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**EFFECT OF FINANCING ON THE SME GROWTH  
IN AGRICULTURAL SECTOR OF SHAN STATE**

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# **EFFECT OF FINANCING ON THE SME GROWTH IN AGRICULTURAL SECTOR OF SHAN STATE**

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## **ABSTRACT**

This study analyzes the financing of agricultural SMEs in Shan State with a focus on two townships namely: Ywagan and Lawksawk Township. There are two main objectives in this study. They are first to identify the situation for SMEs regarding to access to finance in the selected townships and secondly to analyze the effect of financing on the growth of agricultural SMEs in Shan State. To meet the objectives of study, the primary data were collected by face to face interview with responsible personnel from 60 SMEs business in Ywagan and Lawksawk Townships. As a result of the study, most of respondent finances for initial capital from personal savings and inherits. The major respondent of finance requirement duration is 3 years to 5 years for financing needs. In terms of loan provided in need, most of respondent still rely on informal lenders and relatives with a few respondents from private banks. There is still room for formal financial institutions to reach out agricultural SMEs for their financing needs.

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## LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CGI	Credit Guarantee Insurance
DICA	The Directorate of Investment and Company Administration
DSMED	Department of SME Development
FAO	Food and Agriculture Organization
GAP	Good Agriculture Practice
GIZ	The Deutsche Gesellschaft für Internationale Zusammenarbeit
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LIFT	The Livelihoods and Food Security Fund
MADB	Myanmar Agriculture Development Bank
MEB	Myanma Economic Bank
MFI	Microfinance Institutions
OECD	The Organization for Economic Co-operation and Development
RBF	Responsible Business Fund
SME	Small and Medium-sized Enterprises
UN	United Nations
USAID	US Agency for International Development

# CHAPTER I

## INTRODUCTION

Myanmar is an agriculture country, and the agriculture sector is the backbone of its economy. The agriculture sector contributes to 37.8 percent of gross domestic product (GDP), accounts for 25 to 30 percent of total export earnings and employs 70 percent of the labor force. Myanmar has established 12 political, economic and social objectives in its effort to establish a peaceful, modern and development country. One major economic objective is “Development of agriculture as a base and all-round development of other sectors of the economy as well.” (Food and Agriculture Organization, 2017)

One of the Myanmar Economic Policies (2016) is establishing an economic model that balances agriculture and industry, and supports the holistic development of the agriculture, livestock and industrial sectors, so as to enable rounded development, food security, and increase exports.

Just as agriculture sector is important for the country, it is important to nurture it. There should be regulatory framework which strengthens SMEs in agriculture sector to be more effective, to be more sustainable and to be able to access support they need in order to develop and enhance their businesses.

Myanmar is well placed as a producer of agriculture goods. It is endowed with favorable resources like an abundant water supply, with the “Ayeyarwady and related river systems supplying over ten times the levels of renewable fresh water available in China and India and more than double that of Vietnam, Thailand and Bangladesh” (ADB, 2012). Due to its “diverse topography and eco-systems”, farmers can also produce a wide range of agriculture produce and cultivate different crops at different times of the year (Haggblade et al., 2013). Furthermore, Myanmar is strategically located for exports to both India and China, being situated in between these two enormous regional markets (Haggblade et al., 2013). Lastly, Myanmar has a large rural population that is already involved in and dependent on agricultural production for a livelihood, so it has abundant human resources available for the production of agriculture goods.

In order to achieve national economic development, it is needed to address the issue of rural poverty as 70% of Myanmar’s population was found in the rural areas

and the majority of the poor were also found in these areas. Therefore, as an agro-based economy, primary issues that needed immediate attention were identified as (i) development of the agriculture and livestock breeding sector, (ii) development of rural areas, (iii) climate change, (iv) food security and (v) achieving higher income for rural communities.

### **1.1 Rationale of the Study**

It is all agreed that Myanmar agriculture sector plays very important role in country's economy. Myanmar is located next to China, India, and Bangladesh – countries that have the fastest growing, and the largest, food markets in the world. According to some studies, the growth of the food market in these countries is 5-10 times faster than western countries. Myanmar has a geographic advantage for trade of agricultural products in the region. The development of highways, seaports and full access to the ASEAN free trade area provide more opportunities for Myanmar. The regional trade alone requires rapid development of value chains. Developing efficient and effective agriculture value chains will boost the country's economy and have positive impacts on farming community's livelihoods. (LIFT team, 2018)

One of the potential areas of Myanmar agriculture sector is Shan state. Geographically, it has a lot of fertile lands where cultivations are successful. Many cultivations such as tea, mango, coffee and avocado are grown in the Shan state. But SMEs in agriculture in Shan State still need access to financing in order to develop their business and enter into internal market in a more competitive manner. Currently, MADB and MEB offer loans to SMEs in agriculture sector. Still, SMEs need remain unmet yet. If SMEs are financed, they will be able to perform more production and develop their products and finally will be able to distribute locally and internationally in line with Good Agriculture Practices (GAP). They will be able to enter into international market.

Although the agriculture sector has accounted for at least a quarter to a third of export earnings, according to the Food and Agriculture Organization of the UN, that appears to have fallen to just over 20pc in 2017-18, based on data from the Ministry of Commerce.

According to U Soe Tun, deputy chair of the Myanmar Rice Federation, “one of the reasons is poor crop quality. Currently, quality seeds distributed by the

government barely accounts for 1pc of the total land area allocated for farming. Although the government said our country is an agricultural country and to prioritize it, there are weaknesses in seed distribution and systematic growing of crops. There has not been much progress or implementation of plans to improve or produce agricultural products. The government and the private sector are still weak in doing so.”

The other issue is unregulated use of pesticides and other illegal chemicals. According to U Myint Swe, retired deputy general manager of the Agricultural Department, “It is important to produce crops that are safe for consumption and which meet export standards. If our produce is sub-standard due to the use of chemicals, it will have an impact on demand.”

Access to financing is the biggest problem for many farmers and help has been forthcoming on that front. According to an October statement from the Ministry of Planning and Finance, state-owned Myanmar Agriculture Development Bank (MADB) will raise crop loans from K50,000 per acre to K100,000 per acre to help farmers cover the cost of production, Last year, loans were raised to K50,000 per acre from K20,000. ( Myanmar Times 13 Nov 2018)

According to Myanmar Information Management Unit website, Shan State has are of 155,457.45 sq.km with total population of 4,493,308. The state has 13 districts, 55 townships, 491 wards and 15,902 villages. The main economic activities are mining, forestry and agriculture. See Appendix B.

## **1.2 Objectives of the Study**

The main objectives of the study are as follows:

- (1) To investigate major financial institutions and financing options for SMEs in Shan State
- (2) To analyze effect of financing on the SME growth in Agriculture Sector of Shan State

### **1.3 Scope and Method of the Study**

The scope of this study is confined to mainly the effect of SMEs Financing in Agriculture Sector in Shan State. According to Department of SME Development, there are 302 SMEs in Ywangan and Lawksawk Township by the time the survey was conducted. 20% of SMEs, 60 SMEs in agricultural sector are selected with simple random sampling method and also includes the owners or managers of these SMEs.

In order to analysis the main objectives, primary and secondary data were used. As secondary data, online articles, website and publications from GIZ and World Bank reports with primarily focus on banking sector. Through well-coordination with Government Department, number of SMEs registered will be obtained from Department of SMEs Development, under Ministry of Industry in Shan State as well as Yangon and Napyitaw Head Office.

### **1.4 Organization of the Study**

The study is made up of five chapters. Chapter one is introduction and it deals with rationale of the study, objectives of the study, scope and methods of study and finally with the organization of the study. Literature review on SMEs and types of Financing are elaborated in the second chapter. Chapter three deals with major financial institutions to have an overview of different actors which provide financial services of agriculture SMEs in the region. Chapter four is focus on the analysis of the problems based on above mentioned chapters and findings and conclusions are summarized in chapter five.

## **CHAPTER II**

### **LITERATURE REVIEW**

This chapter explores the definition of Small and Medium Enterprise (SME) as well as financing challenges of SME under ASEAN context. Types of financing are also explored in this chapter such as internal financing which includes internal financing, equity financing, self-financing, retained-earning; and external financing such as debt financing and bank financing. Moreover, microfinance institutions, fund from development organization, and previous study related to SME growth is presented.

#### **2.1 Small and Medium Enterprise (SME)**

Small and medium-sized enterprises (SMEs) are non-subsiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees, small firms are generally those fewer than 50 employees, while micro-enterprises have at most 10 or in some cases 5 workers.

Financial assets are also used to define SMEs. In the European Union, a new definition came into forces on 1 January 2005 applying to all Community acts and funding programmes as well as in the field of State aid where SMEs can be granted higher intensity of national and regional aid than large companies. The new definition provide for an increase in the financial ceilings the turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million respectively.

According to Myanmar Sustainable Development Plan, in Myanmar, given the current structure of the economy, agriculture and SME sectors are prioritized as important sources of job creation. In conjunction with these sectors, the Government of Myanmar will promote the role of creativity and innovation in manufacturing,

industrial and service sectors, with an emphasis on preparing for the coming digital economy to further generate high quality jobs and induce structural transformation. (OECD, 2005, OECD SME and Entrepreneurship Outlook: 2005, OECD Paris, page 17)

## **2.2 Financing Challenges of SME under ASEAN Context**

SMEs often find it harder to access external financing. Financial institutions are often reluctant to lend to this segment- even though it can be perceived as attractive- given the higher risk profile associated with it. This is largely due to the high failure rate among small firms combined with three challenges implicit in SME lend: information asymmetry, principal/agent problems and transaction costs.

Information asymmetry reflects the fact that the owner of an SME tends to have more accurate information on firm operations than an external financier due to the difficulty of capturing all relationships, activities and funds in formal reporting documents like financial statement (OECD, 2015). Principal/agent problems stem from the risk that once financing is received, an entrepreneur may not use the funds in the way they were intended, potentially increasing the risk of non-repayment. SME financing is more exposed to this risk due the greater opacity surrounding this type of enterprise and the more limited exit options available to them. Finally, transaction costs tend to be higher in SME lending due to the need to conduct the same or more rigorous, checks for the appraisal, monitoring and enforcement of lower-value loans as for large loans. These fixed costs reduce the lending profit margin for banks and can drive a wedge between the funding costs of such institutions and their expected return on investment (Beck and de la Torre, 2017). Such costs are largely transferred to SMEs via interest rates and fees and collateral requirements, which can render the total loan costs prohibitively expensive.

These three challenges exist in all economics to some extent, but they tend to be particularly pronounced in emerging economies, where SMEs may lack professional management and financial literacy skills, where gaps may exist in the legal framework to protect creditor rights, and where financiers may have more opportunities to gain acceptable returns from other borrowers given limited market-based financing alternatives, and thus less incentive to invest in the skills and technology required to SMEs.

## **2.3 Types of Financing**

Financing can be identified as internal financing and external financing. Internal financing includes equity financing, self-financing and retained-earning.

### **2.3.1 Internal Financing**

Internal finance is sometimes interchangeably called informal finance, is made up of all funds raised internally including retained profit and household savings (Ayyagari et al., 2010). According to Straub (2005) internal financing consists of loans supported from family members, moneylenders, rotating savings, and credit associations and fund from non-profit organizations. These financiers use self-enforcing contracts without considering any stipulated formal legal procedures and use coercion to ensure that the borrower meets the loan repayment obligation. Additionally, Reynolds, (2011) reveals other sources of internal financing, which made up of personal savings, personal and family loans from friends, employers, colleagues, credit card loans, among others.

### **Equity Financing**

Equity financing is a source of financing through which companies raise the capital by selling the stocks to investors and obtain the ownership rights in the company. According to Ou& Haynes, (2006, p. 156) “equity capital is that capital invested in the firm without a specific repayment date, where the supplier of the equity capital is effectively investing in the business” In equity finance, funds are generated either internally (owner, family, friends and retain earning of company) or externally (through various channels). Equity financing is suitable for SMEs that have high risk and return portfolio, seeking long-term corporate investment for expansion, enduring innovation and value creation. Equity financing is preferred over debt financing, as debt financing is costly, not suitable for short-term and difficult to access.

Equity financing benefits the SME by providing loan-term financing with least cash flow in terms of interest and assist the new businesses to expand their credibility by showing that they have seasoned financial experts (Ou and Haynes, 2006). These firms are generally referred as high risk. Troubles confronting SMEs looking for public equity financing are not only constrained to cost (confirmation chargers, guides

and broker commissions), formalities and reporting necessities. Social variables and administration rehearses additionally constitute challenges for SMEs. Uncertainty to experience the offering procedure, apprehension of being exposed to share price volatility, repugnance for sharing sensitive information and life after an IPO is imperative purposes behind SME hesitance to join value capital markets (Nassr and Wehinger, 2016). Reid (1996), argued that some SMEs may not opt equity as source financing to avoid any unwanted changes in the ownership of their firms.

### **Self-Financing**

Owner managers rely on their own personal savings as self-financing and other individuals closer to them for financial support be it family members or friends. Compared to large enterprises, start-up SMEs experience considerable difficulties in obtaining external finance from banks and other financial institutions (OECD, 2006). Ordinarily, the use of external sources of finance are deferred until internal sources of finance are exhausted. (Daskalakis et al., 2013)

### **Retained-Earning**

Retained earnings refer to that part of corporate's net profit after tax which is not distributed to the shareholders as dividend but is reinvested in the business. Retained earnings is a technique of financial management under which all profit after tax is not distributed amongst the shareholders as dividend but a part of profits is retained or reinvested in the company. According to Karak (1993), "retained earnings were important internal source for company to finance their expansion programmes as far as possible with the retained earnings. Kamat (2008) found retained earnings to be an important internal source of financing by companies.

### **2.3.2 External Financing**

External financing includes debt financing, bank financing, MFIs, grants and fund from development organization. The external source of financing is sometimes interchangeably used as formal financing source. It fundamentally consists of all sources of finance obtained from outside the firm (Ayyagari et al., 2010). In sharp contrast, Reynolds (2011) indicates that firms get their formal financing after they have legally registered to become an entity. The external sources could be in the form of additional team equity such as crowd-funding, venture capital, business angels, or

working capital loans, asset-backed loans, lease, team member's personal loans, firm loans, government agency loans, and any other loans or debts. However, the simplest category of external finance is the debt-equity dichotomy.

### **Debt Financing**

It is a method of financing in which company receives the loan, don't give up the ownership or profits and bound to pay back the principal and interest at specified dates. This kind of financing usually comes with strict conditions and secured by collateral as guarantee that loan will be repaid. Hence, to have full authority and ownership of their businesses, SMEs choose debt financing over equity financing.

However, debt financing is not suitable for young, innovative and rapid growing firms, having a higher risk-return profile. They often face difficulties to access debt financing due to uncertain outcomes. The financing requirements can be particularly serious on account of new companies or small organizations that depend on intangibles in their business plan, as they are extremely firm-specific and hard to use as collateral in conventional obligation relations (OECD, 2010). SMEs unnecessary reliance on debt financing (compared to equity) enforced heavy costs, which may lead the company to bankruptcy and financial distress.

### **Bank Financing**

Bank credit is considered to be more expensive as compare to other available sources of finance, but it generates huge return for SMEs, further SME can perform better at all level under bank credit due to being monitored by and answerable to banks (Keasey and McGuinness, 1990). Since 2008-09 financial crises, banks have imposed strict conditions on credit learning to SMEs. Another drawback is bank credit sanctioning is time consuming and also costly, in addition strict requirements of collateral. All these and other downsides have urged the researchers, and SME supporting agencies to look for other alternative available financing sources. Bank credit is regularly utilized by small organizations, though traditional bank funding postures difficulties to SMEs, specially to start-ups innovative and rapidly growing businesses, with higher risk-return profile and this may also not be well suited on various life stage of firm's lifecycle. Besides, banks will regularly require personal guarantee from the proprietors/directors of the SME, which implies the

proprietor/directors need to risk his personal wealth with a specific end goal to subsidize the organization.

### **MFIs**

Microcredit aims to tackle market challenges and cultural challenges at the same time, for commercial banks lend against the provision of collateral and with a type of business in mind that does not necessarily fit the one run by migrants, women or young entrepreneurs. If combined with financial education and business advice, microcredit can address skills challenges in access to finance as well.

Microfinance institutions (MFIs) in Myanmar have lent more than K 39 trillion to three million small-scale borrowers since the business of microfinance merged in the country up until February this year, according to Financial Regulatory Department under the Ministry of Planning and Finance.

### **Fund from Development Organization**

As a part of the Danish Development Assistance to Myanmar, Denmark has established the MMK 12.5 billion RBF (Responsible Business Fund) to function as a “Challenge Fund” to increase the competitiveness and responsible behavior of Myanmar enterprises” by providing partial grants to SMEs for the implementation of innovative projects in the following seven eligible areas:

- (1) Energy Efficiency
- (2) Water use Efficiency
- (3) Waste treatment and Recycling
- (4) Occupational Safety and Health (OSH)
- (5) Food Safety
- (6) Managerial and Supervisory Skills
- (7) Practical and Technical Skills

RBF is an instrument to absorb some of the financial risk of being an early-mover to adapt responsible business practices. The emphasis of RBF is therefore on creating as many demonstration projects in the abovementioned areas, with a wide geographic spread all over Myanmar, across all the sectors vital for growth of SMEs and the inclusive benefits they provide such as employment and development of small household producers as sub-suppliers.

Logenecker et al. (2008) suggest that the owner-manager's choice between debt and equity financing must be made early in a firm's life cycle and may have long-term financial consequences. Several researches indicate that even the less control-averse SME owner-manager will opt for debt to pursue growth rather than equity external finance mainly because debt brings a lower level of interruption and at the same time reduces the risk of losing controlling power over the business than equity (Daskalakis et al., 2013; Luukkonen et al., 2013)

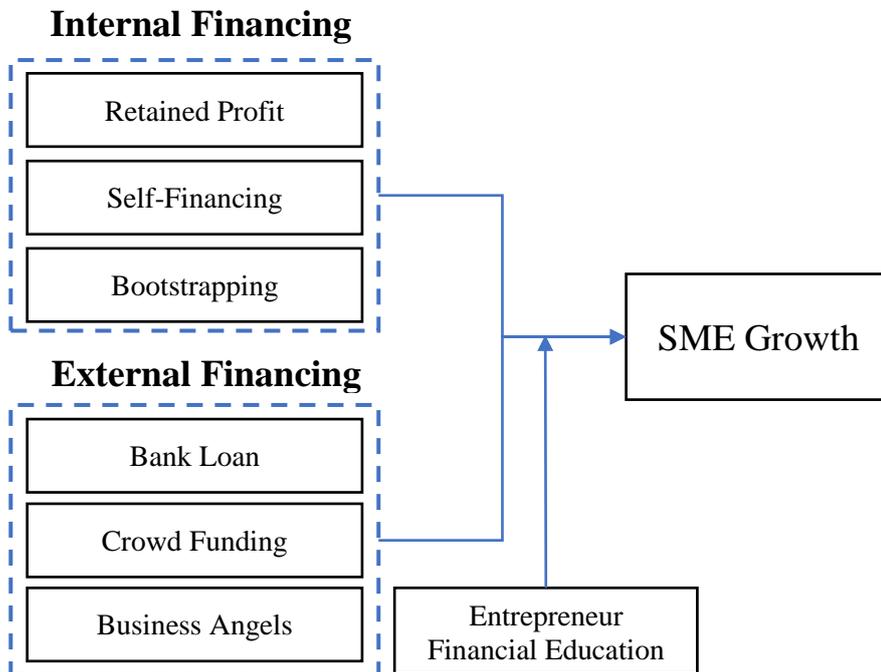
### **SMEs Growth**

Hamilton (2010) contends that SMEs that are prepared to secure external equity sources of finance such business angels, crowd funding are seeking for faster growth and willing to take higher risks than their counterparts. Firms with growth objectives tend to have higher debt level of financing from external sources than firms with lower growth inclination. To this end, for SMEs to grow, expand and survive they must secure access to external sources of financing being it equity or debt (Cassar, 2004; Harding and Cowling, 2006).

### **2.4 Previous Study**

The basic ideology behind designing a conceptual framework is to logically integrate all the relevant aspects of a concept to arrive at a process that can provide the best possible explanation of the problem stated. As noted in the literature both internal and external sources of finance are identified as the most influential determinants of SMEs growth. As financing needs depend largely on the accessibility from both internal and external sources and other characteristics of firm and entrepreneur, it becomes imperative to design a framework that can provide guidelines for the identification and analysis of the financing preferences of SMEs to determine growth. The framework is useful in guiding future research on financing SMEs growth from access to financing sources point of view. However, the extant of the research identify the entrepreneur financial education which strengthens the owner manager's participation in the financial market which has subsequent positive relationship to SME growth. The figure (2.1) depicts the conceptual framework for determining SME growth focusing on financing sources.

**Figure 2.1 Conceptual Framework defining SME Growth**

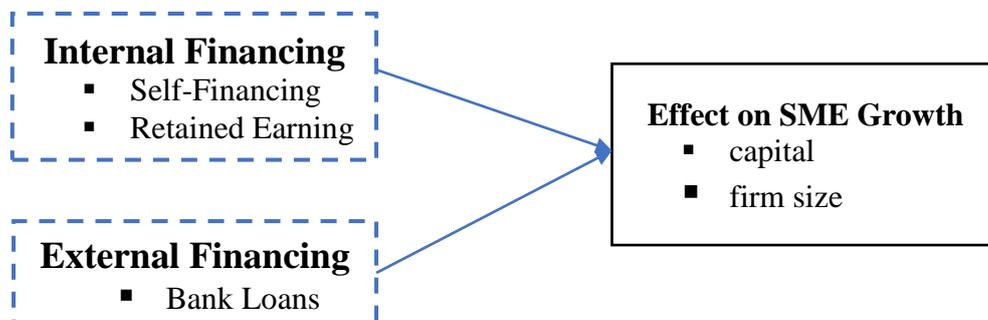


Source: Joseph Owusu. Mohd Hassan B. Mohd Osman. Mohammad B. Ismail

## 2.5 Conceptual Framework

The figure presents the financing from both internal and external sources. The internal sources include self-financing and retained earnings. The external source includes basically bank loans only in this figure. The growth of SMEs are measured in two criteria such as capital of the SMEs and the firm size.

**Figure 2.2 The relationship of internal and external financing which contribute to the SME Growth**



Source: Own Compilation

## **CHAPTER III**

### **CURRENT SITUATION OF SME IN AGRICULTURE SECTOR AND FINANCIAL INSTITUTIONS IN SHAN STATE**

This chapter presents definition of SME in Myanmar according to SME policy (2015), registered SME by state and regions. And major financial institutions in Shan state and loans offered by them are presented in this chapter.

#### **3.1 Definition of SMEs in Myanmar**

According to SME Law 2015, the Small Enterprise means the following enterprises in which the value of the land is not included in the capital investment

- (1) The Enterprise, if it mainly operates manufacturing business, in which number of employees shall not exceed than 50 as permanent or capital investment shall not exceed 500 million kyats;
- (2) The enterprise, if it is labor intensive or mainly operates piecework business, in which number of employees shall not exceed 300 as permanent or capital investment shall not exceed 500 million kyats;
- (3) The enterprise, if it mainly operates wholesale business, in which number of employees shall not exceed 30 as permanent or annual income of the previous year shall not exceed 100 million kyats;
- (4) The enterprise, if it mainly operates retail business, in which number of employees shall not exceed 30 as permanent or annual income of the previous year shall not exceed 50 million kyats;
- (5) The enterprise, if it mainly operates service business, in which number of employees shall not exceed 30 as permanent of annual income of the previous year shall not exceed 100 million kyats;
- (6) The enterprise, if it is any other business other than in the above sub-sections (1), (2), (3), (4) and (5), in which number of employees shall not exceed 30 as permanent or annual income of the previous year shall not exceed 50 million kyats

The Medium Enterprise means the following enterprises in which the value of the land is not included in the capital investment-

- (1) The enterprise, if it mainly operates manufacturing business, in which number of employees shall not exceed 300 as permanent or capital investment shall not exceed 500 million kyats to 1,000 million kyats;
- (2) The enterprise, if it is labor intensive or mainly operates piecework business, in which number of employees shall not exceed 600 as permanent or capital investment shall not exceed 500 million to 1,000 million kyats;
- (3) The enterprise, if it mainly operates wholesale business, in which number of employees shall not exceed 60 as permanent or annual income of the previous year shall not exceed 100 million to 300 million kyats;
- (4) The enterprise, if it mainly operates retail business, in which number of employees shall not exceed 60 as permanent or annual income of the previous year shall not exceed 50 million to 100 million kyats;
- (5) The enterprise, if mainly operates service business, in which number of employees shall not exceed 100 as permanent or annual income of the previous year shall not exceed 100 million kyats to 200 million kyats;
- (6) The enterprise, if it is any other business other than in the above sub-section (1), (2), (3), (4) and (5), in which number of employees shall not exceed 60 as permanent or annual income of the previous year shall not exceed 50 million kyats to 100 million kyats;

**Table (3.1) SME definition in Myanmar**

SME	No. of Workers (Small/Medium)	Capital (C)/Income (MMK million) (Small/Medium)
1. Manufacture	50/300	500/500-1,000 (C)
2. labor intensive	300/600	500/500-1,000 (C)
3. Wholesale	30/60	100/100-300 (I)
4. Retail	30/60	50/50-100 (I)
5. Services	30/60	100/100-200 (I)
6. Other business	30/60	50/50-100 (I)

Source: SME Development Law 2015

**Table (3.2) Registered SME by State and Regions as of 31.10.2018**

No	State/Region/Union Territory	Small	Medium	No. of Enterprise
1	Kachin	1962	19	1981
2	Kayah	644	28	672
3	Kayin	1123	10	1133
4	Chin	1596	13	1609
5	Sagaing	6048	61	6109
6	Tanintaryi	3048	34	3082
7	Bago	5900	149	6049
8	Magway	5695	134	5829
9	Mandalay	10584	530	11114
10	Mon	3207	157	3364
11	Rakhine	2951	1	2952
12	Yangon	8508	1975	10483
13	Shan	6565	362	6927
14	Ayarwaddy	7403	559	7962
15	Union Territory, Nay Pyi Taw	1022	78	1100

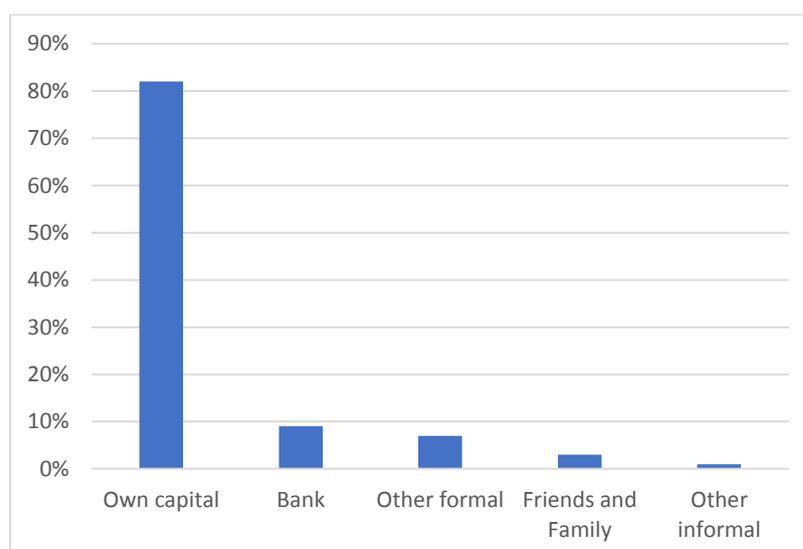
Source: website from Department of SME Development

### **3.2 SME Finance in Myanmar**

The SME sector is the backbone of the Myanmar economy and the crucial driving force behind the country's economic development, as the approximately 120,000 SMEs account for more than 90% of all companies in the country. The Myanmar government already acknowledge the importance of SMEs for the national economy and issued a SME Development Law in April 2015.

Despite of this importance, SME loans accounted for less than 0.2% of private bank loans in December 2017. This restricts small enterprises' ability to grow and most of them have to rely chiefly on their own funds to undertake investments.

**Table (3.3) Source of SME Financing in Myanmar**



Source: MoPF (2018), based on Myanmar MSME 2017 data

SME loans are much smaller in value than normal business loans. To qualify for SME loans, businesses are required to provide a SME recommendation letter and the SME member card from the SME Development Department under the Industrial Supervision and Inspection Department, Ministry of Industry, along with all other necessary financial documents.

Previously, SME registration took up to 6 months depending on whether a firm could provide the required documents, but as of August 2018, firms can register for SME smart cards online, which reduces the processing time to three weeks. SME smart cards are useful for trading within the region as they are certified in ASEAN countries. Business owners with SME smart cards can also have access to technical assistance, business courses, loan and marketing plans, and other facilities. Although it is still difficult for SMEs to access bank loans, there are more financing opportunities these days, especially through the help of international organizations.

The Japan International Cooperation Agency (JICA) has been supporting SME lending in Myanmar for several years. During the first phase of its “Two-Step Loan Program” from 2015 until 2017, JICA provided loans valued up to 4.7 billion yen to 269 local SMEs. Funds were provided to MEB at 0.01% annual interest rate, which in turn on-lent to six selected private banks (KBZ, CB, MCB, MAB, SMIDB and AYA) at 4% annual interest rate. These retail banks then offer one-year loans to SMEs at 8.5% interest rate. In the second phase, starting in 2018, JICA lends 14,949 billion

yen to MEB at 0.01% annual interest rate, 10-year grace period and 30-year repayment period. MCB, KBZ, AYA, CB, UAB, FPB and MEB are selected as partner banks to disburse loans to SMEs and borrowers that cannot provide collateral and can get loans under the Credit Guarantee Insurance (CGI) loan scheme.

In April 2018, the Ministry of Planning and Finance signed an agreement with the German KfW Development Bank to grant funds of EUR 10.85 million for SME lending through CB bank and the Myanmar Apex Bank. This is already the second phase of financing provided by KfW; the first phase started in 2016 with EUR 4.45 million for the CB bank.

With Myanmar Economic Bank (MEB) serving as paying agent, KfW lends to the two banks at 3.5% annual interest rate, 5-year grace period and 10-year repayment period. SMEs can borrow KfW loans at 8.5% annual interest rate, with loan amounts up to 100 million Kyats and loan duration up to 5 years. Collateral is required for KfW loans and fixed assets purchased with the loan money can be pledged as collateral.

In addition to the SME finance schemes of international organizations, the state-owned MEB has its own SME loan providing, loans at 9% annual interest rate for a duration of 3 to 5 years. SMEs that can provide collateral can borrow up to 300 million Kyats, while those without collateral can borrow up to 20 million Kyats under the CGI loan scheme.

CB, KBZ and SMID banks use the Credit Guarantee Insurance (CGI) provided by Myanmar Insurance (MI) to provide secured and unsecured loans to SMEs. Under the CGI loan scheme, SMEs pay the required annual interest rate of 13% to the bank and an additional 2 or 3 percent insurance premium to MI, depending on whether they have pledged collateral or not. SMEs can get collateral free loans up to 20 million Kyats with a repayment period of one year. If CGI loans get defaulted, MI will cover 60% of the loan value for the lender. As of May 2017, a total of 84 CGI loans have been offered to SMEs (80 from CB bank, 3 from KBZ bank and 1 from SMID bank).

SMEs loans from most of private banks require collateral, but some banks are trying to expand their SME financing towards unsecured cash-flow based lending. In June 2018, SMID bank launched its first-ever unsecured cash-flow based SME loan program that does not require collateral and credit guarantee insurance. SMEs can

apply for three-year term loans up to 50 Million Kyat with an annual interest rate of 12% and 1% administrative fee.

Banks face several challenges in expanding SME lending. They complain that at the current interest rate cap of 13% it is most often not viable to lend to SMEs. At the same time, they attest the willingness of their smaller borrowers to pay higher interest rates to get a bank loan and thereby not rely any longer on their own capital, or worse, informal money-lenders. Domestic banks hence urge the CBM to liberalize interest rates so that they reflect actual market conditions. The CBM, in turn, considers a sound risk management within the banks as a precondition for interest rate easing and is rather doubtful whether banks are ready for such a step.

In fact, local banks do encounter problems with appraising the creditworthiness of potential borrowers. The credit information infrastructure of Myanmar is highly underdeveloped. Although the CBM granted a license to the Myanmar Credit Bureau in May 2018, it will take time until its database becomes relevant for banks. Company and land registries also exist but are not available online, making it difficult for lenders to check whether a certain collateral is already used to take out another loan or otherwise impaired. A register of moveable asset pledges is currently under development. Last but not least, financial statements provided by companies are often not reliable and international auditing firms are not allowed to operate in Myanmar under current regulations.

### **3.3 Agriculture Finance in Myanmar**

About 70 percent of the population of Myanmar are living in rural areas and most of them depend on the agriculture sector. This sector contributes 35 to 40 percent of the national GDP and employs around two third of the labor force. Crops such as rice, beans and pulses constitute major exports. However, the agricultural sector remains largely underdeveloped due to the lack of technical know-how and insufficient investment. Private banks are reluctant to offer agricultural financing because of the unpredictability of natural disasters and commodity price fluctuations. Crop and livestock insurance schemes are still in the experimental stage. Therefore, farmers' credit access is very limited and most agriculture financing is offered by government institutions as subsidiary loans.

The Myanmar Agricultural Development Bank (MADB) is the largest agricultural lender in the country. MADB offers two types of loans: seasonal crop production loans (SCPL) and term loans. SCPLs cover the working capital needs of farmers at the beginning of the agricultural season and are divided into three categories: pre-monsoon, monsoon, and winter loans, with monsoon loans constituting the biggest number of loans offered to farmers. SCPLs generally have one-year maturity and farmers are expected to repay the full amount at harvest time. Term loans, on the other hand, are categorized into short-term loans, farm machinery loans and special project loans. Farm machinery loans are offered with three-year maturity and require compulsory saving by the farmers. Special project loans are offered to rubber plantations under the government's border area development projects. Most MADB loans, except for farm machinery loans, do not require collateral. Instead, farmers have to join a group of three to collectively guarantee each individual loan. MADB recently announced that starting from 2018 it will disburse loans on individual basis without farmers having to join groups for loan guarantees. The Japanese development agency JICA is providing 15,135-million-yen worth of funds to support MADB lending facilities for farmers and agribusinesses; in addition, the agency provides capacity building assistance to MADB under JICA's Agriculture and Rural Development Two-step Loan project.

The Myanmar Apex Bank (MAB) is leading agriculture financing among private commercial bank which extends loans to farmers for a period of up to three years. MAB allows farmers for a period of up to three years. MAB allows farmers to have access to its loans by taking their certificate of ownership of farmland (Form 7) as collateral. The Form 7 certificate has been created with the enactment of the Farmland Law in 2012 by the Ministry of Agriculture and Irrigation. A pilot project between MAB and the Myanmar Rice Federation has provided a total of 1.6 billion MMK lent to 690 farmers for the current harvesting season. While MADB offers loans up to 150,000 MMK per acre and charges 8% annual interest rate, MAB is offering loans to paddy farmers up to 400,000 MMK per acre at 13% annual interest rate.

### **3.4 Profile of Agriculture SMEs in Shan State**

Compared with international standards or even regional peers, agriculture is a very labor-intensive industry in Myanmar.; most agricultural activities are carried out manually with low levels of mechanization, which results in low productivity and agricultural output and consequently, low agricultural wages and farm profits. A farmer in Myanmar only earns about \$ 1.80-\$2.50 per day in monsoon season compared to \$ 10-\$16.5 per day in Thailand and \$7.8 per day in Philippines.

Moreover, investment in this sector remains minimal and the industry lacks modern warehousing, distribution and logistics facilities, packaging and branding. Myanmar farmers also do not use enough fertilizer with the correct nutrient balance, partly due to lack of knowledge and training. Farmers also lack access to irrigation systems; in 2014-2015, only 15% of crop area was connected to public irrigation systems.

Poor quality seeds also hinder the agricultural sector's ability to reach its full potential. Although the government has seed distribution schemes, they are under-resourced. According to the World Bank, the supply of certified paddy seeds only meets about 1% of the demand. Further, due to a poor enabling environment in Myanmar, private seed providers have not been able to produce enough to meet demand, nor import the required amounts of quality seeds. As a result, many Myanmar farmers use saved seeds, thus producing low yields.

Agricultural land is currently under-capitalized, and farmers have very limited access to credit except to borrow capital at high interest rates. At the end of 2012, the Myanmar Agriculture Development Bank (MADB) provided loans to 1.87 million clients, mostly smallholder farmers. MADB only provides loans to cover a fraction of production cost for up to 10 acres; the bank does not support medium or large holder farmers. In total, 88% of those loans are provided to small farmers engaged in paddy production and are only large enough to purchase inputs for the following cropping season; they are often insufficient for the purchase of farm tools and equipment.

Despite these challenges, the agricultural sector has the potential for rapid growth if farmers are provided with better access to capital, quality seeds, improved infrastructure, and modern technology.

Private sector investment in agriculture and in agribusinesses has also started picking up, including in fertilizer manufacturing and seeds and production of animal feed. Livestock and fisheries sectors would benefit from better quality animal feed; fish processors have already gained from improved quality of supply and have accreditation for export from the EU. (Agriculture Guide 2018, EUROCHAM-Myanmar) See Appendix A for Myanmar Farming Systems and Population (Millions).

### **3.5 Major Financial Institutions and Financing Options for SMEs in Shan State**

In this section, major banks in Myanmar offering SMEs financing is explored based on their range of products available to SMEs.

#### **Kanbawza Bank**

**Kanbawza Bank** is the largest commercial bank in Myanmar in terms of assets (MMK 8693 billion as of March 2016). The KBZ belongs to the business conglomerate KBZ Group, chaired by U Aung Ko Win. Initially, it was established as a local bank in Taunggyi (Shan State) in 1994. In 2000, the headquarters was relocated to the former capital Yangon. As of June 2016, the KBZ has 400 branches all over Myanmar with 17,000 employees and wants “to become Myanmar’s financial market.” The product range of the KBZ includes savings, current, call and fixed deposits, loans, overdrafts and hire purchase as well as domestic and international remittances. KBZ group controls two airlines (Air KBZ and Myanmar Airways International) and jade and gem mining concessions. The Group also owns Inlay Shoe Manufacturing Co., Ltd. and the IKBZ Insurance Company. The normal process and required documents of loan application can be seen in Appendix.

There are two types of loans currently available in KBZ such as Overdraft and Hire Purchase.

**Overdraft:** A typical term of loan and overdraft is one (1) year. It is thereafter renewable on yearly basis. Interest 13% annual. Loan interest is paid on the total amount approved and overdraft interest is paid on the amount used. Payment period: (1) Year. In order to increase the payment period, you will need to reapply for the loan. See Appendix for more info.

Hire purchase: Hire Purchase is a service provided by KBZ bank for account holders, SME Business Owners and Organizations alike to pay for goods installation over a period of time with a required down payment of 30-50 percent. Eligibility: The service is eligible for individuals or organizations to hire purchase products/items by paying only 30%-50% (down payment) initially and paying the remainder (depending on the product/item) throughout a period of fixed by the bank. See Annex C for terms and condition of loan from KBZ Bank.

### **Co-operative Bank**

**Co-operative Bank** was established in 1992 under the guidance of the Ministry of Co-operatives, the third largest bank in terms of total assets (MMK 2061 billion as of March 2016). There used to be Co-operative Farmers Bank and Co-operative Promoters Bank under the ministry, both established in 1996, which were merged together with the Co-operative Bank into the new Co-operative Bank in June 2004. In contradiction to its name, Co-operative Bank is not built on co-operative principles in its governance structure. Although the bank has received strong support from the Ministry of Co-operatives, the ministry itself does not have any shares in the bank. Its major shareholders are U Khin Maung Aye and his Citizen Business Private Company, who owns 10% of the bank's shares. There are many lines of business under the company including Kaytumadi Trading, a hotel business, Golden Myanmar Airline, and the new Myanmar Microfinance Bank. The company also owns Citizen Business Insurance Company. It is the first bank to offer loans to SMEs without collateral but with the insurance cover of the government-owned Credit Guarantee Insurance (CGI). The normal process and required documents of the loan application can be found in the Appendix (D), (E), (F) and (G).

The following loans are currently available in CB Bank such as

- (1) CB Bank Normal Loan
- (2) CB Bank Credit Guarantee Insurance
- (3) SME JICA Two Steps Loan
- (4) SME KfW Loan

## **Yoma Bank**

**Yoma Bank** was founded in 1993 and was one of the largest private banks prior to the Myanmar banking crisis in 2003. As a consequence of the banking crisis, Yoma Bank's business was restricted to domestic remittances, based on the domestic Western Union style business model. In August 2012, Yoma Bank was reinstated with a full banking license. The bank is majority-owned and controlled by the businessman, Serge Pun. Thirty percent of Yoma Bank is owned by the public company First Myanmar Investment (FMI), which was also founded by Serge Pun. Its total assets amounted to MMK 1191 billion by March 2016. IFC signed a USD 5 million convertible loan agreement with Yoma Bank to help finance SMEs. If the new Myanmar Company Act permits, IFC desires to convert its loans to equity investment in the bank. Types of loan currently available are as terms, overdraft, temporary overdraft, lien loans, share loan, home loans, pledge loans and gold loan. Below can be found, with focus on overdraft and term loan, the normal process and required documents for loan application process. Over 70% of the loans have been made to SME through SME banking department.

Moreover, YOMA is implementing Agribusiness Finance Program (AFP) supported by Livelihoods and Food Security Trust Fund (LIFT). AFP has been established to improve access to finance in Myanmar's agricultural sector. The LIFT has contributed USD 11 million to the financing structure of the AFP program operated by YOMA Bank. Since the partnership began in January 2016, 2,687 lease contracts for farm machinery valued at more than USD 50 million, have been taken up by farmers and rural entrepreneurs, many of whom would otherwise not have been able to afford to introduce machines such as tractors and threshers to farms. See Appendix (H) for loan offered by YOMA bank as well as Appendix (I) for quick fact of Agriculture Financing Programme

### **Myanmar Agricultural Development Bank (MADB)**

The MADB, controlled by the Ministry of Agriculture, Livestock and Irrigation (MALI), was founded in 1953 under the State Agricultural Bank Act and was part of the Peoples Bank of the Union of Burma between 1969 and 1975. It is the main official financing source for farmers, starting from the 2016 monsoon cultivating season, it is providing loans of MMK 150,000 per acre for paddy production and MMK 20,000 for production of farm crops at an interest rate of 8%, compared to the commercial lending rate of 13%. The government decided to restructure the MADB and turn it into a public-private partnership bank. Once the corporatization of the MADB is materializes, it will be moved to the control of Ministry of Planning and Finance. Regarding loan application process and required documents, see Appendix (J).

## **CHAPTER IV**

### **ANALYSIS ON EFFECT OF FINANCING ON THE SME GROWTH IN AGRICULTURE SECTOR OF SHAN STATE**

This chapter presents the analysis on effect of bank's financing on SMEs in agriculture sector. The profile of SMEs in Ywangan and Lawksawk Township as well as registration status of SMEs are explored in this chapter. Moreover, the sources of financing, the need for financing and finally the impact of Financing on the growth of SMEs, based on two criteria such as capital and firm size, are analyzed in this chapter.

#### **4.1 Profile of SMEs in Ywangan and Lawksawk Township**

The survey was conducted during November 2018. The respondents are Agriculture SMEs.

##### **Registration Status of SMEs**

Registration status of SMEs interviewed are mentioned in Table (4.1). According to Table (4.1), 45% of SMEs are registered at Department of SME Development and 48% responded that they have no registration at all. Only 2% of respondent have plan to register their business and 3% are in the process to get registration for their business.

**Table (4.1) Registration Status of SMEs**

Registration Body	No Respondent	Percentage
DICA	1	2
DSMED	27	45
No registration	32	53
Total	60	100

Source: Survey data (2018)

### **Year of Respondent Businesses Establishment**

Year of establishment was divided into four categories such as before 2000, year 2001-2005, year 2006-2010, and finally year 2011-2018.

**Table (4.2) Year of SME Business Establishment**

Year of Establishment	No Respondent	Percentage
before 2000	22	37
2001-2005	22	37
2006-2010	11	18
2011-2018	5	8
Total	60	100

Source: Survey data (2018)

According to Table (4.2), 37% of Agriculture SMEs are established before 2000, 37% of them are established at year 2001-2005. It is learned that few SMEs are established after 2011.

### **Forms of SMEs business**

Forms of SMEs respondents are also analyzed in this study. Forms of business are classified as Sole proprietorship, Partnership, Private Limited and other. The result from the analysis can be seen in Table (4.3).

**Table (4.3) Forms of SMEs business**

Ownership	Respondent	Percentage
Sole proprietorship	58	97
Private Limited	2	3
Total	60	100

Source: Survey data (2018)

According to Table (4.3), 97% of respondents are Sole proprietorship and only 2% of respondents are private limited.

### **State of SMEs Business**

Forms of SMEs business are also identified in the study such as start-up, fast growth, slow growth and maturity to find out more on the state of agriculture SMEs. The results are shown in Table (4.4).

**Table (4.4) State of SMEs Business**

State of business	Respondent	Percentage
Start-up	3	5
Fast growth	2	3
Slow growth	38	63
Maturity	17	28
Total	60	100

Source: Survey data (2018)

According to Table (4.4), 63% of respondents mentioned their business status as slow growth based on the fact the condition for agriculture products especially mangos are not favorable enough in the market as well as weather condition. There are 5% start-up business, 3% fast growth business and only 28% mentioned their business as maturity.

### **Current Capital**

Current capital of respondents was also analyzed based on four categories such as under 100 million, 101-200 million, 201-300 million and finally 301 million above. The results are shown in Table (4.5).

**Table (4.5) Current Capital**

Current capital (Ks million)	Respondent	Percentage
under 100	38	63
101-200	14	23
201-300	4	7
301 and above	4	7
Total	60	100

Source: Survey data (2018)

According to table (4.5), 63% of respondents mentioned their current capital as under 100 million, 23% of respondents is 101-200 million, 7% of respondents have current capital of 201-300 million and 7% of respondent have current capital of 301 and above. Therefore, it is learned that most of the current capital fell under the category of under 100 million.

## Finance Manager

Managing of Finance by respondents are also analyzed in this section. The results from the analysis can be seen at Table (4.6).

**Table (4.6) Finance Manager**

Managing Finance	Respondent	Percentage
Owner/Board of Director	59	98
Managing Director	1	2
Total	60	100

Source: Survey data (2018)

According to Table (4.6), 98% of sample respondents represent finance managed by owner/Board of Director, and only 2% of sample respondent represent finance managed by Managing Director

## Education of Finance Manager

The qualification of finance manager is also analyzed in this section. The results are shown in table (4.7).

**Table (4.7) Education of Finance Manager**

Education	Respondent	Percentage
Read and Write	3	5
High School certificate	22	37
Diploma	1	2
Graduate	34	57
Total	60	100

Source: Survey data (2018)

According to Table (4.7), the majority of the respondents, 57% indicates that they possess Degree in terms of education, followed by high school certificate representing 37% in the survey. 5% of respondents indicate that they have on certificate and only 2% of respondents hold Diploma.

## 4.2 Need of Financing

In this section, need for financing are analyzed especially based on major needs of financing, duration needed for financing and current accessibility of the loan.

### Major needs of Financing

The need for financing is explored based on five categories, such as, Land, Building, Machinery, Equipment and finally stock and inventory. The results of the analysis are shown in Table (4.8).

**Table (4.8) Major needs of Financing**

Need of Financing	Percentage
Land	11
Building	29
Machinery	31
Equipment	23
Stock and Inventory	6
Total	100

Source: Survey data (2018)

According to Table (4.8), 31% of respondents are need of machineries. 29% of respondent indicated their major needs for financing as building which include expansion of the warehouse, water system development and basic infrastructure development for agriculture production. 23% of respondents need for equipment. Only 11% of respondent are in need of land as the majority already possess the land already. Finally, 6% of respondents indicate the need for materials for agriculture crop productions.

### Duration needed for Financing

The duration needed for financing is also analyzed in the study based on four categories such as 1-6 months, between 7-12 months, between 1-3 years, between 3-5 years. The results of the analysis can be seen in Table (4.9).

**Table (4.9) Duration needed for Financing**

Period Needed for Financing	Respondent	Percentage
Between 1-3 years	8	13
Between 3-5 years	52	87
Total	60	100

Source: Survey data (2018)

According to Table (4.9), 87% of the respondents indicate that the need for financing between 3-5 years and followed by 13% of respondent indicating between 1-3 years.

### 4.3 Sources of Financing

This section explored about the sources of financing based on currently accessibility of the loan, how initial investment was acquired, credit and loan provided in need of Financing during the loan processing.

#### Source of Finance for initial investment

Initial capital is divided as four categories such as inherits, relatives, personal savings and from bank loan including state-owned and commercial banks. The results of the analysis can be seen in Table (4.10)

**Table (4.10) Source of Finance for initial investment**

Source of Finance	Respondent	Percentage
Inherits	38	63
Relatives	2	3
Personal Saving	19	32
Private Commercial Banks	1	2
Total	60	100

Source: Survey data (2018)

According to Table (4.10), 63% of respondent indicate that the initial investment was acquired through inherits where 32% indicate that they received initial investment from personal saving. 3% of the respondent got from relatives and 2% got from private commercial banks. The respondents never received loans from MFIs nor grants.

#### Source of Finance for working capital

Credit/loan provided in need of financing was also analyzed in this section. The results of the analysis can be seen from Table (4.11)

**Table (4.11) Source of Finance for working capital**

Source of Finance for working capital	Respondent	Percentage
Inherits	2	3
Relatives	12	20
Personal Saving	1	2
Private Commercial Banks	15	25
State-owned banks	7	12
Others	23	38
Total	60	100

Source: Survey data (2018)

It is observed based on survey that the respondents are requested collateral evidence, legal agreements, cash flow statement, audited financial statement and business plan when apply for a loan from formal financial institutions. Getting audited financial statement is still issues among the respondent as the majority of the agricultural businesses do not have financial statement.

#### 4.4 Analysis on Effect of Financing on SME growth

Table (4.12) described the results of Self-Financing on SME growth which is determined by personal and household-saving, loan supported from family member and loan supported from friend, employer and colleagues.

**Table (4.12) Self-Financing on SMEs Growth**

Particular	Mean	Std. Deviation
Personal and household saving	3.45	0.69
Loan supported from family member	3.16	0.64
Loan supported from friend, employer and colleagues	3.18	0.74
Overall value	3.26	0.63

Source: SPSS Output

The highest mean score of Self-financing which received from personal and household-saving is highest which mean value is 3.45. This shows that SME business rely more on personal and household saving when it comes to Self-financing.

Table (4.13) described the results of mean and standard deviation of Financing on SME growth which is determined by Self-financing, Retain-earning, and finally bank loan.

**Table (4.13) Financing on SMEs Growth**

Particular	Mean	Std. Deviation
Self-Financing	3.26	0.63
Retained Earning	3.26	0.79
Bank Loan	2.69	0.74

Source: SPSS Output

According to the Table (4.13), the study found that the highest mean score is 3.26 for both Self-Financing and Retained-Earning as the key factor to SMEs Growth.

**Table (4.14) Financing Effect on SME Growth**

Particular	Mean	Std. Deviation
Capital is increased	2.33	0.53
Firm Size is grown	3.76	0.56

Source: SPSS Output

According to Table (4.14), the higher mean score is 3.7 where firm size is grown in terms of effect on SMEs growth followed by mean score 2.3 that capital is increased due to financing effect.

**Table (4.15) Regression Results for Capital**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.923	.279		3.305	.002
	Self-Financing	-.054	.120	-.066	-.454	.652
	Retained Earning	.210	.084	.321	2.496	.016
	Bank Loan	.353	.090	.505	3.912	.000

n=60, R<sup>2</sup>=.448, Adjusted R<sup>2</sup>=.419

Source: SPSS Output

In Table (4.18) the value of adjusted R<sup>2</sup> is .448. This means that 44.8% of total variation in capital is explained by three variable such as self-financing, retained earning and bank loan. The results suggest that the three variables explained 44.8% of the variance in capital.

Furthermore, the value of coefficients for bank loan (.353) is highest among variable. It can be said that the effect of bank loan is greatest among variable on capital in terms of SME Growth.

The regression coefficient of retained earning is .016 at 5% significant level. The regression coefficient of bank loan is .00 at 1% significant level. These variable positively correlated with capital.

Whenever retained earning goes up one unit, capital will increase .210 unit where the other variable remains constant. Whenever the bank loan goes up one unit, capital will increase .353 unit where the other variables remain constant.

**Table (4.16) Regression Results for Firm Size**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.762	.281		6.268	.000
	Self-Financing	.197	.121	.222	1.630	.109
	Retained-Earning	.320	.085	.454	3.770	.000
	Bank Loan	.118	.091	.156	1.292	.202
n=60, R <sup>2</sup> =.516, Adjusted R <sup>2</sup> =.490						

Source: Survey data 2018

In Table (4.16) the value of adjusted R<sup>2</sup> is .49 and this means that 49% of total variation in firm size is explained by three factors such as self-financing, retained earning and bank loan. The results suggest that the three variables explained 44.8% of the variance in capital.

Furthermore, the value of coefficients for retained earning (.32) is highest among variable. It can be said that the effect of retained earning is greatest among variable on firm size in terms of SME Growth.

The regression coefficient of retained earning is .32 at 1% significant level. This variable positively correlated with firm size.

Whenever retained earning goes up one unit, firm size will increase .32 unit where the other variable remains constant.

## **CHAPTER V**

### **CONCLUSIONS**

In this chapter, findings are summarized and concluded to derive the answer of research questions. This chapter includes findings, suggestions and need for further research. First part consists of the finding of the study and research analysis of financing agricultural SMEs in Ywangan and Lawksawk township, in Shan State. On the second part, it includes the suggestions which are based on the results of the research findings. In the last part, it presents the limitation and needs for further research.

#### **5.1 Findings**

This study analyzes the financing of Agriculture SMEs in Ywangan and Lawksawk Townships in Shan State. There are two main objectives in this study: first to investigate major financial institutions and financing options for SMEs in Shan State and the second objective is to analyze effect of financing on the SME growth in Agriculture Sector of Shan State.

To meet these objectives of the study and to do analysis, the required data of the objectives are collected through sample survey. The total of 60 respondents from SMEs in Ywangan and Lawksawk township were surveyed to represent the SMEs regarding access to finance. The survey is divided into three sections.

In section one, the questionnaire deals with profile of respondent business. This includes business name, type of SMEs, the location of the business, registration status of the business, year of establishment, ownership of the business, state of development of the business, business current capital, managing of financing and their qualification. As the study is focused on agriculture sector, all the respondents are Agriculture SMEs and the location of the study is identified as Ywangan and Lawksawk township since the beginning of the study. Most of SME are registered at Department of SME Development under Ministry of Industry. On the other hand, many SMEs remained unregistered for their business. In terms of business establishment, the majority of the business are already established before 2000 and new establishment of agriculture business dwindles ever since in the region. 97% of the business is sole proprietorship in terms of ownership. The survey results indicate

that 63% of business as slow growth. 98% of the businesses are managed by owner and 57% of them have degree qualification. 37% of the business are run by owner with high school certificate.

In section two, the need for financing is explored there are five categories which describe as most needed for financing. To prioritize, 31% indicates the need for machinery, 29% indicates the need for building, 23% for equipment, followed by 11% land requirement and 6% in need of materials. When it comes to duration needed for financing, 87% of respondent mentioned the preference of 3-5 years of financing and the rest 13% mentioned in need of 1-3 years.

In section three, the study deals with sources of financing and finally the relationship of financing to the growth of SMEs in terms of capital, firm size and productivity. Regarding investment, 63% of respondent got them from inherits, followed by personal saving of 32% and the rest 3% from relatives. When it comes to business expansion, 25% got loan from private banks, followed by 12% from state-owned banks and still 20% from relatives. 30% of the respondent got financing from other sources such as informal lending. In this angle, it is clear that the accessibility rate of financing from formal institutions for most of the Agriculture SMEs still quite low

## **5.2 Suggestions**

Overall the result based on the study, the following suggestions are to be proposed.

First, in terms of regulatory framework, it is much need for the financial sector for improving sound and favorable financing for agriculture SMEs. Collateral requirements and interest rates are to be relaxed, credit terms are to be provided based on the need and nature of the business.

Second, financial literacy among the agriculture SMEs needs to be strengthened. It is learnt from the survey that most of the SMEs do not have enough information for financing options from banks and requirements to fulfill to get the loan.

When it comes to Micro-finance and grant from development organization, only few SMEs have knowledge of them. If there are awareness raisings among SMEs about financial literacy, SMEs will be able to have more access to loan.

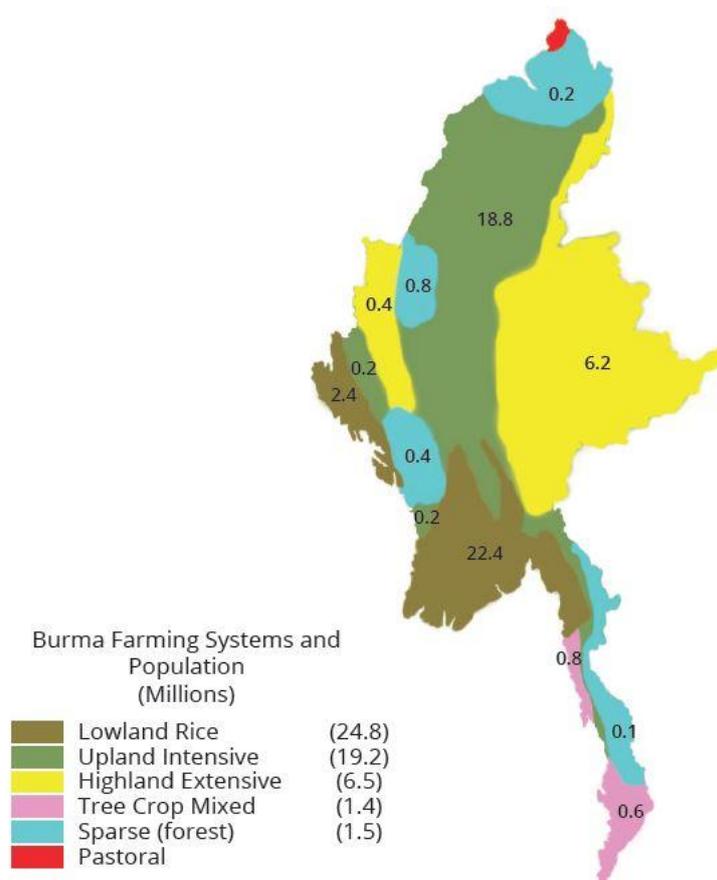
### **5.3 Needs for Further Study**

It is recommended that a follow-up study should be conducted. Agriculture sector play an important role in the country economy and the relationship between market development and SMEs growth, as well as technology and SMEs growth should be further explored so that SMEs in Myanmar will be to compete with ASEAN neighboring countries based on further study and research conducted. Since the banking sector is developing with momentum, updated financing options for SMEs needs to be made.

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**(A) Myanmar Farming Systems and Population (Millions)**



Source: Distribution of Major Farming Systems and Population in Myanmar, USAID 2013

## (B) Shan State Profile



### Shan State

**Area:** 155,457.45 sq. km

**Total population:** 4,493,308

**Rural:** 3,447,611 **Urban:** 1,045,697 **0-14 years:** 1,431,049

**Languages:** Myanmar, Other

**Administrative divisions:** 13 Districts, 55 Townships, 491 Wards, 15,902 Villages

**Capital:** Taunggyi

**Main economic activities:** Mining, Forestry, Agriculture

Source: Myanmar Information Management Unit Website

**(C) Process and Type of loans available in KBZ Bank**

KBZ Bank	
Process	<ul style="list-style-type: none"> <li>▪ Customers apply for the loan at the bank in person with required documents</li> </ul>
Required documents	<ul style="list-style-type: none"> <li>▪ Business License Form</li> <li>▪ Company Registration Form</li> <li>▪ Taxation Receipt for the last 3 years</li> <li>▪ Financial Statement for the last 3 years</li> <li>▪ Copy of National Registration Card</li> <li>▪ Household Registration</li> <li>▪ Letter of recommendation clearly stating that you are shared quarters</li> <li>▪ Guarantee that you are single if you are single</li> <li>▪ Divorce papers proving you aren't marrying any time soon</li> <li>▪ Documents concerning the ownership of properties</li> <li>▪ Grants, map and history of property</li> </ul>
Condition	Collateral (currently land including building) is required for all loans (the loan is usually 30-60% of the forced-sale value of the collateral for land and building and 80% for gold.)

Source: KBZ Bank Website

**(D) Normal Loan: Process and Loan available in CB Bank**

CB Bank (Normal Loan)	
Process	<ul style="list-style-type: none"><li>▪ Customers apply for the loan at the bank in person with required documents</li><li>▪ The bank takes 2 weeks to 1 month for loan processing.</li></ul>
Required Documents	<ul style="list-style-type: none"><li>▪ Business License/Company Registration</li><li>▪ Applicant's National Registration Card/Household Registration</li><li>▪ Business Profile</li><li>▪ Future Business Plan</li><li>▪ Financial Statements (including balance sheet, profit and loss statement and Cash Flow statement) for the past two years</li><li>▪ Taxation Receipts</li><li>▪ Monthly bank statement</li><li>▪ Collateral documents (movable and immovable)</li><li>▪ Business photos and collateral photos</li></ul>
Condition	<p>It shall be a kind of loan permitted by bank to be borrowed more than the amount in the current account of customer. Permitted amount can be withdrawn till the limit required and it can be deposited back into the loan account if it does not need/if it is surplus so that it shall be relief in the interest. Loan period is for one year (short term) from the date of issue.</p>

Source: CB Bank Website

**(E) Credit Guarantee Insurance in CB Bank**

CB bank (CGI) Credit Guarantee Insurance	
Process	<ul style="list-style-type: none"> <li>▪ SMEs customer applies recommendation letter to DSMED.</li> <li>▪ DSMED provides recommendation letters to SMEs customer.</li> <li>▪ SMEs customer applies SME CGI to CB bank.</li> <li>▪ CB bank applies CGI to Myanma Insurance.</li> <li>▪ Myanma Insurance gives CGI to CB bank.</li> <li>▪ CB bank gives SMEs Loan to customers.</li> </ul>
Required Documents	<ul style="list-style-type: none"> <li>▪ Business License and business registration.</li> <li>▪ Applicant's National Registration Card and household registration.</li> <li>▪ Company profile.</li> <li>▪ Approved recommendation letters from DSMED.</li> <li>▪ Taxation receipt for the past two years.</li> <li>▪ Monthly bank statement of business.</li> <li>▪ Financial statement for the past two years and one-year business plan.</li> <li>▪ Document concerning ownership of collateral.</li> <li>▪ Business picture (Front, Back, Left, Right, Inside)</li> <li>▪ Collateral picture (front, Back, left, Right, inside).</li> </ul>
Conditions for CGI to SMEs	<p>The business must have at least 2 years of operation.</p> <p>Approved recommendation letter from DSMED.</p> <p>If there is collateral, the loan amount is unlimited. If there is no collateral, the loan amount is limited to 20 million MMK.</p> <p>2% premium fee needs to pay to Myanma Insurance by customer if the loan is applied with collateral. And 3% fee without collateral.</p>

Source: CB Bank Website

**(F) SME JICA Two Step Loan by CB Bank**

SME JICA TSL (SME JICA Two Steps Loan) by CB Bank	
Process	<ul style="list-style-type: none"> <li>▪ Customer applies SME JICA TSL to CB bank.</li> <li>▪ CB bank applies SME JICA TSL to JICA.</li> <li>▪ JICA gives SME JICA TSL to CB bank.</li> <li>▪ CB bank gives SME JICA TSL to Customers.</li> </ul>
Required Documents	<ul style="list-style-type: none"> <li>▪ Business license and business registration.</li> <li>▪ Applicant’s National Registration Card and Household Registration.</li> <li>▪ Company profile.</li> <li>▪ Taxation receipt for the past two years.</li> <li>▪ Future business plan of SME Customer.</li> <li>▪ Detailed description of equipment and price for the machinery to be purchased.</li> <li>▪ Monthly bank statement of SMEs.</li> <li>▪ Financial Statement of the business for the past two years.</li> <li>▪ Documents concerning ownership of the collateral and required documents.</li> <li>▪ Business picture (Front, Back, Left, Right, Inside)</li> <li>▪ Collateral picture (front, Back, left, Right, inside).</li> </ul>
Condition	<p>The business must have at least two years of operation.</p> <p>The business must be plan with immovable property such as buildings, equipment and machinery.</p> <p>80% of loan must be utilized in the expansion of building, additional purchasing of equipment and machinery. And the remaining 20% must be utilized for the capital investment only.</p>

Source: CB Bank Website

**(G) SME KfW loan in CB Bank**

SME KfW Loan by CB Bank	
Process	Applicants must come in person to the CB bank with required documents.
Required Documents	<ul style="list-style-type: none"> <li>▪ Business license and business registration.</li> <li>▪ Applicant's National Registration Card and Household Registration.</li> <li>▪ Company profile.</li> <li>▪ Taxation receipt for the past two years.</li> <li>▪ Future business plan of SME Customer.</li> <li>▪ Detailed description of equipment and price for the machinery purchased.</li> <li>▪ Monthly bank statement of SMEs.</li> <li>▪ Financial Statement of the business for the past two years.</li> <li>▪ Documents concerning ownership of the collateral.</li> <li>▪ Business picture (Front, Back, Left, Right, Inside)</li> <li>▪ Collateral picture (front, Back, left, Right, inside).</li> </ul>
Condition	<p>The business applying for loan must have at least two years of operation.</p> <p>One SME customer can apply loan up to 100 million MMK.</p> <p>Mid-term loan is allowed up to 3 years and long-term loan is allowed up to 5 years.</p> <p>Initial loan repayment period can be suspended. E.g. For the customer with long-term long (5 years), the first three years can be assumed as suspension period where initial loan doesn't need to pay. Interest needs to pay as agreed. And for Mid-term loan customer, suspension period for initial loan repayment is allowed up to 2 years. Interest needs to pay as agreed.</p> <p>For successful applicants of SME KfW Loan, 25% of loan must be used for operation purposes and 75% for investing Fixed Assets purpose only.</p> <p>The loan is comprised with 80% of KfW supported fund and 20% of CB bank own fund.</p>

Source: CB Bank Website

**(H) Process and Loan available in YOMA Bank**

YOMA Bank	
Process	<ul style="list-style-type: none"> <li>▪ Customers apply for the loan at the bank in person with required documents.</li> <li>▪ The bank takes normally 2-3 weeks for loan processing.</li> </ul>
Required documents	<ul style="list-style-type: none"> <li>▪ Business License/Company Registration</li> <li>▪ Loan application Form</li> <li>▪ Business plan (in detailed)</li> <li>▪ Documents concerning the ownership of properties</li> <li>▪ Grants, map and history of property</li> <li>▪ Business picture (Front, Back, Left, Right, Inside)</li> <li>▪ Collateral picture (Front, Back, Left, Right, Inside)</li> <li>▪ Copy of Household Registration and National Registration Card</li> <li>▪ Local Authoritative Recommendation</li> <li>▪ Profit and Loss statement (3) year (including balance sheet/cash flow/profit and loss)</li> <li>▪ Bank statement for 6 months and Taxation Receipt for 1 year</li> <li>▪ Business profile</li> </ul>
Condition	<p>Depending on the loan the interest rate is between 12-13%; tenure is usually one year and is renewable. Collateral is required for all loans (the loan is usually 30-60% of the forced-sale value of the collateral for land and buildings and 80% for gold. Currently land including building is accepted as collateral.</p>

Source: YOMA Bank Website

**(I) Quick facts YOMA Bank-Agriculture Financing Program (AFP)**

YOMA Bank Agribusiness Finance Program (AFP)	
Process	First, customer needs to meet with the dealer for the machinery and go to the bank for AFP program. The dealer provides the information related to the price of machinery and payment mode.
Required Documents	<ul style="list-style-type: none"><li>▪ A copy of National Registration Card (Original document is required to show)</li><li>▪ Household Registration from ward office/village office</li><li>▪ Recommendation letter from ward office/village office</li><li>▪ Third party recommendation from buyer side.</li></ul>
Conditions	In equipment financing-AFP Hire Purchase, instead of paying down 30% on the first day, which is customary in the market, farmers pay down as little as 10%. This allows them to buy larger equipment which generate more income. Yoma Bank use their own funds to finance these loans, while the increased risks are shared with LIFT. Moreover, LIFT pay for technical expertise to set up and manage the programme.

Source: YOMA Bank Website

**(J) Loan provided by Myanmar Agriculture Development Bank**

MADB (Myanmar Agriculture Development Bank)	
Process	Customers apply for loan at the bank with required documents. It takes up to 2 weeks.
Required Documents	<ul style="list-style-type: none"><li>▪ Form 7 original.</li><li>▪ National Registration Card.</li></ul>
Conditions	<p>MADB is the largest source of credit for farming, but their loans are available only for one season. The interest rate is 8%.</p> <p>Currently MADB offers mainly two types of loan, one for paddy and other for industrial crops. For paddy, MADB lends out K 150,000 per acre up to 10 acres. For other crops, K 50,000 per acre up to 10 acres.</p>

Source: MADB Bank Website

## WEBSITES

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# Questionnaires for Effect of Financing Barriers on the Growth of Agricultural SMEs in Shan State

## SECTION I: PROFILE OF RESPONDENT BUSINESS

1. What is your business name?

\_\_\_\_\_

2. What type of SME is it?

- (a) Manufacturing Industry
- (b) Labor-intensive Industry
- (c) Service-rendering Business
- (d) Wholesale Business
- (e) Retail Business and other

3. What is the name of your township?

\_\_\_\_\_

4. Where did you register your business? (list the name of department where SMEs can register)

- (a) DSMED
- (b) UMFCCI
- (c) Other

please specify \_\_\_\_\_

5. Year of establishing \_\_\_\_\_

6. What is the ownership of your organization?

- (a) Sole proprietorship
- (b) Partnership firm
- (c) Private limited
- (d) Other

Please specify \_\_\_\_\_

7. What stage of development is your business in?

- (a) Start-up
- (b) Fast growth
- (c) Slow growth
- (d) Maturity
- (e) Decline
- (f) Refused
- (g) Don't know

8. What is your business initial capital? (if possible)

\_\_\_\_\_Million Kyats

9. What is your business current capital?

\_\_\_\_\_Million Kyats

10. Who is (are) managing finance of the business?

- (a) Owner/Board of Director
- (b) Managing Director
- (c) Finance Manager
- (d) Finance consultant
- (e) Other

Please specify \_\_\_\_\_

11. What is the qualification of financial manager(s)?

- (a) No certificate
- (b) High school certificate
- (c) Diploma in Finance
- (d) Graduate
- (e) MBA
- (f) Other

Please specify \_\_\_\_\_

## SECTION II: NEEDS OF FINANCING

12. Why do you need for Financing? (please tick)

Needs	Yes	No
Land and Building		
Buying Machinery		
Buying Equipment		
Purchase raw materials		
Paid for Salary		
Operation Expense		
Others Please specify_____		

13. How many months or year do you need fund for financing your business?

- (a) 1-6 months
- (b) Between 7-12 months
- (c) Between 1-3 years
- (d) Between 3-5 years
- (e) Others

Please specify\_\_\_\_\_

## Section III: Source of Financing

14. Do you currently have access to loan?

- (a) Yes
- (b) No

15. How did you get initial investment?

- (a) Inherits
- (b) Relatives
- (c) Personal saving

- (d) Private Commercial banks
- (e) State-owned banks
- (f) MFI
- (g) Grants
- (h) Other

Please specify \_\_\_\_\_

16. Who provide credit or loan to your financing?

- (a) Inherits
- (b) Relatives
- (c) Personal saving
- (d) Private commercial banks
- (e) State-owned banks
- (f) MFI
- (g) Grants
- (h) Other

please specify \_\_\_\_\_

17. In getting loan, what is requested? (tick all that applies)

- (a) Collateral
- (b) Legal Agreements
- (c) Cash Flow statement
- (d) Audited Financial Statement
- (e) Business Plan
- (f) Others

please specify \_\_\_\_\_

18. If you have to take loan, the following factors: (tick) for satisfied or (cross) for not satisfied.

- (a) Interest Rate (%)
  - (b) Mode of Interest Payment
  - (c) Principal of repayment style
  - (d) Credit term
  - (e) Others
- please specify \_\_\_\_\_

19. To what extent, do you agree with the following statement?

Statement	Strongly Disagree	Disagree	Don't Know	Agree	Strongly Agree
The length of the loan meets my business needs					
Loan Processing time is time-consuming					
Loan amount meets my business needs					
Collateral requirement is fulfilled					

20. Self-financing: To what extent, do you agree the do you agree with the following factors contribute to the growth of your business?

Factors	Strongly Disagree	Disagree	Don't Know	Agree	Strongly Agree
personal and household saving					
loan supported by family member meets my business needs					
loan supported by friend, employer and colleagues meets my business needs					

21. To what extent, do you agree with the following factors contribute to the growth of SMEs? (Tick)

Factors	Strongly Disagree	Disagree	Don't Know	Agree	Strongly Agree
Self-Financing					
Retained Earning					
Bank Loan					
MFI Loan					
Grants					

22. Financing Effect on SME Growth

Factors	Strongly Disagree	Disagree	Don't Know	Agree	Strongly Agree
Capital is improved.					
Firm Size is grown.					