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A new policy framework for Myanmar's SME development

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A New Policy Framework for Myanmar's SME



Masato Abe
Madhurjya Kumar Dutta

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

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A New Policy Framework for Myanmar's SME Development

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Abstract: Myanmar's emergence from decades of isolation provides an opportunity to learn from the experiences of its neighbours to guide its economic transition and achieve strong and inclusive growth. The development of small and medium-sized enterprises (SMEs) is an effective mechanism in achieving socioeconomic growth, but Myanmar poses a list of challenges that need to be overcome first, including poor infrastructure and limited market access. This paper proposes policy recommendations under seven key issues: business enabling environment, entrepreneurship development, access to financing, business development services, innovation and technology, market access, and cluster development. These recommendations are based on existing reviews of the Myanmar business community and the SME policy frameworks of various countries and combine to form a comprehensive policy framework. This policy framework will provide the government of Myanmar an opportunity to facilitate SME development, and with that the development of the country.

JEL Classification: L53, O10, O25

Keywords: Small and medium-sized enterprises, economic development, Myanmar, clusters, innovation and technology, business development services.

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1. Introduction

Myanmar is emerging from decades of isolation with regained and growing support from international communities. The nation has a high potential for rapid development given its rich natural resources, abundant labour force and strategic location between the region's two economic giants, China and India. Many lessons can be drawn from the experiences of Myanmar's neighbours, which could help guide its economic transition and achieve strong and inclusive growth (ADB, 2012).

Promoting and sustaining economic growth is in the interest of every nation. Small and medium-sized enterprises (SMEs) are, in many countries, recognized as the backbone of economic growth, contributing significantly to the GDP through job creation and income generation while alleviating poverty (ESCAP, 2012). Promoting the development of SMEs, therefore, should be viewed by governments around the world as an effective mechanism in achieving socioeconomic development.

SME growth is, however, often constrained by various factors, such as limited access to information and technological know-how, lack of economies of scale, deficiencies in corporate governance and limitations in access to funds. Government interventions have been required to create enabling environments for SME growth. Such interventions include transparent licensing and permit procedures, financial provisions, information gathering and sharing, infrastructure (along trading routes and borders) and efficient customs procedures (ESCAP, 2012).

SMEs in Myanmar are facing the same aforementioned obstacles: poor infrastructure, inadequate access to finance, limited market access, outdated technology, low skill and productivity levels and a lack of business development services (BDS) (OECD, 2013a). Such factors are hindering SMEs in Myanmar from reaching their full potential and bringing the widespread benefits of socioeconomic development to its people.

This paper aims to present a new policy framework for Myanmar's SME development. For this purpose, it analyses the major issues confronting Myanmar's business community and formulates policy recommendations for SME development in Myanmar. The paper begins with a discussion of the SME sector and related development barriers and assorted issues important to policymaking. The paper then moves on to present a set of policy recommendations that have been developed based on existing reviews of the Myanmar business community and the SME policy frameworks of various countries, with a focus on the Asia-Pacific region. Policy recommendations have been categorized under seven "key issues," namely: (1) business enabling environment (BEE); (2) entrepreneurship development; (3) access to financing; (4) business development services (BDS); (5) innovation and technology; (6) market access; and (7) cluster development.² The paper concludes by proposing a comprehensive policy framework.

2. General Characteristics of SMEs

SMEs represent over 95 per cent of private enterprises and account for over 50 per cent of employment in the Asia-Pacific region (ESCAP, 2012). Indeed, since the late 1970s, SMEs have become regarded as a key agent for industrialization, particularly in the least developed countries, where the role of SMEs holds even more significance since they represent the best prospect to increase overall employment and value added (Shizuki, 2001). Many least developed countries seek to provide employment opportunities for those who live below the poverty line. In this way, SMEs have an important role to play not only in the economic growth of the nation but also in the alleviation of poverty and the strengthening of social safety nets.

SMEs have unique characteristics: labour intensiveness, niche market focus, low investment requirements and customer-orientation (ESCAP, 2012). For SMEs, the

² This policy framework, except SME cluster development, was initially proposed by ESCAP (2012).

separation of ownership and management is often non-existent and they tend to respond to market needs quickly with a flatter organizational structure and flexible operations that can readily adapt to a rapidly changing environment (ESCAP, 2012). The development of an entrepreneurial culture is highly associated with the development of SMEs, as they are formed, nurtured and run by entrepreneurs (Kyaw, 2008). The following sections of this paper will highlight some key characteristics of SMEs which may affect effective policymaking for SME development.

2.1 Heterogeneous in nature

SMEs, including micro enterprises,³ are a very heterogeneous group, found in a wide array of business activities in a nation. Examples of SMEs include a single artisan producing agricultural implements for the village market; a coffee shop on the corner; an internet café in a small town; a small engineering or software firm selling to overseas markets; and an automotive parts manufacturer selling to multinational automakers who are in-turn trading to domestic and foreign markets. SMEs operate in very different markets (urban, rural, sub-national, national, regional and international); embody different skill-levels, amounts of capital, levels of sophistication and growth orientation; and may operate in the formal or the informal economy.

2.2 Varied definitions

In the Asia-Pacific region, the definition of SMEs varies from country-to-country and is usually based on the number of employees, value of sales, value of assets or capital or a combination of these aforementioned factors (ESCAP, 2012). The definition of SME may also vary according to the size of the economy and the level of the economic development of a nation. The most commonly used variable (probably due to the ease of collection of data) is the number of employees.

³ Micro enterprises are typically defined as those with less than 10-20 workers, and the majority of them, such as street vendors and self-employed, operate informally (ESCAP, 2012).

A large number of OECD countries, including those of the European Union (EU), and many transition and developing countries set the upper limit of the number of employees for SMEs between 200 and 250. While a few exceptions exist—such as Japan and the United States, whose definitions allow for up to 300 and 500 employees, respectively—SMEs typically employ no more than 250 workers. Some countries stipulate different definitions for SMEs in the manufacturing, services and other sectors and may exempt firms from specialized industries or firms that have shareholdings by parent companies (ESCAP, 2012).

2.3 Contributing to economy, creating employment and fostering trade

As previously mentioned, the contributions of SMEs to GDP and national employment are significant. According to the World Bank (2006), close to 140 million SMEs in 130 countries employed around 65 per cent of the workforce. Another World Bank study (Ayyagari et al. 2003)⁴ also indicates that SMEs contribute to over 65 per cent of total employment and 55 per cent of GDP in high-income countries, over 95 per cent of total employment and about 70 per cent of GDP in middle-income countries and over 70 per cent of total employment and 60 per cent of GDP in low-income countries.⁵

Table 1 illustrates the importance of SMEs to several national economies in the Asia-Pacific and other regions, providing information on SMEs' shares of exports, total enterprise and the workforce. The table highlights that SMEs are an important source of employment and export revenue in many economies while being a major contributor to national economies.

⁴ This paper describes a new cross-country database on the importance of SMEs.

⁵ See detailed country classification based on income per capita at World Bank (2014).

Table 1. SME contributions to exports/enterprise/workforce in selected economies in the world and Asia and the Pacific, various years, 2001-2009

Region/country/area	Export share in GDP	SME share in exports	SME share of total enterprises	SME share of total workforce
Developed countries				
France	23.0	42.4	99.8	61.4
Germany	41.0	55.9	99.7	79.0
Japan	13.0	53.8*	99.7	70.2
Spain	23.0	68.5*	99.9	78.7
United Kingdom	28.0	45.9*	99.6	54.0
United States	11.0	22.2	99.9	55.8
European Union	n.a.	43.4	99.8	67.4
Asia and the Pacific				
China	27.0	69.2	99.0	74.5
India	20.0	40.0	n/a	n/a
Indonesia	24.0	20.0	99.9	99.6
Malaysia	96.0	19.0	99.2	59.0
Pakistan	13.0	30.0	97.9	78.5
Micronesia (F.S.)	n.a.	n.a.	>90.0	20.0
Republic of Korea	50.0	39.0	99.9	87.7
Russian Federation	28.0	54.0**	97.6	60.9
Singapore	221.0	16.0	91.5	51.8
Taiwan Province of China	n/a	17.0	97.8	77.2
Thailand	57.5	30.6	99.6	69.0
Viet Nam	68.0	20.0	99.9	77.3

Source: ESCAP (2012).

* Value-added.

** Share of total sales revenue.

Exports constitute a major SME contribution to many national economies, consisting of diversified products and technological developments to heterogeneous foreign markets. However, there is a wide variation in terms of SMEs' contribution to national exports in the Asia-Pacific region. In Singapore, the figure sits at 16 per cent, while in China SMEs contribute nearly 70 per cent of the nation's exports. The ability of SMEs to export is an indication of their competitiveness in regional and global markets and serves to indicate where specific support measures may be needed to improve

performance (UNCTAD, 2005). SMEs' export-contribution is generally higher in developed countries—like those in the EU—than in developing economies in the Asia-Pacific region.

3. Status of the Myanmar Economy and Its SME Sector

3.1 Myanmar's economic transformation

After decades of authoritarianism, Myanmar is emerging with new momentum for change. Since 2011, democratic reforms and the release of political prisoners resulted in an easing of major international sanctions (particularly those imposed by the EU and United States) that were introduced in 1989. Myanmar has gradually begun to open up its markets and restructured economy that are, in-turn, spurring economic development by its growing business sector.

With more than 52 million inhabitants, abundant natural and mineral resources, fertile soils and a rich culture, Myanmar is a promising market for investors and entrepreneurs, both local and foreign. Its geostrategic location between India and China and the start of the ASEAN Economic Community (AEC) in 2015 will offer the country and its businesses new opportunities to reach out to the more than 500 million people living in neighbouring countries (and the closest provinces of China and India) (MGI, 2013). According to the Asian Development Bank, Myanmar has the potential to grow at eight per cent per annum for a decade and become a middle-income country by 2030 (MGI, 2013).

In 2012, agriculture remained Myanmar's largest economic sector, constituting 38 per cent of the GDP. The services sector came in second with 37 per cent, while the industrial sector remains the smallest, accounting for 24 per cent of the GDP (ESCAP, 2013).⁶ In terms of employment, the agriculture sector makes up 70 per cent of total

⁶ Note that there are rounding errors.

employment, the services sector 23 per cent and the industrial sector seven per cent (CIA, 2014).

In some industries, Myanmar is already displaying increased dynamism. Following the return of trade privileges with the EU and United States, investment into the garment and textile sector jumped (Kaspar, 2013; Pittman, 2012). Numerous international oil companies are currently bidding for 30 untouched offshore oil and natural gas drilling sites that the government is opening up to foreign exploration (Schatz, 2013). Between 2011 and 2012, the number of tourists rose by a quarter to total one million visitors per year, with this figure is expected to rise by another 50 per cent in 2013 (Cha, 2013). Foreign investors are investigating the market and looking for capable local business partners and joint ventures, giving increased opportunities and incentives to locals to get involved in business.

To support this progress, the Government of Myanmar is rushing through reforms. Among these reforms is the new foreign investment law, passed in 2012. The Government has continually stressed its intention to promote SME development through new legislation and the establishment of an SME development centre under the Ministry of Industry in 2013. Further reforms to industrial, competition and intellectual property rights laws are also on the agenda. In particular, the Government has made the development of the industrial sector a high priority, aiming to increase the sector's share in the GDP to 36 per cent within the three years. To this end, the Government has eliminated the export-first trade policy and revised its special economic zone (SEZ) law. Emphasis has been given to developing industrial bases and to upgrading its technical institutes (OECD, 2013a).

3.2 The business sector

The state of Myanmar's business sector is strongly influenced by its regulatory and policy frameworks and its fragmented institutional structure. There are a number of parallel line ministries that supposedly regulate its business sector, but coordination

between these entities is insufficient (OECD, 2013a). Furthermore, a dearth of information makes it difficult to determine the structure of the business sector in Myanmar. The majority of enterprises have not been captured by existing data because of the large number of micro- or small-sized firms operating in the informal sector. Myanmar's informal economy is a large and diverse sector, ranging in size from small family businesses to large enterprises, including state-owned enterprises in various sectors. Again, the exact employment or output levels are not known due to a lack of reliable data.⁷ The transition of labour and other assets into the formal arena will therefore be an important part of Myanmar's development (OECD, 2013a).

Business establishments in Myanmar are classified based on the following criteria: (1) ownership and nationality (e.g. state-owned, locally-owned, foreign-owned or a joint venture); (2) industry and the respective ministries, which handle business registration or licensing for that industry (e.g. Ministry of Hotels and Tourism and Ministry of Rail Transport); (3) the laws and regulations governing various types of businesses (e.g. manufacturers under the Private Industrial Enterprise Law 1990); and (4) the size of the business (e.g. the "cottage industry" under the Ministry of Cooperatives) (OECD, 2013a).

To date, business surveys conducted in Myanmar (JETRO, 2009 and 2012; Kudo, 2002 and 2005; Oo, 2013) identified significant impediments to doing business including common problems related to access to capital and credit, poor trade facilitation, high customs-related fees, cumbersome business and trade licensing and permits, electricity shortages, weak telecommunications and inefficient transportation systems. Other challenges that have been identified include a shortage of spare parts and raw materials, a low level of advanced technology utilization, machinery and equipment deficiencies and shortages of foreign currencies (OECD, 2013a).

⁷ Central Statistics Office (CSO) in collaboration with the Ministry of Industry has conducted annual surveys on approximately 7,000 manufacturers which operate in 27 industrial zones since 2005. However, the majority of the survey data are not available to the authors.

The OECD's *Multi-dimensional Review of Myanmar* indicates that Myanmar's business sector has the potential to become the driving force of its economic development but that this will require the installation of an institutional framework that creates an environment conducive to entrepreneurship and other private initiatives (OECD, 2013a). While FDI is needed for Myanmar to acquire capital and technology, domestic private initiatives are equally important in paving the way for industrialization. Business produces, and supplies, value-added through goods and services while developing technology, creating jobs and generating incomes. Although Myanmar is rich in natural resources and has an abundant source of low-cost labour, it has not successfully managed to realize its full potential as a result of its centrally planned economy, bureaucratic mismanagement and the economic sanctions imposed by a number of developed countries (ADB, 2012; ESCAP, 1996).

3.3 Predominance of small and informal enterprises

Available data indicate that the approximate number of registered enterprises in Myanmar is 127,000; of these, 99.4 per cent are SMEs (table 2).⁸ It is estimated that over 620,000 business entities—constituting over 83 per cent of all Myanmar businesses—operate in the informal sector (Nay Pyi Taw News, 2013). The majority of these are expected to be family-based establishments and self-employed workers.

Table 2. Compositions of business

	Number	Percentage
Formal sector		
Large enterprises	721	0.6%
SMEs	126,237	99.4%
Total	126,958	100.0%
Informal sector	620,000	83% of businesses

Source: Nay Pyi Taw News (2013).

⁸ The result of the CSO survey on manufacturers indicates that on average one firm hires approximately 20 workers from 2009 to 2010.

It is estimated that Myanmar has 2.6 SMEs per 1,000 people. This number is far lower than that of developing countries generally, and least developed countries in particular, which recorded 27 and 9 SMEs per 1,000 people, respectively.⁹ The small number of SMEs and the comparatively large informal sector can be explained by a variety of factors, including: (1) a weak entrepreneurial culture; (2) a lack of incentives to enter the formal sector; (3) the remaining influence of the centrally planned economic system; and (4) the important role of state-owned enterprises in the market (OECD, 2013a).

3.4 Initiatives to promote SMEs

Special attention has been paid by the Government of Myanmar to protect and promote domestic SMEs as a key player for industrialization, income generation and job creation. The key ministries involved in SME development are the ministries of industry, cooperatives, commerce, finance, national planning and economic development, agriculture and irrigation, and science and technology. The SME Development Central Committee, which is chaired by President U Thein Sein, was established as a coordinating mechanism among line ministries. The committee is composed of both government officials and business representatives. A new SME law, which was drafted by the committee's working group, is at the final stage of its development. To support SMEs and enable smooth participation in the ASEAN Economic Community (AEC) 2015, the Government also created the Central Department of SME Development in 2012, which operates under the Ministry of Industry. In order to promote the development of SME clusters, the Government is aiming to link industrial estates and economic zones with research and training institutions.

To improve access to finance for SMEs and to support business and technology incubations, the Small and Medium Industrial Development Bank (SMIDB) has been operating eleven branches throughout Myanmar since 1996. SMIDB plans to offer low-interest three-year loans at 8.5 per cent (as opposed to the standard 13 per cent, which

⁹ These numbers were calculated using the most recent available data of the World Bank's World Development Indicators (2002-2006). The number of Myanmar population in 2011 (48,337 thousand) was used for the calculation (ESCAP Data Centre at <http://www.unescap.org/stat/data/>).

incidentally, is much lower than typical interest rates for SMEs in developing countries) (IFC, 2010).

With an aim to improving the investment climate for SMEs, the Government has also considered allowing commercial banks to extend long-term loans for more than one year and to use a wider range of collateral instruments, such as moveable assets. It is also considering the establishment of public credit guarantee schemes and a credit bureau.¹⁰ The expansion of microfinance schemes for entrepreneurs—including for women and youth—to improve access to capital,¹¹ in order to reduce reliance on informal money lenders, is underway by encouraging the establishment of private microfinance providers. Plans to expand trade finance schemes, particularly for exports of manufactured goods, are also being appraised (OECD, 2013a).

To develop the tourism sector, where SMEs play a major role, the Government has promoted linkages between tourism and other industrial sectors, such as agriculture and services, to maximize benefits. To do this, the Government plans to assist in the overall capacity-building of the tourism sector, improvement of tourism service management, development of new tourism destinations and marketing and promotion (MNPED, 2012).

3.5 Opportunities and challenges for regional integration

Under the present globalization era, regional integration, whose progress has been facilitated by increasing trade and investment liberalization and advancement of logistic systems and information and communication technologies (ICT), has changed SMEs' operational environment in a drastic way. Social and economic agents, both public and private, no longer operate at a strictly local or national-level, but a global one. Today, regional integration provides new opportunities for the expansion and growth of SMEs

¹⁰ In this regard, one of the authors provided advisory services to the working group on the new SME law under the SME Development Central Committee in 2013.

¹¹ In Myanmar microfinance schemes have been provided by various players such as commercial lenders (both formal and informal), cooperatives, NGOs and community-based organizations, which are sometimes backed by international agencies. Find more details at Duflos et al. (2013).

by taking advantage of international market potential. Such movements can unlock SMEs' growth-potential arising from increased trade and cross-border investment. In Myanmar, SMEs can, and should, particularly strengthen its ties with their counterparts in ASEAN and utilize their unique geographic position as a bridge between South and South-East Asia, which offers a range of new opportunities with the formation of the ASEAN Economic Community (AEC) in 2015 (ASEAN, 2014).¹² Regional integration, however, poses new challenges to SMEs, in addition to these new opportunities.

In the case of Myanmar, the majority of SMEs are not prepared to face the global transformation of business strategies and practices, meaning that they are unable to take advantage of the benefits and opportunities provided by regional integration. Adding to this conundrum, SMEs are frequently under pressure in the domestic markets from cheaper imports and foreign competition. The common preferential tariff scheme exercised in the ASEAN countries, for instance, has led to the influx of cheaper and better commodities from other ASEAN countries. Such influxes threaten the future of many SMEs in Myanmar, pushing down the prices of products from local SMEs. Domestic products, especially household products, appliances and consumer electronic products, are facing price competition with cheaper products from China. Other products, such as canned products, snack foods, garments, plastic products and toys must compete with products from Thailand (Kyaw, 2013).

The formation of the AEC 2015 further calls for an agenda for Myanmar SMEs to enhance their competitiveness and innovation to ensure seamless integration with a newly established common market. The *Strategic Action Plan for ASEAN SME*

¹² In 2007, the ASEAN leaders adopted the ASEAN Economic Blueprint to serve as the master plan to guide the establishment of the AEC 2015. The AEC 2015 aims at: (a) the establishment of a single market and production base; (b) the improvement of regional economic competitiveness; (c) the attainment of equitable economic development; and (d) the full integration of the member states into the global economy. The core areas of regional cooperation to build the AEC include: (a) human resources development and capacity building; (b) recognition of professional qualifications; (c) closer consultation on macroeconomic and financial policies; (d) trade financing measures; (e) enhanced infrastructure and communications connectivity; (f) the development of a region-wide electronic transactions system; (g) the integration of industries across ASEAN to promote regional sourcing; and (h) enhancing private sector involvement. In short, the AEC aims to transform ASEAN into a subregion with the free movement of goods, services, investment, skilled labour and the free flow of capital. More information is available from <http://www.asean.org/communities/asean-economic-community>.

Development 2010-2015 outlines the framework for SME development among the ASEAN countries. The plan covers mandates stipulated in the AEC Blueprint (ASEAN, 2009) and outlines the framework for SME development that seeks to ensure the advancement of the SMEs within the ASEAN region (ASEAN, 2011). SMEs inside the region have potential to attract more investments from outside the region, and a virtuous circle could be built for their future development (ESCAP, 2012). In enhancing SMEs' competitiveness in the liberalization process, government policy plays a crucial role. The Government needs to improve long-term capacity and build subcontracting linkages for SMEs by providing technical and financial assistance, skills or vocational training and market information. SME development agencies can be established and help SMEs better understand and benefit from trade and investment policy reforms by offering relevant information and services (ESCAP, 2012).

However, such initiatives have not been enough to expand and diversify SMEs' access to international markets thus far. Integration into the global and regional economies requires linking local producers to global value chains (GVC) or international production networks (ESCAP, 2009). Integration into GVCs poses new challenges for Myanmar SMEs, which are required to meet a wide range of increasingly stringent global quality, price, time, delivery and flexibility standards. The advent and proliferation of regional integration as the prime agent of Myanmar's economic development means that building the capacities of SMEs—to ensure they remain highly competitive, innovative and able to utilize the incentives provided by the Government—is absolutely essential.

4. Major Constraints and Issues

As noted above, the assessment of the business climate points to a number of hurdles for SMEs in Myanmar. These hurdles include: access to finance, lengthy business licensing and permit procedures, access to—and the state of—infrastructure (including electrical power) and poor support services such as business development services and trade facilitation measures. Myanmar currently lacks a unified SME policy to address

these hurdles (OECD, 2013a). While the Government is aware of the need to develop its policies and guide SME development, the Ministry of Industry and the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) are working with UNIDO and GIZ towards this end, progress is slow.

It is important that any initiative to promote SME development is formed as part of a wider private sector development strategy. An important element to consider in the development of SME-supporting policies will be the definition of SMEs (OECD, 2013b). The current definition is based on the 1990 *Private Industrial Enterprises Law*, 1991 *Promotion of Cottage Industries Law* and 2011 *Amending the Promotion of Cottage Industries Law* (see table 3).

Table 3. SME definition in Myanmar

Category	Investment Amount	Annual production capacity	Installed power	Number of workers
Micro sized manufacturers or "cottage industries"	Not applicable	Not applicable	0.25 horse power to 5 horse power	Less than 10
Small sized manufacturers	1 million Kyat	10 million Kyat	Less than 25 horse power	10 to 50
Medium sized manufacturers	5 million Kyat	10 million Kyat	Less than 50 horse power	51 to 100
Large sized manufacturers	10 million Kyat	More than 10 million Kyat	Over 50 horse power	Over 100

Source: Ministry of Cooperatives (2013).¹³

As already mentioned, the definition of "SME" varies from country-to-country; however, the definition in Myanmar is seemingly more complex while only targeting small and medium sized manufacturers. This situation is hindering the implementation of policies targeting SMEs. The development of an appropriate SME definition is of critical importance to guiding SME development policies and other supporting measures such as SME financing schemes and training programmes. The definition could benefit from

¹³ Obtained from the Small Scale Industries Department of the Ministry of Cooperatives in Yangon on 16 January 2013.

being more specific, either by the creation of categories divided by subsectors, as is the case in Thailand, or by including microenterprises, as in Indonesia and Malaysia. Such considerations would help in the design of more targeted SME support and promotion measures.

SMEs in Myanmar also encounter several major physical and non-physical challenges relating to access to market and finance. One of challenges concerning market access is a distinct lack of awareness among SMEs themselves of the benefits and implications of free trade agreements (FTAs) (Anukoonwattaka and Mikic, 2012). Export promotion activities and the under-use of e-channels and e-commerce mechanisms have not been properly explored. The existence of non-tariff barriers prohibits SMEs' access to foreign markets. SMEs lack familiarity with trade facilities and customs procedures, and market intelligence in and outside ASEAN markets is not currently available in Myanmar. In terms of access to finance, SMEs in Myanmar are finding it difficult to access funds due to the rigorous collateral-based lending requirements of local banks (Kyaw, 2008). Such obstacles are difficult to overcome, especially for newly established SMEs. This situation makes it even more difficult for micro enterprises to obtain loans, since most of the banks are reluctant to provide loans to high-risk borrowers like them. SMEs in Myanmar thus have to rely on informal sources for funding which charge high interest rates.

Finally, investment in research and development (R&D) among SMEs in Myanmar is still low, resulting in low productivity and efficiency. Funds for the commercialization of R&D are still not forthcoming due to uncertainty over demand levels or the absence of contracts. Recognition and promotion of innovative SMEs is not widespread, either. Additionally, there is still limited knowledge about the protection of intellectual property (IP), and the cost of IP registration is high.

In summary, SMEs in Myanmar typically face the following constraints (Abe, 2013):

- a) Absence of a user-friendly legal and regulatory environment;

- b) Lack of an adequate and modern infrastructure;
- c) Undeveloped entrepreneurship abilities, i.e. lack of confidence and a high level of risk aversion in taking advantage of new opportunities;
- d) Inequality for women entrepreneurs;
- e) Inadequate and/or expensive access to financing;
- f) Obsolete technology;
- g) A lack of R&D and innovation facilities and the commercialization thereof;
- h) Inadequate input of business development services (BDS), and;
- i) Weak linkages with external markets;
- j) Poor institutional networking, which bars access to global value chains and the integration of SMEs into international markets.

5. SME Cluster Development

The cluster concept has gained prominence as an economic policy tool which aims to foster innovation and the growth of a competitive SME sector in developing countries. UNIDO put forward three main arguments to explain the focus on SME clusters as targets of development assistance (UNIDO, 2010). These are:

- (a) Collective efficiency gains;
- (b) Spatial proximity effects; and
- (c) Pro-poor potential.

The growth of individual SMEs is often constrained by limited access to resources and the inability to achieve economies of scale. SMEs within clusters benefit from: (a) collective efficiency gains due to the availability of a specialized labour force, machinery and input suppliers; (b) the collective pull of traders and buyers; and (c) a positive industrial atmosphere where information and knowledge are easily shared (Bellandi, 2002).

Although an SME cluster, which is developed as part of industry agglomeration, has no territorial boundaries, the achievement of collective efficiency gains is facilitated by spatial proximity among SMEs operating in the cluster. To cite UNIDO, *“spatial proximity also enhances the effect of technical cooperation, as it stimulates ‘crowding in’ or ‘spontaneous replication’ effects among a number of stakeholders”* (UNIDO, 2010).

According to the analysis conducted by UNIDO: “a cluster approach can be a valuable tool to tackle poverty and lay the ground for a process of broad-based growth. This is partly due to the fact that clusters are also socio-economic systems where the population of firms overlaps with the community of people and their families, living and working in a delimited territory... Overall, this accounts for a distribution of the benefits of growth that is likely to be more inclusive than in other economic systems” (UNIDO, 2010).

The cluster development approach has been recognized as a tool for strengthening the SME sector in many countries. Clusters that can foster synergies which offer important advantages to SMEs since they can assist enterprises to achieve dynamic competitiveness collectively, rather than as individual enterprises do. Clustering enables SMEs to link and integrate with regional and global value chains and fosters greater synergy between providers of BDS (ESCAP, 2009).

Before 1988, SMEs in Myanmar were spread all over the country but since 1990 the *State Law and Order Restoration Council (SLORC)* relocated SMEs to newly established industrial zones around towns and cities in order to facilitate effective industry agglomeration (Thein, 2012). At present, 19 industrial zones exist, with another seven in the pipeline (Annex 1). At present, major SMEs are located in the industrial zones, while micro-sized enterprises or “cottage industries” are located outside of

industrial zones.¹⁴ In the industrial zones, small-sized enterprises comprise 57.5 per cent of the tenants, medium-sized enterprises constitute 24.3 per cent and large-sized enterprises constitute 17.3 per cent (Kyaw, 2008). In order to spur industrial development and attract foreign investment, three special economic zones (SEZs) are being developed: (a) Dawei SEZ, located in the Tanintharyi region; (b) Kyauk Phyu SEZ, located in Rakhine State; and (c) Thilawa SEZ, located 20km south of Yangon (see Annex 1). SMEs should be further encouraged to participate in services and manufacturing activities offered by the SEZs and industrial zones, while it will be necessary for the Government in general to enhance local capacities of officials to manage, regulate and monitor activities effectively in the SEZs and industrial zones.¹⁵ To this end, policy interventions can be made to support linking local SMEs, as suppliers, to larger enterprises in the SEZs and industrial zones. Adequate measures should also be devised to facilitate partnerships between larger enterprises and local suppliers for various inputs (OECD, 2013b). SME cluster development should be designed primarily to facilitate the creation of an empowering/enriching/nurturing business environment through which: (1) new clusters are formed and developed; (2) existing clusters flourish and grow; (3) rural non-farm employment is promoted by allowing small producers and enterprises to participate in the value chain process; and (4) SMEs become important partners in local, national and global value chains.

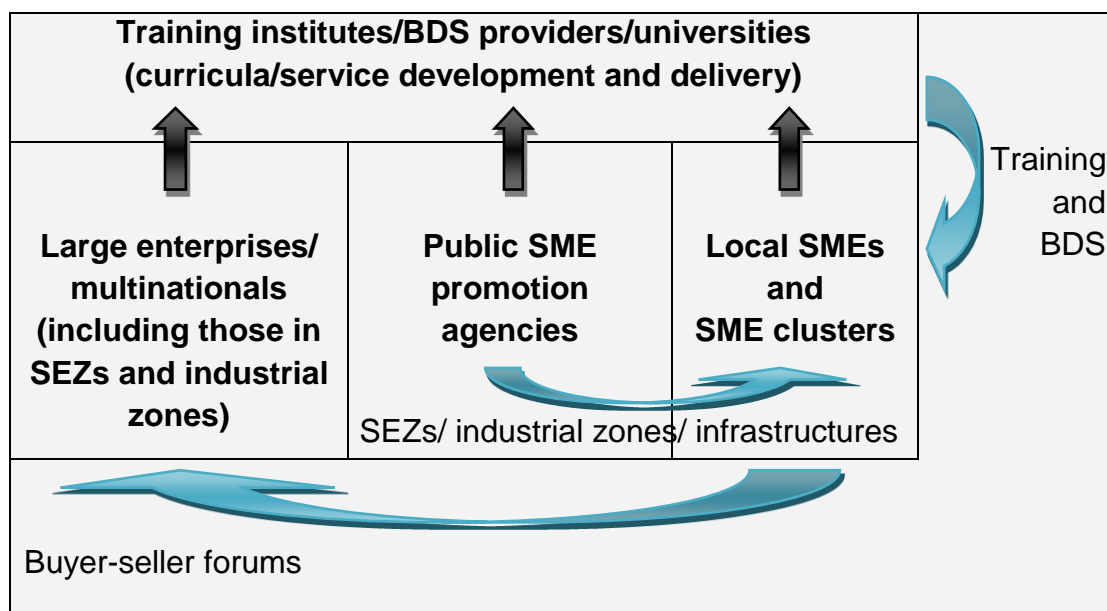
In order to foster local SME clusters, training and BDS are also crucial in providing tailor-made services for SMEs' capacity building. Effective training and BDS could be developed through collaboration among local SMEs, large enterprises, multinationals, training institutes, BDS providers, public SME promotion agencies and universities. Training curricula can be developed by training institutes or universities to deliver appropriate modules that reflect industry demands. An effective BDS provision, based on changing market demands, could also lead to the development of local capacities

¹⁴ SMEs mentioned here are small and medium-sized manufacturers under the supervision of the Ministry of Industry, whereas the Ministry of Cooperatives supervises the cottage industries, which are micro-sized enterprises with less than 10 workers (see Table 3).

¹⁵ The industrial development through SEZs and industrial zones could go a long way in tackling short- and medium-term structural economic problems, and they are not the only measures for wider business and investment climate reforms that should be adopted.

and eventually promoting the development of SME clusters. This institutional framework is presented in figure 1.

Figure 1. Training curricula and BDS development for SME clusters



Source: Modified from OECD (2013b).

In order to promote SMEs' linkages with large enterprises and their integration into regional and global value chains, SME clusters should be assisted further through buyer-seller forums, which may be organized by either the Government or business associations (or SME clusters themselves). Buyer-seller forums can provide valuable opportunities for business matching and networking between SMEs and regional and international buyers. The forums can also facilitate the development of market intelligence systems by collecting various market information to determine the most penetrable and profitable domestic/export markets—an important tool for SME clusters development.

6. Policy Frameworks for SME Development

As discussed in the preceding sections, SMEs face inadequate financing, weak linkages with external markets and poor technological innovation, the culmination of which is resulting in limited SME growth. It calls for more efficient and professional government services to enhance SME competitiveness.

Within this context, it is imperative that the Government of Myanmar recognize the following critical factors for SME development (Abe, 2013):

- a) The need for the reduction of entry barriers (including costs) facing new businesses;
- b) The importance of cash flow to SMEs (the major reason most new SMEs fail is not a lack of profits but a lack of cash);
- c) The strengthening of entrepreneurship through training and education;
- d) Support to make the SME sector competitive in regional and global markets;
- e) The private sector's involvement in policymaking and the implementation of partner-programmes;
- f) The strengthening of networking and information dissemination (the lack of networks and information hinders the effective deployment of technology and BDS as well as collaboration with other firms);
- g) Feedback mechanisms that reflect the dynamic environment in which SMEs operate, so that policymaking can be proactive in anticipating and tackling SME-related issues;
- h) Promotion of SME clusters which produce spillovers of knowledge and agglomeration benefits that all firms can share;
- i) Encouragement of rural industrialization, via SMEs, should be a clear priority (with the diversification of agricultural activities a viable strategy); and
- j) Assistance and incentives for SMEs to gain access to regional and global markets.

7. Policy Recommendations for SME Development

There are many facets to SME development. It is important to design and implement a comprehensive policy framework that addresses the development of SMEs' capacity and competitiveness more effectively, in order to utilize untapped business opportunities in national, regional and global markets. This section proposes specific policy options for action which are designed based on: (1) the centrality of SMEs in adding value; (2) seven critical issues in SME development (i.e. enabling environment, entrepreneurship, access to financing, business development services, innovation, market access and cluster development); and (3) stakeholders' involvement in policymaking and implementation. Policy recommendations are summarized by issue and presented in turn below.

7.1 Business enabling environment (BEE)

The overarching theme of the business enabling environment (BEE) is that appropriate procedures and incentives with reasonable cost implications must be offered to businesspeople if SMEs are to thrive. Of central importance is modern infrastructure, both physical and ICT, which is a *sine qua non* for business development. The major policy recommendations are summarized below:

- a) Establish an SME development agency to develop and enforce a fair and transparent legal and regulatory regime for SMEs by assessing the costs and benefits of specific laws/regulations and eradicating the roadblocks;
- b) Establish an SME development fund to enhance SMEs' access to financing, in collaboration with financial institutions;
- c) Establish "single-window" SME service centres in each capital of States and Regions of Myanmar under the supervision of the SME Development Center,

Ministry of Industry, in cooperation with ministries concerned (e.g. MNPED, MOFR, MOC, MCOOP, MOAI, MOHT, MORT), financial institutions and business associations (e.g. UMFCCI) while providing technical assistance to the centres for their continued capacity building. The centres should handle all business registrations, licensing and permits and disseminate regulatory, financial, technical and market information. They also should establish help desks with their staff members and external experts, such as certified public accountants, attorneys and business consultants, and dispatch those experts for consulting services.¹⁶ The centres should be upgraded overtime to be BDS providers as well as business incubators for the local business communities, providing financing and tax related services and comprehensive technical assistance to both startups and existing SMEs;

- d) Develop an SME business support portal site under the supervision of the SME Development Centre in cooperation with the SME service centres;
- e) Streamline and simplify the procedures of business registrations, licensing, permits and tax collection, and reduce their durations to less than the average of the ASEAN countries. This should be done in cooperation with the ministries concerned in order to provide relative ease of entry of small firms and to reduce administrative transaction costs for SMEs;
- f) Develop the bankruptcy code, provide suitable exit routes and reduce social stigma for SMEs going bankrupt;
- g) Establish regular consultation mechanisms with SMEs at both national and sub-national levels on pressing business issues and related policies, including effective infrastructure development, in cooperation with business associations, and publish the results of the consultations and related action plan annually;
- h) Design and develop SME parks for various industrial sectors, such as food processing, light manufacturing and high-technology industries, for fostering key industry clusters;

¹⁶ The help desks may also be set up in the offices of the Small and Medium Industrial Development Bank (SMIDB) (and other state development banks), SME development fund, credit guarantee organizations, chambers of commerce and industry across Myanmar. They will provide business and financial advice to SMEs and other businesses, including phone consultations.

- i) Conduct annual SME surveys (including microenterprises, cooperatives and business entities in the informal sector), which would be an upgrade over the present industry sector survey conducted by CSO and MOI, and disseminate their results through print media (e.g. SME white papers, studies and flyers), information sessions, seminars and the portal site;
- j) Conduct a study to review the status of the small-scale service sector, such as restaurants, wholesaling and retailing;
- k) Conduct a study to review practices in subcontracting transactions in order to develop measures to ensure fair and proper subcontracting transactions;
- l) Provide support to chambers of commerce and industry and other business associations to establish mutual relief funds for the prevention of bankruptcies. Subsidies would be considered when needed;
- m) Draft and publish a contract policy for public procurement with SMEs in order to set up transparent procedures and expand opportunities for SMEs in public procurement. Information sessions would be held throughout the nation, and information on the policy would be disseminated through an SME support service portal site, which is also proposed to provide the e-procurement system;
- n) Provide support to chambers of commerce and industry, and other business associations in order for them to develop institutional capacities in managerial consultation and other BDS for SMEs for solving various management problems of SMEs throughout the nation;
- o) Improve rural road links between production and processing/market centres of the products;
- p) Study measures to further improve tax schemes for SMEs in order to secure more balanced and fair taxation and disseminate the results;
- q) Simplify import-export procedures by implementing trade facilitation measures and addressing legal and regulatory obstacles in cooperation with ministries concerned and chambers of commerce and industry; and
- r) Develop a networking mechanism to foster cooperation among cooperatives, microenterprises and SMEs for possible new business development.

7.2 Entrepreneurship development

Entrepreneurship is an important factor for startups, innovation and growth. It is related to various stages of economic development, and existing research provides some evidence on barriers to entrepreneurship in Myanmar. The following recommendations are proposed to policymakers:

- a) Conduct a mapping exercise with research and training institutes, such as chambers of commerce and industry, universities, colleges and vocational schools, and disseminate information on available training courses on business, management and entrepreneurship;
- b) Establish seven SME colleges by upgrading existing industrial training centres, including one each in Mandalay, Nay Phi Taw and Yangon, in order to create positive attitudes towards entrepreneurship, develop managerial skills and train female and youth entrepreneurs;
- c) Conduct training for the widespread use of the business plan platforms/tools in cooperation with chambers of commerce and industry;
- d) Subsidize startup costs partially through seed capital and startup loan programmes;
- e) Assist financial institutions in developing loan programmes for supporting female, young and senior entrepreneurs;
- f) Establish business incubation units at the SME service centres;
- g) Identify gender imbalances in business and make suitable provisions for encouraging female entrepreneurship; and
- h) Provide support to experimental studies on developing new products and services.

7.3 Access to financing

Positive cash flow is essential for the survival and success of an SME, necessitating continued provision of working capital to SMEs by a number of financial instruments.

Since the financial conditions faced by Myanmar SMEs are challenging, the Government must focus on expanding commercial lending by the banking sector, while cultivating a positive bank-SME relationship. In order to promote startups and growth, led by financial institutions, public credit guarantee schemes must be steadily implemented, while various financial instruments can be made available to enhance cash flows and encourage new investment. Policy recommendations are presented below:

- a) Provide training to enhance SMEs' understanding of the importance of cash flow management as well as available financial instruments (e.g. working capital management, trade credit, cost savings) that can improve their cash flows;
- b) Provide training to both state development banks and commercial banks to build institutional capacity and human resources (e.g. risk appraisals, loan modifications and consulting functions), while enhancing their understanding of SMEs and their needs;
- c) Provide a reduced tax rate for SMEs, lowered from 25 to 20 per cent (or lower)—the taxation scheme should be harmonized among business laws such as FDI, domestic investment and SEZ laws;
- d) Establish two state-subsidized loans for SMEs: SME development loans (i.e. long-term) and SME safety net loans (i.e. short-term), provided by the SME development fund to increase financing flows to those SMEs that have difficulty securing lending with the banking sector;
- e) Provide unsecured and unguaranteed short-term loans through the SME development fund subject to management guidance and training from chambers of commerce and industry and other recognized business associations;
- f) Develop a lending system, free of collateral and third-party guarantee requirements, that is suitably backed by the Government, by setting up credit guarantee schemes to encourage banks to assist SMEs;
- g) Combine entrepreneurship and management training with commercial loans in collaboration with chambers of commerce and industry and the banking sector,

while implanting measures to ensure SMEs' financial discipline to prevent moral hazard;

- h) Encourage, in association with chambers of commerce and industry and accounting bodies, small businesses to maintain and report reliable financial information to ease the administrative burden on financial institutions, while developing and disseminating guidelines for SME accounting;
- i) Establish a credit bureau to record SMEs' credit history for the banking sector's risk evaluation and loan appraisals; and
- j) Develop an SME investment promotion tax system which permits tax credits for the purchased price of new production assets and R&D activities and is intended to improve productivity and quality.

7.4 Business development services (BDS)

Beyond the immediate need for cash, SMEs require a plethora of business development services (BDS) related to production, accounting and finance, supply chain, marketing and quality improvements. BDS represents a prime opportunity for public-private partnerships as the private sector is generally the repository of the expertise that SMEs need. Frequently, SMEs do not know where to find the help they require; likewise, BDS providers do not know which small businesses desire assistance. In this sense, policymakers can bridge this gap by acting more as a facilitator than a provider. Policy suggestions are highlighted below:

- a) Conduct a mapping study on Myanmar BDS providers and their services, classify BDS and disseminate the results through the SME support portal site;
- b) Provide legislative and technical assistance to BDS providers, such as chambers of commerce and industry, business associations, financial institutions, research and training institutes, accounting firms and consulting firms, to develop diversified and quality BDS;

- c) Encourage financial institutions and BDS providers in developing integrated financial and BDS supports by adopting mechanisms to lower credit guarantee costs according to how much risk has been reduced by the provision of BDS;
- d) Provide subsidies to defray necessary expenses in providing BDS that aim to improve SMEs' access to markets;
- e) Encourage BDS providers to establish specialized associations; and
- f) Develop a certification framework for various BDS with quality assurance.

7.5 Innovation and technology

SME competitiveness and national competitiveness are inexorably linked; policymakers must boost the innovative edge of smaller firms as they improve their own nation's capacity to compete in the global markets. However, SMEs find it more difficult than large enterprises to secure sufficient knowledge, human resources and funds to develop and protect their innovation, particularly through intellectual property rights (IPRs). Moreover, Myanmar is lagging behind neighbouring countries in terms of R&D spending and technology capacity building. In order to help Myanmar SMEs to create new business with the potential to generate innovations, active support will continue to be provided for initiatives undertaken by SMEs, such as the development of new products and services. There is the urgent need for a holistic policy approach that facilitates the development of human resources, business incubators, science parks and ICT applications. The following policies are proposed for action:

- a) Design and implement a simplified and streamlined institutional framework for the development of science and technology at both the national and the sub-national levels;
- b) Develop national and sub-national innovation systems through institutional networking and coordination, capacity-building and infrastructure development (e.g. science and technology parks);
- c) Subsidize SMEs, as well as other key stakeholders, for R&D, technology transfer and technology commercialization through various financial and non-financial measures including special tax schemes;

- d) Foster business and technology incubators, and develop tools for technology-based SME development;
- e) Conduct studies on patent application trends and selected technological themes, assist in the development of R&D and intellectual property (IP) strategies and make their results available to the public;
- f) Subsidize empirical research, which should be jointly conducted by SMEs, academic institutions and the public sector;
- g) Develop the patent office and its portal site;
- h) Subsidize patent, design and trademark applications made by SMEs (to reduce the cost of filing such applications domestically and overseas) through the SME service centres;
- i) Organize information sessions and training courses on innovation and IP systems;
- j) Organize training courses on ICT applications for business management, productivity improvement and new product/service development;
- k) Subsidize SMEs' investment in ICT in cooperation with financial institutions;
- l) Provide a regulatory and policy framework to reduce the cost of communications for business; and
- m) Subsidize SMEs conducting R&D.

7.6 Market access

The significance of global integration for SME development has been well recognized. With regard to this aspect, policymakers can serve as communicators and educators, as SMEs are often unaware of the latest developments in the global markets such as market demands, trade procedures, product/service standards and certifications and requirements for their participation in regional and global value chains. Public financial support may also be required to develop quality products and services to compete in the global markets. Over the longer term, efforts to improve BEE, including infrastructure development and trade facilitation, should also reap dividends for SMEs trying to tap global markets. With this in mind, key policy tactics for SMEs are listed below:

- a) Provide marketing support through the SME service centres, in the forms of market information, marketing research, branding strategy, public procurement, trade fairs, exhibitions and buyer-seller matching, training and information sessions, publicity literature, credit assessment of importers and consortia formation;
- b) Disseminate information on the Government's trade promotion activities through SME service centres—government policies and programmes, training opportunities and facilities, trade fairs and exhibitions, etc.;
- c) Provide SMEs with grants, subsidies, tax credits and/or low-interest commercial loans for their new product development and participation in international trade fairs and exhibitions. This support should cover various stages of development, including identification, design, prototype development, modification, dies and moulds, production and assembly;
- d) Facilitate cross border trade by implementing various measures such as one-window customs inspection, e-customs and Cross-Border Transport Agreement (CBTA);
- e) Provide business matching services between foreign investors and local enterprises, and in particular SMEs, with emphasis on backward linkages in regional and global supply chains;
- f) Develop export infrastructures and institutions—for example, border-area industrial zones, export industrial estates, export processing zones, bonded production centres and an export promotion agency;¹⁷
- g) Establish laboratory testing facilities, quarantine centres and certification bodies;
- h) Provide trade finance through the banking sector, including the Myanmar Foreign Trade Bank, improving access to export and import finance;
- i) Assist the insurance industry in providing trade insurance, improving access to export and import insurance;

¹⁷ While commercial attachés at the Embassies of Myanmar in various foreign capitals could assist export promotion for Myanmar products, a specialized export promotion agency could be perhaps established by the Ministry of Commerce.

- j) Conduct an assessment of non-tariff barriers (NTB), perhaps in cooperation with WTO and UNESCAP, and disseminate the results; and
- k) Conduct a study on global value chains of select products and share the results with chambers of commerce and industry and business associations.

7.7 SME cluster development

The Government of Myanmar has attached high priority to promote industrial estates and SEZs to attract investment and promote the production of competitive semi-manufactured and/or manufactured goods. To be successful, industrial estates and SEZs will require policies and programmes to promote and support local SMEs' participation and lead to the creation of both new local enterprises and dynamic business networks and clusters through effective industrial agglomeration.

Supporting the development of linkages between SMEs and large businesses will entail effective design and implementation measures to strengthen the competitiveness of local companies. Such measures should facilitate the efforts of larger companies to partner with, and source from, local suppliers. Furthermore, effective business development and advisory services need to be established and promoted to address the requirements of large enterprises in the SEZs and industrial estates. These measures should include the following:

- a) Develop a nation-wide strategic plan for the SEZs and industrial zones, including necessary infrastructure, such as roads and telecommunications, and border-area industrial estates/export processing zones, based on cooperation of/consultation with key stakeholders (i.e. the participation of all ministries concerned, local business communities and relevant foreign investors);
- b) Enhance the institutional and managerial capacities of SEZs and industrial zones through implementing a proper legislative and regulatory framework and conducting various technical training;

- c) Conduct national cluster mapping exercises to identify key players, their capacity development needs and an ideal institutional framework among them;
- d) Create capacity building programmes to strengthen national and local state chamber of commerce and industry offices, and develop capable cluster development advisors;
- e) Develop relevant curriculum to train SMEs in the cluster;
- f) Augment the supply of skilled labour through apprenticeship programmes;
- g) Develop industrial-sector-based production and export strategies in cooperation with key stakeholders;
- h) Promote linkages between local SMEs and large enterprises in SEZs and industrial zones through buyer-seller forums;
- i) Implement national initiatives on export promotion for SME clusters;
- j) Institute training for BDS providers to augment the supply of quality BDS; and
- k) Establish cluster development cells in state/provincial governments under the respective departments of industry.

8. Summary of Policies

Table 4 provides a policy framework for SME development in Myanmar. This framework specifically presents a synopsis of major challenges together with detailed policy options for Myanmar, in accordance with the major themes covered in this paper.

Table 4. Recommended actions for challenges of SME development

Challenges	Recommended actions	Priority	Estimated costs for three years (US dollars)	Funding modalities
Business enabling environment (BEE)	Establish an SME development agency to create and enforce a fair and transparent legal and regulatory regime for SMEs.	High	3,000,000	Fiscal budget; international aid/loan
	Establish an SME development fund to enhance SMEs' access to financing.	High	> 100,000,000	Fiscal budget; international aid/loans
	Establish "single-window" SME service centres in each capital of States and Regions of Myanmar.	High	4,500,000	Fiscal budget; public-private partnership; international aid
	Develop an SME business support portal site.	Medium	350,000	Fiscal budget; public-private partnership; international aid
	Streamline and simplify the procedures of business registrations, licensing, permits and tax collection, and reduce their durations to less than the average of the ASEAN countries.	High	200,000	Fiscal budget; international aid
	Develop the bankruptcy code, provide suitable exit routes and reduce social stigma for SMEs going bankrupt.	Medium	300,000	Fiscal budget; international aid
	Establish regular consultation mechanisms	Medium	150,000	Fiscal budget;

	with SMEs at both national and subnational levels on pressing business issues and related policies and publish the results of the consultations and related action plan annually.			public-private partnership; international aid
	Design and develop SME parks for various industrial sectors for fostering key industry clusters.	Low	> 200,000,000	Fiscal budget; public-private partnership; international aid/loans
	Conduct annual SME surveys and disseminate their results.	Medium	450,000	Fiscal budget; public-private partnership; international aid
	Conduct a study to review the status of the small-scale service sector, such as restaurants, wholesaling and retailing.	Low	100,000	Fiscal budget; public-private partnership; international aid
	Conduct a study to review practices in subcontracting transactions in order to develop measures to ensure fair and proper subcontracting transactions.	Low	100,000	Fiscal budget; public-private partnership; international aid
	Provide support to chambers of commerce and industry and other business associations to establish mutual relief funds for the prevention of bankruptcies.	Medium	8,000,000	Fiscal budget; public-private partnership

	Draft and publish a contract policy for public procurement with SMEs in order to set up transparent procedures and expand opportunities for SMEs in public procurement.	Low	150,000	Fiscal budget; international aid
	Provide support to chambers of commerce and industry and other business associations in order for them to develop institutional capacities in managerial consultation and other BDS for SMEs for solving various management problems of SMEs.	Medium	300,000	Fiscal budget; public-private partnership; international aid
	Improve rural road links between the production and processing/market centres of the products.	Medium	> 150,000,000	Fiscal budget; international aid/loan
	Study measures to further improve tax schemes for SMEs in order to secure more balanced and fair taxation.	High	100,000	Fiscal budget; international aid
	Simplify import-export procedures by implementing trade facilitation measures and addressing legal and regulatory obstacles.	Medium	450,000	Fiscal budget; taxation; public-private partnership; international aid
	Develop a networking mechanism to foster cooperation among cooperatives, microenterprises and SMEs for possible new business development.	Low	300,000	Fiscal budget; public-private partnership; international aid
Entrepreneurship development	Conduct a mapping exercise with research and training institutes and disseminate information on available training courses on	High	100,000	Fiscal budget; international aid

	business, management and entrepreneurship.			
	Establish seven SME colleges by upgrading existing industrial training centres, including one each in Mandalay, Nay Phi Taw and Yangon, in order to create positive attitudes towards entrepreneurship, develop managerial skills and train female and youth entrepreneurs.	Medium	> 21,000,000	Fiscal budget; international aid
	Conduct training for the widespread use of the business plan platforms/tools.	High	300,000	Fiscal budget; public-private partnership; international aid
	Subsidize startup costs partially through seed funding and startup loan programmes.	Low	> 10,000,000	Fiscal budget; bank loan; international aid
	Assist financial institutions in developing loan programmes for supporting female, youth and senior entrepreneurs	Medium	200,000	Fiscal budget; bank loan; international aid
	Establish business incubation units at the SME service centres.	Low	1,500,000	Fiscal budget; public-private partnership; international aid
	Identify gender imbalances in business and make suitable provisions for encouraging female entrepreneurship.	Medium	300,000	Fiscal budget; public-private partnership; international aid
	Provide support to experimental studies on developing new products and services.	Low	1,500,000	Fiscal budget; public-private

				partnership; international aid
Access to financing	Provide training to enhance SMEs' understanding of the importance of cash flow management as well as available financial instruments that can improve their cash flows.	High	500,000	Fiscal budget, public-private partnership; international aid
	Provide training to both state development banks and commercial banks to build institutional capacity and human resources, while enhancing their understanding of SMEs and their needs.	High	1,500,000	Fiscal budget; public-private partnership; international aid
	Provide a reduced tax rate for SMEs, lowered from 25 to 20 per cent (or lower)—the taxation scheme should be harmonized among business laws such as FDI, domestic investment and SEZ laws.	High	100,000	Taxation; fiscal budget
	Establish two state-subsidized loans for SMEs: SME development loans (i.e. long-term) and SME safety net loans (i.e. short-term).	Medium	> 15,000,000	Fiscal budget; international aid/loans
	Provide unsecured and unguaranteed short-term loans through the SME development fund subject to management guidance and training from chambers of commerce and industry, and other recognized business associations.	Medium	> 3,000,000	Fiscal budget; public-private partnership; international aid/loan
	Develop a lending system, free of collateral and third-party guarantee requirements, that is suitably backed by the Government, by setting up credit guarantee schemes to	High	> 20,000,000	Fiscal budget; bank loans; International aid

	encourage banks to assist SMEs.			
	Combine entrepreneurship and management training with commercial loans, while implanting measures to ensure SMEs' financial discipline to prevent moral hazard.	Medium	100,000	Fiscal budget; bank loans; public-private partnership; international aid
	Encourage small businesses to maintain and report reliable financial information to ease the administrative burden on financial institutions, while developing and disseminating guidelines for SME accounting.	Medium	300,000	Fiscal budget; public-private partnership; international aid
	Establish a credit bureau to record SMEs' credit history for the banking sector's risk evaluation and loan appraisals.	High	2,000,000	Fiscal budget; public-private partnership; international aid
	Develop an SME investment promotion tax system which permits tax credits for the purchased price of production assets which is intended to improve productivity and quality.	Low	> 15,000,000	Taxation; fiscal budget
Business development services (BDS)	Conduct a mapping study on Myanmar BDS providers and their services, classify BDS and disseminate the results through the SME support portal site.	High	200,000	Fiscal budget; public-private partnership; international aid
	Provide legislative and technical assistance to BDS providers to develop diversified and quality BDS.	Medium	1,000,000	Fiscal budget; taxation; public-private partnership; international aid

	Encourage financial institutions and BDS providers in developing integrated financial and BDS supports by adopting mechanisms to lower the credit guarantee costs.	Low	300,000	Fiscal budget; taxation; bank loan; public-private partnership
	Provide subsidies to defray necessary expenses in providing BDS that aim to improve SMEs' access to markets.	Low	> 2,000,000	Fiscal budget; taxation; international aid
	Encourage BDS providers to establish specialized associations.	Medium	100,000	Fiscal budget; public-private partnership; international aid
	Develop a certification framework for various BDS with quality assurance.	Medium	2,000,000	Fiscal budget; public-private partnership; international aid
Innovation and technology	Design and implement a simplified and streamlined institutional framework for the development of science and technology.	High	300,000	Fiscal budget; public-private partnership; international aid
	Develop national and subnational innovation systems through institutional networking and coordination, capacity-building and infrastructure development.	Medium	> 15,000,000	Fiscal budget; public-private partnership; international aid
	Subsidize SMEs for R&D, technology transfer and technology commercialization through various measures.	Low	> 10,000,000	Fiscal budget; taxation; public-private partnership;

				international aid
	Foster business and technology incubators and develop tools for technology-based SME development.	Low	> 1,000,000	Fiscal budget; public-private partnership; international aid
	Conduct studies on patent application trends and selected technological themes, assist in the development of R&D and IP strategies and make their results available in public.	Low	100,000	Fiscal budget; international aid
	Subsidize empirical research, which should be jointly conducted by SMEs, academic institutions and the public sector.	Low	> 1,000,000	Fiscal budget; public-private partnership; international aid
	Develop the patent office and its portal site.	High	1,500,000	Fiscal budget; international aid
	Subsidize patent, design and trademark applications made by SMEs.	Low	1,000,000	Fiscal budget; public-private partnership
	Organize information sessions and training courses on innovation and IP systems.	Medium	1,000,000	Fiscal budget; public-private partnership; international aid
	Organize training courses on ICT applications for business management, productivity improvement and new product/service development.	Medium	1,000,000	Fiscal budget; public-private partnership; international aid

	Subsidize SMEs' investment in ICT in cooperation with financial institutions.	Low	1,000,000	Fiscal budget; taxation; bank loans
	Provide a regulatory and policy framework to reduce the cost of communications for business.	High	100,000	Fiscal budget; taxation; public-private partnership; international aid
	Subsidize SMEs conducting R&D.	Low	1,000,000	Fiscal budget; taxation; bank loans
Market access	Provide marketing support through the SME service centres.	High	15,000,000	Fiscal budget; public-private partnership; international aid
	Disseminate information on the Government's trade promotion activities through SME service centres.	Medium	1,500,000	Fiscal budget; public-private partnership; international aid
	Provide SMEs with grants, subsidies, tax credits and/or low-interest commercial loans for their new product development and participation in international trade fairs and exhibitions.	Medium	1,500,000	Fiscal budget; taxation; bank loans; international aid
	Facilitate cross border trade by implementing various measures such as one-window customs inspection, e-customs and CBTA.	Medium	> 10,000,000	Fiscal budget; public-private partnership; international aid

Provide business matchmaking services between foreign investors and local SMEs with emphasis on backward linkages in regional and global supply chains.	Low	500,000	Fiscal budget; public-private partnership; international aid
Develop export infrastructure and institutions—for example, border-area industrial zones, export industrial estates, export processing zones, bonded production centres and an export promotion agency.	Medium	> 100,000,000	Fiscal budget; taxation; public-private partnership; international aid/loans
Establish laboratory testing facilities, quarantine centres and certification bodies.	Low	> 5,000,000	Fiscal budget; taxation; public-private partnership; international aid/loans
Provide trade finance through the banking sector, improving access to export and import finance.	Low	> 20,000,000	Fiscal budget; bank loans; public-private partnership
Assist the insurance industry in providing trade insurance, improving access to export and import insurance.			Fiscal budget; taxation; public-private partnership; corporate insurance
Conduct an assessment of non-tariff barriers (NTB) and disseminate the results.	Medium	100,000	Fiscal budget; international aid
Conduct a study on global value chains of select products and share the results with the business community.	Low	100,000	Fiscal budget; public-private partnership;

				international aid
SME cluster development	Develop a nation-wide strategic plan for the SEZs and industrial zones.	High	200,000	Fiscal budget; public-private partnership; international aid
	Enhance the institutional and managerial capacities of SEZs and industrial zones through implementing a proper legislative and regulatory framework and conducting various technical training.	High	2,000,000	Fiscal budget; public-private partnership; international aid
	Conduct national cluster mapping exercises to identify key players, their capacity development needs and an ideal institutional framework among them.	High	200,000	Fiscal budget; international aid
	Create capacity building programmes to strengthen national and local state chamber of commerce and industry and develop capable cluster development advisors.	Medium	300,000	Fiscal budget; public-private partnership; international aid
	Develop relevant curriculum to train SMEs in the clusters.	Medium	100,000	Fiscal budget; public-private partnership; international aid

	Augment the supply of skilled labour through apprenticeship programmes.	Medium	> 20,000,000	Fiscal budget; taxation; public-private partnership; international aid
	Develop industrial-sector-based production and export strategies in cooperation with key stakeholders.	Medium	300,000	Fiscal budget; public-private partnership; international aid
	Promote linkages between local SMEs and large enterprises in SEZs.	Medium	500,000	Fiscal budget; public-private partnership; international aid
	Implement national initiatives on export promotion for SME clusters.	Low	500,000	Fiscal budget; public-private partnership; international aid
	Institute training for BDS providers to augment the supply of quality BDS.	Medium	500,000	Fiscal budget; public-private partnership; international aid
	Establish cluster development cells in state/provincial governments under the respective departments of industry.	Medium	100,000	Fiscal budget

The above policy options may require further analytical work and technical assistance. This could include:

- a) Implementing projects to foster and support the development of partnerships between enterprises;
- b) Raising awareness and knowledge among Myanmar SMEs on standards and certifications; and
- c) Preparing feasibility studies on the development of Myanmar-led value chains.

Reviewing the status of SMEs in relation to the issues listed above, as well as identifying possible areas of intervention by national programmes, will lead to greater efficiency. It is important to note that local sources of knowledge, especially universities and research institutions, are often overlooked by policymakers who reflexively reach for outside experts. Assessing national sources of expertise should come first.

9. Conclusion

The long-term objectives of the Government of Myanmar are clear to: build the capacity of its SMEs; enhance their competitiveness; help them achieve global integration; become partners for them; generate employment; and improve the general well-being. Towards these ends, the Government has been active in developing its own policy frameworks, institutions and linkages with SMEs and entrepreneurs.

This paper proposes a new policy framework for SME development in Myanmar, which should not be considered a substitute for the existing Government SME development plan; rather, it is aimed at complementing the plan. The policy framework herein presents a number of policy options that will guide policymakers, practitioners, support institutions, chambers of commerce and industry and business associations in their efforts towards SME development. The proposed options are based on regional (and

global) best practices and the vast field experience of a number of researchers, contributors and authors involved in their preparation. In addition, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the Mekong Institute have played an essential role in guiding and supporting this effort.

The Government of Myanmar and its institutions must carefully assess the status of their SMEs and their levels of enterprise, culture, ethos and current requirements before addressing emerging issues. Based on such an assessment, it should develop a plan of action most suited to its particular situation that will enable it to address the requirements of its SMEs and entrepreneurs. Naturally, consultations with experts, SME leaders and other stakeholders are prerequisites before finalizing any plan that might involve policy changes, the reorientation of officials, budget allocation, capacity-building of delivery organizations and the encouragement of public-private partnerships. Ultimately, the long-term development of the SME sector, and indeed the country as a whole, will rest heavily on the informed policy decisions made in the coming years.

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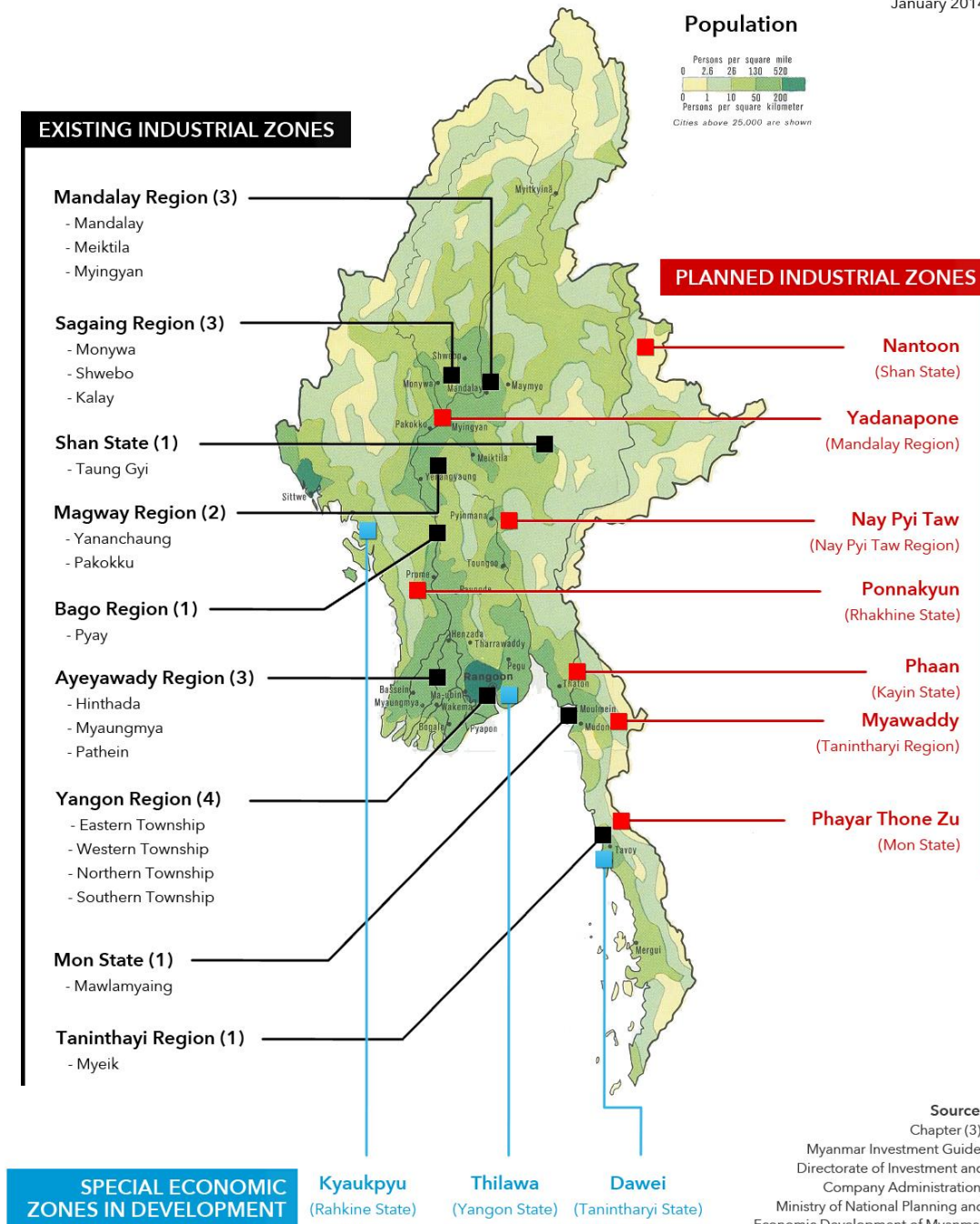
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ANNEX 1: INDUSTRIAL ZONES AND SPECIAL ECONOMIC ZONES IN MYANMAR

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