

Political Economy of SME (Small and Medium Enterprises) Development in Myanmar since 2015

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Abstract

The political economy of the Small and Medium Enterprises (SMEs) and Small and Medium Industries (SMIs) industrialization process of Myanmar since 2015 play a paramount role in the political and economic transition of Myanmar. In 2015 when the newly elected civilian and democratic government of NLD led by Daw Aung San Su Kyi came to power and policy changes in Myanmar's economy especially focusing on SMEs development have much repercussions on sectorial changes of the Myanmar's economy. Therefore, SME (Small and Medium Enterprises) occupies about 90% of the country's economy since 2015. From 1948 to 1988 successive governments of Myanmar paid more focus on the State-owned Economic Enterprises (SOEs) as the engine of the growth of economy with Import Substitution Industrialization (ISI) as the state of the art key strategy. Therefore, during that time SOEs occupied nearly 80% of the Myanmar's economy. Since 1988 the military government opened the country's economy and it adopted the Market Oriented Economy as the economic policy. Since then private sector industries and economic enterprises developed along the SOEs. But successive military governments adopted the economic policy which focused on SOEs with financial support but failed to produce concrete results which contributes the growth engine of the country the latter p. Since 2015, the NLD government streamlined SMEs in accordance with new economic policy based on the SMEs development which is private sector. Accordingly the new government with the political commitment adopted the new SME Law, the SME Central Committee, State and Regional SME Committees, SME Action Task Force, SME Bank and Partner Private Banks, and technical transfers. Therefore, Myanmar SMEs Development seems more promising way but challenges are posing not only from financial and economic nature, but also from political questions. This research is conducted on both qualitative and qualitative methods on the course of MSME development of Myanmar since 2015. As a conceptual framework this research will apply main stream IPE theories such as realist, liberalist and Keynesian theories. Moreover this research will apply as a research of policy analysis. In addition this research will examine the both internal and external factors which affected on the process of the SME development of Myanmar.

Key Words: SMEs, SMIs, ISI Strategy, political commitment, SOEs, political economy, IPE

Introduction

Political economy of the Myanmar SMEs development have not only political and but also economic imperatives. The new civilian government of Myanmar is making efforts with high momentum for the transformation of political, social and economic sector in line with the current changing world and encouraging the development of the private sector. SMEs are, as a matter of fact, the backbone of the public sector, the main source of innovation, and furthermore they can create job opportunities, reduce poverty, enable entrepreneurship and have a tendency to respond to entrepreneurship and market demand. In 2018, the NLD government proclaimed Myanmar Sustainable Development Plan (MSDP) which served as the general policy guide-line not only for the economic development but also for the industrial policy including MSMEs. The NLD government is carrying out political and economic reforms with might and main for participating democracy correctly in all sectors of the country. Since 2016 NLD government adopted the new Myanmar Investment Law and Twelve Economic Policies. Moreover, the Small and Medium Enterprises Law was enacted in 2015 in Myanmar and the bye-law was instituted in 2017. Furthermore, government of Myanmar is striving to step up from agro-based country to industrial country. Moreover, the policy for small and medium enterprise development is laid down in order to get sustainable growth of small and medium enterprises which support the social and economic development of the country, to participate in ASEAN Economic Community in line with free trade agreement, to develop the country alike the ASEAN countries, during the reform process from State led economy to private led economy. Accordingly, the SME Department has some 53 branches in 15 regions and states throughout the country.

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Research Methodology

This research will be conducted through quantitative and qualitative research methods. And it will also apply case study design. It collected quantitative data including primary sources such as departmental reports, presidential meeting reports, unpublished documents and secondary sources such as published books, journals, articles, newspapers of both government and private sectors and official websites and online sources. It will also be conducted through the survey research including authority persons and experts interviews and cooperative approach and new facts and insights on the relevant MSME development process of Myanmar.

Research Questions

This research examines to answer three main research questions. They are; how the NLD government adopted new policy guide lines for the development of Myanmar SMEs? And how political and economic factors dictate the SMEs development process of Myanmar since 2015? And what are the challenges and opportunities of the Myanmar SMEs for the immediate future?

Policy and Organizational Structure of the Myanmar SMEs

Current state of the Myanmar SMEs development has been affected by both political and economic imperatives of the NLD government. In terms of policy matters, most of the SME policy guide lines are adopted through continuation of SME policies which had laid down during the President U Thein Sein administration. However, newly reformed organizational structure of the Union level Central Committee which is led by the Vice President of the government highlights the political high priority and economic urgency of the NLD government. In terms of policy analysis, the SMEs Law (2015) stated that in order to achieve the mission statement, it designated to be supported to seven areas including Human Resources, Technology Development and Innovation, Financial Resource, Infrastructure Development, Market Assess, Appropriate Taxation and Procedures, and Conducive Business Environment.

The SME Law stated that following ten point policy objectives;

- (a) To step up to industrialized country by placing an emphasis on small and medium enterprises based on agriculture, to develop the performance and productivity of SMEs, and to become the backbone of the country's economy;
- (b) To increase qualified human resources and employment opportunities;
- (c) To encourage the production of rural products as value added products;
- (d) To increase considerable GDP ratio through the improvement of SMEs;
- (e) To promote production capacity of value-added export goods and import substitutes for obtaining market share for local products within whole country;
- (f) To participate in global economic cooperation with the transformation from outdated economic system to new knowledge based economic system;
- (g) To support SMEs from collapsing due to intense domestic competition either because of invitation for local and foreign investments or the free flow of goods and services under the ASEAN Free Trade Agreement;
- (h) To enhance knowledge sharing and business networks among local SMEs, between local large scale enterprises and SMEs and between local SMEs and foreign investments;
- (i) To carry out the accurate data collection of the number of SMEs across the country, the accurate amount of capital investment, the workforce, production level and profit as a priority;
- (j) To enable the emergence of more SMEs and the transformation from cottage industry to SMEs and from SMEs to large scale industries.

The SME Law provided Five types of SMEs which are to be operated according to the definition contained in SME Development Law such as; Manufacturing businesses; Labor-intensive businesses; Wholesale businesses; Retail businesses; Service businesses; and other businesses. In order to promote domestic SMEs and to reduce poverty, the SME Law adopted the following SME policies as;

- (a) Encouraging supporting enterprises that can create linkage to the domestic and foreign markets;
- (b) Carrying out the transfer of technology and knowledge and investment promotion in cooperation with local and international organizations;
- (c) Encouraging human resource development and employment opportunities;
- (d) Encouraging the promotion of information and research activities and to make the smooth processes by eliminating obstacles;
- (e) Undertaking the development of entrepreneurial businesses ;
- (f) Undertaking the development of business development services;
- (g) Enabling the participation of entrepreneurs and SMEs in regional business activities;
- (h) Enabling the economic development pattern that creates the sustainability and the capacity of SMEs;
- (i) Focusing the shift from import substitution to export oriented system.

Provision for the Financial Resources the SME Law provided the financial institutions in order to provide financial requirements SMEs as follow;

- (a) Enable the loan with low interest rate required by SMEs;
- (b) Encouraging the establishment of business that is regarding to venture capital;
- (c) Providing recommendation to the banks which give out the loan with loan stipulation system;
- (d) Identifying insurance related facts with the establishment of Insurance Corporation and facilitating necessary insurance services;
- (e) Providing awareness training of loan accessing and evaluating the financial management;
- (f) Evaluating and educating the use of loan correctly.

Close collaboration and negotiation with financial institutions and obtaining advice to implement the development activities for SMEs six activities shall be carried out for financial assistance in cooperation with concerned departments_ Microfinance; Credit guarantee scheme; Hire-purchase; Two-step loan; Trade credit; and Invitation of entrepreneurs and investors. The following businesses shall be given priority with short-term, long-term plan to successfully achieve the aims of policy such as;

- a. Value added product industries;
- b. Industries which promotes job creation;
- c. Business support industries;
- d. Industries which promotes innovation;
- e. Import substitutes and export promotion industries.

The prioritized industries in the short-term are as follow_

- (a) Food, fishery and marine products;
- (b) Fruit, flowers which are upgraded to international standard;
- (c) Labor intensive industries;
- (d) Value-added products manufacturing industry;
- (e) Farming ,agricultural equipment and related products manufacturing industries;
- (f) Hotel and tourism industries;
- (g) Distribution and transportation industries;
- (h) Gems and jewelry production industries;
- (i) Construction, construction related products manufacturing industries;

- (j) Industrial, electrical and electronics related industries;
- (k) Art, handicrafts and Myanmar cultural based service industries;
- (l) Painting and publishing;
- (m) Renewable energy production (hydro power energy, tidal energy, wind energy and solar energy);
- (n) Information and technology related industries.

The privatized industries in the long-term are as follow_

- (a) Value –added food production industries;
- (b) Renewable energy production industries (hydro power energy, geothermal energy, solar energy);
- (c) Farming vehicle, machinery and equipment production businesses;
- (d) Agriculture used fertilizer production businesses;
- (e) Machinery and spare parts production;
- (f) Electrical and electronics production businesses;
- (g) Motor vehicle parts production businesses;
- (h) Industrial raw materials production businesses;
- (i) Minerals and petroleum production;
- (j) Pharmaceutical production;
- (k) Consumer goods and household goods production;
- (l) Information and technology.

By analyzing these SME policies it is found SMEs sector covers the most of the macro economy of Myanmar and it highlights paramount importance of the MSMEs for the comprehensive and sustainable development of Myanmar economy.

Current Situation of SMEs in Myanmar Economy

As Myanmar is still an agricultural country, the contribution to GDP by agriculture, livestock, fisheries and forestry accounted to 41.2%, while the processing and manufacturing sector accounted for about 21.7% and service sector account 37.1% in 2011-2012. For the Industry sector, principal manufacturing activities are related to the processing of agricultural resources with food and beverage production generating more than half of the gross manufacturing output followed by construction material industries contributing to 7.58% and Garment industries contributing to 4.83% of the total. (SMEs) play an important role in the country's economic development and are pioneers in creative entrepreneurs which can better adapt to the changing market demands more than larger businesses. The SMEs include any type of industry or services, retail and wholesale, logistics businesses, agriculture, education, healthcare, electricity, transportation, energy, infrastructure, tourism and so on. With the aim of boosting the country's development, many branch offices of SMEs have been opened across the country since 2014. Concerning SMEs, the Government has classified human resources, technical and creative support, capital funding, better infrastructure, gaining a foothold in the marketplace, imposing reasonable taxes and regulations and creating suitable business environments as top priorities.

According to the statistics of the SME Development Department, the Ministry of Industry, SMEs occupied 90 percent of the businesses which are driving Myanmar economy, at a conservative estimate, and its job creations amounted to 99.6 percent. SMEs include farmers, growers, producers, wholesalers, retailers, those who transport these produce and products and the ones who give services concerning these, for the goods to reach consumers in their respective sectors along with "Supply Chain." On the nation-wide scale, there are 48,778 privately-owned SMEs registered at the Department of Industrial Supervision and Inspection, the Ministry of Industry, out of which 6,651 exist in Yangon Region. Enterprises have been categorized into 13 sectors—foodstuff, textile, lodging, house-hold utensils, literature and artistic industry, raw material industry, mineral process and production,

agricultural and farming equipment, vehicular manufacturing, electrical equipment production, general industrial workshops. Among them, foodstuff industry reached the top of the registration. The statistics of the industrial supervision and inspection department, under the Ministry of Industry shows that it outnumbered 58.5 percent of all registered industries.

Total Number of Regions and States SME

Sr.	Regions/States/Regional Administrative	Number of Enterprise			
		Heavy	Medium	Small	Total
1.	Kachin State	71	187	1430	1688
2.	Kayar State	33	365	148	546
3.	Kayin State	107	191	795	1093
4.	Chin State	5	29	787	821
5.	Sagaing Region	399	1167	3363	4929
6.	Tahnintharyi Region	221	185	1391	1797
7.	Bago Region	571	1107	3051	4729
8.	Magway Region	194	580	2799	3573
9.	Mandalay Region	1435	2787	3860	8082
10.	Mon State	201	355	2025	2581
11.	Rakhine State	78	149	2406	2633
12.	Yangon Region	3135	2251	1657	7043
13.	Shan State	321	850	3251	4422
14.	Ayeyarwaddy Region	733	635	4639	6007
15.	Regional Administrative Nay Pyi Taw	162	197	325	684
	Total	7666	11035	31927	50628

Source: Lecture presentation by U Soe Moe Kyaw, Deputy Director General, Department of Industrial Inspection, Ministry of Industry, 12.11.2018

List of Register and MIC Permitted Industry

Sr.	Regions/ States	Number of Enterprises			Remarks
		Nationals	Foreigners	Total	
1.	Yangon Region	163	449	612	
2.	Mandalay Region	25	4	29	
3.	Bago Region	7	30	37	
4.	Ayeyarwaddy Region	6	6	12	
5.	Sagaing Region	7	3	10	
6.	Tahnintharyi Region	11	4	15	
7.	Magway Region	2	-	2	
8.	Mon State	3	3	6	
9.	Regional Administrative Naypyidaw	2	1	3	
	Total	226	500	726	

Source: Lecture presentation by U Soe Moe Kyaw, Deputy Director General, Department of Industrial Inspection, Ministry of Industry, 12.11.2018

SME Bank Offers Loans

Of the 40,000 registered SME owners, less than 1 percent are taking loans offered by the state-run Small and Medium Industrial Development Bank (SMIDB). The government provided loan support for the development of SMEs in 2012 and also in 2014. Loans were allocated for every state and region including Naypyitaw. However, as of May 2015, just over 300 SME owners were provided loans. The last official data was published in March 2015, with 237 loans issued; totaling K6.9 billion at an interest rate of 8.5 percent. On the other hand, some SME owners do not wish to borrow from the government since it is not easy to get the

loan, so they decided to operate the business with their own capital because a loan is a kind of liability. Furthermore, there are over 40,000 unregistered SME owners, according to Chairman of SMIDB. Singapore and Vietnam have already offered loans to SMEs. Authorization was attained from the Central Bank of Myanmar to get the aid from Singapore, while the Vietnamese aid is waiting. The Small and Medium Industrial Development Bank (SMIDB) disbursed K20 billion to small and medium enterprises in Myanmar in 2016. SME Service Center has been taken to issue the credit guarantee for SMEs loans. If SMEs want to get loan, they submit the application form to SMEs Service Center. It has issued the credit guarantee for SME Loans to SMIDB Bank through inspection of business situation and believe the abilities of their business profit.

According to a research conducted by Central Statistics Organization, 98 per cent of the more than 120,000 businesses registered in Myanmar are SMEs. In the employment sector, of the 21.9 million workers, 83 per cent are working in un-registered SMEs. The private sector development committee held meetings with entrepreneurs every month and so they have now met 12 times as of November, discussing 200 challenges faced by entrepreneurs, said Vice President U Myint Swe. The vice president also urged entrepreneurs to take advantage of the newly enacted Myanmar Companies Law, which guarantees to consider a company with a 35 per cent share of foreign investment as a citizen-owned company. Meanwhile, to support the export and import sector, the Central Bank of Myanmar has allowed export financing and related banking services for export financing services since 8th December.

Japan International Cooperation Agency (JICA) will lend 11.5 billion Japanese yen (K151.685 billion) to Myanmar SMEs in the fiscal year of 2018-19 through domestic banks. This decision was officially announced on September 5, 2018. The JICA's Official Development Assistance (ODA) two-step loan will be managed by state-owned Myanmar Economic Bank under its SME loan program. To be eligible for the loan, businesses have to meet the criteria laid out under the 2015 Small and Medium Enterprises Development Law. Therefore, manufacturing business, labor-base business, retail and wholesale business, service business, among others are permitted to apply. The maximum amount of a loan for one SME is K500 million with the fixed capital at 80 percent and working capital at 20 percent. The interest rate is 8.5 percent for one year, and its repayment can be done in 1-5 years.

For the phase one of the loan, it can be secured from Small and Medium Industrial Development Bank, Myanmar Citizens Bank, Myanmar Apex Bank, AYA Bank, KBZ Bank, and CB Bank. For the second phase, the Participating Financial Institutions (PFIs) include the Myanmar Citizens Bank (MCB), KBZ, Myanmar Economic Bank (MEB), CB, AYA Bank, First Private Bank (FPB) and United Amara Bank (UAB) chosen by the Ministry of Planning and Finance. Starting 2016, the MEB has announced that K36 billion will be given out to SMEs in every state and region, including Nay Pyi Taw, via seven selected PFIs. But some entrepreneurs pointed out that giving loans to SMEs is good. It should reach those who are actually in need. Although it should be available for SMEs, sometimes the loans go to big enterprises. There are precedents that big enterprises under the name of medium-sized ones obtained loans to build a hotel and thus JICA should monitor those loans, according to him. In fact, in extending loans, priority must be given first to manufacturing. Myanmar Economic Bank, teaming up with six private banks will give K30 billion loans to small and medium enterprises (SMEs), according to Ministry of Industry. The country's SMEs can acquire loans from the Myanmar Oriental Bank, Ayeyawady Bank, from Co-Operative Bank (CB), commonly known as CB Bank, the Myanmar Citizens Bank, the Kanbawza Bank and the Small and Medium Industrial Development Bank under the Credit Guarantee Insurance (CGI) system. The businesses can get at least K15 million to K500 million with the interest rate of 8.5 per cent, and if they cannot provide collateral, they need to pay another 2.5 percent. The duration of the loan is set for five years.

The CGI system is jointly implemented by Myanmar Insurance, Sumitomo Mitsui Banking Corporation and CB Bank. Small and Medium Industrial Development Bank (SMIDB) announced last month that 300 Small and Medium-sized Enterprises (SMEs) have outstanding repayments for the 2015-16 fiscal year. K5bn have been issued to 11 SMEs this fiscal year, and K20 billion issued to

SMEs in the 2015- 2016 FY by the SMIDB. At the moment, 90 per cent of Myanmar Businesses are SMEs. Myanmar Economic Bank will provide some 700 billion kyats (US\$520 million) in loans to small and medium enterprises (SMEs) across the country next year. Under the arrangement of the Ministry of Planning and Finance, the loans will be provided at a 9 percent interest rate with a maximum repayment period of three years. Currently, local SMEs in Mandalay Region only have access to credit guarantee insurance (CGI) loans provided by Japan International Cooperation Agency (JICA) and private banks, respectively at 13 and 16 percent interest rates. Local business people lamented that those loans are not very helpful, as they are short-term loans with small loan amounts that carry high interest rates. According to the Ministry of Planning and Finance, there are about 40,000 registered SMEs in the country.

Financial Assistance Conditions of Myanmar SMEs

State's Loans

First Loans	5 Billion Kyats	25 Persons
Second Loans	5 Billion Kyats	37 Persons
Third Loans	20 Billion Kyats	394 Persons

Two Steps Loans Phase I (JICA Assistance)

First Loans	4.808 Billion Kyats	11 Persons
Second Loans	36.75 Billion Kyats	175 Persons
Third Loans	16.076 Billion Kyats	83 Persons
Revolving Loans	12.876 Billion Kyats	79 Persons

Source: Lecture presentation by U Soe Moe Kyaw, Deputy Director General, Department of Industrial Inspection, Ministry of Industry

Research Findings

The NLD government launched a systemic change in the SME sector and much focus is switched from heavy industries of SOEs to the SMEs and SMIs. For the institutionalization the Myanmar government adopted the Myanmar SME Law, Myanmar Company Law and other by-laws and established the SMI Development Bank and branches in every states and regions of Myanmar. One of the success stories for the Myanmar SMEs is the process of on-line registration which was launched by DICA in 2018. The mechanism reduced the opportunity for corruption and time delay by red-tape system. Another success story is the establishment of the SMID Banks throughout the country. Another success story is the financial resource with the cooperation of JICA for the SME Loans. In fact, the agreement is not only in financial support, but also technology transfer and technical aids to Myanmar SMEs. Then success might be regarded as small ones but the SMEs survived throughout the country despite AEC and uncontrolled flow of consumer goods from China and Thailand. Myanmar government stream-lined the SMEs and SMIs under the union level central committee with specific authorities. Furthermore, the SMEs sector is related with the anti-corruption measures of the government which lessened the under-table practices and rent-seeking practices in SMEs sector. Myanmar SMEs Shows and Business Matching events created the valuable space for the Myanmar SME products towards international markets such as Myanmar Coffee. In terms of challenges, acquisition of power supply was a major problem for many of Myanmar SMEs for example, in manufacturing dried tea-leaves. Difficulty to acquire financial capital and technical knowhow, weakness to penetrate into local and international markets, lower standards in skills on production, inability to get news and information with changing times, weakness of departments which will help in servicing for economic development, lack of infrastructures, weakness in creating fundamentals of potential developing types, avoidance of reasonable tax and special privileges and lack of chances for competition of equality are challenges and disadvantages SMEs are now confronting.

Conclusion

The political economy of the SMEs and SMIs industrialization process of Myanmar is mostly depended on the political willingness and political commitment of the government. Though the Department calls the public by the nationalist demand to buy the domestic consumer products but consumer choice is very liberal. Much of the government activities are done within the conceptual frame work of liberal ideas though which may have Keynesian ideas. In an analytical view the political commitment of the government is strong and very supportive and facilitating in many ways. In fact, the

SME matter is not only a political ambition of low hanging fruit that has to meet the high expectation of the people while they expressed the 2012 by-election and 2015 general elections where the NLD party won the election with the lands-slide victory and removed the ex-military leaders led USDP government of U Thein Sein but also of economic solution for the short-term stagnating economy of Myanmar where people suffered by high consumer prices since early 2016 up to the end of 2018. However, the SME sector plays a vital role in Myanmar's economic development. Nevertheless, domestic businessmen are facing challenges in the field of capital, technology, market share and skilled labor. Despite these challenges SMEs in Myanmar has promising ways and brighter future in the immediate coming years.

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