

## **MICROFINANCE FOR SMES IN MYANMAR**

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### **Abstract**

SMEs dominate most of Myanmar's economic sectors, accounting for 90 percent of the industrial sector and 99 percent of the manufacturing sector. Myanmar has to develop its Small and Medium enterprises (SMEs) sector in order to become competitive with neighboring countries. But SMEs in Myanmar encounter the poor infrastructure, limited market access, outdated technology, low skill and productivity levels and a lack of business development services including inadequate access to finance. SMEs in Myanmar are hindered from reaching their full potential and bringing the widespread benefits of socioeconomic development to its people. Myanmar has gradually begun to open up its markets since Myanmar adopted the market economy. The development of SMEs is an effective mechanism in achieving socioeconomic growth. The country has gone through dramatic changes since 1990. Myanmar has opened its doors for foreign investment across sectors. Therefore the financial sector can fulfill to thrive for SMEs. Microfinance in Myanmar was introduced in 1997 as a separate project under UNDP's Human Development Initiative (HDI) in eleven townships. The main objective of the project has been to progressively develop locally managed self-sustaining microfinance operations to serve the needs of poor households. The UNDP microfinance project in Myanmar is servicing more than 440,000 clients, of whom ninety seven percent are women. The programme is one of the largest and most successful in the world and ranked 20th among all microfinance programmes worldwide. The micro-lending operations have a huge impact on the poor, benefiting particularly women who enter into business of their own and are having income of their own. . This study examines opportunities available for SMEs to obtain funding for sustainable development for SMEs. The study also identifies current challenges that restrain access to finance for SMEs in Myanmar.

**Keywords:** SMEs, Microfinance, AEC, UNDP

### **Introduction**

The Myanmar government is making efforts to transform the political, economic and social environment to be in line with global changes, and to promote sustainable economic growth. This includes promoting small and medium-sized enterprises (SMEs), which play a pivotal role in the economic

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development of both developing and developed countries. Myanmar has a vision to develop SMEs, based on the policy to create regionally innovative and competitive SMEs across all sectors, to stimulate income generation, and contribute to socio-economic development. Small and Medium Enterprises (SMEs) all over the world have played a fundamental role in promoting economic and industrial production. In particular, SMEs provide the necessary foundations for sustained growth and rising income in the less developed and transitional economies. Myanmar SMEs did not have a chance to develop their full potential relatively except during the period when Myanmar gained independence (1948-1962). However, traditional enterprises have long existed in Myanmar villages. After the State Law and Order Restoration Council came to power in September 1988, it announced to dissolve the socialist economic system. After taking over national power in 1988, the state Law and Order Restoration Council (SLORC) officially declared the adoption of market oriented economic system. Since 1988, the change in the economic system there has been some developments as a result of liberalizing measures taken by the military government. The government allowed not only the foreign investors to do business by giving incentives and privileges but also local Myanmar citizens are permitted to set up private own enterprises. For those purposes, the government enacted rules and regulations for the private sector development leading to the emergence of private industries and Trade. SMEs are traditional and major tool for domestic industry. Thus, SMEs play an important role in the country's economic development and are pioneers in creative entrepreneurship.

Microfinance is an emerging important thing in transitional economy. Myanmar is an agriculture-based country in which more than 70 percent of its population resides in the rural areas and the agricultural sector accounts for 57 percent of GDP. The Myanmar Agricultural Development Bank(MADB), a state-owned bank established in 1953, is virtually the only major source of institutional credit, with the exception of financial cooperative societies; the Myanmar Economic Bank (state-owned) and private commercial banks are mostly confined to the urban areas. The MADB.s mandate and funding priority have been for the benefit of farmers, but the scale of loans is severely limited, mainly due to funding constraints. There is huge excess demand for capital in the countryside.

Based on this background, the paper aims to analyze microfinance for SMEs in Myanmar. The first part will be explained the role of SMEs. Evolution of Microfinance is analyzed in second part and participation with NGOs, INGOs and social Organizations on Microfinance in Myanmar is stated in third part.

### **The Role of SMEs**

The role of SME sector is to generate job opportunities and income growth. SMEs are considered vital for a healthy private sector in all economies. In developing economies they are often the only realistic employment opportunity for poor people in rural and urban areas. In particular they are the avenue for labor to make transition from subsistence agriculture to non-farming occupations. (Naylin Oo: *The Implementation of Small and Medium Enterprises Development in the Rice Sector of Myanmar: Empirical Research Findings*, June 2015, p.106) SMEs dominate most of Myanmar's economic sectors, accounting for 99.4 percent of overall industries across the country. On average, SMEs in Myanmar account for 50-95 percent of employment and contribute 30-53 percent of GDP in ASEAN member states. (Thomas Bernhardt, and Giles Dickenson-Jones,; *Myanmar SMEs' Participation in ASEAN and East Asian Regional Economic Integration – with a Focus on Processed Food and Apparel Manufacturing*, 2016, p. 27). Therefore Myanmar has to develop its Small and Medium enterprises (SMEs) sector in order to become competitive with neighboring countries.

Development of SMEs sector is an issue of interest for developing economies from a poverty perspective. Population growth, structural change and a desire for higher living standards requires growth in non-farm jobs. SMEs are the primary source of new job opportunities and increased income. SMEs play a vital role in farm level adjustment to policy reforms. For these reasons policies targeted at SMEs are advocated as a way to accelerate growth and reduce poverty. In developing economies they are often the only realistic employment opportunity for millions of poor people in rural and urban areas. In particular they are the avenue for labour to make the transition from subsistence agriculture to non-farming occupations. (*The White Paper on Small and Medium Enterprises of Thailand in 2003 and Trends 2004*, 2003, p.4). SMEs in Myanmar encounter several major physical and non-physical

challenges relating to access to market and finance. (Dr. VijiSupinit: *The Study of SME's Contribution to Myanmar's Economic Development*, March 2016. P.2). Thus the development of an appropriate SME definition is of critical importance to guiding SME development policies and other supporting measures.

To support SMEs and enable smooth participation in the ASEAN Economic Community (AEC) 2015, the Government also created the Central Department of SME Development in 2012, which operates under the Ministry of Industry. In order to promote the development of SME clusters, the Government is aiming to link industrial estates and economic zones with research and training institutions. The Government undertook various measures to improve SME development in Myanmar. ([http://Maturing microfinance in Myanmar \\_ The Myanmar Times.htm](http://Maturing microfinance in Myanmar _ The Myanmar Times.htm), Tuesday 13, March, 2018). The new Small and Medium Enterprise Development Law, which was drafted and passed by the parliament in April 2015, classified enterprises in Myanmar in six broad categories based on the number of employees and the value of the enterprise's capital investment (table 1).

**Table 1: New SME definition, 2015**

No	Category	Small		Medium	
		Employees	Capital (millions, kyat)	Employees	Capital (millions, kyat)
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

But the criteria used to define SMEs in Myanmar have varied according to the country's economic condition. But the Private Industrial Enterprise Law of 1990, the classification of business enterprises in the private sector into small-, medium- and large-scale enterprises is based on four criteria; namely, power usage, number of workers employed, capital invested and annual production. A definition of SMEs can also be found in the Promotion of Cottage Industries Law of 1991, which classifies the size of cottage industries. The Ministry of Cooperatives is the focal point for cottage industry promotion. (Naylin Oo: *The Implementation of Small and Medium Enterprises Development in the Rice Sector of Myanmar: Empirical Research Findings*, June 2015, p.106). According to new SMEs definition, 99.4 percent of business in Myanmar are approximately classified as SMEs, and there are now 50,694 SMEs altogether in the regions and states on Union territory (<https://www.mmtimes.com/national-news/nay-pyi-taw/25525-myanmar-smes-to-get-a-boost>)

SME growth is, however, often constrained by various factors, such as limited access to information and technological know-how, lack of economies of scale, deficiencies in corporate governance and limitations in access to funds. Government has been required to create enabling environments for SME growth. It includes transparent licensing and permit procedures, financial provisions, information gathering and sharing, infrastructure and efficient customs procedures. SMEs in Myanmar are facing the obstacles: poor infrastructure, inadequate access to finance, limited market access, outdated technology, low skill and productivity levels and a lack of business development services.(Dr. VijitSupinit: *The Study of SME's Contribution to Myanmar's Economic Development*, March 2016. P.2). These factors hinder SMEs in Myanmar from reaching their full potential and bringing the widespread benefits of socioeconomic development to its people.

### **Evolution of Microfinance**

Microfinance is to provide extremely poor people with small loans so they can start and operate a business. The borrowers are able to save money and pay back the loan over time. Microfinance helps support financial security. The idea behind microfinance is to empower borrowers by helping them build a business which can create income and grow.

Typically international in scope, microfinance support enables economically disadvantaged individuals to obtain the small-scale capital they need to start up viable income-earning businesses. Organizations that provide microfinance or microcredit are known as Microfinance Institutions, or MFIs. These providers can be nonprofit organizations but also commercial banks or other financial institutions. The terms “microfinance,” “microcredit” and “microlending” are often used interchangeably. (<https://grantspace.org/resources/knowledge-base/microfinance/>). The poor people are credited with being the first to use microfinance as a tool for social improvement.

Yunus offered as a guarantor for poor villagers who borrowed small amounts of money from banks. In 1974, Yunus, a Bangladeshi economist from Chittagong University, led his students on a field trip to a poor village. They interviewed people and then he found that raised themselves. Yunus took matters into his own hands, and from his own pocket lent the equivalent of \$27 to 42 basket-weavers. He found that it was possible with this tiny amount not only to help them survive, but also to create the spark of personal initiative and enterprise necessary to pull themselves out of poverty. Yunus carried on giving out 'micro-loans', and in 1983 formed the Grameen Bank, meaning 'village bank' founded on principles of trust and solidarity. In Bangladesh, Grameen has 1,084 branches, with 12,500 staff serving 2.1 million borrowers in 37,000 villages. On any working day Grameen collects an average of \$1.5 million in weekly installments. Of the borrowers, 94% are women and over 98% of the loans are paid back, a recovery rate higher than any other banking system. Grameen methods are applied in projects in 58 countries, including the US, Canada, France, Netherlands and Norway. In 2006, Yunus and the bank were jointly awarded the Nobel Peace Prize, "for their efforts to create economic and social development. (<http://bigthink.com/experts/muhammadyunus>)

The microfinance community, in particular the MFIs, is given an opportunity to help the government further strengthen and implement them. In connection with micro finance, the majority of the poor are rural people because they have lack capitals. Microfinance is an effective instrument in poverty alleviation. The lack of access to credit and savings is a serious constraint to people's economic activities and improvement of their life.

Therefore, Micro finance is a tool to alleviate poverty. Micro finance is to be carried out to the rural level. It is needed to form legal organizations in accordance with laws for sustainable development of micro finance plans.

Besides, formation of microfinance institutions is aimed at providing loans to alleviate poverty and improve the socioeconomic status of people of ordinary class. Microfinance institutions have two major functions: to provide microfinance and save money. To get micro loans, people of ordinary class do not need to mortgage anything. In general, banks cannot provide loans for people of ordinary class who have nothing to mortgage. So many cottage and small-scale industries have to get money from lenders and mortgage entrepreneurs at the monthly interest rate of twenty percent. Farmers and workers also have to borrow money from capitalists at the same interest rate. (*The Global New Light of Myanmar*, 11 July, 2011, p.6)

To improve access to finance for SMEs and to support business and technology incubations, the Small and Medium Industrial Development Bank (SMIDB) has been operating eleven branches throughout Myanmar since 1996. SMIDB plans to offer low interest three-year loans at 8.5 per cent. With an aim to improving the investment climate for SMEs, the Government has also considered allowing commercial banks to extend long-term loans for more than one year and to use a wider range of collateral instruments, such as moveable assets. It is also considering the establishment of public credit guarantee schemes and a credit bureau. The expansion of microfinance schemes for entrepreneurs—including for women and youth—to improve access to capital, in order to reduce reliance on informal money lenders, is underway by encouraging the establishment of private microfinance providers. Plans to expand trade finance schemes, particularly for exports of manufactured goods, are also being appraised. Small businesses also depend on loans from SMIDB, which offers an interest rate of 8.5 percent, markedly lower than the 13 percent offered by the banks. However, not everybody has access to loans as the SMIDB only offers loans to those in the manufacturing sector, leaving the majority of SMEs without access to funding. SMEs also suffer from banking restrictions on collateral, which must be immovable, while industrialists can only borrow up to 40 percent of its value. Low savings rates prevent SMIDB from offering more loans, while it borrows capital from

state-owned banks at slim profit margin of about 8 percent, according to a source in the bank industry who asked to not be quoted as he is not authorized to speak to the press. But help is on the way. In addition to the K20 billion loan, several domestic banks, including Cooperative Bank, SMIDB, Myanmar Agricultural Development Bank, are slated to begin offering loans to SMEs for as little as 7.5 percent interest. In an effort to consolidate efforts to develop SMEs, the Central Department of Small and Medium Enterprises Development opened offices in all states and regions throughout the country and Myanmar savings ratio was about 17percent of GDP, or about K54 trillion, while only K6 billion was available for loans, far less than the three quarters of the savings rate customarily allowed. ([https:// microfinance+for+smes+in+myanmar](https://microfinance+for+smes+in+myanmar))

### **Participation with NGOs, INGOs and social Organizations on Microfinance in Myanmar**

Myanmar needs to draw and promulgate necessary laws and rules to run microfinance institutions and to form an organization to supervise and expedite the tasks of the institutions in line with the laws and rules. Therefore, experts, scholars, departmental officials and representatives from microfinance institutions, formulated Microfinance Law. The government implements the tasks for rural development and poverty alleviation in all seriousness. (Myint Aung, U: *Myanmar SMEs/SMIs Development*, 2004, p.9)

As part of HDI, micro loans were provided through non-governmental organizations in Ayeyawady Region (Delta), arid zones and Shan State. Therefore, banks, cooperative societies, entrepreneurs, NGOs, INGOs, and social organizations are running microfinance enterprises in their targeted regions. So, not all the regions have access to that opportunity. According to data, the organizations that run microfinance industry are the Central Cooperative Syndicate Ltd, Region and State Cooperative Syndicates, rice and peas trading companies, Chancellor Agricultural Merchandising, the Republic of the Union of Myanmar Economic Holdings Ltd, the Myanmar Women's Affairs Federation, the Myanmar Maternal and Child Welfare Association, Microfinance Scrutiny Board, the Myanmar Economic Bank, the Myanmar Agricultural Development Bank, Private Agency Collaborating Together (PACT Myanmar), Save the Children (Dawn Microfinance Project), Group



derechercheetd' Charge Technologies (GRET), Association of Medical Doctors of Asia (AMDA), Agency for Technical Cooperation and Development (ACTED), CARE Myanmar (Care International in Myanmar), World Vision, and Pyoe Pin Program. They operate their functions with their own plans, rules and regulations and procedures.(*The Global New Light of Myanmar*, July 11, 2011, p.7)

The Microfinance project provides financial and non-financial services to the poor at both the village and town or ward levels. The system targets the poor who are “unbanked”- the women, the landless, and other vulnerable and marginalized groups. The approach is a three pronged strategy that consists of facilitating access to microfinance services, using the group lending methodology and stimulating small business ventures through small enterprise and business development support financial services. Loans are given to individuals in the group and it is the individual’s responsibility to repay the MFP on time. There are no restrictions on loan utilization. Each member invests the money in her own chosen business. The average loan size is rather small, with an average of US \$60; however, this is enough to make a significant difference to people struggling to make ends meet. Moreover after repaying earlier loans and their businesses grow, they are eligible to access to bigger loan sizes. Social loans such as educational and healthcare loans are also made available to clients. Voluntary savings is also included as an important service of microfinance. With appropriate methodology and services provided by the project, the people have been able to utilize the loans to improve their livelihood. The interest rate is not subsidized but very modest compared to that of moneylenders, and usually set at a level that can cover the administrative costs, for financial and institutional sustainability and to a certain extent to cover inflation. There are several flexible options in the repayment schedules based on the type of loan for which an individual applies. As a rule, repayments are made by regular installments according to the agreed-upon schedules. The major exception is Agricultural loans, which are collected as a lump sum during harvest time as a balloon repayment. Default risk is minimised through "social collateral" if one person defaults, their fellow group members must repay. Loan repayment rates for the UNDP project always stand at an impressive ninety-eight per cent.

Some International NGOs have also been providing microfinance type services as part of their broader activities and poverty alleviation intervention, implemented under MOU agreement with the government Ministries. Semi government agencies and government sponsored NGOs are also piloting some kind of group based micro credit in peri- urban areas. In terms of geographical coverage, institutional microfinance including the UNDP project exists in forty-six of Myanmar's 330 townships, which represent around 6,000 villages. Countrywide, more than 100,000 new members joined the MFP in 2009 and a similar trend of growth and progress is expected in 2010. (<http://www.mm.undp.org/ihlca/index.html>) For decades, the supply of microfinance in Myanmar was the domain of international non-governmental organizations (NGOs) and Myanmar Agricultural Development Bank (MADB). These institutions offered mainly small loans of up to K500,000 (US\$400). With this narrow and limited supply, the majority of the population was relegated to using informal, unregulated sources of credit, often at excessively high rates. Informal pricing is often described as "five-to-six", where for example, K50,000 borrowed at the beginning of the month is repaid as K60,000 at the end of the month—effectively a 20 percent per month interest rate. Compounded on an annual basis, this informal rate is significantly higher than the regulated interest rate of 30 percent per year.

Regional integration provides new opportunities for the expansion and growth of SMEs by taking advantage of international market potential. Such movements can unlock SMEs' growth-potential arising from increased trade and cross-border investment. In Myanmar, SMEs can, and should, particularly strengthen its ties with their counterparts in ASEAN and utilize their unique geographic position as a bridge between South and South-East Asia, which offers a range of new opportunities with the formation of the ASEAN Economic Community (AEC) in 2015. Regional integration, however, poses new challenges to SMEs, in addition to these new opportunities. (Dr. Vijit Supinit, *The Study of SME's Contribution to Myanmar's Economic Development*, October 2015 - March 2016, p.6). The formation of the AEC 2015 further calls for an agenda for Myanmar SMEs to enhance their competitiveness and innovation to ensure seamless integration with a newly established common market. (Masato Abe, Madhurjya Kumar Dutta: *A new policy framework for Myanmar's SME development*, February 2014, p.16.

## **Research and Finding**

Regarding the Microfinance of Small and Medium Enterprises (SMEs) development in Myanmar, this research asks the following questions: (1) how SMEs dominate most of the Myanmar economic sector? (2) How INGOs, NGOs contributed microfinance in Myanmar?

In doing so, the development of SMEs is important as SMEs contribute national economy. As the policies of the government support for SMEs development, SMEs are important in Myanmar. Cooperation with regional and sub-regional organizations for SMEs contributes the importance of SMEs in Myanmar.

## **Conclusion**

For an improved SME access to finance, financial statement is crucial. Myanmar is trying out to promote SMEs in early stage. Microfinance is to contribute to rural poverty alleviation. The 2011 Microfinance Law and related supervision structure are strongly linked to rural development. The equity threshold for creating an MFI is low, there are interest rate caps on lending and floors on saving, and the microfinance law explicitly expresses the link with rural development. Though the Microfinance Law has provided a framework for operation and MFIs operate in Myanmar. Although the current regulatory and market situation, MFIs are unlikely to rapidly expand credit provision in general let alone to more challenging for SMEs.

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