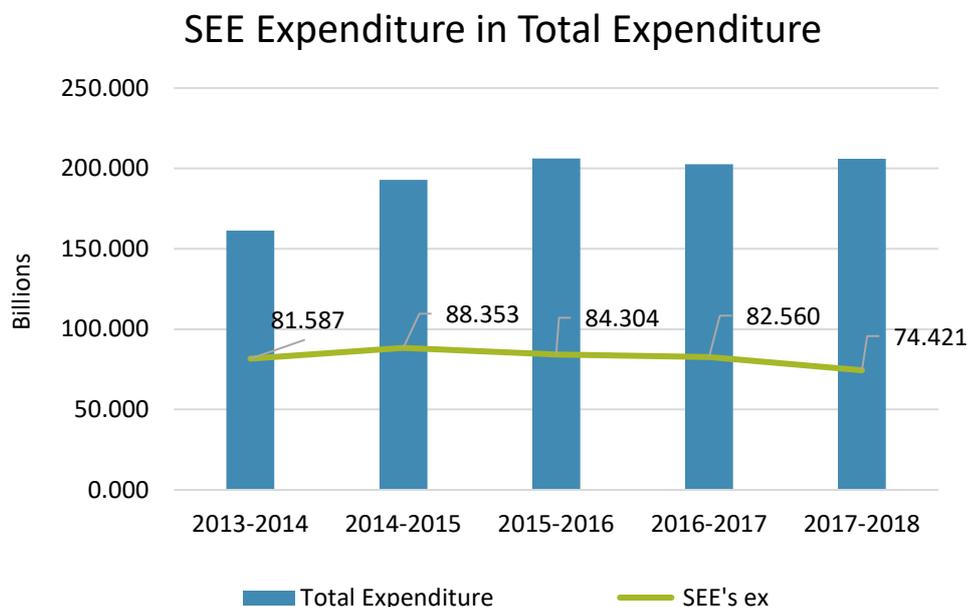


Role of SEEs in Myanmar Economy and the Union's Public Finance

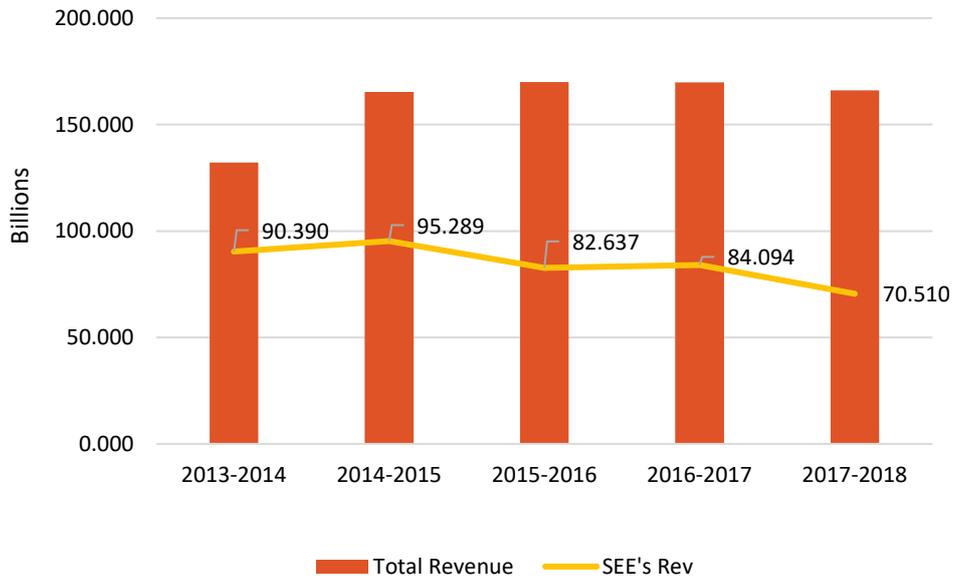
In almost all countries on the world, State Economic Enterprises play as one of the vital roles of the economy. Similarly, these enterprises' receipts compose over 50 percent of aggregate government revenue. From 1989 to 2011, accounts all State Economic Enterprises were placed under the Union Fund Account. SEEs' revenue had required to put under the Union Fund and their expenses had also been budgeted from the Union Fund. In 1989, States-owned Economic Enterprises law were enacted and several key economic sectors especially the natural resources sectors have been allowed only to the government sector.

To encourage State Economic Enterprises to operate their businesses commercially and to stand on own foot, the new financial arrangement is being adapted since 2012-13 FY. According to the new arrangement, State Economic Enterprises are allowed to open Other Accounts (OA) within Union Fund Account and SEEs receipts have to be placed into the OA accounts. Also, SEEs' expenditure in accordance to the annual budget law has to be used from those OA accounts. In the process of transferring SEEs expense from Union Budget to Independent Budget, it has been planned to reform step-by-step.

Out of 32 State-owned Enterprises (SEEs) operating in Myanmar, 27 SEEs are operating under the Union Budget and only 5 SEEs are operating on their own budget without depending on the Union Government. Total revenue of SEEs is equivalent to 29 percent of GDP and total expenditure is equal to 34 percent of GDP. On average, the total expenditure of SEE makes up 43 percent of Union Expenditure while the total revenue of SEEs contributes to 53 percent of Union Revenue.

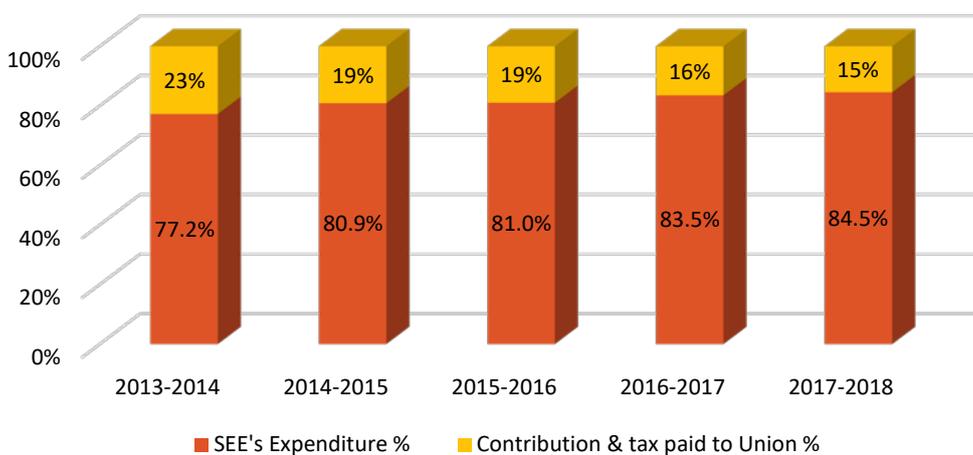


SEE Revenue in Total Revenue



The ratio of income to SEEs' expenditure has been declining through the fiscal year 2013-14 up until 2017-18. Since the revenue of SEEs slightly declines over the years, the profit margin of SEEs has also fallen and so does the income contribution to the Union. The ratio of SEEs' tax contribution to the total Union tax revenue at this fiscal year is at 24 percent. The fiscal data used in this policy note are "budget estimate (BE)" numbers.

Share of SEE's Contribution and Tax in SEE's Total Expenditure

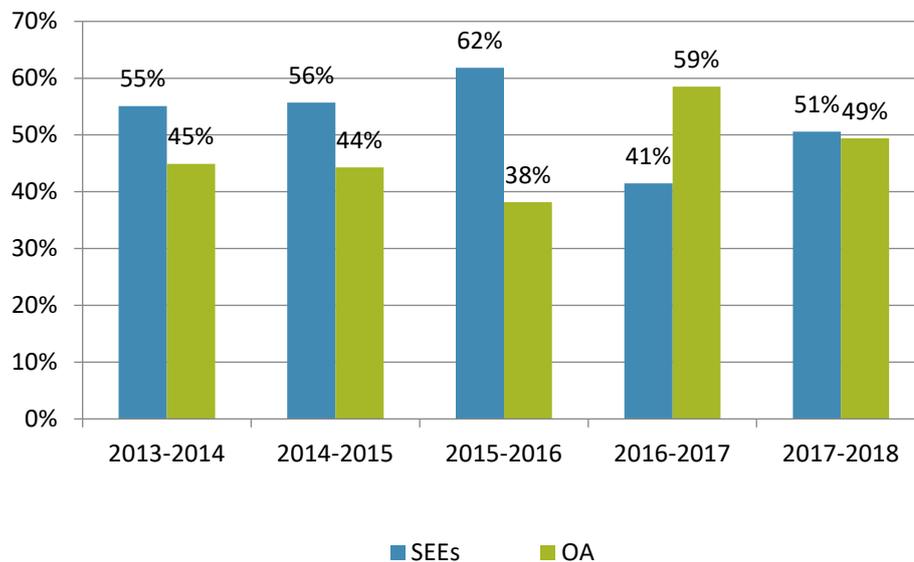


In the fiscal arrangement for SEEs between 1989 to 2010, SEEs had to place their revenue under the Union Fund Account while taking all the requirement expenses from the Union Fund too. As a result, the SEEs were not striving enough for profit making and business result and resorted to the government for their losses.

While the gradual changes according to current financial arrangement for SEEs since 2012-13 are being made, all the expense except raw materials purchasing costs of loss-making SEEs are still required to support from Union Fund Account. This situation can lead to a bigger burden for the government if more and more SEEs are facing with losses. Even though SEEs' financial reform is being undertaken, the government has to provide financial assistance to loss-making SEEs; consequently, SEEs sectors are still facing with the big challenges.

The figure below shows the expenditure of (SEEs under) Ministry of Industry from Union Fund and its Other Account.

Current Expenditure of Ministry of Industry



If we see the state-owned factories under the Ministry of Industry, amongst other SEEs in Myanmar, their trade balance shows more and more losses are happening every year (Appendix table). Limited capacity on producing required machines and parts domestically, weaker competitiveness and vehicles import policy makes local SEEs to face the tougher competition contributes difficulties for the SEEs under Ministry Industries and discussions are underway on how to treat these industries.

The challenges facing regarding to the SEEs are transforming loss-making SEEs into administrative units, constitutes low revenue of those transformed units, pensions and other expenses incurred from Union Fund, weak technology and innovation, tough to compete with the imported goods both in terms of price and quality, outdated laws, legal frameworks and

procedures for SEEs, lack of law and regulations to strictly demand SEEs to run for commercial purposes..

Not only the internal problems but also external challenges such as rapid technological changes, global economic uncertainties, devaluation of Myanmar Kyat and associated trade deficit have impacts on the country's economy.

When we look at the analyzed period, Electricity Generation Enterprise under Ministry of Electricity and Energy and Myanma Railways under Ministry of Transportation and Communication are facing the biggest losses among SEEs. Production cost per unit is higher than the sale price, failure on customer satisfaction are contributing factors of their loess which in turn requires more government subsidies. At present, the national electricity coverage is only 30 percent of population and government is striving to provide electricity across the country by 2030. To fill the electricity demand, not only hydro power generation also other costlier means of production such as buying electricity from neighboring countries, producing with gas turbines are undertaking. As a result, the production cost per unit makes higher than the unit sale price and government is required to subsidize for those expenses. However, these expense are unavoidable for reasons such as infrastructure development and fundamental public services.

In accordance with the changing state's political and economic systems, SEEs are necessary to operate as commercial entities and stand on own revenue for their business operation by expanding their products, adapting the high tech production methods, reducing the costs unrelated to production for decreasing the production cost, expanding the producing of goods and providing services considering the market demands. For example, for heavy industries such as SEEs for oil and petroleum production and SEEs for steel and iron industries, which requires high-end technology for production and surveying, it would be required to invite foreign investment and encourage domestic investors. Also, it would be necessary to review on demand conditions, products quality and design including the production technology and availability of raw materials (for these industries).

Recommendations are considering the SEEs with high production costs to corporatize, privatize or reforming as joint venture or private public partnership entities, demolishing some SEEs which are not worthy to keep running, enforcing compliance with the clear and precise legal frameworks, laws and practices, clear policy on treating employees at SEEs, creating the proper business environment for SEEs, guiding and informing clearly in government's guarantees and subsidies to SEEs.