



SME Financing

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Objectives

1. Sharing of background, experiences and international good practices regarding SME-Financing
2. Discussion on SME-Financing in Myanmar: Identifying challenges and next steps



Agenda

- Definition of SMEs
- Role of SMEs in Economic Development
- Common characteristics of SMEs
- Strengths and Weaknesses of SMEs
- Sources of funds
- Principle strategies for SME development
- Risk management
- Government's policy
- Recommendations



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)



Myanmar's definition of SME

Definition by the 1990 Private Industrial Law:

	Small	Medium	Large
HP	<25	25 – 50	>50
Employee	<50	50 – 100	>100
Asset	<K1m	K1 – 5m	>K5m
Annual sale	<K2.5m	K2.5 – 10m	>K10m



Proposed New Definition

	Small	Medium
<u>Employee</u>		
Production:	10-70	70-150
Services:	10-50	50-100
<u>Asset (Kyat Mln)</u>		
Production:	>500	500-1000
Services:	>200	200-500

(Source: Meeting SME Development Center Vs UMFCCEI on 26.7.12)



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

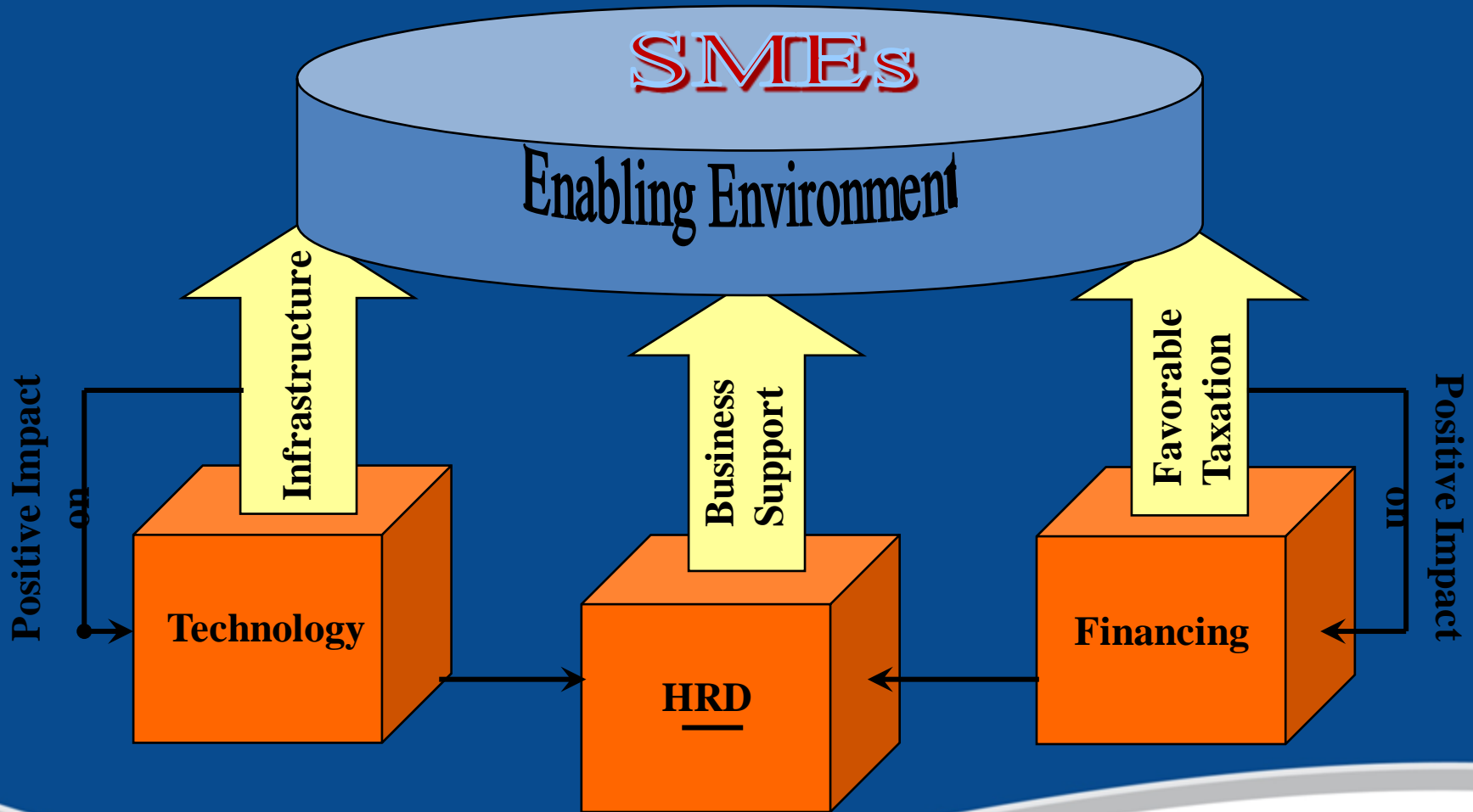


Sources of funds

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



Principle Strategies



SMI /SME Development Model



Principle Strategies

Principal Strategies

- HRD or Capacity Building
- Technology Development
- Financial Assistant

Supporting Strategies

- Infrastructure Development
- Business Support
- Favorable Taxation Regime



Risk Management

- **credit guarantee corporations:**

Established under the auspicious of the government to minimize the potential risks.

- **credit information bureau:**

A repository of personal financial data on individuals and commercial businesses. Banks get information on borrowers from privately owned bureaus



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
- 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



SME Financing Through SMIDB

- 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 30 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 the risk
- SME financing should be made by accepting minimum collaterals or without collateral
- Make sure that funds are properly used in the business
- Proper monitoring and evaluation should be made



Thank You

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