3. STATE ENTERPRISE REFORM AND PRIVATE SECTOR DEVELOPMENT

A. BACKGROUND

3.1 An important goal of the Government's reform program has been to improve the performance of the State Enterprise (SE) sector while supporting the development of the private sector. This Chapter examines the effectiveness of the measures intended to meet this objective. The next section provides the backdrop to the policy discussions by presenting various facets of the role of SEs in the Myanma economy. Their structure and sectoral contribution are assessed, various indicators of their recent performance are presented, and the links of the SE sector to the government budget are delineated. On this basis, the extent to which SEs contribute to the Government's fiscal problems is evaluated, and the constraints to improved SE performance are discussed. The recent reforms aimed at improving SE performance are summarized in Section C, and their effectiveness is evaluated. Particular attention is focused on the effect of these reforms on the operational and financial autonomy of SEs, as well as their operation along commercial lines. The last section describes the elements of a strategy to deepen SE reform and strengthen the private sector in Myanmar. The proposed approach builds on the recent experience in Myanmar as well as on the lessons from similar reform efforts in other economies that are making the transition to a market, including China, Vietnam, and the countries of Eastern and Central Europe.

3.2 The SE sector played a central role in Myanmar's development strategy until the Government's reform program was initiated in the late-1980s. State ownership was one of the main tenets of the "Burmese way of socialism". In practice, the coverage of the public sector was not uniform. Rather, its significance was greatest in sectors such as manufacturing, mining, communications, financial services, transport infrastructure, and trade that were thought to be most critical to the emergence of a modern, industrialized economy. Given this starting point, a comprehensive program of transition to a market economy must include a major component targeted at rationalizing the role of SEs and removing the barriers that still restrain private sector activity. As this Chapter documents, the GOM has taken some steps in this regard, which indicate its commitment to reducing the role of SEs in economic activity and expanding the scope of the private sector, domestic and foreign. Despite the progress that has been made, implementing these reforms involves difficult choices, and much remains to be done. Yet, if Myanmar's transition to a market economy is to be successful, the role and functioning of the SE sector must be reoriented and the scope for private sector involvement expanded.

B. STRUCTURE AND PERFORMANCE OF THE STATE ENTERPRISE SECTOR

Role of State Enterprises in the Economy

3.3 The public sector. The pervasive control of the public sector in critical sectors of the economy is clearly seen from its share of the sector in GDP by industry of origin (Table 3.1).[1] While the public sector contributes about 22% of GDP, its role is largest in the services sector, where it accounts for over half of value added. It also still plays an important role in some parts of the industrial sector and in trade.

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[1] As with all data involving sectoral breakdowns of GDP, these shares should be interpreted with caution.

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Finally, apart from forestry where its role is substantial, the public sector presence in other primary sectors -- agriculture, livestock and fishery -- is minuscule.

Table 3.1: Share of Public and Private Sectors in GDP by Subsector
(percent, at 1985/86 constant prices)

	Public Sector			Private Sector[1/]		
	FY 85	FY 90	FY 95	FY 85	FY 90	FY 95
Agriculture, Livestock, Fishery & Forestry	2.6	2.2	1.4	97.4	97.8	98.6
Forestry	33.7	48.0	42.6	66.3	52.0	57.4
Industry	68.1	48.0	46.8	31.9	52.0	53.2
Mining	89.7	87.8	60.6	10.3	12.2	39.4
Manufacturing & processing	56.7	33.2	27.3	43.3	66.8	72.7
Construction	81.1	84.8	82.0	18.9	15.2	18.0
Services (excluding trade)	67.4	53.7	56.4	32.6	46.3	43.6
Transportation	36	34.2	39.4	64.0	65.8	60.6
Financial institutions	98.9	94.9	69.0	1.1	5.1	31.0
Trade	46.4	30.2	23.1	53.6	69.8	76.9
GDP (at market prices)	**38.9**	**22.0**	**22.2**	**61.1**	**78.0**	**77.8**

1/ Including cooperatives

Source: MNPED, Planning Dept.

3.4 The overall public sector share in GDP has remained roughly constant between FY90 and FY95 (Table 3.1). At the sectoral level, however, the official statistics indicate a relative decrease in the public sector share in some sectors. Particularly notable declines were registered in the financial institutions, mining and forestry subsectors. In the latter two, this decrease is attributable to the establishment of joint ventures with foreign and domestic investors while the licensing of private banks accounts for the former. The share of the public sector in fixed investment has also fallen from 56% in FY90 to 47% in FY95. However, this investment is financed entirely from private and foreign saving, since public saving has consistently been negative (Appendix Table 1.8).

3.5 Since the public sector is concentrated in non-agricultural sectors that are relatively more capital-intensive, its share of employment is 8%, far less than its GDP share. However, this number is still large in absolute terms, almost a million workers (excluding casual labor) out of a total organized sector workforce of over 17 million (Table 3.2). Most of these workers are employed by the Union Government. Although the sectoral break-down of employment is not available, it appears that the public sector is responsible for most of the non-agricultural employment. Since FY90, public sector employment has risen by about 2%, with the Union Government having increased its employment. Average public sector wages rose at about 9% annually during FY90-FY95. Since inflation averaged about 30% annually during this period, real wages have fallen sharply. Data on private sector wages are not available, but it is reported that they are far higher than in the public sector.

Table 3.2: Public & Private Sector Employment

	FY90	FY95
Total employment ('000s)	15,221	17,230
Of which, percentage share of:		
Public sector (including casual labor)	8.7	8.0
Private sector and cooperatives	91.3	92.0
Number of employees in public sector[1/] ('000s)	862	877
Union Government	532	568
Local bodies	18	**
State enterprises	312	309

1/ Excludes the armed forces and casual labor
** Less than 1000

Source: MFR, Budget Department.

3.6 State Enterprises. Currently, there are 59 SEs that operate about 1800 factories and establishments, and these are affiliated to various line ministries (Annex 3.1). The largest number of SEs are in trade, industry and finance. The State Economic Enterprise (SEE) Law identifies the activities that are open exclusively to SEs (Annex 3.2). However, many of these enterprises, such as those under the Ministries of Industry 1 and 2, are in areas not reserved under the SEE law, which can also legally be undertaken by the private sector.

3.7 The SEs employ about 309,000 regular workers or about 35% of total public-sector employment. This number reflects a slight decline since FY90, which has been achieved mostly through attrition. Although average nominal wages of SE employees rose much faster in FY90-95 (about 16% annually) than for other government employees, these too have declined substantially in real terms.

3.8 The size distribution of SE and private-sector establishments is shown in Table 3.3. The dominance of SEs outside the agricultural sector is again evident. While the private sector is made up predominantly of small establishments employing less than ten workers, SEs account for over 95% of large establishments that employ more than 100 workers and about 80% of the medium-sized establishments (between 51-100 workers).

Table 3.3: Size Distribution of Industrial Establishments

No. of Workers	FY 85			FY 89			FY 95		
	Public	Private	Total*	Public	Private	Total*	Public	Private	Total*
Below 10	926	37025	38363	981	37965	39355	815	42925	44054
10-50	225	1840	2334	297	1824	2429	287	1863	2363
50-100	145	39	216	150	9	159	146	81	336
Over 100	438	6	444	426	4	430	427	43	474
Total	1734	38910	41357	1854	39802	42373	1675	44912	47227

* Includes co-operative establishments in addition to public and private-sector.

Source: MNPED, Planning Department

3.9 The importance of SEs is also evident from the share of the state sector in external trade as well as tax collections. In FY95, the state sector accounted for about 53% of total exports and about 35% of total imports. Whereas all public sector exports are generated by SEs, it is estimated that they use between 50-55% of public sector imports. The share of SEs in total tax revenues in FY94 was about 41%, and included payments of commercial tax, customs duty, and income tax.

3.10 Hence, the public sector in Myanmar, and the SEs in particular, still remain a significant part of the economy. While the share of the public sector in GDP has fallen slightly since the GOM instituted its reform program in 1989, and the share of SEs in external trade and tax collections has declined, SEs still account for significant shares of output and employment especially in the non-agricultural sector.

Recent Performance

3.11 Operational indicators. Although the performance of the SE sector has improved relative to FY89 when it bottomed out, it has not fully recovered to its level of a decade ago. Various indicators of production by SEs are shown in Table 3.4. The output index for all industries in FY94 was still about a third lower than in FY84. This pattern held also for the industries under Ministry of Industry No. 1 (MOI 1), which declined even more over the decade, and Ministry of Industry No. 2 (MOI 2). While output declined substantially, SE employment has not fallen by much. Hence, labor productivity has fallen. For example, in MOI(1), labor productivity in FY94 was two-thirds its level in FY90.

Table 3.4: Selected Indicators of State Enterprise Output

	FY 85	FY 90	FY 95
Oil and Natural Gas energy ('000 barrels of oil equivalent)	15,280	12,181	13,124
Cement ('000 tons)	423.5[1/]	454.4	484.6
Urea fertilizer ('000 tons)	273.0[1/]	192.0	235.0
Output of MOI (1) (Index: 1985/86 = 100)	88.9	55.8	61.1
Output of MOI(2) (Index: 1985/86 = 100)	103.5	46.1	41.2
Average (all industries) (Index: 1985/86 = 100)	88.9	55.0	61.2

1/ These data refer to the calendar year 1985

Source: MNPED, MOI(1), MOI(2)

3.12 Another performance indicator of SEs -- capacity utilization is shown in Table 3.5. As with output levels, the average capacity utilization for all industries, as well as those in MOI(1) and MOI(2), has improved relative to FY90 but is still far below the performance achieved a decade ago. For all industries, average capital utilization in FY95 was only about 64% of its FY85 level. Moreover, this decline has occurred across the board in all but one of the enterprises within MOI(1) with only the ceramic industries matching its FY84 level. Similar trends are apparent for exports. Although precise data on SE exports are not available, exports in FY94 of the seven enterprises under MOI(1) were about 11% lower (in Kyat terms) than in FY84, and less than 1% higher than in FY90. This poor export performance reflects the fall in capacity utilization in these enterprises.

Table 3.5: Capacity Utilization Ratios for Selected State Industrial Enterprises

(percent)

	FY85	FY90	FY95
Average of Ministry of Industry No. (1)	67.0	43.9	52.1
M.O.I. (2): Myanmar Heavy Industry	61.3	20.0	21.4
Myanma Petrochemical Enterprise	65.6	29.7	39.3
Average of All Industries	66.0	36.3	42.0

Source: MNPED, Planning Department.

3.13 Financial performance. The pattern evident in these operational indicators is also apparent in the financial performance of SEs. Judging by the official data, SEs have collectively become increasingly non-profitable over the last decade (Table 3.6).[2] They have registered current deficits, which have grown since FY92. Moreover, current deficits are pervasive with 14 of the 48 non-financial SEs having registered these at least once during FY91-95. These loss-making enterprises were spread across a range of subsectors, including agriculture and forestry, mining, trade and manufacturing. The financial performance of SEs obviously deteriorates even further when their capital expenditures are considered. Since FY90, capital expenditures of SEs have come directly as grants from the Government budget. The overall deficit of the SE sector thus widens with the inclusion of these capital expenditures (Table 3.6).

Table 3.6: Current Surplus and Overall Balance of State Enterprises
(m. Kyats)

	FY85	FY90	FY95 Rev.
Current surplus [a/]	1496	749	-3142
Capital expenditure	4489	3045	6123
Overall balance	-2993	-2296	-9265
Overall balance (% of GDP)	-5.6	-1.8	-2.1

a/ Current surplus is recorded on a cash basis before payments of interest but after contributions to the Union Government; includes all State Enterprises.

Source: MFR, Budget Department.

3.14 Hence, the operational and financial performance of SEs continues to be poor despite recent improvements. In terms of output, labor productivity, capacity utilization, and profitability, SE performance remains far below the levels achieved in the mid-1980s, which were themselves problematic. Since the SEs remain an important part of the economy, the inability to improve their performance highlights the need to examine critically recent reform efforts in this area.

State Enterprises and the Government Budget

3.15 The links between SE finances and the government budget are of particular importance in light of the poor performance of SEs and the continuing fiscal problems of the GOM. The significance of this relationship has increased since FY90 with the introduction of the State Fund Account (SFA). Under this system, which was intended to better control SE spending, the finances of all SEs are combined with those of

[2] Although the available official data are not ideal due to exchange rate overvaluation, price controls, prevalence of barter arrangements among enterprises, and uneven accounting practices, they are used here because no other data are available.

administrative departments into a combined pool called the SFA. Since all revenues flow into this pool and all expenditures must be made from it, this system has meant that control over SE finances effectively has been transferred from the enterprises to the Union Government. Since they are owned by the government, they are obliged to surrender any surplus they generate, initially as a "contribution" that is budgeted at the start of each fiscal year and as the residual surplus if any remains at the end of the year. Similarly, SEs also receive a direct subsidy from the budget to the extent they accrue a current deficit at the end of the year. Finally, like administrative departments, their capital expenditures are made directly from the government budget. Apart from the link through the SFA, SEs contribute indirectly to government revenues through payments of commercial and income taxes and customs duties.

3.16 It is contended that the SE sector now constitutes a smaller drain on fiscal resources. This conclusion is based on the narrow estimate of the financial linkage between SEs and the consolidated public sector budget, which is shown at the top of Table 3.7 as the net contribution to the government. Contributions by SEs have grown since FY91, while the share of SE expenditure has remained stable. However, even by this measure, SEs were net contributors to the budget only in FY92 and FY93. In the last two fiscal years, SEs' net contributions to the budget have been negative. Another point worth noting is that SEs' contributions to the Government are unrelated to their current surplus or deficit. Their contributions were positive and rising even during FY92-94 when the current deficit of the SE sector was increasing (Table 3.7).

3.17 This narrow measure of SEs' net contributions also needs to be adjusted in two ways if it is to accurately reflect the interactions between the SE sector and the budget. *First*, the tax payments of SEs in the form of commercial taxes, income taxes and custom duties need to be added to their direct contributions. These payments are shown in the bottom half of Table 3.7, and are almost as large as their direct contributions.[3] The *second* adjustment necessary is to reflect the fiscal impacts of the benefits that SEs receive from the government in the form of subsidized inputs (including capital). The most significant of these implicit subsidies is estimated in Table 3.7, and arise from subsidized access of SEs to electricity, and petroleum products.[4]

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[3] The commercial tax and income tax paid by SEEs is assumed to be equal to that of the state sector. SEEs' payment of custom duties are estimated by multiplying total custom duties by first the state sector share and then the share of SEEs in state sector imports. For details, see Annex 3.3.

[4] Official prices of petroleum products remained constant for five years until they were increased in November 1994. Even then the revised prices fail to reflect the parallel market price. For example, gasoline sells at about Kyat 200/gallon in the parallel market, but the official price is only Kyat 25/gallon. Similarly, electricity is sold to private users at 6 times the price charged to public-sector users including the SEs. It should be noted, however, that these estimates do not take account of the implicit taxes on SEs through their sales of output at below-market prices because these are difficult to estimate. While including those transfers would obviously improve the financial picture of SEs, they would likely be offset by other subsidies to SEs, which are also not estimated here, including their access to subsidized imports (other than petroleum products) and free land.

Table 3.7: Links between State Enterprises and the Government Budget[1/]
(million Kyats)

	FY91	FY92	FY93	FY94	FY95 (RE)
SEs' payments to the government	3307	3342	4997	6636	7820
(as a share of total government receipts %)	22	18	24	24	24
SEs' contributions	3307	3342	4997	6636	7820
SEs' receipts from the government	4414	3283	4596	7608	9265
(as a share of total government expenditures %)	17	11	14	17	16
SEs' capital expenditures	3889	3276	3462	3373	6123
SEs' current deficit	525	7	1134	4235	3142
SEs' net contribution to the government	**-1107**	**59**	**401**	**-972**	**-1445**
SEs' tax payments to govt.	3769	3442	4236	5411	6858
Commercial tax & income tax	3186	2853	3606	4694	6150
Customs duties	583	589	631	717	708
Implicit fuel and interest subsidies to SEs	**4853**	**7891**	**10338**	**12810**	**13485**
Subsidies on electricity	3226	4783	6031	8046	7990
Subsidies on gasoline and diesel	954	2071	2887	2969	3050
Interest subsidies on investment grants	673	1037	1420	1795	2445
Net payments to govt. including interest subsidies	**-2191**	**-4390**	**-5701**	**-8371**	**-8072**
As a share of budget deficit (%)	**19**	**34**	**44**	**52**	**30**

1/ Includes all State Enterprises.

Source: MFR, Budget Department, and staff estimates (Annex 3.3)

3.18 These adjustments show that even if SEs are credited for their tax payments, it does not offset the large subsidies they continue to receive on their use of energy and capital inputs. By this measure, the net fiscal contribution of SEs is significantly negative -- about 52% of the fiscal deficit in FY94, a trend that worsened since FY92. And its reduction as a share of the fiscal deficit in FY95 reflects only the widening of the deficit itself. These subsidies are not explicit but rather arise through the provision of underpriced inputs at overvalued exchange rates and negative interest rates. Hence, the overall fiscal deficit does not reflect these subsidies. Nevertheless, their effect is felt indirectly on the budget by lowering the revenues of MPPE and MEPE -- the SEs that supply petroleum products and electricity.[5]

[5] Adjusting the prices of these inputs, however, will not be sufficient to improve the fiscal picture if those higher prices translate into larger losses by SEs who use these inputs. As discussed below, it will require the imposition of hard budget constraints on SEs as well. But, eliminating these implicit subsidies is a necessary first step in stemming the financial drain that the SE sector currently imposes on the budget.

Have State Enterprises Performed Better in the Reform Period?

3.19 A judgment on whether the performance of SEs has improved depends on the time period that is considered. On some operational and financial indicators, SE performance in FY95 was better than in FY91 soon after the GOM instituted its reforms. However, that comparison is misleading because the period 1988-90 was especially difficult for the Myanma economy, and economic recovery began only in FY90. Hence, it is unsurprising that the situation today is not as bleak as in FY91. A more meaningful comparison would contrast the current situation of SEs with their performance a decade ago. When that benchmark is used, the real magnitude of the problems facing the SE sector becomes apparent. On every available performance measure, the SE sector, in general, as well as specific enterprises are doing much worse today than a decade ago. Their poor performance is especially striking given the context of overall economic recovery.

3.20 The one area which is often pointed to as a sign of improving SE performance -- their positive contribution to the government budget -- is also misleading, as illustrated in Table 3.7. While the SE sector makes a positive *financial* contribution to the budget, a more complete accounting of the links between the budget and SE finances shows that these financial transfers are dwarfed once the capital outlays of SEs are taken into account along with the implicit subsidies that flow to some SEs through the underpricing of energy inputs and capital. For the Government's fiscal position to improve significantly, these subsidies would need to be reduced without the budget having to absorb any resulting SE losses. Before examining the reforms that are still required in order to make that possible, the constraints that limit SE performance are noted.

3.21 Constraints on SE performance. From interviews with SE managers, three main factors appear to account for the continued poor performance of SEs in Myanmar. *First*, almost all enterprises suffer from shortages of capital and foreign exchange. The adverse effects of these shortages are compounded by a *second* factor, which is the inability of SE managers to operate along strictly commercial lines. Managers have little autonomy in their decision making, into which non-commercial considerations constantly intrude. *Finally*, with the liberalization of private-sector activity and foreign exchange retention (and despite the remaining biases against the private sector), many SEs now face greater competition from domestic manufactures and imports.

3.22 The most important implications of these constraints on SE performance is that it limits their ability to import key inputs, including spare parts, and new capital equipment to replace their outdated machinery. The centralization of all capital budgeting and import decisions makes it even more difficult to make these choices in a timely manner. Hence, it is increasingly difficult for SEs to improve capacity utilization or to compete effectively with private producers or imports. Their lack of operational and financial autonomy means that SE managers have little incentive to control costs or look for innovative ways of improving performance. While many SE managers continue to make such efforts, their perseverance in the face of stifling constraints and distorted incentives will not suffice. For sustained improvement, action is needed in several interrelated policy areas.

3.23 Policy reform is essential because without it the current constraints on SE performance will remain. For instance, while access to capital and imported inputs are obviously major factors in low capacity utilization in most SEs, merely increasing the availability of credit and foreign exchange without changing the incentive structure facing SE managers will do little to help improve the functioning of SEs over the medium term. The needed policy reforms cover three main areas. *First*, the prices that face SE managers must be set at more realistic levels so that they reflect market conditions. In particular, a more realistic exchange rate and interest rate must be used in valuing, respectively, the external trade and investment of SEs, while their sales prices, even to other SEs should be liberalized.

3.24 *Second*, measures must be taken to enhance the financial and operational autonomy of SE managers. They should be allowed much greater latitude in making production, pricing, sales, recruitment, and investment choices along commercial lines. In return, SEs should face hard budget constraints that mean that their deficits would not automatically be covered from the government budget. The *final* policy area that needs attention is strategic, involving the need for the GOM to decide on the relative role of the private and public sectors in the economy. This delineation needs to go beyond the view that the private sector is important to medium-term development, by spelling out the sectors in which the continued presence for SEs is foreseen along with a rationale for this role. Before fleshing out the details of proposed reforms in each of these policy areas, the next Section examines the effectiveness of current reform efforts in addressing the main constraints on SE performance.

C. RECENT STATE ENTERPRISE REFORMS

3.25 The efforts by the GOM since 1989 to reform the SE sector have involved actions on two main fronts. Measures have been undertaken to restructure enterprises by liberalizing the price-setting mechanism, increasing the autonomy of SE managers on operational and financial matters, and attempting to increase fiscal discipline among SEs. These actions have been accompanied by efforts, which have accelerated recently, to sell or lease some enterprises or facilities to private entrepreneurs. This section describes these reforms along with an assessment of their efficacy in addressing the policy issues noted previously.

Pricing Reform

3.26 Output prices. Since FY90, there have been changes in the system for pricing SE output as well as the prices at which agro-industrial enterprises procure their agricultural raw materials. Before 1989, prices for SEs' outputs (to consumers as well as to other SEs) were strictly controlled at levels that were typically unrelated to production costs. This has now been replaced with a system of dual pricing. The ex-factory prices for output sold to the Government (to satisfy compulsory procurement targets) or to other SEs are still set on a cost-plus basis, and can be increased only if shown to be justified on the basis of cost increases. There is no evidence that there is any greater flexibility in granting price adjustments on such sales. Once the procurement targets are met, sales can be made at free-market prices either explicitly, or implicitly by making sales in foreign exchange. As Table 3.8 shows for some industrial products, these prices are much higher than official prices. The gap between the free-market and official prices for gasoline and other petroleum products is also about eight-fold. For instance, MPPE is allowed to make about 10% of its gasoline and diesel sales (in volume terms) in foreign exchange at "mixed prices" that are a composite of foreign exchange (dollars) and Kyat, and are close to the free-market price.[6]

[6] The "mixed price" for gasoline is ($1.32 + K10.5) per gallon (Imperial), which works out to K156/gallon, if the dollar is evaluated at the parallel exchange rate (K110/$). This price compares to the official price of K25/gallon, and a free-market price of K200/gallon. Similarly, for diesel, the mixed price is ($1.12+K5.8) per gallon (Imperial) or about K129/gallon at the parallel exchange rate. The official price of diesel is K20/gallon, and the free-market price is about K160/gallon.

Table 3.8: Official and Free Market Prices of Selected Commodities
(kyats)

Commodity	Unit		1987 Dec.	1988 Dec.	1989 Dec.	1990 Dec.	1991 Dec.	1992 Dec.	1993 Dec.	1994 Dec.	1995 June
Washing Soap	Bar	Official	2.0	6.5	8.0	8.0	8.0	9.0	9.0	9.0	9.0
		Free	14.8	11.9	9.8	9.7	12.0	16.2	15.2	17.0	19.86
Matches	Each	Official	0.3	0.5	0.5	0.5	0.8	0.8	0.8	0.8	0.8
		Free	1.0	1.0	1.0	1.3	1.3	1.8	2.0	2.0	2.0
Cigarettes	20Nos.	Official	2.7	8.1	8.1	8.5	8.5	8.5	8.5	8.5	8.5
		Free	36.1	16.5	18.0	18.0	26.2	30.2	24.2	30.2	34.0
Candles	Pkt	Official	1.5	1.5	1.5	4.2	4.5	4.5	4.5	4.5	4.5
		Free	18.6	11.9	15.0	15.2	19.6	20.8	23.2	22.0	21.5
Vest (1/30)	Each	Official	7.2	10.3	10.3	10.3	10.3	24.8	24.8	24.8	24.8
		Free	16.5	16.0	17.5	25.1	26.0	31.7	35.9	39.2	48.5
Long Cloth	Yd	Official	7.7	10.4	10.4	10.4	14.4	32.0	32.0	32.0	32.0
		Free	16.0	16.5	19.3	26.0	35.3	47.5	41.9	43.8	48.0

Source: Central Statistical Organization

3.27 Domestic input prices. Before 1989, all crops used as industrial raw materials were procured at official prices by the state, and made available at these prices to the SEs that used them. The liberalization of agricultural marketing has allowed the operation of private traders, and farmers can choose to sell their produce to them. SEs must, therefore, now compete with private traders in purchasing the crops they use as industrial raw materials, and must do so at prices that are still set by the government. Table 3.9 compares these government procurement prices with those offered by private traders for three crops used as raw materials by SEs. In all these cases, the difference between the prices has narrowed since FY91, reflecting the difficulty that was initially faced by the SEs in procuring sufficient quantities. However, the government price for two of these three crops in FY95 was still much lower than that offered by private traders.[7]

Table 3.9: Purchase Prices of Selected Agricultural Inputs
(Kyats per metric ton)

	FY91	FY92	FY93	FY94	FY95
Cotton					
Government	13595	15257	15273	16503	22454
Private traders	16408	18329	17766	16737	22457
Jute					
Government	6835	7463	11501	10691	13723
Private traders	7349	11225	12224	12861	14208
Rubber					
Government	26993	40005	50892	59070	70057
Private traders	30871	40419	48004	52922	88203

Source: MNPED, Planning Department

Operational Autonomy

3.28 In the pre-reform period, SE managers had little autonomy in making basic decisions concerning the operation of their enterprises. Decisions regarding output levels, product mix, marketing and distribution, external trade, employment and wages, and investments had to be approved by the supervising line ministries and often, also coordinated with other ministries. The reforms since 1989 have granted limited autonomy to SE managers in several areas, and the most significant of these are described below.

[7] For the main food crops -- paddy, wheat and maize -- the government's procurement price in FY95 was also below that offered by private traders, by a factor of between 60% to 9%.

3.29 Production. SEs are now allowed to use their facilities and equipment to or production on consignment basis for foreign or local entrepreneurs who furnish the raw materials. This method has grown in popularity, particularly with industrial SEs, because it has allowed them to obtain critical inputs (especially imports) and increase capacity utilization. For instance, during FY95, 27 factories under MOI (1) producing textiles and pharmaceuticals, operated under consignment basis. Eight of these were negotiated with foreign companies while the rest involved collaborations with local businessmen. The total value of output produced under such arrangements was K816 million in FY95. Since the commissions to SEs from these contracts are negotiated individually, consignment production also allows SE managers to circumvent the price controls that would otherwise apply to a portion of their output. Despite the increased flexibility due to this possibility, decisions concerning consignment production cannot be made by individual SE managers but rather must be referred to senior officials in the parent ministries. Apart from consignment production, SEs can also enter into joint ventures with foreign firms, establishing either new companies or converting existing factories. Under MOI(1) 10 such JVs have been established with the share of the SE varying from 45% to 65% of the equity, with this contribution taking the form of land and buildings.

3.30 Marketing and distribution. SE managers are now allowed to sell output at free-market prices once their enterprises' procurement targets have been met. In practice, however, low capacity utilization in most SEs means that their output levels are below the procurement targets or only slightly above them. Hence, little is sold at free-market prices, and managers do not actually have much discretion as to the distribution of output. For instance, Myanma General and Maintenance Industries (under MOI (1)) sold almost 78% of its FY95 output to government departments at controlled prices. Collectively, for the enterprises under MOI (1), the average share of output (in terms of value) sold to government departments was 46% in FY90 and, although declining, was still 40% in FY95. Moreover, all six of the enterprises under MOI (1) sold more than a sixth of the value of their output to government departments with three of the six enterprises selling over half their output in this manner.[8] Another 14% of MOI(1) output value was accounted for by inter-factory transactions, also at controlled prices.

3.31 Foreign exchange transactions. In 1993, a revolving fund of almost $60 million was established for the use of SEs under 8 ministries (MOI (1) and (2), Forestry, Hotels and Tourism, Livestock and Fisheries, Trade, Agriculture and Energy). This fund was intended as seed money to help the SEs generate additional foreign exchange. The foreign exchange earned by Ministries by using these allocations do not need to be surrendered, unlike other foreign exchange earnings. Moreover, whether or not the initial foreign exchange allocation is repaid is according to the discretion of the individual Ministries. While this allocation has enhanced the flexibility of SEs in making foreign exchange decisions it also means that Ministries and SEs would use it for more profitable activities while using centrally-allocated foreign exchange for less profitable ventures. The foreign exchange earnings from the other schemes that have been instituted since 1990 to encourage SEs to expand exports (para. 1.48) are treated like all other revenues of SEs, and are monitored and controlled centrally by the Ministry of Finance.

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[8] Since the prices on such sales are far lower than the free-market prices, the share of output (in physical terms) sold to government departments is even higher than is shown here. Also, these shares exclude sales to the government employees' cooperative and to the armed forces, which are also made at controlled prices. Such sales are particularly significant for Myanmar Pharmaceutical Industries, and collectively account for over 11% of the value of MOI(1) sales.

3.32 Employment and wages. There has been little progress in expanding the role of enterprises in making decisions regarding employment and wage decisions. While employment in some SEs has fallen, these decreases have been the result of a centrally-mandated decision to reduce the workforce through attrition. For instance, the workforce employed by the enterprises of MOI (1) fell about 10% during FY90-94. The reforms have not included any schemes to link performance and pay. A bonus system for managers that had been in place since the mid-1970s was discontinued in 1989 when salaries for all government personnel were raised.

Financial Autonomy

3.33 Until 1989, SEs were financed under a working capital system. Each SE was allocated seed money from the government budget, and could then borrow the rest of its capital requirements from the Myanmar Economic Bank at nominal interest rates of between 5 and 8% p.a., depending on whether the financing was sought for investment or for working capital needs. In response to the rising debt burdens of SEs, the GOM decided at the start of FY90 to convert their debt to government equity. Simultaneously, a new system of financial management was established with the aim of exercising tighter control over SE finances. The finances of SEs were integrated with those of the administrative departments to form a centralized pool called the State Fund Account (SFA).[9]

3.34 The creation of the SFA has meant that SEs have little or no control any longer over their finances. Enterprises must deposit their receipts into the SFA (typically maintained by the MEB) and, like administrative departments, all their expenditures on current and capital accounts must be approved by the Budget Department. While the evaluation process for current expenditures is not very stringent, that for capital expenditures is a cumbersome process involving several ministries. SEs also can no longer borrow from commercial banks. Within the SFA, although separate accounts are maintained for each SEE for monitoring purposes, various pooling arrangements have been introduced since 1992 to allow transfer of funds from cash-surplus SEs to other enterprises.

Fiscal Discipline

3.35 A major goal of pooling SE finances into the SFA was to instill greater discipline into the financial practices of these enterprises. While the SFA has increased scrutiny of expenditures, there is no evidence that the fiscal discipline imposed on unprofitable SEs has been strengthened. In fact, it appears to have had the opposite result. Since enterprises are now funded directly from the budget, these funds are not allocated according to any clear-cut criteria related to performance or need. For instance, Myanma Timber Enterprise (MTE), which is among the largest exporters in the economy, accounting for about a sixth of total exports in FY95, was able to import goods worth only about $4.5 million compared to its export earnings of over $150 million. Yet its managers consider lack of foreign exchange the main constraint in improving its capacity utilization, which languishes at about 60%. Moreover, the financial performance of individual SE is even less transparent than before because the SFA allows for funds to flow from cash-surplus to deficit enterprises.

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[9] The balance sheet of the SFA is maintained by the Central Bank. SEs account for between 60-70% of expenditures from the SFA.

Ownership and Management

3.36 Transferring the ownership and management of SEs to the private sector, foreign and domestic, has been viewed as an integral part of the GOM's efforts to reform the SE sector. Until 1995, privatization of functioning enterprises was limited to restoring small factories and establishments to their original owners from whom these were confiscated in the 1960s. Much of the progress in expanding private-sector involvement has come through the establishment of new joint ventures (JVs) and production-sharing arrangements between SEs and private investors, and through leasing the facilities of SEs to private entrepreneurs. In 1995, six establishments operated by SEs -- 4 cinemas and 2 workshops under MOI(2) -- were privatized (para. 3.39).

3.37 The main catalyst to establishing joint ventures and production-sharing contracts has been the enactment of the Foreign Investment Law in late-1988. This legislation opened up much of the Myanma economy to foreign investors, operating either as wholly-owned foreign companies or jointly with domestic firms, and offered significant fiscal incentives. Given the lack of information and uncertainty about the economy, many investors have chosen to enter into JVs with already-established SEs. The foreign investors have contributed capital, foreign exchange, management skills and access to new technology, while the SEs have offered access to natural resources, prime locations, and infrastructural advantages.

3.38 Another form of private participation has been through the leasing of SE facilities to local entrepreneurs. Such leases are usually concluded on the basis of competitive bidding. Among the enterprises within MOI (1), for instance, 15 mills and factories have been leased out, and generated K43 million in FY94 in annual rental fees. Hence, almost 30% of the output of the Myanma Pharmaceutical Industries under MOI (1) is currently being produced by private entrepreneurs leasing its facilities.

3.39 In January 1995, the GOM announced the creation of a high-level Privatization Commission to oversee the detailed design and implementation of the program to privatize SEs. The Commission is being assisted by an Evaluation and Assessment Committee which will select the SEs to be privatized and conduct valuation of the assets of these SEs (especially land). The details of the methods of privatization are still being worked out but the Commission has identified 51 establishments to be privatized initially. Many of these are small establishments and workshops, but their composition shows an inclination to privatize commercial operations of SEs in areas where the private sector is already active.[10] Of the 51 establishments that have been identified, 6 had been privatized by August 1995, using a tendering process. It is anticipated that 20 more of these establishments would be privatized by end-1995.

Evaluation of SE Reforms

3.40 Although the reforms described above have altered many features of the operating environment for SEs, they have not effectively addressed the underlying policy distortions that have constrained the performance of SEs. This conclusion is not meant to dismiss the significance of many of

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[10] Of the 51 establishments to be privatized, 18 factories and workshops are operated by SEs under MOI (1), 4 factories and workshops are under MOI (2), 4 factories are under the Ministry of Livestock Breeding and Fisheries (MOLF); 4 mills are under SEs of the Ministry of Trade; and 21 cinemas are operated by the Ministry of Information.

the actions that the GOM has taken, but rather to indicate that a long road lies ahead if SE reform in Myanmar is to be effective.

3.41 An example of the limitations of the current reforms is provided by the changes in pricing and marketing. The ability to sell a portion of their output in the free market has certainly improved the financial prospects for many SEs. However, as the data from the enterprises operated by MOI (1) show, the real impact of this step has been limited because a large share of production is still subject to government procurement or inter-enterprise transfers. The continued lack of adjustment of the official exchange rate, which is used in valuing all external trade transactions of SEs, also means that the ex-factory prices used as a basis for cost-plus pricing bear no relation to economic costs. Hence, many enterprises are still penalized by the complex pattern of cross-subsidies that arise from this system of price determination and marketing. Moreover, the financial profitability of enterprises in this situation provides no guidance as to their economic viability. For instance, the implicit subsidies on energy use and capital investment, which arise from the overvalued exchange rate and zero interest rate on borrowing, are excluded from the cost structures of enterprises.

3.42 Similarly, the changes designed to enhance the autonomy of SEs do not go far enough, and in some respects, have actually had the opposite effect. SEs do have more flexibility now in entering into transactions with private entrepreneurs to produce on consignment basis or even to lease their facilities to them. However, even these decisions are not left to SE managers but are centralized within the parent Ministries. And the allocation of investment funds and foreign exchange is actually more centralized now under the SFA than before 1989. All decisions on these matters are now made outside the enterprises on the basis of requests from the enterprises, which in aggregate are typically about 50% higher than the available amount.[11] In sum, the operational and financial autonomy of SE managers has shrunk, with control and oversight actually having become more centralized in their parent ministries.

3.43 The lack of progress in reforming the investment allocation system and exchange rate mechanism combined with the maintenance of the procurement system has meant that the informational content of prices, costs, and profits is as negligible today as it was before the reforms. Hence, it is still impossible to hold SE managers accountable for the performance of their enterprises. Not only is their role in making decisions limited; there are no clear indicators of good or bad performance in a situation where all prices are badly distorted. The obvious implication in this situation is that there are few incentives for SE managers to exercise fiscal discipline. And because the closure of loss-making enterprises has been ruled out, managers of SEs that make large losses can always blame the pricing and distribution system for their predicament, while knowing that the losses will be covered by the government budget. And, by assigning no value to foreign exchange and investment funds, the SFA worsens these managerial incentives to squander resources. Therefore, the reforms have not succeeded in making SE behavior more fiscally responsible.

3.44 As with price reform and autonomy, the progress that has been made toward privatization, while noteworthy when compared to the period before 1989, masks serious problems in the approach that is being followed. As explained in greater detail in the following section, an important element of successful

[11] For instance, all SE investment proposals are scrutinized by two inter-ministerial committees -- the Construction Coordination Committee chaired by the Minister of Construction, and the Equipment Control Committee, chaired by the Ministers of Industry (1) and (2).

privatization strategies in other formerly-socialist countries has been a clear definition of the future roles of the private and public sectors. This delineation serves as a blueprint based upon which the detailed design of the privatization exercise as well as other private sector development efforts can be formulated. The GOM's willingness to establish institutional mechanisms to help in privatization as well as to identify possible candidates is a good beginning. But, what is still missing is a detailed statement regarding the areas in which a continued SE role is envisaged. Hence, the rationale for the choice of the 51 enterprises to be privatized initially is unclear. Consequently, it is difficult for potential private investors to have a clear idea as to what else will be sold and when. The risk of this approach is, therefore, that it will result in a piecemeal transformation of the economy, in which the full benefits of privatization and the development of a vibrant private sector are not realized.

D. DEEPENING STATE ENTERPRISE REFORM

3.45 The preceding discussion shows the gaps in the current efforts to reform SEs in Myanmar. In determining how to strengthen this program, it is important to first establish why the delineation of a clearer strategy is required in this area. An important lesson from efforts elsewhere to reform SEs is that successful programs includes several elements. On the one hand, macroeconomic and pricing policies need to be altered if these communicate the wrong signals to enterprises. Such changes in the enabling environment in which SEs operate are critical preconditions to undertaking more targeted SE reform. Those targeted policies, on the other hand, must be based on a clear definition of the role and objectives of the SE sector. Such an assessment at the very outset of the reform effort allows clearer choices to be made as to which enterprises are to be retained in the public sector, and how the rest are to be divested or liquidated. In that context, decisions concerning privatization and the restructuring of enterprises can then be made more rationally.

3.46 These aspects of SE reform are well-illustrated by the experience of other transitional economies in Eastern Europe and East Asia. The key elements of these recent reforms are summarized in Box 3.1 for several of these countries, and contrasted with the Myanmar experience. These experiences show interesting similarities as well as differences in approach. While the transition strategies followed by these countries vary widely in terms of speed and sequencing, they share three common features. All the reforms aimed at price liberalization and macroeconomic stabilization, although the pace of those efforts was rapid in Vietnam and the former Czechoslovakia but more gradual (and almost stop-go) in China. And, all of them emphasized efforts to encourage the establishment and expansion of new, non-state sector firms. In all countries, except China, this meant rapid growth in the private sector, and even in China, it translated into an expansion of the non-state sector, owned and controlled by local governments. Finally, all these reform programs emphasized financial accountability. They have attempted, with varying success, to impose financial discipline (hard budget constraints) on the remaining SEs by cutting subsidies and liquidating loss-making enterprises.

Box 3.1: Dimension of Reforms in Selected Transition Economies

	Viet Nam	China	Poland	Hungary	Czech Republic	Myanmar
Overall Reform	Comprehensive reforms initiated in 1989	Initiated in 1978; reforms deepened in 1993	Partial reforms in 1981; comprehensive reforms in 1990	Initiated in 1968; deepened in 1991	Comprehensive reforms in 1991	Partial reforms in 1989
Enabling Environment						
Price liberalization	Sweeping reforms	Almost comprehensive by 1992	Rapid liberalization in 1989-90; large initial increases in administered prices. Most prices now market-determined.	More than 90% free from administrative controls.	More than 85% free. rapid progress but less than Poland.	Preliminary
Exchange rate policy and currency convertibility	Unification and major devaluation in 1989.	Devaluation in 1978; Unification of exch. rate in Jan. 1994 after 51% devaluation	46% devaluation in Jan .1990 peg; 16% devaluation to crawling peg in May 1991	14% devaluation to crawling peg in Jan .1991. The forint is now convertible on current account other than tourism.	51% devaluation to a crawling peg in Oct-1990; current account convertibility; capital account still restricted	Nominal exchange rate pegged, to SDR; extremely high premium in parallel market.
Interest rate policy	Sharp rise to real positive levels in 1989, slightly negative in 1994	Lending rate slightly negative, deposit rate close to 0 in real terms.	More than 3-fold increase to real positive levels by May 1990.	Big fluctuations. Negative in real terms most of the time.	Doubled in Jan-1991; loan rates positive from mid-1991	Highly negative in real terms
Competition policy		Little progress, although extensive competition among TVEs.		Competition law in place.	Competition law passed.	No change
Trade Liberalization	Removal of non-tariff restrictions, but still high tariffs. Also taxes on some exports. Few quantitative restrictions remain.	Open door policy for foreign investors, control on imports.	Radical reforms in 1990; some reapplication of tariffs.	Progressive liberalization. Few quantitative restrictions maintained.	Drastic reduction in tariffs; few quantitative restrictions remain..	Little reform

	Viet Nam	China	Poland	Hungary	Czech.	Myanmar
Privatization						
Small scale privatization	Significant restitution and liquidation	None	Extremely rapid growth in private sector; rapid privatization of small enterprises.	Moderately rapid private sector growth; Privatization complicated by restitution	Smallscale privatization and restitution essentially completed, rapid PSD	Limited lease of SE facilities and JVs with foreign companies;. limited privatization initiated.
Large-scale privatization	None	None	12% of 8772 enterprises privatized in 1993;600 targeted for mass privatization through commercialization.	569 out of 2000 privatized	Successful voucher privatization of much of industry. Foreign ownership of land restricted.	None
Social safety nets	Lump sum severance pay instead of unemployment benefits. pension scheme	Mostly provided by enterprises in the form of pension.	Payroll tax to finance Social Insurance Fund.	Expensive welfare system supported by govt. budget. Recent attempts to move to a need-based system.	Insurance based system in 1993 with contributions from employers and from workers	Old age pension for govt. employees. Little social security for private sector.
Enterprise Restructuring						
Hard budget constraints	Drastic cut in subsidies and subsidized credit.	Explicit subsidies reduced, but extensive soft credit to enterprises.	Subsidies cut. Restructuring of non-performing enterprise loans initiated 1994.	Tight control on subsidies, but rollovers and gradual workout of bank debt.	Bank credit and subsidies to enterprises tightly controlled.	Centralized budgeting system with too many financial cushions
Change in fiscal balance in first year (as % of GDP)	-2.1 (1989-90)		10.5 (1989-90)	-3	-1.6	
Percentage change in ratio subsidies/GDP, (first year of reform)			-43	-28	-52	
Managerial autonomy	Considerable freedom in output mix and sale, purchase of inputs, hiring and firing, determining wages	Considerable freedom in output mix and sale, purchase of inputs, hiring and firing, determining wages. Contracts system for managers	Comprehensive but subject to worker influence.	Comprehensive	Comprehensive	Limited

	Viet Nam	China	Poland	Hungary	Czech.	Myanmar
Profit remittance	Taxation of profits instead of profit remittance	Taxation of profits instead of profit remittance	Taxation of profits	Taxation of profits	Taxation of profits	100 percent
Worker lay-offs	About 800,000 workers laid off, fired or retrenched due to liquidation and merger of state enterprises.	Insignificant	Very high. Approximately 30% fall in industrial labor during 1990-93.	Very high	Very high	No firing or lay-offs
Formal exit: bankruptcy	Liquidation or merger of inefficient SEs.	Little progress	Bankruptcy law in place.	Bankruptcy law applied to large nos. of companies.	Bankruptcy law in place Few actions.	No action
Wage Controls on SEs	Tax based on wage bill	Tax based on wage bill	Tax based on wage bill in 1990, on average wage thereafter	Tax based on wage bill, relaxed in 1992.	Tax based on wage bill.	Centrally controlled

Source: Balcerowitz and Gelb (1994), EBRD Transition Report, 1994.

3.47 These similarities are especially pertinent in the context of Myanmar's current SE reforms. As has already been shown earlier in this report, macroeconomic stability has not been restored. The key "prices" in the economy -- the exchange rate and the interest rate -- are still badly distorted with serious impacts on the operating environment of SEs and their finances. Moreover, the links between the SE sector and the government are still very strong, in financial and operational terms. The reforms to date have done little to enable SEs develop a more "arm's length" relationship with the government. And, finally, the current approach appears to stress selective privatization as a solution to the problems of the SE sector with little attention to the other elements of SE reform. In this sense, the approach thus far is *ad hoc*, and would be more effective if greater attention were focused on fleshing out a more complete approach, and on phasing different measures.

Elements of an SE Reform Strategy

3.48 An effective SE reform strategy in the Myanma context would require actions in the following areas: (i) reforms of macroeconomic and sectoral policies to help define the environment in which SEs operate; (ii) clarification of the role and objectives of the SE sector, which would enable a classification of enterprises into those that would be retained by the state in the medium term, and those that could be divested immediately; (iii) measures to privatize management or ownership of SEs, including actions with regard to labor retrenchment; (iv) steps for restructuring those SEs that are to be retained, including ways of improving their operational and financial performance; and (v) actions aimed at supporting the development of strong domestic private enterprises that can replace SEs and ease the transition. In the rest of this section, recommendations in these areas are fleshed out along with the recent experiences of other countries that are restructuring their state-owned enterprises.

Macroeconomic and Sectoral Policy Reform

3.49 The importance of stabilizing the macroeconomy and of restoring prices to their function as signals of scarcity to the success of SE reform is clear both from theory and cross-country experience. Macroeconomic reforms -- in particular, the adjustment of the exchange rate and interest rates to realistic levels -- would allow the true picture regarding the financial and economic viability of enterprises to emerge. Without such adjustment, the financial statements of SEs are unreliable because the key prices in the economy are wrong, and because many are recipients of large implicit subsidies through the underpricing of foreign exchange and capital. Similarly, until the prices at which SEs can purchase inputs and sell their outputs are liberalized, it is difficult to determine their economic viability. The other risk with attempting to divest SEs in such a controlled policy environment is that it may be necessary to offer offsetting subsidies and other fiscal benefits sweeteners to attract potential buyers. The fiscal and distortionary effects of such incentives would reduce the gains from SE reform. In contrast, there is no better way to encourage confidence among foreign investors than by eliminating overvaluation and enhancing convertibility of the currency.

3.50 The recent experience of successful reform in transitional economies supports this view. Most of them began their reforms with highly-overvalued exchange rates, negative interest rates, and controlled prices. Almost all devalued their currencies substantially at the outset (Box 3.1). Poland and the former Czechoslovakia, for instance, devalued by almost 50% in 1990 before switching to a crawling-peg system of exchange rate determination. Similarly, Viet Nam's devaluation of almost 70% in 1989 almost completely eliminated the parallel-market premium. And, although China only unified its exchange rates in early-1994, its official nominal exchange rate had been devalued by over 500% since 1978, thereby greatly reducing its overvaluation. The pattern is similar with interest rate liberalization. Poland, the former Czechoslovakia and Viet Nam all raised their interest rates sharply to positive real levels in 1989 and 1990. Even in China, interest rates have been only slightly negative in real terms. Finally, price liberalization has been undertaken extensively in all these economies including Viet Nam and China.

3.51 The lessons for Myanmar are straightforward. If the reform of SEs is to succeed, complementary changes in macroeconomic and sectoral policies must be among the highest priorities. Even apart from the stabilization case for an adjustment of the official exchange rate and the restoration of interest rates to positive real levels, the ultimate success of SE reforms depends on those actions. This assertion is not to imply that no progress can be made on restructuring SEs in the absence of macroeconomic and pricing reform. Rather, the risk of such incomplete reform would be that whatever progress is made will be slow and costly. In privatizing SEs, for instance, it is possible that buyers (likely foreign firms) can be found for the most attractive divestiture candidates. But, with the large distortions that remain at the macroeconomic and microeconomic level, these potential purchasers will face much uncertainty about future profits and costs. Therefore, they will seek guarantees and subsidies, open and hidden, to assure them of acceptable returns. If such protections are widely granted, as they will have to be, it will mean that the inefficiency of the SE sector would only have been replaced by that of protected private enterprises.

3.52 The main adverse consequence from such reforms that is feared by policymakers in Myanmar is rising inflation. Undoubtedly, adjusting administered prices, including interest rates and the exchange rate, will result in a one-time increase in the price level. However, experience from other reforming economies indicates that, with proper macroeconomic management and sustained reforms, inflationary pressures can be controlled. For instance, a tight fiscal and monetary stance brought the inflation rate in Viet Nam down from almost 400% in end-1988 to 35% in end-1989. Similarly, in Czechoslovakia, the inflation rate was reduced to less than 20% within the first year of reforms. And, the situation may be even more favorable for Myanmar on several counts. The public sector is a much smaller part of the economy, in terms of output and employment, than was the case in China and in Eastern Europe, and no larger than in Viet Nam. And, much of the price adjustment has already occurred in Myanmar through the parallel exchange rate market (para. 1.62). On both counts, therefore, the direct and indirect impacts, such as a wage-price spiral and cost-push effects, of price liberalization would be dampened.

Clarification of the Role of SEs

3.53 With the reforms since 1989, the Myanma economy is now based on markets rather than on state ownership. This shift in paradigm obviously means the role and the objectives of SEs has changed. The restructuring of SEs would be facilitated if their new role in a market-oriented economy is spelt out. Specifically, the goals of SEs in this changed economic environment need to be clarified before specific details of their restructuring can be worked out. Those goals will determine, in large part, the extent to which divestiture is necessary, how restructuring of enterprises should proceed, and how fast privatization would need to proceed.

3.54 While this report cannot detail the precise role that SEs would play in a market-oriented Myanma economy, a general observation is relevant. Judging by the GOM's statements, it is fully committed to the transformation of the economy into one that is led by the private sector and is integrated with the world economy. Given that vision, the role of the SE sector would be relatively minor. It is difficult to think of many areas of the economy in which SEs would be required. The only possible exceptions of many magnitude would be sectors in which large and lumpy capital investments and scale economies, such as electricity generation and distribution, and water supply and sewerage.[12] In the rest of the industrial and service sector (as in the rest of the economy), the private sector (domestic and foreign) is quite capable of serving consumers more effectively and at lower cost than has been the experience with SEs. This is not to imply that the government would play no role in economic activity. Rather it would devote its resources to supplying efficiently the infrastructural services and public goods (such as education and health services) for which it would still be responsible. And, it would be referee for economic activity ensuring that businesses do not behave as monopolists, and that environmental and social laws are obeyed.

3.55 Policymakers in Myanmar have to decide whether this division of labor between the private and public sectors, is one with which they are comfortable. While this vision rests on the experience of many countries, industrial and developing, its promise in terms of efficiency does not mean that the transition from the current situation will be smooth or easy. As with any other wrenching change, there will be losers just as there will be winners. But as economic reformers in many other transitional economies have decided, the potential gains far outweigh the losses. In Eastern Europe and Viet Nam, for instance, economic reformers decided early in the reform process that the ultimate goal of their economic restructuring was a predominantly private-market economy. In that context, substantial privatization of SEs and private-sector development measures were obviously emphasized. China, on the other hand, decided to maintain its state ownership of SEs. Therefore, its reforms have been aimed at creating "socialist market" that mimics competitive conditions without privatization.

3.56 Once the role of SEs in the economy and their goals are clarified, the next step for SE reform is to classify all existing enterprises on the basis of whether or not they should be retained by the government in the medium term. Of those that are to be divested, their viability in a reformed policy environment will need to be assessed so as to decide on how best to divest them. These are tasks that the GOM needs to begin immediately, using the newly-created institutions it has established to assist in privatization. While precise decisions regarding the viability of many enterprises (and the value of their assets) may be difficult at the outset due to the distortions that currently exist, the cases at either extreme will be relatively easy to identify, i.e., those are clearly viable, and those that are obviously uneconomic.

Privatization

3.57 An important lesson from other reforming countries is that privatization efforts should be aimed primarily at maximizing economic benefits. After all, enhancing economic efficiency is the main reason for wanting to reform the economy in general, and to restructure the SE sector in particular. Accepting this goal means that the design and phasing of privatization efforts should *not* be dictated by other objectives such as generating the most money from sales of SEs or developing capital markets or broadening stock ownership among the population or in particular groups of the population. Hence, SE assets should not be disposed of on terms that impose costs on other parts of the economy. Specifically, it

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[12] Even in these sectors, it is possible to have efficient service provision by regulated private firms. Many countries, industrial and developing (including several in East Asia), have moved to this model or are in the process of moving towards it by privatizing or corporatizing their public utilities.

is critical that some purchasers not be given special privileges, such as fiscal incentives or import protection, on the grounds that their acquisition of the enterprises would help attain non-economic goals.

3.58 Without a detailed analysis of the businesses in which individual enterprises are involved and of their economic viability, which is beyond the scope of this report, precisely which enterprises would be retained in the public sector cannot be identified. However, it is probable that, if the test of economic efficiency is applied, the public sector would eventually divest itself of most existing SEs. There are no compelling reasons for public-sector involvement in (and, in several cases, monopoly over) such areas as textiles, pharmaceuticals and machine tools production, or in operating department stores, and breeding livestock.

3.59 Why privatize rather than restructure first. There are several reasons to emphasize large-scale privatization in attempting to improve the performance of the SE sector. First, there is growing evidence from a number of economies, both market-oriented and transitional, to support the contention than ownership matters. For example, although profits continued to decline in most Polish firms in 1992, the smallest declines occurred in firms that had been privatized through sales, auctions or public offerings. Employment losses were also the smallest in genuinely privatized firms while they were the highest in commercialized SEs. And, even partial privatization has led to considerable restructuring within enterprises. In China, although SEs have improved their performance due to restructuring, the annual productivity growth recorded by the non-state town and village enterprises (TVEs) during 1980-92 was more than twice as rapid.[13] Even stronger support emerges from a recent study that evaluates twelve cases of privatization in Chile, Malaysia, Mexico, and the U.K.. It concludes that in eleven of these enterprises, domestic welfare improved substantially, mainly because of increased investment and productivity gains in the privatized firms.[14]

3.60 The case for privatizing ownership quickly to enhance economic efficiency is strengthened by two other factors. *First*, evidence from a range of countries (mixed economies and transitional economies) shows that attempts to improve the performance of the SE sector through sector-wide restructuring programs have succeeded rarely. In part, this reflects the detailed information needed to design and implement such programs, which is typically not available in transition economies. Also, it is probable that "insiders" who have the best information on the enterprises would adversely influence the implementation of restructuring. In Hungary and China, for example, managers and workers of SEs being restructured have claimed disproportionate amounts in wage payments, thereby reducing the funds available for investment.

3.61 Experience shows that the other problem in restructuring extensively before privatization is the difficulty of imposing hard budget constraints on large numbers of SEs during this process. In China and Poland, this has led to the need for frequent bail-outs, and associated fiscal difficulties. Finally, the will to persevere with these enterprise-level reforms usually falters once the immediate crisis in SE finances

[13] The evidence for Poland is from a survey of 55 privatized firms conducted in mid-1992. For details, see Dabrowski, J., et. al. (1992). For China, see Jefferson and Rawski (1994).

[14] For a summary of these results, see Kikeri (et.al.), (1992).

has passed. For example, in China, a restructuring program for SEs improved performance of some enterprises, but about a third of all SEs still make losses, accounting for a sixth of public expenditures.

3.62 The *second* factor that argues in favor of less state ownership is that this approach is typically the only practical way of "leveling the playing field" between SEs and private-sector firms. As Chapter 2 documented, a major constraint to private-sector activity outside agriculture and trade in Myanmar is the continued bias against private firms and in favor of SEs in allocating credit and imports, and in access to infrastructure. While some steps can be taken in reducing these advantages, experience shows that these biases are difficult to uproot in economies like Myanmar where the private sector has long been assigned a peripheral role and SEs have been dominant. In this situation, the only effective way of improving private-sector access is by reducing the direct involvement of the public sector in economic activity.

3.63 Privatization in Myanmar. The design of a successful privatization strategy must take account of the initial conditions of the country as well of the SE sector. Several aspects of the current situation in Myanmar are particularly relevant because they limit what is possible. The most important constraints are limited absorptive capacity and undeveloped capital markets. Due to low savings rates, and a weak domestic private sector, there is unlikely to be much demand among local investors for the enterprises being privatized. The absence of a stock market means that the sale of SEs through public issues of shares is not possible. Moreover, the financial condition of many of the enterprises is weak and the existing cross-subsidies and controls make it difficult to evaluate their true financial condition. And most SEs, even in manufacturing, are effectively shielded from competition. For economic efficiency, their divestiture must be accompanied by measure to promote competition. However, given its direct involvement in economic activity, the GOM currently lacks the capacity to design and implement such regulatory policies effectively.

3.64 These initial conditions have four main implications for the pace and sequencing, and form of privatization efforts in Myanmar. *First*, privatization should begin with small and relatively simple enterprises. In these cases, their viability is usually easy to ascertain. Their capitalization would be such that buyers can be identified quickly. And, if mistakes are made in the privatization transaction, the overall economic impacts are likely to be limited. This approach was followed, for example in Viet Nam, which rapidly privatized (or restored to the former owners) large numbers of small enterprises. To accelerate this process for small firms, the managers and workers of the enterprises could be allowed to initiate the liquidation process as is being proposed in Poland.

3.65 *Second*, care should be taken that too much effort does not go into the precise valuation of assets for the small and medium SEs that would be privatized in the initial phases of privatization.[15] In part, this conclusion stems from the difficulty of such a valuation exercise in Myanmar because prices are distorted so badly. Further, for the types and sizes of enterprises that would be covered initially, even if there is systematic undervaluation of SE assets in these sales (and there is no reason to believe there should be), it would probably be more than offset by the gains from initiating and completing the process quickly. The emphasis should be on transferring these assets rapidly out of the state sector and into private hands. If too much time and effort are spent on valuation, the costs can be excessive, both of the valuation exercise itself and from the continued SE losses that will affect the government budget.

[15] Part of the current delays in quickly disposing of even the 51 establishments identified for privatization in Myanmar appears to stem from the process of valuing their assets, especially land.

3.66 *Third*, a combination of privatization techniques will be necessary to fit the range of enterprises. Some of the privatization methods used in transition economies are summarized in Box 3.2. If mass privatization is chosen as a viable option, a decision would need to be made between issuing vouchers (as in Czechoslovakia and Russia), and whether to corporatize (or commercialize) the enterprises before selling shares to the public (as in Hungary and Poland). The main advantage of voucher privatization is that it can be implemented rapidly and does not require prior restructuring of enterprises or large savings in the private sector. While it has been successfully implemented in Czechoslovakia, the problem is that (without reserving a portion of stock for a single large owner), it might dilute control too much. Corporatization, however, would require prior restructuring of enterprises, which as noted earlier could be costly and ineffective.

Box 3.2: Privatization Methods in Transition Economies

<u>Mass Privatization:</u> This method is suitable for large-sized enterprises, irrespective of their financial condition and was done through distribution of vouchers to eligible citizens, for a nominal price in the former Czechoslovakia and for free in Russia. Investment Privatization Funds in the Czech Republic (and voucher investment funds in Russia) collected vouchers from citizens and invested these in SEs slated for privatization. The original voucher holders then became shareholders in the investment funds when privatization was complete. It was very successful in the Czech Republic, but in Russia the use of preferential stock ownership options resulted in insiders taking over many enterprises.

<u>Commercialization or Corporatization:</u> This is suitable for preparing large and medium-sized firms in good financial condition for mass privatization. In Poland, 450 selected enterprises will be converted into joint-stock companies and their shares will be transferred to 20 newly established national investment funds. In Hungary in 1992, all SEs were compulsorily corporatized and their shares were transferred to the State Property Agency which oversaw sale of enterprises.

<u>Spontaneous privatization or liquidation:</u> This is useful for small enterprises in good financial condition. Assets can be sold or auctioned, used as contribution to the equity of a new company, or leased for a fixed period. In Poland, this process is to be initiated by management and workers' councils of SEs.

<u>Bankruptcy Liquidation:</u> This is necessary for enterprises facing financial difficulties. It has been attempted in Poland, Hungary and Viet Nam.

<u>Restitution and Reprivatization:</u> This has been used typically for small enterprises that were nationalized by the former communist governments where these are to be returned to the original owners. This has been implemented in the former Czechoslovakia, Poland, Hungary and Viet Nam.

3.67 *Finally*, the essential role of liquidating non-viable SEs early in this process needs to be recognized by policymakers. It is obviously easier to privatize profit-making enterprises, and tempting to postpone action on those suffering losses. Given the poor financial and operational health of many SEs in Myanmar, the latter will find it difficult to compete effectively with domestic and import competition in a liberalized and unsubsidized environment. And the obsolescence of their capital equipment and excess employment mean that they will not be attractive candidates for acquisition by private entrepreneurs. Unless arrangements are made to liquidate these enterprises quickly, they will drain the budget even more. And the entire SE reform process would be threatened if this fiscal impact is dealt with by reintroducing subsidies to rescue these enterprises. Therefore, it is essential to formulate an exit policy and allow liquidation of enterprises through bankruptcy proceedings.

3.68 Also, for medium-sized enterprises that are not included in the first phase of privatization, an useful interim measure would be to lease their facilities to private entrepreneurs. Such leases are already being used for some factories by some enterprises of MOI (1) and MOLF, and their application could be broadened. The investors who lease the SEs would then be granted complete operational and financial autonomy in return for the payment of a fixed fee, which could be renegotiated periodically. Again, labor retrenchment is an issue that would need to be worked out because the lessors of the facilities should be free to make their own wage and employment decisions.

3.69 An important policy issue that would need to be dealt with if liquidations of enterprises are to be politically feasible is the design of measures to provide severance payments to workers who lose jobs. The problem may be more manageable in Myanmar compared to many other transition economies because overstaffing in SEs appears not to be as serious. And, as the experience of Viet Nam shows, a significant share of workers laid off by the liquidation of SEs (almost 800,000 in Viet Nam) would find alternative employment quickly if private-sector growth accelerates. Currently, since no labor retrenchment has occurred, no severance pay scheme exist. Although many transition economies have financed unemployment benefits by taxing wages, it would be better if Myanmar followed the lead of Viet Nam, where lump-sum severance payments are made to workers who are laid off due to liquidation of SEs.

3.70 In sum, therefore, a well-designed privatization program offers Myanmar the opportunity to enhance efficiency in its industrial and service sectors. It is important, however, that this program not place too many constraints on potential buyers either in terms of their qualifications or future operation of the enterprise. And, it is essential that the pace and composition reflect the realities of the Myanma economy and of the financial and operational health of the enterprises being privatized. Finally, it needs to be recognized explicitly by policymakers that privatization is only one way of encouraging the involvement of private firms. Experience from Eastern Europe and China has shown that far more important, in some respects, are actions aimed at making it easier for the private sector to establish and operate new businesses, and steps that promote competition within the economy. These measures are discussed in the concluding section of this Chapter.

<u>Restructuring SEs</u>

3.71 Not all SEs in Myanmar can or should be divested by the government in the short and medium-term -- several large enterprises such as those involved in petroleum and gas exploration, electric power generation and distribution, and commercial banking will be retained. To manage these enterprises better, it is important that the policy and institutional framework within which they operate be revamped. *Two* elements of reform are key -- autonomy and accountability.

3.72 Managerial and financial autonomy. Decentralizing decision making within the SEs to be retained by granting real autonomy in financial and operational matters to managers is essential for improving SE performance. Managers should be free to choose their output mix, make choices regarding outputs and inputs and decide on hiring and firing workers. Without being able to make such basic decisions, SEs will find it hard to survive without continued government support. An essential precondition for increasing the financial autonomy of SEs is that the centralized budget system based on the SFA must be replaced by a system of separate accounts for each enterprise.

3.73 One way to grant managers greater autonomy is to introduce management contracts that specify explicit performance targets. In China, this system contributed greatly to the improved performance of the SE sector in the 1980s. Another reform, which would enhance the financial independence of SEs, would be to implement a profit tax for SEs. Such a tax would allow SEs to retain a part of their profits rather than having to remit all their profits to the budget, as with the current system. This step, which has also been implemented in China, would provide SE managers an incentive to increase profits by improving efficiency as well as providing them retained earnings with which to finance investment. Unlike the situation in which capital expenditures are allocated from the budget, this would ensure that only well-performing firms have access to investment funds.

3.74 Financial discipline. However, granting SEs greater autonomy without making them more accountable for their performance would be disastrous. The most important mechanism by which such discipline would be enhanced is the imposition of a hard budget constraint. The first step would be to eliminate the implicit and explicit subsidies currently enjoyed by SEs. In Myanmar, this would mean adjusting the exchange rate so that SE imports are not underpriced, increasing interest rates on SE loans to positive real levels, raising the prices of energy to SEs to the same levels as for private firms, and reducing the exemptions that most SEs currently enjoy on import tariffs and commercial taxes. Eliminating financial and economic subsidies was among the first reforms introduced in the successful transition economies of Eastern Europe.

3.75 However, input subsidies are only one aspect of soft budgets for SEs. Enterprises can also avoid attempts to impose financial discipline by defaulting on loans and interest payments to the banking sector. This has been a major problem in Poland and China where a large portion of bank debt is concentrated in loss-making, inefficient enterprises. Similarly, SEs can default on payments to other enterprises. Such inter-enterprise arrears have been particularly severe in Russia and Romania. To ensure that SEs cannot escape hard budget constraints through defaults, it is essential that bankruptcy is made a credible threat to their managements. While implementation has proven difficult in practice, many transition economies have enacted bankruptcy laws for SEs, and this step should receive priority in Myanmar.

Private Sector Development

3.76 Among the lessons from the reform experience of transition economies is the importance of measures to support the growth and expansion of the private sector. Rapid private sector development can ease the employment and output losses that are typically associated with the initial stages of SE reform. Moreover, removing burdensome restrictions and regulations on private sector operations can yield quick and dramatic dividends. For example, many countries in Eastern and Central Europe lifted their onerous controls over the establishment, expansion and operation of private firms at the outset of their reforms. The response was immediate: in 1990, over half a million private single proprietorships were registered in

Poland, and a comparable number of applications were received in the former Czechoslovakia. The number of private firms has, therefore risen dramatically in many of these economies. During 1989-93, the number of sole proprietorships rose twelve-fold in the former Czechoslovakia, two and a half times in Hungary, and more than doubled in Poland. The number of registered private sector companies also rose sharply, to more than 75,000 in each of these three countries. Consequently, the private sector now contributes significantly to GDP and total employment. In the former Czechoslovakia, the private sector share of GDP has risen to over a third, compared to under 5% in 1989, while in Hungary and Poland, it is even more important, contributing almost half of GDP. The same success is evident in Viet Nam's efforts. The share of the private sector in employment nearly doubled, to about a third, during 1989-92.

3.77 This evidence suggests that policymakers should consider two sets of changes in the approach to private sector development. *First*, more sustained efforts are required to remove the regulatory barriers to the establishment and operation of private firms. Clarifying land ownership and use rights, and improving the access of private firms to public services and infrastructure, as recommended in Chapter 2, would be important steps in this direction. Although the legal procedures involved in registering and operating private businesses appear simple and straightforward at present, limited access to services and industrial sites means that, in reality, the process is far more cumbersome.[16] The GOM should, therefore, work with private-sector representatives, such as the Myanmar Chamber of Commerce, in identifying the regulatory and legal constraints on private businesses.

3.78 The *second* change necessary is one of philosophy. It is unsurprising, in light of Myanmar's previous economic system, that many policymakers perceive the need to control and monitor private sector activity closely. This attitude needs to change with the reorientation of the economy to one that will be led by private sector activity. In such an economy, the direction and pace of economic activity will be dictated largely by the decisions and choices of private sector firms and consumers. The role of the government in this situation would be regulatory and supportive, not controlling and coercive. The "rules of the game" would need to be spelt out and enforced, and institutions developed to support private-sector initiative. An important aspect of the regulatory role would be to promote competition, not only between private-sector businesses, but also between these firms and the remaining SEs.

3.79 A particular gap in this regard in Myanmar is with providing support services to private firms. For example, the Yangon City Development Committee (YCDC) was formed as a municipal corporation in 1990 and is the largest local-government institution. YCDC views its role mainly in terms of providing permits for buildings, and water and sanitation facilities, and collecting a range of local taxes, within the municipal area as well as being involved directly in economic activity by, for instance, entering into joint ventures to establish hotels. It plays virtually no role in providing support services to the private sector either in the form of information or by constructing industrial estates where private firms can have better access to infrastructure. Similar institutions in successful South-East Asian countries have viewed the provision of such support as an important component of their responsibilities. Broadening the role of local institutions such as YCDC to the provision of promotional and support service to the private sector, while limiting its direct participation in economic activity, is a key area for reform.

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[16] For example, while the registration of a new private industrial enterprise only costs K75,000, the factory must already be in place before it can be registered. With limited access to land and credit, building the factory itself may be near impossible.

3.80 The other aspect that needs improvement to help private sector development efforts is the GOM's interaction with the private sector. As noted in Chapter 2, the lack of dialogue at present contributes to the persistence of many of the problems faced by private firms. It is, therefore, essential that mechanisms be established through which a *dialogue* concerning policy and institutional reforms can be conducted with representatives of the private sector, domestic and foreign. Such consultation has been an important ingredient in the economic success of such countries as Korea, Thailand, and Indonesia, because it helps build the consensus necessary to formulate and implement a medium-term development strategy.

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Annex III.4

The World Bank
Questionnaire for Private Businesses

The purpose of this questionnaire is to better understand the conditions under which private businesses like yours operate. This study will assist the World Bank in assessing the present situation concerning private sector development. The information obtained here will be treated strictly confidentially, and neither your name nor the name of your firm will be used in any documents or papers.

I. BASIC INFORMATION ABOUT THE COMPANY

Name of enterprise ________________________________

Year of start-up ________________________________

Location of firm ________________________________

Branch of industry ________________________________

Main items produced or services provided Today: ____________________

In the past ____________________

What is your firm's legal status?
1. Single proprietorship 2. Partnership
3. Limited liability company 4. Other (specify)

Do you lease equipment/factories from the government? Yes No
If so, which Ministry are these leased from? ____________________

II. OPERATIONS

	Full-time	Part-time
(a) How many people were employed by your firm when it was first started?		
(b) How many people are employed now?		

What are your annual sales/turnover? ____________________ kyats

What are your firm's annual operating costs? __________kyats (approximately)

What is the level of your firm's fixed assets? ____________ kyats

What percentage of your inputs are
1. produced by the domestic private sector ________%
2. produced by the state sector ________%
3. imported ________%

What percentage of your sales are
1. to the domestic private sector ________%

2. to state enterprises ________%
3. to government departments ________%
4. exported ________%

What part of your imports are financed from your own export earnings? __________%

If you import inputs or goods, how much time does it take to clear goods through customs? _______ days
On average, how much do import tariffs add to the cost of your imported goods? _______%

If you export, how much time does it take to clear goods for export? ______days
On average, how much do your country's duties add to the price of your product? ________%

Why don't you produce more than you do? (Please give the three main reasons with "1" indicating the most important reason, "2" the second most important, and a "3" the third.)

Limited access to foreign exchange	________
Other restrictions on imports	________
Restrictions on exports	________
Scarcity of electricity	________
Scarcity of water	________
Availability and quality of telephone connection	________
Quality of road and port facilities	________
Shortage of skilled workers	________
Lack of credit for investment	________
Lack of credit for working capital	________
High cost of credit	________
Controls on output price	________
Competition is too strong	________
Other (please specify)	________

How severe are each of the following problems for the development of your enterprise?
(1=no obstacle, 2=minor obstacle, 3=moderate, 4=major, 5=severe obstacle)

	No obstacle		Moderate		Severe obstacle
Limited access to foreign exchange	1	2	3	4	5
Other restrictions on imports	1	2	3	4	5
Restrictions on exports	1	2	3	4	5

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	No obstacle		Moderate		Severe obstacle
Scarcity of electricity	1	2	3	4	5
Scarcity of water	1	2	3	4	5
Availability/quality of telephone connection	1	2	3	4	5
Quality of road and port facilities	1	2	3	4	5
Shortage of skilled workers	1	2	3	4	5
Lack of credit for investment	1	2	3	4	5
Lack of credit for working capital	1	2	3	4	5
High cost of credit	1	2	3	4	5
Controls on output price	1	2	3	4	5
Competition is too strong	1	2	3	4	5
Other (please specify)	1	2	3	4	5

III. REGULATION

In registering your business when you began operations, how much time passed from when you decided to register to completion of the registration process? _______ weeks

What was the approximate total cost of registration including licensing fees and official and unofficial payments? _________________ kyats (Note year of registration________)

How long did it take your business to get telephone connections? ___________ weeks

How long did it take your business to get water connections? ___________ weeks

In starting your business, which government requirements were the most difficult to meet?

1. ____
2. ____
3. ____

In operating your business, in which agencies did you encounter the greatest difficulties?

	Agency	Nature of Difficulty
1.	________________________	____________________________
2.	________________________	____________________________
3.	________________________	____________________________

In total, approximately what percent of your time and your employees' time is spent in dealing with taxes and other government regulations or officials? ___________%

Is it possible for you to lay off workers? Yes No
If yes, how many workers in your business have you laid off over the last year? __________ persons

What payments or incentives are required to fire or lay off a worker? (in salaries) _______
How long does the process take, from beginning to end? (weeeks) _______

As a percentage of your firm's total sales, what are your payments of the following taxes?
a. Customs duty _______ b. Income tax ______ c. Profit tax ______
d. Other (specify) ______________________________

As a share of your annual sales, how much would you be willing to pay to avoid each of these following regulations?
a. Import licensing ________%
b. Foreign exchange licensing _______%
c. Regulations on land use _________%

What rights do you have to the land you are occupying?
a. Ownership deed b. Lease (rental rate______kyat/sq. ft.) c. Other (specify) ________

IV. GENERAL QUESTIONS

What percentage of your investment is financed from the following sources?
a. own funds _______%
b. Myanmar Economic Bank _______%

c. Myanmar Investment and Commercial Bank ________%
d. Informal credit market ________%
e. other (specify) ________%

In your opinion, what part of the Myanmar economy is now private? _______%

Of the manufacturing, trading and service sectors, what percent would you estimate is now private? ________%

If the state enterprises were to be privatized, would you be prepared to buy them?
If not, why not?

What impact would an adjustment of the official kyat exchange rate have on your business?
(Please circle your answer and provide a brief explanation below)
a. Positively ____________________
b. Negatively ____________________
c. Little or no impact ____________________

THANK YOU FOR YOUR ASSISTANCE. THE QUESTIONNAIRE ENDS HERE.

List of State Economic Enterprises Under Various Ministries

Ministry of Information
1. Printing and Publishing Enterprise
2. News and Periodical Enterprise
3. Motion Picture Enterprise

Ministry of Labor
4. Social Security Board

Ministry of Forest
5. Myanma Timber Enterprise

Ministry of Agriculture
6. Myanma Agriculture Enterprise
7. Myanma Farms Enterprise
8. Myanma Jute Industries
9. Myanma Cotton and Sericulture Enterprise
10. Myanma Sugar Cane Enterprise
11. Myanma Plantation Crops Enterprise

Ministry of Livestock Breeding and Fisheries
12. Lives Stock Foodstuff and Milk Products Enterprise

Ministry of Mines
13. No. (1) Mining Enterprise
14. No. (2) Mining Enterprise
15. No. (3) Mining Enterprise
16. Myanma Gems Enterprise
17. Myanma Salt and Marine Chemical Enterprise
18. Myanma Pearl Enterprise

Ministry of Industry (1)
19.Myanma Textile Industries
20.Myanma Foodstuff Industries
21.Myanma Pharmaceutical Industries
22.Myanma Ceramic Industries
23.Myanma Paper and Chemical Industries
24.Myanma General and Maintenance Industries

Ministry of Industry (2)
25.Technical Services
26.Myanma Heavy Industries

Ministry of Energy
27.Myanma Oil and Gas Enterprise
28.Myanma Petrochemical Enterprise
29.Myanma Petroleum Products Enterprise
30.Myanma Electric Power Enterprise

Ministry of Construction
31.Public Works

Ministry of Transport
32.Inland Water Transport
33.Myanma Five Star Line
34.Myanma Ports Authority
35.Myanma Shipyards
36.Myanma Airways

Ministry of Railways
37.Myanma Railways
38.Road Transport

Ministry of Communications, Post and Telegraphs
39.Myanma Posts and Telecommunications

Ministry of Trade
40.My ınma Agricultural Produce Trading
41.General Merchandise Trading
42.Myanma Department Stores
43.Stationery, Printing and Photographic Store Trading
44.Medicines and Medical Equipment Trading
45.Vehicles, Machinery and Equipment Trading
46.Construccion and Electrical Stores Trading
47.Inspeccion and Agency Services
48.Myanma Export and Import Services

Ministry of Hotel and Tourism Services
49.Myanma Hotel and Tourism Services
50.Restaurant and Beverage Enterprise

Ministry of Co-operatives
51.Co-operative Export Import Enterprise

Ministry of Planning & Finance
52.Central Bank of Myanmar
53.Myanma Economic Bank
54.Myanma Investment and Commercial Bank
55.Myanma Foreign Trade Bank
56.Myanma Agricultural and Rural Development Bank
57.Myanma Small Loan
58.Myanma Insurance
59.Security Printing Works

Source: Budget Department.

Activities Defined Under the State Economic Enterprise Law*

1. Extraction and sale of teak
2. Cultivation of forest plantations
3. Exploration, extraction and sale of petroleum and natural gas
4. Exploration, extraction and sale of pearls, jade and precious stones
5. Fisheries reserved for research by the Government
6. Postal and telecommunication services
7. Air and rail transport services
8. Banking and insurance
9. Broadcasting
10. Exploration, extraction and sale of metals
11. Electricity generation and distribution services
12. Manufacture of products relating to defense and national security

* Generally closed to foreign investment unless special permission is obtained.

Source: GOM.

Annex 3.3
Page 1 of 1

Selected Subsidies to SEs – FY91 to FY95

	FY91	FY92	FY93	FY94	FY95
Gasoline					
Official retail (per liter) a/	3.52	3.52	3.52	3.52	5.50
CIF (parallel exch. rate) b/	7.64	11.31	14.98	14.31	16.47
Unit economic subsidy	4.12	7.79	11.46	10.79	10.97
Consumption (million liters) c/	28.47	27.57	31.16	32.36	36.09
Total econ. subsidy (K. million)	117.44	214.83	357.09	349.24	395.97
Diesel					
Official retail (per liter) a/	2.31	2.31	2.31	2.31	4.40
CIF (parallel exch. rate) b/	7.90	13.66	17.69	16.69	15.51
Unit economic subsidy	5.59	11.35	15.38	14.38	11.11
Consumption (million liters) c/	149.76	163.55	164.46	182.16	238.95
Total econ. subsidy (K. million)	836.79	1856.16	2529.62	2620.02	2654.18
Electric power					
Average tariffs (Kyat per Kwh)	0.40	0.50	0.50	0.50	0.50
CIF (parallel exch. rate) d/	3.72	6.42	7.95	9.05	8.80
Unit economic subsidy	3.32	5.92	7.45	8.55	8.30
Consumption (million Kwh.) e/	972.69	808.03	809.35	941.18	962.50
Total econ. subsidy (K. million)	3226.22	4782.73	6030.95	8046.15	7989.72
Credit					
Investment grants (K. million)	3378	3276	3462	3373	6123
Accumulated debt (K. million)	6423	9699	13161	16534	22657
Interest subsidy (K. million) f/	672.75	1037.18	1419.82	1795.38	2445.24

a/ 1 bbl. = 159.6 liters; 1 Imperial gallon = 4.545 liters;
b/ Uses parallel exchange rate for end of previous calendar year, and year-end crude prices CIF Yangon;
c/ Assumes half of total consumption of gasoline and diesel by ministries;
d/ Assumes unit supply cost of $0.08/Kwh., and parallel exchange rate for end of previous calendar year;
e/ Estimated total government consumption less use by government departments and for street lighting and for temporar
f/ Assumes interest rate of 10 percent p.a. on accumulated principal and interest since FY90;

Source: Ministry of Energy; Budget Department (MFR); and staff estimates.

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