



# SME Financing

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# Agenda

- Macroeconomic Considerations on Sustainable and Equitable Economic Development
- Outward looking policy
- Definition of SMEs
- Role of SMEs in Economic Development
- Common characteristics of SMEs
- Strengths and Weaknesses of SMEs
- Sources of funds
- Risk management
- SMEs in Myanmar
- Government's policy
- Strategies for SME development
- SME Financing thru banks
- Recommendations



# Macroeconomic Considerations on Sustainable and Equitable Economic Development

- Macroeconomic policy: Sustainable economic growth with poverty reduction: Sustainable and equitable economic growth
- Outward looking policy: re-entering onto the global stage
- Annual Plan: GDP growth: 8.9%,
- Agriculture: from 33.6% to 31.8%,  
Industry: from 27.6% to 28.8%,  
Services: from 38.8% to 39.4%
- Per capita GDP: to increase from 839,799 kyats to 962,240 kyats (USD 1069) increase by 14.5%



# Outward Looking Policy

- Export-oriented policy with development of SMEs and MFIs
- SME development: to boost export and competitiveness; to create jobs, eradicate poverty and raise standard of living
- Development of MFIs: to create businesses and jobs, eradicate poverty and raise standard of living



# 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)

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

Loan size: Micro: <\$10,000, Small: <\$100,000,  
Medium: <\$1m (<\$2m for some advanced countries)



# Role of SMEs in Economic Development

## Engine of growth:

- SMEs constitute a fundamental part of the economy, accounting 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 and disadvantaged in the rural area
- Building capacity of SME enables them to absorb more employment
- Self-employment is the only source of income for many poor



# Common characteristics of SME

- Labor intensive business
- Easy to commence business
- Reliance on narrow market
- Small capital needed to establish business
- Close to customers
- Manager and owner may be the same person



# Strengths

- Flexibility for adapting to change business environment
- Highly skilled in craftsmanship & hospitality
- Ability to response to needs in niche market





# 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



# Risk Management

- Viability of the enterprise
- Acceptable project risk
- Competent management
- Respect for the environment



# Credit Information Bureau

- To be established in collaboration with NSP Holdings from Singapore
- All local banks participate in the scheme as shareholders
- A repository of personal financial data on individuals and/or commercial business loans from Fis
- All Banks get information on borrowers from the bureau



# Credit Guarantee Scheme

- To facilitate development of SMEs to spur growth, job creation and a better distribution of income
- To facilitate access to commercial bank credit for creditworthy SMEs which lack such access because of insufficient collateral
- To provide additional risk coverage in the form of credit guarantees



# 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 w GAD: 62,000



# Government's emphasis on SME Development

- Central Committee for Development of SMEs (27 members): President (Chairman), 2 Vice-Presidents (Vice-Chairmen), 20 ministers, Region/State ministers, Attorney-General, Auditor-General and President of UMFCCI (formed on 9 Jan 2013)
- Working Committee for Development of SMEs (15 members) with Vice-President(2) as its Chairman and Union Minister for Ministry of Industry and Dy. Minister for NPED as Secretary and Joint-Secretary respectively
- To effectively provide financial capital required for SME development
- To ensure development of micro credit thru SME Bank



# Strategies for SME Development

Goal: to attain a sustainable and equitable economic development

Principle strategies: Export-led growth with SMEs development

Supporting strategies:

- HRD & Capacity building
- IT development
- Financial assistance
- Infrastructure development
- Business support
- Favorable taxation regime





# SME Financing

- SMIDB, the only bank in the country to specialize in SME loans, is extending three-year loans to small and medium industries at an interest rate of 8.50% pa
- In cooperation with SME development Center under the Ministry of Industry, the Bank will assess the loan proposals.
- K 5 billion + K 25 billion  
First batch of loans disbursed in December 2012
- The bank is getting technical cooperation from German GIZ in extending SME financing.
- Signed a MoU with Industrial Bank of Korea for cooperation



# Recommendations

- SME financing should be made thru both government and private banks
- Funds and technical assistance should be sought
- Viability of the business should properly be assessed before extending loans
- Credit Information Bureau and Credit Guarantee Corporation should be established to minimize and share risk
- SME financing should be made by accepting minimum collaterals or cash flow basis
- Make sure that funds are properly used in the business
- Proper monitoring and evaluation should be made



# Thank You

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