



SME Financing in Myanmar

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Objectives

1. Important role played by SMEs in Myanmar
2. Current practice in bank-Financing
3. Problems in SME financing
4. Measures taken to promote SME financing



Content Setting the Scene: SME in Myanmar

- Definition of SMEs
- Role of SMEs in Economic Development
- Weaknesses of SMEs
- Sources of funds
- SMEs in Myanmar
- Issues in SME-Finance
- Measures taken so far
- Measures to be taken by SMEs



Definition of SME

- Due to the diversity of economic systems worldwide, there is no standard definition of SME available
- Definition in general according to employees, assets and turnover
- WB definition of SMEs (enterprise must meet at least 2 of 3 characteristics)

Firm size	Employees	Assets	Annual sales
Micro	<10	<\$100,000	<\$100,000
Small	<50	<\$ 3m	<\$ 3m
Medium	<300	<\$15m	<\$15m

Loan size: Micro: <\$10,000, Small: <\$100,000,

Medium: <\$1m (<\$2m for some advanced countries)



Definition of SMEs in the Draft Law

Firm size	No. of employees	Capital/Turnover
<u>Small</u>		(Kyat mln)
Manufacturing	<50	<500 (C)
Labor intensive	<300	<500 (C)
Others	<30	<50 (T)
<u>Medium</u>		
Manufacturing	50-300	501-1000 (C)
Labor intensive	301-600	501-1000 (C)
Others	31-200	51-100 (T)



SMEs are the backbone of the economy

- Engine of growth:
- SMEs account for over 90% of total establishments;
- important contribution to GDP, employment and exports
- Promotes technological innovation and new products
- Poverty reduction:
- Main provider of employment and income for the poor
- Building capacity of SME enables them to absorb more employment
- Export-led growth with SME development
- Promote exports of diversified value-added goods
- Make economic structure stronger



Weaknesses

- Weak marketing & managerial skills
- Lack of research and development
- Lack of competencies
- Stiff competition from rival businesses
- Low level of technology
- Lack of access to information
- Lack of market access & contacts
- Lack of resources to upgrade skills & production processes
- Weak financial support and inability to access finance



Sources of funds

- Own funds
- Borrowing from relatives and friends
- Reinvestment from profit
- Advanced receipts on sales
- Borrowing from informal market
- Borrowing from FIs



SMEs in Myanmar

- 126,237 SMEs (99.4%) of total industries of 126,958 in the country)
- Of the total SMEs:

Within industrial zones: 9,565

Out of industrial zones: 33,646

At various states/divisions: 7,763

Reg. at GAD: 13,263

Without Registration: 62,000

(food processing, agriculture products, handicrafts, furniture, fisheries, textiles, etc.)



Government's effort to promote SMEs

- **Central Committee for Development of SMEs (established on 9 Jan 2013)**

27 members: President (Chairman), 2 Vice-Presidents (Vice-Chairmen), 20 ministers, Region/State ministers, Attorney-General, Auditor-General and President of UMFCCI

- **Working Committee for Development of SMEs**

15 members: Vice-President(2) (Chairman) and Union Minister for Ministry of Industry and Dy. Minister for NPED (Secretary and Joint-Secretary respectively)

- To effectively provide financial capital required for SME development



SME Financing in Myanmar

- SMIDB: the only bank in the country to specialize in SME loans; extends three-year SME loans at an interest rate of 8.5%
- Cooperate with SME development Center under the Ministry of Industry in extending these loans
- Loan disbursement: 1st batch (K 5 bln) Dec. 2012 (24 borrowers) and 2nd batch (K 5bln) July 2013 (38 borrowers)
- The bank is trying to acquire technical assistance from GIZ in extending SME financing and funding from JICA and KFW
- Cooperate with Industrial Bank of Korea



Issues in SME financing I (Regulatory obstacles)

- Banks are not allowed to extend loans without collateral: land & building, gold & jewelry, some agri. Items, deposit
- Commercial banks extend only one-year loans
- Loan amount must not exceed 80% of deposit
- Product innovation and network expansion are subject to CBM's approval
- Interest rate cap: deposit rate: 8%; loan: 13% pa



Issues in SME financing II

(Lack of capacities on the banks' side)

- **Lack of capacities on SME lending**
 - Collateralized loans – no loan on cash-flow basis
 - Weak attention on business performance
 - Lack of techniques in appraising SME loan proposal
 - Conservative lending: Loan amount is up to the 50-60% of FSV of the collateral (machinery is not acceptable)
 - No business start-up and investment loans
 - Weak in monitoring
- **Lack of proper risk management**
 - No risk management department in bank
- **No interest in SME Financing**



Issues in SME financing III (Weak preconditions on customers' side)

- Lack of proper records and accounting system
- Reluctant to reveal the true picture of the business
- Lack of knowledge on banking facilities



Measures taken so far to promote SMEs

- Establishment of leading committees
- Drafting SME Law
- Plan to establishment of a Credit Information Bureau
- Plan to establishment of a Credit Guarantee Corporation
- Promotion of banks' interest/awareness in SME financing



Types of loans for SMEs

- Business start-up loans,
- Investment Loans,
- Working capital loans and
- Lease operations

(With or without collateral, on cash flow basis)



Eligibility Criteria

- Size of enterprise: set by number of employees and capital/turnover by the SME Law;
- Personal commitment/creditworthiness of the borrower;
- Competent management: Competent management is reflected in the business performance;
- Viability of the enterprise: business must be viable and sustainable;
- Acceptable project risk: every business has risk but the risk must be at an acceptable level;
- Loan use: Loan must be used in the proposed business. Such as in procuring raw material, machinery and parts, or expansion of the business etc.; and
- Environmental concerns: the enterprise must respects for the environment.



Measures to be taken by SMEs

1st Phase: far reaching changes focus on political reforms and national reconciliation

2nd Phase: dealing with improving the nation's economy

3rd Phase: administrative reform to tackle the long standing corruption within the government

4th Phase: PPP: Public-Private-Partnership

- To form a working group to (1) share technical and market information, (2) cooperate one another in solving problems, (3) make voices to the authorities, and (4) promote SME knowledge
- To keep proper records of business transactions (booking)



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