

Informal Firms in Myanmar

Mohammad Amin

Using survey data on informal firms in Myanmar, a number of issues related to firm-size, productivity, business environment, gender disparity and registration costs and benefits are discussed. The findings suggest that informal firms in Myanmar are less productive than formal sector firms but compare favorably with informal firms elsewhere. The education level of the manager is positively correlated with firm productivity but firm-size is not. Access to finance is the most commonly chosen top obstacle, especially by the relatively smaller firms. Few firms find any benefits from registration and particularly so in the relatively smaller cities outside Yangon.

Introduction

Informal or unregistered firms and workers exist in every country. According to some studies, while 17 percent of the work force in OECD countries is in the informal sector, in developing countries, the corresponding figure is about 60 percent (Ihrig and Moe, 2004; Dessy and Pallage, 2003). La Porta and Shliefer (2014) suggest that about 30 to 40 percent of economic activity occurs in the informal sector in poor countries. Schneider et al. (2010) estimate the informal economy to be about 34 percent on average for 88 developing countries in 2005.

Despite the large size of the informal economy, a number of issues remain unexplored. For example, low productivity of informal firms is worrisome but it is not clear if factors such as firm-size and manager's education level matter for productivity as has been found for the formal sector firms. Similarly, it is widely believed that informal firms face a poor business environment. However, it is not immediately clear what the top constraint is – for example, limited access to finance or corruption?

This note attempts to shed light on some of the issues mentioned above for informal firms in Myanmar. Available estimates suggest that the informal economy in Myanmar is large even by developing country standards. For example, according to Schneider et al. (2010), in a sample of 88 developing countries, the share of the informal economy in Myanmar is smaller than only 6 other countries.

The data we use is a pure random sample of 300 informal (unregistered) firms in the large cities of Myanmar and

collected by the World Bank's Enterprise Surveys Unit (Enterprise Surveys). Due to lack of a proper sampling frame, the data are not necessarily representative of the informal sector in the cities covered. Hence, the results presented below should be treated with due caution as pertaining to the sample of informal firms rather than the broader informal sector in the country. For benchmarking purposes, we use similar Informal Surveys for 16 other developing countries. Further, we also use two other nationally representative surveys for non-agricultural and private sector firms in Myanmar (Enterprise Surveys). These surveys cover the microenterprise firms (less than 5 employees), small firms (5 to 19 employees), medium firms (20 to 99 employees) and large firms (100 or more employees).¹

Informal firms in Myanmar compare favorably in labor productivity and turnover with informal firms elsewhere

It is well-known that compared with the formal sector firms, informal sector firms are much less productive and inefficiently small. This could be due to excessive government regulations that inhibit the sector (De Soto 1989, 2000) or because of the sector's limited access to finance, low education and skills and lack of adequate motivation among the firm owners (La Porta et al. 2014). In fact, one view is that productivity levels in the informal sector are so low that the sector can hardly be expected to contribute to overall growth and development (La Porta et al. 2014).

The Enterprise Surveys (ES) data confirm that informal

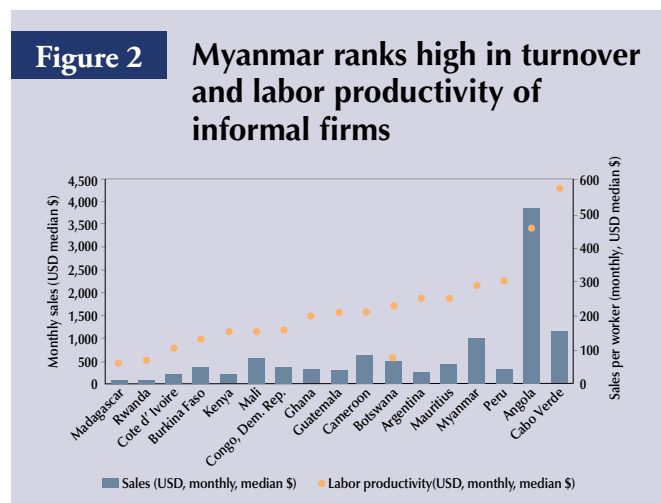
firms in Myanmar are much smaller and have lower sales per worker (labor productivity) compared to formal sector firms in the country (figure 1). For example, median labor productivity of informal firms is about 65 percent of the level for micro firms in the country. Similarly, total monthly sales (turnover) for informal firms is about 75 percent of the level for micro firms and less than 5 percent of the level for medium and large firms.

However, informal firms in Myanmar do reasonably well when compared with informal firms elsewhere (figure 2). That is, median labor productivity in Myanmar is higher than in 12 out of 16 other countries and monthly sales higher than in 13 other countries. Thus, the experience of Myanmar could help improve productivity levels of informal firms in other countries.

Do firm-size and owner's education matter for the productivity level of informal firms?

Formalization and improving the business environment are often suggested as solutions to raising informal sector productivity. But what about other factors such as firm-size and education levels of the manager/owner which have been found to be important for firm productivity in the formal sector?

Amin and Islam (2015) look at the relationship between firm-size and labor productivity of informal firms in a cross-section of 13 developing countries. The issue is important since the small size of informal firms is often viewed as a reason for their low productivity. The authors argue that larger firm-size is likely to increase productivity due to increasing returns to scale but it may also lower it due to



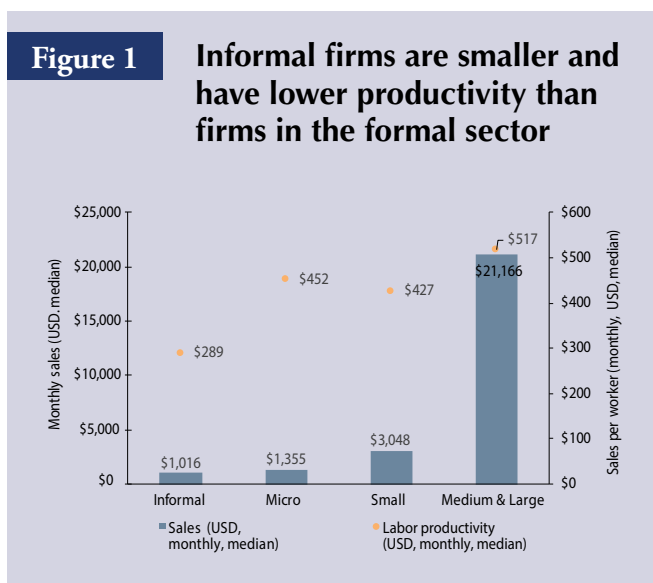
Source: Enterprise Surveys.

increased costs of evading government regulations. They find that the latter effect dominates.

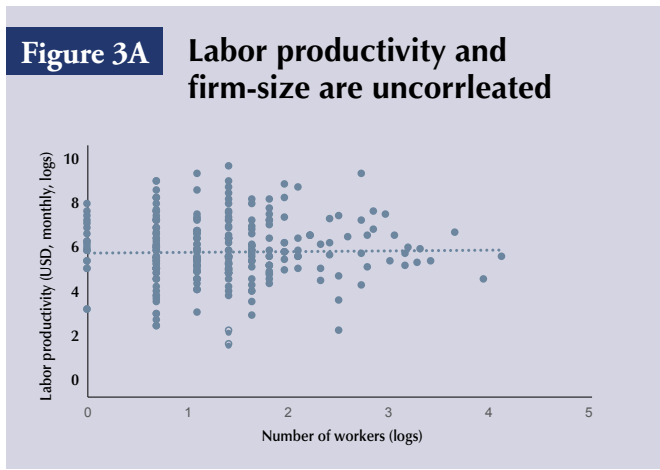
For informal firms in Myanmar, there is no relationship between firm-size and labor productivity (figure 3A). In contrast, for the comparator countries, the results confirm the findings in Amin and Islam. Thus, improvements in firm-size of the informal firms in Myanmar are unlikely to add much to labor productivity levels.

The role of education in improving labor productivity has been discussed in the literature, although much of this literature focuses on the formal sector (Echevin and Murtin 2009, Bertrand and Schoar 2003). La Porta and Shleifer (2014) argue that higher levels of education of managers in the formal sector than the informal sector is what makes formal firms far more productive. However, the authors do not provide any evidence on how education affects labor productivity within the informal sector.

As figure 3B shows, labor productivity level is significantly higher for informal firms in Myanmar that have managers with higher education (secondary education, university degree or vocational training) vs. the rest (no education or primary education). This holds even after accounting for differences in firm characteristics including firm-size (number of employees), age of the firm, sector of activity (manufacturing vs. services), gender of the largest owner, years of manager experience in the field, region (city) fixed effects, dummy variables indicating whether or not the firm uses machinery, uses electricity, experienced losses due to crime, and reports access to finance as a major obstacle for its business. In short, providing better education to entrepreneurs in the informal sector could be a panacea for the low levels of productivity in the sector.



Source: Enterprise Surveys.

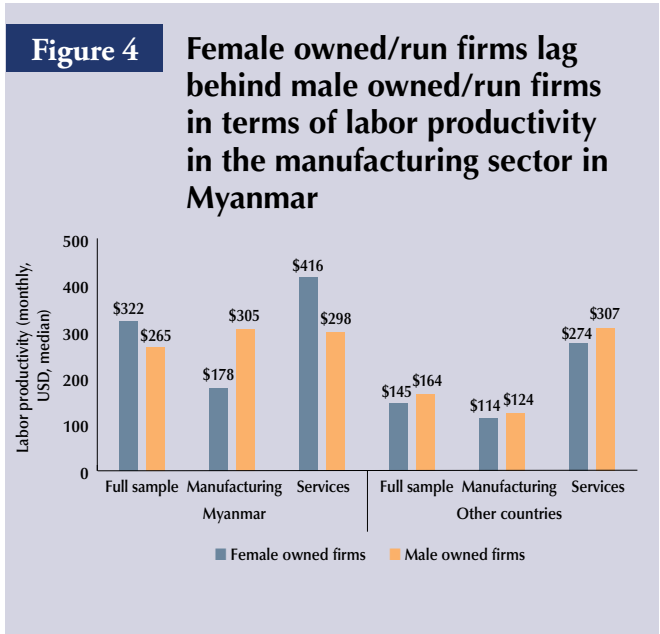


Source: Enterprise Surveys.

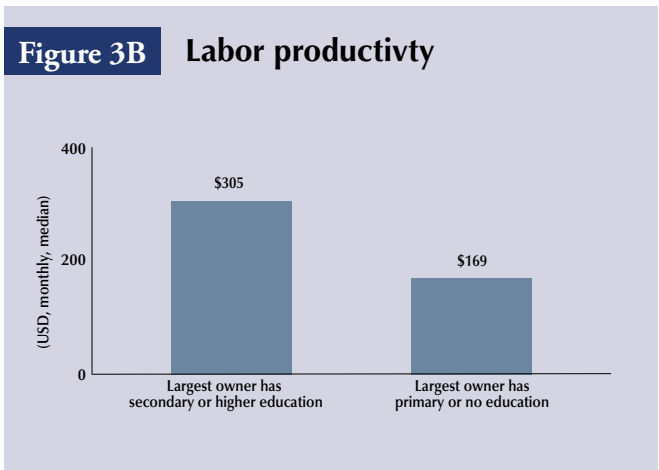
Female owned/run firms have lower labor productivity but only in the manufacturing sector

A number of studies have shown that firms owned or run by women tend to under-perform firms owned or run by men in terms of firm productivity and turnover (Brush et al. 2006; Sabarwal and Terrel 2008). Difficulties that women face relative to men due to limited access to finance, discriminatory laws and social and cultural attitudes could explain the lower performance. However, the existing literature is entirely focused on formal sector firms and it is not clear if the findings apply to informal firms.

The ES data reveal that on average, labor productivity level does not vary significantly between women vs. men owned/run² informal firms in Myanmar. If anything, women perform better than men (figure 4). However, the firm's sector of activity matters. In the manufacturing



Source: Enterprise Surveys.



Source: Enterprise Surveys.

sector, labor productivity is much lower for women and the opposite holds in the services sector. As figure 4 shows, the above findings are unique to Myanmar. That is, for informal firms in other countries, on average, labor productivity is lower for female than male owned/run firms in the full sample, manufacturing sector, and especially services sector. The data confirm that the results for Myanmar here are not due to differences in firm-size, age of the firm or the level of education of the owner/manager.

Limited access to finance is the most commonly cited top obstacle, and more so by the smaller firms

From a list of 8 obstacles (access to finance, access to land, corruption, crime, electricity supply, water supply, access to technology, and lack of skilled workers), access to finance was the most commonly chosen top obstacle (by 36 percent of the firms) followed by access to land (20 percent).

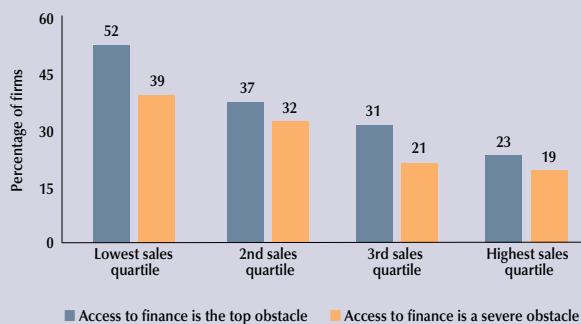
On the absolute level, about a quarter of the informal firms in Myanmar report limited access to finance as a severe obstacle for their business.

As in the broader literature, firm-size matters here with the smaller firms (employment and sales wise) much more likely to report access to finance as the top obstacle and a severe obstacle than the larger firms (figure 5). Thus, policy measures aimed at relaxing financial constraints in the informal sector are likely to be more effective if targeted towards the relatively smaller firms.

Smaller informal firms are more likely to be credit-constrained than larger informal firms

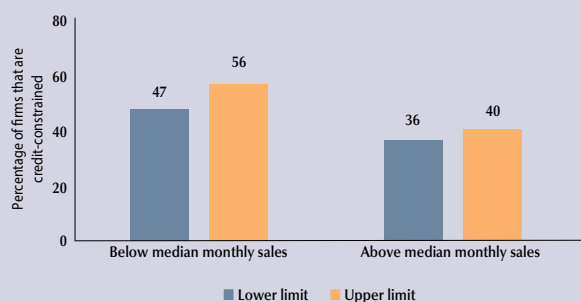
Less than 5 percent of the informal firms in Myanmar have a bank account for business purposes, much lower than in Guatemala (21 percent), Argentina (31 percent), Peru (33 percent) and Rwanda (78 percent) for which information is available. Micro firms with a bank account in Myanmar are also few (10 percent). However, informal firms in Myanmar

Figure 5 As perceived by the firms, limited access to finance affects smaller firms more than larger firms



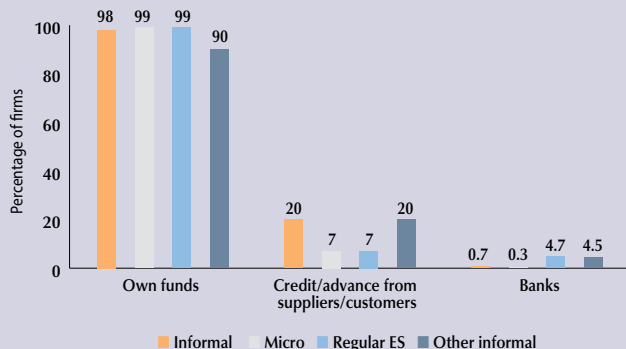
Source: Enterprise Surveys.

Figure 6 Small informal firms in Myanmar are much more likely to be credit-constrained than the larger informal firms



Source: Enterprise Surveys.

Figure 7 Use of own funds is almost universal among informal firms in Myanmar



Source: Enterprise Surveys.

are less likely to be credit-constrained than informal firms elsewhere. Firms that did not apply for a loan during the last year because of complex application procedures, high interest rates, high collateral requirement, insufficient loan amount or maturity, and because the firm did not think it would be approved are classified as credit-constrained firms; firms that did not apply for the loan because of no need for a loan are credit-unconstrained firms; the remaining firms are the ones that applied for the loan but it is not clear if they got what they wanted. Classifying these remaining firms as credit-constrained gives an upper limit for credit-constrained firms and a lower limit by assuming that these firms are credit-unconstrained.

Between 42 and 49 percent of the informal firms in Myanmar are credit-constrained. This is only somewhat higher than the same for micro firms in the country (42 to 43 percent are credit-constrained) but lower than for informal firms on average in other countries (49 to 62 percent). As above, firm-size matters with small informal firms in Myanmar much more likely to be credit-constrained than the larger informal firms (figure 6).

Use of own funds by informal firms is almost universal in Myanmar, and more common than elsewhere

About 98 percent of the informal firms in Myanmar use their own funds to finance working capital. As figure 7 shows, the figure is roughly same for the formal sector firms in the country but noticeably higher than for informal firms on average in other countries. Use of bank finance is almost non-existent among informal firms in Myanmar as is the case for informal firms elsewhere. In contrast, use of credit/advances from suppliers/customers is more common among informal compared with micro firms in Myanmar.

Few firms have a favorable opinion of the benefits from formalization, especially in the smaller cities

Policies encouraging formalization require an understanding of the potential benefits to firms from registering and the reasons for not registering. The ES asked firms about various reasons for not registering and potential benefits as perceived by them from registering. Findings from these questions are provided in figure 8. Two results stand out. First, the proportion of firms that believe there are benefits from registering is low: it ranges between 11 percent (better access to raw materials and public services) to 23 percent (less bribes to pay). Thus, it is not surprising that 62 percent of the firms report no benefit as a reason for not registering. In short, greater effort is required in making formalization more beneficial to the firms. Second, firms are much more likely to report

Figure 8 Perceived benefits from registering seem to be less common in the smaller cities



Source: Enterprise Surveys.

benefits from registering in the large city of Yangon than elsewhere in Myanmar (see figure 8 for details). One reason for this could be that typically large cities have better public services, physical and financial infrastructure implying greater benefits from registering. What this suggests is that formalization efforts are likely to be more beneficial and successful where the availability of public services and infrastructure is good such as in the relatively large cities of Myanmar.

As is the case in many other developing countries, the informal sector in Myanmar is large and likely to persist. Understanding the sector is important both for raising incomes of those working in the sector, as well as to maximize the sector's contribution to overall growth and dynamism of the economy. Using firm-level survey data, this note highlights a number of issues concerning informal firms in Myanmar covering firm productivity, gender disparity, business environment and costs and benefits of registration. While the findings are preliminary in nature, it is hoped that they will help encourage more rigorous empirical work in the future.

Notes

1. Detailed information on these surveys is available at www.enterprisesurveys.org.
2. There is hardly any distinction between the largest owner and the manager of the firms in the sample used.

References

- Amin, Mohammed and Asif Islam (2015), "Are Large Informal Firms More Productive than the Small Informal Firms? Evidence from Firm-level Surveys in Africa," *World Development* 74(October): 374-385.
- Bertrand, Marianne, and Antoinette Schoar (2003), "Managing with Style: The Effect of Managers on Firm Policies," *Quarterly Journal of Economics* 118(4): 1169-1208.
- Brush, C., N. Carter, E.J. Gatewood, P. Greene and M. Hart, (2006), *Growth Oriented Women Entrepreneurs and Their Businesses* (New Horizons in Entrepreneurship). Cheltenham, UK and Northampton, MA: Edward Elgar.
- De Soto, Hernando (1989), *The Other Path: The Invisible Revolution in the Third World*, New York: Harper and Row.
- De Soto, Hernando (2000), *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York: Basic Books.
- Dessy, Sylvain, and Stephane Pallage (2003), "Taxes, Inequality, and the Size of the Informal Sector," *Journal of Development Economics* 70(2003): 225-233
- Echevin, Damien and Fabrice Murtin (2009), "What Determines Productivity in Senegal? Sectoral Disparities and the Dual Labour Market," *Journal of Development Studies* 45(10): 1707-1730.
- Ihrig, Jane and Karine S. Moe (2004), "Lurking in the Shadows: the Informal Sector and Government Policy," *Journal of Development Economics* 73: 541-557.
- La Porta, Rafael and Andrei Shleifer (2014), "Informality and Development," *Journal of Economic Perspectives* 28(3): 109-126.
- Sabarwal, Shwetlana and Katherine Terrell (2008), "Does Gender Matter for Firm Performance? Evidence from Eastern Europe and Central Asia," World Bank Working Paper Series No. 4705, World Bank, USA.
- Schneider, Friedrich, Andreas Buehn and Claudio E. Montenegro (2010), "Shadow Economies All over the World: New Estimates for 162 Countries from 1999 to 2007", Working Paper 5356, World Bank, USA.

The Enterprise Note Series presents short research reports to encourage the exchange of ideas on business environment issues. The notes present evidence on the relationship between government policies and the ability of businesses to create wealth. The notes carry the names of the authors and should be cited accordingly. The findings, interpretations, and conclusions expressed in this note are entirely those of the authors. They do not necessarily represent the views of the International Bank for Reconstruction and Development/World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent.