

# WORKING PAPERS

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## **Policy Options for Improving the Performance of the State Economic Enterprise Sector in Myanmar**

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## PREFACE

I was invited to be a Visiting Fellow at the Institute of Southeast Asian Studies (now known as ISEAS-Yusof Ishak Institute) in Singapore. The Fellowship enabled me to be in residence at ISEAS from mid-January to mid-February 2015 and to have ten days of field research in Myanmar during this period.

The policy issue I selected for the Fellowship—improving the performance of the state economic enterprise (SEE) sector in Myanmar—was chosen in the belief that it is of considerable interest to policymakers in Myanmar now and with the expectation that I could reach some useful conclusions in the limited time available.

Looking back on this experience, the interest of policymakers seems clear enough. My ability to reach useful conclusions remains in doubt for two reasons. First, insufficient data on SEE performance is available to arrive at robust conclusions. Second, Myanmar's policymakers are drowning in reports. It seems hard for them to focus on written material when they are under so much pressure to meet with visitors and prepare presentations for internal policy debates and outside groups.

On the subject of data, readers may be surprised by how little there is in this paper. The reason is simply that reliable numbers are hard to find. For just about any variable mentioned in this paper, contradictory figures can be found. Ignoring reported data seemed more appropriate as a general rule than either selecting one number among several or trying to explain the differences.

In a chapter he wrote for a book published in 2005, David Steinberg included this observation about the SLORC/SPDC (State Law and Order Restoration Council/State Peace and Development Council) era (2005, p. 88): “Never have so many reforms been suggested by so many and ignored by so few.” The first part of his observation seems even truer for the period since Thein Sein became president. The second part, by contrast, is far from today's reality. In the eyes of an economist living in Washington, DC, twelve time zones distant from Myanmar, the economic policy reforms adopted during the past four years have far exceeded expectations at the beginning of the period.

Finally, a point about expectations. While results have exceeded expectations at the outset, expectations have risen sharply both within Myanmar's population and among people in other countries eager to see Myanmar emerge from the conflict and poverty that has afflicted the country

for decades. These expectations look dangerously excessive. It even seems possible that Myanmar's triple transitions could be derailed because of them. That result would be a terrible tragedy for the 50-plus million long-suffering people residing within the borders of Myanmar.

## ACKNOWLEDGEMENTS

ISEAS was an outstanding “home away from home”. Dr Tin Maung Maung Than welcomed me and encouraged me from the first to the last day. Professor Robert Taylor did not complain when I was assigned to share an office with him, and we had many delightful conversations over lunch in a campus food court. Ms. Moe Thuzar provided translation help and Dr Francis Hutchinson introduced me to the SEE sector in Malaysia. The ISEAS Library has a fabulous collection of materials on Myanmar and responded rapidly to every request. The administrative staff was patient in dealing with some tricky issues, and always positive. I am grateful to Director Tan Chin Tiong for granting my special requests for the field research part of my Fellowship.

The people inside Myanmar who contributed to my study during my field research but also before and after are too numerous to list here. I must, however, mention the interest Dr Zaw Oo (Economic Advisor to President Thein Sein and Director of the Centre for Economic and Social Development) took in my study and the support provided by his assistants Ms Phoo Pwint Phyu and Ms Ngu Wah Win. Ms Nan Saw Nandar Hlaing also provided some crucial help.<sup>1</sup>

In Washington, Professor David Steinberg was a constant source of inspiration. The Librarians at the Brookings Institution produced everything I asked for with awesome speed and accuracy. My wife, Alaire, tolerated my neglect of household chores and found more typos in my manuscript than any other reviewer. Speaking of reviewers, I am especially indebted to Dr Peter McCawley and Romain Caillaud.

Despite all this help, the odds are high that my study contains a number of errors of commission or omission. For these I am solely responsible.

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<sup>1</sup> Throughout this study, “Burma” and “Myanmar” are used interchangeably with no political intent but normally using “Burma” in describing events before the country’s name was changed to the “Union of Myanmar” in 1989.

## EXECUTIVE SUMMARY<sup>2</sup>

The Myanmar economy became one big state economic enterprise (SEE) in the Ne Win era beginning in 1962 when an extreme socialist path to development was adopted.<sup>3</sup>

As the failure of this strategy became increasingly obvious, the scope for private enterprise was enlarged in the years preceding the popular uprising that ended the Ne Win era in 1988.

The military junta (SLORC) that crushed the uprising and formed a new government declared its support for market-based economic growth and began privatizing state enterprises and state assets. This process of privatization proceeded in waves over the next 23 years. Nevertheless, the SEE sector remained significant at the end of the SLORC/SPDC era.

Following the national election in November 2010, the government led by Thein Sein took office in March 2011. It surprised most observers by promptly launching an ambitious program of peace building, democratic institution building, and economic reform. It moved quickly to implement crucial macroeconomic policy measures, especially adopting a managed float exchange rate system. It opened up the foreign trade sector and enacted a new Foreign Investment Law.

Privatization of the SEE sector has been one of the priorities of the Thein Sein government, but its implementation has been mixed. The rent-seeking nature of the deals carried out under the previous government has not changed much. Every part of the government is actively engaged in privatization activities, but each in its own way. No common policies or procedures exist. As a result, it is likely that substantial values that could be retained by or accrue to the government are being captured by narrow private interests.

With one year remaining in its 5-year term, there may be little the Thein Sein government can do to reduce these losses and improve the performance of the SEE sector as a whole. However, among the six options examined in this study, it is possible to extract a set of actions that could make it easier for the next government to achieve better results. These actions are the following:

- Sharply increase the transparency of the SEE sector. A starting point would be posting a list of all SEEs on a dedicated website. A separate page for each SEE could provide the following minimum information: responsible ministry, name of CEO (Chief Executive Officer)/Managing Director, scope of operations, actual budget revenue and expenditure for the last available fiscal year, projected revenue and expenditure for the current fiscal year, and contact information for the SEE home office. Lease agreements, joint ventures, and PPPs would be included.

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<sup>2</sup> The cut-off date for this study is 10 April 2015. It does not reflect developments after this date.

<sup>3</sup> Except where noted, we describe the “formal” economy in Myanmar. Here as in other repressed economies, a large informal/underground economy exists. It was relatively small at independence, started growing rapidly during the Ne Win era, and continued to grow—probably faster than the formal economy—in the SLORC/SPDC era.

- Proceed with the corporatization of all enterprises that appear to have the potential of operating profitably or with a reasonable amount of budget support, starting with 100 percent ownership and then moving opportunistically to sell or enter a joint venture or proceed with an IPO (Initial Public Offering). This is probably best done not by a broad fiat from above but selectively where the stakes are high or where the managers seem inclined toward this move. In this process, it would also be advisable to develop a consistent approach to the articles of incorporation. Serious mistakes can be made at this stage so close attention will pay off in the long run.
- Establish a special SEE policy unit—in the Finance Ministry, the Ministry of National Planning and Economic Development, or the President's office—to provide consistency in managing the government's SEEs. (Alternatively, a quasi-government entity like the Centre for Economic and Social Development could be mandated to perform this function.)
- Develop preliminary guidelines for the SEE policy unit setting forth the scope of its work, procedures for coordinating with relevant ministries and agencies and the legislature, principles for privatization actions (corporatization, joint ventures, leasing, PPPs or public-private partnerships), near term priorities, etc.
- Recruit two or three outstanding CEOs to turn around two or three visible, mid-sized SEEs, and give them the support they need to succeed.
- Design a scheme for buying out redundant SEE employees. There will not be enough time to implement the scheme before the next government takes office, but it could conceivably be the single most important contribution this government can make to improve SEE sector performance. Multilateral and bilateral aid agencies could provide matching financing for the scheme.

Each of these actions has a cost. Each is easier said than done. Myanmar's policy makers will have to assess these costs against the benefits carefully. At this stage in Myanmar's transition, it is probably not useful for outsiders to attempt to assess the costs and benefits.

The best intentions of the Thein Sein government or the next one may not yield results that meet the elevated expectations of Myanmar's population or those of foreign investors and friendly governments. State capacity in Myanmar is low. Success in improving the performance of the SEE sector is likely to come faster and better if the expectations are lowered to match the slowly growing ability of the government to regulate and supervise the sector effectively.

## I. Policy Goals and Constraints

Every country in the world today has a state economic enterprise (SEE) sector, with a few minor exceptions perhaps.<sup>4</sup> There is no economic or political theory, however, saying that a country must have one or more SEE.<sup>5</sup>

One clear reason for the ubiquity of SEEs is historical inertia: they were created at some point in each country's past and no compelling reasons exist to shut them down or sell them to the private sector. In many cases, strong vested interests have developed that are able to block any attempt to change the status quo. One reason to keep them operating is the adverse social impact of creating more unemployed workers, a common consequence of shutting down and privatizing SEEs. Another reason is the risk that privatized SEEs will be "hijacked" by their new owners and deliver fewer social benefits.

From a narrow economic perspective, the main reason to create or maintain an SEE is the "natural monopoly" argument. While open market competition generally yields the greatest production efficiency (more product or service at a lower cost), in some areas of activity or at some stages of development unrestrained competition can result in lower efficiency. In other circumstances, external factors lead to underinvestment by the private sector relative to a socially optimal level. Commonly cited natural monopolies are public utilities such as electricity and water distribution.

From a broader political economy perspective, a persuasive reason for having SEEs is developmental: to initiate delivery of a product or service when the private sector is incapable of delivering it. Another reason is to enhance societal welfare in situations where profit maximization in the short term is believed to primarily benefit a small group of owners and managers.

In Myanmar today, there is a straightforward short-term goal for the SEE sector: to improve its financial performance while minimizing any negative social consequences.

There is also one overarching constraint (or obstacle) to achieving this goal: weak state capacity. It is hard to find another country in the world where the capacity of the government to formulate and implement sound policies is weaker relative to the expectations of the citizenry.

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<sup>4</sup> Despite the trend toward privatization over the past 20 years, state-owned enterprises (SOEs) are still significant economic players. Globally, SOEs account for 20 percent of investment, 5 percent of employment, and up to 40 percent of output in some countries. World Bank (2014b, p. xxi)

<sup>5</sup> See Appendix B: What is a State Economic Enterprise?



Limited state capacity is an issue in today's world far beyond Myanmar. Francis Fukuyama focused on this problem in a recent journal article. (See Text Box One.)

**Text Box One: Fukuyama on State Capacity<sup>6</sup>**

In my view, a single important factor lies at the core of many democratic setbacks over the past generation. It has to do with a failure of institutionalization—the fact that state capacity in many new and existing democracies has not kept pace with popular demands for democratic accountability. It is much harder to move from a patrimonial or neopatrimonial state to a modern, impersonal one than it is to move from an authoritarian regime to one that holds regular, free, and fair elections. It is the failure to establish modern, well-governed states that has been the Achilles heel of recent democratic transitions.

Australian economist Peter McCawley has focused on this problem among the ASEAN member countries. He suggests that the capacity of most ASEAN states is much more limited than they, and the international community, generally admit. Against the best measure of state capacity, government spending, Myanmar is at the bottom. In 2012, the Myanmar government spent \$40 per capita compared with around \$600 per capita on average for the ten ASEAN countries, and almost \$17,000 per capita in Australia and New Zealand. Recognizing the problems that arise when there are excessive expectations is important for pragmatic approaches to development in low-spending countries. In his words:<sup>7</sup>

Too often political leaders over-promise and under-deliver. Put simply, governments are trying to do far too much with far too little. The result is a vicious circle: citizens become disillusioned with governments and see little reason for paying taxes or even user charges for government services, thus exacerbating the problem of limited resources for the public sector.

Here is one of the great tragedies in Myanmar's history. To the extent that state capacity is a function of competent people (human resources), Myanmar has gone backward since

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<sup>6</sup> Fukuyama (2015)

<sup>7</sup> McCawley (2014)

independence.<sup>8</sup> Following World War II, Burma was a source of outstanding Third World leaders, including Prime Minister U Nu and UN Secretary General U Thant, not to mention doctors and many other professionals. Today, the only Myanmar citizen recognized globally is opposition leader Daw Aung San Suu Kyi.

Three other constraints are worth singling out. One is the ongoing civil war: the *Tatmadaw* (Myanmar armed forces) have been battling ethnic armed groups in Myanmar's borderlands since independence. Control over natural resources (e.g., jade and timber) is often at stake and some of the resource extraction SEEs are caught in these struggles.

A second major constraint is vested interests. They have been resisting changes in the status quo since the beginning of the Thein Sein government in March 2011. The most prominent among these are certain retired military leaders and certain so-called business "cronies" or "proxies".<sup>9</sup> An example of the kind of interest is the allegation that small pieces of the electric power grid are being sold to cronies, especially on the edges of Yangon. They have been allowed to install transformers, purchase bulk power from the grid, and sell it to households and small businesses at a profit.<sup>10</sup>

A third constraint is Myanmar's judicial system. Much of the success of modern industrial societies derives from having relatively fair and efficient judicial systems for punishing criminal behavior, resolving disputes, and enforcing contracts. These systems are effective because they are based on institutional power designed to create a "level playing field" for all citizens and reduce the role of discretionary, personal power. Such systems are implicit in the concept of "rule of law" that Aung San Suu Kyi attaches so much importance to. Myanmar has many parts of such a system, inherited from its history as a British colony, but more of the form than the substance. It is even possible that the efforts of Western aid agencies to reform, strengthen, and add to Myanmar's existing institutions will create confusion that slows down progress toward a judicial system it can be proud of. Under the best of circumstances, it would be unrealistic to expect this goal to be reached in less than a generation.

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<sup>8</sup> State capacity was still a problem for the post-independence government. One account of this period notes: "The government ... simply did not have enough skilled people [to complete the projects included in the Two-Year Plan beginning in 1948]." Myat Thein (2004), p. 40.

<sup>9</sup> A Myanmar friend explained that "cronies" play golf with the Senior General, "proxies" do not.

<sup>10</sup> Personal interview, 26 February 2015.

## **II. Policy Options for Improving Performance**

It is possible to distinguish six options for improving the performance of the SEE sector. The main pros and cons for each one are discussed below. Rather than selecting a single option, a combination of options could be the best strategy going forward.

### *1. Asset Management Approach*

The broadest and possibly most ambitious approach to improving the SEE sector is to regard it as a subset of the government's total property assets (land and buildings, including natural resources) and to create a government agency responsible for managing these assets.

This approach is ambitious because it would require the creation of a large administrative body to inventory the assets, revalue them periodically, identify better uses, negotiate arrangements with potential users, and monitor performance under these arrangements.

One advantage of the asset management approach is that it would favor long-term benefits over short-term benefits, as long as its managers have a mandate to operate in the long-term interests of the country and are insulated from political interference. In principle, an asset management agency would be able to extract more value from the country's assets by stepping back from the ministry-by-ministry orientation that currently exists.

The great disadvantage of this option is the difficulty of creating and staffing an asset management agency. A first step might be to enact a founding law if sufficient authority does not already exist in the Ministry of Finance to undertake this function. It could start out as a small department within the ministry and then be split off as a separate agency after reaching full size in 5-10 years.<sup>11</sup>

There is a close connection between real property/resource assets and taxes that are already in the jurisdiction of the Ministry of Finance. A conflict of interest situation could arise, however, if both functions are lodged in the same ministry. An asset management unit separate from the tax policy and administration units could have a check-and-balance role.

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<sup>11</sup> It was not possible in the course of this study to learn where records of government property are now kept.

Over time, an independent asset management agency could evolve into the kind of national investment fund that has been created by Singapore (Temasek) and Malaysia (Khazanah). However, similar funds established by some other countries have been notoriously unsuccessful.<sup>12</sup>

## 2. *Budget Transparency Approach*

A basic public finance principle is that all government revenues to and expenditures by any of its ministries (or agencies or affiliates or ventures) should be made transparent in the government budget. This principle seems to have been embraced by the Thein Sein government, but is certainly not being adhered to fully by most government units. The government's commitment to transparency is most evident in its decision to participate in the Extractive Industries Transparency Initiative (EITI).<sup>13</sup>

If all of the government's revenues and expenditures were to become transparent, various political and social pressures would develop to reduce the deficits of individual SEEs and increase their revenues. This process alone could yield substantial improvements in the performance of the SEE sector in a relatively short period of time. Of course it is not necessary to move to total transparency in one great leap. Incremental steps can have a large benefit, especially at the beginning of the process.

## 3. *Legal Approach*

Private businesses today operate under the Companies Act of 1914, which is currently in the process of being rewritten to be relevant to the 21<sup>st</sup> century world.<sup>14</sup> Myanmar's first post-independence government passed a Special Company Act of 1950 that deals with companies in which the state holds shares.<sup>15</sup>

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<sup>12</sup> National investment funds of this kind should not be confused with "sovereign wealth funds" created to capture the value of natural resources sold into the international marketplace and invest it for the benefit of future generations. A case can be made for Myanmar to establish a sovereign wealth fund now, but this would be a separate fund with a different purpose, which takes the matter beyond the scope of this paper.

<sup>13</sup> EITI is a global effort to ensure that the revenue from natural resource extraction is used to benefit the general population in each country where resources are being extracted rather than being diverted to small groups of politically powerful people. In mid-2014, the Thein Sein government was admitted to candidate status in EITI and its first report on compliance is due in January 2016.

<sup>14</sup> See Tun (2015). Also, a "Public Briefing Paper" on the draft new Companies Law is available on the website of the Directorate of Investment and Company Administration (in the Ministry of National Planning and Economic Development): <http://dica.gov.mm.x-aas.net/> (accessed 6 April 2015)

<sup>15</sup> An English language version of the text of this Act could not be found in the course of this study.

The State Law and Order Restoration Council (SLORC) promulgated the “State-Owned Economic Enterprises Law” (No. 9/89) on 31 March 1989, just six months after it seized power. The law is short, mostly spelling out twelve areas reserved for state-owned enterprises.<sup>16</sup> The law also authorizes SOEs in these areas to enter into joint ventures with private parties, and authorizes the establishment of new SOEs in all other areas.

The 1989 law is clearly inconsistent with the policies of the Thein Sein government. Two obvious options going forward are to rescind this law or to replace it.<sup>17</sup> Curiously, the draft of the new Companies Law posted in 2014 makes no mention of the 1950 Special Companies Act or the 1989 State-Owned Enterprise Law. Reports have recently surfaced that a “Corporatization Law” drafted by the Ministry of National Planning and Economic Development is being reviewed by other ministries with a view to submitting it to the legislature soon.<sup>18</sup>

It is hard to see any harm in rescinding the 1950 and 1989 laws. Before committing to drafting a new SEE law, however, it is worth exploring seriously why one is needed. It is possible that the government can do everything necessary to improve the performance of the SEE sector with the general authorities it already has under the 2008 Constitution.

Some legal experts in Myanmar believe that the government and the legislature are too eager to pass new laws with the result that the quality of these laws is suboptimal. Furthermore, experience in the rest of the world suggests that enacting more laws does not necessarily lead to better governance. In particular, laws can be counterproductive if the government lacks the ability to implement and enforce them, as is certainly the case in Myanmar now.

It is also possible that in the course of merging the foreign investment law and the domestic investment law, a process now underway, some of the SEE sector issues can be addressed. For example, if the government wishes to continue prohibiting “manufacture of products relating to security and defense” by the private sector, this prohibition could be written into the merged investment law.

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<sup>16</sup> The areas are: “(a) extraction of teak and sale of the same in the country and abroad; (b) cultivation and conservation of forest plantation with the exception of village-owned firewood plantation cultivated by the villagers for their personal use; (c) exploration, extraction and sale of petroleum and natural gas and production of products of the same; (d) exploration and extraction of pearl, jade and precious stones and export of the same; (e) breeding and production of fish and prawn in fisheries which have been reserved for research by the Government; (f) post and telecommunications service; (g) air transport service and railway transport service; (h) banking service and insurance service; (i) broadcasting service and television service; (j) exploration and extraction of metals and export of the same; (k) electricity generating services other than those permitted by law to private and cooperative electricity generating services; (l) manufacture of products relating to security and defense which the Government has, from time to time, prescribed by notification.

<sup>17</sup> The option of amending the law appears inconsistent with the apparent preference of the legislature to replace outdated laws with new ones.

<sup>18</sup> Personal communication on 8 April 2015.

We see no benefit here from attempting to spell out what a new SEE law should look like. A first step is for the government to decide which basic approach or approaches it would like to pursue and then decide if the adoption of a new law would be helpful in implementing the approach. One clear risk is that a sound draft presented to the legislature will be watered down or altered by special interests to the point of making the cure as bad as the disease.

#### *4. Sector-wide Approach*

Some countries, notably Indonesia, have created a ministry dedicated to overseeing all of the country's SEEs. If this approach were adopted in Myanmar, its SEEs could remain initially as operating units of ministries, but be brought into the new ministry one by one as the ministry's capacity to manage these enterprises grew. Alternatively, all of the SEEs could be transferred at the same time to the new agency.

A variation on this approach is to leave the SEEs under their host ministries but create an SEE oversight unit (in the Finance Ministry or the President's Office) that formulates policy for the SEE sector as a whole, monitors and evaluates the performance of the SEEs, and approves any change in the status of SEEs (such as corporatization, privatization, or liquidation).

This approach presumably has the potential of achieving the greatest improvement in the performance of the SEE sector in Myanmar as a whole in the short run. The disadvantage is the difficulty of staffing the new agency with enough qualified personnel to achieve the desired results.

#### *5. Turnaround Approach*

Here is an approach that seems to have no precedent. It is prompted by the reality that the administrative capacity of the Myanmar government will remain low for at least the next five years and probably much longer. It is inspired by the case of Garuda Airlines in Indonesia (see Text Box Two).

**Text Box Two: The Garuda Turnaround<sup>19</sup>**

Emirsyah Satar became CEO of Garuda in 2005 when Indonesia's national airline was bleeding money and suffered from a reputation of poor service. Garuda's low point came two years later when one of its aircraft crashed and it was banned from landing in Europe (along with other Indonesian airlines) for its poor safety record.

Satar was not a newcomer to Garuda; he was its CFO from 1998 to 2003. During this time he negotiated a major reduction of Garuda's debt, but when he became CEO Garuda did not have enough cash to meet the interest and principal obligations on its reduced debt.

The turnaround took more than five years, unsurprisingly. He focused on three areas: management, operations, and financing. He removed unproductive layers of management, but more important was restoring trust within the organization, insisting that "you don't ask for trust, you earn it". He upgraded the fleet of aircraft and trimmed unprofitable routes.

He obtained three commitments from the government before taking the job. First, the government would not order Garuda to service destinations it could not service on a commercial basis. Second, the government would not interfere in deciding which aircraft to buy or lease. Third, the government would provide an upfront subsidy to reduce Garuda's debt burden.

Satar changed the corporate culture to one of taking responsibility for its performance instead of blaming others for failures. He took a lot of flak from inside and outside but had enough political support from the top to tough it out.

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<sup>19</sup> "Garuda's Turnaround Story". <http://adhiyudhow.blogspot.sg/2011/11/garudas-turnaround-story.html> (accessed 16 February 2015)

He made everyone focus on the bottom line: making money not losing it. He hired a top international consulting firm to clean up procurement, which was not even meeting the transparency standards of the government. Small improvements yielded large bottom-line benefits. He created a program to help redundant employees leave and start new careers.

Garuda resumed flights to Europe in 2010. In 2011, a regional aviation organization named it as having the best service in Southeast Asia and awarded it “airline turnaround of the year”. A global travel organization named it the “world’s most improved airline” in the same year. At the end of 2014, Satar handed over to his successor a company that can thrive because of its transformation from a personality-based enterprise to a systems-based enterprise.

The turnaround approach basically flips the conventional approach to SEE sector reform on its head. Instead of beginning with an institution it begins with an individual. In this sense it is the simplest approach of all and conceivably the most effective in a country like Myanmar.

In short, the government recruits a talented, experienced individual to be the CEO of a particular SEE and then provides him or her with a mandate to “turn around” the SEE at the most rapid sustainable pace. It will not be sufficient to recruit an outstanding person. To make this approach succeed, it is essential to provide strong government support to the new CEO. For example, if the CEO were to say it is necessary to lay off one third of the enterprise’s employees, the government would have to move promptly to facilitate this process in a socially tolerable manner.

Proceeding one SEE at a time might mean that improving the performance of the SEE sector as a whole would take 10 or 20 years. This is true, but there are not many examples of countries that have been able to improve a large, well-entrenched SEE sector in less time. Furthermore, this approach has the potential of gaining speed over time if the initial cases are successful.

Instead of beginning with one single recruitment, it would probably be smart to begin with a group of at least three, recognizing that even the best people ex ante are not always able to rise to the challenge. This is an approach that can easily be combined with other approaches.



## 6. *Ad Hoc and Discretionary Approach*

The Thein Sein government's approach to SEE sector reform can at best be described as ad hoc and discretionary. Given the starting point, no other approach may have been politically feasible, and tangible progress has been made. In particular, quasi-hard budget constraints have been imposed on most SEEs and most SEE managers seem to understand that "business as usual" is not acceptable. By and large they are actively seeking ways to operate more efficiently.

The Thein Sein government is now in the last year of its 5-year term of office. The political system is now in campaign mode making it difficult for the government and the legislature to undertake major new initiatives. In the remaining months of its administration, the most that the Thein Sein government may be able to do vis-à-vis the SEE sector is a small set of "Quick Wins". These might include the following:

- Sharply increase the transparency of the SEE sector. The starting point would be posting a list of all SEEs on a dedicated website. A separate page for each SEE would provide the following minimum information: responsible ministry, name of CEO/Managing Director, scope of operations, actual budget revenue and expenditure for the last fiscal year, projected revenue and expenditure for the current fiscal year, and contact information for the SEE home office.
- Proceed with the corporatization of all enterprises that appear to have the potential of operating profitably or with a reasonable amount of budget support. This is probably best done not by a broad fiat from above but selectively where the stakes are high or where the managers seem inclined toward this move. In this process, it would also be advisable to develop a consistent approach to the articles of incorporation. There are serious mistakes that can be made in this process so close attention will pay off in the long run.<sup>20</sup>
- Recruit two or three outstanding CEOs to turn around two or three visible, mid-sized SEEs, and give them the support they need to succeed.
- Design a scheme for buying out redundant SEE employees. There would not be enough time to implement the scheme before the next government takes office, but it could conceivably be the single most important contribution this government can make to improve SEE sector performance. Multilateral and bilateral aid agencies might provide matching financing for the scheme.

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<sup>20</sup> A special SEE policy unit—in the Finance Ministry, the Ministry of National Planning and Economic Development, or the President's office—would provide the consistency. Or a non-government entity like the Centre for Economic and Social Development could be mandated to perform this function.

- Design a SEE sector strategy to be implemented by the next government. While the next government might decide to go in a different direction, having this design as a starting point could avoid a worse outcome.

Each of these actions has a cost. Each is easier said than done. Myanmar's policy makers will have to assess the costs against the benefits carefully. At this stage in Myanmar's transition, it is probably not useful for outsiders to attempt to assess the costs and benefits. Here is a good example of where judgment is more important than numbers.

### **III. The SEE Landscape at the Beginning of 2015**

The SEE sector in Myanmar is vast and diverse. Any effort to improve its performance is likely to be more successful if different approaches are taken to different categories of enterprises within the sector rather than a single approach to all the SEEs.

The natural starting point for any analysis of the sector is an official list of the enterprises currently in existence. Sadly, no such list existed in the public domain in the English language when the research for this study was undertaken in January-February 2015.

In attempting to develop a respectable list, the first step taken was to examine the *Yangon Directory*, the main English-language telephone book and Yellow Pages for the country. The 2014 edition of the *Yangon Directory*, like others before, contains a listing of the telephone numbers for the country's central government ministries and agencies and some of the main administrative units within these. Here are listed roughly 40 "enterprises". This list was then compared with a variety of lists and references to SEEs found in other sources, and adjusted. The result is the list of 44 enterprises presented in Appendix A.<sup>21</sup>

A number of basic issues emerged in the process of developing the list in Appendix A:

- Some lists included the Central Bank of Myanmar as an enterprise. For this study the central bank is deemed to be a monetary institution and not an enterprise.
- Some lists included the Social Security Board as an enterprise. It is not clear why it is so categorized, but it is retained in the Appendix A list.

<sup>21</sup> Table 3.12 in WTO (2014) lists 41 SEEs that existed in October 2013. Table 1 in World Bank (2013), page 21, refers to 43 SEEs but does not list them. Paragraph 128 in World Bank (2014) refers to "44 formally defined State Economic Enterprises", but does not list them.

- Some well-known enterprises do not have the word “enterprise” attached to their *Yangon Directory* entry. These include Public Works, Myanmar Posts and Telecommunications, Myanmar Hotel and Tourism Services, Myanmar Railways, Road Transport, Inland Water Transport, Myanmar Airways, Myanmar Port Authority, and Myanmar Shipyards.<sup>22</sup>
- Under the Ministry of Industry, three “enterprises” are listed, but also three “industries”: Paper and Home Utilities Industries, Pharmaceutical and Foodstuff Industries, and Textile Industries. It is not clear why some are “enterprises” and others are “industries”.
- Most of the state-owned banks appear in the *Yangon Directory* under their affiliated ministries, but this directory has a separate category for “Banks (Govt.)”. This category includes the Myanmar Citizens Bank LTD, which is not mentioned in the main listing of ministries and agencies.

A general problem with the list is that quite a few of the “enterprises” and “industries” are not a single, coherent operating unit. Instead, they are a collection of production and service units with no consistent form or mandate.

A narrower but probably more important problem is that an enormous amount of privatization of government assets has been occurring outside the SEE sector as it is understood in Myanmar. Much of this has been in the form of land concessions for converting forests into commercial agricultural uses such as oil palm and rubber plantations. A recent study has estimated that in the last year of the SPDC government (2010-11), agribusiness concessions were awarded for nearly 2 million acres. In its first two years, the concessions awarded by the Thein Sein government were much greater, 3.5 million acres and 5.2 million respectively, with little transparency.<sup>23</sup>

With these general observations in mind, we proceed to group the enterprises into eight categories. Each of these is described below along with explanations about how they are being treated in this study.

### *1. The Petroleum Sector Giants*

The biggest and most important SEE by far is the **Myanmar Oil and Gas Enterprise (MOGE)** under the Ministry of Energy. This enterprise partners with all of the foreign and domestic companies undertaking petroleum sector exploration, development, and production. Closely linked

<sup>22</sup> In the *Yangon Directory* and elsewhere “Myanma” is a commonly found variant of “Myanmar” which connotes possession (literally belonging to Myanmar).

<sup>23</sup> Kevin Woods (2015), p. 3.

to MOGE and also under the Ministry of Energy are the **Myanma Petrochemical Enterprise** and the **Myanma Petroleum Products Enterprise (MPPE)**.

Here we do not attempt to provide policy options for improving the performance of these SEEs because they require special attention with the help of experts who are familiar with the pros and cons of different approaches.

## 2. *The Major Mining Enterprises and the Timber Enterprise*

**Mining Enterprise No. 1** deals (among others) with copper, zinc, silver, lead, and iron. **Mining Enterprise No. 2** deals (among others) with tin and gold. **Mining Enterprise No. 3** deals with coal, limestone, gypsum and thirteen other minerals.<sup>24</sup>

A Ministry of Mines official declared in 2012 that “our own mines are already transferred to Private Companies”.<sup>25</sup> The way in which these mines were transferred, or when, is not clear. It could include leasing, joint ventures, and outright sales. It seems likely that most of the transfers were carried out under the previous government.

The **Myanma Timber Enterprise** is under the Ministry of Environmental Conservation and Forestry.<sup>26</sup> A page on this ministry’s website indicates that the enterprise plans to corporatize in the future.

For this category of SEE as well, no attempt is made to provide options for improving performance because of their resource extraction function. For this category and the “Petroleum Sector Giants” category, the government’s participation in the Extractive Industries Transparency Initiative (EITI) holds the promise of being a sensible first step toward improving SEE sector performance.

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<sup>24</sup> In 2008, all three Mining Enterprises were subjected to financial and commercial sanctions by the U.S. Government. Other SEEs on the sanctions list include the Cooperative Export and Import Enterprise, Myanma Gems Enterprise, Myanma Pearl Enterprise, and Myanma Timber Enterprise.

<sup>25</sup> Ministry of Mines. Investment Opportunities in Mining Sector. PowerPoint presentation by Department of Mines Director General U Win Htein on 15 June 2012.

[https://www.academia.edu/9123337/MYANMAR\\_MINING\\_PROSPECT](https://www.academia.edu/9123337/MYANMAR_MINING_PROSPECT)  
(accessed 28 February 2015)

<sup>26</sup> <http://www.myanmar-timber.com.mm/index.php/en> (accessed 2 March 2015)

### 3. *The Public Utilities*

Like many developing countries, Myanmar has a portfolio of state-owned utilities.

Four of the most important public utilities come under the Ministry of Electric Power.<sup>27</sup> The **Myanmar Electric Power Enterprise** generates and transmits electric power across the country. The **Electricity Supply Enterprise** distributes electric power to communities and businesses. The **Hydropower Generation Enterprise** produces electric power at a number of hydropower dams. The **Yangon City Electric Supply Board** generates and distributes electricity to the Yangon metropolitan area.

The other major public utility is **Myanma Posts and Telecommunications** (MPT) under the Ministry of Communications and Information Technology.<sup>28</sup> MPT enjoyed a monopoly for telephone service in the country until 2013 when licenses were awarded to Ooredoo and Telenor through an historic tender process to provide mobile telephone service throughout Myanmar. In mid-2014, MPT entered into a joint venture with two Japanese firms to become the country's third mobile telephone provider.

Another four of the public utilities come under the Ministry of Transport.<sup>29</sup> **Inland Water Transport** provides river transport services. As of November 2013, this enterprise was operating 225 powered vessels and 149 non-powered vessels. **Myanmar Airways** appears to have four operating units: Myanmar Airways, Myanmar Airways International, Air Mandalay Limited, and Myanmar Helicopters International.<sup>30</sup> The last three are joint ventures. **Myanma Shipyards** undertakes ship construction and repair. **Myanmar Port Authority** administers coastal ports handling about 90 percent of Myanmar's imports and exports.

Two other enterprises are under the Ministry of Rail Transportation, but little information about them is provided in English on the ministry's website.<sup>31</sup> They are **Myanmar Railways** and **Road Transport**. Myanmar Railways is undoubtedly a loss-making enterprise. Road Transport appears to be one of the country's leading road (passenger and goods) transport companies and may be quite profitable.

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<sup>27</sup> <http://www.moep.gov.mm/> (accessed 1 March 2015). The latest posting on this website appears to be in 2003.

<sup>28</sup> <http://www.mcit.gov.mm/> (accessed 1 March 2015)

<sup>29</sup> <http://www.mot.gov.mm/> (accessed 1 March 2015)

<sup>30</sup> The government holds a 20 percent stake in MAI airline, the remaining stake is held by the Kanbawza Group, one of Myanmar's leading conglomerates.

<sup>31</sup> <http://www.ministryofrailtransportation.com/index.php> (accessed 1 March 2015)

The government is already getting a good amount of advice from the multilateral and bilateral aid agencies on how to improve the service delivery and financial performance of these utilities. It is one area where the government may be moving too fast in the direction of privatization. Effective regulation is normally a *sine qua non* for above-average performance by public utilities. This suggests that priority be given to building the regulatory capacity of the government, which is well below par at the present time.

#### 4. *The Main Industrial Enterprises*

The Ministry of Industry divides these into two groups: three Enterprises and three Industries.<sup>32</sup>

According to the ministry's website, **Heavy Industries Enterprise No. 1** produces vehicles, earthmoving equipment, and construction equipment. In April 2014, it was reorganized into two steel mills and five regional units.<sup>33</sup>

**Heavy Industries Enterprise No. 2** produces household electrical goods, machine tools, batteries, transformers, tires, and a dozen other items. It is organized into six regional production units.

**Heavy Industries Enterprise No. 3** produces cement, bricks, ceramics, glass, and agriculture equipment. It is organized into nine regional production units.

**Paper and Home Utilities Industries** produces pulp, papers, cardboard, footwear, plastics, stainless steel and enamel housewares, and hospital furniture and equipment. It is organized into two paper mills, a bicycle factory, a housewares factory, and a sewing machine factory. (See Text Box Three)

#### **Text Box Three: Paper and Home Utility Industries**

In 2012, Myanmar Paper and Chemical Industries and Myanmar Home Utility Industries under the Ministry of Industry were merged into the Paper and Home Utility Industries (Enterprise).<sup>34</sup> At the beginning of 2015, this SEE operated a

<sup>32</sup> <http://www.industry.gov.mm/en> (accessed 28 February 2015)

<sup>33</sup> The third of four policy objectives of the Ministry is described as "Promotion of private sector and development of Public Private Partnership are prioritized and invitation for cooperation in technology transfer, production methods and investment promotion for development of industrial sector." There is no mention of privatization as an element of the Ministry's vision statement. Many of this ministry's heavy industries became properties of the military conglomerate MEC (Myanmar Economic Corporation) under privatization arrangements by the SLORC/SPDC regime. See Section 7 below.

<sup>34</sup> Interview with enterprise managers, 6 February 2015.

paper mill and a hydrogen peroxide factory and had privatized three paper mills, an iron and wood working plant, and 12 factories (umbrella, plastic ware, enamel ware, bicycle, sewing machine, etc.) under lease or joint venture agreements. About half of these had been privatized in 2010-2011 under the previous government. A number of factories were sold outright before 2011, including footwear, leather, match, and paint factories.

A typical lease is for 30-50 years. The private partner normally makes quarterly payments in two parts: a land/building rental part goes to the ministry and a salary part goes to the government to maintain the income of workers employed by the mills and factories at the time of being leased. If the partner wants to repurpose the property (to construct condominium apartments for example), the approval of the Myanmar Investment Commission is required. In the case of the bicycle factory, the partner is now making plywood and medical instruments. As a general policy, private partners can buy their leased properties if they make a satisfactory offer.

Under these various lease and JV agreements, the pre-existing government employees have the option of remaining with the ministry and being transferred to another unit or becoming an employee of the private sector partner under a 3-year transition arrangement (they retain their pension benefits).

**Textile Industries** is organized into 2 textile mills and 20 textile and garment factories. According to the Ministry of Industry website in February 2015, 7 of these units were leased and the rest were “under processing for tender”. In addition there are 16 ginning factories.

**Pharmaceuticals and Foodstuffs Industries** operates two pharmaceutical factories, a plastic factory, and a horses and sheep breeding farm (for harvesting serum). It also is leasing two sugar mills, a sugar plantation, and ten factories producing soft drinks and ice, sugar, soap, drinking water, alcohol, palm oil, and other items. In addition, it has three joint venture factories (with local partners) to produce industrial alcohol and pharmaceuticals. Text Box Four describes some of the issues facing the managers of the pharmaceuticals branch of this SEE.



**Text Box Four: Privatization of the Pharmaceutical SEE**

The pharmaceutical branch of the Pharmaceutical and Foodstuff Industries (Enterprise) under the Ministry of Industry is in a tough position.<sup>35</sup> It is making a profit, but only by selling its pharmaceutical products to the Ministry of Health and the Ministry of Defence (which has a portfolio of relatively high-quality hospitals) at above-market prices.

It is impossible in Myanmar today to produce drugs for which there is substantial domestic demand at a cost that makes them competitive with imports. As a result 90 percent of the demand in Myanmar is met by imports, primarily from Thailand, India, China, and Bangladesh. Under pressure to rationalize its budget expenditures, the Ministry of Health is starting to tender for drugs, including from foreign sources.

A major concern of the pharmaceutical branch is the low quality of some imported drugs and the prevalence of fraudulent or counterfeit drugs. The pharmaceutical branch's factories are able to meet the global standards of the Pharmaceutical Inspection Cooperation Scheme, but they need modern machinery and technology to lower their production costs. Furthermore, half of the employees in the pharmaceutical factories are considered redundant.

The pharmaceutical branch is contemplating reorganizing its operations as an "autonomous SEE" as a step toward corporatizing. The branch is reluctant to simply sell or lease to a private company fearing it will simply hold the property for speculative gain.

The SEEs in this category look like ones that are losing money, but they are holding an impressive inventory of fixed and movable assets. Overstaffing is probably endemic. Much "low hanging fruit" may be found if this category is given priority in the government's strategy for

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<sup>35</sup> Interview with pharmaceutical branch managers, 6 February 2015.



improving the performance of the SEE sector. Some of the best “turnaround” opportunities may be found here.

### 5. *Other Smaller Enterprises*

A presentation at the Third Myanmar Development Cooperation Forum in February 2015 mentioned the **Myanmar Agricultural Enterprise** under the Ministry of Agriculture and Irrigation. A decade or so ago, this ministry was managing a number of enterprises including Sugarcane Enterprise, Cotton and Sericulture Enterprise, Perennial Crops Enterprise, Farms Enterprise, and Jute Industries.<sup>36</sup> These were combined into the Myanmar Agricultural Enterprise in 2009.<sup>37</sup>

The *Yangon Directory* lists the **Cooperative Export and Import Enterprise** under the Ministry of Cooperatives. The ministry’s website in February 2015 made no mention of this enterprise, but it notes that “the main exports of Myanmar Cooperatives are beans and pulses, rattan and rattan products, variety of hard and wooden wares, fishery products and handicrafts”.<sup>38</sup>

The *Yangon Directory* lists **Myanma Hotel and Tourism Services** under the Ministry of Hotels and Tourism. The ministry’s website provides no information about this unit and makes no mention of any revenue-generating activities under its control.<sup>39</sup> It seems likely, however, that a number of hotel and other tourist businesses are either joint ventures with this ministry or are operating under leases from this ministry.<sup>40</sup>

Three enterprises are listed under the Ministry of Information: **News and Periodicals Enterprise, Printing and Publishing Enterprise, and Myanma Motion Picture Enterprise**. There is no readily available public information in English about these enterprises. With the liberalization of print media and abolition of censorship these SEEs are apparently facing stiff competition from the private sector.

The *Yangon Directory* lists the **Livestock Foodstuff and Milk Products Enterprise** under the Ministry of Livestock, Fisheries and Rural Development. The ministry’s website makes no

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<sup>36</sup> Myanmar Online Data Information Network Solutions: [www.modins.net](http://www.modins.net) (accessed 1 March 2015)

<sup>37</sup> Personal interview, 9 February 2015.

<sup>38</sup> <http://www.myanmarcoop.gov.mm/en/?q=CooperativeDepartment/Business-Opportunities-in-Cooperatives> (accessed 1 March 2015)

<sup>39</sup> <http://www.myanmar-tourism.org/> (accessed 1 March 2015)

<sup>40</sup> The Hoang Anh Gia Lai Myanmar Center in Yangon has been described as a project undertaken via a BOT agreement with this ministry. See Text Box Eight.

reference to this enterprise.<sup>41</sup> In a meeting with managers in this ministry in February 2015, they stated that the ministry is no longer operating any enterprises. Its former farms, fisheries, and enterprises have all been leased to private parties. (See Text Box Five.)

**Text Box Five: Privatization in the Ministry of Livestock, Fisheries and Rural Development**

The Ministry of Livestock, Fisheries and Rural Development established the “Myanmar International Cooperation Agency (MICA)” in 2012 to undertake privatization according to international best practice and get ISO certifications for some of its activities. In October 2014, a consulting firm reported that the ministry was inviting expressions of interest from international and local companies to joint venture with MICA to construct low-cost housing for ministry staff and the public.<sup>42</sup>

In January 2015, a Chinese news agency reported that the ministry was inviting tenders from private companies to build a meat and fish wholesale market in Yangon’s Insein Township on a 27.23 hectare parcel of land.<sup>43</sup>

The “Livestock Breeding and Veterinary Department” in this ministry has 45 farms and factories across Myanmar for which it has invited expressions of interest from private companies for lease or joint venture arrangements.<sup>44</sup>

The **Myanmar Salt and Marine Chemical Enterprise** under the Ministry of Mines is no longer a producer. It is primarily a regulatory agency, ensuring that the salt sold for human consumption is properly iodized. Salt farms that it used to operate have been leased to private companies. (See Text Box Six.)

<sup>41</sup> <http://www.mlfrd.gov.mm/index.php> (accessed 1 March 2015)

<sup>42</sup> <http://consult-myanmar.com/2014/10/01/ministry-of-livestock-fisheries-and-rural-development-to-invite-expression-of-interest-for-the-construction-of-low-cost-housing-programme/> (accessed 20 March 2015)

<sup>43</sup> <http://consult-myanmar.com/2014/10/01/ministry-of-livestock-fisheries-and-rural-development-to-invite-expression-of-interest-for-the-construction-of-low-cost-housing-programme/> (accessed 20 March 2015)

<sup>44</sup> Interview with enterprise managers, 6 February 2015.

**Text Box Six: An Enterprise in the Ministry of Mines**

Under the 2008 Constitution, salt production is a Region/State government responsibility. Accordingly, the Region/State offices of the Myanmar Salt and Marine Chemical Enterprise under the Ministry of Mines are being transferred to their subnational authorities.<sup>45</sup> In the financial year 2009-10, there were 10 salt fields managed by this enterprise and roughly 1,400 private salt fields that it oversaw. Over the past decade, the enterprise has played a vital role in iodizing salt for human consumption, with help from UNICEF, with the result that lowland Myanmar is now largely goiter-free.

When Cyclone Nargis struck in May 2008, hundreds of private salt fields were destroyed. By the end of financial year 2013-14, the number of private salt fields had fallen to under 600. These private operations were unable to market salt at a price competitive with imported salt, but the owners had no alternatives and sold for whatever cash income they could get. Now the enterprise is providing technical assistance to the private owners, with help from the Australian aid program, designed to lower salt production costs and find alternative activities that are more profitable.

Under the Thein Sein government, the enterprise entered into an agreement with a Myanmar company to operate its oral rehydration therapy factory. The private company has a five-year lease that can be extended and it has committed to remitting 25 percent of its profit to the Ministry of Mines. One reason for not selling this factory is that the parcel of land also includes housing for employees of the ministry.

The SEEs in this category are a mixed bag. Some are so marginal that it would be hard to justify devoting scarce policy and management time in the near term to improving their performance. Some assets under the Ministry of Agriculture and Irrigation and under the Ministry of Hotels and Tourism, however, could warrant early attention.

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<sup>45</sup> Interview with Ministry of Mines officials, 6 February 2015.

## 6. *The State-Owned Banks and Financial Firms*

The *Yangon Directory* lists a number of state-owned banks and financial firms. Three of these are under the Ministry of Finance: **Myanma Economic Bank**, **Myanma Foreign Trade Bank**, and **Myanma Investment and Commercial Bank**.<sup>46</sup>

Two other financial firms are under this ministry. The **Myanma Microfinance Supervisory Enterprise** seems to have been previously named the **Myanma Small Loans Enterprise**. **Myanmar Insurance** (not listed in the *Yangon Directory*) currently underwrites 48 lines of insurance.<sup>47</sup>

Two other banks are under the Ministry of Agriculture and Irrigation. The **Myanmar Agricultural Development Bank** is listed as a state-owned bank on the Central Bank of Myanmar's website. The **Myanmar Livestock and Fisheries Development Bank Ltd** is not. However, a story in the *Myanmar Times* in May 2013 reported that the bank had changed its name to Global Treasure Bank Ltd and this bank is on the Central Bank of Myanmar's list of private banks. In addition, the **Myanmar Citizens Bank Ltd** is listed in a section in the *Yangon Directory* labeled Banks (Govt.). It is partly owned by the Ministry of Commerce.<sup>48</sup>

One bank is under the Ministry of Border Affairs, the **Rural Development Affairs Bank Ltd**, but the status of this bank is unclear. On the Central Bank of Myanmar website, the list of private banks includes "Rural Development Bank Ltd" based in Naypyitaw. A link from this list opens a page on the same website for "Sibin Tharyar Yay Bank Ltd".

No attempt is made here to identify policy options for improving the performance of Myanmar's state-owned banks and finance firms. The financial business is sufficiently different from commercial production of goods and services to require a separate approach, putting it beyond the scope of this study. For this category, too, the government is getting a decent amount of advice from the IMF, the World Bank, the ADB, and some bilateral aid agencies.

<sup>46</sup> <http://www.mof.gov.mm/en> (accessed 1 March 2015)

<sup>47</sup> <http://www.mof.gov.mm/en/content/myanma-insurance> (accessed 2 March 2015)

<sup>48</sup> <http://mcb.com.mm/> (accessed 1 March 2015)

## 7. *The Military-Controlled Enterprises*

Two business conglomerates controlled by active and retired Myanmar military officers have assumed preeminent positions in the Myanmar economy.<sup>49</sup>

**Union of Myanmar Economic Holdings Limited (UMEHL)**, registered under the Special Companies Act of 1950 for state-owned enterprises, was formed in 1990 as a joint venture between the Ministry of Defence (Directorate of Defence Procurement-40 percent), individual military officers (active and retired), and individual military units.<sup>50</sup> It manages 54 subsidiaries, joint venture companies, and factories spanning mining, banking, manufacturing, trading, and more.<sup>51</sup> In the SLORC/SPDC era, a number of SEEs (including sugar factories) were transferred to UMEHL.<sup>52</sup>

In the early years of the SLORC/SPDC era, UMEHL was the only company in Myanmar authorized to enter into a joint venture with foreign investors.<sup>53</sup> One of these ventures has become especially controversial: a copper mine at Letpadaung in Sagaing Region operated as a joint venture with the Chinese military-linked Wanbo Corporation. A protest in November 2012 by residents displaced when the project started expanding was stopped when police units attacked the demonstrators. This prompted a review of the project that led to a 51 percent share being taken by the government. UMEHL is also engaged in jade mining in Kachin State, another highly controversial activity.

<sup>49</sup> The business activities of UMEHL and MEC are described in considerable detail in Maung Aung Myoe (2009). Unrelated to UMEHL and MEC, he mentions that the Ministry of Defense directly operates nine factories not counting its arms and ammunitions factories. Additional commercial factories are managed by the ministry's Directorate of Supply and Transport and the Directorate of Defense Services Intelligence. The commercial Myawaddy Press and Myawaddy TV are managed by the Directorate of Peoples Militia and Public Relations. The Directorate of Resettlement has created a transportation and construction enterprise to employ disabled veterans. The Myanmar War Veterans Organization owns 26 businesses. It is generally understood that most of the military's regional commands manage or control a variety of revenue-producing commercial activities. A number of military battalions were engaged in small business activities such as renting out land and vehicles until General Than Shwe issued an order in 2004 prohibiting commercial activities by operational units, but it is widely believed that they continue to engage in activities that generate off-budget revenue.

<sup>50</sup> Tin Maung Maung Than (2007), p. 413. Table 2 in Win Min (2005) shows how the shareholding of UMEHL in 2002 was divided into "A Shares" and "B Shares", and how the B Shares were divided among 15 separate regional commands and other military groups.

<sup>51</sup> Appendix 9 in Maung Aung Myoe (2009) includes six lists of UMEHL-related enterprises: 35 fully-owned in 2007 and operating, 6 fully-owned but liquidated between 1999 and 2005, 9 subsidiaries (mostly limited-liability companies), 17 subsidiaries liquidated between 1997 and 2005, 7 affiliated firms (a non-related company leasing land from UMEHL), and 4 affiliated firms terminated between 1997 and 2005.

<sup>52</sup> Aung Min and Kudo (2014).

<sup>53</sup> Callahan (2003), p.214.

**Myanmar Economic Corporation** (MEC) was established in 1997 under the State-Owned Enterprise Law of 1989. MEC is managed by the Quartermaster General in the Ministry of Defence and all of its shares are held by active military officers.<sup>54</sup> It is organized as a holding company with 34 subsidiary companies.<sup>55</sup> Its main business lines are transportation, trading, services, and mining. It acquired most of its heavy industries under privatization arrangements with the SLORC/SPDC regime before 2011. MEC has become much more open in recent years. It is now possible, for example, for the public to visit its cement plants.<sup>56</sup>

Despite being established under state enterprise laws, these two conglomerates seem to be treated by the government and society as private companies, or as operating in a world of their own. A leading analyst of the *Tatmadaw* recently wrote:<sup>57</sup>

The *Tatmadaw* is an autonomous institution within the state with little or no civilian oversight. ... Civilian or non-military apparatuses of the state are not in a position to comment on the *Tatmadaw's* command structure, its financial allocation, and procurements; nor are they at liberty to scrutinize military business. ... the *Tatmadaw* may even think of giving up some of its special privileges in military businesses. Yet we should not expect the *Tatmadaw* to give up all its business activities in the foreseeable future, as it may continue to rely on off-budget finance to look after its troops' welfare and other military necessities.

The phenomenon of a military “state within a state” funded in part by off-budget business activities (commonly with rent-seeking elements) exists in other Asian countries and beyond. Some of these cases are discussed in Appendix F on Regional Experience with SEEs. One often-mentioned rationale for maintaining these business activities is that the government is failing to provide enough budget resources to maintain the military’s readiness. It is equally true to say in these cases that the military is failing to adjust its mission to the budget resources available. A serious practical challenge in countries seeking to establish or maintain civilian control of the military is the unemployment and potential social turmoil that would result from demobilizing “excess” military personnel—including the retired personnel and their families who are employed in military businesses like UMEHL and MEC if they were to be operated on a strictly commercial basis.

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<sup>54</sup> Aung Min and Kudo (2014).

<sup>55</sup> MEC Annual Report, 2012

<sup>56</sup> Personal interview, 3 February 2015.

<sup>57</sup> Maung Aung Myoe (2014), p. 240..

Redundant employment in the public sector is surely one of the biggest and least openly discussed policy issues in Myanmar today.<sup>58</sup>

No attempt is made here to identify policy options for improving the performance of the military-controlled enterprises because of the political sensitivities. However, there are some potentially useful observations from Indonesia's experience with military-controlled business activities since its transition to democratic rule in 1989. One observation is that many military officers are likely to believe that these are not "state economic enterprises" in the sense of being accountable to the civilian government. They will even find some support for this view in the 2008 Constitution that grants a high degree of autonomy to the Ministry of Defense and its armed forces. Another observation is that in other transition countries, military-controlled assets have been privatized through informal means with no transparency, a kind of "asset stripping". A third observation is that even in countries where civilian supremacy is a fact, ending the military's reliance on off-budget revenue from its business activities can take more than a decade.<sup>59</sup>

#### 8. *The Mysterious Enterprises*

Here is a potentially very important category in terms of government revenues and expenditures. It is labeled "mysterious" because there is so little known about the operations of these enterprises.

One of them, the **Myanmar Gems Enterprise** under the Ministry of Mines, may generate more "financial surplus" than all other mining enterprises combined. It deals with jade/jadeite and rubies. Most of the value of jadeite extracted each year is lost through smuggling, informal markets, and a variety of other off-budget transactions.<sup>60</sup>

Unlike the Myanmar Gems Enterprise, the **Myanmar Pearl Enterprise** under the Ministry of Mines has an English-language website: <http://www.myanmarpearl.com/>. According to this website, there are three foreign-owned and two local-owned pearl farms operating under production-sharing contracts with the enterprise. In addition, there are three pearl farms directly operated by the enterprise. The pearls are sold in annual auctions at the Gems Emporium in Naypyitaw. No information about revenues and expenditures is provided.

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<sup>58</sup> Taylor (2009, p. 390) notes the practice of "triple grazing" where military officers receive their military pay plus a salary for holding a position in a regional government plus compensation for being a director of a military-controlled enterprise.

<sup>59</sup> The author and an Indonesian military expert examined these issues in the case of Indonesia. See Rieffel and Pramodhawardani (2007).

<sup>60</sup> An estimate of the enormous value lost can be found in Dapice (2013).



The Ministry of Construction has an enterprise simply called **Public Works**. This ministry does not appear to have a webpage. It does have a Facebook account but most of the information is in Myanmar. From news reports, it is clear that Public Works builds public buildings, roads and bridges and issues tenders for private sector construction of roads and other public works. It also seems to have a number of units producing construction materials. In 2013, Public Works entered into a joint venture with a Japanese firm to construct a steel structure fabrication plant.<sup>61</sup>

The **Social Security Board** is listed as an enterprise under the Ministry of Labor, Employment and Social Security. Like social security agencies in many other countries, the Social Security Board collects premiums from employers and employees and provides a range of health, disability, and unemployment benefits. It also operates a number of hospitals and clinics. A new Social Security Law was enacted in 2013. It is not clear why the Social Security Board is considered to be an SEE rather than a state agency providing services to the general population.

No policy options are recommended for the SEEs in this category. Each one deserves special attention, especially to clarify its status as an enterprise and improve its operational and financial transparency.

#### 9. *Subnational Enterprises and Cooperatives*

It is known that Myanmar's 14 region and state governments have established economic enterprises. Major cities like Yangon and Mandalay have also established such enterprises. It is possible that economic enterprises exist under some township governments. No attempt has been made in this study to inventory and analyze this group of enterprises.

No attempt has been made to examine the cooperative sector in Myanmar. There is some evidence, however, that the operations of many cooperatives resemble those of SEEs more than private companies.

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<sup>61</sup> <http://www.jfe-eng.co.jp/en/news/2013/20131202.html> (accessed 2 March 2015)



#### IV. The Policies of the Thein Sein Government

President Thein Sein highlighted the SEE sector in his “second wave” speech on 19 June 2012.<sup>62</sup>

... we must trim down uneconomical and redundant enterprises and cut expenses, while shrinking the state-owned business sector and encouraging privatization. Here, privatization covered by the second phase of the reform strategy doesn’t mean a big sell-off of government-run businesses. First we will make an assessment of the communication, electricity, energy, forestry, education, health and financial sectors where the ratio of government ownership is large. Then we will increase the ratio of private ownership in these sectors as per the international rules and practices followed by the government encouragement for efficiency promotion.

Two strong statements elaborating on the policies of the Thein Sein government for the SEE sector are easily found. The first is contained in the Framework for Economic and Social Reform (FESR) that was prepared as a policy guide for the government’s economic reform program and presented to aid donors at the first Myanmar Development Cooperation Forum (MDCF) in January 2013. The second is on a page of the Ministry of Finance website. SEE sector reform will also feature in the 20-year National Comprehensive Development Plan (NCDP), but this plan is not expected to be approved by the legislature before the last quarter of 2015.

##### 1. *The Framework for Economic and Social Reform*<sup>63</sup>

Paragraph 10 of the Executive Summary of the FESR includes the following statement:

Transforming the government from a producer and a potential impediment to private sector activity will involve strategic decisions about the comparative advantages of GOM in the actual production of goods and services. Such decisions will entail the corporatization of State Economic Enterprises (SEEs) and privatization of certain

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<sup>62</sup> *New Light of Myanmar*, 20 June 2012, p. 1.

<sup>63</sup> The thrust of the FESR is foreshadowed to a remarkable degree in Khin Maung Kyi (2000).

activities so that the government can keep its fiscal regime in order and develop regulatory policies necessary to foster private investment.

Earlier in the Executive Summary, under “budgetary reforms”, the FESR states that the government will move “towards effective management of hard budget constraints, while phasing out soft budget constraints currently given to the state economic enterprises”.

Chapter 2 of the FESR (Recent Economic and Social Developments) is more specific. Paragraph 25 states:

As part of its campaign on good governance, GOM has also introduced an open tender system to increase transparency and improve valuations in future privatizations of SEEs. It has also reformed the existing committee on privatization where the Vice President was tasked to be its new Chairman. While further privatization of SEEs will enhance the government’s target on deficit-reduction, the ongoing liberalization and corporatization of SEEs also limits their losses. Although Myanmar has expedited the privatization process involving several SEEs, particularly in the industrial and manufacturing sectors, it has taken a more cautious approach in privatizing the public utilities. For instance, GOM in cooperation with the private sector organized a national workshop on ICT development in February 2012, which outlined a step-by-step, participatory and transparent process of liberalizing and privatizing the telecommunication sector over a period of next five years. To improve the process, it has also sought technical assistance from international organizations, experienced industrial experts as well as multilateral agencies.

Chapter 4 of the FESR (Macro-economic Policies for Growth, Stability and Poverty Reduction) takes this thought further in Section 4.5 (State enterprise reform), paragraphs 60 and 61:

60. With new budget allocations, the SEEs are now subject to stricter financial discipline as well as strong incentives for profit making. The government has sharply cut direct subsidies to the SEEs while opening markets for competition with the private sector. Further, the government is removing the easy credit from state banks, which has hitherto been available to the SEEs while limiting arrears on payments to central government funds. The government has also instructed the SEEs to undertake more aggressive collection of

receivables, to align closely between investment and profitability, and to reorient goals from output targets to profit. All the managers of SEEs are now expected to focus on marketing and product quality, while improving operational efficiency and investment decisions.

61. While all SEEs are now subject to operating on a commercial basis and using the market-determined exchange rate, further reforms on equitization, commercialization and possible privatization will be undertaken in the future. GOM also takes note of lessons from other developing countries that show there is potential for making major mistakes if privatization proceeds too quickly without properly preparing regulatory frameworks and competition policies. GOM will ensure that the state privatization authority will have sufficient capacity in the areas of project appraisal, valuation and securitization procedures, public auctioning and open tender systems in managing the process of privatizing state assets - particularly for large SEEs. GOM will also take a judicious and cautious approach in privatizing public utilities and infrastructure industries that are critical to the functioning of the economy and are strategic as natural monopolies. It will consider a step-by-step privatization plan by separating or unbundling monopoly parts to be subjected to competition with new firms, establishing regulatory frameworks and institutions, commercializing the state enterprises and attracting private-public partnerships.

## 2. *The Ministry of Finance Website*

The second strong statement of policy is found on the “Budget Department” page of the Ministry of Finance website:<sup>64</sup>

Starting from 2012-2013 Fiscal Year, the State Economic Enterprises will be separated from State Fund Account. Although budget of State Economic Enterprises are included in State Budget, their budgets run with their own funds. Financing of the budget deficit of SEEs will be provided or loaned from fund of Union with approved by Cabinet of Union Government. Moreover, the income and expenditure with Foreign Currency are calculated based on one US\$ equivalent to 800 Kyats in the State Budget for 2012-2013 Fiscal Year.

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<sup>64</sup> <http://www.mof.gov.mm/en/content/budget-department> (accessed 2 March 2015)

Further on the same page:

### **State Economic Enterprises (SEEs) Budget System Reforms**

At the FY 2012-2013, Government adopt new Financial System for the State Economic Enterprises. According to new Financial System, the SEEs are changed from State Fund Account System to their owned Fund Account System. They have to operate their business activities by their owned Fund. SEEs should not rely on the government budget for their business activities and need to try to stand their own foot.

At the present, SEEs face many difficulties to change from State Fund Account System to owned Fund Account System. Therefore, government is planning to change SEEs Budget System, step by step.

In FY 2012-2013, it is initial time. Therefore, the first step is the cost of raw materials for production will be charged by their owned Fund as working capital. If SEEs need working capital for the business activities, they can take out loans from state owned banks in line with existing financial rules and regulations. Other Expenses such as production costs, administrative costs, distribution costs, research costs, financial expenditures will be charged by State Fund Account.

Before 2012-2013 Financial Year, all SEEs budget were put under the State Fund Account. All SEEs income are put in Union fund and expenditure are incurred from the Union Fund according to the budget allocation. 30% of net profit of SEEs are paid as income tax and 70 % of net profit are put into the State Fund as contribution.

In accordance with the new Financial System, if SEEs achieve profit, 20% of net profit are put into the Union fund as contribution and 25% of net profit are paid as income tax. At the end of the Fiscal Year, SEEs can carry on the rest net profit to the next Financial year as their own fund. Moreover, if SEEs get Surplus, they can make Financial Investment, such as: purchasing government Treasury Bills. But, they are not allowed to borrow from one of SEEs to another SEEs.

According to the Financial Policy, if SEEs face budget deficit, year-by-year, they will be privatized.

### 3. *The National Comprehensive Development Plan*

Myanmar, like many former colonies that gained independence at the end of World War II, quickly adopted a multi-year development plan and successive governments over the following sixty years produced an almost unbroken string of such plans. None of them can be considered a success.

The Thein Sein government inherited a five-year plan from the previous government and proceeded to implement it with some major adjustments. It also began working on a 20-year National Comprehensive Development Plan for the period 2011-12 to 2031-32.

The FESR that was presented to Myanmar's aid donors at the beginning of 2013 described itself as a bridge from the exiting five-year plan to the NCDP. Here is how the NCDP is described in Appendix 1 of the FESR:

Using the draft FESR as a starting point, the Government also intends to begin the process of preparing a national comprehensive development plan (NCDP) or vision for the next twenty years, which will draw on the ongoing work of the Myanmar Comprehensive Development Vision (MCDV).<sup>65</sup> An initial framework for the NCDP will be prepared by the end of 2012. The final NCDP will be completed during the second half of 2013 and will guide the preparation of subsequent national five year plans as well as regional and state development plans.

The NCDP was not completed in 2013 or 2014. At the 3<sup>rd</sup> Myanmar Development Cooperation Forum in February 2015, participants were informed that the NCDP would be finalized in the last quarter of 2015.

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<sup>65</sup> The MCDV was prepared by the Economic Institute for ASEAN and East Asia (ERIA), with funding from the Government of Japan.

## **V. Implementation of Government Policies**

The following are ten key points derived from the aforementioned policy statements:

- The SEE sector has been an impediment to private sector development.
- The government will phase in a hard budget constraint on SEEs and no longer make easy credit available from state-owned banks.
- The government will corporatize SEEs as a step toward privatization.
- The government will privatize SEEs keeping in mind where the government has a comparative advantage in producing goods and services.
- The Privatization Commission will be revitalized and its capacity improved to perform its essential functions, drawing on the experience of other countries, and an open tender system has been introduced for future privatizations of SEEs
- The government will take a more judicious and cautious approach to privatizing public utilities and infrastructure industries.
- The government will put in place as soon as possible measures necessary to ensure that development of [its rich oil and gas, hydro, and mining] resources are a blessing rather than a curse.
- SEEs that make a profit (beginning with the 2012-13 financial year) will pay 25 percent of their net profit as a tax, will contribute 20 percent of net profit to the Union Fund, and will retain the remaining 55 percent of net profit.
- SEEs that experience persistent losses will be privatized.
- The government will seek help from multilateral and bilateral donor agencies in improving the performance of the SEE sector

Each one of these points is examined in turn in an effort to compare actual implementation against its corresponding policy objective.

### *1. The SEE Sector as an Impediment to Private Sector Development*

A recent World Bank report makes two statements about how the SEE operations make life difficult for the private sector:<sup>66</sup>

. . . SEEs have an unfair advantage over the private sector because they enjoy significant subsidies from Government. Government mandates requiring purchasing from state producers where possible has severely restricted the scale of public procurement and sharply constrained an important driver of private sector growth.

Beyond SEEs, military involvement in businesses also casts a heavy cloud on private sector space. The Ministry of Defense owns two holding companies with vast business interests: The Union of Myanmar Economic Holdings Limited (UMEHL) which was established to focus on light industries, trading, and services, and the Myanmar Economic Corporation (MEC) which was established to focus on heavy industries. Although the military owned companies are not regarded as SEEs, they enjoy certain privileges, which make the playing field for the private sector uneven.

The World Bank's concern about SEEs crowding out the private sector was not confirmed in interviews with private sector business leaders in Yangon in February 2015. In one interview that captured the tone of others, the business leader was asked to rank crowding out by SEEs as a problem on a scale of zero to ten with zero being no problem at all. His answer was "2 to 3". He explained that the private sector now has many avenues of advancement that did not exist before 2011. More often than not, ways can be found to do the business that private entrepreneurs want to do.

This contrary view cannot be considered determinative, but it is an argument for proceeding cautiously and judiciously with SEE sector reform. Another way of making the point is that the key to productive use of physical and financial assets is not who owns them but how effectively they are managed. Plenty of cases exist where managers of SEEs produce better economic and social returns than their private sector counterparts. In the absence of a competitive market for their products and services, it is not easy for private sector managers to outperform public sector managers.

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<sup>66</sup> World Bank (2014), paragraphs 128 and 129, pages 43-44. These concerns are echoed in EABER-MDRI (2015).

## 2. *Phasing in a Hard Budget Constraint*

The SEE sector as a whole is contributing the bulk of the consolidated public sector revenue, roughly 60 percent in FY 2014-15, while absorbing considerably less (roughly 45 percent) public sector expenditure. Thus the hard budget constraint does not apply to the SEE sector as a whole. Instead it applies to the many individual enterprises that have historically been operating at a loss and have relied on budget subsidies or borrowing from banks for their survival.

The bulk of the SEE sector contribution to public sector revenue is derived from natural gas exports. However, it is widely believed that the money earned from natural gas sales and other resource extraction activities by SEEs is not fully captured in the budget because there are “leakages”. Some estimates of these leakages are enormous.<sup>67</sup> A prime reason for the government’s commitment to participate in the Extractive Industries Transparency Initiative (EITI) is to reduce these leakages and one can only hope that the effort will succeed. One measure of the difficulty is that it is known that SEEs maintain off-budget accounts in the state-owned Myanmar Economic Bank (MEB). By one report, as of June 2012 there were 4,319 such accounts belonging to Union-level SEEs and 517 belonging to Region and State-level SEEs.<sup>68</sup> Until all SEE revenue that the government can legitimately claim under existing laws is brought into the budget, it will not be possible say that a hard budget constraint exists.

Establishing a hard budget constraint for the SEEs also requires discipline over borrowing. In the SLORC/SPDC era, the government’s policy was to prohibit lending to SEEs by state-owned banks, but no information on SEE debt to either state-owned or private banks has been found in the course of this study.<sup>69</sup> It seems likely, however, that outstanding debt owed to banks is substantial for at least some SEEs, and that some portion of this debt is in arrears. It is also not known how much the SEEs have borrowed from foreign banks.

A key point here is that the government is heavily dependent on revenue from the SEE sector. In the words of the latest IMF report:<sup>70</sup>

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<sup>67</sup> Dapice (2013).

<sup>68</sup> World Bank (2013), p. 44.

<sup>69</sup> Paragraph 60 of the FERS mentions goals of “removing easy credit from state banks” and “eliminating arrears on payments to central government funds”. (Page 30). The Ministry of Finance website says SEEs “can take out loans from state-owned banks in line with existing finance rules and regulations”.

<sup>70</sup> IMF (2014), p. 12, para 25.



Structural reforms aimed at improving public sector effectiveness could pose short-term risks to Union government finances. ... reforms that separate SEEs from the budget could trigger contingent liabilities and would reduce an important source of funding for the Union Government budget.

Appendix B shows the current revenues and expenditures of the SEEs, ministry by ministry, for the past three financial years. This breakdown shows how vital the Energy Ministry is as a source of revenue. If the Myanmar Oil and Gas Enterprise (MOGE) were privatized through a sale, for example, the budget would benefit from a one-time revenue windfall in the year of the sale but would lose the steady stream of dividends it would otherwise receive over many years (offset by royalties and taxes).

In its 2013 Public Financial Management Performance Report, the World Bank concluded as follows:<sup>71</sup>

Since 2011 the Government has moved to make SEE management independent of the corresponding parent ministry and more market oriented, stopped the practice of providing budgetary support to cover SEE losses – with a move to providing loans to SEEs for covering losses, making operational results more transparent – and moved toward privatization of some SEEs. This change has resulted in less government control over SEE operations but also of reduced ministerial oversight of SEEs.

Summing up, the government has taken meaningful steps toward imposing a hard budget constraint on the SEE sector. Nevertheless, much more remains to be done to reduce the losses of loss-making SEEs through restructuring or privatization, to make the other SEEs more profitable through cost-cutting and revenue-enhancing measures, and to reduce leakages across the sector. One risk to bear in mind is that if the government moves too fast then a difficult fiscal imbalance could become worse.

### 3. *Corporatizing SEEs*

Corporatization is generally considered the first step toward privatization of SEEs. It has been possible to find five unconfirmed cases of corporatization under the Thein Sein government, but

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<sup>71</sup> World Bank (2013, p. 97, para. 358).

only one confirmed case. By contrast, there are many examples of privatization, but only in the form of leasing, joint venture, or “BOT” arrangements.<sup>72</sup>

The only case of a completed corporatization appears to be Myanmar National Airlines. A consulting firm report in January 2015 stated: “The corporatization of the MNA, which was renamed from Myanma Airways (MA), is aimed at reinvigorating the country’s aviation industry and improving the MNA’s aviation hospitality.”<sup>73</sup>

The most important pending case is the Myanmar Oil and Gas Enterprise (MOGE). Another consulting firm reported in June 2014: “The government has said that it plans to make MOGE a state-owned corporation, in order to improve its performance as well as separate its business activities from its role as a regulator of the country’s oil and gas industry. MOGE has said that it expects the process to be completed by 2015.”<sup>74</sup>

*Myanmar Business Today* reported in January 2015 that Inland Water Transport under the Ministry of Transport would be privatized in April 2015 under an Inland Water Transport Law approved in December 2014. The new corporation would expand inland transport services, develop new lines of business, and enter into partnerships with local and foreign investors.<sup>75</sup>

Another interesting case is Yadanarpon Teleport Company (a leading internet service provider) in which the Ministry of Communications and Information Technology holds a majority of the shares. An official in the Myanma Post and Telecommunications (MPT) enterprise, under this ministry, announced in November 2014 that Yadanarpon Teleport Company would reorganize as a public company so that it could obtain a license to be the country’s fourth mobile phone provider.<sup>76</sup> In the same month, a report surfaced to the effect that the military-controlled conglomerate MEC would be awarded the fourth mobile phone license.

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<sup>72</sup> In the opinion of one foreign aid official, every ministry has a different understanding and a different approach to privatization, encompassing corporatization, BOTs and PPPs. Personal interview, 12 March 2015.

<sup>73</sup> <http://consult-myanmar.com/2015/01/12/myanmar-upgrades-civil-aviation-business-to-boost-air-transport/> (accessed 7 March 2015)

<sup>74</sup> [http://www.thuraswiss.com/sites/default/files/newsviews\\_12\\_06\\_2014.pdf](http://www.thuraswiss.com/sites/default/files/newsviews_12_06_2014.pdf) (accessed 7 March 2015)

<sup>75</sup> “Inland Water Transport to be Corporatized in April”. <http://www.mmbiztoday.com/articles/inland-water-transport-be-corporatised-april> (accessed 21 March 2015)

<sup>76</sup> “Yadanarpon to Restructure Ahead of Telecoms License”. Thura NewsViews, Issue No. 131. 20 November 2014.

A Ministry of Communications and Information Technology official denied that a decision on the fourth license had been made.<sup>77</sup>

At the same time, MPT (the only domestic company licensed to provide mobile phone service) is being corporatized so that it can enter into a joint venture with KDDI Corporation and Sumitomo Corporation from Japan to upgrade and build out Myanmar's original mobile phone network. In February 2014, the World Bank approved a \$31.5 million IDA credit for a Telecommunications Sector Reform project.<sup>78</sup> A related document invites Expressions of Interest for technical assistance in the restructuring of MPT. The request states: "MPTs corporatization will ensure the separation of the Government's policy function from operations and enable MPT to operate as a commercial enterprise with the necessary financial and administrative autonomy."

A less certain case is the Myanma Timber Enterprise (MTE). A forest resources INGO posted on its website a PowerPoint presentation in March 2014 by the Director General of the Forestry Department in the Ministry of Environmental Conservation and Forestry. One of the last slides with the heading "Way Forward" includes as one of its bullet points: "Corporatization of MTE".<sup>79</sup>

Perhaps the most promising of the reported corporatization cases is the Yangon Electricity Supply Board. A press release dated 28 February 2014 from the International Finance Corporation includes three statements about its corporatization:<sup>80</sup>

The mandate signed on February 26 will involve IFC's technical support and assistance in transforming the Yangon Electricity Supply Board, or YESB, which comes under the Ministry of Electric Power responsible for power distribution in Yangon - into a commercially viable corporate entity. With IFC's help, the government and YESB will take necessary actions that allow YESB to operate as a standalone and regulated electricity supplier within a three-year time frame.

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<sup>77</sup> "Questions Surround 4<sup>th</sup> Telecom License, After Military Firm Name Emerges".

<http://www.irrawaddy.org/business/questions-surround-4th-telecom-license-military-firm-name-emerges.html> (accessed 21 March 2015)

<sup>78</sup> <http://www.worldbank.org/projects/P145534?lang=en> (accessed 21 March 2015)

<sup>79</sup> [http://www.forest-trends.org/documents/files/doc\\_4372.pdf](http://www.forest-trends.org/documents/files/doc_4372.pdf) (accessed 7 March 2015)

<sup>80</sup> <http://ifcext.ifc.org/ifcext/pressroom/IFCPressRoom.nsf/0/1B5255A8588BD90B85257C8D000C1840> (accessed 7 March 2015)

“The mandate signing is a significant step that shows a firm commitment by the government of Myanmar to move forward with corporatizing the energy sector,” said Karin Finkelston, IFC Vice President for Asia Pacific.

Support for the corporatization of YESB is part of the World Bank Group’s efforts to pursue public-private partnerships in the power sector, which will allow the government to leverage private capital to increase investments in the electricity sector.

At the World Bank-organized SEE workshop in March 2015, an IFC representative explained that one consultant and five consulting firms had been selected to assist YESB with its corporatization, which would be completed by 1 April 2015 by means of a notification under the new Electricity Law.<sup>81</sup> Once corporatized, the IFC plans to inject about \$40 million of equity in the company.<sup>82</sup>

A number of new joint ventures have been reported. They may involve corporatization to the extent that a joint venture company in the form of a limited liability corporation is formed in which the partners hold shares in proportion to their respective investments. But “joint venture” is a loose term in the Myanmar context and may take non-corporate forms. A few of these cases are described in Text Box Seven:

#### **Text Box Seven: Joint Venture Cases**

At an SEE workshop in March 2015, a senior MOGE manager made a PowerPoint presentation that described plans to corporatize three distinct services (drilling, seismic survey, pipeline construction and maintenance) by forming joint ventures with private sector partners.<sup>83</sup>

At the same workshop, a senior manager from the Myanma Petrochemical Enterprise (MPE) explained that in financial year 2014-15 one refinery, one LPG plant and the MPE’s Movement Department would become joint ventures, and

<sup>81</sup> A new Electricity Law (No. 44/2014) was enacted by the legislature in October 2014. It replaced the Electricity Law of 1984. The 2014 law may also supersede the Yangon Electricity Supply Board Law enacted in November 2005. (SPDC Law No 6/2005).

<sup>82</sup> World Bank (2015).

<sup>83</sup> World Bank (2015).

what remained would be transformed from a state economic enterprise to a corporatized business. A senior manager from the Myanmar Petroleum Products Enterprise (MPPE) announced that MPPE is seeking a joint venture partner in financial year 2014-15.<sup>84</sup>

The Ministry of Transport's Myanmar Shipyards enterprise is forming a joint venture with Vietnam's Dong A Shipbuilding Company. Myanmar Shipyards will invest \$89.5 million in the venture in the form of land, machines, equipment and materials, and will hold a 51 percent share in the company. The foreign partner will invest \$175.4 million.<sup>85</sup>

In 2013, the *New Light of Myanmar*—the leading government newspaper—was transformed through a tender process into a joint venture with an unknown local company, with the Ministry of Information holding 51 percent of the shares. *Kyodo News*, a Japanese publisher, is assisting in the modernization of this newspaper. It is now being published as the *Global New Light of Myanmar*.<sup>86</sup>

Three of four operating units within Myanmar Airways (under the Ministry of Transport) are organized as joint ventures: Myanmar Airways International (MAI), Air Mandalay Limited, and Myanmar Helicopters International.<sup>87</sup>

There is a lot of talk about “corporatization”, which seems to be widely understood to be part of the privatization process. It is not obvious, however, that the rationale or the process or the nature of corporatization is widely understood among SEE managers or government officials.

<sup>84</sup> MPPE's business is the domestic wholesale and retail distribution of petroleum products. A major privatization step was taken in 2010 when ownership of 261 petrol stations was transferred to private companies, although the transfer process lacked transparency.

<sup>85</sup> “Myanmar Shipyards Partners with Vietnam Company”. *The Myanmar Times*. 9-15 February 2015, p. 27.

<sup>86</sup> “New Japanese Light for Burma's State-Backed Mouthpiece”. <http://www.irrawaddy.org/media/new-japanese-light-for-burmas-state-backed-mouthpiece.html> (accessed 21 March 2015) A report posted by *The Irrawaddy* in July 2014 described this deal as the first joint venture deal under the Thein Sein government.

<sup>87</sup> The government holds a 20 percent stake in MAI airline, the remaining stake is held by the Kanbawza Group, one of Myanmar's leading conglomerates.

Corporatization is far from a “slam dunk” (easy win) in a country like Myanmar. To begin with, there is not a single indigenous corporation of significance in Myanmar that comes close to meeting global best practice for corporate governance.<sup>88</sup> There is little cultural support for even the degree of transparency found in leading corporations in Myanmar’s ASEAN partner countries. There is no tradition of reliable financial audits. It is not easy to find qualified directors for corporate boards or senior managers with experience in managing internationally competitive corporations for the level of compensation that would be politically tolerable.

While the Thein Sein government appears to have a strong commitment to sensible corporatization at a cautious pace, one has to be skeptical about what it will be able to accomplish in the remaining months of its term in the face of the resistance clearly visible from the legislature, the bureaucracy, and vested interests in the private sector.

#### 4. *Privatizing SEEs*

Broadly speaking, privatization occurs whenever an asset that can be considered as belonging to the government becomes (wholly or in partly) owned or controlled by an individual or a private entity). From this perspective, some privatization has occurred throughout Myanmar’s history as an independent nation, either formally, informally, or illegally. At the same time, no period since 1948 has been without some nationalization of private sector assets or the creation of new public sector enterprises.

It will be difficult to do more than plot the waves of nationalization and privatization that have swept over the country during the past 66 years, as has been attempted in Appendix D.

Here the focus is on the five years since the national election in 2010. For this period it is essential to make a distinction between outright privatization (sale), various forms of leasing of state-owned assets, and Public-Private Partnerships (PPPs).

From news reports and assessments of the Myanmar economy, it is clear that a major wave of privatization occurred in the final years of the SLORC/SPDC era. While some of these privatizations were well publicized, none were transparent to the extent of divulging the buyer or the sale price. None were done using standard competitive bidding procedures and there was no

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<sup>88</sup> First Myanmar Investment Company Ltd, an affiliate of Singapore-registered Serge Pun Associates, may be the local pacesetter by international corporate governance standards.

accounting of flows into the budget or the treasury. Many of these privatizations seem to have been in the form of outright sales.<sup>89</sup>

By contrast, under the Thein Sein government not a single outright sale has come to light in the course of this study. Instead, most privatization deals have been in the form of lease arrangements. One distinctive feature of these arrangements is that most, if not all, ministries have undertaken them. Another is that they have been done in an ad hoc and discretionary manner. No standard procedure has been followed, no standard terms have been set, and it is unlikely that all the lease payments are entering the budgets of the ministries that have leased assets under their control.

A number of issues arise in connection with this phenomenon:

- The valuable asset being leased in many of these cases is land, not an operating factory or revenue-generating business.
- In many cases, the private partner is not required to continue the same business operation but is allowed to “repurpose” the land and buildings and machinery.
- In some cases this has involved the demolition of buildings and a completely new use, such as a hotel or apartment building.
- Decisions about acceptable uses are being made at the level of Ministers, with little central input or review.
- In most cases, the private partner is required to keep paying the employees of the enterprise unit being leased, although in some cases this is done by means of a payroll payment to the host Ministry alongside the lease payment.<sup>90</sup> This employment requirement seems to be the biggest obstacle to concluding lease agreements.<sup>91</sup>

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<sup>89</sup> For example, one of the first malls in Yangon was built by the military conglomerate UMEHL on land purchased from the Ministry of Commerce in the SLORC/SPDC era. It was branded as Ruby Mart and opened in 2010. “Junta-Controlled Firm Opens Shopping Center in Rangoon”. <http://archive-2.mizzima.com/business/4432-junta-controlled-firm-opens-shopping-centre-in-rangoon.html> (accessed 21 March 2015) In the 2010 wave of privatizations, state assets were allegedly “sold” to the private party that offered the biggest bribe, typically in the range of \$100,000 to \$1 million. In the wave of privatizations after 2010, the bribes were typically larger than \$1 million. By the end of 2014, all that was left in the public sector were “the crumbs”. (personal interview with an experienced private sector businessperson, 2 February 2015).

<sup>90</sup> The Ministry of Industry in 2013 leased a textile factory near Mandalay to a private company operating under the name Panda. The workers went on strike in December 2012 over a new employment contract that they claimed violated the privatization agreement and left more than 1,000 workers unemployed. Apparently the private company had agreed to retain all the civil servants employed at the factory when it was leased. The workers have appealed to the Ministry of Industry to resolve the dispute. “Workers Demand Jobs Back at Privatized Textile Factory”. *The Myanmar Times*. 12 January 2015. <http://www.mmtimes.com/index.php/national-news/mandalay-upper-myanmar/12772-workers-demand-jobs-back-at-privatised-textile-factory.html> (accessed 21 March 2015)

<sup>91</sup> In the case of a cement plant purchased by an investor from an ASEAN member country, the purchaser was required to keep 1,300 employees. Personal interview, 8 February 2015.



- There is little competitive bidding for these leases because there is so little interest in acquiring them. Ministries are pleased when they receive an Expression of Interest from a prospective private partner and directly proceed to negotiating the terms of the lease.
- Problems with these arrangements often arise.<sup>92</sup>
- What is driving many of these lease arrangements is the Thein Sein government's policy of not funding loss-making enterprises.

A list of all the large land leasing deals in the Yangon region is too long to include here.<sup>93</sup> Text Box Eight describes some of the most prominent deals reported in the press or described in personal interviews.<sup>94</sup>

From a development policy perspective, it is clearly sub-optimal to have ministries “own” land in this fashion, or to allow these ministries to approve re-purposing land and buildings they have used in the past for new uses beyond their sector competence.

One possible improvement on current practice is to adopt a policy of converting old leases into and structuring new leases as “installment payment purchase transactions”. Among other advantages, this would reduce uncertainties about what will be done with the property at the end of the lease period and could provide a strong incentive for the private company to make long-term investments in the property.<sup>95</sup> It may not be easy, however, to find local companies that would prefer this kind of arrangement.

These cases also beg the question of the role of the Privatization Commission. There is no evidence that the Privatization Commission played any role in any of these cases.

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<sup>92</sup> One highly publicized case involved a food-canning factory belonging to the Livestock, Foodstuff and Milk Products Enterprise under the Ministry of Livestock, Fisheries and Rural Development. In 1997, the factory was leased to Myanmar Makro Industry Co. Ltd. for 20 years. In January 2011, the Ministry sold the factory through an auction process to a new owner—Myanmar Mega Marine, which completed its payment in February 2012. At that point, steps were taken to evict Myanmar Makro, which went to court to protect its claim to the factory.

<http://www.mmmtimes.com/index.php/business/property-news/10098-canning-firm-defies-govt-order-to-leave-factory.html> (accessed 24 March 2015)

<sup>93</sup> A short list can be found at: <http://www.scipioservices.com/wp/wp-content/uploads/2014/05/8-Hot-Topics-for-the-Myanmar-Property-Market.pdf> (accessed 21 March 2015)

<sup>94</sup> An interesting twist on the leasing pattern is a report that the Union Election Commission has informed political parties that the Ministry of Construction will rent or sell office space for 24 of them in a housing project in a western township of Yangon. <http://www.irrawaddy.org/burma/govt-plan-on-office-space-for-political-parties-moves-forward.html> (accessed 26 March 2015)

<sup>95</sup> Suggested by an aid agency expert, 9 April 2015.



**Text Box Eight: Land Leasing in the Yangon Region**

Yoma Strategic Holdings, a Singapore-listed holding company with extensive investments in property development in Myanmar, obtained approval under the Thein Sein government to build out a large parcel at a prime location in downtown Yangon centered on the colonial era, heritage-designated Railroad Ministry building. The high-rise build-out is expected to include offices, apartments, and a mall. The old Railroad Ministry Building is to be preserved and converted into a five-star hotel. In March 2015, a business newsletter reported that the Myanmar Investment Commission had approved an extension of Yoma's lease for this \$400 million project.<sup>96</sup> The report noted that the lease extension awaits the approval of the Ministry of Rail Transportation "which owns the land the project is being developed on".

A large multipurpose complex is being constructed by a joint venture led by Singapore-based HSL Group. The first phase of this project is the "Polo Club Asia Residence". The land on which this complex is being built was previously the location of the National Library, which was moved to a different township after being damaged by Cyclone Nargis. According to a story in *The Myanmar Times*, the land is now owned by the Myanmar Economic Corporation (MEC).<sup>97</sup> One wonders how and when it came into the possession of MEC.

The Golden City multipurpose development is under construction by another Singapore-based company on land owned by the Ministry of Defence. In some sources it is described as a BOT (Build-Operate-Transfer) deal and others as a joint venture.<sup>98</sup>

<sup>96</sup> "Yoma Gets MIC Agreement for Lease Extension on Landmark Project". Thura NewsViews 158. Thura Swiss Ltd. 19 March 2015.

<sup>97</sup> "Polo Club to Compete As Tallest Building". *The Myanmar Times*. 2-8 February 2015. P. 34.

<sup>98</sup> "Singaporean Real Estate Firm to Build Housing Project in Ygn".

[http://www.elevenmyanmar.com/index.php?option=com\\_content&view=article&id=5153:singaporean-real-estate-firm-to-build-housing-project-in-ygn&catid=33&Itemid=356](http://www.elevenmyanmar.com/index.php?option=com_content&view=article&id=5153:singaporean-real-estate-firm-to-build-housing-project-in-ygn&catid=33&Itemid=356)

(accessed 21 March 2015)

Hoang Anh Gia Lai Myanmar Center is being built on Ministry of Industry land close to Inya Lake under an agreement with the Ministry of Hotels and Tourism. A website in a December 2012 posting reported that the deal is in the form of a \$300 million BOT agreement with Vietnam's HAG Corporation.<sup>99</sup>

The new Novotel is being built partly on land formerly owned by the government that was leased or sold in 2010 to Zaw Zaw—one of Myanmar's leading "cronies"—by the SLORC/SPDC regime.<sup>100</sup>

The Irrawaddy in April 2015 ran a story about a 100 acre parcel in central Yangon that includes an historic former horseracing track and a Sports Science Building. The parcel was tendered in a nontransparent process and awarded to a local company that plans to build a commercial business complex and upgrade the Sports Science Building. Responding to objections from a member of the regional assembly, the Yangon Region Minister for Economics and Planning explained that the local government could not intervene because the land was under the authority of the central government's Ministry of Sports.<sup>101</sup>

Some privatization arrangements have been described as a "BOT", which seems to be a local synonym for lease rather than the specific Build-Operate-Transfer or Build-Own-Transfer or Build-Own-Operate concepts developed in the West.<sup>102</sup> One example is a project in the city of Mawlamyine to build a "fully integrated supply base that will serve the national oil and gas industry". This deal by the Mon State government with domestic investor is described as a BOT agreement.<sup>103</sup>

<sup>99</sup> <http://www.skyscrapercity.com/showthread.php?t=1572706> (accessed 20 March 2015)

<sup>100</sup> Aung Min and Kudo (2014).

<sup>101</sup> "Rangoon Parliament Dismiss Objections Over Project at Kyaikkasan Grounds". <http://www.irrawaddy.org/burma/rangoon-parliament-dismiss-objections-over-project-at-kyaukkasan-grounds.html> (accessed 8 April 2015)

<sup>102</sup> A director-level official used the term "BOT" to describe a privatization case. When asked, the official did not know what BOT stands for. Others who had heard the term also did not know its meaning. This official was also asked what would happen with a state asset at the end of a 30-year BOT deal and the official seemed to have no idea. Personal interview, 31 January 2015.

<sup>103</sup> Thura Swiss. *Thura News Views*, Issue 156, 5 March 2015. <http://www.thuraswiss.com/newsletter/newsletter-latest-issue> (accessed 9 March 2015)

Some “classic” BOT deals are being done. One example is an Independent Power Project (IPP) in which a Singapore-registered company (MAXpower Group) began selling power in 2013 from its gas-fired plant to the Yangon Electricity Supply Board (an SEE). Japan’s Mitsui bought 44 percent of the project company (Myanmar Power Pte Limited) in December 2014.<sup>104</sup>

A number of large land concessions have been awarded to private companies by the Thein Sein government for plantation or other agricultural uses. These are problematical because ownership of the land has been disputed and customary users of the land have been displaced without satisfactory compensation.<sup>105</sup> Several land laws have been enacted under the Thein Sein government but they are controversial. A new National Land Use Policy is on the drawing board.<sup>106</sup>

A substantial amount of land formerly controlled by the Department of Human Settlement and Housing Development in the Ministry of Construction has been transferred to Region and State governments.<sup>107</sup>

### *5. The Privatization Commission and the Open Tender System*

Despite references to the Privatization Commission in the FESR, in a number of analytical pieces, and in news reports, the current status of this administrative body is unclear.<sup>108</sup> There is anecdotal information that the initial plan of having the Commission chaired by one of the Union Vice Presidents was unsatisfactory and that a second formula turned out to be no better. It has also been suggested that the future of the Commission is part of an internal debate about the country’s strategy for improving the performance of the SEE sector.<sup>109</sup>

Regarding the commitment to adopt an “open tender system”, a number of ministries and SEEs since 2011 have issued open tenders to privatize specific activities, but few of these tenders appear to have conformed well to international best practice.

<sup>104</sup> <http://www.mmtimes.com/index.php/business/12600-mitsui-buys-into-thaketa-plant-with-maxpower-deal.html> (accessed 22 March 2015)

<sup>105</sup> A good example is a “privatization” operation in Shan State around 2006: “Minister Faces Land Grab Accusations”. <http://www.mmtimes.com/index.php/national-news/13773-minister-faces-land-grab-accusations.html> (accessed 27 March 2015).

<sup>106</sup> An interesting example is the teak plantations one sees on the highway between Yangon and Naypyitaw. Most of these have been leased to private companies under production-sharing agreements where the controlling ministry (unclear which one) will get 20 percent of the harvested teak. Personal interview, 9 February 2015.

<sup>107</sup> Personal interview, 1 February 2015.

<sup>108</sup> One government official interviewed on 8 February 2015 said that the Privatization Commission is no longer active.

<sup>109</sup> Paragraph 61 of the FESR mentions the goal of raising the capacity of “the state privatization authority”.

## 6. *Privatizing Public Utilities and Infrastructure Industries*

From interviews in Myanmar in February 2015 it is clear that the Thein Sein government is proceeding cautiously in seeking to improve the performance of “the public utilities and infrastructure industries”—the phrase used in the FESR—although it is not clear how this group of SEEs is defined.

At the quick end of the spectrum, the Ministry of Communications and Information Technology was fast off the mark in granting licenses to Ooredoo and Telenor to build out the country’s mobile phone network.<sup>110</sup> One of the Quick Wins highlighted in the FESR was achieving 80 percent penetration for the network by 2015. While it looks as though this very ambitious goal will not be achieved, the shortfall may be relatively small. This is the fastest ever rollout of a mobile network for a country as large as Myanmar, and Myanmar is the first substantial country where the rollout is beginning at the 3G and 4G level of service. The process of awarding these licenses also set a new standard for Myanmar of transparency in government procurement.

With regard to PPPs, the term is used loosely in Myanmar with little knowledge of what it means in the rest of the world. A relatively small number of officials and advisors at the center of economic policy making understand the importance of developing a PPP framework appropriate for Myanmar and are obtaining assistance from multilateral and bilateral aid agencies for this purpose (see Section 9 below).

After the Ministry of Communications and Information Technology, the Ministry of Electric Power seems to be the most active arranger of PPPs. One Independent Power Project (IPP) outside of Mandalay (Kyaukse, 100MW gas generator) became operational in early 2014. A second IPP (Thaketa, 50MW gas generator) that sells power to the Yangon Electricity Supply Board became operational in 2014. A third IPP (Myingyan, 250MW gas-fired combined cycle) for the Yangon Electricity Supply Board is being tendered in 2015. The IFC has advised the government on all of these deals.

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<sup>110</sup> As a result, the price of a SIM chip dropped from as much as \$2500 in 2010 (and higher in earlier years) to under \$2 in 2014.

### 7. *Making resource extraction a blessing*

The FESR is clear in recognizing that Myanmar's rich natural resource endowment has been more of a curse than a blessing in the past, and in describing the firm commitment of the Thein Sein government to reverse this pattern.

However, the FESR contains no specific actions to be taken in any of the resource extraction sectors. Instead there is a remarkable commitment to participate in the Extractive Industries Transparency Initiative (EITI). Myanmar was accepted as a candidate country in July 2014. The first report to demonstrate compliance must be submitted by 2 January 2016. A Multi-Stakeholder Group (MSG) has been formed and terms of reference for the report, covering fiscal year 2013-14 have been agreed upon.<sup>111</sup>

Minutes of the meetings of the MSG are posted on the Myanmar EITI website.<sup>112</sup> The MSG considered six sectors to be prioritized for Myanmar's initial EITI report: oil and gas, mining, jade and gemstones, hydropower, forestry, and agriculture (rubber and palm). So far, it appears that only oil and gas and mining (including official data on jade and gemstones from the Gems Emporiums) will be included in the scoping study that will form the basis of the initial compliance report. A separate feasibility study for the hydropower sector will be carried out, and the MSG will consider data on the forestry sector provided by the Ministry of Environmental Conservation and Forestry.

It is remarkable that a country where resource extraction is so contentious has been able to advance this far down the EITI track. It is possible, however, that the easy steps have been taken and that vested interests will prevent the government from meeting the January 2016 deadline. The timing is especially problematical because the deadline falls between the national election to be held in November 2015 and the inauguration of the next president expected in March 2016.

Even if the initial compliance report is submitted on time and Myanmar is deemed to be "EITI compliant", much more will need to be done to ensure that the government is getting full value from the resources within the purview of the program and that the associated revenue streams are benefiting the country as a whole.

Opposition leader Aung San Suu Kyi has not said much about the SEE sector, and her party (NLD) does not appear to have a formal position on reforming the sector. However, she

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<sup>111</sup> See: <https://eiti.org/Myanmar>

<sup>112</sup> <http://myanmareiti.org/>

did include a strong statement about the Myanma Oil and Gas Enterprise (MOGE) when she addressed the 101<sup>st</sup> International Labor Conference in Geneva in June 2012:<sup>113</sup>

The Myanmar[sic] Oil and Gas Enterprise (MOGE), the state-owned company under the Ministry of Energy with which all foreign participation in the energy sector takes place through joint-venture arrangements, lacks both transparency and accountability at present. The Government needs to apply internationally recognized standards, such as the IMF's Code of Good Practices on Fiscal Transparency. Other countries could help by not allowing their own companies to partner with MOGE, unless it was signed up to such codes. This would also ensure that their own companies would be subject to the above codes themselves, and to the various requirements of publish what you pay.

#### 8. *Payment of Taxes and Profits*

Aggregate numbers by ministry are available for SEE payments to the government in recent years, but with no breakdown between taxes and profits. At the same time, there is no basis for doubting that the SEEs are making the payments prescribed by the Thein Sein government: 25 percent of the profit of each money-making SEE to the Treasury as income tax and 20 percent deposited into the State Fund. The balance is retained for capital improvements or financial investments (including government bonds).

#### 9. *Privatizing loss-making SEEs*

As described above, it appears that a substantial number of loss-making SEEs have been privatized by means of lease arrangements. In the course of this study, not a single case of outright sale under the Thein Sein government or liquidation has surfaced. Clearly there are loss-making enterprises that remain, but it has not been possible to identify them individually or determine the progress that has been made in privatizing them.

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<sup>113</sup> [http://www.ilo.org/global/about-the-ilo/media-centre/statements-and-speeches/WCMS\\_183369/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/media-centre/statements-and-speeches/WCMS_183369/lang--en/index.htm) (accessed 22 March 2015)

### *10. Obtaining Multilateral and Bilateral Donor Assistance*

The World Bank Group appears to be the lead donor agency supporting the government's SEE sector reform program. It convened workshops on the SEE sector on 6-7 March 2014 and 5 March 2015. It is working with the Ministry of Energy on the privatization of the three enterprises controlled by this ministry. It is also supporting the EITI implementation team, whose work could have major ramifications for the energy and mining SEEs. It produced a Public Financial Management Performance Report in 2013 and is working on a Public Expenditure Review (PER) with the aim of completing the first phase before June 2015.<sup>114</sup> In addition, the International Finance Corporation (IFC) is working closely on the corporatization and modernization of the Yangon Electricity Supply Board.

The Infrastructure section of the Executive Summary of the FESR includes the following statement:

Legal Framework for Public-Private Partnerships. Public-private partnerships for the development and management of infrastructure need to be very carefully structured to ensure the appropriate level of public benefits and this takes time. But to facilitate the development of such partnerships GOM intends to put in place as soon as possible a clear legal framework for such partnerships.

Aid agencies are especially active in helping the government enter into sensible PPPs. In particular, it is getting assistance on PPP policy from the Asian Development Bank, and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). In November 2014, UNESCAP convened a "Workshop on Public-Private Partnerships for Infrastructure Development in Myanmar". An ADB PowerPoint presentation for this workshop noted, "Many ministries and States/Regions are already pursuing PPPs in the areas of power, energy, aviation, roads, water, and waste treatment". The presentation highlighted the confusion associated with the current ad hoc, ministry-by-ministry approach, and the advantages associated with creating a national PPP unit, national PPP standards, and a PPP development fund. Special attention was being given to the Ministry of Electric Power, and reference was made to IFC

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<sup>114</sup> The PER is being done in two phases. Budget expenditures directed to SEEs are likely to be reviewed in the second phase, which may not be completed before mid-2016.

advice for the competitive bidding of an Independent Power Production (IPP) project. The ADB technical assistance commitment in this area extends over financial years 2014-15 to 2016-17 and the details are described in a Technical Assistance Report issued in February 2014.<sup>115</sup>

The ADB anticipates doing much more in this area, motivated in large part by the success its series of “Finding Balance” program focusing on the Pacific Island members of the ADB.<sup>116</sup> This effort was funded under the ADB’s Pacific Private Sector Development Initiative and co-financed with the Australian aid agency. It was a grant facility designed to rapidly respond to reform opportunities related to SEE reform, PPPs, financial sector reform, and the legal/regulatory business environment. The success of the program led the ADB to create the Mekong Business Initiative (MBI), based on the same rapid-response principle. The MBI was approved by the ADB in December 2014 and is set to be rolled out in the Mekong countries including Myanmar in 2015.

In December 2012, Japan’s JICA jointly organized with the Union Attorney General’s Office a seminar on “Legal Aspects on Privatization of State-owned Enterprises”.<sup>117</sup>

### *Summing Up*

Privatization of the SEE sector has been one of the priorities of the Thein Sein government, but its implementation has been mixed. In some areas it may even be moving too quickly. The rent-seeking nature of the deals carried out under the previous government has not changed much since 2011. Every part of the government is actively engaged in privatization activities, but each in its own way. No common policies or procedures exist. As a result, it is likely that substantial values that could be retained by or accrue to the government are being captured by narrow private interests.

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<sup>115</sup> Asian Development Bank (2014a).

<sup>116</sup> Asian Development Bank (2014b)

<sup>117</sup> “Promoting Myanmar Economic Reform by Development and Appropriate Implementation of Laws”.  
<http://www.jica.go.jp/myanmar/english/office/topics/press121218.html> (accessed 21 March 2015)



## **Appendix A**

### **State Economic Enterprises at the beginning of 2015**

#### **Ministry of Agriculture and Irrigation**

- Myanma Livestocks And Fisheries Development Bank Ltd (1)
- Myanmar Agricultural Enterprise\*\*
- Myanmar Agricultural Development Bank\*\*\*

#### **Ministry of Border Affairs**

- Rural Development Affair Bank Ltd.

#### **Ministry of Construction**

- Public Works

#### **Ministry of Cooperatives**

- Cooperative Export and Import Enterprise

#### **Ministry of Communications and Information Technology**

- Myanma Posts and Telecommunications (2)

#### **Ministry of Electrical Power**

- Electricity Supply Enterprise
- Hydro Power Generation Enterprise
- Myanmar Electric Power Enterprise

#### **Ministry of Energy**

- Myanma Oil and Gas Enterprise
- Myanma Petrochemical Enterprise
- Myanma Petroleum Products Enterprise

**Ministry of Environmental Conservation and Forestry**

- Myanmar Timber Enterprise

**Ministry of Finance**

- Myanmar Economic Bank
- Myanmar Microfinance Supervisory Enterprise (2)
- Myanmar Foreign Trade Bank
- Myanmar Investment and Commercial Bank
- Myanmar Small Loans Enterprise

**Ministry of Hotel and Tourism**

- Myanmar Hotel and Tourism Services

**Ministry of Industry**

- No. (1) Heavy Industries Enterprise
- No. (2) Heavy Industries Enterprise
- No. (3) Heavy Industries Enterprise
- Paper and Home Utilities Industries
- Pharmaceutical and Foodstuffs Industries
- Textile Industries

**Ministry of Information**

- Myanmar Motion Picture Enterprise
- News and Periodicals Enterprise
- Printing and Publishing Enterprise

**Ministry of Labour, Employment and Social Security**

- Social Security Board

**Ministry of Livestock, Fisheries and Rural Development**

- Livestock Foodstuff and Milk Products Enterprise

**Ministry of Mining**

- Myanma Gems Enterprise
- Myanma Pearl Enterprise
- Myanma Salt and Marine Chemical Enterprise
- No (1) Mining Enterprise
- No (2) Mining Enterprise
- No (3) Mining Enterprise

**Ministry of Railways Transportation**

- Myanma Railways
- Road Transport

**Ministry of Transport**

- Inland Water Transport
- Myanma Airways
- Myanma Port Authority
- Myanma Shipyards\*\*\*\*

**Host Ministry Not Identified**

- Myanmar Citizens Bank LTD\*

## NOTES

Source: *Yangon Directory 2014*, except where noted.

- “Myanma” is a common variant of “Myanmar” which connotes possession (literally belonging to Myanmar).
- 44 enterprises under 17 ministries

\* Listed under Banks (Govt.).

\*\* From program for MDCF-3, Panel Session H on Rural Development and Poverty Reduction.

\*\*\* From World Bank. *Myanmar Agricultural Development Bank: Initial Assessment and Restructuring Options*. 2014. Reorganized from predecessor institutions under the MADB Law of 1990, which was amended by SLORC Law #3/1997 to move it from the Finance Ministry to the Ministry of Agriculture and Irrigation.

\*\*\*\* From *The Myanmar Times*. “Myanmar Shipyards Partners with Vietnam Company”. 9-15 February 2015, page 27.

(1) Listed under “Banks (Govt.)” but name was changed to Global Treasure Bank in 2013 or 2014. See *The Myanmar Times*, 13 May 2013. <http://www.mmtimes.com/index.php/business/6733-bank-changes-name-aims-to-double-capital.html> (accessed 13 February 2015)

(2) Listed in *Myanmar Telephone Directory and Official Yellow Pages 2014* (competitor), but not in *Yangon Directory 2014*.

## Appendix B

### What is a State Economic Enterprise?

Implicit in the concept of “an enterprise” is a commercial business that can be carried out profitably in the private sector. This commercial character is what distinguishes an enterprise from a government agency that operates with budget revenues and expenditures and is not expected to be profitable. Strictly speaking, to qualify as an enterprise a state-owned entity will be organized under a company law or a special state enterprise law.<sup>118</sup>

While the term “state economic enterprise (SEE)” seems to be favored in Myanmar, references are often made to “state-owned enterprise (SOE). The two terms are synonyms.

In this study, a variation on the OECD concept (see below) is used: an SEE is anything that the government of Myanmar considers to be an SEE.

This special definition is necessary for four reasons. First, some “departments” within ministries operate like a commercial enterprise and some “enterprises” within ministries function like departments.<sup>119</sup> Second, some enterprises look much more like a holding company—consisting of a group of enterprises—than a single enterprise. Third, some government entities that look and function like enterprises are not labeled as either an enterprise or a department (an example is Public Works). Fourth, some entities that appear on some government lists as an enterprise no longer function as enterprises if they ever did (an example is the Central Bank of Myanmar).

At the same time, there is an even broader concept of a state economic enterprise: any government agency or unit that earns revenue from selling products or services. Examples are a government hospital or a government university. Typically in a country like Myanmar, many “non-commercial” revenues derive from renting or leasing government assets such as land, buildings, and vehicles. A fundamental issue is whether these revenue streams are reflected in the government’s budget or not. Sound government financial management requires that all such revenue streams be

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<sup>118</sup> An online investor dictionary offers this definition: “A legal entity that is created by the government in order to partake in commercial activities on the government's behalf. A state-owned enterprise (SOE) can be either wholly or partially owned by a government and is typically earmarked to participate in commercial activities.” <http://www.investopedia.com/terms/s/soe.asp> (accessed 11 March 2015)

<sup>119</sup> Few Myanmar people seem to understand how little of the English language conversations they have with foreigners in their country is fully understood on both sides. And vice versa.

included. Leaving them out generally leads to discretionary uses of the revenues for the benefit of favored groups rather than the country as a whole.

An SEE can be wholly owned by the government or partially owned, but a distinction can be made between an enterprise in which the government owns a majority of the shares and one in which it holds less than 50 percent. Holding 51 percent or more of shares means that the government effectively “controls” the enterprise. In some cases the government may hold less than 25 percent of the shares and still have effective control because it is the single biggest shareholder. In other cases, the government holds a “golden share” that confers a right on the government to cast a decisive vote on certain matters such as amending the corporation’s by-laws.

In some countries other terms are used to describe SEEs. In Malaysia and Singapore, for example, they are called “Government-Linked Companies (GLCs).

Some government funds are confused with SEEs. Examples are pension funds, stabilization funds, development funds, investment funds, and sovereign wealth funds. While these funds can be a source of revenue to the budget, they do not sell products or services. These are asset management vehicles created to generate revenue (in the form of interest, dividends, and capital gains) by investing in a portfolio of income-producing assets.

Here is how the OECD Guidelines on the Corporate Governance of State-Owned Enterprises describe an SOE:<sup>120</sup>

10. Ownership and control. The Guidelines apply to enterprises that are effectively controlled by the state, either by holding a majority of the voting shares or otherwise exercising an equivalent degree of control. The latter applies, for instance, where legal stipulations or corporate articles of association ensure continued state control over an enterprise or its board of directors in which it holds a minority stake. Some borderline cases need to be addressed on a case-by-case basis. For example whether a “golden share” amounts to control depends on the extent of the powers it confers on the state. Also, minority ownership by the state can be considered as covered by the Guidelines if corporate or market structures confer a non-trivial degree of influence on the state. Conversely, corporate assets held indirectly via asset managers operating independently of the government would normally not be considered as SOEs. Different modes of exercising state control will also give rise to different governance issues.

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<sup>120</sup> OECD (2014b)

11. Defining an SOE. A very broad definition of an SOE, applied for instance by national account statisticians, includes all autonomous government entities that generate at least half of their income through the sale of goods and services and have autonomous budgets and balance sheets. However, most national authorities apply a narrower concept, which is in many cases anchored in SOE-related legislation. For the purpose of the Guidelines, any state-owned corporate entity recognized by national law as an enterprise should be considered as an SOE. This includes joint stock companies, limited liability companies and partnerships limited by shares. Moreover statutory corporations, with their legal personality established through specific legislation, should be considered as SOEs if their purpose and activities are of a largely commercial nature. Whether or not to consider other units of general government as SOEs would need to depend on a value judgment, including regarding their degree of market orientation. For example, entities whose primary purpose is to exercise state powers would generally not be considered as SOEs.

## Appendix C

### Revenues and Expenditures of SEEs

Table 1: SEE Current Budgets, 2012-13 to 2014-15 (billions of Kyat)

Ministry	2012-13	2012-13	2012-13	2013-14	2013-14	2013-14	2014-15	2014-15	2014-15
	Rev	Exp	Net	Rev	Exp	Net	Rev	Exp	Net
Information	23.4	12.8	10.6	25.3	8.9	16.4	21.9	10.6	11.4
Cooperatives	0.2	0.2	-0.0	0.3	0.3	0.0	0.3	0.3	-0.0
Agriculture and Irrig	41.2	41.6	-0.4	32.2	29.9	2.3	57.5	45.6	11.9
Livestock and Fish	36.4	12.0	24.3	20.4	9.3	11.1			
Comm and Inf Tech	914.0	490.4	423.6	539.2	91.4	447.8	655.4	196.0	459.4
Env Cons and Forest	287.4	210.8	76.6	384.9	254.2	130.6	173.8	137.3	36.5
Electric Power	153.6	117.9	35.7	1229.8	154.3	1075.5	1848.8	288.0	1560.8
Energy	2639.7	1643.6	996.2	4096.0	831.4	3264.6	4065.6	949.5	3116.1
Industry (1 and 2)	1059.4	400.5	658.9	259.1	125.6	133.4	290.9	164.6	126.2
Labor	5.4	5.0	0.4						
Mines	283.5	159.0	124.5	303.1	22.1	281.0	317.7	25.6	292.1
Finance and Revenue	645.2	612.5	32.7	707.3	638.4	69.0	324.3	350.0	-25.7
Construction	226.9	95.9	131.0	343.1	95.1	248.0	308.8	98.5	210.4



Commerce	0.7	7.4	-6.7						
Hotels and Tourism	4.2	4.1	0.0	79.7	4.4	75.3			
Rail Transport	102.4	68.6	33.8	9.2	66.7	-57.5	72.7	86.4	-13.7
Central Bank of Myan							442.4	346.2	96.2
Transportation	78.8	47.3	31.5	99.2	88.8	10.4	108.5	89.0	19.5
<b>ALL ENTERP.</b>	<b>6502.4</b>	<b>3929.8</b>	<b>2572.6</b>	<b>8128.8</b>	<b>2420.9</b>	<b>5708.0</b>	<b>8688.7</b>	<b>2786.1</b>	<b>5902.6</b>
<b>Union Min and Dept</b>	<b>2872.8</b>	<b>7179.3</b>	<b>- 4306.5</b>	<b>4155.2</b>	<b>8239.7</b>	<b>- 4084.5</b>	<b>6991.0</b>	<b>10199.5</b>	<b>- 3208.5</b>
<b>Other Union Admin</b>	<b>0.0</b>	<b>524.6</b>	<b>-524.6</b>	<b>0.1</b>	<b>152.2</b>	<b>-152.1</b>	<b>1.2</b>	<b>126.6</b>	<b>-125.4</b>
<b>Total Current Budg.</b>	<b>9375.2</b>	<b>11633.7</b>	<b>- 2258.5</b>	<b>12284.1</b>	<b>10812.8</b>	<b>1471.3</b>	<b>15680.9</b>	<b>13112.2</b>	<b>2568.7</b>

Notes: (1) Estimated revenues and expenditures. (2) Includes supplemental budgets except for 2014-15.

**Table 2: SEE Sector Consolidated Budget for 2013-14 (billions of Kyat)**

<b>Current Revenues</b>	<b>8128.8</b>		<b>Current Expenditure</b>	<b>2420.9</b>
Capital Revenue	121.2		Current Supplemental	353.5
Foreign Aid	18.2		Capital Expenditure	1510.8
Loans Drawn	77.8		Capital Supplemental	128.2
			Current Loan Repay	536.3
<b>Total Resources</b>	<b>8346.0</b>		Loan Repay Suppl.	9.6
			Investment	3690.6
			Investment Suppl.	396.7
			<b>Total Outlay</b>	<b>9046.6</b>

Table 1 and Table 2 Source: Spreadsheet provided by the Centre for Economic and Social Development, February 2015

Table 3: Summary Operations of the Nonfinancial Public Sector (billions of Kyat)

	2012-13 Prelim. Actual	2013-14 Estimated	2014-15 Projected
<b>REVENUE</b>			
SEE transfers to Union Government	774	811	533
SEE revenue net of transfers to Union Government	6560	7245	8506
<b>Total Public Sector Revenue</b>	<b>11152</b>	<b>13582</b>	<b>15349</b>
SEEs share of total	0.66	0.59	0.59
<b>EXPENDITURE</b>			
SEE expenditure net of transfers to Union Government	4541	5187	6054
SEE net acquisition of nonfinancial assets	953	1464	1805
<b>Total Public Sector Expenditure</b>	<b>11955</b>	<b>14485</b>	<b>18161</b>
SEEs share of total	0.46	0.46	0.43

Source: International Monetary Fund. *2014 Article IV Consultation Report*, Table 2.

## Appendix D

### Alternative Forms of SEE Sector Management<sup>121</sup>

#### Decentralized Approach

Each line ministry manages SEEs that operate exclusively or primarily in the line ministry's sector.

This approach was common in countries that had centrally-planned economies or were coming out of periods of broad nationalization. It still exists in quite a few countries but the clear trend is away from this approach toward more centralized approaches.

#### Dual Ministry Approach

Management responsibility is shared between a "host" line ministry for the sector in which the SEE operates and a second "oversight" ministry, typically the Finance Ministry and sometimes the Planning Ministry or the Prime Minister's Office.

This approach provides a beneficial check and balance. It also offers more consistency because the oversight ministry generally adopts policies that move the SEEs in the direction of global best practice. This approach has been adopted by Mexico, among others.

#### Coordinating Body Approach

SEEs remain formally under the control of line ministries but a government agency dedicated to SEE management has been created. This agency has effective control of the SEEs through its authority to approve all material activities of each enterprise.

This approach can achieve a high degree of consistency across the SEE sector while giving line ministries a substantial voice in the operations of SEEs within their sector of responsibility. It also tends to be more forward leaning in terms of corporatization and privatization of individual SEEs. This approach has been adopted by India and South Africa, among others.

#### Centralized Approach

SEEs are removed from line ministries and placed under a ministry, a formal holding company or a specially legislated vehicle. Here the SEEs are totally controlled by the central body, which

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<sup>121</sup> Source: World Bank (2015).

normally has a strong mandate to advance commercial viability/competitiveness, while bearing in mind broad social interests.

This approach is generally considered to represent global best practice. It is based on the presumption that private sector management of commercial activities is more sustainable than public sector management, while accepting that in some circumstances outright privatization would yield an enterprise delivering goods and services at higher prices and higher costs. This approach has been adopted in China, Malaysia, Indonesia, Vietnam, and Singapore, with important differences.

Within the centralized approach, there are four distinct variations. One is to create an SEE ministry that actively manages all SEEs (Indonesia). A second is to create a special agency of the government to manage all SEEs. A third is to create a holding company that manages some SEEs actively and others passively (Malaysia and Singapore). A fourth is to create a special asset management vehicle (often labeled a “sovereign wealth fund”) that is a passive investor holding minority stakes in publicly-listed/traded corporations. In the first three variations, there can be a mandate to fund new companies as a driver of industrial or development policy.

### **Alternative Forms of Privatization**

A fair amount of confusion in Myanmar surrounds the terms privatization, corporatization, joint ventures, and Public-Private Partnership (PPP). From the West where these concepts were developed, their meaning is described below.

**Privatization** is any process that alters the ownership or control of an asset wholly or partially owned by the government so that a private individual or company owns or controls some or all of the asset. This is a broad concept and it encompasses every kind of operation ranging from outright sale to leasing. Corporatization, joint ventures, and PPPs are three forms of privatization.

**Corporatization** is a process in which a unit of the government, typically managed/controlled by a line ministry, is restructured under the country’s company law (or a narrower law with the same objective) so that it has a standard corporate structure: ownership shares, board of directors, managers appointed by the board, and employees who are not treated as public sector employees.

**Joint Ventures**, strictly speaking, exist only in the form of a limited liability corporation in which shareholding is divided between two unconnected parties. If one party holds 51 percent of the

shares or more, it effectively controls the venture. It could also have a controlling interest when holding 20 percent or less of the shares if it is the single largest shareholder. Governments can be one party in a joint venture. In some cases, the government holds just one “golden share” that allows the government to cast the deciding vote on important matters such the issuance of additional shares.

**Public-Private Partnerships (PPPs)** take many forms. One classic form is a Build-Operate-Transfer (BOT) arrangement. This is a legally binding contract between the government and a private sector partner in which each side has specific obligations and rights. For example, the government authorizes the partner to build a highway and then allows the partner to collect tolls from users of the highway for a fixed period of time. The partner recovers the construction and maintenance costs from these tolls, plus some profit. At the end of the period, the partner exits the project and the government assumes full responsibility for the continuing operation and maintenance of the highway. PPPs are a practical way of undertaking infrastructure projects in countries where the government is resource-constrained and where a purely commercial investment is not feasible because of political risks. Ideally, PPPs are awarded through competitive bidding procedures. Joint ventures are a form of PPP where the government and a private partner both invest capital in a company and share in the profits in proportion to their investments. Other forms include Built-Own-Operate, Build-Own-Operate-Transfer, Build-Lease-Transfer, and Design-Build-Finance-Operate.

## Appendix E

### History of SEE Reform in Myanmar<sup>122</sup>

#### Overview

Independent Burma inherited a private sector-dominated economy with relatively few government-owned enterprises. The economic development strategy of the U Nu governments up to 1958 favored the public sector but the private sector provided the backbone for economic growth in this period. General Ne Win nationalized all major businesses in the years following his 1962 coup in the process of building a socialist state. The economy went into a downward spiral as the all-encompassing SEE sector became increasingly weak. Small-scale private enterprise and a resumption of foreign aid in the later years kept a bad situation from getting worse. Following the popular uprising in 1988 that brought Aung San Suu Kyi to international prominence, the SLORC/SPDC regime abandoned socialism and started to build a modern market economy. The regime's suppression of pro-democracy advocates and its battles with ethnic armed groups became serious obstacles to economic growth. Waves of privatization sharply reduced the number of SEEs, but when Senior General Than Shwe yielded power to the quasi-democratic government led by President Thein Sein in 2011 the SEE sector was still large and acted as a drag on growth more than being an engine of growth.

#### Colonial Era (1885-1942)

In a series of three military engagements beginning in 1824, the United Kingdom defeated the ruling dynasty in Burma. The U.K. finally established control over the entire territory of Burma in 1885 and administered it as a province of the colony of India. The economic policy of the colonial authority was to open the territory to the private sector for the benefit of the British Empire. The authority's laissez-faire approach was buttressed by introducing laws and institutions modeled on British ones. The commanding heights of the economy as it modernized rapidly up to World War II were occupied by foreigners: British at the top but in growing numbers by South Asians (Hindu and Muslim) and Chinese. A small manufacturing sector created in King Mindon's attempt to

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<sup>122</sup> Primary Sources: Tin Maung Maung Than (2006) and Myat Thein (2004). Other important works on Myanmar's economic and political history include Steinberg (2001), Taylor (2009), and Brown (2013).

modernize his country was overwhelmed by the foreigners. One singular development under colonial administration was transforming the Ayerwaddy Delta into the world largest source of exported rice.

The natural resource wealth of Burma was recognized at an early stage, leading to substantial extraction of crude oil, timber, minerals, and gems. Textile manufacturing became a leading source of industrial employment. A superficial examination of the colonial economy has not brought to light the existence of any state economic enterprises in the manufacturing sector, but it seems likely that some basic infrastructure services (postal, sanitation) were state-owned.

In 1937, Burma was split off from India to become a separate British colony.

#### World War II and the Colonial Interregnum (1942-1948)

The Imperial Japanese Army occupied Burma from 1942 until its surrender in 1945. During this period, most of the country's infrastructure and industrial base was destroyed. In addition, as the Japanese advanced into the country a mass exodus of foreigners deprived Burma of most of its high-end human capital.

The Allied Forces accepted the Japanese surrender in 1945 and the United Kingdom resumed its administration of Burma. Independence was in the wind, however, so little economic development beyond the repair of basic infrastructure occurred between 1945 and 1948.

#### Independence and Parliamentary Democracy (1948-1958)

The first government of independent Burma did not begin auspiciously. In particular, General Aung San, the leader of the Burmese army that liberated the country, was assassinated six months before the country became formally independent on 4 January 1948. The constitution accepted by the Burmese nationalists who negotiated the end of the British colony contained, to no one's surprise, most of the features of a British-style parliamentary democracy. The Burmese leaders who emerged from the first election, many educated in British universities, brought with them a distinctly Fabian socialist orientation to the country's economic development. In the words of Tin Maung Maung Than:<sup>123</sup>

... the colonial experience shaped the set of associated concepts concerning the political economy of post-independence Myanmar that became the vision of the emerging political elites. The most persistent vision was that of a socialist economy

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<sup>123</sup> Tin Maung Maung Than (2006), p. 19.



characterized by anti-capitalist and nationalist themes. Together with the imperative for reconstructing the war-ravaged economy, socialism, economic independence, and planning formed the basis of the *dirigiste* approach to national development.

In a speech shortly before he was assassinated, General Aung San declared that the government must own the major means of production, transportation, and distribution, and that capitalist and private enterprises such as monopolies, cartels, syndicates, and trusts must be prohibited.<sup>124</sup>

Planning was at the heart of independent Burma's economic development vision. The first plan was even produced during the Japanese occupation. A National Planning Board was created in early 1947 and replaced by the Economic Planning Board before the end of the year. The dominant plan in this period was commissioned by the government, funded initially by the U.S. foreign assistance program, and carried out by a team of economists and engineers.<sup>125</sup>

Again quoting Tin Maung Maung Than, the economic agenda of the government led by Prime Minister U Nu during most of this period "comprised Burmanization, nationalization, and industrialization".<sup>126</sup>

Two key assumptions in the 8-year plan turned out to be wrong, and as a result the objectives of the plan were not achieved. First, the world price of rice fell below the plan forecast leading to a large shortfall in the foreign exchange available to finance critical infrastructure investment. Second, the plan assumed that peace would be achieved by the end of the first two years, but the Burmese armed forces were immediately confronted with existential challenges on two fronts: a communist insurgency in the country's heartland and rebellions by important ethnic minorities in its borderlands.

Given the budget constraints of the fledgling government and building on self-help practices developed in fighting the British for independence after World War II, the Burmese armed forces initiated a broad range of revenue-generating activities during this period, many based on forms of rent-seeking. Most impressively, the Defence Services Institute (DSI) was established in 1951 and by the end of the period was the biggest business conglomerate in the country, engaging in wholesale and retail trade, banking, transportation, construction, manufacturing, and a variety of services.<sup>127</sup> It was modeled on the British Navy Army and Air Force Institute.<sup>128</sup>

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<sup>124</sup> Ibid., p. 33

<sup>125</sup> The "Comprehensive Eight Year Economic and Social Development Program or Pyidawtha Plan, 1952-53-1959-60". Ibid., p.38

<sup>126</sup> Tin Maung Maung Than, p. 53.

<sup>127</sup> Ibid., p. 57. See also Steinberg (2005a).

In the process of implementing its 8-year plan, the government actually went further in favoring the public sector over the private sector. According to Tin Maung Maung Than, the industrial master plan unraveled and the result was “a constellation of individual state-sponsored projects run by a multitude of boards and agencies under nominal supervision of [the Deputy Prime Minister]”.<sup>129</sup>

Arguably the most import SEE during this period was the State Agricultural Marketing Board, established in 1946, which had a monopoly on rice exports. There was also a marketing board for timber exports and much of Burma’s foreign trade was in government hands directly or indirectly. Other SEEs included a textile factory, a brick and tile factory, a pharmaceutical plant, three rice mills and seven saw mills.<sup>130</sup> The State Agricultural Bank was established in 1953. Post and telecommunications, the railways, and air transport became government monopolies.

Leading resource extraction industries remained in the control of their colonial era companies, but expanded in the form of joint ventures with the government. These joint ventures included the Burma Oil Company, the Anglo-Burma Tin Company, Burma Corporation (Bawdwin Mines), and Mawchi Mines. Others were nationalized outright, such as the timber industry and the Irrawaddy Flotilla Company. In 1952, the government established the Mineral Resources Development Corporation to produce coal and zinc and to operate a nationalized tungsten mine. Fifty-one private power supply companies were nationalized between 1948 and 1951, and the Electricity Supply Board was created in 1951 to produce hydroelectric power.<sup>131</sup>

Although a substantial amount of land nationalization and redistribution was carried out during this period, the public sector did not lead the process of economic development. Most SEEs floundered and the private sector flourished, despite the obstacles. Even the U Nu government became disillusioned by the performance of the SEEs.

When General Ne Win dismantled Burma’s parliamentary democracy in 1962, the country’s economy was sustained by a private sector that had the potential of growing as rapidly as those in its Asian neighbors such as Thailand, Malaysia, and Indonesia. But only if the government could overcome the communist insurgency, negotiate peace with the ethnic minorities, avoid political infighting, implement sound macroeconomic policies, and reduce obstacles to productive private

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<sup>128</sup> Selth (2002). DFI was renamed the Burma Economic Development Corporation in 1961 and reorganized as a holding company. It was nationalized in 1963 along with all other enterprises of significance. Maung Aung Myo (2009, p. 173).

<sup>129</sup> Tin Maung Mang Than (2006), p. 73

<sup>130</sup> Ibid., p. 89

<sup>131</sup> Ibid., p. 91

investment including the rent-seeking associated with trade licenses and natural resource exploitation.

#### The Ne Win/BSPP Era (1962-1988)

In 1958, unable to reconcile differences between two factions of the ruling party, the Commander-in-Chief of the armed forces, General Ne Win, was invited to form a caretaker government pending new elections. The elections were held in 1960, but the factional divide was not resolved and the government became dysfunctional, providing a justification for the military coup led by General Ne Win in 1962.

The Revolutionary Council that took power after the coup proceeded to carry out both a political and an economic revolution. It may be said that the political revolution led to military dominance of the political process.<sup>132</sup>

By all accounts, however, the economic revolution was an utter failure. The country fell steadily behind its Asian neighbors on the standard measures of economic performance, ending up being designated by the United Nations as one of the world's Least Developed Developing Countries.

The economic policy for this era was spelled out in an ideology labeled the Burmese Way to Socialism. It was carried out by the Burmese Socialist Programme Party, all other political parties having been dissolved. Direct military rule was formally replaced by a single-party socialist state under a constitution approved by referendum and promulgated in March 1974.

In the words of Tin Maung Maung Than:<sup>133</sup>

The main thrust of the [Revolutionary Council's] economic policy was oriented towards establishing state control over the "commanding heights" of the national economy through nationalization and regulation of the private sector while attempting to considerably expand state-owned enterprises in commerce and industry.

Waves of nationalization swept over the economy, beginning with the Burma Oil Company in January 1963.<sup>134</sup> In December 1968, 168 industrial enterprises were nationalized and another 69 in

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<sup>132</sup> Tin Maung Maung Than divides the Ne Win era into two distinct regimes: rule by decree under the Revolutionary Council from 1962 to 1974, and one-party socialist government under the 1974 Constitution up to 1988.

<sup>133</sup> Ibid., p. 114.

1972. In March 1962 there were 167 SEEs and in March 1974 there were 747 SEEs.<sup>135</sup> By 1974, 94 percent of 409 industrial enterprises employing 100 or more workers were state-owned.<sup>136</sup> Small-scale and cottage industries were nationalized along with thousands of retail establishments.<sup>137</sup> In the last decade of this period, the SEE sector grew less from nationalization and more from the formation of new SEEs.

The military's Defence Services Institute was also nationalized in 1963, but military officers effectively controlled all of the SEEs in the country and used them to support the military establishment.<sup>138</sup>

The performance of the SEE sector was no better here than in other countries that adopted a state-led, centrally planned economic development strategy. The performance of mining and manufacturing SEEs was especially disappointing. In relative terms, the electric power SEEs did better but primarily for the benefit of industries to the neglect of households. All private banks were nationalized in 1963 and a foreign trade monopoly was created under the Ministry of Trade's Myanmar Export Import Corporation.

In the last decade of the Ne Win era, in an effort to reverse the economic decline, the government began to welcome foreign investment and foreign and to give more scope to the private sector. Many foreign grants and loans were directed to the SEE sector. At the same time, the agriculture sector that supported the majority of the population went into a decline and the education system was gutted, leading to a serious shrinking of Myanmar's stock of human capital.

In fiscal year 1976-77, an initiative was taken to commercialize the SEE sector, including through the introduction of a bonus scheme. In 1977, a law was promulgated to give legal status to private enterprises in designated areas such as agriculture and fisheries. Meanwhile, the SEE sector was operating in a persistent deficit position, contributing significantly to the country's fiscal deficit and its associated inflationary impulse.

Recognizing the failure of the socialist path and seeking to appease a growing popular protest movement, the party convened a congress in mid-1988 where Ne Win resigned. But it was too

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<sup>134</sup> The nationalizations in this period had a great impact on Indian owners and managers who were effectively forced en masse to leave Burma. The Chinese business community was also suffered under the government's Burmanization policies.

<sup>135</sup> By contrast, the number of private enterprises in the country increased from some 23,000 in 1963 to some 27,000 in 1974.

<sup>136</sup> Ibid., p. 157.

<sup>137</sup> Many of the smaller enterprises were not nationalized per se but were put under the control of township administrative councils. Myat Thein (2004), p. 104.

<sup>138</sup> Selth (2002), p. 146.

little, too late: a mass uprising broke out in August. It was violently put down in September and a new military junta took power under the title of the State Law and Order Restoration Council (SLORC).

Summing up the Ne Win era, Tin Maung Maung Than describes its legacy as “an enervated state that had denied itself of the opportunities offered by markets as well as the human resources and creative endeavors of its citizens”.<sup>139</sup>

Further on he writes:<sup>140</sup>

In short, one could conclude that it [was a] curious interplay between personality, agency, and structure informed by particularistic interpretations of historical experiences that led to Myanmar’s path towards bankruptcy through the failure of its state-led industrialization effort.

#### The SLORC/SPDC Era (1988-2011)

The SLORC period began with the prospect of a peaceful transition to democratic rule through national elections. Procedures for a free and fair election were put in place and it was held in May 1990. Astonishingly, given the military’s unlimited authority, the leading opposition party (National League for Democracy-NLD, led by Aung San Suu Kyi) trounced the legacy party of BSPP by winning 80 percent of the seats in a new assembly. The SLORC refused to cede power pending the adoption of a new constitution to be drafted by the elected representatives. The NLD took its victory as a clear mandate to form a new government immediately. The standoff led to extending Aung San Suu Kyi’s house arrest over most of the next twenty years, and to Norway’s decision to confer on her the Nobel Peace Prize in 1991.

General Than Shwe emerged as the supreme ruler of the country in 1992. In 1997, he renamed the junta the State Peace and Development Council (SPDC), and agreed to join the Association of Southeast Asian Nations (ASEAN). The constitutional convention was formed in 1993 but did not produce a constitution until 2007; it was approved in a questionable referendum in 2008.<sup>141</sup> In the meantime, a 7-Step Roadmap to a Discipline-Flourishing Democracy was announced in 2003, a monk-led popular protest in 2007 was ruthlessly suppressed, and Cyclone Nargis devastated the delta region in May 2008.

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<sup>139</sup> Tin Maung Maung Than (2007), p. 226..

<sup>140</sup> Ibid., p. 324.

<sup>141</sup> The NLD members walked out of the convention in 1995 asserting that it was not being conducted fairly.

Adhering to the Roadmap, the first national election since 1990 was held in November 2010. There was no surprise this time: the NLD chose not to participate and the military-supported party won the majority of the seats in the national legislature (on top of the 25 percent of seats granted to the military under the 2008 Constitution). The new quasi-civilian government, led by SPDC Prime Minister and former General Thein Sein took office on 30 March 2011.<sup>142</sup>

From its first day, the SLORC's economic objective was to abandon the Burmese Way to Socialism and build a modern market economy along the lines of its middle-income neighbors such as Thailand, Malaysia, and Indonesia. Barely three months after assuming power, the SLORC promulgated a foreign investment law and it welcomed foreign aid. A host of new laws empowering the private sector took effect over the next ten years,

Moving in the opposite direction, the SLORC promulgated a State-Owned Enterprise Law (No. 9-89) in March 1989. Under this law, twelve sectors of the economy were reserved for the SEEs.<sup>143</sup> In the same year, the financial accounts of the SEEs were merged into the State Fund Account (SFA—held by the Myanmar Economic Bank) and the SEEs were prohibited from borrowing from the state-owned banks.<sup>144</sup> As the SFA functioned, it exacerbated the soft budget constraint problem of the SEEs because the deficits of individual SEEs were automatically financed and SFA operating deficits became part of the central government's budget deficits, which were financed by the central bank.<sup>145</sup>

A certain amount of reorganization in the SEE sector occurred in the early years of the SLORC/SPDC era. In the agriculture sector, for example, the sugar factories under the Ministry of Industry were transferred to the Ministry of Agriculture and Irrigation. The Myanmar Sugarcane Enterprise (MSE) was responsible for managing them and nine new sugar factories were constructed in 1997 using foreign aid. In 2003, the MSE was transformed into a department of the Myanmar Industrial Crops Enterprise and around this time some of these factories were transferred to the two military-controlled conglomerates (UMEHL and MEC).<sup>146</sup> The core SEE in the agriculture sector was Myanma Agricultural Produce Trading, a holdover from the Ne Win era. It

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<sup>142</sup> Aung San Suu Kyu ran for and won a seat in the legislature in the by-election held in April 2012 to fill more than 40 vacant seats.

<sup>143</sup> The twelve sectors and other aspects of this law are described in footnote 15.

<sup>144</sup> Kubo, Koji, and others. "The Financial Sector during the Transition to a Market Economy in Myanmar". In Fujita and others. *The Economic Transition in Myanmar After 1988: Market Economy versus State Control*. Singapore: NUS Press, and Kyoto: Kyoto University Press. 2009. Pp. 129-30.

<sup>145</sup> Kubo (2013).

<sup>146</sup> Fujita, Koichi, and Ikuko Okamoto. "Agricultural Policies and the Development of Myanmar". In Fujita and others. *The Economic Transition in Myanmar After 1988: Market Economy versus State Control*. Singapore: NUS Press, and Kyoto: Kyoto University Press. 2009. p. 206.

had a monopoly on rice exports and was part of a state procurement system designed to ensure a sufficient supply of rice to fulfill the rations provided to military personnel and civil servants.<sup>147</sup>

A first wave of privatizations under the SLORC began quickly by means of leasing SEEs to foreign investors or inviting them to participate in joint ventures. Between 1988 and 1994, among a total of 1,767 SEEs, 121 old ones were leased and 18 new ones were created as joint ventures.<sup>148</sup> In January 1995, the SLORC announced the formation of the Privatization Commission and its intention to privatize 51 SEEs under five ministries. Eight sawmills were added later. Implementation was slow, however. By late 1997, only seven of these 59 SEEs had been sold, three leased out, and 28 transferred to different ministries.

At that point, the Privatization Commission was revitalized and a list of more than one hundred SEEs to be privatized was announced: 42 factories, two livestock breeding farms, and 76 cinema halls. Over the next couple of years, additional lists were announced. As of early 2001, the SPDC claimed that 138 assets from eight ministries had been privatized, generating more than 2 billion kyat for the government.<sup>149</sup> Two years later, the SPDC claimed that the number of state assets privatized had risen to 180.

During this period, the SEEs enjoyed two great advantages over private sector firms. First, SEE operating deficits were covered by a budget allocation (representing a soft budget constraint). Second, SEEs had access to foreign exchange at the dramatically appreciated official rate, providing considerable opportunities for rent seeking.

At the same time, the SPDC created new industrial SEEs and opened up “Win Thuzar” stores to sell some SEE products throughout the country. Myat Thein noted that Industry Ministry No. 1 was implementing over 70 new industrial projects.<sup>150</sup> A new state-owned bank, the Myanmar Investment and Commercial Bank, was created, and the Small Loans Department of the Myanmar Economic Bank was separated and renamed the Myanmar Small Loans Enterprise.<sup>151</sup> Reforms during the SLORC/SPDC era at the main state-owned banks—Myanma Economic Bank, Myanma Investment and Commercial Bank, Myanma Foreign Trade Bank, and Myanma Agricultural Development Bank—are described in some detail in Kubo and others (2009, pp. 131-35).

<sup>147</sup> Okamoto, Ikuko. “Rice Marketing System after Market Liberalization in Myanmar”. In Fujita and others. *The Economic Transition in Myanmar After 1988: Market Economy versus State Control*. Singapore: NUS Press, and Kyoto: Kyoto University Press. 2009. pp. 216-245.

<sup>148</sup> Ibid., p. 360.

<sup>149</sup> Ibid., p. 361.

<sup>150</sup> Myat Thein (2004), p. 7. Most of these were implemented as units of existing SEEs rather than as newly created SEEs. Table A6.5 lists 30 new factories in the SEE sector created between 1988 and 2001. Table A6.6 lists 38 new factories started during the five-year plan period 2001-06.

<sup>151</sup> Myat Thein (2004), p. 136.



The favorable treatment of three key infrastructure SEEs in this period—Myanmar Electric Power Enterprise, Myanma Post and Telecommunications Enterprise, and Myanma Petroleum Products Enterprise—is especially interesting.<sup>152</sup>

In the first 12 years of the SLORC/SPDC era, the share of GDP produced by the public sector barely changed: from 22.6 percent in 1988-89 to 22.3 percent in 1999-2000.<sup>153</sup> The private sector share increased marginally at the expense of the cooperative sector. In the first 14 years of the era, the number of SEEs fell to 867.<sup>154</sup>

The most significant economic change in the SLORC/SPDC period was the production of natural gas from offshore fields and its export, initially to Thailand and later to China. All of this was undertaken by the Myanmar Oil and Gas Enterprise (MOGE) under production sharing agreements with foreign oil companies. The pipeline to Thailand was completed in the late 1990s, tapping gas from two fields off the Andaman Coast. Construction of the gas pipeline to China, and a parallel oil pipeline, was initiated under the SPDC but was completed under the Thein Sein government. The gas for this pipeline is coming from a large field off the Rakhine (Arakan Coast) close to Myanmar's maritime border with Bangladesh.

The revenue that started flowing to the SPDC government in late 1998 represented a windfall that enabled the economy to stay afloat despite the trade and investment sanctions imposed by a number of Western countries in response to the treatment of Aung San Suu Kyi and continuing human rights abuses.<sup>155</sup> At the end of the SLORC/SPDC era, the export earnings from gas sold to Thailand was on the order of \$3-4 billion per year.

Arguably the second most significant economic change in the SLORC/SPDC era was the emergence of two military-controlled conglomerates.<sup>156</sup> Union of Myanmar Economic Holdings Limited (UMEHL) was established in 1990 as a joint venture between the Ministry of Defense, individual military officers, and separate military units. Myanmar Economic Corporation (MEC) was established in 1997 under the State-Owned Enterprise Law of 1989. (Both of these are

<sup>152</sup> See Kudo (2009), pp. 91-96. He concludes that the SLORC/SPDC regime up to 2005 allowed the private sector to develop "as long as it did not harm the public sector or compete with SEEs". Page 97.

<sup>153</sup> Tin Maung Maung Than (2007), p. 369.

<sup>154</sup> Ibid., p. 380. Here it mentions 1,854 SEEs in the first year instead of the 1,767 mentioned on page 360. In the same period, the number of cooperatives dropped from 717 to 160. Based on the Central Statistical Office's Statistical Yearbook for 2003, the number of "industrial" SEEs grew from 616 in financial year 1989-90 to 1,132 in 2001-02. These gross differences presumably reflect different definitions, with larger number counting distinct production units within groups managed as an enterprise. Kudo (2009, p. 77).

<sup>155</sup> Political repression and economic stagnation during this period produced an enormous exodus of young and ambitious Myanmar men and women, especially to Thailand and other Southeast Asian countries. It is believed that the number of Myanmar-born residents of Thailand number at least 2 million and may exceed 3 million.

<sup>156</sup> The history of the Tatmadaw's business activities could be the subject of a fascinating and useful book. It has been touched on in Selth (2002), Callahan (2003), and Maung Aung Myo (2009).



discussed in some detail in section III,7. Two classic studies of the *Tatmadaw* comment on its economic role as follows:

The entire country has become a massive resource base on which the *Tatmadaw* can draw as it chooses, not only to sustain itself and conduct military operation, but also to perpetuate military rule.<sup>157</sup>

[Post-World War II] Burmese regimes have been made up of war fighters who never mastered the art of politics enough to win a single election.<sup>158</sup>

The Myanmar economy experienced three external shocks in the SLORC/SPDC period, all of which had an adverse impact on the SEE sector to some degree. The first was the Asian Financial Crisis in 1997-98. It disrupted Myanmar less than other Asian countries because of the Myanmar economy's relative isolation from the global economy. But it forced the regime to pull back on some of its growth-oriented plans. The second was the trade and investment sanctions imposed by the United States and other Western countries because of the regime's treatment of Aung San Suu Kyi and continuing violations of a range of human rights. Rather than bringing about regime change, the sanctions became an excuse for tightening the junta's grip on and the SEE sector and even undertake some expansion.

The third shock was Cyclone Nargis that struck the delta region with a devastating impact in May 2008. This forced the government to shift budget resources away from investment (including in the SEE sector) to disaster relief and recovery. The country also experienced one internal economic shock: a banking crisis in 2003.<sup>159</sup> This crisis sucked purchasing power out of the economy, adversely impacting the SEE sector as well as the private sector. By contrast, the Global Financial Crisis in 2007-08 had a negligible impact on Myanmar's economy because it had few links to the global financial system.

At the very end of the SLORC/SPDC era, a wave of privatizations took place in the last few months of 2010 and the first two months of 2011, just before the Thein Sein government took

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<sup>157</sup> Selth (2002), p. 148.

<sup>158</sup> Callahan (2003), p. 8. She goes on to argue that U.S. (CIA) support for the anti-communist Kuomintang troops that fled into northern Myanmar in the 1950s led the country's leaders "to elevate army modernization as the top national priority", much as the CIA's support for anti-communist regional rebellions in Indonesia in the 1950s "led to a concentration of state power within the military".

<sup>159</sup> See Turnell (2009).

office.<sup>160</sup> *The Economist* wrote: “the program seems to be a hurried asset-stripping exercise by the generals and their cronies, with echoes of Russia’s 1990s fire sale. The valuations of the assets are not published, nor what they are fetching. Buildings are listed for auction, but sales are done in private”.<sup>161</sup>

From a political economy perspective, Lee Jones described the strategy of the SLORC period as gradual privatization (of the socialist economy) to create a group of “national entrepreneurs”. The strategy centered on strengthening the position of the military in the nation by expanding the military conglomerates (UMEHL and MEC) and cultivating the national entrepreneurs to become “cronies”. Because of the deep structural constraints to reform, he expected that a “tycoon” class would emerge in Myanmar as it has in other Asian countries.<sup>162</sup>

The legacy inherited by the Thein Sein government in March 2011 was a mixed economy with a relatively dynamic private sector, a seriously underperforming SEE sector, all permeated by rent-seeking activities of every conceivable kind. At the same time, it inherited a weak state dominated by military officers with a track record of failed economic management. Moreover, even the concept of macroeconomic management was absent among policymakers, as evidenced by subpar economic growth, large and chronic budget deficits financed by the central bank, and the world’s most overvalued official exchange rate.<sup>163</sup> Compounding these weaknesses were: an almost useless body of economic data, a collapse of the education system, a loss of human capital in more than 3 million economic migrants and political refugees, no end to the civil war between the armed forces and the ethnic minorities, a severe set of trade and investment sanctions, and an unhealthy pattern of exploitation of Myanmar’s natural resources by China.<sup>164</sup>

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<sup>160</sup> Kubo (2013b, p. 367).

<sup>161</sup> 21 August 2010 (U.S. Edition)

<sup>162</sup> Jones (2014).

<sup>163</sup> Myat Thein (2004), p. 205, notes that along with the Ministry of Defence the SEE sector was chiefly responsible for Myanmar’s trade and current account deficits in the SLORC/SPDC era.

<sup>164</sup> A fundamental data problem was ignorance of the size of Myanmar’s population. The last census was carried out in 1983, but it did not meet international standards. The last respectable census was carried out in 1931 when Myanmar was still part of the U.K.’s India colony. When a well-managed census was carried out in 2014, the official population count was 51.4 million rather than the 60 million estimated by the government and accepted by the United Nations. Another fundamental problem is that a large amount of the country’s economic activity is unrecorded because it is hidden to avoid taxes or illegal (e.g., smuggling both ways through Myanmar’s porous borders, narcotics production, and wildlife and fish poaching).

## Appendix F

### Regional Experience with SEEs

#### Thailand

Thailand preceded Indonesia and South Korea as a victim of the Asian Financial Crisis in 1997. In return for balance of payments support from the International Monetary Fund, the Thai Government agreed to accelerate plans to restructure the Petroleum Authority of Thailand (PTT) and the Electricity Generating Authority of Thailand (EGAT), the two leading SEEs in the country.<sup>165</sup>

In 1999, the Thai parliament approved a Corporatization Bill that created a process for corporatizing SEEs. A State Enterprises Corporatization Committee decided “which activities, rights, liabilities, responsibilities, and assets of the state enterprises should be transferred to the newly formed limited companies.”<sup>166</sup> Other privatizations in this process included the Communications Authority of Thailand (CAT) and the Telephone Organization of Thailand (TOT).

PTT was partially privatized in 2001.<sup>167</sup> In 2002, TOT was corporatized along with Bank Thai, Krung Thai Card, and the Airport Authority of Thailand (renamed Airports of Thailand-AOT). In 2003, CAT and Krung Thai Bank were privatized. In 2004, 30 percent of the shares of AOT were sold in an IPO and secondary sales were carried out for Bangchak Petroleum Public Company and Thai Airways International.

The corporatization of EGAT was delayed due to labor protests until 2005, with some further complications afterward.

The Thaksin Government (2001-2006) eagerly pursued a policy of privatization of SEEs but did not get very far and the succeeding governments opted to go slow in this area. In 2007, Thailand had 58 SEEs with annual revenue of about \$90 billion and 270,000 employees, accounting for 36 percent of GDP. At the end of 2011, there were 56 SEEs with annual revenue of \$141 billion

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<sup>165</sup> <http://www.internationallawoffice.com/newsletters/Detail.aspx?g=72cde919-a9d1-4d9e-b2e1-d8bf8ae13fe4> (accessed 7 March 2015)

<sup>166</sup> <http://www.thailawforum.com/articles/e-commerce2.html> (accessed 16 March 2015)

<sup>167</sup> From the “Thailand Transportation Policy and Regulations Handbook” by the Global Investment and Business Center via Google Books: <https://books.google.com/books?id=VSaAAAAQBAJ&pg=PA145&lpg=PA145&dq=thailand+corporatization+bill+1999&source=bl&ots=JPPEvxBcf2&sig=IAXjJkMS0Bwyv5brVNvOPfpZ2Q&hl=en&sa=X&ei=sD0HVdybHIGMNpBgJgI&ved=0CCUQ6AEwAQ#v=onepage&q=thailand%20corporatization%20bill%201999&f=false> (accessed 16 March 2015)

and 272,000 employees, accounting for 41 percent of GDP.<sup>168</sup> At the end of 2011, Thailand's six listed SEEs were Krung Thai Bank, Thai Airways, PTT, AOT, MCOT, and PTTEP.<sup>169</sup>

A State Enterprise Policy Office exists in the Ministry of Finance but lacks authority to regulate the SEEs. A bill to establish a new SEE regulation and supervision body for all SEEs is languishing in the parliament.

In June 2014, the Wall Street Journal reported that the ruling military junta was taking steps to control the SEEs, describing them as "a crucial arena for Thailand's power struggles in recent years". It quotes a Thai economist to the effect that "state enterprises are more important than the government". According to a retired senior government official, it is normal for the heads of state firms to resign when the government changes, and this pattern has been observed during the past year.<sup>170</sup>

### Malaysia<sup>171</sup>

A common term used for state economic enterprises in Malaysia is government-linked companies (GLCs).<sup>172</sup> Some SEEs in Malaysia that are not GLCs presumably exist, but these are passed over in this brief overview. The term SEE used here encompasses the GLCs.

Post-colonial Malaysia adopted an import-substituting state-led industrial policy. After Singapore split off in 1965, Malaysia began shifting to an export-oriented development strategy, but with a strong bias toward indigenous Malay (Bumiputera) businesses. A financial windfall from crude oil exports that began in the early 1970s was used in part to create sector-leading SEEs. At their height, there were more than 1,100 SEEs operating, including enterprises owned by regional development authorities and state governments as well as the central government. The generally weak performance of SEEs was obscured by the high profits of Petronas and its subsidiaries.

<sup>168</sup> [http://bangkok.usembassy.gov/ics\\_thailand.html](http://bangkok.usembassy.gov/ics_thailand.html) (accessed 16 March 2015)

<sup>169</sup> A PowerPoint presentation by the State Enterprise Policy Office in 2006 refers to 60 SEEs. <http://www.oecd.org/daf/ca/corporategovernanceprinciples/37340295.pdf> (accessed 16 March 2015)

<sup>170</sup> <http://www.wsj.com/articles/in-thailand-a-struggle-for-control-of-state-firms-1402930180> (accessed 16 March 2015)

<sup>171</sup> Sources: Hutchinson (2008); Hutchinson (2012); Jomo K.S. and Tan Wooi Syn "Privatization and Renationalization in Malaysia: A Survey". Undated.

<http://unpan1.un.org/intradoc/groups/public/documents/un/unpan021546.pdf> (accessed 16 March 2015).

<sup>172</sup> A GLC is a company in which the government, or its agencies, has ownership; influence in the appointment of members of the board of directors and senior management positions; and a controlling stake in making major decisions. As the government or its agencies have, in most cases, only partial ownership of these companies, they are not 'state-owned enterprises', if the latter is defined as cases where the government has 100% ownership. GLCs are otherwise known as 'mixed enterprises'. Lai (2012, p. 240).

In the mid-1980s, facing budget and balance of payments strains, Malaysia began slowly privatizing SEEs. By and large, privatization took the form of selling shares in corporatized SEEs rather than outright sale. Lease agreements and PPPs were also common.

The case of Malaysia is interesting because of its decentralized federal structure in which the states have considerable authority to advance their own development agendas. Malaysia's first breakout sector was electronics and this started in the state of Penang, one of Malaysia's smallest by population and space.

The breakout began in 1969 when the ethnic Chinese leader of an opposition party won the state-level election. The pre-existing Penang Development Corporation became a formidable instrument of industrial policy during his administration. A key blueprint for implementing this policy was a report prepared for the Federal Government earlier in the 1960s by Robert R. Nathan Associates, the same firm that was instrumental in producing Myanmar's first comprehensive economic development plan. A key step was to aggressively recruit foreign investors and facilitate their start-ups. The PDC also invested directly in a number of these start-ups. By 1980, Penang had a core of 25 electronics assembly facilities employing almost 25,000 workers in PDC's industrial parks.

Elections in 1990 brought a new group to power in Penang and its industrial policy moved into low gear. At the same time, the Federal Government began moving aggressively to bring high-end manufacturing to other states, in effect emulating the Penang model. Infrastructure investment in other states was given priority over Penang.

More generally, while Malaysia's openness to foreign direct investment has contributed greatly to its economic progress, its "attempts to promote strategic industries, foster domestic entrepreneurship, and encourage technology transfer have been markedly less successful".<sup>173</sup> Programs to build national champions, like the Proton car, have become textbook examples of industrial policy failure.

Beginning around 2006, the state of Johor (closest to Singapore) launched its own industrial development program that has been successful in producing a cluster of globally competitive companies. One instrument of this success was a state-level economic development agency (JCorp). By 2012, it was at the center of a network of almost 300 companies, including 8 listed on the Kuala Lumpur Stock Exchange that employed 65,000 people.<sup>174</sup> One of these is the largest health care provider in the country.

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<sup>173</sup> Hutchinson (2012), p. 1.

<sup>174</sup> Ibid, p. 3

While some national champion projects have been dismal failures, Malaysia has a globally competitive oil and gas SEE (Petronas) and a highly regarded national investment fund (Khazanah). Khazanah was established in 1994 and has been classified as one of the 20 largest sovereign wealth funds in the world.<sup>175</sup> It is owned by the Ministry of Finance. Khazanah played an important role in the 1997 Asian Financial Crisis through a variety of financial support operations with struggling banks and companies and market fund-raising.

In its first decade, Khazanah was relatively secretive. A change in government brought in a new CEO in 2004 who had experience in the global financial industry. Khazanah began providing more information to the public about its operations. It also began systematically to take steps to improve the financial performance of Malaysia's GLCs, most of which were represented in its portfolio.

By 2011, Khazanah had MYR 113 billion (\$31 billion) invested in more than 50 companies domestically and abroad. Only 15 percent of its holdings are foreign companies.

Malaysia also has a second strategic investment arm of the government: Permodalan Nasional Berhad. The dominance of these two investment vehicles has raised concerns that they are crowding out the private sector. There are also concerns that the preference for hiring ethnic Malays over members of minority ethnic groups has adversely affected the performance of these vehicles and their related GLCs.<sup>176</sup>

Malaysia created a "Natural Resources Fund" (Kumpulan Wang Amanah Negara) in 1988. It is funded from the sale of depleting natural resources and "contributions from entities that are involved in any business, research and development activities related to depleting resources. It is governed by a panel appointed by the Minister of Finance and its operations are carried out by the Central Bank of Malaysia. There is no fixed requirement for making contributions to the fund; withdrawals can only be used to finance development projects or make loans to the Federal or State governments. At the end of 2013, its asset value was MYR 9.5 billion (\$ 2.9). Two-thirds of this amount came from PETRONAS contributions.<sup>177</sup>

The Malaysian government and parliament are now considering proposals to establish a separate "Petroleum Fund" that would receive a fixed share of the country's petroleum revenue (or a percentage of Petronas profits); withdrawals would be made to stabilize the domestic fuel price or invest in human capital, technology, and research. Proposals have also been made for improving the governance and transparency of the Natural Resources Fund.

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<sup>175</sup> It might more properly be classified as "a strategic investment arm of the government". Lai (2002).

<sup>176</sup> Lee (2015).

<sup>177</sup> Murniati (2015).

The Malaysian government launched a program of ten “color” initiatives in 2006 to improve GLC performance. For example, “white” is improving the regulatory environment and “green” is enhancing board effectiveness.<sup>178</sup>

### Indonesia<sup>179</sup>

Many SEEs were formed when Indonesia was a Dutch colony, including railways, postal service, and seaports. Upon winning its independence in 1950, the Indonesian government took control of these SEEs. Their performance under President Sukarno (1950-1965) was decent, considering the general downward trend in the economy. Most Dutch-owned companies were nationalized in 1958.

When General Suharto came to power in 1965, he turned to a group of economists with PhDs from the University of California/Berkeley (“the Berkeley Mafia”) to design and implement a market-oriented development strategy with open international trade and investment regimes. This strategy was famously successful in lifting the country out of the misery of its statist/socialist orientation under Sukarno.

State Enterprise Law No. 9 of 1969 replaced earlier laws and created three categories of state enterprise: departmental enterprises, public (uncorporatized) enterprises, and limited liability (corporatized) enterprises. Regulation and supervision of the SEE sector was done by a dedicated Directorate General in the Ministry of Finance.

In the 1990s, Indonesia’s economic performance slipped as it became more of a first family-led kleptocracy and the technocrats became marginalized. Indonesia was the second country after Thailand to become a victim of the Asian Financial Crisis in 1997. Suharto was forced to resign in May 1998. Throughout the Suharto era, Indonesia’s SEEs underperformed as they were systematically exploited for political or personal gain.

A new SEE law (No. 19) was enacted in 2003 by Indonesia’s fledgling democratic government with the objective of sharply improving the SEE sector’s performance. However, inconsistencies with other laws and the powerful inertia of past behavior did not yield more than marginal sector-wide improvements. In the absence of any tradition of voter funding of political campaigns, many of the SEEs became sources of campaign financing for one party or another.

In 1998, an SEE ministry was created to regulate and supervise the SEE sector. It has not yet been able to shed its image as one of the country’s most highly politicized ministries. However, under the reformist government of President Joko Widodo, the current SEE minister (Ms. Rini

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<sup>178</sup> PowerPoint presentation by Sau Ngan Wong, World Bank, at SEE workshop in Naypyitaw, 6 March 2014.

<sup>179</sup> Sources: IFC (2014); Antara News dispatches, January 2015.



Soemarno) has taken some welcome steps to improve the sector's performance, targeting Pertamina (the state oil company) in particular.

At the beginning of 2015, the sector included 119 SEEs. In the preceding fiscal year, 20 of these had an aggregate loss of roughly IDR 7 trillion (\$700 million), a huge improvement over the year before when 27 SEEs had an aggregate loss of IDR 34 trillion (\$3.4 billion). In the current fiscal year, projected dividends to the government from the SEE sector are IDR 35 trillion (\$3.5 billion). Furthermore, the dividend share of net income for SEEs has been dropped from 30 percent to 20 percent to enable more investment from retained earnings to be undertaken. In the same year, the government is planning to invest IDR 30 trillion (\$3.0 billion) in mining and infrastructure SEEs.

Eighteen SEEs are publicly listed but the two largest, Pertamina and the state electric company (PLN), appear to remain politicized and underperforming relative to their counterparts in high-performing developing countries. As a group, the SEEs fall well below global standards for transparency; quite a few SEE managers have been convicted of corruption.

There is also a universe of SEEs at the provincial, district, and municipal levels of government. In 2012, there were 1,007 enterprises owned by subnational authorities, with combined assets of IDR 400 trillion (\$32 billion).<sup>180</sup> Seventy-five percent of them were operating at a loss. The capital city of Jakarta had 23 enterprises at the beginning of 2015 and its new governor (Basuki Tjahaja Purnama) was committed to reforming them in a major way.

An interesting subset of the SEE sector is a group of military owned or controlled enterprises.<sup>181</sup> Indonesia's three military services have a long history of operating enterprises leading to a common military view that these enterprises do not belong to the government. In 2004, a military reform law was passed that required the military to transfer to the government within five years all of the business activities it controlled, either directly or indirectly. Here, too, the inertia of the past prevailed: no enterprises were transferred by the deadline. Instead assets were stripped leaving many businesses as empty shells.

The national champion airline, Garuda, is one of the few good news stories from the SEE sector in the past ten years.<sup>182</sup> (See Text Box Two.)

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<sup>180</sup> "Ahok's Profit Push for City Firms to Pay Off". [http://thejakartaglobe.beritasatu.com/opinion/editorial-ahoks-profit-push-city-firms-pay/?utm\\_source=Daily+News+on+the+Southeast+Asian+Region+22+January+2015&utm\\_campaign=Info+Alert+20150122&utm\\_medium=email](http://thejakartaglobe.beritasatu.com/opinion/editorial-ahoks-profit-push-city-firms-pay/?utm_source=Daily+News+on+the+Southeast+Asian+Region+22+January+2015&utm_campaign=Info+Alert+20150122&utm_medium=email) (accessed 23 January 2015)

<sup>181</sup> See Rieffel and Pramodhawardani (2007).

<sup>182</sup> "Garuda's turnaround story". <http://adhiyudhow.blogspot.sg/2011/11/garudas-turnaround-story.html> (accessed 16 February 2015)



China<sup>183</sup>

The story of the SEE sector in China is too big to summarize well in the space available here. The starting point, like so many parts of China's economic rise, is 1979 when Communist Party leader Deng Xiaoping decided to open the economy to private enterprise after thirty years of extreme nationalization and communization. Few other countries in the world have ever had such small private enterprise sectors as China had in 1979. The whole economy was one big SEE. Thus the story of the SEE sector since 1979 is a story of privatization.

Premier Zhu Rongji initiated a radical reform of the SEE sector in the 1990s under the slogan "grasp the large, release the small". Thousands of weak SEEs were privatized or liquidated, and millions of workers were let go. One fascinating chapter of this story is the role of "town and village enterprises" created by commune leaders across the country in the first phase of the reform drive. Many of these manufactured products for export to the world's high-income countries, often in joint ventures with foreign partners.

Another fascinating chapter is the role of foreign investment. In the early reform phases, much of this foreign investment was actually Chinese earnings retained offshore and then repatriated to take advantage of investment incentives including tax holidays and Special Economic Zones. The world's leading multinational corporations began making major investments in China, sometimes partnering with SEEs. Volkswagen started the parade in 1978. In 1979, the first of a number of state-owned vehicles for investing overseas was established: China International Trade and Investment Corporation (CITIC). Today China has a family of sovereign wealth funds enabled by its massive foreign exchange reserves.

A third fascinating chapter is the role of SEEs controlled by China's armed forces, the Peoples Liberation Army (PLA). Building on a long history of managing economic enterprises, military leaders in the 1970s and 1980s moved aggressively to expand into all sectors of the economy, quickly achieving primacy in the transportation and communication sectors. The military enterprise sector became such a political force in the 1990s that the Communist Party felt threatened. Under a 1998 Divestment Act, the PLA gave up most of its businesses in exchange for a very large increase in its budget allocation.

At the beginning of 2015, there were more than 120,000 SEEs. Of these 54,000 were wholly owned by the state and 20,000 have not yet been corporatized. The SEE sector has shrunk dramatically since 1979 but still accounts for 30 percent of the nation's industrial output. However,

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<sup>183</sup> Sources: Zhao (2015); Hubbard and Williams (2014); He (2014).

less than half of the total equity capital of the SEE sector is held by private shareholders (\$3 trillion out of \$7 trillion). The leading SEEs are also global giants. For example, Sinopec's 2011 revenue was only marginally below that of the Australian government.

A State-Owned Assets Supervision and Administration Commission established in 2003 has both regulatory and ownership responsibilities for the SEE sector, creating an inherent conflict of interests. Some Chinese economists are advocating separating the functions by creating a number of capital investment vehicles along the lines of Singapore's Temasek. The reform agenda of the Communist Party's Third Plenum in 2013 seems to provide a basis for moving in this direction. There are strong forces resisting reform, however, especially in the large galaxy of SEEs at the provincial level.

In 2014, a leading American analyst of China's rise published a book attacking the common view that China's recent economic success was driven by the SEE sector and that it continues to dominate the private sector.<sup>184</sup> He pointed out that the SEE sector currently accounts for only one-fifth of manufacturing output (compared to four-fifths in the 1980s), one-tenth of investment in manufacturing, one-tenth of urban employment, and one-tenth of China's exports. He sums up his findings as follows:<sup>185</sup>

Virtually every dimension of China's economic success over the past three-and-a-half decades can be attributed largely to the rise of markets and private businesses. Private firms account for almost all the growth in employment, most of the expansion of output and investment in manufacturing, and in recent years for over half of the growth in exports. Because they are more productive, private firms have largely displaced state firms in sectors that are open to entry. State firms remain completely dominant only in natural monopolies, such as electric power and rail transport, and in sectors where entry is restricted: upstream oil and gas, financial services, and telecommunications.

In short, the SEE sector, he argues, is more a drag on China's economic rise today than a contributor to it. As an example, two of China's leading petroleum sector firms, Sinopec and PetroChina, have returns on their assets less than half of the returns for global majors Exxon-Mobil and Chevron, and leading SEEs in other sectors have returns that are lower than the cost of capital. A corollary, however, is that the weakness of the SEE sector represents a substantial source of

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<sup>184</sup> Lardy (2014a).

<sup>185</sup> Lardy (2014b).

future private sector growth, especially if the Third Plenum pledge to eliminate all but natural monopolies is implemented.

### Singapore<sup>186</sup>

Singapore has two well-known state investment funds, Temasek Holdings and the Government Investment Corporation (GIC). Temasek was formed in 1974 as a holding company for 35 SEEs (known as “government-linked companies”—GLCs), wholly owned by the Ministry of Finance. It declares dividends annually and contributes to the Singapore government budget through the dividends it pays and the tax on its profits. It has grown enormously since its formation, with a portfolio assets amounting to around \$170 billion in 2014.<sup>187</sup> Temasek, GIC, and Singapore’s GLCs in general stand out among SEEs worldwide for their high level of financial performance and corporate governance.

After gaining its independence in 1965, the Singapore government launched an aggressive industrialization and economic development program. It established start-ups in strategic sectors such as transportation, engineering, and logistics, and acquired minority stakes in promising private companies. The government also inherited from the British colonial authorities ownership of some important aviation, telecommunications, and defense companies. Temasek was formed in large part to relieve ministries from the commercial management of GLCs in which the state had a controlling interest.

In the 1990s, as part of a new government policy of economic liberalization, Temasek began privatizing and reducing its stake in commercially strong enterprises. Along with the 2004 appointment as CEO of Ho Ching (wife of Prime Minister Lee Hsien Loong and daughter-in-law of founding prime minister Lee Kuan Yew), Temasek began investing actively in other Asian countries.

Temasek’s portfolio includes a substantial interest in Government-Linked Real Estate Investment Trusts (GLREITs) as well as its interest in GLCs listed on the Singapore stock exchange.<sup>188</sup> The growth in Temasek’s portfolio has been fueled by regular disinvestments (asset sales). For example, in 2013, S\$13 billion of Temasek’s S\$20 billion of investment was funded by disinvestments. At its peak in 2000-2001, Temasek had interests in 29 GLCs. At the end of 2013,

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<sup>186</sup> Sources: Cummine (2015); Sim (2014).

<sup>187</sup> 30 percent in Singapore-listed companies, 41 percent in companies listed on the stock exchanges of other Asian countries, 25 percent in companies listed on OECD stock exchanges, and 4 percent in companies listed elsewhere.

<sup>188</sup> REITs were introduced on the Singapore stock exchange in 2002. At the end of 2012, eight of Singapore’s 22 listed REITs were GLREITs. REITs enjoy substantial tax concessions when they distribute at least 90 percent of their net income to their shareholders.

the number of GLCs it held had fallen to 20, and it had interests in 8 GLREITs. These holdings represented 37 percent and 9 percent of the Singapore stock market's capitalization, respectively.

### Vietnam

A decade after consolidating its control over the entire country, Vietnam's government launched an ambitious economic reform program in 1986 known as "Doi Moi". Given the centralized planning system in the north and the nationalized market economy in the south, the objective was to build a "socialist-oriented market economy". A key part of this program was the privatization of SEEs.

One measure of progress in Vietnam's reforms in the SEE sector: in 2001 it employed 60 percent of total capital and produced 38 percent of GDP; in 2012, it employed 38 percent of total capital and produced 33 percent of GDP.<sup>189</sup> According to the General Statistics Office, the number of SEEs dropped from 5,800 in 2000 to 3,135 in 2013.<sup>190</sup>

SEE sector performance in general has been poor, including a few colossal failures such as the shipbuilding enterprise Vinashin in 2010.

Two thrusts of the government's latest reform program are the corporatization and sale (wholly or in part) of some SEEs and the restructuring of other SEEs. Progress has been slow. The government targeted 432 SEEs for privatization in 2014 and 2015, but by November 2014 only 71 of these had been corporatized and equity sales were less than half of the goal. One of the obstacles to privatization is that 54 percent of the SEEs are managed by subnational governments. Another 27 percent are managed by line ministries that see more to lose than gain from privatization.

Vietnam's sovereign wealth/investment fund, the State Capital Investment Corporation (SCIC), was established in 2005 to hold the government's stake in privatized companies. At the end of 2014, it had interests in about 400 companies.

In 2014, SCIC was assigned the task of buying stakes in SEEs whose IPOs had failed. This group consisted of 340 SEEs that were directed to sell shares by the end of 2015. As of October 2014, less than half the target amount of shares for that year had been sold.<sup>191</sup>

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<sup>189</sup> U.K. Government (2014).

<sup>190</sup> "The Decline of State-Owned Enterprises in Vietnam". <http://www.vietnam-briefing.com/news/decline-state-owned-enterprises-vietnam.html/> (accessed 18 March 2015)

<sup>191</sup> "Vietnam Investment Arm Calls For Fewer State Stake Purchases". <http://www.bloomberg.com/news/articles/2014-10-12/vietnam-investment-arm-calls-for-less-aggressive-stake-purchases> (accessed 18 March 2015)

## Appendix G

### SEE Sector Management: Global Best Practice

*Global best practice is not obviously a feasible or reasonable near term policy objective for the government of Myanmar. It is presented here for general educational purposes, to help policy makers and the public become more familiar with the terms and concepts associated with global best practice.*

#### 1. OECD Guidelines on Corporate Governance of State-Owned Enterprises (2014)

In 2005, the OECD adopted an internationally agreed standard on how governments should exercise ownership of state-owned enterprises. Recently the OECD began a process of updating these guidelines; a draft was issued for public comment in May 2014. The final version of the updated guidelines is expected to be published in mid-2015. Representatives from Brazil, China, Colombia, and South Africa participated in the Working Group that produced the draft.<sup>192</sup>

The Preamble of the draft notes:

... the governance of SOEs is critical to ensure their positive contribution to economic efficiency and competitiveness. OECD experience has also shown that good corporate governance of SOEs is an important prerequisite for economically effective privatization, since it will make the enterprises more attractive to prospective buyers and enhance their valuation.

Seven overarching guidelines (below) are presented in Part One of the draft. A set of short statements accompanies and elaborates on each one. In Part Two each of the guidelines is discussed in considerable detail.

I. The state exercises the ownership of SOEs on behalf of the general public. It should therefore carefully evaluate and disclose the public policy objectives that motivate state ownership and subject these to a recurrent review.

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<sup>192</sup> There is an unstated link between these guidelines and multilateral trade negotiations. One difficult issue in the ongoing trade negotiations is the treatment of SEEs, which are viewed as a form of “state aid” that the negotiators are trying to minimize in order to create a level playing field for all enterprises engaged in international trade. SEEs that conform to the OECD Guidelines are more likely to meet the level playing field objective.

II. The state should act as an informed and active owner, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, in accordance with the ownership policy and with the necessary degree of professionalism and effectiveness.

III. Consistent with the rationale for state ownership, the legal and regulatory framework for SOEs should ensure a level playing field in markets where SOEs and private sector companies compete in order to avoid market distortions.

IV. Where SOEs are listed on stock exchanges or otherwise include non-state investors among their owners, the state and the enterprises should recognize the rights of all shareholders and ensure shareholders' equitable treatment and equal access to corporate information.

V. The state ownership policy should fully recognize SOEs' responsibilities towards stakeholders and request that they report on their relations with stakeholders. It should make clear any expectations the state has in respect of responsible business conduct by SOEs.

VI. SOEs should observe high standards of transparency and disclosure and be subject to the same high quality accounting and auditing standards as listed companies.

VII. The boards of SOEs should have the necessary authority, competencies and objectivity to carry out their functions of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions.

## 2. World Bank Toolkit for Corporate Governance of State-Owned Enterprises (2014b)

This publication provides a wealth of information about SOEs, “drawing on global good practices, reform experiences, and a growing body of knowledge ... to assist practitioners in creating, implementing, and monitoring SOE corporate governance reforms and in building the capacity to carry them out”.

The toolkit focuses on commercial SOEs at the national level in which the government has significant control through full, majority, or substantial minority ownership. SOEs across a range of sectors—such as manufacturing and services, utilities, banks and other financial institutions, and

natural resources—are included. Corporate governance issues and reform options are similar in most such companies, although there may be significant differences in emphasis by sector, which are highlighted where relevant.<sup>193</sup>

Despite the fact that lessons on SOE corporate governance are still emerging, experience shows that no one strategy is universally applicable and that the choice of measures depends on country- and enterprise-specific circumstances. The toolkit thus provides a range of frameworks, concepts, case examples, checklists, and model documents that together aim to help government officials make the appropriate choices for their circumstances.

This World Bank publication contains the following chapters:

- Chapter 1: Context and Overview  
*Chapters 2–5 examine policy measures that can be adopted within the machinery of government to promote better SOE governance.*
- Chapter 2: The Legal and Regulatory Framework
- Chapter 3: State Ownership Arrangements
- Chapter 4: Performance Monitoring
- Chapter 5: Financial and Fiscal Discipline  
*Chapters 6–8 look at the internal governance arrangements in SOEs and how these can be optimized to ensure better financial and operational performance and to protect minority shareholders in mixed-ownership companies.*
- Chapter 6: Board of Directors
- Chapter 7: Transparency, Disclosure, and Controls
- Chapter 8: Special Issues in Mixed-Ownership Companies
- Chapter 9: Implementing Reform

The publication contains three country-level tools:

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<sup>193</sup> “Subnational governments and municipalities also have commercially oriented public enterprises; past reforms focused on those operating at the central or federal levels. Recently, governments and international financial institutions have begun to pay attention to municipal SOEs because of their performance problems and the fiscal burden and fiscal risk that they impose. These enterprises are beyond the scope of this toolkit. Nevertheless, governance measures similar to those discussed in the toolkit would improve their performance as well.” (page xxviii)

- Instruction sheet for country-level assessment
- Country-level assessment questionnaire
- Sample SOE survey questionnaire

The publication contains four company-level tools:

- Instruction sheet for SOEs
- SOE progression matrix
- Information and document request list
- Corporate governance improvement program

The publication also includes many informative Text Boxes, Figures, and Tables, and Annexes.

### 3. OECD Report on Financing State-Owned Enterprises (2014)

This report seems to be less relevant at Myanmar's stage of SEE sector reform. It provides an overview of national policies and practices regarding state-owned enterprise (SOE) financing in OECD and other countries. It summarizes the decision-making processes surrounding SOE financing at different stages in the corporate life cycle, including capital structure, rate-of-return requirements, dividend payouts and the provision of state support. It also takes stock of the main sources of SOE financing, and any mechanisms in place to ensure such financing is obtained on competitive conditions compared with private businesses.

The report is part of the ongoing work of the OECD Working Party on State Ownership and Privatization Practices of The State in the Marketplace. It is related to earlier work on competitive neutrality, which examined practices to create a level playing field between state-owned and private companies when they compete in the commercial marketplace. The report draws primarily on a questionnaire-based exercise to which 22 countries contributed.

The main chapters are:

- Capital structure: policy and implementation
- Sources and conditions of SOE financing
- Remaining challenges to competitive neutrality



An Annex describes recent cases of SOE establishment in 13 countries.

#### 4. Challenges of SEE Reform

The Asian Development Bank has produced a series of reports on SEE sector reform in the Pacific Island countries. The latest report expanded the coverage to several small island countries in other regions. Chapter IV of this report summarizes global experience in considerable detail. The main points are presented below. The full detail can be found in ADB (2014b, pp. 26-36).

##### *A. Has SEE reform succeeded globally?*

- SEE reform has been central to broader economic restructuring programs throughout the world, starting in Chile, New Zealand, and the United Kingdom in the 1980s.
- The evidence consistently shows that despite repeated attempts at reform, endeavoring to impose commercial discipline on SEEs has rarely yielded satisfactory results over a sustained period.
- Poor SEE performance is the norm for most countries.
- The fundamental flaw in the SEE model is that politicians always find difficulty with commercial decisions that have political costs.

##### *B. Changing how the state supplies goods and services: privatization and PPPs*

- The alternative to continued government ownership is privatization, which international experience demonstrates results in more efficient public service provision than state ownership.
- Public welfare is not determined by who owns SEE assets, but rather who benefits from the capital, plant, and machinery SEEs use. If assets under SEEs are used less productively than under private ownership, the country will benefit far more from their sale to private sector operators that can provide the services more efficiently.
- Privatization's economy-wide effects on government budgets, GDP growth, employment, and investment are also positive.
- Even partial privatization in our study has produced better results than 100 percent state ownership.
- When full privatization is not politically feasible, partial privatization can help accelerate commercialization and improve SEE performance.

- In some cases PPPs can be more suitable than full privatization for attracting private investment.

*C. Improving SEE performance*

- As long as SEEs remain under government control, the risks of political interference and noncommercial decision-making remain high.
- There is no consistent legal or institutional framework for SEEs in the countries in this study.
- A comprehensive SEE framework does not guarantee improved SEE performance.
- There is increasing evidence that, in the long run, good corporate governance rests squarely on a foundation of law and regulation.
- Many countries are introducing legislation, ownership rules and guidelines, government practices and monitoring structures to place SEEs on a firm commercial footing.

--Since 2005, new or significantly enhanced SEE laws have been adopted or developed in Cabo Verde, Peoples Republic of China, Finland, Hungary, Kiribati, Republic of Korea, Namibia, Norway, Papua New Guinea, Poland, Portugal, Solomon Islands, Spain, Switzerland, Tonga, and Tuvalu.

--Since 2005, rules or guidelines have been introduced in six of these countries defining the state's ownership role, establishing SEE performance criteria, and increasing the transparency of reporting relative to performance targets.

*D. Establishing competitive neutrality*

- In some SEEs, profitability is not due to operating efficiency but results from monopolies that are enshrined in law.
- The most effective way of dealing with this problem is to establish a legal framework for competition, which includes SEEs.

*E. Community service obligations (CSOs) and SEE performance*

- In many countries in this sample, SEEs are required to provide services to communities on noncommercial terms.
- Where there is compensation for CSOs but no competitive tendering, this violates competitive neutrality.

*F. Governance and Monitoring*

- The 2008 financial crisis revealed how failures in corporate governance can ruin firms and have an economy-wide impact.

- Robust ownership and monitoring practices protect the state's investment in SEEs.
  - In the decentralized model, the sector or line ministry monitors performance and reports to the minister.
  - In the dual monitoring model, the sector ministry and ministry of finance share the monitoring oversight role.
  - The centralized monitoring model relies on an SEE ministry or a monitoring unit within the Ministry of Finance or Prime Minister's Office.

### 5. Common Myths of SEE Reform

The same ADB report includes an appendix on “Common Myths of State-Owned Enterprise Reform”. While somewhat more privatization-oriented than may be sensible for Myanmar today, this perspective on SEE sector reform is well grounded and neatly presented. Here we provide a synopsis of the ADB's view on each of the myths. The full explanations can be found in ADB (2014b, Appendix 1).

**Myth 1:** SEEs should not strive to provide a commercial return; they should instead focus on delivering essential services to the people.

***ADB Response:** Failing to make commercial return the primary objective often leads to the destruction of asset value and the production of sub-optimal goods and services.*

**Myth 2:** Only SEEs can fulfill community service obligations; if SEEs are commercialized or privatized, these obligations will be discontinued.

***ADB Response:** In cases where SEEs have had community service obligations, the appropriate way to maintain them in a commercial context is with a budget subsidy or to contract them to a more efficient provider.*

**Myth 3:** The process of commercialization is not achieving the promised profits.

***ADB Response:** While many commercialized or privatized SEEs have performed poorly, the clear and substantial gains from others that have performed well should not be discounted. Often the poor performance results from incomplete commercialization.*

**Myth 4:** SEEs are vital generators of employment.

***ADB Response:** The private sector has been the prime engine of growth in all countries that have risen to middle-income status. SEEs tend to retain large numbers of marginally productive employees, thereby representing a fiscal loss (less budget revenue or more deficit financing). More productive private sector jobs can be found for many of these employees.*

**Myth 5:** Privatization results in increased tariffs for public services.

***ADB Response:** SEEs often provide public services under tariff structures that do not fully cover costs. When consumers pay the full costs, commercialized or privatized enterprises are able to expand more rapidly, invest in technology that will lower costs, and improve the quality of the services they provide.*

**Myth 6:** Public servants and elected officials play a vital role on SEE boards.

***ADB Response:** The main risks of having ministry officials and politicians on SEE boards are conflicts of interest and diversion from core responsibilities. The country's interests can be brought to bear on commercialized and privatized SEEs through effective oversight and regulation.*

**Myth 7:** There is insufficient depth in the private sector to populate SEE boards.

***ADB Response:** In small countries, the pool of qualified people can be expanded over time with training programs.*

**Myth 8:** Only profitable SEEs can be successfully privatized; SEEs must be restructured before sale so that they can generate maximum proceeds.

***ADB Response:** International experience shows that pre-privatization restructuring rarely yields the sought-after price premium.*

**Myth 9:** Privatization means that governments forego future dividends from the SEE, and these represent a high opportunity cost.

***ADB Response:** The sooner a government can sell an SEE, the sooner it can realize the enterprise's cash value and reinvest it into core social services or use it to reduce government debt. There will always be a risk that an SEE paying dividends today will become unprofitable in the future.*

**Myth 10:** Governments need to establish and own SEEs to deal with market failure.

***ADB Response:** Better ways to address market failures are through regulation and policies that create a dynamic/competitive private sector.*

**Myth 11:** SEEs belong to the people.

***ADB Response:** If an enterprise viewed as a "crown jewel" is making inefficient use of its assets, the people are the losers. They will benefit more from having these assets in the hands of managers or owners who can generate higher returns.*

**Myth 12:** Reform principles cannot be applied to SEEs or economies of significantly different size or complexity.

***ADB Response:** Thirty years of SEE reform prove that these principles are universal. The complexity may vary but the core drivers or improved performance remain constant.*

#### 6. Overview of SEE Legal, Governance, and Monitoring Reforms, 2005-2012

Appendix 4 of the same ADB report contains a useful list of reform actions, country by country around the globe, grouped by issue. The issues covered are:

- Ownership policy and monitoring
- Categorization of public institutions
- Governance
- Transparency and disclosure

#### 7. OECD Principles for Public Governance of Public-Private Partnerships (2012)

Public-Private Partnerships (PPPs) are long term agreements between the government and a private partner whereby the private partner delivers and funds public services using a capital asset, sharing the associated risks. PPPs may deliver public services both with regards to infrastructure assets (such as bridges, roads) and social assets (such as hospitals, utilities, prisons).

Global interest in PPPs has been growing in recent years and the need for fiscal restraint in most OECD Member countries is expected to further increase their usage. This presents policy makers with particular challenges that should be met with prudent institutional answers.

The OECD Principles for Public Governance of Public-Private Partnerships provide guidance to policy makers on how to make sure that Public-Private Partnerships (PPP) yield value for money to the public sector. In concrete terms, the Principles help to ensure that new projects add value and to stop bad projects going forward. These Principles provide guidance on when a PPP is relevant – e.g. not for projects with rapidly changing technology such as IT, but possibly for well known generic technology such as roads. They focus on what is needed for PPPs to achieve the desired results: institutional design, regulation, competition, budgetary transparency, fiscal policy and integrity at all levels of government.

The 12 Principles are:

*Establish a clear, predictable and legitimate institutional framework supported by competent and well-resourced authorities*

1. The political leadership should ensure public awareness of the relative costs, benefits and risks of Public-Private Partnerships and conventional procurement. Popular understanding of Public-Private Partnerships requires active consultation and

engagement with stakeholders as well as involving end-users in defining the project and subsequently in monitoring service quality.

2. Key institutional roles and responsibilities should be maintained. This requires that procuring authorities, Public-Private Partnerships Units, the Central Budget Authority, the Supreme Audit Institution and sector regulators are entrusted with clear mandates and sufficient resources to ensure a prudent procurement process and clear lines of accountability.
3. Ensure that all significant regulation affecting the operation of Public-Private Partnerships is clear, transparent and enforced. Red tape should be minimized and new and existing regulations should be carefully evaluated.

*Ground the selection of Public-Private Partnerships in value for money*

4. All investment projects should be prioritized at a senior political level. As there are many competing investment priorities, it is the responsibility of government to define and pursue strategic goals. The decision to invest should be based on a whole-of-government perspective and be separate from how to procure and finance the project. There should be no institutional, procedural or accounting bias either in favor of or against Public-Private Partnerships.
5. Carefully investigate which investment method is likely to yield most value for money. Key risk factors and characteristics of specific projects should be evaluated by conducting a procurement option pre-test. A procurement option pre-test should enable the government to decide on whether it is prudent to investigate a Public-Private Partnerships option further.
6. Transfer the risks to those that manage them best. Risk should be defined, identified and measured and carried by the party for whom it costs the least to prevent the risk from realizing or for whom realized risk costs the least.

7. The procuring authorities should be prepared for the operational phase of the Public-Private Partnerships. Securing value for money requires vigilance and effort of the same intensity as that necessary during the pre-operational phase. Particular care should be taken when switching to the operational phase of the Public-Private Partnerships, as the actors on the public side are liable to change.
8. Value for money should be maintained when renegotiating. Only if conditions change due to discretionary public policy actions should the government consider compensating the private sector. Any re-negotiation should be made transparently and subject to the ordinary procedures of Public-Private Partnership approval. Clear, predictable and transparent rules for dispute resolution should be in place.
9. Government should ensure there is sufficient competition in the market by a competitive tender process and by possibly structuring the Public-Private Partnerships program so that there is an ongoing functional market. Where market operators are few, governments should ensure a level playing field in the tendering process so that non-incumbent operators can enter the market.

*C. Use the budgetary process transparently to minimize fiscal risks and ensure the integrity of the procurement process*

10. In line with the government's fiscal policy, the Central Budget Authority should ensure that the project is affordable and the overall investment envelope is sustainable.
11. The project should be treated transparently in the budget process. The budget documentation should disclose all costs and contingent liabilities. Special care should be taken to ensure that budget transparency of Public-Private Partnerships covers the whole public sector.
12. Government should guard against waste and corruption by ensuring the integrity of the procurement process. The necessary procurement skills and powers should be made available to the relevant authorities.



## 8. OECD Principles for Corporate Governance

First released in May 1999 and revised in 2004, the OECD Principles have become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. They have advanced the corporate governance agenda and provided specific guidance for legislative and regulatory initiatives in both OECD and non-OECD countries. The Financial Stability Forum has designated the Principles as one of the 12 key standards for sound financial systems. The Principles also provide the basis for an extensive program of co-operation between OECD and non-OECD countries and underpin the corporate governance component of World Bank/IMF Reports on the Observance of Standards and Codes (ROSC).

The OECD Principles are currently under review, with a revised version expected to be finalized within the next year.

A methodology for assessing implementation of the Principles was produced in 2006 and since then six peer reviews by the OECD have been undertaken and published.

The Principles have been translated into 16 languages beside English, all of which can be downloaded from the OECD website.

According to the OECD, there is no single model of good corporate governance. However, work carried out in both OECD and non-OECD countries and within the Organization has identified some common elements that underlie good corporate governance. The Principles build on these common elements and are formulated to embrace the different models that exist.

The six Principles are:

- The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.
- The corporate governance framework should protect and facilitate the exercise of shareholders' rights.
- The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

- The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
- The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.
- The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

#### 9. IFC Corporate Governance Manual for Indonesia (2014)

This IFC publication is especially relevant for Myanmar because there are many similarities in the cultural, social, and political contexts of Indonesia and Myanmar. It was co-produced with Indonesia's financial sector regulatory body: the Financial Services Authority (OJK).

The Manual is divided into fifteen chapters (see below). Chapter 15 is especially interesting because it focuses on the SEE sector.

- Chapter 1: An Introduction to Corporate Governance
- Chapter 2: The General Governance Structure of a Company
- Chapter 3: The Internal Corporate Documents
- Chapter 4: The Board of Commissioners
- Chapter 5: The Board of Directors
- Chapter 6: The Role of the Corporate Secretary
- Chapter 7: An Introduction to Shareholder Rights
- Chapter 8: The General Meeting of Shareholders
- Chapter 9: Corporate Governance Implications of the Charter Capital
- Chapter 10: Dividends

- Chapter 11: Corporate Governance Implications of Corporate Securities
- Chapter 12: Material Corporate Transactions
- Chapter 13: Information Disclosure
- Chapter 14: Control and Audit Procedures
- Chapter 15: Overview of the Corporate Governance Framework of State- Owned Enterprises (SOEs)

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