

Promotion of SMEs and the Role of Government in Myanmar

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Abstract

Small and Medium Enterprises (SMEs) are important for economic development. SMEs create job employment for the local population. SMEs have comparative advantages in accordance with the changing economy. All over the world, SMEs take place in the development of economic and industrial production. In the less developed and transitional economies, SMEs are the sources for growth of income. One of the advantages of SMEs is their flexibility and resistance to respond in the economic environment. Promoting SMEs is to achieve national development goals such as economic growth, job creation, and poverty reduction in Myanmar. SMEs sector also provides opportunities for people to participate in the economic development. This paper aims to promote SMEs in Myanmar and SMEs face the challenges in the period of political and economic transition. The research question is to know the situation of SMEs and how the government played a key role in the promotion of business enterprises.

Key words: Small and Medium Enterprises (SMEs), political and economic transition

Introduction

The small and medium enterprises (SMEs) are essential thing in the national economy. SMEs make local people convenient for their living. They provide employment than the large firms. In most developing and developed countries, SMEs comprise ninety per cent of all enterprises. SMEs contribute to socio-economic development through different ways. Therefore, they play a vital role in development of country. Besides, employment is one of the best ways to overcome poverty. The employment creation fills up to the objective of poverty reduction. And SMEs add to employment creation for people. Thus SMEs can be numbered from fifty to sixty per cent of total employment in developing economies. Even in the developed countries, people can rotate their businesses because they began with small businesses.

SMEs also have the possibility to stand an efficient engine of manufactured export growth and upgrading in the developing world. Many things needed to be done by SMEs are SME associations, governments and donors to transform the export potential of SMEs into a real development. SMEs have flexibility and resistance although large enterprises can be collapsed due to the economic depression. SMEs provide a fulfillment of market niches. SMEs contribute about 44% to GDP by agriculture, livestock and fisheries, and

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forestry and the processing and manufacturing sector accounts for approximately 21.7 percent, and the service sector accounts for 37.1 percent. The industrial sector is steadily increasing year by year. Nearly ninety percent of the businesses operated in Myanmar are SMEs and almost ninety-six percent of local industries operating in Myanmar are SMIs. So, SMEs and Small and Medium Industries (SMIs) are critical for Myanmar economy.

Based on this background, the paper aims to analyze Promotion of SMEs and the Role of Government in Myanmar. The first part will explain the definition of SMEs in Myanmar. Promotion of SMEs and the role of government in Myanmar will be analyzed in the second and Challenges encountered by SMEs are discussed in third part.

Definition of SMEs in Myanmar

SMEs make up a reliable amount of employment. Compared to the critical importance of SMEs in terms of number of firms and employment, the supplement of production and value creation are moderate. SMEs are domestic-oriented enterprises. Therefore, a definite SMEs policy is needed in Myanmar. SLORC (State Law and Order Restoration) officially abandoned the socialism and intended to open up the country to foreign trade and investment. Many of the major economic reforms were also carried out. And then SLORC immediately began and implemented.¹

With regard to the part of SMEs in Myanmar, SMEs vary according to the country's economic condition. The government recognizes the essential role of SMEs. Therefore, the Ministry of Industry had established the Central Department of SMEs Development to be convenient for SMEs.² SME definition is needed for SMEs development policies and other supporting measures. To support SMEs and participate in the ASEAN Economic Community (AEC) 2015, the Government created the Central Department of SME Development in 2012. The Department operates under the Ministry of Industry. The Government aimed to create industrial estates and economic zones in order to promote the development of SME clusters. The Government tried various measures to improve SME development in Myanmar. The new Small and Medium Enterprise Development Law was drafted and passed by the Pyidaungsu Hluttaw in April 2015. And the enterprises are classified into six broad categories based on the number of employees and the value of the enterprise's capital investment (table 1).

¹ U Myint Aung : *Concept Paper on Myanmar SMEs/SMIs Development*, Union of Myanmar Federation of Chambers of Commerce and Industry, 2000, p.5, (Hereafter this word will be referred to as U Myint Aung: SMEs/SMIs)

² *Myanmar Government Prioritizes the Development of SMEs*, 30 August, 2017, p.2 (Hereafter this work will be referred to as *Myanmar Government*)

Table 1: New SMEs Definition, 2015

No	Category	Small		Medium	
		Employees	Capital (Millions, kyats)	Employees	Capital (Millions, kyats)
1	Manufacturing, mining, construction	Up to 50	Up to 500	51-300	501-1000
2	Labour Intensive Manufacturing	Up to 300	Up to 500	301-600	501-1000
3	Wholesale business	Up to 30	Up to 100	31-60	101-300
4	Retail business	Up to 30	Up to 50	31-60	51-100
5	Service business	Up to 30	Up to 100	31-100	101-200
6	Others	Up to 30	Up to 50	31-60	51-100

Source: Nay lin Oo: The implementation of small and medium-sized enterprise development in the rice sector of Myanmar: Empirical research findings, p.108

According to the Central Department of Small and Medium Enterprises in March 2015, there are 39,062 firms that have registered. And total registered industries are 87.4% under the Private Industrial Enterprise Law. However, this data only covers manufacturers and cottage industries because the Central Department of Small and Medium Enterprises is only one of the public agencies where enterprises can be registered.³

³ Thomas Bernhardt, S Kanay De and Giles Dickenson-Jones: Myanmar SMEs' Participation in ASEAN and East Asian Regional Economic Integration – with a Focus on Processed Food and Apparel Manufacturing, CESD Economic Reforms Working Paper No. 1/2016, August 2016, p.27-28

Promotion of SMEs

As SMEs are important thing to the national economy, the Myanmar government fills up the development of SMEs and support for existing SMEs to become larger industries. The SME Development Central Committee's Joint Chairperson, State Counsellor, Daw Aung San Suu Kyi, stated that SMEs should not be ignored, as they make up 99 percent of Myanmar's economic force. ⁴

The mechanism of Myanmar's business is undergoing a lot of rapid changes. However, SMEs in Myanmar meet challenges in the period of political and economic transition. New trends which have to be taken into account are growing demand and customers' expectations on perfect products and services. Moreover, SMEs are facing increasing global competition, the survival of new technologies and attack on integrated supply chain and production systems among ASEAN member states. In Myanmar, challenges of SMEs are varied, depending on the sectors. Common challenges are financial access, human resource development, R&D (Research and development) in technology, management, and marketing. ⁵

The Role of Government in Myanmar

SMEs play an important role in the economic development in Myanmar. In developing countries, most manufacturing activities replace in SMEs. To build a modern developed nation, one of the economic objectives is to transform the agricultural economy into agro-based industrial economy. To promote production, the establishment of manufacturing industries must be extended to the private sector. ⁶

After the State Law and Order Restoration Council empowered in September 1988, it dissolved the socialist economic system. The market-oriented economic policy was officially adopted in March 1989. Myanmar Government promulgated laws and directions relating to the market-economy and industrialization to survive the economy. Furthermore, it tried to promote including heavy and small and medium enterprises (SMEs). There were various issues in Myanmar economic development and promotion of heavy industry during 1990. Policy-makers recognized the importance of SMEs in Myanmar which are the significant source of its economic growth and industry. As SMEs in all developing countries, they are traditional and major thing for domestic industry.

The Government of Myanmar paid great emphasis on SMEs because they are critical for industrialization, income generation and job creation. The key ministries involved in SME development are the Ministry of Industry, Cooperatives, Commerce, Finance, National Planning and Economic development, Agriculture and Irrigation, and Science

⁴ Thomas Bernhardt : Myanmar SMEs' Participation, p. 33

⁵ *Myanmar Government*, p.2

⁶ San San Nwe: Development of SMEs in Myanmar, Report , Yangon, Ministry of Industry, 2004, p.1

and Technology. The SME Development Central Committee was established as a coordinating committee. The committee is composed of both government officials and business representatives. To participate in the ASEAN Economic Community (AEC) 2015, the Government also created the Central Department of SME Development in 2012 under the Ministry of Industry. In order to promote the development of SME clusters, the Government created to connect industrial estates and economic zones with research and training institutions.⁷

The Union government is attempting continuously for all-round development of SMEs in Myanmar. Under the guidance of Myanmar Industries Association (MIA), MIDB (Myanmar Industrial Development Bank) lent appropriate loans with affordable interests to export-oriented and import-substitute enterprises that are in need of capital. Besides, 30396.782 million kyats have been disbursed. And then the Union government managed to loan appropriate amount of money like agricultural loan through Myanmar Industrial Development Bank and form SMEs Finance Centre in order to do measures for assistance to SMEs in the fiscal year. With an aim to assist national economic development and improve private enterprises, Central Bank of Myanmar announced that the interest on loan is fifteen on September, 2011 and interest on agricultural loan is fourteen percent.

In regard to SMEs, the government gave priority to human resource development, support for technical development and innovation, funding capital, mending better infrastructure, gaining marketplace, reasonable taxes and regulations, and the creation of suitable businesses. As SMEs in Myanmar are suffering from tax and monetary policies, lack of access to capital and protection of intellectual property, the State Counsellor met with the Chairmen of Banks in Nay Pyi Taw on 1 August 2017. And State Counsellor urged them to cooperate with the government in promoting Myanmar's economic growth. SMEs and businessmen hoped that the meeting benefited SMEs and the business enterprises.

SMEs take an increasingly important role in the process of export-led industrialization in the developing world. SMEs are the largest group of industrial units in most developing countries and make a significant contribution to manufacturing output and employment. SMEs have become an integral part of the mechanism to the deepening the country's industrial base. The promotion of small and medium industries must be given more attention. SMEs are scattered across the country and contribute to the utilization of national resources. Therefore SMEs give to achieve balance in economic

⁷ Dr. Kyaw Htin (Adviser, UMFCCL): *Myanmar and the Globalized Economy in Industrial Sector*, Conference on Myanmar in the 21st Century, Yangon, Ministry of Industry No. (2) , 28-29 March 2000, p.7 (Hereafter this work will be referred to as Kyaw Htin: *Myanmar and the Globalized Economy*)

development by narrowing regional economic income differences. Thus, SMEs contribute to the development of industry as they are a vital role in technological innovation.⁸

The Small firms sector is recognized by government as they are vital part to play in the development of the country's economy. It accounts for a visible proportion of employment output, and it is a source of competition, innovation, diversity and employment. As most SMEs are privately owned, SMEs make important contributions to the country economy in terms of technological progress, increase competitiveness, and the creation of new jobs.

The government led the way to build a new modern developed disciplines-flourishing democratic nation by establishing a large number of infrastructures.⁹ The government has established industrial zones in different parts of the country for development of industries and has been providing assistance for development of industrialization related with producing import substitute items. Moreover, it is implementing endeavours for manufacturing spare parts and machine parts being used in local factories and workshops.

Altogether 1275 items of various kinds used in factories of the ministers concerned have been produced in the country by local technicians and industrialists through cooperated efforts. A total of 11431 items of various kinds are being produced on analysis. Manufacturing of accessories and machine parts locally served foreign exchange. A variability of local made spare parts in the country contributes towards full operation of the factories and workshops. Emergence of small and medium industries also provides to realize to establish an industrialized nation. Manufacturing of local-made spare parts increases the skills and technology of local technicians and industrialists and contribute towards the increase of job opportunities and uplift of socio-economic life of the national people.¹⁰ Thus the government has paved the way to build a new modern developed disciplines-flourishing democratic nation by building a large number of infrastructures.

The government is actively endeavouring for regional and international cooperation. Myanmar became a member of ASEAN in 1997 and signed agreements on economic cooperation in ASEAN. Cooperation plays an important role in private sector according to Hanoi Plan of Action, Bali Concord and Vientian Action Programme supported by Heads of State. The Bali Concord II laid down the objectives of further

⁸ U Sein Thaug Oo: Seminar on Current Situation and Future Prospects of Small and Medium Enterprises in Myanmar, MICT Park, 6th August 2005 (Hereafter this work will be referred to as Sein Thaug Oo: Current Situation)

⁹ NLM, Tuesday, 16 December, 2008, p.2

¹⁰ NLM, Tuesday, 16 December, 2008, p.16

cooperation with dialogue partners to deepen economic cooperation towards the ASEAN Vision 2020. It was supported that equal economic development would be brought about in ASEAN region through free transport of goods, the flow of investment and the flow of capital.

The Union government, NGOs, INGOs also encouraged SMEs. To promote private enterprises, Non-Profit Organizations such as Union of Myanmar Federation Chambers of Commerce and Industries (UMFCCI) and Myanmar Industries Association (MIA) became the main points of private business interests. UMFCCI supports as a bridge between the government and private entrepreneurs as well as foreign economic organizations and local businessmen for the convenience in Myanmar. In addition, the Federation serves measures to ensure smooth dealings between local private entrepreneurs, and conducts negotiations. It provides various services such as consultancy, information on trade, Newsletters and Trade Enquiry Bulletins, training seminars, workshops, trade fairs, exhibitions, study tours missions, delegations, participation in various government committees and to promotional activities etc. MIA provides different ways of services, such as consultant services, training courses, seminars, workshops, and study tours Publishing the awareness of Industry. ¹¹

¹¹ U Zaw Min Win: *SMEs Policy and Development of Agro-based Foodstuff Industries in Myanmar*, Yangon, Traders Hotel, 2 April 2007, p.1 (Hereafter this work will be referred to as Zaw: *SMEs Policy and Development of Agro-based Foodstuff Industries*)

Challenges Encountered by SMEs

As in other developing countries, SMEs in Myanmar have problems such as insufficient finance, managerial capability, skilled manpower, low technology and lack in machinery and equipment, insufficient market skill, weak in procurement of raw materials, and shortages of infrastructure. The common and most constraints of SMEs are access to finance, access to market, and access to information and human resources development. Myanmar Government Prioritizes the development of SMEs.

SMEs/ SMLs sector in Myanmar include various enterprises. They have many challenges and the urgent basic necessities are: Enabling industry policy for short and medium term group, Legal and regulatory framework, Tariff and tax protection, Easy access to financial institutions for loans and grants, Easy access to appropriate technology, research and development, Access to market both domestic and foreign countries.

To get in finance for SMEs and to support business and technology, the Small and Medium Industrial Development Bank (SMIDB) operated to eleven branches throughout Myanmar since 1996. SMIDB planned to offer low interest rate at 8.5 percent. To promote SMEs, the government allowed commercial banks to extend long-term loans for more than one year and to use a collateral instruments.¹²

For development of the financial system and improvement in efficiency of financial activities in harmony with the new economic policy, new banking laws have been promulgated in July 1990. One of the obstacles to development of industries is the lack of capital. The private industries of small and medium size have little access to finance from banks. To assist the small and medium industries in their requirement of finance Myanmar Industrial Development Bank (MIDB) had been formed in 1997 under the sponsorship of Myanmar Industrial Development Committee. Loans are provided mostly on the recommendation of the Industrial Zones Supervision Committee. Loan Committees including Directors of the Board had been formed to expedite loan applications.¹³

Access to market is a key issue to the progress of SMEs. For any country, the export of its products is of great importance as it could import the much needed raw materials, machinery and equipment and other consumers products with the foreign exchange earnings. The export capability depends upon market access which in turn is related to the four factors. They are (a) quality of the products and the quality standards set by the importing country, (b) tariff and non-tariff barriers (TB& NTBs), (c) preferential

¹² Masato Abe Madhurjya Kumar Dutta : A New Policy Framework for Myanmar's SME, Asia Pacific Research and Trading Network On Trade, No. 142, February 2014, p. 18

¹³ U Myint Aung: SMEs/SMLs, p.9

treatment according to GSP (General System of Preferences), multinational and bi-lateral agreements, (d) special preference granted by a developed country in accordance with GATT/WTO rules. It is imperative, therefore, that the exporter should gather as much information as possible regarding the acceptability of its products by the importing country. In the age of information technology, e-Commerce has become a useful tool in the export-import business.¹⁴

Another significant constraint is the access to the human resource development. SMEs face considerable impediments to accessing skills and skilled labour markets. Labour costs are variable to some extent depending on the country. The relative scarcity of skilled labour may be the result of institutional constraints in a country. It is a fact that the human resources are essential for building a highly industrialized, modern and developed new nation. Thus, the government is constantly giving first priority to development of human resources. For development of SMEs, Human resource development programmes are undertaken by government Ministries. Including Ministries are the Ministry of Science and Technology, Ministry of Industry, Ministry of Cooperatives, and Ministry of Education and nongovernmental organizations (NGOs), Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), Myanmar Engineering Society (MES), etc. Besides, in order to promote SMEs, Myanmar worked with foreign agencies such as United Nations Development Programme (UNDP), JETRO, and Myanmar- Japan Association.¹⁵

In regard with the financial sector, Myanmar government provided assistance to business enterprises. Myanmar Economic Bank (MEB), Myanmar Investment & Commercial Bank (MICB) and Myanmar Industrial Development Bank (MIDB) have provided loans to SMEs since 2004. The Myanmar Agriculture Development Bank has provided loans to farmers in Myanmar. Similarly banks gave a reduce the interest rate on loans. Banks and the Ministry of Agriculture worked together to provide financial support for the development of rural and urban areas.¹⁶ Besides Japan International Cooperation Agency (JICA) helped K 15 billion loan in 2017 at a low interest rate to increase SMEs in Myanmar.¹⁷ Therefore Myanmar government tried to transform the political, economic and social environment to be in line with changing economy. SMEs place a strategic role in the economic development of both developing and developed countries.

Conclusion

¹⁴ Kyaw Htin: *Myanmar and the Globalized Economy*

¹⁵ *Myanmar Government*, p.2

¹⁶ The Government of the Republic of the Union of Myanmar Ministry of Planning and Finance, Myanmar Sustainable Development Plan (2018 – 2030), August 2018, p. 9)

¹⁷ *Myanmar Government Prioritizes the Development of SMEs*, 30 August, 2017, p.2 (Hereafter this work will be referred to as *Myanmar Government*)

The Promotion of SMEs is essential for the country's economic development, as they contribute to the economy and job creation. However, SMEs meet with numerous challenges, including insufficient financial support, electric power supply and infrastructures. As SMEs are the real backbone of the country's economy, economists presented the government to improve the banking sector, and encouragement of banks to provide more loans to SMEs at a reasonable interest rate. To promote job opportunities and socio-economic development, it is needed to enhance the capacity building in areas such as business management, accounting, taxation, marketing management, human resource management, and capital management which are the huge demand for SMEs. To develop SMEs in Myanmar, the government, banks, and private sector need to provide training and contribute SMEs to reach their full potential towards Myanmar's economic development.

The Government performs to reduce poverty throughout the country, and acts the comprehensive strategies to address the issues. As a result of their efforts, poverty has already steadily declined from nearly a third of the population in 2005, to just over a quarter in 2009, and to below 20 per cent in 2015. Together with the steady reduction of poverty, economic resilience also improved. The government encourages the equitable and inclusive private sector development and many infrastructure projects which are being developed through various Public-Private Partnership (PPP) mechanisms to facilitate SMEs. The government enhances its State Economic Enterprises (SEEs) to transform into corporate. Besides the government strives to become the right balance between economic and social development, and environmental protection and sustainability. The government also provides to enhance human security and the reduction of the rural-urban divide on account of access to markets, information, technology, finance, education, basic infrastructure and healthcare.

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