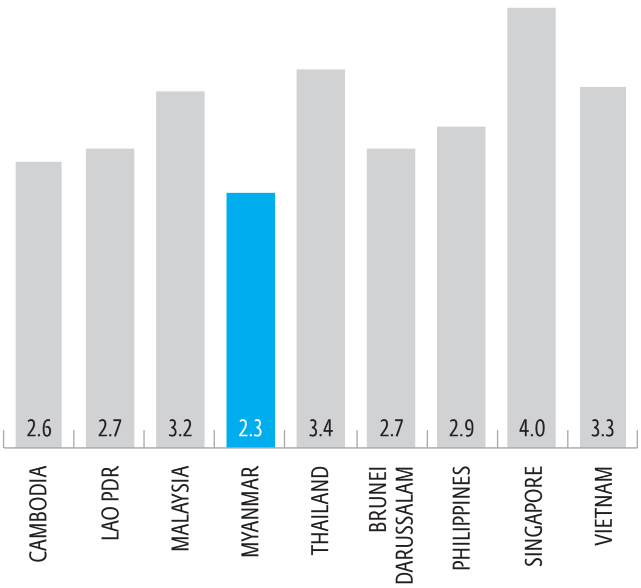
Public and private investment in the transport sector is estimated at about 1.0–1.5 percent of GDP, which is inadequate to address the country's transport infrastructure gap. Myanmar must invest US$48 billion until 2030 to address the needs in the transport sector, according to the country's 2014 National Transportation Development Plan (NTDP). The implementation of the NTDP has been slow, partly because of large financing needs. It is estimated that if the country increased spending on transport to 3–4 percent of GDP, in line with other countries at a similar stage of development, it could provide basic road access to 10 million more people and reduce long-distance transport costs by 30 percent over the next 15 years (ADB 2016b). Given the limited tax revenue Myanmar collects, along with the scale of the country's needs, private sector participation in infrastructure financing and management will be important.

FIGURE 3.7: QUALITY OF TRANSPORT INFRASTRUCTURE



Source: World Bank Logistics Performance Index 2018, https://lpi.worldbank.org/.
Note: ASEAN = Association of Southeast Asian Nations. Data on average railway infrastructure quality are not available for ASEAN and the lower-middle–income group.

FIGURE 3.8: LOGISTIC PERFORMANCE INDEX SCORE



Source: World Development Indicators
Note: LPI = Logistics Performance Index.

Energy

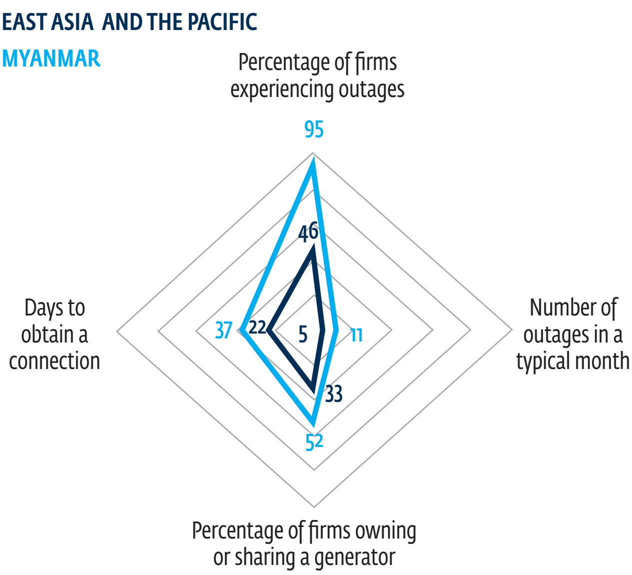
Lack of access to quality electricity is a major obstacle to doing business in Myanmar. Myanmar ranked 148th of 190 economies on the "getting electricity" indicator in World Bank's Doing Business 2020 report. Only 42 percent of the population has access to electricity. Improving the quality of the electricity supply is also an important challenge. Blackouts and brownouts are common, especially during the dry season. As a result of decades of underinvestment in infrastructure and inadequate policies, Myanmar now lags significantly behind its East Asia peers in all dimensions of electricity infrastructure (figure 3.9). The country's unreliable access to electricity ranks in the top three constraints to doing business for large and medium firms (box 3.3). The cost of an electricity connection (as a share of per capita income) is 1,067 percent (compared with almost 600 percent for East Asia and the Pacific).

Addressing the infrastructure and service-delivery gap will require substantial investments and improved performance from energy-sector entities. According to the World Bank Myanmar: Energy Infrastructure Sector Assessment (World Bank, forthcoming a), the country's peak demand is expected to reach 8.6 gigawatts by 2025 and 12.6 gigawatts by 2030—a substantial increase from the current level of 3.6 gigawatts. To meet the increased demand, investment requirements are estimated to be around US$2 billion per year. By 2025, the country needs new generation capacity of 5 gigawatts. To close the investment gap, the government of Myanmar is seeking private sector participation.

The performance of government departments and state economic enterprises (SEEs) in the power sector also needs to improve. Government departments and SEEs generally lack adequate capacity to identify, screen, appraise, and execute large infrastructure projects. Common issues include lack of upstream preparation and adequate project documentation, weak budgeting processes, lack of multiyear funding commitments, and ineffective and inefficient procurement systems. As a result, projects are often delayed and suffer cost overruns. Weak governance in energy SEEs and sector entities also limit efficiency improvements. Efforts to improve corporate governance go back to 2015, when two distribution companies were converted into corporations. However, progress has been limited in establishing the basic conditions for these companies or other SEEs to run on a commercial basis; for example, there is no independent board of directors or professional management, coupled with nonexistent performance monitoring exacerbated by nonavailability and transparency of information.

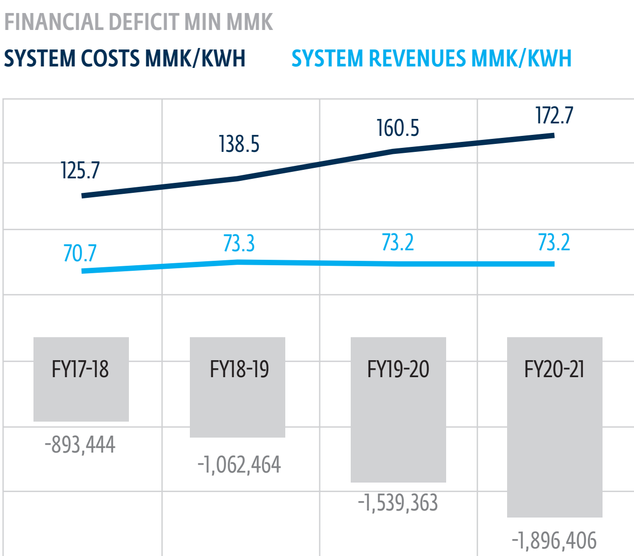
An overarching concern is the deterioration of the energy sector's financial position, which has become an unsustainable burden on public finances. According to data from the 2017–18 fiscal year (FY), electricity utilities' revenue must grow by more than 40 percent to cover the cost of service. The sector is already heavily supported by the central government budget and subsidies to cover the operational deficit, which reached around US$565 million in FY2017–18 (figure 3.10). There are additional public resources to finance the capital investments of SEEs. The electricity sector's operational deficit could reach an estimated US$1.2 billion by 2020–21 if measures to increase revenues and reduce costs are not implemented. The operational deficit is expected to grow because of an increase in expensive, gas-based generation; a continued depreciation of the kyat, which increases the cost of power purchases denominated in foreign currencies; and additional investment in infrastructure.

FIGURE 3.9: QUALITY OF ELECTRICITY INFRASTRUCTURE



Source: World Bank 2017a.

FIGURE 3.10: ELECTRICITY SECTOR'S PROJECTED FINANCIAL DEFICIT



Source: World Bank staff estimates.
Note: FY = fiscal year; K = kyat; kWh = kilowatt hour.

To generate revenue and close the sector's financial deficit, the government of Myanmar raised electricity prices for the first time in five years on July 1, 2019. The raise will lead to an estimated average tariff increase of 70 percent for end users. The largest increase will be for residential consumers with the highest levels of electricity consumption. By contrast, the poorest households will be the least affected, as tariffs will increase only slightly for the lowest consumption blocks. Despite the tariff increase, electricity will remain affordable for all residential consumers since electricity expenditures will remain below 5 percent of households' monthly expenditures. Firms' production costs are likely to increase by an average 2 percent. The impact will, however, vary across industries and depend on the elasticity of consumer demand to price changes, as well as the ability to substitute alternative products, including imported goods.

The new energy policy envisions a significant role for the private sector in meeting the country's fast-growing electricity demand and in improving efficiency in the energy sector. Myanmar has prepared the Energy Sector Master Plan and the National Electrification Plan, which aim to achieve universal access to electricity by 2030. The Power Sector Master Plan under preparation includes a strategic plan for the future energy mix in power generation[30] (box 3.4) and options to increase the role of the private sector in power generation and distribution.

Myanmar needs to increase the rate and effectiveness of both public and private investments in the energy sector. The report "Myanmar: Energy Infrastructure Sector Assessment" (World Bank, forthcoming b) identified the following key constraints on growth in the energy sector:

- **Constraints affecting the financial viability of the energy sector.** First, below-cost pricing of electricity has led to unsustainable subsidies, and authorities have responded by initiating the first tariff increase in five years. Second, the lack of monitoring of contingent liabilities limits the ability of the Myanmar government to properly assess and manage risks and unexpected costs from electricity purchase obligations under purchasing agreements. Finally, onerous fiscal terms and the absence of consensus on a more comprehensive reform of the fiscal regime and the petroleum revenue management system have stalled investments in upstream gas.

- **Constraints to improving the efficiency of public and private support and investments.** First, a lack of prioritization based on robust planning limits the efficiency of project selection. Second, a weak implementation capacity, coupled with inadequate and long procurement processes, often results in costs overruns and delays. Last, the lack of early identification and adequate mitigation of environmental and social risks, particularly for hydropower projects, has been a critical bottleneck for the country to realize its renewable energy potential.
- **Constraints to mobilizing greater private sector participation.** Key constraints include the absence of a clear public-private partnership (PPP) framework and processes for independent power producers and PPPs, including incentive schemes for renewable energy projects. In the gas industry, there are both economic and geological challenges to developing large integrated liquefied nitrogen gas projects. Moreover, regulatory and financing constraints slow down the scale-up of distributed generation applications, which are critical to provide basic services to households in rural and remote areas.

BOX 3.3: EFFECT OF ENERGY AND TRANSPORT CONSTRAINTS ON THE GARMENT AND TOURISM SECTORS

Garments. The garment sector requires a reliable, uninterrupted electricity supply. An unreliable supply would decrease machine life and worker productivity. Most factories have their own generators to mitigate blackouts, which occur more frequently during the summer. According to the reliability of supply and transparency of tariff index in the World Bank's Doing Business 2019, Myanmar's score is 1 out of 8 (with 8 being most reliable) compared with 2 for Lao People's Democratic Republic and 8 for Malaysia.

Tourism. The tourism sector suffers from limited air travel connections and a poor track record for domestic airline safety. Several domestic airports—including Heho, Nyaung U, and Thandwe—are overcrowded and congested, and some airport facilities, such as waiting rooms, arrival halls, toilets, and baggage handling halls, are in urgent need of repair. In addition, an underdeveloped road network, poor road maintenance, and limited domestic road and rail connections affect tourism activity, as road travel between destinations is time consuming, some areas are not accessible, and road quality is inadequate, restricting tourist opportunities. Power outages are also a major constraint. Because power outages are frequent in Myanmar, many hotels and restaurants use expensive generators as a backup. Moreover, access is limited to electricity in rural areas, which affects tourism development. Poor sewage infrastructure and inadequate solid waste management are also key constraints on growing the tourism sector. The gap between tourism-related infrastructure and tourism demand will continue to widen in Myanmar if investment spending is not significantly increased.

BOX 3.4: THE ROLE OF GAS IN MYANMAR'S ECONOMY

While the gas industry accounts for an important share of exports and public revenues in Myanmar, gas output is expected to decrease by 2020–21. Oil and gas exploration and development accounted for a quarter of the country's total foreign direct investment over the past decade. The industry grew with the help of export contracts with Thai and Chinese buyers, who consume 80 percent of Myanmar's gas output. The remaining 20 percent is supplied to the domestic market, mostly for power generation. Over the past few years, natural gas accounted for an average of 30 percent to 40 percent of merchandise exports and 15 percent to 20 percent of general government receipts. In 2018, production from existing fields reached 1,825 million cubic feet per day (mmcfd). Production is expected to fall to around 1.0 mmcfd by 2025 and 0.5 mmcfd by 2030, with a corresponding drop in exports and revenues.

There are opportunities to offset the expected production decline by developing new gas resources, but it will require an overhaul of the existing fiscal regime. Recent discoveries in new deep-offshore gas fields could increase recoverable reserves. Exploiting these new resources will require deepwater exploration and development, which is as much as three times as costly as extracting resources from existing offshore fields. Under these conditions, Myanmar's current fiscal regime is uncompetitive relative to peer countries and is unlikely to attract commercial interest in exploiting the new resources. To address this, Myanmar's government is reportedly negotiating new terms with gas-field development partners. While this is positive, it will be important to move from project-by-project negotiations to a more comprehensive and transparent redesign of the fiscal regime. The new regime should strike a balance between attracting investors and maximizing public revenues.

Digital Connectivity

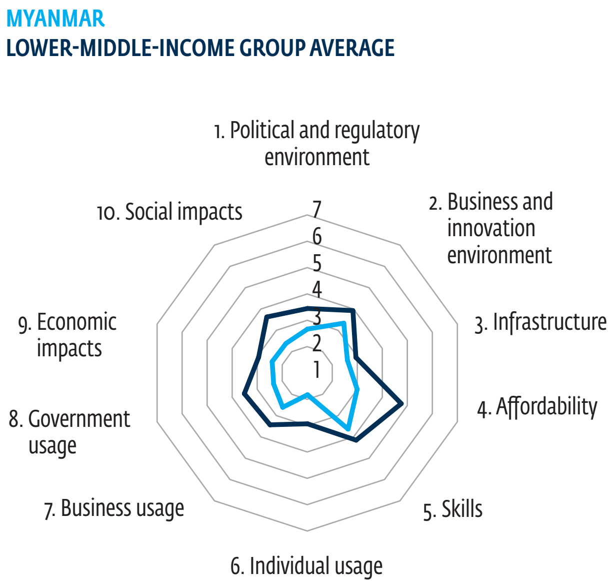
Myanmar can increase productivity by leveraging its growing digital infrastructure. The liberalization of the telecommunications sector since 2012 established the initial foundation for digital development. The country has had the world's fastest growing mobile subscription rate, with a compound annual growth rate of 67 percent in 2013–17. The smartphone penetration of the population increased rapidly from 10 percent in 2012 to 84 percent in June 2019, and was aided by new international telecommunications providers. Despite progress, Myanmar still lags peers in the use of information and communication technology for economic and social development. It ranked 133rd of 139 economies on the World Economic Forum's Networked Readiness Index in 2016 (figure 3.11). This severely limits the country's ability to leapfrog by digitally transforming its government, economy, and society. Myanmar should vigorously support the growth of its digital economy through enabling legislation and regulatory and policy changes. Authorities should also support efforts to increase digital literacy and skills development among the population, which will also help attract greater private sector investment and lead retail business to use domestic and international e-commerce platforms to advertise and sell their products.

The country has, however, one the lowest broadband penetration rates in Asia. Its mobile (active) broadband penetration rate is 39 percent: yet its fixed broadband penetration, which is especially important to increase digital connectivity, is a mere 8 percent and much lower than Indonesia and the Philippines (15 percent); Mongolia, Malaysia, Thailand, and Vietnam (around 38 percent); and China (80 percent). Myanmar's data center market is underdeveloped, lacking the necessary infrastructure.

Only a few small operators provide rack space, and they mainly provide such space for internal use. Data center companies, along with other telecommunications companies, are hampered by poor fiber network, transportation, and power infrastructure. Although there is infrastructure sharing in the telecommunications sector, it is mostly limited to telecommunication towers and needs to be extended to fiber infrastructure. Also, greater coordination is needed among infrastructure players.

FIGURE 3.11: MYANMAR RANKS 133RD OF 139 COUNTRIES ON 2016 NETWORKED READINESS INDEX

	Rank (out of 139)	Value (1–7)
Networked Readiness Index	**133**	**2.7**
Networked Readiness Index 2015 (out of 143)	139	2.5
Networked Readiness Index 2014 (out of 148)	146	2.3
Networked Readiness Index 2013 (out of 144)	n/a	n/a
A. Environment subindex.	**133**	**3.0**
1st pillar: Political and regulatory environment	134	2.7
2nd pillar: Business and innovation environment	127	3.3
B. Readiness subindex	**118**	**3.1**
3rd pillar: Infrastructure	115	2.6
4th pillar: Affordability	122	3.0
5th pillar: Skills	113	3.6
C. Usage subindex	**137**	**2.3**
6th pillar: Individual usage	131	1.8
7th pillar: Business usage	138	2.6
8th pillar: Government usage	137	2.3
D. Impact subindex	**135**	**2.4**
9th pillar: Economic impacts	129	2.4
10th pillar: Social impacts	135	2.4



Source: World Economic Forum, http://www3.weforum.org/docs/GITR2016/WEF_GITR_Myanmar_2016.pdf.

Service affordability, especially concerning broadband internet, is also an issue, as a large proportion of low-income consumers in larger towns and cities lack access. Telecommunications operators focus on mainly affluent areas in larger cities. Authorities are implementing the Universal Service Fund (USF) to deploy infrastructure through competitively tendered USF-financed deployment projects that target the most poorly served townships. The implementation of the USF is necessary, as Myanmar aims to provide voice and internet access to 99 percent of the population by 2022.

A new institutional framework is needed to increase digital connectivity. There is draft legislation to establish an independent regulatory entity—the Myanmar Communications Regulatory Commission (MCRC)—and separate the policy, regulatory, and operational functions of the Ministry of Transport and Communications (MoTC) to promote a level playing field. Once the law is approved by the Parliament, the MCRC will be the country's first independent infrastructure regulator. The Myanmar Posts and Telecommunications (MPT) and Mytel (majority owned by Vietnamese telecom company Viettel) control a substantial portion of the country's fiber network, restricting access by other operators. Also, their state-owned enterprise nature could potential pose concerns over conflict of interest for regulatory obligations, including license requirements and tariffs.

Public-Private Partnerships

Legal framework for PPPs is a major cross-cutting constraint to the development of PPPs in Myanmar. While the Myanmar government is seeking to develop a substantive role for PPPs as a means to finance and improve the quality of public infrastructure and public services, the county lacks a coherent vision for the use of PPPs. For example, there are no cross-cutting policies, laws, or regulations that clarify the selection and implementation of PPPs in public infrastructure projects. However, there is now a recently established dedicated PPP unit in charge of promoting, preparing, and implementing PPP projects. Some laws also mention the possibility of the government cooperating with the private sector (for example, Investment Law of 2016 and the State-Owned Enterprise Law of 1989). Moreover, Directive Presidential Directive No. 1 of 2013 on procurement sets out the basic rules for public tenders involving PPPs.

The Myanmar government is currently developing a policy that seeks to develop a consistent approach to the use of PPPs. The government lacks a systematic process for identifying projects suitable for PPPs. There is also no strategy for multiyear infrastructure investments with financing plans linked to the medium-term fiscal framework. At present, PPP projects are usually awarded to investors through a direct and nontransparent process. However, the creation of the Myanmar Project Bank, a prioritized investment program, intends to facilitate the creation of PPPs (box 3.5). The program was established in November 2018 through Presidential Notification 2/2018, which created the legal basis, processes, and institutions to prepare PPPs in Myanmar (Daniels, Concepcion, and Kendall 2018).[31] The successful implementation of the Project Bank and establishment of the PPP Center should not only create confidence among investors but also increase the capacity of the government to facilitate PPPs. The two initiatives should ensure a level playing field in the procurement of public infrastructure projects and improve risk sharing within the government. They should also allow the government to more effectively facilitate and coordinate the PPP life cycle process, including the screening, prioritizing, structuring, and managing of projects.

BOX 3.5: EFFORTS TO IMPROVE THE PRIORITIZATION OF INFRASTRUCTURE PROJECTS

A key objective under the Myanmar Sustainable Development Plan is to promote the participation of the private sector in national development. Within this context, the Myanmar government announced two initiatives on November 30, 2018: (a) the Project Bank and (b) the Private Public Partnership (PPP) Center. The successful implementation of these two initiatives should help the Myanmar government to more effectively prioritize and implement infrastructure projects that have the potential to attract private sector investment. A trial version of the online Project Bank was demonstrated at the Development Effectiveness Roundtable in December 2019. The intention is for the Project Bank process to apply to the preparation of the 2020–21 budget (budget year October 2020–September 2021).

Under the Presidential Notification, the government announced that a project bank has been established by the Ministry of Planning, Finance and Industry (MoPFI). The MoPFI will receive project submissions from various government agencies and screen and prioritize them on the basis of certain criteria, including financial viability, environmental and social risks, and socioeconomic effectiveness and sustainability. The goal is to more effectively and efficiently allocate limited government resources to priority projects.

The creation of the Project Bank represents one step by the Myanmar government to improve the public investment management framework, including for PPPs. The Project Bank aims to improve investment planning by identifying and screening infrastructure projects above K2 billion, or approximately US$1.3 million. It also aims to improve the capacity of the MoPFI to analyze and select infrastructure projects in coordination with responsible ministries, as well as to account for project liabilities across each implementing agency.

To improve its transparency and accessibility, the MoPFI is establishing an online database that will be accessible to investors and the public. The database will include projects' technical specifications and type of contracts, as well other essential details for investors to make informed decisions.

The Project Bank will likely include a range of projects across sectors and with diverse sources of funding and financing. For example, some projects will be publicly funded, whereas others may be financed through PPPs. The Project Bank will also include projects that involve transferring state economic enterprises, in part or in whole, to the private sector through equitization or PPP mechanisms. The Project Bank's first 30 projects were announced during the Myanmar Investment Forum in January 2019, 5 of which were power generation projects: a grid-connected solar project, a wind farm, two hydroelectric power plants, and a combined gas cycle power plant in Yangon, although their link to the preparation of the 2019–20 state budget is unclear.

The Myanmar government also established a PPP center in the MoPFI to strengthen the capacity of government departments to identify, develop, procure, implement, and monitor PPP projects. While the PPP Center will complement the work of the Project Bank, it will also be responsible for developing clear criteria for public involvement in PPP projects, such as government guarantees or viability gap funding. Any unsolicited proposal by a private party to a government agency with a value over K2 billion must be presented to and assessed by the PPP Center, except proposals for developing greenfield projects in the energy and mining sectors.

3.6. REGULATORY ENVIRONMENT FOR INVESTMENT

Regulations on Entry, Licensing, and Investment Permits

The Myanmar government strengthened the domestic and foreign investment regime with the enactment of the new Myanmar Investment Law (MIL) in October 2016 and the new Myanmar Companies Law (MCL) in December 2017, and it adopted an ambitious Myanmar Investment Promotion Plan (MIPP) in October 2018 (box 3.6).

These new MIL and Myanmar Investment Commission (MIC) laws promote a more business-friendly environment for both domestic and foreign investors. The MIPP sets a clear vision to promote and facilitate investment, with detailed investment targets and reform actions over 20 years. The MIPP identifies the main bottlenecks of investment as related to five categories—namely, (a) the investment-related policies and regulations (open investment policy, sound macroeconomic policies, and so forth); (b) institutional development for investment promotion (investor protection, clear rules of investment regulations and approval procedures, investment promotion activities, investor support, and so forth); (c) infrastructure development (special economic zones, and so forth); (d) business-related systems (business systems, financial sector development, and so forth), and (e) local industries and human resources (links and training).

BOX 3.6: OVERVIEW OF THE INVESTMENT REGIMES OF MYANMAR

The Myanmar Investment Law (MIL) 2016 establishes a new investment regime applicable to both domestic and foreign investors. First, it increased market access through simplified entry procedures and fewer sectoral restrictions. Second, the new regime improved investor protection by adopting stronger and more equitable guarantees against expropriation, and it clarified rights to transfer funds and use land. In addition, MIL instituted new channels to resolve early grievances through an investor assistance committee, and it provided provisions for dispute settlement through the court or an arbitral tribunal. Third, investment incentives were rationalized, from blanket tax exemptions linked to admission to selected incentives for promoted sectors or regions. Last, the new regime aims to create a more transparent and predictable approach to regulate investments by reducing complexity and establishing clearer rules to reduce government discretion in the project approval process.

The Myanmar Company Law (MCL) 2017 aims to facilitate higher levels of domestic and foreign investment in Myanmar. The law included the following key changes: (a) foreign investors can own up to 35 percent of a domestic company before it is considered a foreign company; (b) foreign companies do not need a separate permit to trade; (c) foreign companies will no longer be required to obtain prior approval from the regulator to purchase shares from or exchange shares with other firms; (d) companies are required to have a clear legal framework that details their powers and duties, including limitations on authority and voting rights, to balance the interest of the company with that of shareholders; (e) the rights of minority shareholders were strengthened; and (f) companies are allowed to seek additional financing and explore voting rights and dividend entitlements by issuing different classes of shares. The law also provides for a simplified registration and filing system for small companies.

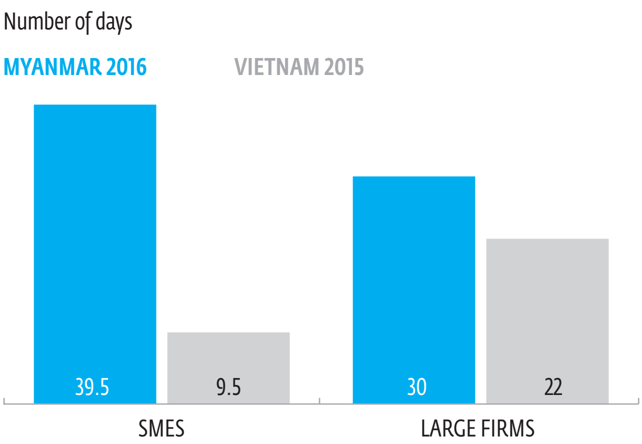
Investors can take advantage of the additional tax exemptions offered under the Special Economic Zone (SEZ) Law 2014 compared with investments under the MIL and the national regime. For investors in SEZs, exemption of corporate income tax applies for the first seven and five years, respectively. After these periods, the exemption remains at 50 percent for another five years, and a further extension may still be applied for. Investors in the SEZ are also exempted from customs duties and other taxes for the capital goods they import, with investors in the SEZs also being exempted from customs duties and commercial tax or value added tax for the imports of raw materials. Investors can lease the land for up to 75 years (50 years with an option for a 25-year extension) and can benefit from tax deductions for the training of staff, research and development, and exemptions from commercial taxes as well. In addition to these tax exemptions, investors can benefit from a favorable dedicated investment climate. For example, the Thilawa SEZ Management Committee has developed the One-Stop Service Center dedicated to its investors, to ensure a predictable and friendly investment climate for investors. In return for these advantages, investors have to comply with minimum investment requirements, training obligations, and limits on domestic sales and employment of foreign employees.

Source: World Bank 2018b.

However, the impact of Myanmar's renovated legal framework and the MIPP ambitious approach will largely depend on the effectiveness of implementation. For example, while the delegation of the MIC's authority to states and regions is meant to reduce entry costs, its effectiveness will require more staff at Directorate of Investment and Company Administration's (DICA) regional offices and regional investment committees. Recent legal reforms and adoption of the MIPP in 2018 constitute a commendable effort to increase transparency and simplify procedures, but the objective of applying well-designed, integrated, and simplified procedures remains to be implemented. The public administration often maintains its relatively large discretionary power, and it continues to impose various documentation requirements, processing time frames, and manual processes, which can be challenging and time consuming for investors. In practice, approved investments often suffer from implementation challenges because of inefficient decision making or different interpretations of sectoral regulations.

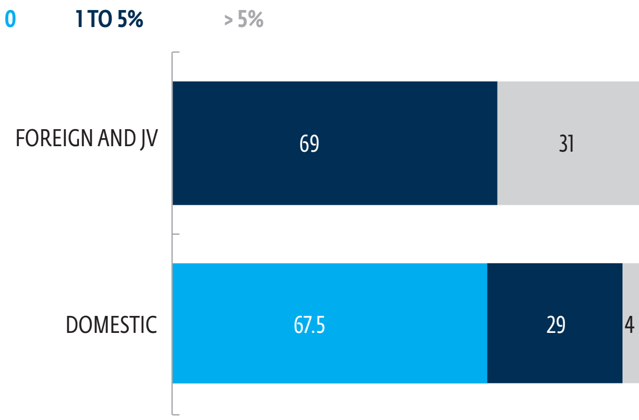
Firms in the private sector are burdened by the plethora of different license requirements. Enterprise Survey data revealed that it takes more days for firms in Myanmar—an average of 39 days for SMEs—to obtain operating licenses than for firms in Vietnam—fewer than 10 days for SMEs—(figure 3.12). Managers of foreign and joint-venture firms also spend more time in Myanmar than in Vietnam dealing with a range of procedures that affect their investment operations (figure 3.13). Delays in obtaining licenses can be costly to entrepreneurs because they increase uncertainty and raise costs. Therefore, the Myanmar government needs to simplify the process for obtaining business licenses and to improve investment facilitation (box 3.7).

FIGURE 3.12: AVERAGE NUMBER OF DAYS TO OBTAIN AN OPERATING LICENSE



Source: World Bank 2017a.
Note: SMEs = small and medium enterprises.

FIGURE 3.13: PERCENTAGE OF TIME SPENT BY SENIOR MANAGEMENT DEALING WITH REGULATIONS IN MYANMAR



Source: World Bank 2017a.
Note: JV = joint venture.

The process for business registration and postinvestment approval remains a major bottleneck for private sector growth. Investors need to secure various licenses from both local governments and line ministries before being able to operate a business. While investments in SEZs can benefit from a one-stop service center, companies regulated by the MIL or the MCL can obtain the required licenses and permits only after approval by the MIC (or regional or state investment commissions) or registration with DICA. Different line ministries have separate processes, and requirements for investors are often unclear. An IFC assessment[32] concluded that Myanmar's industrial licenses are largely a formality and do not serve a clear purpose for the public interest, whereas certifications for agricultural inputs and operating licenses for hotels or warehouses are complex and nontransparent endeavors. Efforts to coordinate and simplify the process for registering a company are hampered by the lack of connection between various registration databases, either through a unique business identifier or a coordination tool. If there were such an identifier or tool, it could cover companies registered with DICA or tax and customs authorities, as well as enterprises licensed by line ministries and sole proprietorships with only local licenses.

Local and municipal licenses lack transparency and are used mainly as a source of revenue rather than to ensure the proper use of commercial premises. Almost all firms need to obtain a business license from municipalities or townships. These licenses are granted for one year and exist mostly for tax purposes. Recent interviews and assessments revealed that they may lead enterprises and investors to make unofficial payments. Local and municipal licenses are handled by the regional branches of municipal governments' Development Affairs Office (DAO). In general, the DAO issues construction permits, processes land transfers, and conducts site inspections. It also issues operating licenses for hotels, restaurants, and retail businesses.

BOX 3.7: IMPACT OF REGULATIONS ON KEY SECTORS

Agriculture and Agribusiness. According to the World Bank's Enabling the Business of Agriculture 2017, Myanmar ranked satisfactorily relative to peers in the use of information and communication technologies (ICT), seed, and fertilizer (though a recent fertilizer diagnostic by the IFC highlighted a few quality issues) in the agriculture sector. However, the country ranked last in both water and machinery usage (only an estimated 20 percent of land is farmed using machinery) and second to last in finance. It also ranked well-below peers in the transport and markets indicators. Finally, Myanmar ranks poorly among peers in agricultural research and development, with US$0.06 of every US$100 in agricultural output spent on agricultural research, compared with an average of US$0.41/US$100 for its Asian neighbors. As a reflection of the country's poor business-enabling environment, Myanmar suffers from low levels of foreign direct investment (FDI): a mere $407 million worth of investments in agriculture, livestock, and fishery was approved and realized between 1988 and 2015, representing less than 1 percent of total investments.

Garments. Myanmar's garment manufacturers have expressed that they need customs duty exemptions on imported fabrics and accessories to help them upgrade their cut-make-pack (CMP) operations to original equipment manufacturing (OEM)/free-on-board (FOB) production. Although used for exports, imported fabrics under the OEM/FOB system are currently subject to a 5 percent duty, compared with being duty free under the CMP system.

Tourism. Efforts to develop Myanmar's tourism sector face various binding constraints, including unclear rules and regulations on hotel construction permits, inconsistent rules on the provision of transportation services, lack of coordination among government agencies, and vague and seemingly bias business licensing and permitting practices. For example, the requirement of a minimum number of rooms for licensed accommodation for foreigners limits the involvement of local entrepreneurs. Moreover, the inconsistent and complicated rules on hotel construction permits, along with the overly cumbersome process for tourist vehicle licensing, increases the time and costs incurred by private entrepreneurs. In addition, the current law only allows foreign investors to own hotels rated three or more stars, and ecotourism and other specialized tourism activities may require a special permit. Unclear policies and a convoluted decision-making process for permitting visitors (other than from Thailand) to enter Myanmar via the Htee Khee border crossing also create bottlenecks for organizing trips for foreign tourists.

Improvement in Export Policy Needs to Translate into Efficient Trade Facilitation

Following liberalization reforms, Myanmar levies tariffs with a comparable or lower rate than that of regional peers. The country's longstanding fixed exchange rate system with multiple rates and cumbersome import licenses was an impediment to trade before 2011. After the Myanmar government's liberalization reforms, many of the country's barriers to trade have been considerably reduced. In 2015, the effectively applied weighted average tariff was 4.6 percent in Myanmar, higher than in Thailand (3.5 percent), Malaysia (4.02 percent), and the Philippines (3.4 percent), but much lower than in Bangladesh (10.7 percent) and India (6.4 percent). Myanmar's imports from countries in ASEAN and other trading partners enjoy a preferential tariff rate. The average applied most-favored-nation tariff rate was 5.24 percent in 2015 and consisted of 15 bands, ranging from 0 to 40 percent.[33] Because the large number of bands makes it cumbersome to apply tariffs in Myanmar, there is scope to simplify the country's tariff structure.

The country also imposes nontariff measures on international trade. The Myanmar government imposes several nontariff measures on importers: (a) about 4,405 tariff items require an import license, although the government is currently easing the requirement of an import license as a precondition for importing goods;[34] (b) normally only Myanmar businesses are allowed to import; (c) there are restrictions on the import of live animals as well as bird and foodstuff that could be harmful for human consumption (for example, palm oil and dairy products); and (d) government procurement procedures are cumbersome.

Licenses are also used to control the export of certain products, including those that have an impact on the environment or the health and safety of the population. Myanmar keeps a negative list of products that require an export license from the Ministry of Commerce (MoC). Before February 2018 (when the Myanmar government eased export licensing requirements for some products), about 71 percent of export products required an export license. Out of the country's tariff-product schedule of 11,146 items, 3,345 items still need a license for export (about 57 percent of export products). The shortened negative list for export licenses should have a positive effect on the time and cost of exporting goods, in particular for agricultural and processed food products, footwear, and garments (World Bank 2018b). Nevertheless, authorities should consider strengthening sector-specific regulations to address health, safety, and environmental concerns.

Myanmar is benefiting from the preferential treatment to markets in the European Union (EU), although concerns over the erosion of freedoms and human rights are putting the agreement at risk. As part of its ASEAN membership, Myanmar participates in ASEAN's preferential agreements with several countries, including Australia, China, India, Japan, New Zealand, and the Republic of Korea. It has also signed five border trade agreements, with Bangladesh, China, India, Lao PDR, and Thailand. As a least-developed country, Myanmar is a beneficiary of the Generalized System of Trade Preferences (GSP) with Australia, Japan, New Zealand, and Switzerland, as well as the EU. However, the EU is considering repealing the GSP with Myanmar, which grants duty and tariff-free access to all nonmilitary exports from Myanmar because of ethnic tensions in Rakhine State.

Myanmar's performance in trade facilitation still lags that of other countries. Myanmar ranked 168th of 190 countries on the trading across border indicator in World Bank's Doing Business 2020 report. The country's traders spend a considerable amount of time processing documents (for example, permits and certificates) from various departments before goods can be cleared by customs for export or import. Myanmar underperforms both Cambodia (ranked 118th) and Vietnam (ranked 104th). For example, it takes an average of 142 hours for an exporter to comply with border requirements in Myanmar, significantly more than an average of 57.5 hours in the East Asia and the Pacific region. Similarly, documentary compliance requires an average of 144 hours in Myanmar, compared with an average of 55.6 hours for East Asia and the Pacific countries. For export costs, border compliance costs exporters an average of US$432 in Myanmar, more than an average of US$381.1 in the region, and documentary compliance costs an average of US$140 in Myanmar, compared with an average of US$109.40 for East Asia and the Pacific countries.[35] The Myanmar government should consider a coordinated effort to review business processes in key government agencies (for example, the MoPFI, the MoC, and the Ministry of Industry) to reduce the amount of paperwork, delegate decisions, allow full online payments, and introduce registration systems for traders based on their compliance record.

The Myanmar government remains committed to modernizing customs procedure to further reduce trade costs and attract export-oriented investments. The Organisation for Economic Co-operation and Development estimates that aligning customs and trade facilitation procedures with the World Trade Organization's Trade Facilitation Agreement can reduce trade costs by up to 19.8 percent in Myanmar (OECD 2019). This can be achieved by introducing the automated-customs declaration system (MACSS) to other border posts, developing a single-window platform to process trade-related documents, and simplifying the process for inspection and issuing permits. The private sector would also benefit from greater access to private bonded warehouses and inland facilities for custom clearance (that is, dry ports). Given rising concerns over the trade of illegal and illicit products, the Myanmar government should consider strengthening the capacity of the Myanmar Customs Department, along with other relevant agencies such as the Food and Drug Administration, to enforce regulations and undertake targeted inspections based on risks.

4. POLICY RECOMMENDATIONS

This section proposes policy measures that can be implemented in the short-to-medium term. Many of these recommendations are already envisioned in sector strategies and identified in the Myanmar Sustainable Development Plan (MSDP) and the Myanmar Investment Promotion Plan (MIPP) and other sectors strategies. A key challenge will be to efficiently coordinate the implementation of reforms and the work of stakeholders to support the creation of new markets. For example, ministries need to develop their strategic functions and improve their capacity, autonomous agencies need to regulate and enforce best standards, private companies should be able to compete on a level playing field, and stakeholders need to ensure the sustainability of reforms. Whereas creating an efficient implementation framework can be complex and time consuming, it can have a long-lasting effect on private sector investment growth. The following sections provide a rationale for the proposed actions and initiatives to be implemented. In table ES.1: Summary of Reform Measures found in the Executive Summary, these actions have been split between short-term (less than two years) and medium-term (two to five years) actions.

4.1. TACKLE CROSS-CUTTING CONSTRAINTS IN CRITICAL ENABLING SECTORS

To unleash the full potential of the private sector in Myanmar, Myanmar's government needs to deepen reforms aimed at overcoming key binding constraints on firms' growth. These constraints include inadequate access to finance, skilled labor, land, and infrastructure, as well as complex and restrictive regulations that prevent private firms from thriving and integrating into global value chains. While the government is actively engaged on multiple fronts to progress these reforms, the coordination challenge remains acute. Although several interministerial committees and commissions have been set up to monitor these reforms, their implementation remains constrained by the relative weakness of implementers, which lack budget and technical capability. In many instances, these reforms would benefit from the adoption of innovative solutions to ensure the quality of the public-private dialogue when preparing the reforms and the adequate adaptation of the most relevant international practices though a process of benchmarking.

Access to finance. To increase access to finance, the Myanmar government should implement the following priority measures:

- **Modernize the secured transaction framework and establish an electronic registry for moveable business collateral.** Business lending in Myanmar depends almost entirely on real estate collateral, which limits access to finance for small and medium enterprises (SMEs). Therefore, allowing the use of moveable assets as collateral would facilitate access to finance. The emerging Myanmar Credit Bureau and a new register of moveable asset pledges would also increase transparency and make it easier for banks to appraise the creditworthiness of potential borrowers.[36]
- **Introduce tier-based regulation for nonbank financial institutions (NBFIs) and micro finance institutions (MFIs).** The NBFI and MFI landscape is diverse in capital, size, ownership, and jurisdiction, and blanket regulations have been prescribed for all types of operators, regardless of their size or nature. Tier-based regulation is key to effectively supervise and regulate NBFIs and MFIs and harness their potential to mobilize savings.
- **Continue a sequenced deregulation of interest rates.** Interest rates have remained constant since 2012, as they have been capped for lending and deposits, and the bank deposit-lending spread (5 percent) is low by international standards. In February 2019, the Central Bank of Myanmar (CBM) allowed commercial banks to extend noncommercial loans at a maximum interest rate of 16 percent, higher than the 13 percent regulated rate for collateralized lending. Continuing reforms to allow progressively pricing for risk and to keep deposit rates in line with alternative returns would increase the demand for and supply of funds.
- **Facilitate the financing of small and medium enterprises (SMEs).** In particular, (a) help banks and NBFIs develop financial products and services that target small and agricultural businesses and (b) provide access to training, networking, and knowledge-sharing, and disseminate market information to help SMEs design bankable projects, and (c) promote the use of e-commerce and provide support to upgrade bank interoperability and e-payment services.
- **Update and enforce corporate auditing and accounting standards to increase transparency and improve bankability.** This would help banks evaluate the financial situation of new borrowers and their capacity to repay loans, increasing access to finance.

Access to skilled labor. To increase access to skilled labor, Myanmar should implement the following priority measures:

- **Develop an employer-driven skills strategy to supplement the National Education Strategy Policy (World Bank 2018a).** Current technical and vocational education and training (TVET) courses in Myanmar are supply driven, and there is a lack of input from employers. The employer-driven strategy should go beyond existing strategies in three primary ways: (a) by identifying the skills profile that enterprises need; (b) by identifying the most appropriate ways to teach those skills and estimate resources needed to deliver them; and (c) by participating in international assessment tests to benchmark the country's students and workers.

- **Increase the number of available short-term TVET courses to enable workers to acquire the skills that are in great demand both nationally and internationally (World Bank 2018a).** The courses should be provided by the private sector, and the public sector should provide financing, regulation, and vouchers for vulnerable students or priority industries. At the upper end of the skills range, Myanmar needs to grow its management cadre. The fastest and most efficient way to do this is through in-firm coaching by management specialists.
- **Improve the capacity to design and enforce quality standards and accreditation systems.** While the recently established National Accreditation and Quality Assurance Committee (NAQAC) has started to develop quality assurance standards as required by the Myanmar National Education Law (2014–15), its capacity needs to be strengthened if it is to fulfill its mandate to cover the entire education system.

Access to land. To increase access to land, Myanmar should implement the following priority measures:

- **Allow for the consolidation of land for agricultural use and clearly define effective procedures for the conversion of fallow and agricultural land into industrial use.** This will improve access to land for manufacturing activities. The Farmland Law (2012) and Vacant, Virgin, and Fallow Lands Management Law (2012) allow for the distribution of land to the landless, and they make it possible to grant large concessions to investors while providing farms with avenues to contest land confiscation. Both laws, however, have yet to be fully implemented, and dispute resolution remains an issue.
- **Establish an open, multistakeholder process to support the implementation of the national land use policy (NLUP).** The national land use council (NLUC) needs the necessary human and financial resources to implement the NLUP, and it should adopt an open, consultative process. Moreover, NLUC membership should be broadened to include civil society, agricultural organizations, ethnic minority groups, and the private sector.
- **Establish model land offices to make land administration services more effective and efficient.** An initial group of township offices of the Department for Agricultural Land Management Statistics (DALMS) should be established and operated as model land offices, with a focus on delivering good-quality land administration services to DALMS's clients.
- **Digitize paper records.** A large initial investment will be required in each township to digitize all paper records and new land surveys, update maps and registers, establish a suitable building and record storage facility, and create a service-oriented office.
- **Develop a comprehensive national land law.** In the long term, a comprehensive land law should be planned and drafted through an open and multistakeholder consultative process. The law could follow NLUP directives and provide a broad framework to ensure land tenure security for smallholder farmers, land access for marginalized farmers and landless families, customary land rights of ethnic nationalities, and the protection of women's land rights.

Simplify complex and restrictive procedures. To overcome cumbersome regulations, Myanmar should implement the following priority measures:

- **Improve interagency coordination and designate a regulatory reform champion.** To effectively implement a cross-cutting, government-wide reform agenda to improve the business environment, authorities need to create a coordination mechanism to ensure that all agencies work toward the same goal. There should also be a designated reform champion with political leverage to ensure reforms are properly implemented. Moreover, a successful simplification strategy will require extensive consultation and engagement with the private sector.
- **Simplify government-to-business interactions.** Wherever possible, one-stop services should be provided for the exchange of information between government agencies rather than asking businesses to visit different offices. Compliance inspections should also adopt a risk-based approach. Some priority measures include (a) introduction of a unique business identifier, (b) creation of one-stop shops and revision of fees for business registration, and (c) implementation of a national single-window platform for trade.
- **Create a framework for electronic government services.** There is still no legal framework governing electronic transactions in Myanmar. Most interactions between businesses and Myanmar's government are through the exchange of papers. Areas that could potentially adopt e-services include business registration, online construction permit applications, property documents, and filing and paying taxes.

Improve trade and customs facilitation.

- **Improve customs clearance and procedures by aligning them with the World Trade Organization Trade Facilitation Agreement.**
- **Develop a single-window platform across concerned departments for trade facilitation.** This will provide businesses with one platform for accessing trade-related documents and customs declaration forms. It will also strengthen coordination across relevant departments, including the Customs Department, the Ministry of Commerce (MoC), the Ministry of Agriculture, and the Food and Drug Administration.

4.2. ESTABLISH A NEW GOVERNANCE FRAMEWORK FOR INFRASTRUCTURE DEVELOPMENT

The fundamentals underpinning Myanmar's infrastructure development model are changing, and this will pose substantial challenges to close the infrastructure gap. As discussed previously, the infrastructure development model relied in increasing financing and government implementation through ministries or state economic enterprises (SEEs) to implement infrastructure projects. However, the government's ability to further increase expenditures without exacerbating fiscal risks is limited. Moving forward, Myanmar will have to substantially increase the amounts of investment into infrastructure, but it also must execute projects more efficiently to achieve its objectives. Stepping up support for infrastructure investments will require attracting more private sector investment, which can be achieved by adapting the existing institutional and partnership model. To do so, the government should implement a sustained and concerted policy effort based on the following:

Define a new governance model based on public-private partnerships (PPPs), autonomous regulations, and SEEs.[37]

- **Build the capacity of the PPP Unit established in accordance with the Presidential Notification in 2018** to coordinate the prioritization of projects and support line ministries in project procurement. In most countries, PPP units need to demonstrate a high level of technical capacity to ensure their legitimacy compared with line ministries and technical departments.
- **Finalize the PPP policy currently under preparation to establish a consistent approach to private sector participation in public infrastructure projects.** This policy should clarify the process around project identification, unsolicited proposals, development, procurement, and management, as well as the roles and responsibilities for government bodies at each stage of the process. It should also provide rules regarding the selection of PPPs' financial structure and the duration of private sector engagement in infrastructure projects and should develop clear criteria for government support to PPP projects, such as government guarantees or viability gap funding.
- **Implement the strategic corporatization and unbundling of key infrastructure SEEs and government departments.** To avoid conflict of interest and establish a market approach in key sectors, authorities will need to assess the current institutional set-up in key sectors and define a model relationship between ministries or departments and technical SEEs.

Improving transport connectivity

- **Update the Road and Inland Water Transport Law.** The law was designed for a controlled economy, and its revision should ensure a level playing field for private transport operators.
- **Create an open, fair, transparent, and competitive public procurement process.** It should be based on good international practices and sound processes, offer transparent awards, and include independent auditors to mitigate risk.
- **Ensure that transport policies and investment decisions consider objective economic and social returns.** This could be accomplished through a law that mandates a preparation process for investment projects (for example, a review of economic feasibility by a common committee) before they can be included in the medium-term transport investment program.
- **Convert key departments to corporations.** Myanmar Railways, the Inland Water Transport under the Ministry of Transport and Communications (MoTC), and construction units under the Ministry of Construction should all be converted to corporations to increase their efficiency and improve their financial position.
- **Unbundle the policy, regulatory, and delivery functions of the MoTC.** This would clarify roles and responsibilities, strengthen capacity, and help prevent inefficient and fragmented investments.

Improving energy supply

- **Continue to implement tariff reform and increase tariffs to cost-recovery levels while ensuring that low-income households are protected.** This will ensure that investments, both public and private, are made to support the country's electrification goals.
- **Implement institutional reform.** The Electricity Power Generation Enterprise and Electricity Supply Enterprise are still under the tight control of the Ministry of Electricity and Energy, which determines their duties, powers, governance, and financial arrangements. This institutional arrangement severely constrains the commercial decisions of these two SEEs. Therefore, the government should consider their corporatization or privatization.
- **Approve a least-cost power development plan.** Also, announce a priority list of projects to be developed over the next five to seven years.
- **Support the development of renewable energy.** Do so by using the adequate identification and management of environmental and social risks.
- **Implement a competitive and transparent tendering process for energy projects.** In addition, adopt a standard format for power purchase agreements, including information on coverage for nonpayment, foreign exchange risks, and so on.

Improving digital connectivity

- **Privatize parts of the telecommunications network.** The Ministry of Posts and Telecommunications (MPT) corporatization bill has been approved by the cabinet and is likely to be approved by Parliament.
- **Establish the Myanmar Communications Regulatory Commission.** This independent regulatory entity should be created in accordance with the Telecom Law, which was adopted in 2013.
- **Develop policies and regulations on infrastructure sharing and connectivity.** This could include right-of-way regulations or land acquisitions and conversions.
- **Adopt pending implementing regulations on intellectual property rights and laws for privacy, right to information, and cybercrime.**

4.3. FOSTER A RESPONSIBLE AND GLOBALLY INTEGRATED BUSINESS SECTOR

Foreign direct investment (FDI) and integration of domestic firms into the global value chains can act as an important driver in upgrading the workforce and firms. It creates demand for new products and skills, provides new know-how, and guides the development of new productive capacities. Hence, it may contribute to diversification into new sectors and activities and improve domestic value addition. However, supply chain links do not happen automatically, and it is important to capture FDI spillovers by enhancing the absorptive capacity of domestic firms as well as to continue deepening the country's investment climate and institutional environment.

Enhance market contestability and a responsible private sector.

- **Design and adopt a framework for SEE reform and phase in its application starting with selected sectors such as industry.** This framework should set out the objectives, the legal and regulatory framework, performance monitoring, and the procedures for corporatization or privatization. The shareholding function of the state should be streamlined and supported by clear reporting and monitoring processes, with a view to manage efficiently a portfolio of investments in sectors deemed strategic.
- **Facilitate selected foreign investment transactions in sectors where attracting knowledge and capacity could have a major effect (industrial sector, banking sector, insurance sector, PPPs in infrastructure).** The recent opening of sectors to foreign investment, in particular the financial and insurance sectors, provides the opportunity to develop some joint ventures with international strategic partners, paving the way for a smooth adoption of international standards.
- **Reduce the negative list of products that require an export license from the MoC.** There are still 3,345 product items that require a license to export. Shortening this list even further would reduce the time and cost of exporting goods from Myanmar, which could help boost the country's exports, including agricultural and agribusiness products as well as footwear and garments.
- **Restructure and privatize progressively the SEEs having the potential to compete as for-profit corporations in a transparent and competitive environment.** Ministries in charge would likely need to restructure SEEs beforehand and undertake a wide approach to ensure an adequate treatment of SEE workers and associated pension liabilities.
- **Enhance the capacity of the Myanmar Competition Commission (MCC) established in 2018.** This commission is still in its infancy and will likely take time before it fully functions; in the short term, it could focus on building its capacity to produce reports and analyses that would help build its legitimacy and advocacy function.
- **Enforce transparent and competitive tendering processes**, notably through phasing out the use of unsolicited proposals and direct negotiations.

Attract foreign investment with the potential to upgrade domestic standards and support spillover effects.

- **Reduce the number of remaining restrictions to foreign investment in manufacturing and services.** Although these restrictions have been reduced, foreign investors still need to rely on joint ventures with local partners for a number of sectors (food and beverage, finance, insurance, and so forth) with unclear purpose.
- **Continue strengthening the capacity of the Directorate of Investment and Company Administration (DICA) and its branch offices to support and monitor investments (after care and an investor grievance mechanism).** DICA has succeeded at establishing itself as a well-functioning department. Under its new Ministry of Investment and Foreign Economic Relations, DICA benefits from relative autonomy and constant increases in its budget. Following adoption of the Foreign Investment Law of 2017, DICA will need to ensure that it has the capacity to act as the technical body in charge of facilitating investment approval and implementation at the local level.

- **Assess the cost-benefit of incentives for special economic zones (SEZs) with a view to better target exemptions and reduce distortions between the SEZ regime and ordinary investment regime.** International experience tends to demonstrate that strategic location, good infrastructure, and access to cheap labor and skills are key elements that attract foreign investors. Conversely, specific tax exemptions can, in the long run, create distortions between firms inside the zones versus those outside; these distortions do not favor spillover and the integration of domestic firms in value chains and become difficult to entangle as time passes.

Support medium-size firms' integration into global value chains.

- **Establish a domestic suppliers' database, to encourage links with international firms in sectors with strong spillover effects.** Such a database could constitute a first step toward connecting domestic firms with international firms that may be interested in purchasing local supplies and services.
- **Upgrade the quality of business development services available inside the country and provide SMEs with access to quality business advisory and technical services to reach international standards.** Domestic SMEs often complain of the difficulty of acquiring quality business advisory and technical services, in particular for identifying and complying with recognized international standards.
- **Upgrade the governance and planning framework applicable to industrial zones, with attention to strategic location and social and environmental standards.** Industrial zones have proliferated across Myanmar with little strategic vision and planning; only a few of them are active. Using a review of international and local experience, Myanmar should adopt a strategic approach that would rationalize their use, develop the needed infrastructure, and ensure that social and environmental risks are well addressed.
- **• Clarify the status and institutional functions of key agencies and organizations for business registration and private sector development.** By definition, private sector development is a wide mandate that cuts across several ministries and sectors. Considering the limited capacity of government and the need to ensure complementarity, in particular where value chains cover the mandate of several ministries (for example, agriculture and agribusiness), it is important that existing agencies such as DICA, the SEZ management, the Ministry of Commerce, the SME agency, and the Chamber of Commerce and Industries improve coordination at operational levels and develop support tools and approaches that are well integrated for better registering, supporting and promoting businesses.

APPENDIX

APPENDIX A: MYANMAR'S MAIN TRADE CORRIDORS

FIGURE A.1: MYANMAR'S MAJOR TRADE CORRIDORS

All of Myanmar's main corridors need massive investments to upgrade capacity if the country is to keep up with predicted traffic increases. Failing to invest now could hold back development, not just of trade but also of manufacturing, while keeping important segments of the population out of reach of market opportunities. Through a 2016 trade integration diagnostic, the World Bank has identified four major trade and transport arteries that appear critical to Myanmar's medium-term development and to unlock latent trade (World Bank 2016b):

- **The Yangon-Mandalay corridor is critical to Myanmar's economy, as both cities are prime cargo generators and act as gateways to domestic and international destinations.** The Yangon-Nay Pyi Taw-Mandalay corridor is Myanmar's most frequented cargo route, with an estimated of 57 percent of the total freight volume in four trade corridors. The corridor also connects export industries with the Port of Yangon, from where goods can be shipped. Yangon and Mandalay are also important markets for agricultural products and a transit route to Tamu, Muse, and Myawaddy, and international destinations via the Yangon port and airport. Goods traveling along the route include all kinds of agricultural and fisheries goods for final consumption (for example, fruit and vegetables; staple fruit; fresh, chilled, and frozen fish; shrimps; prawns; and so forth), semifinished products (for example, rubber, fruit and vegetables, fisheries products, and so forth), or goods for export via land borders (that is, seafood and agricultural products) or the port and airport (that is, agricultural products, seafood, consumer goods, and manufacturing goods). Traffic projections suggest that the Yangon-Mandalay highway needs upgrading, as it will deteriorate within a few years once heavy traffic is permitted.

- **The road that links Mandalay to Muse (Mandalay-Lashio-Muse/Chin Shwe Haw corridor) is critical considering that 86 percent of Myanmar's border trade is with China.** In recent years, Chin Shwe Haw has established itself as a secondary border crossing. Border trade from Myanmar to China is dominated by agricultural products (for example, rice, fruit, pulses and beans, and so forth), seafood (for example, frozen shrimps and fish, and live eels) and natural resources (for example, jade and rubies) and from China to Myanmar consists of consumer goods for daily use, automobiles and motorbikes, machinery, medicine, fertilizers, and construction materials. About 1,000 trucks cross the border every day in both directions, and traffic is expected to increase over the next few years, fueled by both countries' economic growth and as China develops its hinterland.
- **The Yangon-Myawaddy corridor is the main gateway for central and southeastern Myanmar to trade with Thailand.** Export goods along this corridor consist primarily of agricultural produce—such as maize, peanuts, dried chilies, and onions—as well as frozen seafood. The seafood comes from processing firms around Yangon. Thai exports to Myanmar are mainly motorcycles, vehicles, heavy machinery, petroleum, mobile phones, and medical products. The Yangon-Bago-Hpa'an-Myawaddy corridor connects major agricultural areas with markets in Thailand and Yangon. For example, the states of Mon and Kayin and the Bago region are traditional rubber-planting areas that are connected by the trade corridor. The corridor also leads through one of Myanmar's largest rice-growing areas. Potentially, Myanmar could export maize to Thailand on this corridor.
- **Finally, there is a huge potential to increase trade with India through the Mandalay-Kalay-Tamu/Rih corridor.** India has recently upgraded the road to become an all-weather road. For communities in northwestern Myanmar, the corridor is an important lifeline, both to access relatively cheap consumer goods from India and also to sell agricultural produce domestically via collectors. Products originating from the greater Tamu area are solely agricultural produce such as paddy crops such as rice and taro, beans, oilseeds, and sugarcane. Upgrading the corridor, and thereby reducing transport costs, will be important to bring communities in the Sagaing region and Chin State relatively closer to market, as they are among the poorest in Myanmar. An upgraded corridor will enhance access to both public services and regional markets. Meanwhile, India is a large consumer and processor of pulses and beans, which opens up opportunities to develop food-processing capabilities for pulses and beans in Mandalay and Sagaing. Trade along this corridor is expected to grow, especially if conflict along the Indian border, balancing payments for the barter trade, exchange-rate arrangements, and transshipment of cargos can be resolved.

APPENDIX B: BACKGROUND ANALYSIS OF SELECTED SECTORS

1. Agribusiness

Overview of the Agribusiness Sector

The agriculture sector employs two-thirds of the country's workforce and has 52 percent of all formal jobs. The sector represented 26 percent of gross domestic product (GDP) in 2017, and it grew at an average annual rate of 1.7 percent from 2011 to 2017. Although the agriculture sector's direct effect on GDP growth has been limited, it has an indirect effect as a supplier of inputs to manufacturing businesses and as a core market for rural, nonfarm services (figure B.1). Agricultural exports, accounting for 33 percent of total exports,[38] are important to Myanmar's economy. Exports of rice (mostly to China, but also to South Asia, Sub-Saharan Africa, Belgium, and the rest of the European Union) and beans and pulses (mostly to India) each constituted roughly 35 percent of the country's agricultural exports in 2017.[39]

FIGURE B.1: SECTOR CONTRIBUTIONS TO GROWTH, 2011–16

Percentage

Source: World Bank 2019a.

More than 60 crops are grown across 12.8 million hectares of land in Myanmar. Smallholder production is the primary production model, with an average land holding size of 2.4 hectares, as only 5.6 percent of land is dedicated to large-scale commercial farming (CEPA 2015). Rice remains the country's main production crop (30 million tons a year, or 50 percent of total agricultural production), while pulses and beans are the largest export commodities valued at $1.1 billion. The main industrial crops include rubber, oilseeds, sugarcane, cotton, and oil palm; other main food crops are vegetables, maize, and nuts. Rural areas are dominated by a livestock-crop farming system with poultry as the main livestock commodity (over half of the meat produced), with duck, pork, and dairy as secondary outputs. Finally, the fisheries sector produced an estimated 5.6 million tons in 2015–16, and it was composed of marine (54 percent), freshwater (28 percent), and aquaculture (20 percent) fisheries.[40]

The food and beverage industry is the largest in the country, although it comprises mainly small businesses. Fifty-eight percent of all micro, small, and medium manufacturing firms operate in the food and beverage industry.[41] There are 27,500 registered companies in the industry, with three-quarters classified as small businesses. Some of the more predominant processing industries include rice, edible oils, and confectionary, and the main processing zones are in Yangon and Mandalay. There are a few agribusiness conglomerates across the value chain, from production and distribution of inputs to exports of key agricultural commodities. In addition, there are a couple of vertically integrated companies in the poultry industry and a small number of integrated companies in other industries. The modern retail segment is limited, as most supermarkets and hypermarkets are only available in large cities and are dominated by imported products. Agribusiness can provide the rural poor with opportunities for higher incomes. Value-added activities, such as sorting, processing, and packaging, have great potential in Myanmar, especially since a large portion of the poor population live in rural areas and work in agriculture (World Bank 2016c).

By virtue of its geographic location between China and India, there is a market opportunity in Myanmar for processed and semiprocessed export products. The country has a diverse and favorable range of agro-ecological zones, with varying climatic conditions, land quality, and suitability for a variety of agricultural activities. The country is self-sufficient in basic food commodities, with a surplus production of rice, pulses, and fish in most years. While Myanmar is generally food secure at the national level, many poor households, both in rural and urban areas, suffer from food insecurity and malnutrition.

Both the Myanmar government and its development partners are focusing on improving the country's agribusiness sector. Launched by the government in June 2018, the Agribusiness Development Strategy (ADS) is a 12-point plan to improve the inclusive development of agriculture in Myanmar by fostering cooperation between the government, farmers, and private businesses. The ADS is founded around three pillars: (a) governance, (b) productivity, and (c) market links and competitiveness.

Sector Performance

While Myanmar has the potential to be a supplier of a variety of semiprocessed and processed agribusiness products to China, India, and the rest of the East Asia and the Pacific region, the country's agribusiness suffers from low productivity and quality of output. The report "Myanmar: Analysis of Farm Production Economics" (World Bank 2016d) classified many subsectors in the agribusiness sector as below regional benchmarks in productivity. Whereas the analysis does not cover all subsectors, Myanmar's yield of rice and oilseeds is well below that of regional comparators, and the yield of its beans and pulses is higher than that of regional comparators. The analysis of Myanmar's rice subsector revealed the following results: (a) average land productivity for paddy (rice and taro) is 2.7 tons/hectare (ha) in Myanmar, lower than 3.9 tons/ha in the Philippines and 5.8 tons/ha in Vietnam and (b) labor productivity for paddy is also low, with the labor return from one day's work (during monsoon season) yielding 23 kilograms (kg) of paddy, much less than 62 kg in Cambodia and 429 kg in Vietnam. Moreover, the country's average land productivity for oilseed is also below regional comparators, with sunflower at 730 kg/ha, compared with 1,500 kg/ha in India; groundnut at 680 kg/ha, compared with 1,066 kg/ha in India; and sesame at 395 kg/ha, compared with 413 kg/ha in India.

Low productivity in the agribusiness sector is attributed to the low use of inputs and inefficient agronomic practices. The quality and availability of seed constitute major issues, with the supply of certified seed meeting only 1 percent of potential demand. Fertilizer use is also low (21 kg/ha versus 141 kg/ha globally), because of issues related to nutrient content and quality control. Dairy productivity is also low by regional standards, with production at 531 kg/head/year—significantly lower than the average of 1,676 kg/head/year in Asia. Low productivity of both production and labor makes domestic products less competitive on the international market.

Rice is the country's primary production crop, although its output is of low quality. In addition to low productivity, Myanmar's rice also suffers from low quality, resulting in a lower price on the international market. Most of the country's rice production does not reach higher-value markets. As a result of these quality and sanitary and phytosanitary measures concerns, Myanmar rice was sold at an average discount of US$30–$40 per ton compared with Pakistan and India in 2013 (World Bank 2016d). In 2017–18, Myanmar exported 3.3 million metric tons (MT) of rice, with an estimated 80 percent exported to China. While the goal is to reach 4 million MT of exports by 2020, 95 percent of the country's recent exports were of low quality (25 percent broken rice). The global demand for low-quality rice is falling, which could stifle the country's export plans. Therefore, Myanmar needs to focus on improving the quality of its products to benefit from new market opportunities. With rice the leading economic driver of the sector, market signals are showing that changes are needed to overhaul the sector. To improve quality, farmers need access to quality seed; however, the supply of certified seeds meets only 1 percent of potential demand.

In addition to quality issues, Myanmar's products are often below health and safety standards, which could eventually affect the country's ability to export. Myanmar ranks 71st of 113 countries, in quality and safety in The Economist Intelligence Unit's Global Food Security Index 2017, which is lower than some of the other countries in the region, including Singapore (24th), Malaysia (37th), and Thailand (59th). A major constraint in the implementation of effective controls on food safety in food processing is the lack of laboratory facilities and capacity. Government organizations and some private sector partners have established several quality-control laboratories, although the facilities are not of the required standard for tests to be regarded as valid and reliable. To a large extent, this lack reflects a more general lack of food safety capacity in the public and private sectors. Although there are some basic facilities, these are generally outdated and far below international standards. Strengthening laboratory systems deserves priority support. The government should provide the required level of precision for laboratory equipment, laboratories should have a coherent system of Good Laboratory Practice, and laboratories should be accredited by an outside agency. Such accreditation would help ensure that products are tested and comply with rising food safety import standards in China and elsewhere.

The agribusiness sector is dominated by small businesses plagued by low quality and inefficiency. While the food and beverage industry is the largest in Myanmar, it is relatively underdeveloped across various segments. Only 5 to 10 percent of beans and pulses—the country's second- and third-largest food industries—are processed, and rice processing consists of mainly low-quality and inefficient millers. Currently, most mills operate with obsolete processing units, leading to about 15 to 20 percent quality and quantity losses during milling (World Bank 2016d). The average milling ratio is below 60 percent, much lower than in neighboring countries. Similarly, other subsectors are also plagued by outdated machinery and technology. Modern retail food stores in Myanmar are dominated by a few companies that mainly import directly through agents, and they carry a large selection of high-quality imported products. For the livestock industry, the country has only a few dairy processors, and only one is a large processor. Total processing of local milk was estimated at 150 tons/day in 2014 as local production struggled to compete with imports. The meat industry (that is, goat, pig, and cattle) consists of mainly backyard production; meat products are sold freshly slaughtered in local markets, while the country's poultry sector is one of the few vertically integrated industries (table B.1).

TABLE B.1: AGRIBUSINESS SUPPLY CHAIN

	INPUTS	PRODUCTION	PROCESSING	SERVICES
PRIVATE SECTOR ACTIVITY	**LIMITED** Fertilizer: Local production dominated by SOEs producing urea, with private importers providing the bulk of supply Seeds: Public sector dominated. Imports of vegetable hybrids	**MODERATE** Production: Dominated by small holders with only 5.6% land under commercial production Aggregation: Limited information available	**LIMITED** Limited processing companies mainly in oilseeds and rice Few vertically integrated companies outside of poultry	**LIMITED** Storage: Limited available cold storage and spare warehousing Logistics: Both distribution for exports as well as consumer markets
KEY PLAYERS	Fertilizer: Myanmar Petrochemical Enterprise (SOE). Awba Group (IFC), Diamond Star, Golden Lion, Golden Key Seed: DAR (Myanmar government), Myat Min, CP Company, Known You Seed company, East West Seed Veterinary: Very limited information	Rice: Myanmar Agribusiness Public Company; Myanmar Rice Mill FPR, founded by the Myanmar Rice Traders Association; Golden Land East Asia; MRDC, founded by Mandalay Region traders; Ayer-Pathein Company; SPRDC, founded by Muse traders; Rakhine Ethnic Rice Company Oilseed Processors: Bean/Pulses Exports: Poultry: Japfa, Comfeed, De Heus (IFC), CP, New Hope, Sunjin Dairy: Silvery Pearl, TM, Super Cow, Fun Hwa, WALCO, Happy Cow, Myabuyin Top Business Houses w/Agri: Capital Diamond Star Group (CDSG), MAPCO		Storage: Mountain Cold Storage, kospa Cold Chain logistics, Sohan Lal Commodity Management Logistics: Consumer Goods Myanmar, Shwe Myanmar Investment, Sojitz Logistics Corp. Banks: MADB

Source: World Bank Group Staff analysis.

Note: SOE = state-owned enterprises; DAR = Department of Agricultural Research; FPR = need information; Myanmar CP = Charoen Pokphand; TM = TM Diary Farm; WALCO = Win Agro-Livestock Company; MAPCO = Myanmar Agribusiness Public Corporation; MADB = Myanmar Agricultural Development Bank

2. Garment

Overview of the Garment Sector

As **China's era of low-cost manufacturing draws to a close, investors have actively explored the Association of Southeast Asian Nations (ASEAN) as an attractive destination to diversify their manufacturing footprint.** With one of the lowest labor costs in ASEAN,[42] advantageous preferential policies, and a large young labor market, Myanmar has rapidly attracted traditional labor-intensive manufacturing industries such as garment. Garment production also provides jobs that are available to women and often a critical source of income for rural and urban low-income households (World Bank 2016a). Favorable domestic policies toward garment manufacturing, which is a priority sector for development,[43] will also provide access to international markets. For instance, Myanmar benefits from the European Union's (EU) Generalized System of Trade Preferences (GSP);[44] regional free trade agreements, such as the ASEAN Free Trade Area; and ASEAN agreements with Australia, China, India, Japan, New Zealand, and the Republic of Korea.

Garment exports grew by a compound annual growth rate of 29 percent between 2010 and 2016, increasing from US$340 million to around US$1.6 billion. Currently, the EU is Myanmar's main export market for garments, overtaking Japan in 2016 (table B.2). However, Myanmar's garment exports still lag considerably behind its competitors: Bangladesh's and Vietnam's garment exports reached US$27 billion and US$23 billion, respectively, in 2015, and Cambodia's garment exports reached US$7 billion in 2016. The garment sector represented about 18 percent of Myanmar's total exports in 2017, up from 14 percent in 2016. The garment sector employed 380,600 workers in 2015, 16 percent of total manufacturing employment, according to the International Labour Organization (ILO 2017). With rising costs for operating garment factories in China and Indonesia, the garment sector has significant economic potential for Myanmar. The Myanmar Garment Manufacturers Association expects the country's garment sector to employ around 1.5 million workers by 2024 and generate over US$12 billion in export earnings by 2020.

TABLE B.2: MAIN EXPORT DESTINATIONS OF MYANMAR'S GARMENT EXPORTS, 1995–2016 (US$ MILLION)

KEY YEARS FOR MYANMAR GARMENT SECTOR*	EXPORT DESTINATION MARKET										
		OF WHICH:									
	EU-28	GERMANY	FRANCE	SPAIN	ITALY	UK	JAPAN	KOREA, REP.	US	CHINA (INC. HK)	TOTAL
1995	23	7	6	1	0	4	1	0	70	0	94
2000	278	47	29	11	13	20	5	1	437	2	723
2001	351	75	42	16	19	39	8	3	437	2	801
2005	242	82	20	15	11	36	54	7	0	1	303
2011	185	72	1	41	6	32	347	232	0	11	775
2016	766	184	66	73	55	96	648	346	80	52	1,892

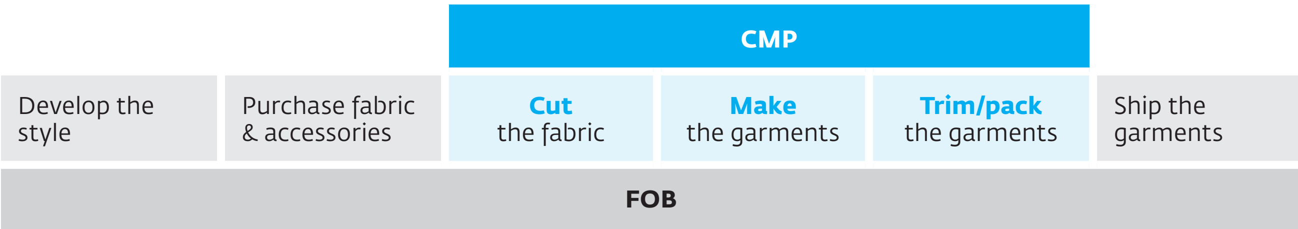
Source: El-Shahat and di Canossa 2018.
Note: EU = European Union; HK = Hong Kong SAR, China; UK = United Kingdom; US = United States.

There are 420 garment firms with 435 factories registered with the Myanmar Garment Manufacturers Association. Of the 420 garment firms, 160 are locally owned and operate on a much smaller scale than foreign and joint-venture firms because they lack access to financial resources and services and high-tech machinery. Of the 435 factories, only 17 employ more than 2,000 people. Although the number of factories has increased markedly, small factories with fewer than 600 employees account for more than half of total factories in Myanmar. Furthermore, 236 factories are foreign owned, 165 are domestically owned, and 32 are joint ventures. Of the 160 locally owned garment firms, 82 produce primarily for exports and 42 export only to China, Japan, and Republic of Korea.

Sector Performance

The garment sector has played an important role in diversifying Myanmar's exports, but it has focused on the lowest value-added segment of the garment value chain (figure B.2). The expansion of cut-make-pack (CMP) production was supported by lifting sanctions and granting everything but arms (EBA) status by the EU.[45] Tax exemption on imported materials for CMP and removing import and export licenses for CMP manufacturers contributed to the expansion of CMP. Nevertheless, limited capacity and an underdeveloped incentive regime (for example, tax and customs) are limiting the transition from CMP manufacturing to original design manufacturing (OEM), which could potentially yield higher value-added products (that is, free on board [FOB] production).[46] In CMP, the pricing model also means that Myanmar factories only retain a service fee for manufacturing and packaging goods, which is a small proportion of the actual value of the final good sold (El-Shahat and di Canossa 2018).

FIGURE B.2: CUT-MAKE-PACK (CMP) VERSUS FREE ON BOARD (FOB)



Source: Myanmar Garment Manufacturers Association.

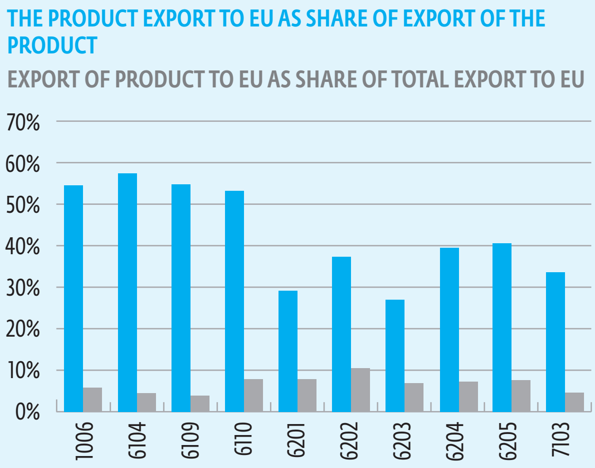
Exporting has also helped Myanmar's garment sector to meet the demand for quality. Many locally owned garment firms that export to Japanese and Korean markets have developed superior product-quality standards and improved their production capability to meet the quality demands of these markets. The International Centre for Trade and Sustainable Development found that garment firms that produce for Japanese and Korean markets manufacture higher value-added products that require higher skill levels (El-Shahat and di Canossa 2018). The major products produced include down jackets and outerwear, trousers, skirts, workwear, hoodies and sweatshirts, and lingerie (El-Shahat and di Canossa 2018). Moreover, some firms have begun producing cashmere and knitwear products.

Although CMP schemes help accelerate the growth of Myanmar's garment industry, firms need to move up the value chain to be effectively competitive. Rising wages and energy and congestion costs will eventually erode Myanmar's cost competitiveness for CMP operations. To retain a greater proportion of the actual value of the garments produced, locally owned garment exporting firms need to transition to OEM production. In OEM or FOB producers have greater bargaining power to negotiate margins. This will require Myanmar producers to source inputs to respond to specifications and product design provided by buyers. However, transitioning from CMP to OEM and FOB production lacks policy support to implement that business model, lacks technical know-how, has a skills shortage, has poor financial infrastructure, has low levels of labor productivity, has poor infrastructure services, and has poor trade facilitation.[47] In addition, if the EU withdraws the GSP for Myanmar, it would significantly affect the garment industry (box B.1).

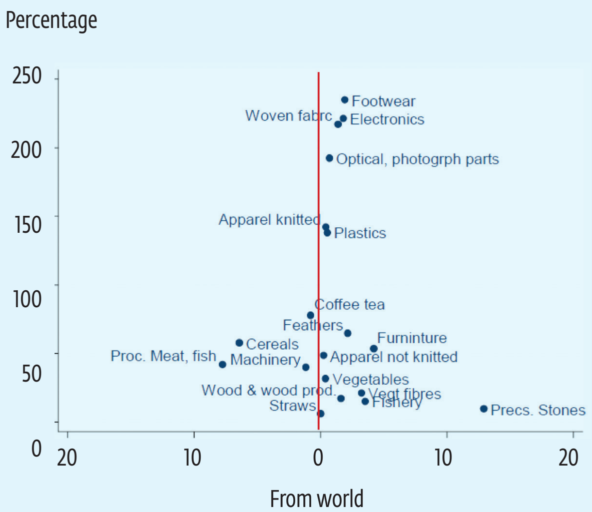
BOX B.1: IMPACT OF REVOCATION OF EU'S GSP ON MYANMAR'S GARMENT INDUSTRYA

Access to the European Union (EU) market is important for diversifying Myanmar's export products, particularly labor-intensive products. Box figure B.1.1 details the top 10 products that represent 65 percent of Myanmar's total exports to the EU market.

BOX FIGURE B.1.1: IMPORTANCE OF EU MARKET FOR MYANMAR'S EXPORTS (TOP 10 EXPORT PRODUCTS TO EU)



BOX FIGURE B.1.2: AVERAGE GROWTH OF EU IMPORT VALUE, 2013–2016 (US$)



Source: UN-Comtrade; WB staff calculations.

Note: EU = European Union; Box figure B.1.1 uses mirror data and total export to respective markets excludes oil and gas. Box figure B.1.2's X-axis represents the following: 1,006 rice; 6,104 suits for women/girls knitted or crotched; 6,109 T-shirts, singlets; 6,110 jerseys, pullovers; 6,201 overcoat; 6,202 female/girl coats; 6,203 suits for male/boys not knitted or crotched; 6,204 suits for female/girl not knitted or crotched; 6,205 shirts for men/boys not knitted or crotched; and 7,103 precious stones.

A full or partial withdrawal of the EU's Generalized System of Trade Preferences (GSP) for Myanmar could hurt workers, production, and investment in labor-intensive manufacturing sectors, particularly garment and footwear, which are significantly exposed to the EU market. At least half of all exports from those sectors are to the EU market. Similarly, access to EBA (everything but arms) preference is also associated with rapidly growing foreign direct investment (FDI) in manufacturing, particularly footwear and garments. In 2015, about 55 percent of registered garment firms in Myanmar were fully or partially foreign owned, with 42 percent owned by investors from China and Hong Kong SAR, China. Therefore, access to the EU market is likely to deteriorate and to hit the prospect of raising FDI in Myanmar's labor-intensive sectors. But more important, the garment and footwear industry has become an important source of livelihood for Myanmar's workers. In 2015, an estimated 738,000 workers, or about 10 percent of those employed in the county, worked in the industry, of which women made up 83 percent.

Higher import tariffs can put Myanmar at a disadvantage to compete in the EU market. For garments, a partial withdrawal of GSP would remove the zero duty options, but nevertheless offer Myanmar garments the "standard GSP" preferential rate of 9.6 percent, which is also enjoyed by India, Indonesia, and Vietnam. Although nominal labor wages in Myanmar are lower than in those countries, sourcing from Myanmar is not necessarily cheaper than sourcing from Vietnam. Inadequate infrastructure, limited competent domestic suppliers, poor trade facilitation, and a lack of trained workers supersede Myanmar's wage advantage. World Bank Enterprise Survey data suggest that garment and footwear firms in Myanmar have, on average, lower labor productivity compared with their counterparts in Vietnam. A full withdrawal of GSP would mean that Myanmar products would be subject to the most-favored-nation rate, which is the nonpreferential import tariff schedule for all World Trade Organization members.

Removing the EBA program could also hinder performance of other sectors. EBA preference has allowed certain products from Myanmar to gain market share and benefit from strong demand by EU consumers (box figure B.1.2). Withdrawal of EBA preference would also reduce Myanmar's market access. Lower export shipments to the EU could also potentially have a negative effect on services along the logistics value chain such as trucking, warehousing, and sea cargo services.

Source: World Bank 2018e.

3. Tourism

Overview of the Tourism Sector

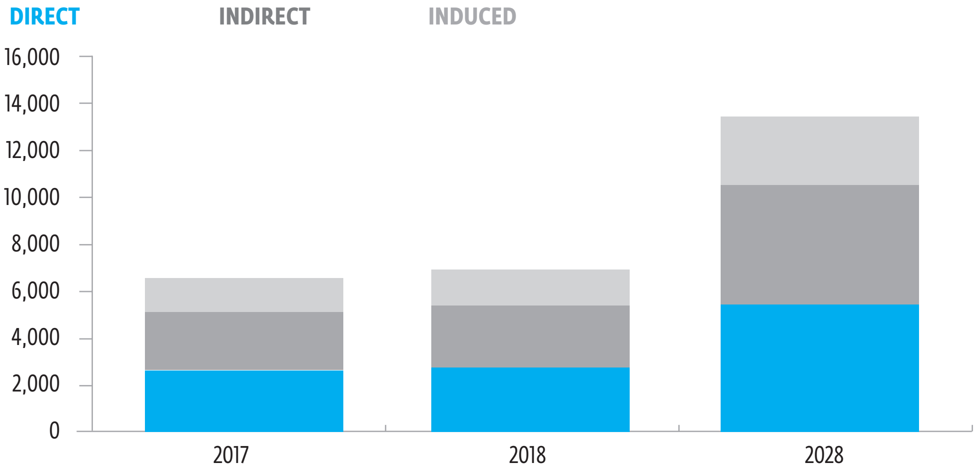
Tourism can be an important growth-driver for Myanmar's economy. It is relatively labor intensive, can lead to domestic job creation, and increases opportunities for strengthening links to other local supply chains, such as the domestic food supply. Tourism is one of the few industries in Myanmar that provides opportunities for women and young people to be gainfully employed, thereby providing an alternative to out-migration and urban poverty. Tourism also promotes services trade, boosts exports, and generates foreign exchange earnings.

The tourism sector has experienced tremendous growth since the lifting of sanctions in 2012, although growth decelerated in 2016 primarily because of the crisis in Rakhine State. International tourist arrivals grew by an average of 56 percent between 2012 and 2015, before falling by 38 percent in 2016. In 2017, the tourism sector grew by 18.4 percent.[48] The World Travel and Tourism Council (WTTC) estimated that tourism contributed K6,468.9 billion to the country's gross domestic product (GDP) in 2017 (6.6 percent), and tourism is forecast to grow by 7.0 percent per annum to K13,371 billion by 2028 (7.0 percent of GDP) (figure B.3).[49]

The flow of tourists from wealthy countries slowed after 2016, mainly as European and North American visitors were deterred by the crisis in Rakhine State (table B.3). In response, Myanmar focused on attracting tourists from East Asia. However, East Asian visitors—principally from Thailand, China, and Japan—tend to, on average, have relatively shorter lengths of stay and spend less per visit, dampening Myanmar's overall tourism revenue.

FIGURE B.3: TOTAL CONTRIBUTION OF TOURISM TO GDP

Constant 2017 Kyats



Source: WTTC 2018.
Note: GDP = gross domestic product.

TABLE B.3: ARRIVALS BY NATIONALITY

(excluding border gateways)

COUNTRY	2013	2014	2015	2016	2017
Asia	630,399	807,806	938,487	864,523	953,801
Western Europe	158,163	186,828	209,300	237,889	239,358
North America	62,628	74,899	83,866	91,526	87,153
Oceania	28,079	33,421	35,566	39,172	37,644
Eastern Europe	10,183	13,592	15,433	17,568	20,069
Other Americas	4,625	7,043	9,575	10,999	12,592
Middle East	3,396	4,714	5,527	7,140	6,465
Africa	2,688	3,321	3,829	3,779	5,866
TOTAL	**900,161**	**1,131,624**	**1,301,583**	**1,272,596**	**1,362,948**

Source: Myanmar Tourism Statistics 2013, 2014, 2015, 2016, 2017.

The WTTC estimated that visitor exports amounted to K3,094 billion (US$2,352.8 million) in 2017 (24.7 percent of total exports).[50] Visitor exports are projected to increase by 7.3 percent per annum over the next 10 years to K6,604.9 billion (US$5,021.6 million) by 2028 (33.3 percent of GDP) (figure B.4). Capital investment in the tourism sector (WTTC 2018) was estimated at K421.3 billion (US$320.3 million) in 2017, which is projected to increase by 5.7 percent per annum over the next 10 years to K766.3 billion (US$582.6 million) by 2028 (figure B.5).

FIGURE B.4: TOURIST ARRIVALS AND TOURISTS SPENDING

Constant 2017 Kyats

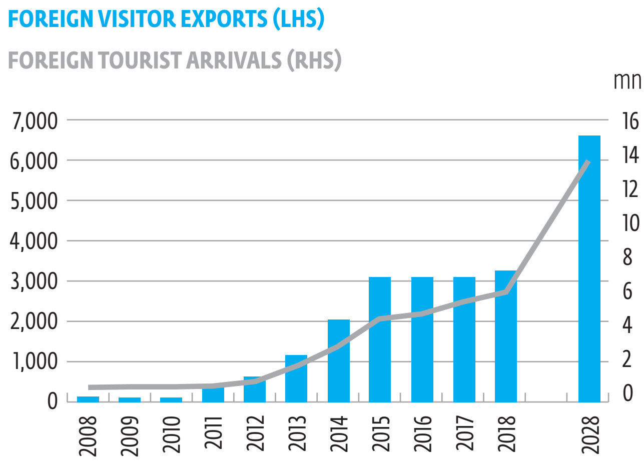
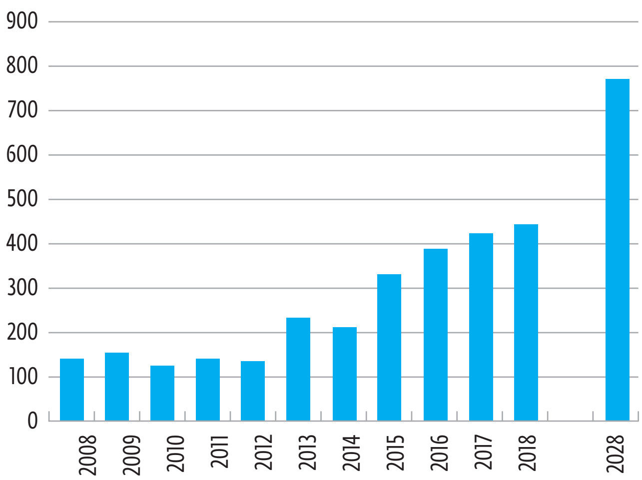


FIGURE B.5: CAPITAL SPENDING ON TOURISM

Constant 2017 Kyats



Source: WTTC 2018.
Note: lhs = left-hand side of the figure; mn = million.
rhs = right-hand side of the figure.

The tourism sector employed 1.28 million workers in 2017 (5.7 percent of total employment), according to the WTTC. The number of tourist workers is projected to increase by 3.4 percent each year over the next 10 years and reach 1.80 million by 2028.

Sector Performance

Despite Myanmar's unique and diverse tourism assets, its tourism sector underperforms relative to that of regional neighbors. In 2017, Myanmar ranked 127th of 185 economies on the direct contribution of tourism to GDP, and it ranked 140th on direct contribution to employment (table B.4 and table B.5).

TABLE B.4: DIRECT CONTRIBUTION OF TOURISM TO GDP, 2017 (% SHARE)

		2017 % SHARE
15	Cambodia	14.1
25	Thailand	9.4
27	Philippines	8.7
51	Vietnam	5.9
64	Malaysia	4.8
72	Lao, PDR	4.2
127	**Myanmar**	**2.7**
158	Indonesia	1.9
168	Brunei Darussalam	1.7
	Southeast Asia	4.9
	World	3.2

TABLE B.5: DIRECT CONTRIBUTION OF TOURISM TO EMPLOYMENT, 2017 (% SHARE)

		2017 % SHARE
20	Cambodia	32.4
34	Thailand	21.2
35	Philippines	21.1
61	Lao, PDR	13.7
63	Malaysia	13.4
100	Vietnam	9.4
105	Brunei Darussalam	9.0
140	**Myanmar**	**6.6**
152	Indonesia	5.8
	Southeast Asia	12.0
	World	10.4

Source: WTTC 2018.
Note: GDP = gross domestic product.

Meanwhile, the WTTC ranks Myanmar third globally in its long-term growth potential 2018–28. The total contribution of its tourism sector to GDP is estimated to rise by 7 percent per year and reach US$10.2 billion (7 percent of GDP) by 2028, and the tourism sector is set to employ 1.81 million workers by 2028 (table B.6).

TABLE B.6: GROWTH FORECASTS

	2017 $ MILLION	2017 % OF TOTAL	2028 $ MILLION	2028 % OF TOTAL	GROWTH
Tourist arrivals					
Direct contribution to GDP	2,012.6	2.7	4,156.4	2.9	7.0
Total contribution to GDP	4,918.2	6.6	10,166.0	7.0	7.0
Visitor exports	2,352.8	24.7	5,021.6	33.3	7.3
Direct contribution to employmenta	570	2.5	914	3.6	4.6
Total contribution to employmenta	1,282	5.7	1.81	7.2	3.4
Capital investment	320.30	1.2	582.6	1.1	5.7

Source: WTTC 2018.
Note: GDP = gross domestic product; 2017 constant prices and exchange rates; 2018–28 annualized real growth adjusted for inflation. a. = '000 jobs.

Recognizing the economic importance of the tourism sector, the Myanmar government places great emphasis on the sustainable development of tourism. Tourism was made a priority in the Framework for Economic and Social Reforms (FESR) 2012–15 as "potentially one of Myanmar's most important sectors, with tremendous potential to contribute to greater business opportunities and balance social and economic development if properly managed and developed." Moreover, tourism is a priority sector in the country's Export Strategy (NES) 2015–19, which the government is planning to renew for 2020–25. Myanmar had also developed several tourism policies that set a framework to develop the tourism sector, including the Responsible Tourism Policy 2012 and the Tourism Master Plan for 2013–20.

Myanmar is the second-largest country in landmass in Southeast Asia. The country has an abundance of natural and cultural tourism assets, including 2,832 kilometers of coastline, the pristine Myeik archipelago, 36 protected areas covering 5.6 percent of the country, outstanding examples of religious and vernacular architecture, and a youthful population of about 60 million, including more than 100 distinct ethnic groups. The historic legacy of former kingdoms, the colonial period, and World War II complements these assets, providing a unique setting for the development of a responsible tourism industry.

Myanmar also has a wealth of emerging tourism sites and destinations, including Putao, the Myeik Archipelago, Nagaland, Hakha, Nat Ma Taung, and Loikaw. Myanmar encourages the development of these areas to help spread the benefits of tourism and relieve pressure on established sites. However, host communities will require substantial help in planning and building capacity. This also applies to the development of niche products such as ecotourism, heritage and festival tourism, cruising, ballooning, volunteer tourism, and meditation tours.

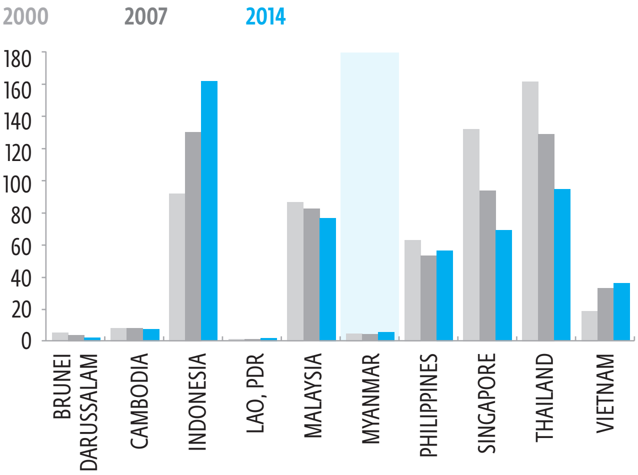
New destinations are being promoted to diversify the country's tourism offering and reduce overcrowding at sites in Yangon, Bagan, Mandalay, and Kyaikhtiyo, as well as by Inle Lake. Many of these currently popular sites have been developing in an unmanaged and potentially unsustainable manner. Promising emerging destinations include the Tanintharyi region, Southern Shan State, Ngapali Beach, and the Chin region, which have already seen increasing numbers of tourists. However, these destinations have limited infrastructure in place to support tourism growth or proper systems to protect natural and cultural assets, regulate the proliferation of visitor accommodation, and manage the disposal of solid and liquid waste. If left unchecked, the country's future tourism development risks overwhelming its capacity and degrade tourism assets.

The Myeik Archipelago in Tanintharyi region in southeastern Myanmar has recently become more accessible to tourists. The archipelago consists of 800 islands spread across three districts. In the past, the Myeik Archipelago was only accessible by live-aboard boats, mainly departing from Thailand. Issuing permits for tourist boating excursions and tourist access to the islands is a challenge as tourist arrivals to the site increase. The IFC is working with the Ministry of Hotels and Tourism and the regional government to develop a Tanintharyi regional tourism development strategy.

Myanmar can also exploit the rapid growth of tourism in Association of Southeast Asian Nations (ASEAN) and the East Asia and the Pacific region. International arrivals to ASEAN countries have increased by an average of 7.1 percent per year, rising from 39.1 million in 2000 to 125.5 million in 2017. For East Asia and the Pacific, United Nations World Tourism Organization forecasts 540 million international arrivals and 30 percent of the global market share by 2030 (MoHT 2013). Given Myanmar's rich cultural and natural attractions, it can offer complementary destinations and experiences to enhance the regional tourists' experience. Myanmar is taking steps to promote regional tourism within ASEAN. For example, it is working closely with other ASEAN countries to implement the ASEAN Tourism Strategic Plan 2016–25.

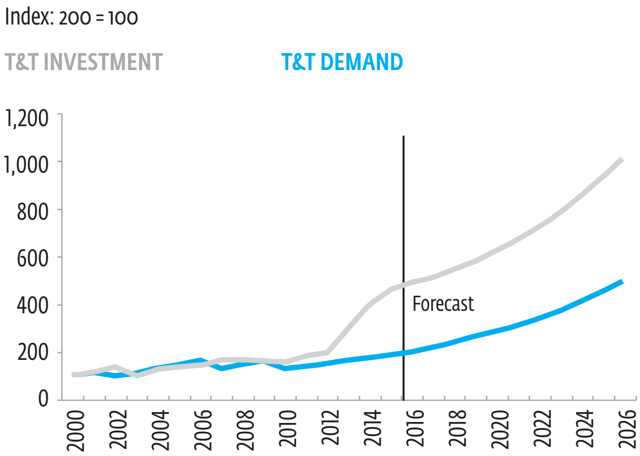
However, growth in the tourism sector is hampered by Myanmar's limited capacity to absorb a significant increase in visitors (figures B.6 and B.7). The World Economic Forum's Travel and Tourism Competitiveness Index ranks Myanmar 134th of 141 countries on its readiness for tourism (WEF 2015). Within ASEAN, Myanmar has the weakest travel and tourism infrastructure and among the smallest direct contributions of its tourism sector to GDP. The Myanmar Tourism Master Plan (MoHT 2013) has identified the following major constraints to tourism development in Myanmar: (a) a severe infrastructure gap (for example, transport, electricity supply, information and communication technology, sewage and solid waste management, and accommodation); (b) shortage of skilled labor; (c) inadequate policy and regulatory environment; (d) weak institutional capacity; and (e) limited access to finance and high cost of finance. The crisis in Rakhine State, which has been covered by international journalists, is also a major challenge to developing Myanmar's tourism sector.

FIGURE B.6: RELATIVE AIR CONNECTIVITY INDEX IN ASEAN (WORLD AVERAGE = 100)



Source: WTTC 2016.
Note: ASEAN = Association of Southeast Asian Nations.

FIGURE B.7: MYANMAR'S TOURISM INVESTMENT SPENDING AND DEMAND



Source: WTTC 2016.
Note: T&T = travel and tourism.

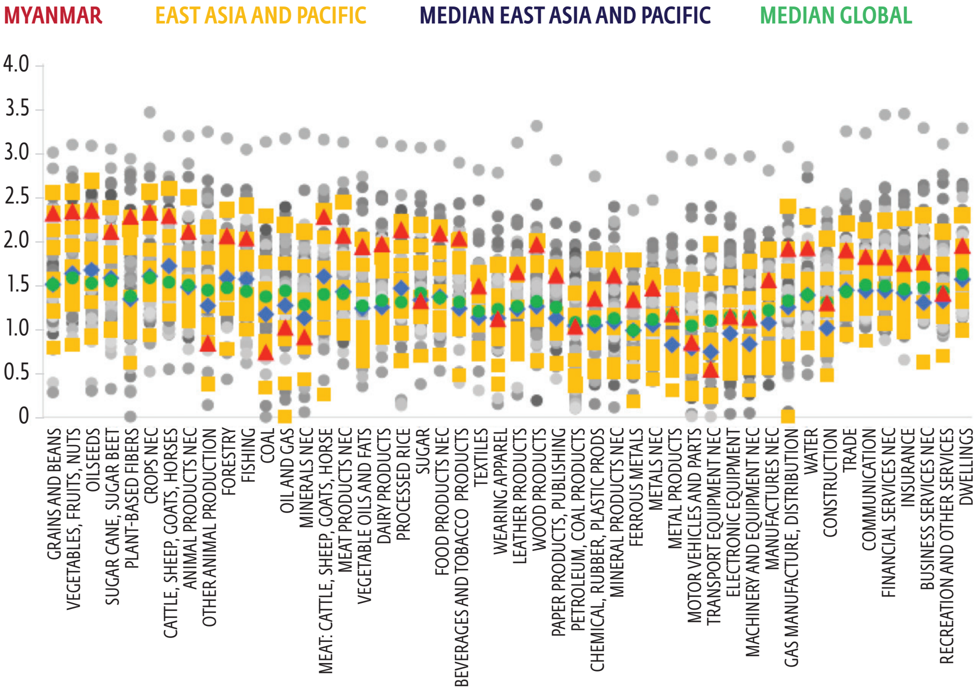
APPENDIX C: SECTOR CONTRIBUTIONS TO THE ECONOMY

The Country Private Sector Diagnostic (CPSD) sector scan and an analysis of the importance of each sector in the country's gross domestic product (GDP), employment, trade, products, and proxies for returns to foreign direct investment (FDI) (output/FDI) are used to assess the potential of Myanmar's economic sectors and determine the focus of the CPSD. This scan and analysis are done because there are no input-output (I/O) tables specifically for Myanmar nor is there a specified general equilibrium model.

1. Sectoral Contribution to GDP

Based on proxy I/O tables, the CPSD sector scan and multiplier analysis estimate the relative economywide returns to investment in Myanmar's economic sectors. Reflecting low initial levels of value added and factor productivity, investment in Myanmar's agriculture, industrial, and service sectors has a large economywide effect on GDP compared with median countries in the East Asia and the Pacific region and worldwide. When benchmarking Myanmar's GDP multiplier with other countries, figure C.1 shows that Myanmar has higher GDP multipliers compared with the median of the East Asia and the Pacific countries in most sectors.

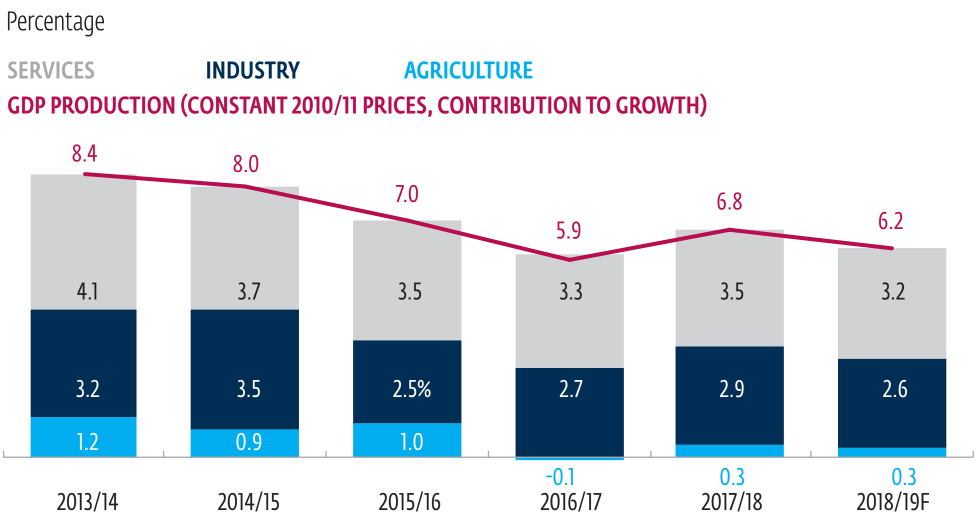
FIGURE C.1: MYANMAR'S GDP MULTIPLIER HIGH RELATIVE TO OTHER EAST ASIA AND THE PACIFIC COUNTRIES



Source: Sectoral GDP and Employment Multiplier in Myanmar.
Note: GDP = gross domestic product; nec = not elsewhere classified.

Services and industrial growth are the main sources of real GDP growth in Myanmar (figure C.2). The industry sector, which represents 32 percent of gross value added and 18 percent of employment, was expected to grow by 8.2 percent in 2018–19. This percentage is down from 9.4 percent in 2017–18, on the back of softening consumption, slowing investment flows (including FDI), and rising production costs from an increase in fuel prices and the depreciation of the kyat. The services sector, which represents 43 percent of gross value added and 33 percent of employment, was expected to grow by 7.6 percent in 2018–19, down from 8.3 percent in 2017–18. A slowdown in the tourism and transport sectors will be offset by continued robust growth in telecommunications services and wholesale and retail trade. Despite seasonal floods and landslides, the agriculture sector, which represents 25 percent of gross value added and 49 percent of employment, was projected to experience output growth at 1.2 percent in 2018–19, slightly down from 1.3 percent in 2017–18, with strong external demand driving up paddy (rice and taro) prices. The crisis in Rakhine State is having an impact on the global perceptions of Myanmar, which is particularly affecting the tourism sector. The economic impact of the crisis could intensify further if the European Union's Generalized System of Trade Preferences (GSP) is withdrawn.

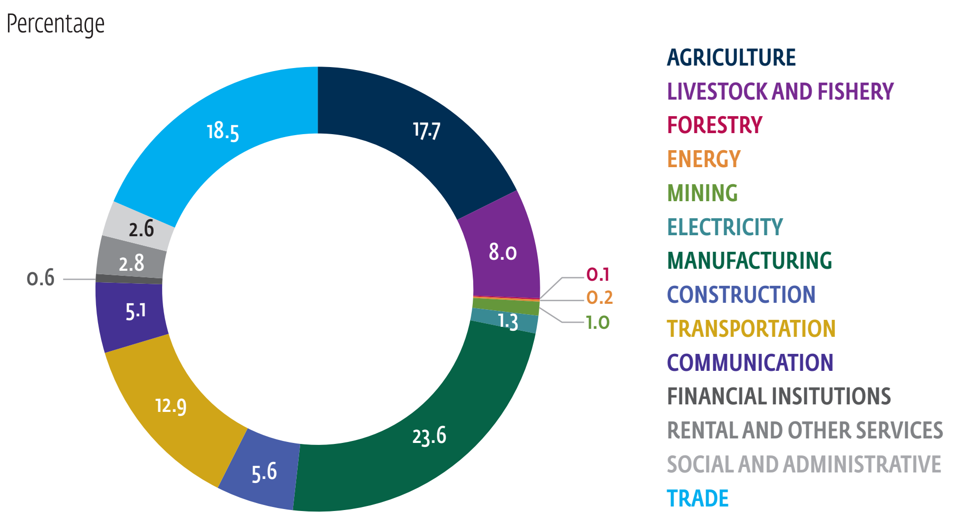
FIGURE C.2: SERVICES AND INDUSTRIAL GROWTH MAIN SOURCES OF REAL GDP GROWTH IN MYANMAR



Source: Myanmar Ministry of Planning, Finance and Industry and World Bank staff estimates.
Note: GDP = gross domestic product.

Within industry, the manufacturing sector was the largest contributor to the country's GDP in 2017–18. Manufacturing activity, which constitutes 75 percent of the industrial sector, contributed 23.6 percent of GDP in 2017–18 (figure C.3). The trade and agriculture sectors were the second and third largest contributors to GDP at 18.5 percent and 17.7 percent, respectively.

FIGURE C.3: FOR INDUSTRY, MANUFACTURING SECTOR LARGEST CONTRIBUTOR TO GDP IN 2017–18



Source: Myanmar Ministry of Planning, Finance and Industry and World Bank staff estimates.
Note: GDP = gross domestic product.

The country's manufacturing and construction sectors have high growth-to-investment ratios (table C.1). The construction sector's output-to-FDI ratio is 30.1, indicating that FDI has a large elasticity effect on output. The elasticity of FDI is also quite high in the manufacturing with an output-to-FDI ratio of 22.5. Moreover, output-to-FDI ratios are relatively high in the energy sector, rental and other services, mining, financial institutions, and the electricity sector, ranging from 2.0 to 6.9. By contrast, the output-to-FDI ratio is 1.1 in the communication sector, which means that further improvement is needed to improve the flows of FDI in this sector. The agriculture sector's high output-to-FDI ratio may be explained by the relatively small amount of FDI invested in this sector. Agriculture is an outlier, suggesting significant returns to additional investment in the sector.

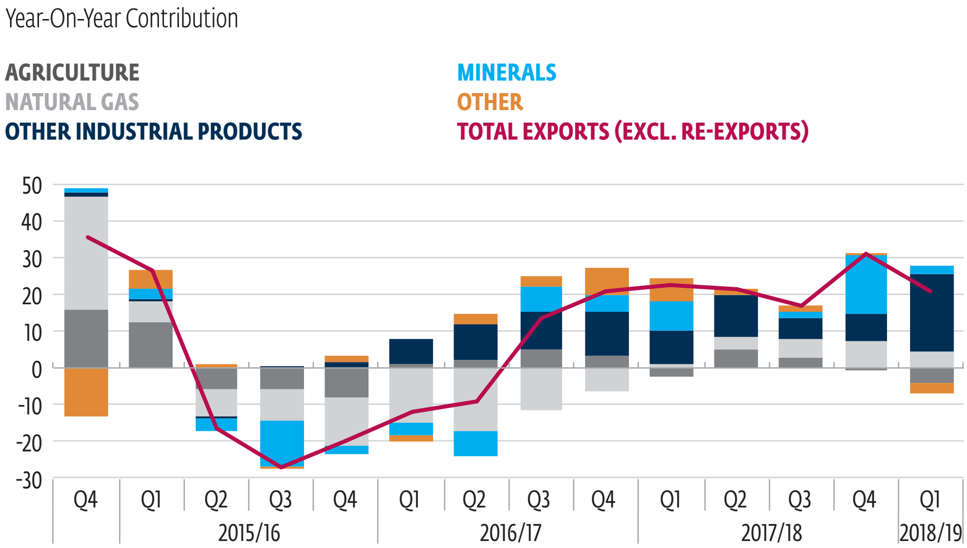
TABLE C.1. SECTORAL CONTRIBUTION TO OUTPUT, FISCAL YEAR (FY)2017–FY2018

SECTOR	OUTPUT-TO-FDI RATIO
Agriculture	588.6
Communication	1.1
Construction	30.1
Electricity	2.0
Energy	6.9
Financial institutions	2.1
Manufacturing	22.5
Mining	2.4
Rental and other services	3.0

2. Sectoral Contribution to Exports

Other industrial exports, particularly garments, accounted for a significant share of export growth in 2018–19 (figure C.4). Garment exports, which account for more than 75 percent of other industrial product exports, rose by 92 percent, year-on-year, in the first quarter of 2018–19, accounting for 21 percentage points of the growth in total exports. The garment industry may be significantly affected by the potential removal of the GSP by the European Union (EU).[$16.2B]

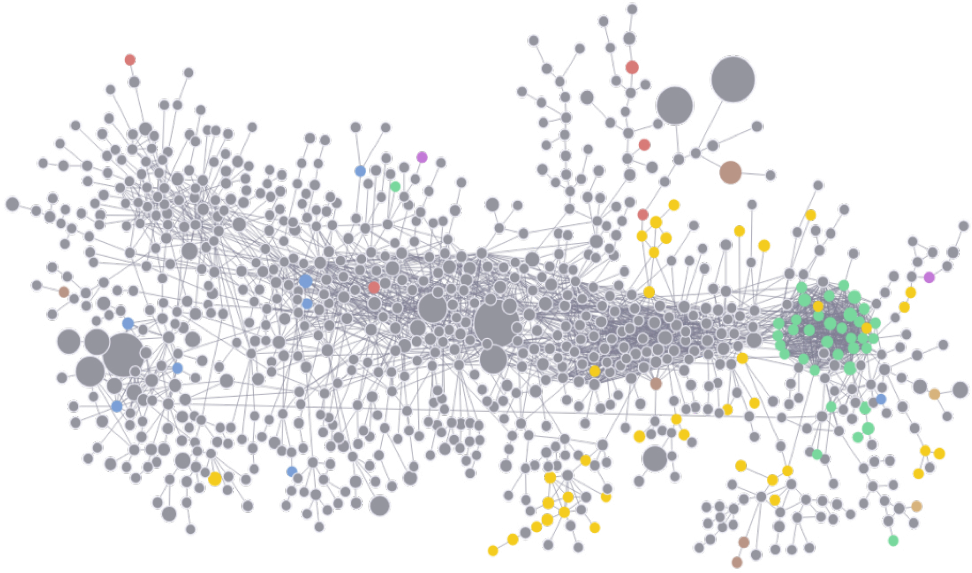
FIGURE C.4: GARMENT SECTOR DROVE EXPORT GROWTH IN 2018–19



Source: Ministry of Commerce.

A product space analysis shows that Myanmar has specialized in the garment sector. Figure C.5 shows the importance of garment products (in green) for the country's economy.

FIGURE C.5: MYANMAR SPECIALIZES IN GARMENT SECTOR



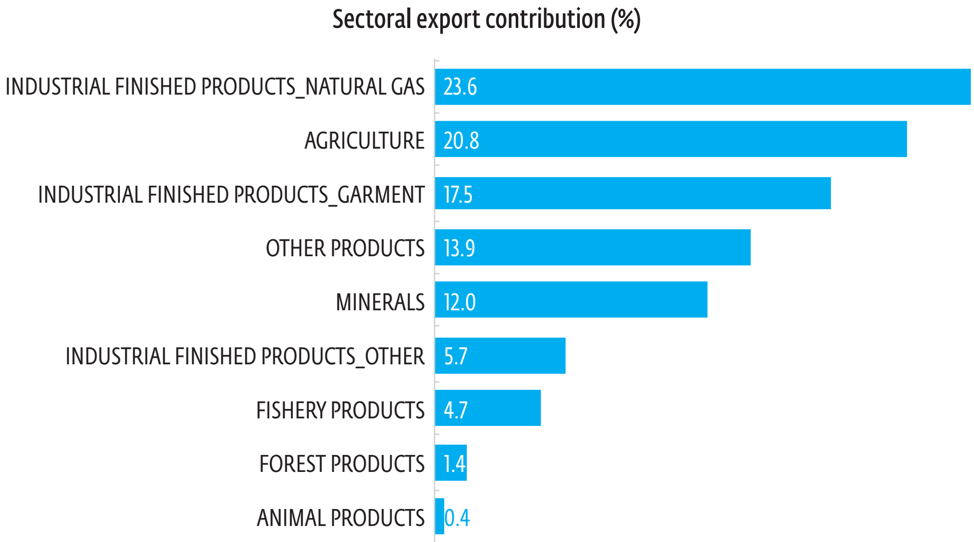
Source: Atlas of Economic Complexity 2016, https://atlas.cid.harvard.edu/.
Note: $16.2B = US$16.2 billion. The Atlas of Economic Complexity visualizes the product space. Each node is a product, and the products highlighted are those that Myanmar has specialized in. The proximity of nodes denotes the similarity of products.

Natural gas, agricultural, and garment exports accounted for 61.9 percent of total exports in 2017–FY2018 (figure C.6). Whereas natural gas exports accounted for almost 24 percent of total exports, the export of natural gas is expected to decline in the medium term as the supply of gas declines from fields that are currently producing. Investments in new gas exploration and production slowed over the past few years, and FDI for gas has been approved since FY2015–16. There have been recent discoveries in deep offshore fields, although their commercialization will require policy certainty and infrastructure investments. Without additional production from new fields, Myanmar's natural gas production from offshore fields is expected to decline by around 30 percent by 2024–25 and by 50 percent over the next 10 years.

There is strong external demand for Myanmar's agricultural output. Paddy output is estimated to increase from 29.5 million tons in 2017–18 to 30.4 million tons in 2018–19. More than 6.47 million hectares of rice crop paddy were planted between January and June 2018. Paddy output growth has been supported by rising external demand for rice, especially from the EU, competitive pricing relative to rice from competitors such as Cambodia, and rising farm gate prices. Maize output is estimated to remain at 1.9 million tons in 2018–19—the same level as in 2017–18—because of stable demand from China and the domestic market. Myanmar has become an important supplier of rice and mung beans to the EU market. Myanmar's official data suggest that the country exported 400,000 tons of rice to the EU in 2017–18, 75 percent of which was categorized as broken rice (Harmonized System code [HS] 100640). The Myanmar Rice Federation highlights that exports to the EU represent 65 percent of Myanmar's total rice exports, while EU data show that around 36 percent of the value of imported broken rice was from Myanmar. The country's future rice exports to the EU are uncertain because of the possible revocation of the GSP.

Growth in the garment sector has benefited from the EU's GSP since 2013. During the first four months of 2018–19, Myanmar's garment CMP (cut-make-pack) operations earned more than US$1.4 billion. That amount was over twice the production revenues compared with the same period the previous year, with growth in exports to the EU, the Republic of Korea, and Japan. Access to the EU market is important for diversifying the country's export products, particularly labor-intensive products and products with links to Myanmar's rural areas. Garments, footwear, and related products accounted for 65 percent of Myanmar's total exports to the EU in 2016. In the same year, the EU market was the destination for 57 percent of Myanmar exports of suits and dresses (HS 6104), 55 percent of T-shirts (HS 6109), and 53 percent of jerseys (HS 6110). Footwear (HS 64) is another fast-growing export product that has also benefited from the EU's GSP. However, possible partial or complete revocation of the GSP is likely to have a significant dampening effect on investment and growth in the sector.

FIGURE C.6: NATURAL GAS, AGRICULTURAL, AND GARMENT EXPORTS ACCOUNT FOR 61.9 PERCENT OF TOTAL EXPORTS IN FY2017–FY2018



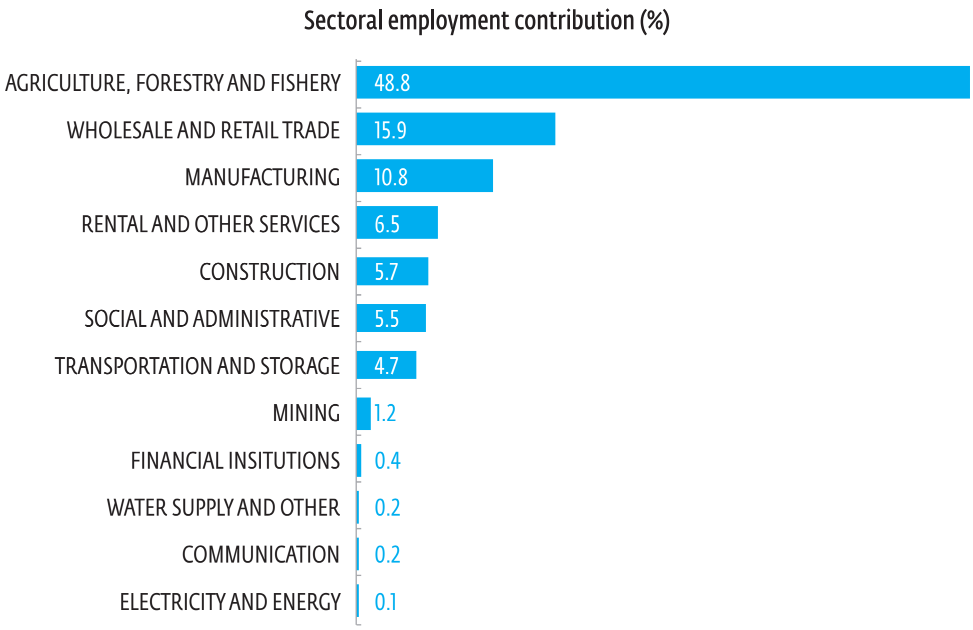
Source: Customs Data FY2017–FY2018.

3. Sectoral Contribution to Employment

The agriculture, wholesale and retail trade, and manufacturing sectors employed 75.5 percent of Myanmar's employed workforce in the first quarter of 2017 (figure C.7). The agriculture sector, which is estimated to grow by 1.2 percent in 2018–19, down from 1.3 percent in 2017–18, accounted for 25 percent of gross value added and provided almost 49 percent of all jobs in the first quarter of 2017. While the wholesale and retail trade sector represented 16 percent of employment in the same period, recent reforms that have opened up Myanmar's retail sector to foreign investment could affect employment levels. In manufacturing, the garment industry accounts for almost 3 percent of GDP and created nearly 730,000 jobs, of which more than 83 percent are held by women.

The potential removal of preferential access to the EU market could have important ramifications for Myanmar. The EU market provides the country with the opportunity to diversify its export market, particularly for agricultural and labor-intensive products. Greater access to the EU market is also associated with a surge in FDI in the garment and footwear industries, which employ 10 percent of all employed workers in Myanmar. Removing preferential import tariffs would undermine the competitiveness of Myanmar exports, as the products will face stiffer competition from other countries with more efficient production methods.

FIGURE C.7: AGRICULTURE, WHOLESALE AND RETAIL TRADE, AND MANUFACTURING SECTORS CONTRIBUTE 75.5 PERCENT OF OVERALL EMPLOYMENT



Source: Myanmar Annual Labor Force Survey 2017Q1.

Table C.2 summarizes the sectoral contribution to GDP, trade, employment, and FDI. The manufacturing, trade, and agriculture sectors were the first, second, and third largest contributors to GDP in 2017–18, while natural gas, agricultural, and garment exports accounted for 61.9 percent of total exports in the same period. The agriculture, wholesale and retail trade, and manufacturing sectors contributed 75.5 percent of all employment in the first quarter of 2017, and the telecommunication sector attracted the largest share of FDI in the same period, with 29.9 percent of all FDI.

TABLE C.2: SECTORAL CONTRIBUTION TO GDP, TRADE, EMPLOYMENT, AND FDI

SECTORAL CONTRIBUTION TO GDP		SECTORAL CONTRIBUTION TO TRADE		SECTORAL CONTRIBUTION TO EMPLOYMENT		SECTORAL CONTRIBUTION TO FDI	
Agriculture	17.7%	Agriculture	20.8%	Agriculture, forestry and fishery	48.8%	Agriculture	0.4%
Livestock and fishery	8.0%	Animal products	0.4%	Communication	0.2%	Banking	0.4%
Forestory	0.1%	Fishery products	4.7%	Construction	5.7%	Construction	0.0%
Energy	0.2%	Forest products	1.4%	Electricity and energy	0.1%	Financial services excl. banks	2.2%
Mining	1.0%	Industrial finished products—garments	17.5%	Financial Insitutions	0.4%	Hotels	5.7%
Electricity	1.3%	Industrial finished products—natural gas	23.6%	Manufacturing	10.8%	Industrial estate	0.0%
Manufacturing	23.6%	Industrial finished products— other	5.7%	Mining	1.2%	Livestock	1.7%
Construction	5.6%	Minerals	12.0%	Rental and other services	6.5%	Manufacturing	17.7%
Transportation	12.9%	Other products	13.9%	Social and administrative	5.5%	Mining	7.0%
Communication	5.1%			Transportation and storage	4.7%	Oil and natural gas	9.1%
Financial institutions	0.6%			Water supply and other	0.2%	Power generation	11.2%
Rental and other services	2.8%			Wholesale and retail trade	15.9%	Real estate	3.4%
Social and administrative	2.6%					Services, excl. banking	11.0%
Trade	18.5%					Telecommunica-tions	29.9%
						Wholesale and retail trade	0.1%

Note: GDP, trade, and FDI data are for FY2017–18. Employment data are for Q12017. FDI = foreign direct investment; GDP = gross domestic product.

NOTES

1 The World Bank's Myanmar Economic Monitor (World Bank 2018c) for December 2019 estimates that Myanmar's economy grew at 6.3 percent in 2018–19, marginally higher than 6.2 percent in 2017–18. Economic growth is expected to reach 6.4 percent in 2019–20, helped by growing investment in the transport and telecommunications sector and planned infrastructure spending by the government.

2 The MIPP is an update of the Foreign Direct Investment Promotion Plan of 2014, prepared with the assistance of the Japan International Cooperation Agency.

3 However, as noted, the CBM recently allowed banks to lend at 16 percent without collateral.

4 Key measures include the unification of the exchange rate as well as the introduction of a managed-float exchange rate system and opening of the telecommunication sector to private investment. Reforms aimed at gradually liberalizing the economy, promoting the private sector, and attracting FDI were initiated in the late 1980s, but their impact was limited because of international sanctions and inadequate progress on improving the broader investment climate.

5 There is uncertainty around the exact magnitude of the country's investment growth, as national account data are somewhat noisy in Myanmar.

6 See World Bank 2019a for a detailed discussion on other key development challenges. For example, investment in infrastructure has not kept up with the pace of development, investment in human capital remains insufficient, and the current use of natural resources increases risks to sustainable growth.

7 Such as finance, adequately skilled labor, land, electricity, and transport.

8 See World Bank 2018f, which uses detailed data available in the 2014 Myanmar Population and Housing Census.

9 World Development Indicators (database), World Bank.

10 See Myanmar Statistical Information Service, http://mmsis.gov.mm.

11 Actual exports are likely significantly higher since the export of products such as jade and timber are only partially captured in official trade statistics.

12 The term Muslim is used in this document without prejudice to the United Nations' recognition of the right of the Muslim community in Rakhine to self-identify as Rohingya or any other ethnicity.

13 The 2015 Myanmar Business Survey (UNDP 2017) is a comprehensive survey of firms covering the entire country and all sectors, excluding agriculture and finance, which was produced by the Myanmar Central Statistical Organization and the UNDP.

14 World Bank Enterprise Surveys, which cover enterprises with five or more employees and a smaller subset of sectors than the Myanmar Business Survey, also found that 74 percent of firms were established less than 20 years ago.

15 Schneider, Buehn, and Montenegro (2010) found that the share of Myanmar's informal economy is smaller than that of only 6 other countries in a sample of 88 developing countries.

16 Investors in industrial zones do not benefit from a specific regulatory framework and have to follow the regulatory scheme set up under the Myanmar Investment Law or the ordinary law.

17 Pyidaungsu Hluttaw Law No. 9/2015.

18 The Competition Law aims to (a) prevent acts that injure public interests through monopolization or manipulation of prices by any individual or group with intent to endanger fair competition in economic activities, for the purpose of development of the national economy; (b) control unfair market competition in internal or external trade and economic development; (c) prevent the abuse of dominant market power; and (d) control restrictive agreements and arrangements among businesses (Pyidaungsu Hluttaw Law No. 9/2015).

19 This Enterprise Survey was conducted in Myanmar between October 2016 and April 2017. It collected data from firms varying in size, sector, and industry to assess firm-level perceptions of the investment climate.

20 There are 4 state-owned banks, 24 domestic private banks, and 13 foreign bank branches in Myanmar (IMF 2019). See also World Bank 2019a.

21 However, the CBM recently allowed banks to lend at 16 percent without collateral.

22 Myanmar's Microfinance Law of 2011 sets the maximum interest rate cap for micro loans at 28 percent per annum, the minimum interest rate cap for micro savings at 14 percent per annum on compulsory savings, and 10 percent on voluntary savings from members. The Myanmar Agriculture Development Bank and the Small and Medium Industrial Development Bank are allowed to offer low-interest loans to farmers and micro, small, and medium enterprises at 8.5 percent, but these make up a minority of their portfolios. The limit on the ticket size is K10 million.

23 Based on IFC research in 2018, over the next seven years it is estimated that US$3.85 billion in financing will be needed to reach 11 million low-income borrowers. As of March 2018, however, total outstanding MFI loans amounts to US$6.4 million across more than 3 million borrowers.

24 IFC consultations with the key stakeholders in Myanmar, April 2019.

25 See Myanmar TVET Country Profile, UNESCO-UNEVOC, November 2018, www.unevoc.unesco.org/l/589.

26 Land is a binding but also complex and politically sensitive constraint. It also affects access to finance as land held as collateral suffers from uncertain titles, use, and value because of Myanmar's complex land legislation and institutions.

27 This law applies to land acquisition, compensation, payment of damages, resettlement, and social and economic rehabilitation when land is acquired by the central government or for public purposes. It applies to land required for the implementation of national development projects in accordance with the national economic policy. It does not apply to the acquisition of land in accordance with the Vacant, Fallow, and Virgin Land Law or with the Farm Land Law. This law was not reviewed or assessed during the preparation of this CPSD report.

28 The Port of Yangon consists of 4 terminals and 15 wharfs, which can serve vessels up to a maximum of 15,000 to 20,000 deadweight tons. However, it lacks supportive infrastructure, such as conveyor belts, and multimodal connectivity. Since it is located in the Yangon River, the port offers a maximum draught of only 9.5 meters and can only be accessed during high tide, preventing large vessels from docking. Container volumes at the Yangon port are expected to increase from 890,000 twenty-foot equivalent units (TEUs) in 2015 to more than 2 million TEUs by 2020, and potentially reaching 4 million TEUs by 2025, which underscores the need to invest in port infrastructure.

29 World Bank Logistics Performance Index, 2018, https://lpi.worldbank.org/.

30 Myanmar already has a clean and green electric power system, comprising two-thirds hydropower and one-third gas-fired thermal power. Moreover, other clean renewable power from solar and wind resources will be added to the supply mix in the coming years. The country is in an advantageous position to continue pursuing clean and green electricity supply options (World Bank 2016a).

31 Notification available for download here: https://www.amchammyanmar.com/asp/view_doc.asp?DocCID=5377.

32 Study on the Industrial Licensing Process, IFC, draft of May 2018.

33 See Myanmar National Trade Portal, https://www.myanmartradeportal.gov.mm/en/mfn-tariffs-and-preferential-tariff-schedule-of-fta.

34 See "Guide to Importing Goods into Myanmar," Myanmar National Trade Portal, https://www.myanmartradeportal.gov.mm/kcfinder/upload/files/Guide%20to%20Importing%2019052016%282%29.pdf.

35 For imports, border compliance requires an average of 230 hours in Myanmar, compared to 68.4 hours in the EAP region, while documentary compliance requires 48 hours, compared with 53.7 hours for East Asia and the Pacific countries. With regard to the cost to import, border compliance costs an average of US$457 in Myanmar, compared to US$422.8 in the EAP region, and documentary compliance costs US$210, compared to $108.4 for East Asia and the Pacific countries (World Bank 2019b).

36 Myanmar's government has implemented several key reforms to strengthen regulation and supervision in the financial system, including the following: Financial Institutions Law (FIL) 2016; Mobile Financial Services Regulations 2016; and Credit Information Reporting Regulation 2017. Moreover, other laws are under development, such as the Micro Finance Law, Insurance Business Law, and Secured Transaction Law. Under FIL, the Central Bank of Myanmar (CBM) recently issued a license to establish a credit bureau. With support from the CBM, the credit bureau was expected to begin operations in late April 2020, and nonbank credit providers are encouraged to participate.

37 For detailed recommendations on PPPs and SEEs in the energy sector, see World Bank (forthcoming b).

38 World Trade Organization database.

39 Myanmar is the world's second largest exporter of beans and pulses after Canada.

40 Southeast Asian Fisheries Development Center, "Fisheries Country Profile: Myanmar," 2017, http://www.seafdec.org/fisheries-country-profile-myanmar/.

41 United Nations University UNU-Wider, "Myanmar Micro, Small, and Medium Enterprise Survey 2017," descriptive report, May 2018, https://www.wider.unu.edu/sites/default/files/Publications/Report/PDF/Myanmar-MSME-survey-2017.pdf.

42 The minimum wage in Myanmar is K4,800 (about US$70 to $80) per month, compared with an average monthly minimum wage between 2013 and 2016 of US$131 in Vietnam and US$140 in Cambodia (El-Shahat and di Canossa 2018).

43 This development priority is reflected in Myanmar's 2015 five-year national export strategy.

44 The EU reinstated the GSP for Myanmar in July 2013. The "everything but arms" preferential trade regime grants duty-free and quota-free access to the European market for all products except arms and ammunitions.

45 A majority of Myanmar's garment factories operate under the CMP system, in which a foreign buyer pays contracting fees to a garment factory in Myanmar to carry out the labor-intensive task of cutting the textile fabric, sewing garments according to design specifications, and then packing the garments for export.

46 FOB production overseas retailers place orders. Factories are then responsible for producing garments in their entirety and arranging for shipment to the retailers.

47 Based on field interviews; El-Shahat and di Canossa 2018.

48 World Development Indicators (database). Tourist arrivals data also include small traders that enter Myanmar daily at border crossing points to sell their products, which inflates the number of international arrivals.

49 See WTTC 2018, 15. Total contribution to GDP is defined by WTTC as "GDP generated directly by the Travel & Tourism sector plus its indirect and induced impacts." Indirect contribution to GDP and jobs from capital investment, government spending in support of general tourism activities, and purchases of domestic goods and services directly by different industries within the tourism sector as inputs to their final tourism output.

50 WTTC defines visitor exports as "spending within the country by international tourists for both business and leisure trip, including spending on transport, but excluding international spending on education." (WTTC 2018, 15)

REFERENCES

Amin, Mohammad. 2016. *Informal Firms in Myanmar.* Enterprise Surveys country note series, no. 33. Washington, DC: World Bank Group. http://documents.worldbank.org/curated/en/204971482736208631/Informal-firms-in-Myanmar.

ADB (Asian Development Bank). 2016a. "Myanmar Transport Sector Policy Note: Summary for Decision Makers." ADB, Manila. https://www.adb.org/sites/default/files/publication/184794/mya-transport-policy-note-es.pdf.

ADB. 2016b. "Myanmar Transport Sector Policy Note: How To Reduce Transport Costs." ADB, Manila. https://www.adb.org/sites/default/files/publication/189075/mya-reduce-transport-costs.pdf.

Bauer, Andrew, Arkar Hein, Khin Saw Htay, Matthew Hamilton, and Paul Shortell. 2018. *State-Owned Economic Enterprise Reform in Myanmar: The Case of Natural Resource Enterprises.* Yangon, Myanmar, and New York City: Renaissance Institute and National Resource Governance Institute. https://resourcegovernance.org/sites/default/files/documents/state-owned-economic-enterprise-reform-in-myanmar_0.pdf.

Campos, Francisco, Aidan Coville, Ana M. Fernandes, Markus Goldstein, and David McKenzie. 2012. "Learning from the Experiments That Never Happened: Lessons from Trying to Conduct Randomized Evaluations of Matching Grant Programs in Africa." Policy Research Working Paper Series 6296, World Bank, Washington, DC.

CEPA (Cambridge Economic Policy Associates Ltd). 2015. "Agribusiness Country Diagnostic—Myanmar Phase 1." Report prepared for the IFC, Washington, DC.

Commission on Growth and Development (Growth Commission). 2008. *The Growth Report: Strategies for Sustained Growth and Inclusive Development.* Washington, DC: World Bank.

Daniels, Jo, Chadd Concepcion, and Rowan Kendall. 2018. "Myanmar: The President Office Issues Project Bank Notification Aiming to Stimulate Public Private Partnerships (PPPs) in Line with National Development Objectives in Myanmar." Global Compliance News, December 18. https://globalcompliancenews.com/myanmar-president-office-issues-project-bank-notification-public-private-partnerships-20181212.

El-Shahat, Samah, and Violante di Canossa. 2018. "Opportunities for Sustainable Development in Global Value Chains: A Case Study of the Myanmar Garment Sector." International Centre for Trade and Sustainable Development, Geneva. http://www.greengrowthknowledge.org/sites/default/files/downloads/best-practices/Opportunities%20for%20Sustainable%20Development%20in%20Global%20Value%20Chains_A%20Case%20Study%20of%20the%20Myanmar%20Garment%20Sector.pdf.

GIZ. 2018. *Myanmar's Banking Sector in Transition: Current Status and Challenges Ahead.* Bonn: GIZ. http://www.giz-banking-report-myanmar-2018.com/#26.

ILO (International Labor Organization). 2014. "Assessment of the Business Service and Training Market in Myanmar." ILO, Geneva. *https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_317042.pdf.*

ILO. 2017. “Asia-Pacific Garment and Footwear Sector Research Note: Issue 8.” ILO, Geneva.

IMF (International Monetary Fund). 2017. “IMF Country Report No. 17/31: Myanmar Selected Issues.”

IMF, Washington, DC. https://www.imf.org/~/media/Files/Publications/CR/2017/cr1731.ashx.

IMF. 2019. “2018 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Myanmar.” IMF, Washington, DC. https://www.imf.org/en/Publications/CR/Issues/2019/04/10/Myanmar-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-46748.

Krugman, Paul. 1994. “The Myth of Asia’s Miracle,” *Foreign Affairs* 73 (November-December): 62–75.

MoHT (Ministry of Hotels and Tourism). 2013. “Myanmar: Tourism Master Plan, 2013–2020.” MoHT, Naw Pyi Taw. https://tourism.gov.mm/wp-content/uploads/2019/05/myanmar-tourism-master-plan-english-version-min.pdf

OECD (Organisation for Economic Co-operation and Development). 2013. “Multi-dimensional Review of Myanmar.” OECD, Paris. http://www.oecd.org/dev/multi-dimensional-review-of-myanmar.htm

OECD. 2019. “OECD Trade Facilitation Indicators—Association of Southeast Asian Nations (ASEAN): Trade Policy Note.”

Ozawa, Terutomo. 2005. *Institutions, Industrial Upgrading, and Economic Performance in Japan—The ‘Flying-Geese’ Paradigm of Catch-Up Growth*. Northampton, MA: Edward Elgar Publishing.

Schneider, Friedrich, Andreas Buehn, and Claudio E. Montenegro. 2010. “Shadow Economies All Over the World: New Estimates for 162 Countries from 1999 to 2007.” Policy Research working paper 5356, World Bank, Washington, DC.

Schwab, Klaus, ed. 2014. The Global Competitiveness Report 2014–2015. Geneva: World Economic Forum. http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf.

UNDP (United Nations Development Programme). 2017. “Myanmar Business Survey 2015.” UNDP, Yangon, Myanmar.

UNDP. 2018. “Myanmar Living Conditions Survey 2017.” Poverty Report 03, Myanmar Ministry of Planning, Finance and Industry, Nay Pyi Taw.

WEF (World Economic Forum). 2015. *The Travel & Tourism Competitiveness Report 2015: Growth through Shocks*. Geneva: WEF. http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf.

World Bank. 1993. *The East Asian Miracle*. Oxford, UK: Oxford University Press.

World Bank. 2014a. “Myanmar Agricultural Development Bank: Initial Assessment and Restructuring Options.” World Bank, Washington, DC.

World Bank. 2014b. "Myanmar: Capitalizing on Rice Export Opportunities." World Bank, Washington, DC.

World Bank. 2015. "Myanmar Investment Climate Assessment Sustaining Reforms in a Time of Transition." World Bank, Washington, DC.

World Bank. 2016a. "Myanmar Economic Monitor: Growing Economic Vulnerabilities." World Bank, Washington, DC.

World Bank. 2016b. "Myanmar Diagnostic Trade Integration Study (DTIS): Opening for Business." World Bank, Washington, DC.

World Bank. 2016c. "Myanmar Analysis of Farm Production Economics." World Bank, Washington, DC.

World Bank. 2016d. "How to Make Grants a Better Match for Private Sector Development: Review of World Bank Matching Grants Project." Working Paper, Competitive Industries and Innovation Program, International Bank for Reconstruction and Development and World Bank, Washington, DC.

World Bank. 2017a. "Enterprise Surveys: Myanmar 2016 Country Profile." World Bank, Washington, DC.

World Bank. 2017b. "Myanmar Public Expenditure Review 2017: Fiscal Space for Economic Growth." World Bank, Yangon, Myanmar.

World Bank. 2018a. "Myanmar's Future Jobs: Embracing Modernity." World Bank, Washington, DC.

World Bank. 2018b. "Myanmar Economic Monitor: Growth Amidst Uncertainty." World Bank, Washington D.C.

World Bank. 2018c. "Myanmar Economic Monitor: Navigating Risks." World Bank, Washington, DC..

World Bank. 2018d. "Towards a Sustainable Land Administration and Management System in Myanmar." World Bank, Washington, DC

World Bank. 2018e. "Flash Note #3—Why Preferential Market Access to the European Union Market Is Important for Myanmar." World Bank, Yangon, Myanmar.

World Bank. 2018f. *The 2014 Myanmar Population and Housing Census: Multidimensional Welfare in Myanmar: Main Report (English)*. Washington, DC: World Bank Group.

World Bank. 2019a. "Systematic Country Diagnostics 2018." Draft. World Bank, Washington, DC.

World Bank. 2019b. *Doing Business 2020*. Washington, DC: World Bank.

World Bank. Forthcoming a. "Myanmar Country Economic Memorandum." World Bank, Washington, DC.

World Bank. Forthcoming b. "Myanmar: Energy Infrastructure Sector Assessment, June 2019 draft." World Bank, Washington, DC.

WTTC (World Travel and Tourism Council). 2016. "Travel & Tourism Investment in ASEAN." WTTC, London. https://www.wttc.org/-/media/files/reports/policy-research/asean-tt-infrastructure-report-2016.pdf.

WTTC. 2018. "Travel & Tourism Economic Impact 2018 Myanmar." WTTC, London.

Zaw, Myinmo, and Toshihiro Kudo. 2011. "A Study on Economic Corridors and Industrial Zones, Ports, and Metropolitan and Alternative Roads in Myanmar." In *Intra- and Inter-City Connectivity in the Mekong Region*, edited by Masai Ishida. BRC Research Report no. 6. Bangkok: Bangkok Research Center, Institute of Developing Economies-Japan External Trade Organization.

IFC
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433 U.S.A.

CONTACTS

Philip Chang
pchang2@ifc.org

Philippe De Meneval
pdemeneval@worldbank.org

ifc.org

WORLD BANK GROUP
THE WORLD BANK IBRD • IDA
IFC International Finance Corporation