



# Bribery, Corruption and Bureaucratic Hassle: Evidence from Myanmar



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## **Bribery, Corruption and Bureaucratic Hassle: Evidence from Myanmar**

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## **Abstract**

Corruption has been found to be the most severe obstacle to business operations, according to a recent survey of over 3,000 firms in Myanmar. This paper sets out to understand the structure of corruption through an econometric analysis of this survey. It finds that firms with higher 'ability to pay' (proxied by sales revenue and employee growth) are more likely to pay bribes. While firms with lower 'refusal power' (i.e those dependent on bureaucratic permissions to export and import) are more likely to find corruption to be an obstacle. A distinct but related question is whether bribes act as 'efficiency grease' by allowing firms to circumvent red tape. No evidence is found to support this hypothesis, in fact firms that pay bribes report greater bureaucratic hassle compared to firms that do not. This result fits in more closely with the view that red tape could be used to extract bribes from firms.

**Key words:** Bribery, corruption, red tape, Myanmar, private firms, efficiency grease.

**JEL codes:** D73, L25, O12

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## Introduction

The economy of Myanmar is at a critical juncture on its path to prosperity. After decades of military rule, central planning and international isolation the country is implementing much needed economic and political reforms. Myanmar has many advantages including vast natural resources, a young population and geostrategic location. The neighbouring markets of China, India and an integrated ASEAN Economic Community offer the potential of rapid growth by forming regional business and production networks. However, the persistence of corruption threatens to derail the process as international partners increasingly demand a level playing field.

In many developing countries, corruption has been shown to affect the domestic economy and society in various ways. Firms report facing higher costs and greater uncertainty which impacts their production and investment decisions (Olken and Pande, 2011). The cost of government provided goods and services increases due to leakage for private gain (Reinikka and Svensson, 2004); or through the provision of substandard goods (such as roads) that have to be replaced frequently (Bardhan, 1997). It also undermines the rule-of-law and the government's ability to correct externalities such as pollution (Olken and Pande, 2011).

As corruption can have a detrimental effect on growth and development, researchers have sought to understand the mechanisms of corruption with a view to developing remedies. Early studies relied on perception based indexes which were used in cross-country empirical studies to examine the relationship between corruption and various country characteristics. Treisman (2000) shows that exposure to democracy for a long period reduces perceived levels of corruption. Chowdhury (2004), Brunetti and Weder (2003) and Lederman et al. (2005) find that press freedom reduces corruption. Trade openness and ensuing competition has been associated with reduced corruption (Kreuger, 1974; Ades and Di Tella, 1999; Treisman, 2000). Institutional structure is found to be important as more decentralized states have lower levels of corruption (Fisman and Gatti, 2002; Arikan, 2004). Social norms and culture are expectedly important determinants of culture though they can be hard to measure. One notable exception is Fisman and Miguel (2007) who draw a link between unpaid parking tickets by diplomats in New York and levels of corruption in their home countries.

Although these studies provided useful insights into the macro-determinants of corruption they are inherently limited in their ability to explain within-country variation. Recent methodological advances have incorporated firm-level surveys to obtain self-reported information on the incidence of corruption. The World Bank Enterprise Survey and the

International Crime Victim Survey are two widely used sources of data that allow researchers the ability to understand the dynamics of corruption on a micro level.

As Myanmar was closed to the outside world for decades, little is known on the nature of corruption as experienced by firms on the ground. Previous cross-country research has demonstrated the importance of local context in terms of institutional environment and culture and so the experience of other developing countries may or may not be relevant for understanding corruption in Myanmar. Further evidence of corruption in Myanmar is of course required. Although an Enterprise Survey was conducted for Myanmar by the World Bank in 2014 it was limited to just 632 firms in five geographic regions and mostly in manufacturing.

This study contributes to the literature by utilizing a unique survey of over 3000 firms across most industrial sectors and all geographic regions. This rich dataset gives a comprehensive picture of the situation on the ground. It allows firm specific characteristics to be linked to bribe payments, ratings on corruption and bureaucratic hassle. The key research questions that can now be examined in the context of Myanmar are: (1) What type of firms are more likely to engage in bribery?, (2) What type of firms are more likely to find corruption to be an obstacle to their business operations?, and (3) Are bribes paid to reduce bureaucratic hassle or is bureaucratic hassle used to extract bribes?

It should be noted that the purpose of this analysis is not to lay blame on either officials or firms for engaging in corruption. Rather it is to study the overall pattern of corruption in Myanmar, with a view to developing policies to address it.

## **1. Literature overview**

As the use of firm surveys is a relatively recent phenomenon, there are not many studies that analyze corruption at this level. Nevertheless, a few important firm-specific characteristics that are related to corruption have been highlighted in the literature. These factors include profit or sales revenue, firm size, ownership structure, exposure to officials, institutional environment and bureaucratic hassles (Clarke and Xu, 2004; Gaviria, 2002; Kaufman and Wei, 2000; Svensson, 2003; Wu, 2009; Rand and Tarp, 2010). Those factors, the variables used to measure them and their effect on corruption in various countries, are discussed below. Many of these variables are found to be significant in some countries but not in others. Thus, their relevance for Myanmar is ultimately an empirical issue which will be tested subsequently.

### 1.1. Profits or sales revenue

Svensson (2003), using the World Bank's Enterprise Survey for Uganda, finds current and expected future profits, to be significantly correlated with bribe amounts. Clarke and Xu (2004) obtain similar results in their analysis of 21 transition economies in Eastern Europe and Central Asia. Wu (2009) in a study of 12 Asian countries finds that firms with higher growth pay a lower proportion of revenue as bribes compared to firms with less growth. Rand and Tarp (2010) finds limited evidence that firms with higher profit per employee are more likely to pay bribes in Vietnam.

### 1.2. Firm size

Wu (2009) finds that smaller firms in Asia are more likely to pay bribes. Gaviria (2002) examines 29 Latin-American countries and finds that smaller firms are more likely to perceive corruption as an obstacle. Svensson (2003) finds that there is no significant relationship between firm size and corruption in Uganda. While Rand and Tarp (2010) find that larger firms are more likely to pay bribes in Vietnam. Thus, whether large firms are more or less likely to pay bribes is ultimately an empirical issue.

### 1.3. Ownership structure

Firms that are owned by an individual or family are statistically more likely to pay a bribe (Wu, 2009; Gaviria, 2002) finds limited evidence that firms with at least some government ownership are less likely to find corruption an obstacle. However, this result is not statistically robust. Gaviria (2002) also finds no statistical difference between corruption perceptions of firms with some foreign ownership compared to those with none.

### 1.4. Exposure to officials

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