

5.1 Background for Adoption of SMEs Policies, Supporting Measures and Implication for Myanmar

5.1.1 Cases in selected countries

Table 5- 4 Outlines of SME Policies in Selected Countries

(X: not suitable to Myanmar, --: little suitable to Myanmar O: suitable to Myanmar)

	Background	Supporting measures (examples)	Implications for Myanmar (examples)
Republic of Korea	<ul style="list-style-type: none"> • Diversification of industries • Imports substitution • Export Promotion 	<ul style="list-style-type: none"> • Tax reduction or exemption • Financing and credit supplement • To encourage subcontracting system 	<p>X Tax reduction or exemption</p> <p>-- Financial incentives</p> <p>O Credit supplement</p> <p>O To encouraging subcontracting system</p>
Singapore	<ul style="list-style-type: none"> • Forming pyramid-shaped systems consisting of foreign assembly firms and local parts makers 	<ul style="list-style-type: none"> • Singapore is a society placing emphasis on competition, so that there are no broad financial, tax or fiscal incentives for SMEs. • CCIs are providing 60 programs for the improvement of SMEs' productivity and technology. 	<p>O To invite experts from CCIs in Singapore in order to make programs for improvement of SMEs' productivity and technology and matching local SMEs in Singapore with those in Myanmar.</p>
Thailand	<ul style="list-style-type: none"> • Development of supporting industries • Enhancing the export competitiveness 	<ul style="list-style-type: none"> • Establishment of industry development centers at rural areas. • Implementing entrepreneurship programs to enhance the knowledge and capacity of SMEs • Development of finance and credit supplement system: • To build primary contractor-subcontractor system between foreign capital firms and local SMEs • To introduce SMEs diagnosis consulting system for improving 	<p>O Foreign primary contractors, with incentives from the government, can provide training to subcontractors in Myanmar</p> <p>O Some Thai schemes may be adopted in Myanmar such as SMEs diagnosis consulting system and primary contractor-subcontractor system between foreign capital firms and local SMEs</p>

		the efficiency	
Malaysia	<ul style="list-style-type: none"> Helping the development of supporting industries in order to improve the balance of payments and export competitiveness 	<ul style="list-style-type: none"> While the primary contractors are to provide technological and management guidance to subcontractors and make purchases from them on a priority basis, the government is to extend preferential loans and tax cuts to primary contractors. 	<p>O The industrial linkage program will be worth adopting as a supplementary policy within the budget.</p>
Indonesia	<ul style="list-style-type: none"> The government's goals for SMEs policy are employment stability and regional development. 	<ul style="list-style-type: none"> The SMEs technology services units, which provide the equipment and guidance technology, product testing, designing, engineering, development. 	<p>O It will also be possible for Myanmar to establish technology services units in industrial zones. Myanmar also needs a system to foster guidance counselors.</p>
Philippines	<ul style="list-style-type: none"> The major goals of SME policy in the Philippines are fostering further subcontracting industries with foreign assembly firms and promoting regional development. 	<ul style="list-style-type: none"> The authorities send SMEs guidance counselors to 12 regions for providing guidance in feasibility study, productivity and product quality improvement, and designing. The SMEs Research Center at the University of the Philippines carries out development programs for entrepreneurs as well as corporate directors and provides employee training. 	<p>O Myanmar could introduce the system to send SMEs guidance counselors to various regions.</p> <p>O Creating a SMEs research center at universities would be effective. However, as Myanmar has very few scholars in universities who have successful business experiences, it is not so easy for them to give lectures to entrepreneurs. Therefore, UMFCCL should enhance such educational functions.</p>
Vietnam	<ul style="list-style-type: none"> The corporate reforms are an urgent priority for entailing reform of SOEs and the 	<ul style="list-style-type: none"> Because of insufficient fiscal revenues, the government has refrained from giving 	<p>X As the government finances are very tight, the country should refrain from adopting a large incentive</p>

	<p>development of private enterprises or SMEs.</p> <ul style="list-style-type: none"> • This is because from 2005 and onward, Vietnam will be hit hard by dramatic changes in the international environment. 	<p>large tax or fiscal incentives and instead come up with the following policies.</p> <ul style="list-style-type: none"> • Levering playing fields between SOEs and Private sector • Delegation of powers for the development of SMEs from the central government to the provincial governments • Simplification of the procedures for registration and license. 	<p>policy for the development of private firms.</p> <p>○ It is necessary for the government to concentrate its efforts on providing better business circumstances to the private companies.</p>
China	<ul style="list-style-type: none"> • It is necessary for China to strengthen SMEs so that they can create jobs for workers displaced from SOEs and farmers migrated from urban areas. At the same time, China puts emphasis on the development of supporting industries after joining WTO. 	<ul style="list-style-type: none"> • The characteristics of Chinese SMEs policy are to focus on the fiscal, tax and financial incentives to SMEs. • On the other side, the following non-incentive is used together such as technological support, human resources development, business matching and simplification of administrative procedures. 	<p>○ It is difficult for Myanmar to adopt incentive measures for SMEs, so that Myanmar should put more stress on non-incentive measure such as establishing technology development centers in each provinces and establishing human resources training centers in each provinces.</p>
United States	<ul style="list-style-type: none"> • The aim of the U.S. policy has been to eliminate monopolies by large enterprises and therefore places emphasis on venture business-type small businesses in the state-of- the-art technology sector, so that smaller firms can 	<ul style="list-style-type: none"> • Reduction or elimination of paperwork related to obtaining government permits or licenses • SMEs can register objections by taking legal actions when regulations imposed by other departments or agencies have adverse effect on small businesses. 	<p>○ It should emphasize more practical measures, such as the elimination or reduction of paperwork related to obtaining government approval or licenses, and providing management and technological guidance, rather than extending financial, tax or fiscal</p>

	strengthen their competitiveness vis-à-vis large companies.		incentives.
United Kingdom	<ul style="list-style-type: none"> Shift away from supporting the creation of new SMEs to supporting the existing SMEs under the circumstances of sharp increases but sharp shut -down in the number of SMEs. 	<ul style="list-style-type: none"> SMEs policy has placed more emphasis on supporting the growth of existing SMEs primarily through providing technology and knowledge, training and education, and advice necessary for the continuation of existing businesses, rather than aiming at the job creation effects of too much financial supporting. 	<p>O Myanmar should also place more emphasis on the continuation of existing SMEs rather than too much financial supporting. Therefore, it is essential to enhance management and technological guidance necessary for the continuation of existing SMEs.</p>

Source: JICA Study Team

(1) The Republic of Korea (South Korea)

1) Background

The government of the Republic of Korea had been promoting a heavy and chemical industries policy which was geared primarily to large corporations and the development of the machinery industry. However, this policy has resulted in an increase in imports of parts and components. Therefore, the government is trying to develop groups of businesses manufacturing materials and parts and components to substitute imports.

2) Supporting measures (examples)

A. Measures to promote the development of regional SMEs: This is designed to prevent the concentration of businesses to large metropolitan areas and also to bring industries to provinces.

a) Tax reduction or exemption

- The acquisition tax on acquired real estate is reduced or subject to waiver when a plant is moved to provinces.
- When new plants are built in an industrial development promotion zone or other zones designed to bring industries, business registration tax and fixed asset tax are subject to

waiver.

b) Financial support

- Lending interest rates are reduced, or preferential treatments concerning credit guarantee are extended to small and medium-sized enterprises when they move plants to provinces.
- Directors of regional branches of the central bank urge private-sector banks to extend loans to SMEs.

B. Financing and credit supplement measures for SMEs: Strengthening of fund-raising

- The creation of and the measures to increase the use of credit guarantee agencies, various agencies specializing in lending to SMEs, various investment funds specializing in SMEs, funds specializing in discounting of commercial bills, etc.

C. Tax incentives for SMEs: Enhancing the competitiveness of SMEs

- Tax exemption or reduction for a certain period after the founding of a new business, changes in business lines or relocation to provinces
- Certain tax exemptions for investment to replace aging facilities
- Certain tax exemptions for spending on the training of engineers and technicians

D. Measures to encourage SMEs to become subcontractors or affiliates of larger firms, or form cooperative businesses

- The enactment of Small and Medium-Sized Enterprises Affiliation Promotion Law and the extension of financial or fiscal support, management and technological guidance and other administrative support for enterprises incorporated into corporate groups
- The enactment of Small and Medium-Sized Enterprises Cooperative Union Law and various supporting measures for cooperative projects

E. Marketing support for and government purchases from SMEs: To promote products made by SMEs

- The Small and Medium-Sized Enterprises Agency is carrying out TV commercial campaigns to promote high-quality products made by SMEs
- Forty-three government organizations are advertising purchase plans for products made by SMEs
- Promotion of the introduction of certification marks for high-quality products made by SMEs

3) Implications for Myanmar:

As supporting measures implemented in South Korea include financial, tax and fiscal

measures as described above, it would be difficult for a nation like Myanmar which is experiencing not increasing government finances to adopt them. In South Korea, on the other hand, SMEs are increasing in transforming themselves from independent businesses into cooperating businesses for large companies. Before 1980, less than 40 percent of SMEs (companies with 20 or fewer employees in the manufacturing industries) were subcontractors but the figure rose to approximately 80 percent in the second half of the 1990s. It would also be necessary for Myanmar to encourage SMEs to transform some of them into subcontractors, become part of a corporate group headed by large companies or form cooperation businesses. This is for the following reasons:

- a) It is important to develop garment-manufacturing industry or footwear industry, which typically uses production subcontracting systems (the CMP scheme), and also to shift export into "develop-and-export" scheme (the FOB scheme) in the future
- b) In consideration of stages of development of industry, it will become necessary to promote the development of businesses manufacturing materials and parts to substitute the imports of electronic parts and components. Myanmar should also consider the adoption of supporting measures for marketing by SMEs and government purchases of SME products.

(2) Singapore

1) Background:

In Singapore, while the manufacturing industries center on large foreign-capital firms, local small and medium-sized enterprises are engaged in the manufacturing of foods, wooden furniture, plastic products, metal products, machinery parts and printing and publishing. On the other hand, a large number of new small and medium-sized enterprises are growing in recent years centering on the information technology industry. Big local enterprises have their bases in the financial and real estate sectors rather than the manufacturing sector. Due to the absence of an automobile industry in Singapore, there are hardly any pyramid-shaped corporate groups consisting of assembly companies and parts manufacturers. As a result, the government of Singapore is working very hard to build sub-contracting relationships between foreign capital firms and local SMEs. Singapore is a society placing emphasis on competition, so that there are no broad financial, tax or fiscal incentives for small and medium-sized enterprises.

2) Supporting measures (examples):

- a) A master plan for small and medium-sized enterprises: There are more than 60 programs for the promotion of technology and automation, business development and training for the improvement of productivity and technology run by the chambers of commerce and industry with the government providing support from the flank.

- b) Schemes for upgrading of local industries: The Ministry of Economic Development is providing training and education to local SMEs in response to requests from foreign capital firms in order to enhance the relationship between these two groups of businesses.

3) Implications for Myanmar:

Supporting measures provided by the government of Singapore are primarily based on the policy of transforming local SMEs into international subcontractors of foreign capital firms. In this respect, it would be very helpful for the government of Myanmar to inspect them. The promotion of a large number of programs primarily by chambers of commerce and industry should be discussed carefully for adoption in Myanmar. Myanmar may invite experts from the chambers of commerce and industry in Singapore and may try matching local SMEs in Singapore with those in Myanmar. It would also be effective for competent ministries and agencies in Myanmar to provide training to Myanmar's SMEs in response to requests from foreign capital firms in order to strengthen subcontracting relationship between the two groups of firms.

(3) Thailand

1) Background:

There are two major groups of small and medium-sized enterprises in Thailand. The first group consists of basic materials-related industries, such as foods, lumber and lumber products, furniture, ceramics, non-ferrous metals, rubber products, tobacco and leather products. This group accounts for approximately 40 percent of all factories. The other group is engaged in metals and machinery industries, which comprise general machinery, metal products, transport machinery and automobile repairs. This group accounts for another approximately 40 percent of the total. The problem in Thailand is that there are hardly any local small and medium-sized parts makers that can support foreign firms engaged in machinery assembly. In the manufacturing sector, only about 10 percent of small and medium-sized enterprises are said to be in a subcontracting relationship with big businesses. The remaining 90 percent of SMEs operate independently in traditional small markets. Consequently, most foreign capital firms engaged in machinery assembly bring with them foreign SMEs engaged in parts manufacturing. Under these circumstances, the government of Thailand is promoting an SME policy as part of the industry development policy to promote the development of supporting industries, including automobile parts, electrical machinery and electronic parts as well as to enhance the export competitiveness of Thai concerns, locate businesses in provinces.

2) Supporting measures (example):

A. Strengthening reform of industrial structure (led by the Ministry of Industry).

- An action plan authorized by the Cabinet in June 1998: The major elements of the plan are improvement of production processes and product quality, enhancement of commercial design and marketing, encouraging investments by foreign high-tech firms, fostering of skilled workers, development of SMEs, development of labor-intensive industries in provinces, and pollution prevention.
- Thailand has established institutes for the automobile, electrical machinery and electronics, foods, textile, steel and leather product industries as core supporting agencies. These institutes are independent from the government (the Ministry of Industry) and make policy recommendations, examine regulations and standards, and promote the development of supporting industries. They are scheduled to become financially independent in five years.

B. Development of SMEs

a) Developments since the currency crisis

- Mr. Shiro Mizutani, a former director of the Consumer Goods Industries Bureau of Japan's then Ministry of International Trade and Industry, is making recommendations for SME policy as advisor to Thailand's Ministers of Finance and Industry.
- In June 1999, Thailand established a system of SME consultants and institutes for human resources development and the development of SMEs in major industries.
- Proposed major features of the economic stimulus package announced in August 1999 included injection of funds to Small Industries Finance Corporation (SIFC) and Small Industry Finance Guarantee Corporation (SIFGC), and the creation of Small and Medium-Sized Enterprises Financial Advisory Center.
- In January 2000, Small and Medium Enterprise Development Law, which stipulates the creation of Small and Medium Enterprise Agency and Small and Medium Enterprises Development Funds, was passed by the Parliament.
- In April 2000, a master plan for the development of SMEs was approved by the Cabinet. Strategies for SME development include the improvement of technological and managerial capability, human resources development, expansion of market opportunities, strengthening of the financial system, improvement of the business environment and support for very small enterprises (cottage industries).
- In November 2000, the first national SME network forum was held in Bangkok, the SME development strategy was discussed in a lot of participants among SME entrepreneurs, the academics and government officials, and the result is reflected in the SME white paper compiled by the government.

b) Concrete measures (examples):

- Measures for SMEs in provincial areas: Established Industry Development Centers in the northern, northeastern and southern parts of the country, wrote development plans at the regional level and have been focusing on regional development. The Board of Investment provides progressively preferential treatments for investments in more remote regions. Businesses located in the industrial zones operated or approved by Thailand's Industrial Zone Public Corporation are given exemptions from or reduction in import taxes on machinery and raw materials.
- Measures for technology and human resources development: The Industry Service Department (ISD) of the Department of Industry Promotion (DIP), the Ministry of Industry, is implementing education and training programs for SMEs in tandem with Thailand's Productivity Center. These programs include production management, human resources management, financial management, organizational management, clerical work management and computer services. The center also distributes, promotes and develops technological information concerning furniture, agriculture and related activities, packaging and toys. The Small and Medium Enterprise Agency has created entrepreneurship development programs (EDP) to improve the knowledge and capacity of SME owners and management. Its education, follow-up and advisory services are proving to be effective. More advanced entrepreneurs development programs (EDP) are in place for higher-level entrepreneurs.
- Finance and credit supplement system: The Small Industry Finance Office (SIFO) of the Industry Development Bureau, the Small and Medium Enterprise Agency, extends credit to small enterprises at relatively low interest rates. The Industry Finance Corporation of Thailand (IFCT) offers financing for export-oriented small and medium-sized enterprises, small business development loans and regional industry development plans.
- Supporting industry development policy: The BOI Unit for industrial linkage development (BUILD) provides the following supporting measures to build primary contractor-subcontractor relationships between foreign capital firms engaged in final assembly and local SMEs engaged in parts production.
 - Creation of databases of local parts producers and parts importers
 - Matching foreign capital firms engaged in assembly with local parts manufacturers to conduct pilot projects in which imported parts are replaced by domestically-produced parts for certain periods of time on an experimental basis.
- Offers on computers comprehensive information to create more subcontracting opportunities within Thailand
- Operates training programs for the improvement of selling and technological capabilities of SMEs
- In 1997, the Board of Investment recognized supporting industries as special priority

industries and permitted them to locate anywhere in the country. It also accorded such tax incentives as forgiveness of corporate income taxes for eight years and 50 percent reductions in machinery import duties. Fourteen supporting industries eligible for these tax incentives are metal molds for plastics and metal press molds, tools and mounting tools, casting, cast products using induction furnaces, work tools, cutting tools, grinding tools, sintering tools, surface treatment, heat treatment, precision machine centers, electronic connectors, nickel cadmium batteries and rechargeable batteries and engineering plastics.

3) Implications for Myanmar:

- The present stage of development of Myanmar's industries is comparable to that of Thailand during the 1960s and 1970s. As Thailand in those days accepted recommendations from a World Bank mission and shifted from industrialization led by SOEs to that led by private enterprises, strengthened efforts to bring in foreign capital and focused on the development of infrastructure by using foreign official development assistance, foreign capital firms began to operate in Thailand in such import substitution industries as textiles, automobiles and home appliances. During the latter half of the 1970s, exports centering on garments, footwear and sundries increased, making it possible to gradually shift industries into export-oriented industries. In this respect, there is much to study from the policies adopted in Thailand. For example, in the garment-manufacturing industry, a garment association can take the initiative to offer comprehensive information via e-mail in order for the businesses with excess orders to create subcontracting business opportunities in Myanmar. As foreign companies are expected to start the assembly of electronics products in Myanmar in the medium term, primary contractors, with incentives from the government, can provide training to subcontractors for a certain period of time to improve the quality of parts in order to build primary contractor-subcontractor relationships between the foreign companies assembling final products and Myanmar SMEs engaged in parts production. These schemes can be adopted in Myanmar for its benefits.

(4) Malaysia

1) Background:

In Malaysia, big foreign companies are primarily responsible for exports of electronics final products, while local small and medium-sized enterprises are engaged in the production of electronics parts, foods, wooden furniture, plastics and metal products. However, local SMEs are not yet capable of supplying materials and parts for electronics final products. Supporting industries only account for slightly less than 20 percent of materials and parts

industries in Malaysia (compared with an estimated approximately 40 percent in Taiwan) and their products are limited to some rubber, paints, glass, plastics molding and corrugated boxes. As a result, even when exports of electronics products are buoyant, resulting increases in imports of parts and materials worsen the nation's international balance of payments. Therefore, there is a strong fear that when supporting industries for electronic parts are fostered in China not in the distant future, China may catch up in exports. Moreover, as 90 percent of electronics products are assembled in free trade zones or bonded zones using imported parts before they are exported, these zones are in essence "export enclaves" and lack linkage with the local parts industry. Therefore, helping the development of supporting industries is an urgent task for the government of Malaysia as well.

2) Supporting measures (examples):

a) Industrial master plan

- Though the second industrial master plan covering the years from 1996 to 2005 was drawn up before the currency crisis, it aims at shifting industrial structure to one that is more high-tech, creates higher value-added, more capital-and technology-intensive and focuses on the development of supporting industries. The plan has not been changed significantly even after the currency crisis. The goal of Vision 2020 covering the years from 1991 and 2020 is for Malaysia to become a member of the community of advanced, industrialized nations by 2020. The industrial master plan is part of the road map to reach this goal.
- One of the concrete aspects of the industrial master plan is the industrial linkage program. This program calls for large companies (primary contractors) to assume the responsibility of fostering small and medium-sized firms (subcontractors) in order to build linkages within industries and also among industries. While the primary contractors are to provide technological and management guidance to subcontractors and make purchases from them on a priority basis, the government is to extend preferential loans and tax cuts to primary contractors. The first of such schemes was one involving Proton as the nucleus, which was launched in 1988. The scheme has since spread to the electrical machinery and electronics manufacturers.

b) National Economic Rehabilitation Plan

- This plan, announced in July 1998, is a package of short-term measures for the rehabilitation of the economy immediately after the currency crisis. It aimed at the stabilization of the currency, restoration of market confidence, stability of the financial market, strengthening economic fundamentals, elimination of economic gaps, and rehabilitation of industries. This plan is still in force and the government is monitoring its effects. The government policies for the manufacturing industries include

technological innovation, promotion of automation, strengthening linkages in the domestic electrical machinery and electronics industries, the Multimedia Super Corridor Plan and the development of the information technology industry in line with the national information technology policy, diversification of industrial structure, development of supporting industries and the development of export industries using domestic raw materials.

- In March 2002, Prime Minister Mahathir advocated the creation of “K-Economy” (knowledge-intensive economy) and created a master plan for Malaysia to achieve sustainable growth amid the growing importance and upgrading of information technology. The six strategies for the realization of this plan are improved education in information technology, stemming brain drain and promoting the return of brains, promotion of acceptance of intellectual human resources from around the world, the development of the most advanced multimedia systems, making every citizen IT literate, and reforming both the public and private sectors for the realization of these strategies.

3) Implications for Myanmar:

If Myanmar promotes wholly foreign-owned firms to free trade zones and bonded zones, it will not be easy to create linkage between these firms and domestic SMEs. Therefore, a supplementary policy will be necessary. The above-mentioned industrial linkage program (under which the primary contractor provides technological and management guidance to subcontractors and makes purchases from subcontractors on a priority basis, while the government provides preferential loans and tax cuts to the anchor firm) will be worth adopting as a supplementary policy.

(5) Indonesia

1) Background:

In Indonesia, state-owned enterprises monopolize such core industries or basic materials industries as petroleum refining, energy, steel making, aluminum smelting and petrochemical industries. At the same time, financial cliques, mostly of ethnic Chinese, monopolize finance, real estates, lumber processing, marine product processing and oil and fats businesses. In tandem with foreign capital, they also have oligopoly in the automobile assembly, textile and other industries. On the other hand, small and medium-sized enterprises are engaged in food processing, lumber making, garment manufacturing, leather products making, plastic molding and sundries manufacturing. The government’s goals for small and medium-sized enterprise policy are employment stability and regional development.

2) Supporting measures (example):

a) Committed to the enhancement of SMEs in a memorandum exchanged with the IMF

- Rewriting the long-term development plan and the five-year plan
- The memorandum exchanged with the IMF in January 2000 consists of 98 items. Though there is no guideline for the development of industries, the inclusion of an SME policy is noteworthy. The memorandum states that the government of Indonesia is now implementing a medium and long-term SME policies with support from the Asian Development Bank and the World Bank.

b) Concrete measures for SMEs

- Promotion of guidance to small-scale industries: The government is establish small-scale industry centers in areas where there are more than 20 businesses in the foods, leather, handicraft, garment manufacturing, building material or metal processing industries. The centers include technology services units, which introduce necessary equipment and are manned by a guidance counselor. They use the equipment and provide guidance in business management, technology, product testing, designing, engineering and new product development.
- Foster parent linkage program: Primary contractors, which are the foster parents, will use the government facilities to provide management guidance, technology guidance and employee education to subcontractors.
- Financing system: The central bank provides small-scale investment loans and long-term operating funds loans.

3) Implications for Myanmar:

It will also be possible for Myanmar to establish technology services units in industrial zones. Myanmar also needs a system to foster guidance counselors. The above-mentioned foster parent linkage program will also be effective in Myanmar's garment manufacturing and footwear industries, etc. In this case, as primary contractors will provide guidance personnel, this measure has an immediate effect without special program to be required to train guidance counselors.

(6) The Philippines

1) Background:

In the Philippines, there is a bi-polarization of SMEs with one group concentrating on exports (direct exports of garments and other products, and indirect exports through parts manufacturing for home appliances and automobiles) and the other comprising mostly traditional local industries (food processing, metal processing, furniture and printing). Export businesses are engaged in manufacturing as subcontractors to foreign capital companies. The

ratios of local contents in foreign capital company manufacturing in the Philippines are rather high for an Asian nation, with that in home appliances standing at 45-50 percent, in automobiles at 20-30 percent, and in electronics parts at approximately 20 percent. The major goals of SME policy in the Philippines are fostering further subcontracting industries and promoting regional development.

2) Supporting measures (example):

a) Financing system for SMEs

- On the recommendations of the World Bank and the Asian Development Bank, the Philippines has established a small and medium-sized industry loan program (SMILE), export industry modernization programs (EIMP), agricultural industry technology transfer program (AITTP), industrial guaranteed loan facility (IGLF), the Philippines export and foreign guarantee company, small and medium-sized enterprise guarantee funds (GFSME), venture capital (VCC) and small and medium-sized enterprise investment promotion company (VIBES). However, as the recipients of loans and investments often have large hidden bad debts, these institutions have not had as much effect as had been expected.

b) Measures to improve technology

- The Bureau of Small and Medium-Sized Enterprise Development (BSMED) of the Department of Trade and Industry (DTI) sends small-scale business guidance counselors to 12 regions across the nation to provide guidance in feasibility study productivity, product quality improvement, and designing.

c) Fostering of entrepreneurs and support to their education

- The Small and Medium-Sized business Research Center at the University of the Philippines carries out development programs for entrepreneurs as well as corporate directors and provides employee training. The center was established in 1966 with aid from the Dutch government and became part of the University of the Philippines in 1969.

3) Implications for Myanmar:

Even if Myanmar creates a small and medium-sized enterprise financing system soon, its users may be limited because very often it is impossible to identify investment or credit risk because of inadequate financial disclosures by the recipients of funds, not to mention the problem of their bad debts. On the other hands, Myanmar could introduce the system to send small-scale business guidance counselors to various regions. Creating a small and medium-sized business research center at universities to provide educational programs to entrepreneurs or to business directors, and provide employee training would be effective.

However, Myanmar has very few scholars in universities who have successful business experiences, it is not so easy for these scholars to give lectures to entrepreneurs, business directors and employee. Therefore, first of all, UMFCCI should shoulder such educational functions in order to bring up small-scale business guidance counselors and trainers.

(7) Vietnam

1) Background:

The following corporate reforms have been promoted since the adoption of doi moi (economic renovation) policy in 1986.

- a) Since 1987, state-owned enterprises have been required to be self-supporting and subsidies to these enterprises were explicitly scrapped in that year. However, implicit subsidies are still being paid, because various supporting measures are still in force, such as the injection of funds from state-owned banks to make up for the losses when these enterprises are temporarily in the red.
- b) Since the first half of the 1990s, the government has begun to promote the development of private enterprises without causing the government the burden of fiscal support. However, compared with private enterprises, state-owned enterprises still enjoy substantial privileges, including the monopoly of export quotas in the garment-manufacturing industry, free use of land for business operations, and preferential terms when they borrow from banks.
- c) In 1994, in an effort to increase the competitiveness of state-owned enterprises, the government shut down or consolidated some of these enterprises. However, these actions took the form of cross subsidy, in which inefficient state-owned enterprises with weak business foundations were merged to those which make profits because of their privileges. In order to truly improve the efficiency of state-owned enterprises, substantial reforms, such as the scrapping of their privileges and liquidation of those that are chronically in the red, are necessary.
- d) It was only after 1996 that the government of Vietnam came up with explicit policy concerning private enterprises. And, it was only in or after 1998 that the government explicitly decided on the direction of the SME promotion policy. Between 1996 and 1997, this subject was taken up by the Ministry of Planning and Investment (MPI) from the perspective of fostering private enterprises and by the Ministry of Industry (MOI) from the perspective of developing supporting industries.

As described above, corporate reforms are an urgent priority that should be enhanced further in the future, entailing reform of SOEs on the one hand and the development of private enterprises or SMEs on the other. This is because from 2005 and onward, Vietnam will be hit hard by a series of dramatic changes in the international environment. These include the following:

- a) Under the WTO Textile Agreement, export quotas, which at present are nearly monopolized by SOEs, will be scrapped in international trade on January 1, 2005.
- b) Under the AFTA rules, Vietnam will have to remove all non-tariff export barriers and reduce import duties to 5 percent of less by January 1, 2006. This will deal a hard blow to import substitution industries, which consist mostly of SOEs enjoying government protection.
- c) When Vietnam joins the WTO before 2010, it will have to fully implement the terms and environment to foreign capital firms and Vietnamese SOEs, which means SOEs will no longer monopolize the privileges they now enjoy. Since a trade agreement was signed with the United States in 2000, the U.S. government has consistently demanded in relation to U.S. investment in Vietnam that privileges of Vietnamese SOEs be eliminated.
- d) Under these circumstances, if private enterprises, which are mostly SMEs, are left in their inferior conditions or subject to discrimination, they will not be able to replace SOEs in their role to lead the nation's economy in and after 2005, when the international environment is expected to change dramatically. This has prompted the government and others to recognize that the development of private enterprises (i.e., SMEs) is an urgent priority. The central government is now in the process of studying the creation of a level playing field for all businesses by eliminating the discrimination between state-owned enterprises and private enterprises and between big businesses and small and medium-sized businesses.

2) Supporting measures (example):

Because of insufficient fiscal revenues, the government of Vietnam has refrained as much as possible from giving large tax or fiscal incentives and instead come up with the following policies to foster small and medium-sized enterprises.

- a) The central government has delegated significant powers for the development of SMEs to the governments of provinces and has built a relationship in which the Ministry of Planning and Investment of the central government formulates development policies, which are implemented by relevant ministries and agencies, while the bureaus of planning and investment of provincial governments conduct day-to-day business. An SME can go to the

bureau of planning and investment of provincial government to receive counseling on government services.

- b) In 1998, supporting centers for SMEs were created in the Vietnamese Chamber of Commerce and Industry (VCCI) and the Ministry of Trade (MOT). As the organization of industry groups has been encouraged, channels of communication between the industry and the provincial as well as the central government are being formed. At the same time, the bases for the linkage between large companies and small and medium-sized enterprises are being built.
- c) In 1998, the government simplified the procedures for registration of new businesses and license acquisition for private enterprises, expanded their right to international trade and implemented auctions of some export quotas.
- d) As part of its efforts to build institutional infrastructure, the government of Vietnam began to study the feasibility of the promulgation of basic law for small and medium-sized enterprises, the creation of a government bureau for the development of SMEs, credit guarantee system, etc. and plans to implement them at an early date.
- e) Government actions taken so far include inviting private enterprises to participate in bidding for government procurement; getting overseas information via the Internet as it comes into wider use in the country; building of primary contractor-subcontractor relationships among businesses through chambers of commerce and industry and industry groups; improvement of the levels of technology and skills through such organizations as vocational training centers; and partial subsidies from the provincial governments for marketing activities, participation in trade fairs and exhibitions, and market research.
- f) The Decree on SME promotion Policies Structure was promulgated in November 2001, and came into effect in December in the same year. The major guiding principles are as follows (Note: Translated by The Government of Vietnam).
 - A Department of SMEs Promotion under the Ministry of Planning and Investment shall be established by the Government. The duties and tasks of this Department are to assist Minister of Planning and Investment in terms of State management on promotion and development of SMEs.
 - The Government shall set up a Council for SMEs Promotion and Development, that will take responsibility for consultation for the Government with respect to policies, mechanism on development and promotion of SMEs. The members of the Council shall be in pluralism. The members of the Council consist of:

- Chairman of the Council for SMEs Promotion and Development (Minister of Planning and Investment)
- Standing secretary of the Council: Representative of Department of SME Promotion and Development
- Representatives of State management agencies Government office, the Ministry of Planning and Investment, the Ministry of Finance, the Ministry of Justice, the Ministry of Industry, the Ministry of Transportation and communication, the Ministry of Trade, MOSTE, MOET, MOLISA.
- Representatives of people's committee of Hanoi City, HCM City, Da Naung City and Hai Phong City
- Representatives of Central Council of Vietnam Co-operative Alliance, Vietnam Chamber of Commerce & Industry, some professional associations, business club, and some high senior experts.
- The Centres for SMEs Promotion and Development shall be set up in Hanoi, Da Nang and HCM City, and supervised and guided by the Department of SMEs Promotion and Development. The Center for SMEs Promotion and Development shall be calculated unit and its functions are including consultation, renovation of equipment, technology and technique guiding on technical management and maintenance of equipment, helping the SMEs to access the new technology and equipment.
- The Government shall establish a credit guarantee fund to support SMEs in case that these SMEs have not enough property to be mortgaged for loans from credit institutions.

3) Implications for Myanmar:

There is a very large possibility that like their counterparts in Vietnam, state-owned enterprises in Myanmar will be hit by the drastic changes in the international environment in and after 2005. They are:

- Under the WTO Textile Agreement, export quotas, which are now nearly monopolized by SOEs, will be abolished in international trade on January 1, 2005.
- Under AFTA rules, Myanmar will have to remove all non-tariff trade barriers and reduce import duties to 5 percent of less by 2008.
- If a trade agreement is concluded with the United States in the future, the United States is very likely to demand in relation to its direct investment in Myanmar that the country abolish monopoly privileges of SOEs based on WTO's national treatment.

In anticipation of these environmental changes, the government of Myanmar will have to develop private enterprises so that they can supplement SOEs as the drivers of the national economy. Myanmar will likely face stiff and growing export competition from Vietnam in

garment-manufacturing, footwear and sundries, because the stages of industrial development in these countries are rather similar. Therefore, Myanmar should pay close attention to Vietnam's policies for the development of private enterprises and SMEs. As Myanmar's government finances are very tight, the country should refrain as much as possible from adopting a large incentive policy for the development of private enterprises. It is necessary for the government to concentrate its efforts on providing better business circumstances to the private companies.

(8) China

1) Background:

- a) China realized a level playing field for state-owned enterprises, private enterprises and foreign capital firms during the 1990s. This has forced a significant number of SOEs, which had enjoyed privileges in the past, to restructure their operations. On the other side, the migrant population from rural areas to urban areas will continue and it is forecast that the migrant population will reach 5 million every till 2010.

As a result, it was necessary to strengthen SMEs so that they can create jobs for displaced workers and farmers. At the same time, the Asian currency crisis has opened everyone's eyes to the importance of supporting industries. These background leads to China providing fiscal, tax and financial incentives to SMEs for their development as describes bellow in the sentence of supporting measures.

- b) It should be pointed out about developments in China's reform in the garment industry, centering mostly on private and small and medium-sized enterprises, so that it could be used as reference by the government of Myanmar. Because, China is one of the competitor for Myanmar's garment industry.

An examination of changes in the organizational structures of garment makers shows that during the eight years from 1989 (the year of the Tiananmen Incident) to 1997, the number of SOEs dropped to one-twentieth of what it was in 1989. This is a result of the intensifying the market competition and the acceleration of restructuring efforts by state-owned garment makers triggered by Deng Xiaoping's Southern Tour Lectures in the 1990s.

Table 5- 5 Companies in the Garment Industry (1997)

Item	Unit	SOEs	Private firms	Foreign firms
Number of firms	Number of firms	935	11,399	4,890
Sales	10,000 yuan	853,800	7,967,400	7,180,600
% of total sales	%	5	50	45

Sources: Estimates by JICA Study Team based on various statistics in China.

Table 5- 6 Number of Garment Makers in China

Type of firms	1989	1997
SOEs	17,301	935
Private Firms	6,407	11,399
Foreign firms	a few	4,890

Sources: Estimates by JICA Study Team based on various statistics in China.

Comparisons of average sales, total assets and net worth of the three types of enterprises reveal the foreign firms have the highest average per-company sales and net worth, while SOEs have the highest average total assets.

Table 5- 7 Size of Business by Type of Enterprise (1997)

Item	Unit	SOEs	Private firms	Foreign firms
Sales/firm	10,000 yuan	913	699	1,468
Total assets/firm	10,000 yuan	1,528	624	1,376
Net worth/firm	10,000 yuan	435	214	570
Equity ratio	%	28	34	41

Sources: Estimates by JICA Study Team based on various statistics in China.

Also, an examination of management efficiency reveals that private firms and foreign firms are more efficient than SOEs.

Table 5- 8 Management Efficiency by Type of Enterprise (1997)

Item	Unit	SOEs	Private firms	Foreign firms
Sales	10,000 yuan	853,800	7,967,400	7,180,600
Profit	10,000 yuan	-13,800	238,500	156,700
Sales/firm	10,000 yuan	913	699	1,468
Profit/firm	10,000 yuan	-15	21	32
Profit-to-sales ratio	%	-1.6	3.0	2.2
Sales/total assets	-	0.60	1.12	1.07

Source: Estimates by JICA Study Team based on various statistics in China

The following are the reasons why the major players in the garment industry have shifted away from SOEs to private firms, and to foreign firms.

- As the level playing field was attained in the 1990s, a large number of SOEs which had continued production without any regard to the market condition, as they had done under a planned economy, either went out of business or changed to other lines of business.
- Previously, state-owned trading corporations had handled only export and import businesses of SOEs, but since the 1990s they have been allowed to handle export and import businesses of private enterprises. This has resulted in the strengthening of relationship between township and village enterprises and state-owned trading corporations, which placed emphasis on the market-driven production of township and village enterprises. Additionally, In the 1990s, the township and village enterprises have obtained the right to engaged in export and import trade.
- During the 1990s, as sewing on commission has grown, a large number of foreign firms started doing business in China.

It is worthy of special note that the government of China carried out the following administrative reforms in 1998 to encourage the development of private garment makers.

- The Ministry of Spinning and Weaving Industry of the central government, which had jurisdiction over SOEs, was scaled down to the Bureau of Spinning and Weaving Industry and was placed under the umbrella of the State Economic and Trade Commission. Its chief function was changed from administrative guidance to industrial policy. Assets of SOEs are managed by the State Enterprise Asset Management Committee.
- The Divisions of Spinning and Weaving Industry of local governments, which had jurisdiction over local SOEs, was scrapped. The Textile and Garment Associations was created locally and is integrated centrally as the Federation of the Textile and Garment Associations. These associations, which are semi-governmental, offers market information, support for the development of new products, etc., and management guidance to member companies and also enforces voluntary regulation of the industry.
- The Fashion Industry Association was created as a specialized sub-section of the Spinning Industry Association to offer the following services through the printed media and the Internet. They are; i) information on the domestic and foreign markets (inquiries from domestic and overseas buyers, domestic and foreign fashion information, etc.), ii) trends in the production of materials (fabric production and price information from China and other countries, information on new materials, etc.), iii) industry trends (shipment and export information, information on the business environment in the industry, etc.), iv) management guidance and seminars (recently, it has been conducting seminars under the theme of "WTO membership and the issues for the garment industry,

business opportunities” in cooperation with relevant departments of the government.), and v) holds fashion shows by well-known domestic and foreign fashion designers and sends members overseas to conduct business negotiations with foreign firms or to participate in foreign product fairs.

2) Supporting measures (example):

- a) Preparation of SMEs Laws: China is drawing up the SMEs Laws such as the SMEs Promotion Law, the SMEs Employment Security Law or Decree, the Technological Advance Law or Decree for SMEs, etc. The draft of SMEs Promotion Law was explained at the standing committee of the Assembly of National Peoples Representative held in December 2001 and will be enacted around the middle of the year 2002. The major points as follows.
 - The State Economic Committee will be take responsibility for policies making, guiding, coordinating, supervising on SMEs.
 - The related ministries in central government and provincial governments will provide fiscal, tax and financial incentives to SMEs for their development.
 - The SMEs of which equities is owned over 25 % by Large companies will not be provided any incentives.
- b) Loan and investment support: The one of big obstacles for Chinese SMEs is short of funds. In order to solve it, China is promoting establish to SME finance, SME guarantec funds, venture funds in each province.
- c) Tax incentives: The adoption of progressive taxation, the reduction of VAT for SMEs under a certain scale, the reduction of corporate income tax rates for SMEs and waiver of corporate income tax for three years for businesses in which the employment of unemployed workers accounts for more than 60 percent of all employees.
- d) Technological support: Establishing technology development centers in each province.
- e) Human resources development: Establishing human resources training centers (for the training of managers, engineers and technicians, and guidance counselors) in each province.
- f) Business matching: The government is undertaking the establishment of corporate information centers in each province and linking them in a network that covers all provinces. The government is promoting to build sub-contracting relationships between large firms and SMEs as well as to establish the industrial associations for strengthening mutual business cooperation.

g) Simplification of administrative license and approval system

3) Implications for Myanmar:

a) As stated above, China has carried out ; 1) restructuring of SOEs, 2) realization of a level playing field, and 3) achieved administrative reform to help develop private firms. Today, the lead players in the garment industry in China are private firms. The government of Myanmar will do well to investigate and study the policies for small and medium-sized garment manufacturer in China.

b) The characteristics of Chinese development policy are to focus on the fiscal, tax and financial incentives to SMEs. It is necessary for China to strengthen SMEs so that they can create jobs for workers displaced from SOEs and farmers migrated from urban areas. At the same time, China puts emphasis on the development of supporting industries after joining WTO. It is difficult for Myanmar to adopt incentive measures for SMEs, so that Myanmar should put more stress on non-incentive measures such as technological support, human resources development, business matching and simplification of administrative procedures.

(9) United States

1) Characteristics:

The philosophy of anti-monopoly and free competition bore fruit in 1953 with the passage of Small Business Act, which explicitly stipulates assistance and support to small and medium-sized businesses. The Small Business Administration was created and the agency decided to extend financial support to small and medium-sized enterprises during recessions to prevent them from going bankrupt. A characteristic of the U.S. policy was the creation of a minority small business investment company and pilot programs for businesses owned by women for small businesses owned by members of the minorities or by women. In contrast, Japan's small and medium-sized business policy did not stem from the philosophy of anti-monopoly and free competition as in the United States. It placed emphasis on encouraging the affiliation of smaller businesses to corporate groups headed by large businesses, as the latter gained monopoly under the government-led industrial policy. As Japan's government-led industrial policy has been implemented with big businesses in mind, it also includes worker protection policy designed to narrow the gap between the large firms and smaller firms, and export policy. On the other hand, the aim of the U.S. policy has been to eliminate monopolies by large enterprises and therefore places emphasis on venture business-type small businesses in the state-of-the-art technology sector, so that smaller firms can strengthen their competitiveness vis-à-vis large companies.

2) Examples of the policy:

- Small business policy under the Reagan Administration: Reduction or elimination of paperwork related to obtaining government permits or licenses in the general environment of deregulation; management guidance rather than financial or fiscal incentives because of the budget deficits, and measures emphasizing technological guidance
- Small business policy under the Clinton Administration: The emphasis on cost-benefit ratios (emphasis on results rather than the system) due to budget deficits. For example, there is a rule under which the SMEs can register objections by taking legal actions when regulations imposed by other departments or agencies have adverse effect on small businesses (Small Business Regulations Remedy Act of 1996).

3) Implications for Myanmar:

Because the government of Myanmar also has budget deficits, it should emphasize more practical measures, such as the elimination or reduction of paperwork related to obtaining government approval or licenses, and providing management and technological guidance, rather than extending financial, tax or fiscal incentives. However, supporting measures in the area of finance should be provided to the extent possible, because SMEs in Myanmar involve less collateral than larger firms do.

(10) United Kingdom

1) Characteristics

Shift away from supporting the creation of new businesses to supporting the existing small and medium-sized firms

During the 1980s, when the United Kingdom had very high unemployment rate, it focused its attention on the fact that in the United States small and medium-sized enterprises played very important roles in creating jobs, and supported the creation of new businesses primarily through financial measures. It resulted in sharp increases in the number of new businesses during the first half of the 1980s, but the number of business shut-downs also increased sharply. Consequently, subsequent SMEs policy has placed more emphasis on supporting the growth of existing SMEs primarily through providing technology and knowledge, training and education, and advice necessary for the continuation of existing businesses, rather than aiming at the job creation effects of too much financial supporting the creation of businesses.

2) Implications for Myanmar:

Myanmar should also place more emphasis on the continuation of existing businesses

rather than too much financial supporting the creation of businesses. Therefore, it is essential to enhance management guidance and technological guidance necessary for the continuation of the operations of existing SMEs.

(11) Japan

1) Characteristics:

Nomura Research Institute submitted a report to the APEC secretariat on the characteristic of SMEs policies in APEC members. In this report, the basic concept of SMEs policies in Japan could be categorized in comparison with other countries. The most striking differences can be found in the following three areas.

(a) Specific support vs. Non-discriminate

- a) Some members adopt specific policies geared to support SMEs
- b) Others provide support services to all types of enterprises, not specially to SMEs

Japan and Singapore are the most typical countries which represent their adopting specific policies relevant to SMEs. However, their objectives in supporting SMEs differ. In Japan, an objectives of its SMEs policy is to fill in gaps and correct unequal business opportunities that exist between large firms and SMEs. Therefore, the Japanese government has been extending financial, tax or fiscal incentives to SMEs for their development. On the other hand, in Singapore the government policy is primarily aimed at fostering a link between multi-national firms operating in Singapore and local SMEs. Hence, the task of the government is to build sub-contracting relationships between multi-national firms and local SMEs. Singapore is a society placing emphasis on competition, so that there are no broad financial, tax or fiscal incentives for SMEs. China is also promoting specific SMEs policy in a completely different setting from that of Japan and Singapore. Here, the primary objective of the government policy is to create jobs for workers displaced from SOEs and farmers migrated from urban areas, additionally to develop supporting industries after joining WTO. In 2001, China came up with a new policy to focus on the fiscal, tax and financial incentives to SMEs.

Among the APEC members without specific policies are Hong Kong and New Zealand. These government policies emphasize the following two points. Basically, businesses should be self-reliance and should not be dependant upon government support. Distribution of economic resources should be determined by the market mechanism. The governments that take this approach, which also include Australia and Canada, regard their primary role as maintaining an open business environment. They make this possible by removing regulatory barriers and impediments to allow businesses to seize all available opportunities provided by open and competitive markets.

(b) Fostering supporting Industries vs. Creating Venture Businesses

- a) Some members focus on fostering and strengthening the supporting industries
- b) Others focus on encouraging venture businesses and other entrepreneurial start - up firms

The members providing the former type of policies are Malaysia, Thailand and other Southeast Asian countries. Malaysia's Vendor Development Program (VDP) and Thailand's BOI Unit for Industry Linkage Development (BUILD) are exemplary programs for fostering the supporting industries. Most members that focus on the supporting Industries are based upon the following scheme; multi-national firms and other large foreign firms are encouraged to operate in their local economies as anchor firms to develop industry linkage with local SMEs and to up-grade the level of those SMEs' capabilities.

By contrast, SMEs policies in the USA and other economically developed members, are designed with a focus on the development and support of start-up SMEs-mainly in the high-tech field. It is generally recognized in the USA that the establishment and growth of small businesses are critical to the country's economic recovery and the creation of employment opportunities.

Japanese policy has traditionally stressed on the supporting industries. However, in recent years, Japan has also been active in reorganizing its economic infrastructure to make it more conducive to the growth of venture businesses and to provide positive support to entrepreneurial start-up firms. It is generally observed that, with the development of economies, SME policies tend to shift from a focus of fostering the supporting industries to developing venture businesses.

(c) Global industry linkage vs. Domestic industry promotion

- a) Some members seek to increase SMEs's business opportunities by enhancing global business integration
- b) Others mainly assist SMEs within the framework of developing domestic and local industries

Hong Kong, Singapore and Canada adopt the former type of policies. These countries are geographically exposed to international competition, hence, global business sensitivity is crucial to their economic growth. A good example of this global business policy outlook is Hong Kong's Trade Inquiry Service Program. This program is designed to match local SMEs in manufacturing and trade sectors with overseas buyers. Another example is Canada's Investment Prospecting Program. This program is aimed at helping local firms identify opportunities of international investment and joint ventures. Malaysia and Thailand also seek to develop their local SMEs by taking full advantage of the initiatives of multi-national firms

through the above-mentioned VDP and BUILD programs.

2) Examples of the policy:

Japan has a long history on SMEs development policy. It has started from relief to weak SMEs, moved to pull up promising SMEs and is shifting to foster venture businesses. The basic idea is to correct the gap between the management abilities of large firms and SMEs. The characteristic of SMEs development policy is very comprehensive SMEs policy systems as indicated outlines in the following table and related law systems though not pointed out here.

Table 5-9 Implications of SMEs Policy System in Japan

Goals	Methodology	Measures
Removal of institutional and regulatory obstacles.	-To enact economic and company laws.	<ul style="list-style-type: none"> • Market entry (company law), market transactions (law of obligations), withdrawal from the market (bankruptcy law), fair competition (competition law).
Planning and implementation of SME development policies.	-To specify SMEs development policy	<ul style="list-style-type: none"> • To enact SMEs the Basic Law
	-To improve the capability of administrative organizations and personnel.	<ul style="list-style-type: none"> • To create an organization across ministry lines for SME administration. • To develop human resources (administrators). • To write "SME White Paper."
Facilitation of fund-raising and enhance own capital.	-To create systems for supplying funds.	<ul style="list-style-type: none"> • To enhance the intermediation functions of private financial institutions to SMEs. • To improve relevant laws such as collaterals system. • To create a system for credit supplement. • To create financial institutions specializing in SMEs.
	-To build a system for obtaining capital.	<ul style="list-style-type: none"> • To promote the creation of venture capitals.
	-To re-examine related taxes.	<ul style="list-style-type: none"> • To create a taxation system for the promotion of investment by SMEs.
	-To improve corporate accounting	<ul style="list-style-type: none"> • To create an accounting system. • To develop human resources (accountants, tax accountants, etc.) • To create incentives for book-keeping, such as the blue return system.
Creation of intellectual infrastructure to support business	-To establish a system of standards.	<ul style="list-style-type: none"> • To create a system for the authentication of standards. • To improve the measurement system. • To improve inspection and testing capabilities.

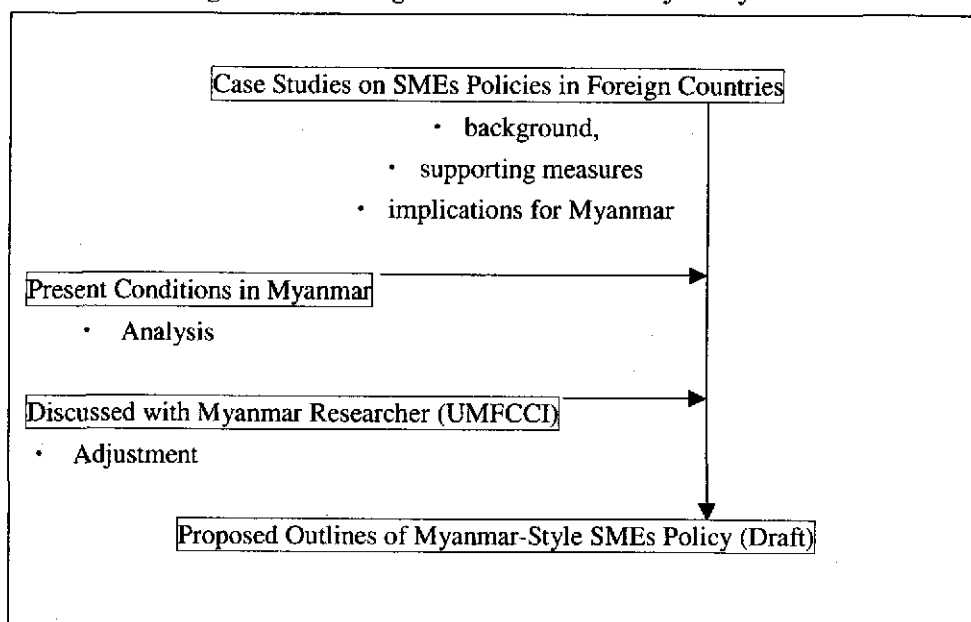
activities.	-To create a system for the protection of intellectual property.	<ul style="list-style-type: none"> • To enact relevant laws. • To improve the enforcement capability for the intellectual property protection system.
	-To compile statistics relating to SMEs.	<ul style="list-style-type: none"> • To compile statistics on SMEs and their output.
-Liberalization of trade and investment.	-To liberalize trade and investment.	<ul style="list-style-type: none"> • To improve the capabilities for meeting WTO requirements.
	-To develop overseas markets.	<ul style="list-style-type: none"> • To create an information system on overseas markets. • To hold trade fairs. • To foster workers who do paperwork on trade. • To improve IT infrastructure.
	-To promote foreign direct investment.	<ul style="list-style-type: none"> • To improve circumstances of FDI. • To create special economic zones. • To foster relevant administrators.
Enhancement of foundation for business management.	-To enhance management resources.	<ul style="list-style-type: none"> • To develop human resources for SMEs (universities and other institutions, vocational schools, etc.) • To public agencies to offer management and technology guidance to SMEs <ul style="list-style-type: none"> - Create and strengthen public bodies to offer technological support. - Create a public system for corporate diagnosis and consulting. • To provide management and technology guidance
	-Exchanges, cooperation of SMEs	<ul style="list-style-type: none"> • To create business association, etc. • To promote partnerships among businesses (technological tie-ups, joint ventures). • To create industrial zones for SMEs.
Development of supporting industries	-To strengthen management resources.	<ul style="list-style-type: none"> • To foster engineers and technicians • To promote the realization of corporate diagnosis and consulting services. • To promote the implementation of roving services for technological guidance.
	-To promote linkages among businesses.	<ul style="list-style-type: none"> • To develop subcontractors • To offer market information (to hold trade fairs, etc.)

Source: JICA Study Team

5.1.2 Points to Note Regarding SMEs Policy in Myanmar

Thus far, SMEs policies of selected countries have been analyzed from the perspectives of background, supporting measures and implications for Myanmar. Also taking into full account the present conditions in Myanmar, the following conditions should be considered in formulating the nation's SME policy. Formulation of the nation's SMEs policy is really needed in order to catch up with the other ASEAN countries.

Figure 5-1 Drafting Process of SMEs Policy in Myanmar



Source: JCA Study Team

a) Because of a shortage of funds in Myanmar, the first requirement is to improve the business environment for SMEs rather than adopting measures tilted toward financial, tax or fiscal measures. Second, the government should improve its efficiency through, for example, reducing paperwork relating to government authorization and permits. Third, UMFCCI should strengthen its function of management and technological guidance and counseling offered to SMEs. However, compared with large enterprises, SMEs involve greater business risks and have less assets which can be used as collateral. As they face considerable difficulties in raising funds, financial supporting measures for them are essential.

b) Even if excellent bodies of laws, including SME Basic Law, are enacted, they would be no better than a pie in the sky unless the government's management of laws is improved. Similarly, even if impressive organizations relating to SMEs are created in the government and the authorities in states/divisions, they will not function effectively as long as there is a shortage of human resources which can manage them properly. As there are not enough private organizations that can promote the development of SMEs, it is essential to strengthen the functions of UMFCCI, the association under its umbrella, and chambers of commerce and industry (CCIs) in states/divisions. These private organizations, which are to promote the development of private enterprises, should play the central role in strengthening their functions by, among others, developing human resources. It is clear that in Myanmar, in particular, which is under economic sanctions from Western countries, the only organizations that act as a gateway or bridge to Myanmar are these private organizations.

5.2 Draft Proposal of SME Development Policy

It is important for Myanmar to adopt an SME development policy that matches the stages of development of the organizational format of businesses. As it was analyzed earlier in this paper, in Myanmar household or family-owned enterprises, personal-tie enterprises and capital-tie enterprises, each of which represent different stages of development, exist side by side. Nevertheless, the weight of household or family-owned enterprises is particularly high. In order to cover all enterprises in the three stages of development, short-, medium- and long-term policy systems are necessary. In the subsequent sections, we will discuss in some detail the examples of concrete measures which should be implemented in the short term. They include the re-definition of SMEs, the establishment of a government bureau specializing in SMEs development, measures for private company registrations, the enhancement of the functions of UMFCCEI and human resources development, the setting-up of technology guidance centers in industrial zones, the introduction of a system for sale of government-owned machinery to the private sector, the creation of organizations for joint businesses, industrial land policies and SME financing policies.

Table 5- 10 Major Policy Systems for SMEs Based on the Present Conditions in Myanmar

Areas of SME policy	Examples of SME policy	Degree of urgency for policy implementation (short-, medium- or long-term)
Statutes, organizations, systems	*Redefinition of SMEs *Enactment of SME laws *Establishment of SME Bureau *Creation of inter-ministry SME Council	*Short-term *Medium-term *Short-term *Medium-term
Nurturing of industry groups	*Enhancement of the functions of UMFCCEI *Strengthening of industry group network	*Short-term *Medium-term
Business consulting	*Strengthening of UMFCCEI's management and technological guidance *SME diagnosis consultant system *Business diagnosis centers	*Short-term *Long-term *Medium-term
Building of linkage among firms	*Strengthening of primary contractor-subcontractor relations *Creation of organizations for joint business	*Medium-term *Short-term
Finance	(See SME financing)	*Short& Medium term
Human resources development	*HRD of UMFCCEI staff members *Upgrading of UMFCCEI programs for SMEs workers *Establishment of UMFCCEI Advanced Management	*Short-term *Short-term *Short-term

	Program for SMEs directors	
Technology and equipment	*Setting-up of technology guidance centers in industrial zones	*Short-term
	*Introduction of a system for the sale of state-owned machinery to the private sector	*Short-term
	*Enactment of Technology Development Law	*Medium-term
Marketing	*Creation of marketing centers for product development, quality control and improvement of packaging and packing	*Medium-term
	*E-commerce by UMFCCI and industry groups	*Long-term
Streamlining of administrative procedures	*Integration of approval/permit windows (opening of one-stop service centers)	*Short-term
	*Streamlining of administrative procedures, including registration of establishment and commercial registration	*Short-term
	*Streamlining and speeding up of export-import procedures	*Short-term
Location of industries	*Industrial site policy	*Short-term

Source: JICA Study Team.

5.2.1 Criteria for Re-Definitions of SMEs

(1) Cases in selected countries

1) Different criteria by government authorities

- The number of employees, the amount of total assets or paid-up capital (Indonesia)
- The number of employees or the amount of total assets (the Philippines)
- The number of employees or the amount of fixed assets after depreciation or paid-up capital (Thailand)

2) Different criteria for manufacturing, commercial or other industries

- The number of employees or the amount of total assets (Republic of Korea)
- The number of employees or the amount of paid-up capital (Taiwan)
- The number of employees or the amount of paid-up capital or fixed assets (Singapore)
- The number of employees or the amount of sales (U.K. since 1996)
- The number of employees or the amount of paid-up capital (Japan)

3) Criteria applicable to all industries

- The number of employees or the amount of paid-up capital (Vietnam)
- The number of employees or the amount of paid-up capital (Malaysia)
- The amount of total assets or the amount of sales (China since 1999)
- The amount of total assets or the amount of sales or the number of employees employees (China planned since 2002)

4) Multiple criteria applicable to all industries

- The number of employees, capacity of electric power requirement (horse power), the amount of capital outlay or the amount of production (Myanmar)

5) Single criterion for each industry

- The amount of production, production capacity, fixed assets or power-generating capacity depending on the industry (China up to 1998)
- The number of employees, the amount of sales or total assets depending on the industry (U.S.)
- The number of employees, the amount sales or the number of motor vehicles owned, etc. depending on the industry (U.K. up to 1995)

Table 5- 11 Criteria for Definitions of SMEs in Selected Countries

Criteria for Definitions ("or" selection)	Employees	Total assets	Paid-up capital	Fixed assets after depreciation	Sales	Others
Different criteria by government authorities						
Indonesia	O	O	O			
the Philippines	O	O				
Thailand	O		O	O		
Different criteria for manufacturing, commercial or other industries						
Republic of Korea	O	O				
Taiwan	O		O			
Singapore	O		O	O		
U.K. since 1996	O				O	
Japan	O		O			
Criteria applicable to all industries						
Vietnam	O		O			
Malaysia	O		O			
China since 1999		O			O	
China planned since 2002	O	O			O	
Multiple criteria applicable to all industries						
Myanmar (Four criteria)	O		O (Capital Outlay)			O (Production, Electric Power)
Single criterion for each industry						
China up to 1998	O					O
U.S.	O	O			O	
U.K. up to 1995	O				O	O

Source: JICA Study Team

(2) Implications for Myanmar

There are the two theories for definitions in Myanmar: A. Single criterion for each industry vs. B. Different criteria for manufacturing, commercial or other industries

1) Theory A. Single criterion for each industry

- a) As Myanmar's multiple criteria of definition applicable to all industries make it possible for companies even in the same industry to use different criteria, the number of SMEs are different depending on which criterion was used. This will present a problem when the government formulates and implements in the future SME policies geared to different scales of businesses. The multiple criteria applicable to all industries are different from single criterion for each industry as used in the United States or the U.K. However, in the U.K., even the use of single criterion depending on the industry proved to be too cumbersome. Therefore, the Department of Trade and Industry (DTI) in the U.K. in 1996 adopted the number of employees as the sole criterion for manufacturing industries. As the EU Commission in 1996 also adopted the number of employees as the sole criterion (medium-sized enterprises: 101-499 employees; small enterprises: 11-100 employees; cottage industry: 10 or fewer employees), the European countries are beginning to use the number of employees as the sole criterion for the manufacturing industries.
- b) As the amount of sales or production can vary greatly from year to year, the change in the operating rate can affect which classification a particular company falls into. Therefore, these are not good criteria.
- c) Since most SMEs in Myanmar are in the labor-intensive rather than capital-intensive industries, the appropriate criterion would be the number of employees. In Myanmar, the capital intensity criteria (horse power and the amount of fixed assets) do not accurately reflect the actual condition of an SME. Conversely, as many SMEs in China are in capital-intensive industries or in heavy industries, China in 1999 adopted the amount of total assets or the amount of sales as the criterion for definition. According to the SMEs Promotion Law drafted in December 2001, China will expand the SMEs definition to add the number of employees. As fair and reasonable accounting practices have yet to develop in Myanmar, it is not always certain whether the assessment of total assets is accurate. There is also a possibility that when a private enterprise leases land from a state-owned enterprise, its total assets can be assessed to be smaller than they really are compared with a private business that uses its own land.
- d) In Myanmar also, companies register the amount of paid-up capital. As they register

the amount of paid-up capital rather than the amount of nominal authorized capital, which may not be paid up all in the beginning of business, this is a reliable criterion. However, the amount of paid-up capital is often assessed to be smaller than it really is for the following reasons:

- i) Often the paid-up capital is the total assets of a business-owner invested in the business when it was started. Capital increases are not very often made after the initial investment is made. Therefore, the amount of paid-up capital does not increase in proportion to the increase in the scale of business.
 - ii) Because fixed assets are not re-valuated when prices are rising, revaluation surplus reserve is not included in the capital.
 - iii) As several SMEs are under the production subcontracting system, the amount of paid-up capital will change greatly depending on whether a businessman has made investment in kind in land and building, sewing machines, etc. or leasing them from their customers. Consequently, even when the number of employees grows, the amount of paid-up capital may not change. In such cases, even if the number of employees reflects the scale of business, the amount of paid-up capital may not do so.
- e) In the manufacturing industries in Myanmar, as many businesses are in the labor-intensive industries, even a company with 100 employees may have only a small paid-up capital or total assets and therefore may be classified as an “economically weak entity” requiring support from the government. Without doubt, it is necessary to give consideration to industries which are not capital-intensive, but accounting standards should be developed to ensure that accurate appraisals of fixed assets, and this will take considerable time. Taking all these factors into consideration, it seems that to use the number of employees and the amount of fixed assets in manufacturing industries, if accuracy could be ensured as the fundamental criterion would be advisable, because this will eliminate inconsistency among criteria. However, it is not necessary to use this criterion indefinitely. When the situation becomes such that the use of other criteria is reasonable, such criteria should also be used. The criteria for definition of SMEs must be stable, but at the same time they should be flexible enough to be changed depending on the needs of the times as they are in the United States especially.
- f) As to actual figures, under Japan’s Basic Law for Small and Medium Enterprises, medium-sized enterprises are defined as those with 300 or fewer employees or with paid-up capital of 100 million yen or less. The Ministry of Industry in Thailand defines small and medium-sized enterprises as those with 100 or fewer employees or with paid-up capital or 100 million Baht or less. The Ministry of Planning and Investment

of Vietnam defines small and medium-sized enterprises as those with 100 or fewer employees or paid-up capital of 5 billion Dongs or less. Thus, the definitions vary from country to country. Judging from the sizes of businesses in Myanmar, it appears that these figures in the country would be smaller than in Vietnam.

- g) A characteristic of the United States is that it imposes qualitative as well as quantitative criteria. In the United States, a company that is an affiliate of a larger corporation or one that is the dominant firm in a particular segment of the market is not regarded as a small or medium-sized business. Even if a company is small, if it is benefiting from its status as an affiliate of a larger corporation or if it is in a position to gain monopoly profits even in a small market, it cannot receive an SMEs status. However, in Myanmar, as it is necessary to build industrial linkage based on primary contractor and subcontractor relationship, even if an SME is benefiting from its status as an affiliate of a large company, it should not work against it. Rather, the promotion of linkages through corporate affiliations should be regarded as part of SME policy. Therefore, qualitative restriction should be limited to the fact that if a firm has a monopoly in a particular market, it will be excluded from the SMEs status. This is because competition among businesses is vital for the development of industry.
- h) In Myanmar, the scope of businesses that will be covered by SMEs development policy should be broad. The following points should be taken into consideration: i) Small and medium-sized state-owned enterprises should also be covered by SME development policy, provided that a level playing field for state-owned enterprises (SOEs) and private enterprises will be achieved in the future; ii) even if small in scale, businesses with foreign capital affiliation or those that monopolize a particular market should not be given an SMEs status, because such firms are receiving implicit or explicit preferential treatments from the government or are in a position to gain monopoly profits. Therefore, a uniform criterion that is as broad as possible should be used to define SMEs, so that all SMEs with the exception of foreign capital-affiliated firms and those that monopolize a particular market can benefit equally from government policies. Also, SME should include not only incorporated businesses but also household businesses and cooperatives as long as they are registered with the government. In considering numerical criteria, it should be remembered that according to statistics for 1997, for example, plants with employees with 100 or fewer employees accounted for 99.1 percent (52,832 companies) of all plants and that those with more than 100 employees accounted for 0.9 percent (506 companies) of the total. Among the larger firms, 108 companies were privately run plants, including cooperatives, and 398 were government-owned enterprises. This suggests that the line could be drawn at 100 in

terms of the number of employees. iii) the companies that are not consistent with public order and standards of decency, damage the environment and cause pollution, or are not in line with the government's industrial policy should be excluded from the ranks of SMEs. It is a quite reasonable treatment that the definition of SMEs alters to some extent from the targeted SMEs which the policy are needed.

2) Theory B. Different criteria for manufacturing, commercial or other industries

- a) Categorizing small, medium and large enterprises based on number of workers is not appropriate criteria for all enterprises in Myanmar. For instance, enterprises in export/import businesses normally have less than 20 staff or workers but the volume of businesses undertaken is quite huge. It would be misleading if these enterprises are categorized as small enterprises. The better criteria for these export/import companies should be the annual volume of export and import transactions. But, at present, when the policy of export first/import later system is the only system allowed by the government, setting import volume as a criterion can be misleading. There are several companies which have been importing huge volumes under different names. Hence, although these companies are involved in huge amounts of import transactions, they would still fall into the category of small enterprises, which is not the case. This is because of the government's policy of export first/import later system. Only the companies which have imported are entitled to import using their export earnings. Consequently, the companies which have not yet exported anything and do not have export earnings have no choice but to rely on other companies that have export earnings in order to import required products. When export first/import later policy is abolished, the volume of import transactions can also be taken into account.
- b) The number of workers as a criterion in categorizing small, medium and large enterprises is appropriate for enterprises that are in labor-intensive industries, such as garment manufacturing industry, footwear manufacturing industry. But there are some situations implicitly imposed by some government organizations that large and medium scale businesses have to make donations more than small businesses have to. There are also some disadvantages and problems encountered by enterprises which are registered as large that include the distrust of tax authorities on the disclosed taxable profits. This is why some industries do not disclose the actual number of workers they have. Some companies employ only less than half the number of workers they need and give subcontracts to other independent individual workers as in the case of footwear industries.

This is a result of hardship given by some government organizations on large-scale enterprises. Hardship given by several government organizations is found to be more

than expected. One of the worst types of hardship is the pressure of several government organizations on private enterprises to donate huge sums of money depending on their size. Another type of hardship is the distrust of the tax authorities on disclosed profits and in some instances the levels of profits are assumed by the tax authorities depending on size of the enterprise and tax is levied on the assumed amount of profits. These hardships are major ones that severely discourage private enterprises from growing into large scale or to disclose the size of their businesses. As a result, private enterprises normally do not disclose actual numbers of workers or electrical consumption (horse power), since they do not want to be categorized as medium or large enterprises on account of higher levels of hardships given by government organizations. Therefore, in line with the promotion of small and medium enterprises, incentives and assistance should also be provided to large-scale enterprises, so that small and medium enterprises will not be reluctant to grow into large enterprises. There should be special incentives for those companies which can grow from small and medium enterprises into large enterprises in specified period of time. Although it is not the absolute solution, the most appropriate criterion for categorizing small, medium and large enterprises in the labor-intensive sector would be the number of workers.

- c) Most of the enterprises in Myanmar are labor-intensive. That is why the number of workers is the most appropriate criterion for the definition of the size of an enterprise. The level of electrical consumption (horse power) as a criterion is appropriate only for a few industries, since there are some enterprises that keep the number of electric motors as low as possible by utilizing motor belts. In the future, when the technology-intensive industries emerge, this criterion should be reviewed.
- d) There are other types of industries that are not as labor-intensive as the garment and footwear industries. They are rice mills, oil mills, plastic industries, etc. The most appropriate criterion for categorizing enterprises in such industries would be the production capacity. The levels of capacity should vary from industry to industry. The level of production cannot be used as a criterion, since the actual amounts of production are never disclosed by enterprises.
- e) Paid up capital is not an appropriate criterion in categorizing enterprises into small, medium and large enterprises, since paid up capital set at the time of company registration is almost never changed even when additional capital is contributed. Thus, paid up capital is not an appropriate criterion for any industry or enterprise in Myanmar.
- f) Qualitative criteria should not yet be used in Myanmar. This is because some Myanmar

enterprises doing business with the backing of foreign companies obtain undisclosed amounts of foreign investment. If these companies are involved in labor-intensive industries, their operations are normally larger because they have more labor than local enterprises do; hence, they will automatically be categorized as large enterprises. If these companies are involved in other manufacturing industries, the capacity of their machinery is also usually higher than that of local enterprises and therefore they will be categorized as large enterprises. If these companies are involved in export and import businesses, the export and import volumes are usually higher than those of local enterprises. Thus companies benefiting from its status as an affiliate of large foreign corporations will automatically be categorized as large enterprises. It is also not appropriate to categorize companies working as subcontractors to large local companies as large enterprises. Most companies acting as subcontractors to large local companies in Myanmar are small and medium.

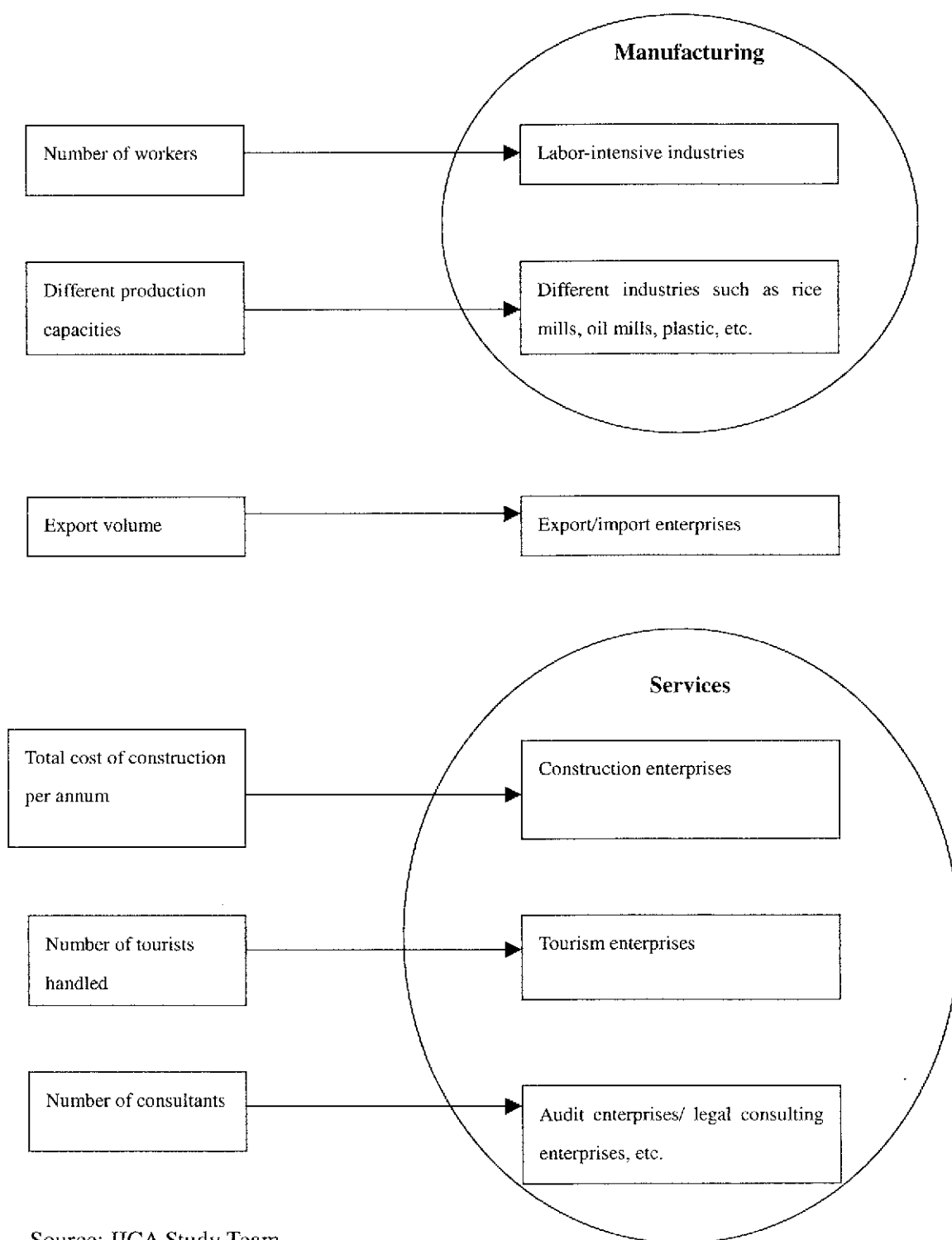
- g) It is still difficult to set criteria for services enterprises. The number of constructed buildings cannot be set as a criterion for categorizing construction companies by size since the construction of one low-cost small building cannot be compared with the construction of one high-cost big plaza or condominium. The number of workers cannot be set as a criterion for construction companies since most of the workers at construction sites are the workers under labor subcontract. Thus, the only appropriate criterion should be the total costs of construction per annum. These data on total costs of construction per annum of each construction company cannot be obtained from the Ministry of Construction, the Yangon City Development Committee (YCDC) or the Mandalay City Development Committee (MCDC) from which the construction companies have to obtain construction licenses for each construction activity.
- h) Tourism companies can also be categorized by size by the number of tourists handled set as a criterion. This data on the number of tourists handled by each tourism company can be obtained from the Ministry of Hotel and Tourism to which each company is required to pay tax. The level of *turnover* and the amount of total assets should not be criteria for categorizing these services companies by size.
- i) Hence, different criteria for different manufacturing industries should be applied. Different criteria should also be employed for different enterprises that are not involved in manufacturing businesses. The application of setting different criteria for different types of enterprises seems to be quite complicated but this is the only appropriate solution in Myanmar that can more or less accurately categorize the enterprises of different nature by size.

j) In setting appropriate criteria for categorizing different enterprises by size, the following factors are considered.

- Criteria should be appropriate to Myanmar's situation.
- Export volume, production capacity of machinery, the number of workers, etc., that could accurately and readily be obtained should be set as appropriate criteria for Myanmar's enterprises. Accurate figures for paid up capital, the amount of total assets, the amount of fixed assets, the amount of sales, the amount of production, etc., are difficult to find and should not be considered as criteria since they are not usually disclosed accurately by the enterprises. Although enterprises are required by the concerned government organizations to disclose these data, they normally disclose something that do not reflect actual situation.

Thus the following major criteria should be set for categorizing different enterprises in Myanmar.

Figure 5- 2 Category of Different Enterprise in Myanmar



Source: JICA Study Team

- k) Data on the number of workers could readily be acquired from the Ministry of Industry 1. But it should be noted that the accuracy needs to be enhanced by supervision of each enterprise by concerned authorities. Data on production capacity can readily and accurately be obtained from the Ministry of Industry 1 or concerned Ministry. These data cannot be disclosed inaccurately by private enterprises so that they should be the reliable and appropriate criteria. Data on export volume of each export and import enterprise can readily and accurately be obtained from the Customs Department under the Ministry of Finance and Revenue. Private enterprises can not disclose this type of data inaccurately; hence, this criterion can also be taken as appropriate. Data on total costs of construction of each construction enterprise can readily and accurately be obtained from concerned government organizations like the Ministry of Construction, the YCDC or the MCDC. Accurate data on the number of tourists handled by each tourism company can also be obtained from the Ministry of Hotel and Tourism. Accurate data on the number of consultants in each audit firm or legal consulting firm might be a bit difficult to be get since full time as well as part time consultants should be taken into account. But it is not impossible to set the number of consultants as a criterion for categorizing the consulting enterprises by size.
- l) As stated above, different criteria should be set for different types of enterprises for categorizing them by size. This recommendation might be viewed as inappropriate or complicated by some non-Myanmar analysts, but in the environment like the one in which Myanmar finds itself and which is full of incorrect disclosure of data, mutual distrust between the private and government sectors, two-way cheating between the private and government sector, these criteria are the most appropriate ones to correctly and accurately categorize different types of enterprises by size.

5.2.2 A Government Bureau Specializing in SMEs Development

(1) Cases in selected countries

1) Independent ministries and agencies

- Small and Medium-Sized Enterprise Agency (Republic of Korea)
Other supporting agencies are Small and Medium-Sized Industry Promotion Corporation, Central Organization for Small and Medium-Sized Enterprise Cooperative Unions (one of four economic organizations in South Korea), Small and Medium-Sized Enterprise Bank, Credit Guarantee Association, Technology Guarantee Association and

others.

- Ministry of Entrepreneur Development (Malaysia)
- Small and Medium-Sized Enterprise Agency (Thailand, since 2000)
Other supporting agencies: Small and Medium-Sized Enterprise Development Funds (since 2000), Small and Medium-Sized Enterprise Development Institute (since 1999)
- Small and Medium-Sized Enterprise Agency (Japan)

2) Specialized bureau in an existing ministry or in an existing agency

- Small and Medium-Sized Enterprises Bureau, the Ministry of Economic Affairs (Taiwan)
- Department of Small Enterprises Development, the Ministry of Industry (Indonesia):
Has offices in each state and prefecture.
- Bureau of Small and Medium Business Development (BSMBD), the Department of Trade and Industry (DTI), (the Philippines)
BSMBD also serves as the secretariat of Small and Medium-Sized Enterprise Development Commission (SMEDC) that spans different ministries and agencies. SMEDC was created as a place for exchange of views between the government and the private sector concerning the policy issues and action plans for the development of small and medium-sized enterprises.
- Bureau of Small and Medium-Sized Enterprises, the National Economic Committee (China since 1998)
Other supporting agencies : There is a department of small and medium-sized enterprises under the wing of Economic Committee of each province.
- Small and Medium-Sized Enterprise Department, the Ministry of Planning and Investment (Vietnam) (to be established in 2002)
It also will serve as the secretariat for the Council for SMEs Promotion that spans various ministries and organizations.

3) No agency specializing in SMEs affairs. Existing ministries and agencies handle SMEs affairs

- Economic Development Board (EDB) (Singapore)
Other supporting agencies: In addition, there are such organizations as Singapore Productivity and Standards Bureau (PSB), Trade Development Agency, Singapore Centre of Industries (SCI), Enterprise Promotion Center (EPC) and Association of Small and Medium-Sized Enterprises (ASME).
- Department of Industrial Promotion (DIP), the Ministry of Industry (Thailand up to 1999)
Other supporting agencies: Small-Scale Finance Association, Small-Scale Industry Credit Guarantee Association and Industry Financing Corporation of Thailand (IFCT)

Table 5-12 Development Organizations in Selected Countries

Independent ministries and agencies	
Republic of Korea	Small and Medium-Sized Enterprise Agency
Malaysia	Ministry of Entrepreneur Development
Thailand since 2000	Small and Medium-Sized Enterprise Agency
Japan	Small and Medium-Sized Enterprise Agency
Specialized bureau in an existing ministry or or in an existing agency	
Taiwan	Small and Medium-Sized Enterprises Bureau, the Ministry of Economic Affairs
Indonesia	Department of Small Enterprises Development, the Ministry of Industry
the Philippines	Bureau of Small and Medium Business Development (BSMBD), the Department of Trade and Industry
China since 1998	Bureau of Small and Medium-Sized Enterprises, the National Economic Committee
Vietnam	Small and Medium-Sized Enterprise Department, the Ministry of Planning and Investment
No agency specializing in SME affairs. Existing ministries and agencies handle SME affairs	
Singapore	Economic Development Board
Thailand up to 1999	Department of Industrial Promotion, the Ministry of Industry

Source: JICA Study Team

(2) Implications for Myanmar

- (a) In Myanmar, there is debate as to whether a government ministry or agency, or a bureau, specializing in small and medium-sized enterprise affairs will be needed or whether these matters should be dealt with within the existing ministries and agencies. Those who argue for independent ministries or agencies, or bureaus, specializing in small and medium-sized enterprise affairs say that special preferential treatments and special organizations for the development of SMEs, which are mostly private enterprises, are needed. Those who

argue for the latter say that if special preferential treatments and special agencies are created for the development of private enterprises because of the unsolved issues of a level playing field for SOEs and private enterprises, it may bring the problem of a “reverse” level playing field between the SOEs and private enterprises, so they are not necessary. At present, a large number of government ministries are involved with the affairs of small and medium-sized enterprises in some form or other. Regarding the Government ministries and agencies and agencies specializing in SMEs development, the main departments are:

- Department of Myanmar Industrial Planning, Ministry of Industry No.2
- Department of Industrial Supervision and Coordination, Ministry of Industry No.1
- Department of Cottage Industries, Ministry of Cooperatives

(b) Among these departments, Department of Myanmar industrial Planning (DMIP), Ministry of Industry No.2, being the focal point for ASEAN SMEs agencies Working Group is most active in SMEs affairs. The SMEs Sub-Committee of the Ministry comprises representatives from the Department of Industrial Supervision and Coordination, Department of Cottage Industries, AFTA Unit, ASEAN Affairs Department of Ministry of Foreign Affairs, and four other departments and the UMFCCI. The DMIP was chosen to deal with SMEs matters because it was handling the affairs concerning the Myanmar Industrial Development Working Committee and most of the industries in the industrial zones belong to the small and medium category. At the moment, argument of an SME agency of department or ministry as there is as yet no basic policy and law on SMEs. There is, however, an urgent need for the coordination of the above mentioned three department in matters concerning SMEs/SMIs. The DMIP is preoccupied with the Ministry of Industry No.2 affairs to give full attention to SMEs issues. One of the other two departments may be given full responsibility for handling SMEs.

(c) As it is cumbersome for SMEs to deal with various ministries and agencies each having independent power and requiring businesses to obtain its approval or permission, one stop service desk is necessary. One of the ways to solve this problem would be upgrade the SME/SMIs Working Committee within the Ministry of Industry No.2 into a department and authorize it as a secretariat for all the SMEs administration. This is one of the practical solutions for Myanmar. In the future, the country can establish an independent ministry or agency dealing with SMEs affairs. However, before implementing the idea to establish an independent ministry or agency, all the SME administration scattered into a number of ministries should be integrated into the sole organization.

(d) At present, one of the appropriate ways will be to upgrade the SME working committee within the Ministry of Industry 2 into a department and authorize it as the secretariat for all

SMEs administration. But the question arises as to whether a government department, usually overstaffed, can effectively and efficiently manage to integrate and develop SMEs in Myanmar. In practice, to the best knowledge of most private enterprises, this will not be effective. The most practical and efficient way for the development of SMEs in Myanmar is to start with the establishment of a separate and independent agency that will be dealing with relevant government organizations or Ministries under which SMEs operate. The independent agency that specializes in SME development should give the authority to implement government measures for SMEs to the UMFCCL.

- (e) It is important that the said independent agency will conduct constant research and analyses on SME development in Myanmar with the assistance of experts and some business enterprises. The constant research and analyses should serve as an instrument that gauges the degree of efficiency and effectiveness of the policy enforcement and should be providing the central policy makers with feedback. The constant research and analyses would reflect the actual situation and would highlight whether or not the enforcement of the issued development policies is effective, so that further adjustments based on the feedback can be made in time.
- (f) The said agency should include representatives from respective Ministries and some businessmen from the private sector. The said agency should be authorized to report directly to the central government authorities since the actual decision makers in Myanmar are found to be just a handful of people in the central government body. Since the feedback like progress reports that provide the information on whether or not the concerned government organizations and Ministries are effectively cooperating, the degree of enforcement is weak, the pace of development is significant, etc., will be made by the agency directly to a handful of decision makers so that it would involve more government organizations and Ministries. The said agency should also have the authority to negotiate with concerned government departments such as the DICA, the Customs Department, the Ministry of Commerce, the Myanma Foreign Trade Bank and the Myanma Investment and Commercial Bank for cooperation in the process of development of SME in Myanmar.
- a) The first action to be taken by this agency is to integrate SMEs operating with various kinds of licenses issued by several government organizations and Ministries. SMEs should be under one big umbrella of the agency, although the practice that requires private enterprises engaged in different lines of business to obtain different kinds of licenses from different government organizations may be maintained. But, businesses engaged in only line of business should not be required to obtain multiple licenses. The agency should be acting as the one-stop service provider to SMEs for registration and obtaining licenses

from different government organizations for different lines of business and for receiving all necessary assistance for their development.

b) The second step is to provide necessary training. The training programs should not be limited to lectures to the trainees. One of the most important purposes of arranging training is to allow businessmen of private enterprises of different sizes to have a chance to discuss possible link-ups or formation of cluster industries, etc. during the period of training. The case studies and hypothetical formation of business link-ups should be emphasized in training programs. The majority of SMEs will have chances to find right partners or subcontract opportunities to some large enterprises during the period of training. This is an on-going assistance to be provided by the agency. But, it will be more effective if SMEs can have a chance to find possible partners or connections during the training period.

c) The third step is to form a supervision and inspection committee under the said agency. The most urgent task for Myanmar is to change the unacceptable behaviors of the private sector stemming from prolonged distrust between the government and private sectors under more than 26 years of Socialist system. Most SMEs are afraid of disclosing accurate information for many reasons. They do not want to disclose even the number of workers since small-scale businesses which have hired more workers will be categorized by a government organization as medium or large businesses and face negative consequences, such as being asked for more donations or forced to pay more tax. They do not disclose actual production levels or turnovers in a correct appearance. If an enterprise is believed to be doing well in the eyes of a concerned government organization, it will be squeezed from every direction by several government organizations.

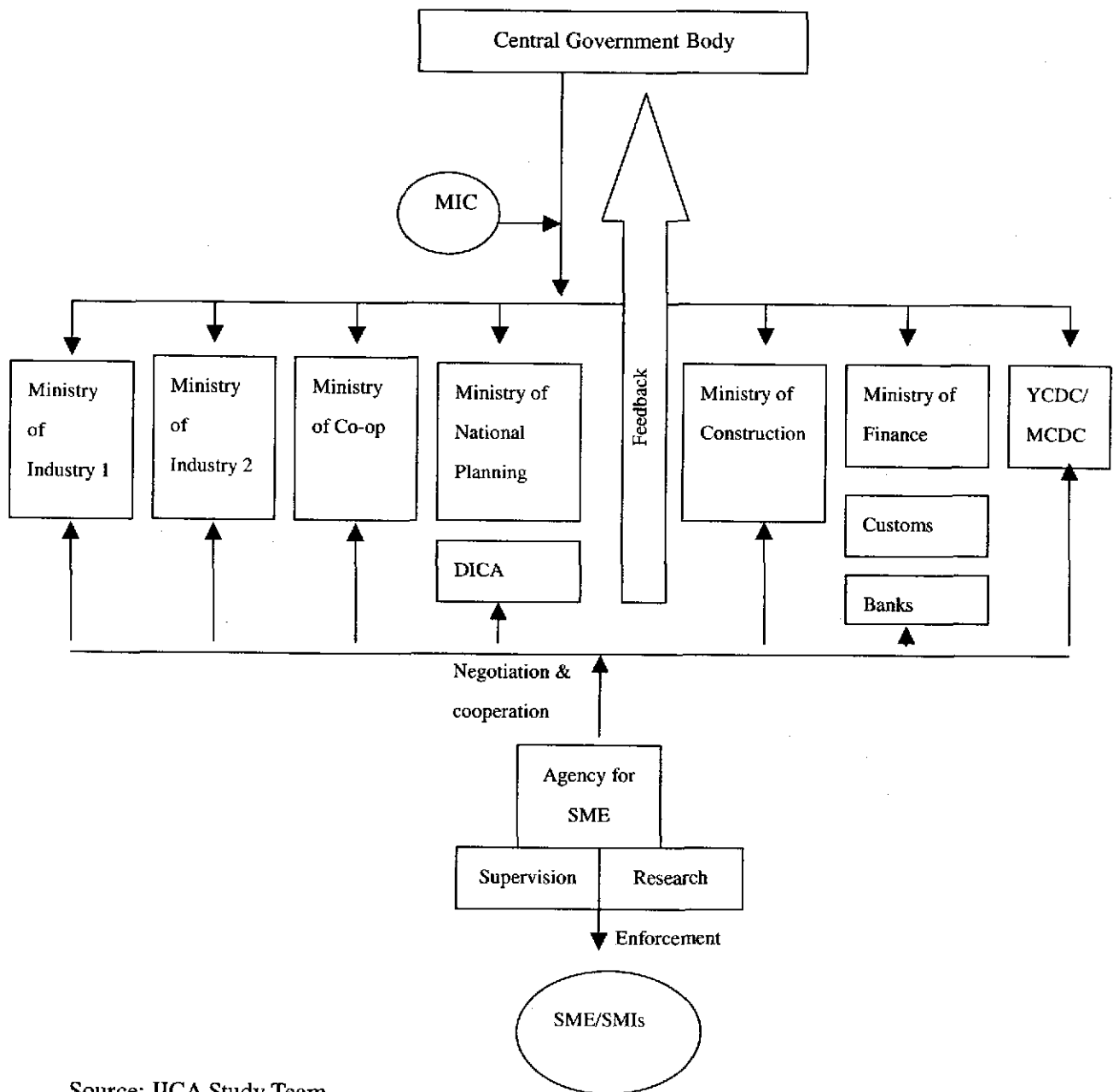
Financial incentives should be given to those enterprises which can manage to grow into large businesses in a short period of time. At first, private enterprises will not be convinced that no negative consequences will follow the disclosure of their true business situation. They also need to be convinced that disclosing the true situation of their businesses may even benefit them since proper assistance may be provided by the agency. Before they are fully convinced, the supervision and inspection committee will monitor them closely so that they will not hide anything or engage in wrong behavior. The degree of supervision and intervention should depend on the level of assistance provided to each enterprise. The enterprises which have benefited more from the assistance of the agency will be supervised more closely. Otherwise, supervision and intervention can demoralize private businessmen.

The agency should efficiently negotiate with the relevant authorities not to exert pressure on enterprises which are doing well. This is the only way to eliminate the

prolonged mutual distrust and cheatings between the private and government sectors. Any unacceptable behavior of the government or private sector will be reported directly to the central authorities, which will take necessary measures.

These recommendations may seem to be quite harsh. However, unless they are taken into serious consideration, no other policies will be effective. The roles of the agency and its links are shown in the following flow chart..

Figure 5-3 Roles of SME Agency



Source: JICA Study Team

In accordance with the flow of system shown above, the agency will negotiate and

cooperate with the concerned government organizations and ministries, be responsible for effective enforcement of the development policies, conduct supervision and inspection, and research and analyses and give the feedback directly to the central government body and copies of the report will be distributed to the concerned government organizations and ministries.

- d) The fourth step is to provide SMEs with necessary assistance to have sub-contracting relationship with large enterprises. This will lead to possible formation of clusters. Large enterprises will act as assemblers for the products not only for the local market but also of export-oriented products, and at least 50% of the parts they use must be manufactured by SMEs. Even at an early stage of the formation of cluster industries, assistance and support should be provided for establishing sub-contracting relationship between large enterprises and SMEs to promote the formation of industrial clusters.
- e) The fifth step is to build connections with foreign companies for possible sub-contracting relationship between foreign companies abroad and SMEs in Myanmar. At this stage, SMEs in Myanmar will be able to engage in quality production and also for working in an efficient sub-contracting relationship, since they will have had enough experience in sub-contracting activities. This kind of arrangement for working in a sub-contracting relationship with foreign enterprises overseas and for the formation of industrial clusters around the continent should be near-term targets, so that when tariff rates in the ASEAN region will be reduced SME/SMIs in Myanmar which are sub-contracting to foreign companies in the ASEAN region will be able to take advantage of low tariff rates.

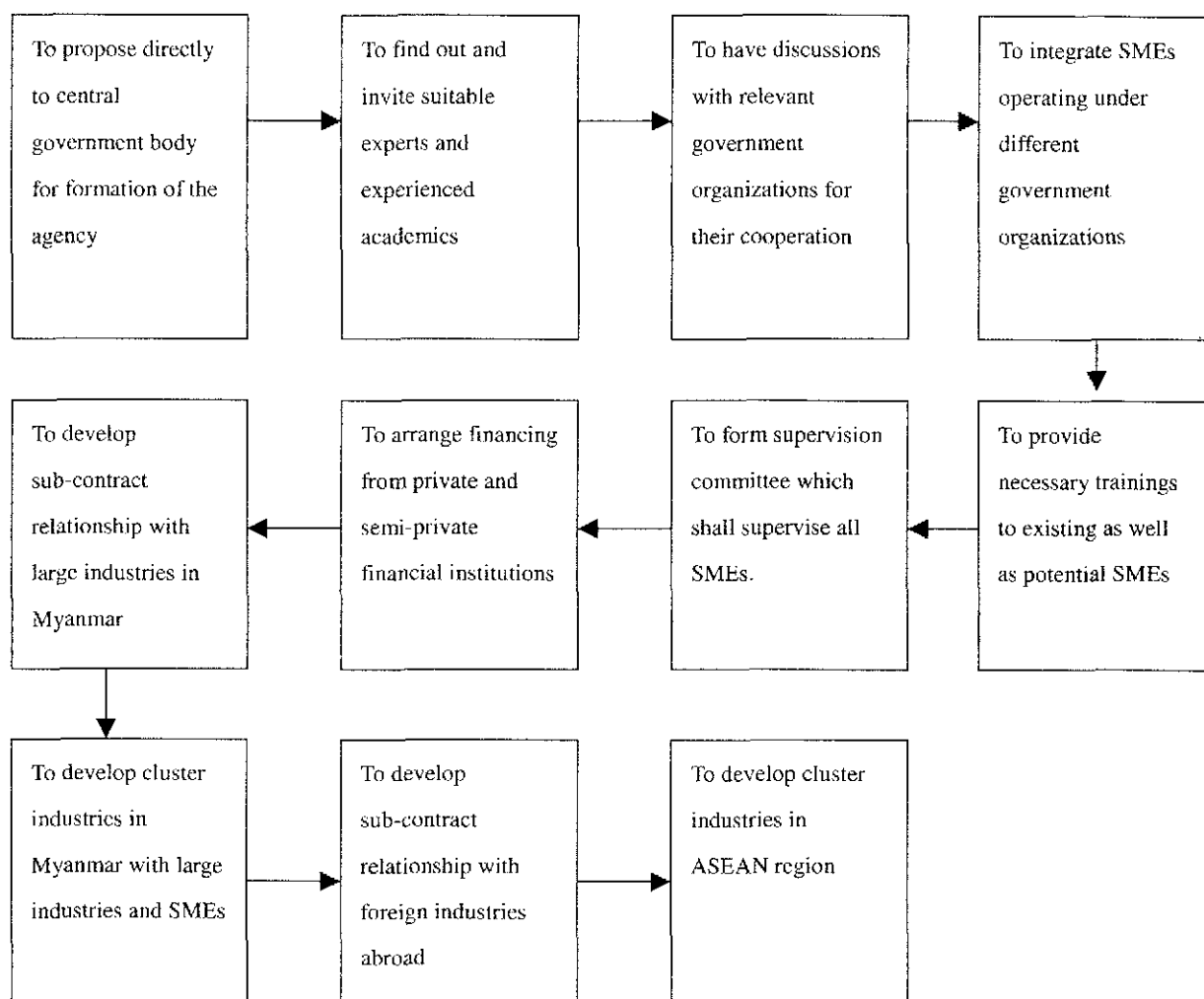
To reach this step, focus should be placed on not only the development of existing SMEs but also the registration and development of new businesses and entrepreneurs. The present situation, in which large-scale enterprises account for only a small percentage, will then change so that SMEs may grow into large companies, which will eventually account for at least 50% of the total.

- (g) The functions and purposes of the SMEs agency should be as follows.
- To end the prolonged distrust between the government and private sectors
 - To supervise private enterprises and guide them to end mischief and cheatings, which are the results of prolonged mutual distrust between the government and private sectors
 - To supervise private enterprises to be transparent in terms of production volumes, incomes and expenses, the number of workers, etc., through the activities of supervision and inspection teams
 - To conduct constant research and analyses on private enterprises

- To encourage private enterprises to grow into large enterprises in a short time and provide financial incentives to the enterprises that can grow in size within a specified period
- Arrange benefits for private enterprises that faithfully abide by policies, rules and regulations and admonish companies that do not do so
- To cooperate and negotiate with the concerned government organizations and Ministries, especially the DICA, for faster registration with less paperwork
- To negotiate with the concerned government organizations and ministries to provide necessary assistance and cooperation to SMEs
- To eliminate unnecessary pressure and suppression by government organizations on private enterprises, such as forcing them to make big donations and making arbitrary estimation of their incomes
- To make sure that the degree of enforcement is high
- To make feedback that reflects the actual situation regarding the degree of cooperation of concerned government organizations, degree of effectiveness, etc., directly to the central government body composed of a handful of decision makers and distribute copies of the reports to concerned government organizations and Ministries
- To provide necessary training for the development of SMEs
- To establish connections for possible sub-contract relationship with large enterprises in Myanmar and later with foreign firms abroad.
- To provide necessary assistance and encourage cooperation between the central government body and the private sector for the formation of industrial clusters in Myanmar and later in the ASEAN region.

The step-by-step procedures for the development of SMEs may take the following form.

Figure 5-4 Step by Step Procedures for Development of SMEs



Source: JICA Study Team

5.2.3 Problems and Complications for Starting SMEs in Myanmar

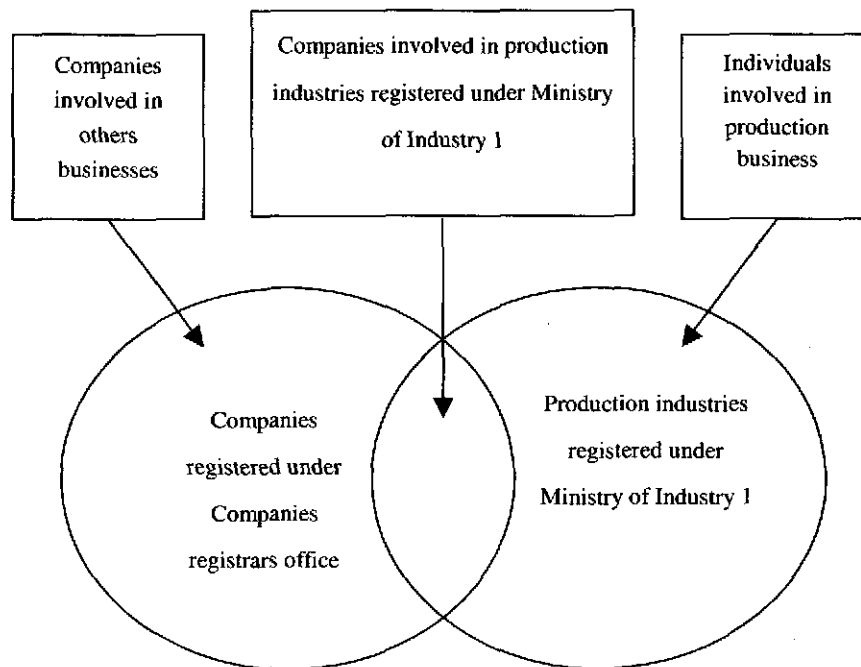
(1) Complicated system of multiple registrations

The complications occur at the time of registration when doing business in Myanmar. Different types of registrations should be made with different governmental organizations. For instance, a company in Yangon registered under the Company's registrars office needs to register again under the township Yangon City Development Council (YCDC) and further register again under the Ministry of Industry 1 if the said company is involved in any type of small production business. If the said small production business is related to foodstuff, registration at the Ministry of Health should be made.

There also are individuals doing small production businesses registering under the township YCDC and the Ministry of Industry 1 without having a registered company. Hence

some companies registered under the Companies registrars office which have been involved in production of any kind are registered under the Ministry of Industry 1 whereas businesses involved in production of any kind registered under the Ministry of Industry 1 are not all registered under the Companies registrars office. This could be seen as follows.

Figure 5-5 Complicated System Of Multiple Registrations



Source: JICA Study Team

Production companies registered under the Ministry of Industry 1 are categorized as small, medium and large enterprises based mainly on the number of workers and the volume of electricity consumption (horse power).

There are other enterprises which are registered as cottage industries under the Ministry of Cooperatives. Some businesses involved in the fishery sector are also registered under the Ministry of Livestock Breeding and Fisheries. As a result, some businesses doing only one type of business are found to have registered number of times under different government organizations.

Some companies involved in production businesses are found to have registered under three government organizations: the Companies registrars office, the Ministry of Industry 1 and the YCDC. But some individuals doing production businesses are required to register at the Ministry of Industry 1 and the YCDC. Some companies involved in different line of businesses are required to get various kinds of licenses from various government organizations.

At present, the registration of a company that is either small or large takes about six months. The Directorate of Investment and Companies Registration (DICA) is the government

department under the Ministry of National Planning and Economic Development (NPED). It was free to register companies and used to handle paperwork for the Myanmar Investment Commission (MIC), which is not under the NPED. But the situation has changed so that all the decisions which used to be made by the MIC and the DICA are currently made only by the Cabinet, leading to the situation that only a handful of high central authorities have the right to make decisions even on the registration of small companies, which takes quite a long time. Currently, the DICA is handling paperwork for the MIC and the DICA in turn is handling paperwork for the Cabinet through the Trade Council.

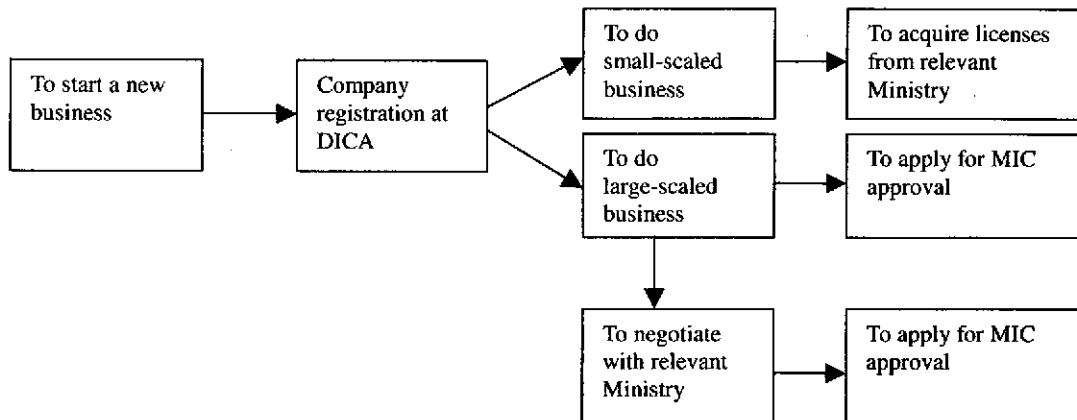
(2) Multiple windows to start businesses confuse SMEs as to where to enter

The DICA is not the window for new businesses since there is no particular window in Myanmar to start businesses. This situation makes not only foreign investors but also local people confused on how they should start businesses. At present, the major ways of registering and starting businesses in Myanmar follow different scenarios as shown below.

Scenario 1

Under this scenario, an individual wanting to start either a large or small business registers his or her company first at the DICA. After company registration, if the type of business to be started is export and import, an export/import license should be obtained from the Ministry of Commerce. If the company wants to do further business related to production, additional licenses and registration should be obtained from the Ministry of Industry 1 and the YCDC. If the company wants to do business related either to trading of fishery products or to fishing, additional licenses and registration should be obtained from the Ministry of Livestock Breeding and Fisheries. If the company wants to do small-scale mineral extraction, additional licenses and registration should be obtained from the Ministry of Mines. Hence, in this scenario, the window to start any type of businesses is the DICA. It should be noted that if the intended business is large-scale, the approval of the MIC is necessary. This scenario is as follows.

Figure 5-6 Scenario 1

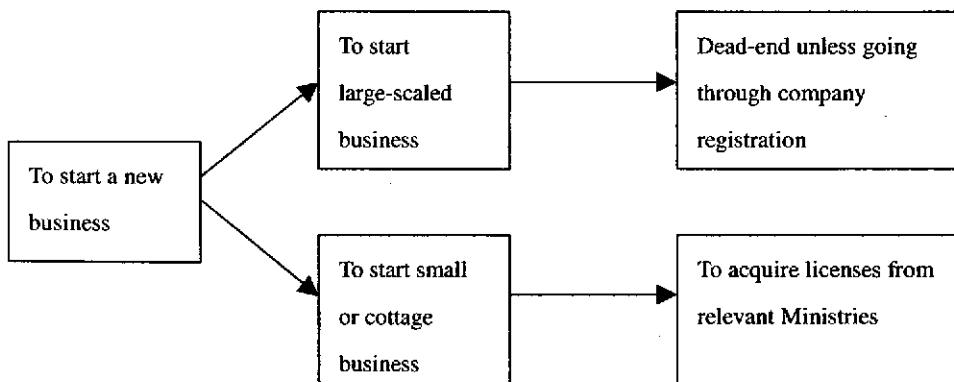


Source: JICA Study Team

Scenario 2

In this scenario, an individual wanting to start export and import business can apply for an export/import license at the Ministry of Commerce without registering at DICA. If the said individual wants to do small production business, he/she needs to register and get licenses from the Ministry of Industry 1 and the YCDC. If the said individual wants to start fishery product trading business, licenses for the trading of fishery products can be obtained from the Ministry of Livestock Breeding and Fisheries. In this scenario, the relevant government organizations or Ministries are the windows for starting small businesses.

Figure 5-7 Scenario 2



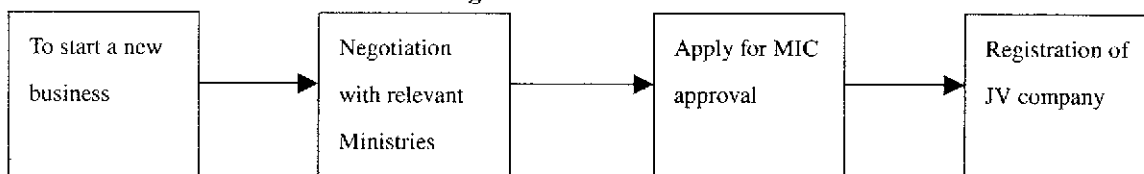
Source: JICA Study Team

Scenario 3

In this scenario, an individual or company wanting to start a large-scale business negotiates with the relevant Ministry. The usual case is that a Ministry leases the land it owns and gets involved in the venture as an equity partner because of its investment contribution in

land rental. Then the relevant Ministry or government organization is to apply for the MIC approval. After the approval of the MIC, the joint venture company is registered at the DICA. In this scenario, the window for starting a large-scale business is also the relevant Ministry or government organization.

Figure 5-8 Scenario 3



Source: JICA Study Team

There are various windows for individuals in order to start a new business. This is the situation which often confuses people wanting to start a business because people often do not know what kind of licenses they should obtain from which Ministry or government organization. There are some cases in which small companies registered under the Ministry of Industry 1 are fined because they have not registered at the YCDC.

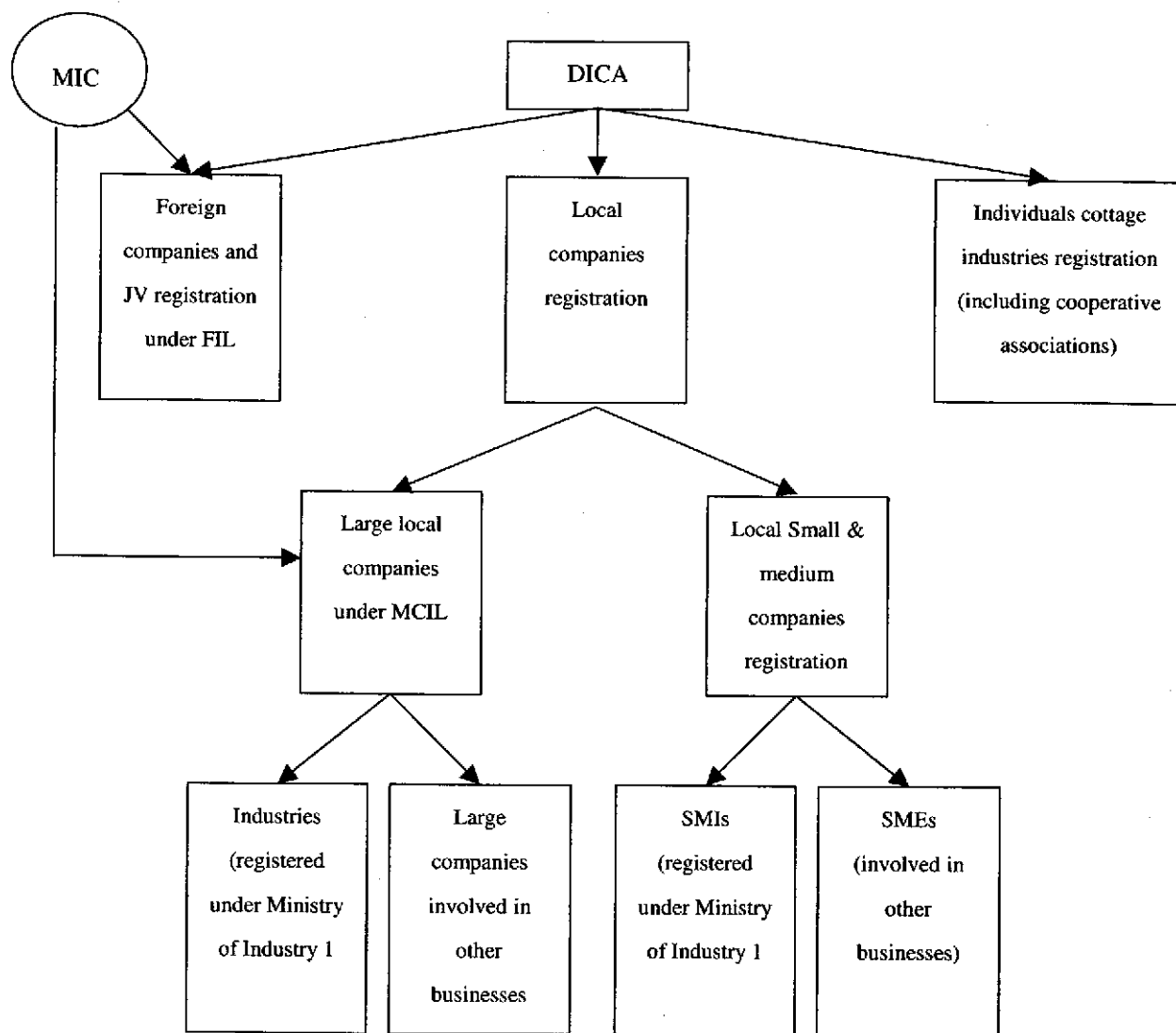
Large, medium and small businesses are separated through registrations under different government organizations under different Ministries. As a result, the development activities cannot effectively be focused on these dispersed PME's because if we focus on SMEs under Ministry of Industry 1, SMEs registered as cottage industries under the Ministry of Cooperatives, small enterprises registered at the YCDC, etc., will be omitted. If we provide incentives, for instance, to all small and medium enterprises registered at any government organization, some enterprises would obtain double or triple incentives as a result of double or triple registrations at different government organizations. If these companies having double or triple registrations are involved in different lines of businesses and are required to register at different government organizations, it does make sense. But in the process of incentive provision, for instance, it is difficult to screen the companies involved in only one business but registered at two or three government organizations.

(3) Recommendation for elimination of multiple windows to start businesses

This situation calls for cooperation among different government organizations to create only one window both for foreign and local businessmen to start businesses in Myanmar. The Directorate of Investment and Companies Registration (DICA), which currently is responsible for companies registration, should be the only window for everybody who wants to engage in business. There should be two functions under the DICA, one of which is for companies registration and the other is for registration of individuals other than companies for cottage

industries. There should be three kinds of companies registration, one of which is the registration of foreign investment under the Foreign Investment Law (FIL), and the others are registration of large local companies under the Myanmar Citizens Investment Law (MCIL) and SMEs. Then businesses and companies under different registration categories should be referred to different government organizations under different Ministries for different lines of businesses. The recommended flow is as follows.

Figure 5-9 Recommended Flow



Source: JICA Study Team

Small and medium industries and enterprises which are currently registered under the Ministry of Industry 1, the Ministry of Cooperative, the Ministry of Livestock Breeding and Fishery, the Ministry of Mines, the YCDC, the MDCDC, etc., need be integrated into the above arrangement, so that policies aiming to develop small and medium industries and enterprises

will be more effective and enforcement will be more efficient. With this kind of arrangement, the activities of business associations designed mainly to support SMEs, like the UMFCCI, will also be more effective.

This will reduce paperwork and at the same time make it more convenient for businessmen wanting to engage in business individually or as companies, as there is only one window for any type of business investment to be started in Myanmar.

It should further be noted that it is necessary to have a special function under the DICA, which will suggest the best ways and procedures to individuals or companies for starting different types of business and what licenses should be obtained from where. It is also necessary that branches of the DICA are present in most of the major areas throughout the country to make it convenient for people in different parts of the country to register new businesses in the shortest possible time.

It would be better if additional licenses to be obtained from other government organizations can be arranged by DICA providing one-stop services to companies and individual investors.

5.2.4 To Provide Management and Technological Guidance by UMFCCI

(1) Human resource development of UMFCCI staff members

(a) In order to strengthen more supporting and facilitating capacity of the UMFCCI, it is important that staff function need to up-grade the service to member firms. UMFCCI might strengthen the following capabilities for UMFCCI staff members in the executions of its functions.

- The capability to accurately identify the needs of members firms and responds to such needs
- The capability to actively create new activities of UMFCCI
- The capacity to elicit opinions and requirements of member firms, and make recommendations and suggestions to the relevant governmental organizations based on them
- The capability to provide assistance to the management of member firms

In addition to acquiring these capabilities, UMFCCI staff members might have the following discipline to raise the level of the member firms' trust in them.

- Compliances to the laws and rules of UMFCCI
- Protection of secrecy of member firms
- Maintenance of neutrality
- Aim at efficient management and operations

(b) Two perspectives are needed for human resources development of the UMFCCI staff members. The first is the development of knowledge and philosophy of individual staff members to realize efficient administration of UMFCCI. Therefore, in human resources development at UMFCCI, individual Staff Members might acquire a certain level of administration skills. The second is the development of knowledge and philosophy concerning the management guidance which Staff members offer to private enterprises. Therefore, they might develop the capabilities to anticipate the needs of members firms and offer innovative information on management. The following are the key points of human resources development of UMFCCI staff members required for the strengthening of the functions of the organization.

(i) Key points in the development of capability for administration

- Promotion of close communication system among the interested parties (Communication of the policy information from the government to the private sector through UMFCCI, communication of the needs, requests from the private sector to the government through UMFCCI, matching businesses among member firms through UMFCCI)
- Promotion of interchange and business opportunities among different industries
- Enhancing service activities from UMFCCI to the private sector
- Collection of reasonable membership fee for high services from UMFCCI to the private sector
- Recruiting new members
- Mastering modern accounting practice
- Drawing up strategic business plans, and expanding budgets for revenue and expenditure
- Drawing up strategic business plans, and expanding budgets for revenue and expenditure

(ii) Key points of UMFCCI staff members training for providing management guidance to member firms

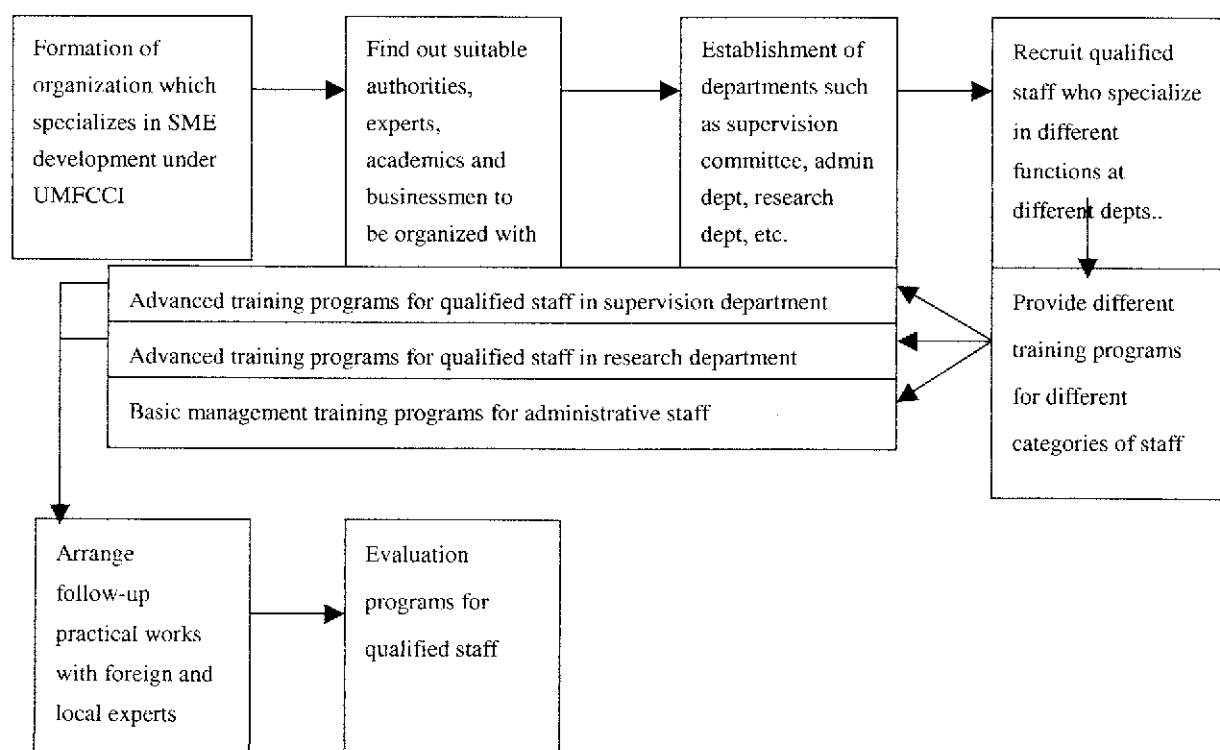
- Developing methodologies for identifying members' needs and requirements (techniques for tallying and analysis of opinions and requirements)
- Planning and management of training and educational programs for member firms (Program and course developments, selection of lectures and the methods of development of teaching materials)
- Renewal of the contents of UMFCCI publications
- Acquisition of basic knowledge required for the private sector management
 - Project evaluation
 - Creditworthy analysis of members firms
 - Tax calculating and accounting

- Cash flow management
- Fund raising
- Management strategies such as assistances for business start-ups, creating business management plans, diversification businesses
- Trade documentation, including contracts and letters of credit
- Product management, including product liability, ISO 9000 and quality control
- Legal work including various legal issues relating to international transactions

(c) Further recommendations on human resources development of UMFCFI staff members

We have discussed the need for the establishment of an agency that specializes in the development of SMEs in Myanmar. UMFCFI and business associations under UMFCFI can be given the authority to implement the work of such an agency. However, structural changes in the existing system of UMFCFI are required for it to implement the agency's action program. A supervision committee and research & analysis department should be formed or strengthened. For effective supervision and research and analyses activities, experienced academics and qualified experts are required as trainers. For effective implementation of human resources development of UMFCFI staff members, the following steps should be taken.

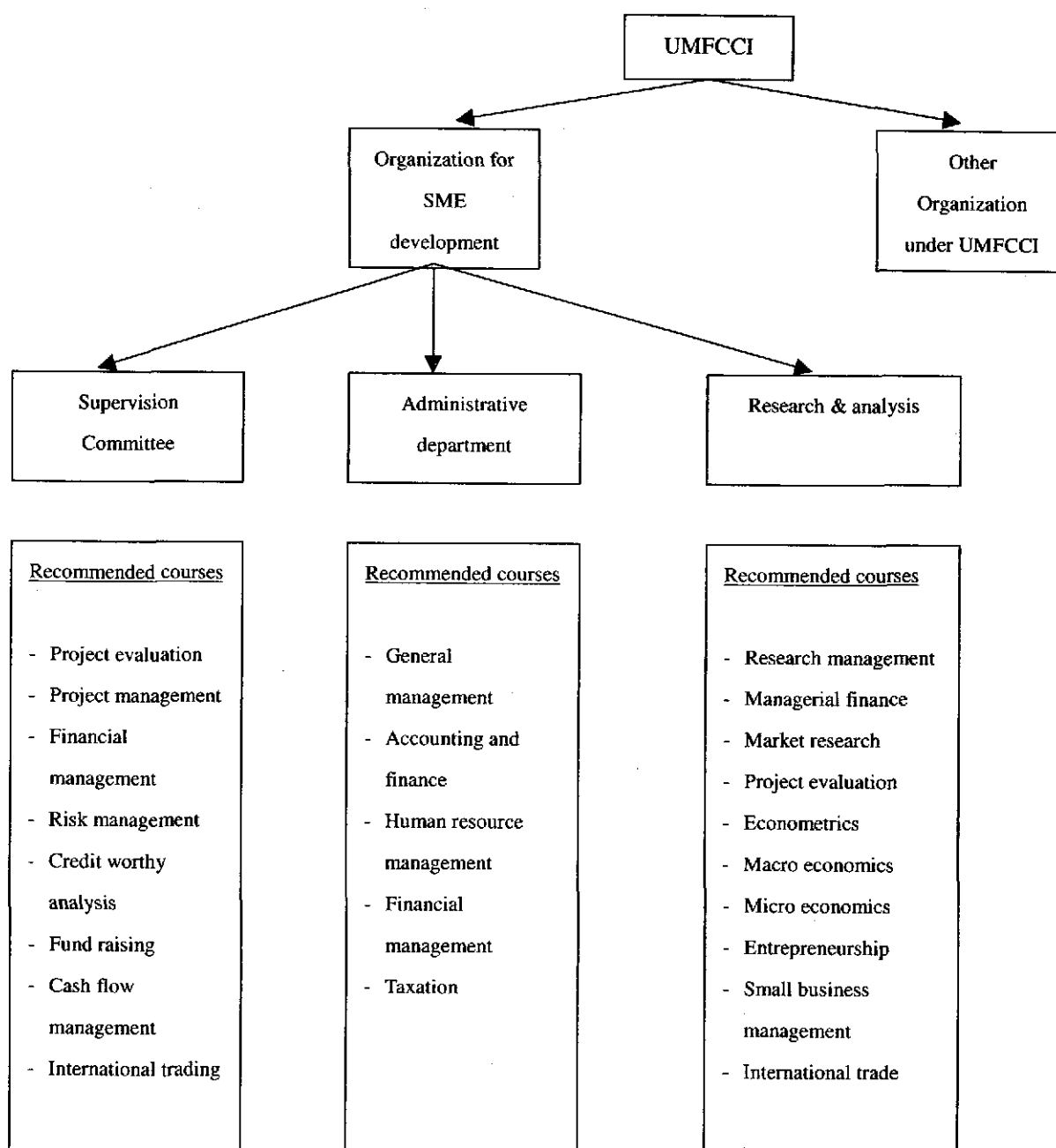
Figure 5-10 Implementation Steps for Advanced Training Programs



Source: JICA Study Team

The major functions of the organization that specializes in the development of SMEs under the umbrella of UMFCII and recommended training programs to be provided to different categories of staff members are as follows.

Figure 5-11 Training Programs for UMFCII Staff Memebers



Source: JICA Study Team

(2) Upgrading of applied accounting & management program for SMEs workers

(This study has done by JODC for the government of Myanmar and UMFCCEI in 2001 and submitted to them. Therefore, this topic could be omitted from this paper.)

(3) Establishment of UMFCCEI advanced management program for SMEs directors

(a) Backgrounds

With the progress in the transformation of its economy into a market economy, it has become an important priority for Myanmar to nurture and develop private enterprises in addition to strengthening the fabric of state-owned or affiliated enterprises. The country had experienced a period in which free management of private enterprises had been restricted under the Burmese way to socialism. The country has also lagged behind in the area of modern company management because of the closed economic environment. Under these circumstances, Myanmar has established a program that grants the degree of Master of Business Administration at the Institute of Economics primarily for young students. However, there are no practical, strategic and theoretical advanced management programs aimed at company senior executives. Based on the experiences and the track record of its subsidiary, Nomura School of Advanced Management, NRI makes the following concept.

(b) Objective

The objective of the establishment and management of “UMFCCEI Advanced Management Program” is to nurture in senior executives of the member firms of UMFCCEI, which is necessary to up-grade the capability for a company-level strategic decision-making, so that they will be able to cope with the dramatically changing business environment. By educating senior executives, the program will aim at advancing and internationalizing company management to match the transition of the economy into a market economy and thus contribute to the development of the private sector in the nation’s economy.

(c) The differences between the Advanced Management Program and other educational curricula

Table 5- 13 Differences of Program

Contents	Basic knowledge and theory	Advanced theory and application of theory	Practical knowledge and analysis	Fusion of theory and reality, and development of the capability for strategic decision-making
Institution	University (Undergraduate)	Graduate school (MBA)	In-company education and training	Advanced Management Program
Aimed at:				
Senior executives				
Middle managers				
Junior employees				
Graduate students				
Undergraduate students				

Source: JICA Study Team

The MBA programs at business schools in advanced, industrialized countries are known for their aim of providing practical education. “The UMFCCL Advanced Management Program” will be designed to be most up-to-date in terms of business practice, strategy and theory by applying the MBA programs in the advanced countries to business realities faced by senior executives in Myanmar. The program will build an efficient system of management, so that it can focus on the development of problem-solving and business-creation capability of participants through brain-storming, centering on case-studies under experienced instructors.

(d) Other requirements

i) Faculty

The Advanced Management Program will invite experienced professors, researchers, consultants, and businesspersons in the field from within Myanmar and from abroad for each its courses to provide creative management education, centering on case-studies.

ii) Targets

Since the Advanced Management Program aims to develop the capability for strategic thinking and judgment of company management, its target participants will be senior executives of the member companies of UMFCCL. Therefore, its focus will be the education of company senior executives and will not include the education of blue-collar workers in this program. In order to enhance the effectiveness of the program, the prerequisites for

participation are the willingness and the eagerness to read and analyze the case-studies handed out prior to the classes and actively participate in the discussion between the instructor and the participants as well as among participants themselves.

iii) Duration and frequency of the programs

It may be suggested that each program last for five days with three courses per day. The program might be carried out two to four times a year.

iv) Suggested subjects (examples)

- Leadership of top management
- Education for a successor of company
- Company growth strategy
- Competition strategy
- Innovation strategy
- Company restructuring
- Prerequisites for a well-managed firm
- Methodology for investment decision-making
- Export strategy for overseas markets
- Financial strategy
- Technology transfer
- Quality control

v) Management of the program

“The UMFCCI Advanced Management Program”, which will emphasize personal development, will take advantage of the methodologies for the program development and management developed by Nomura School of Advanced Management jointly with leading schools of business administration in the United States over the past 20 years. Nomura School of Advanced Management was founded in 1981 under tie-ups with Harvard Business School and Wharton School at the University of Pennsylvania. At present, it conducts four programs: Management Strategy Program, Innovation Program, Company Finance Program and Portfolio Asset Management Program. Nearly 4,000 company senior executives have studied under these programs over the past 20 years, and some of them went on to become company presidents.

The teaching method of Nomura School of Advanced Management centers on seminars based on case-studies. The classes are managed so that participants (1) study the cases independently prior to the day on which the class is held; (2) discuss where the problems lie and the methodologies for solving them with the instructor and other participants in the classroom under the guidance of the instructor; (3) break up into smaller groups of several

persons each in smaller rooms, continue discussion and arrive at a conclusion; and (4) return to the classroom for presentation by each group, which is followed by a questions and answers session and comments by the instructor, so that the participants can learn through this experience how to arrive at an optimum strategy.

vi) The number of participants per course

The aim of the program is to develop the capability for problem-solving and strategic judgment through two-way discussions between the instructor and participants rather than one-way delivery of lectures. The participants also break up into smaller groups for discussion. Therefore, the number of participants per course should be no greater than 30 or 40, because a large class tend to be less productive.

vii) Needed facilities

-It is desirable that the Advanced Management Program should be established in the new UM FCCI building.

-Classrooms: If we assume that each class will have approximately 40 participants, the classroom should allow a layout in which every participant can see the faces of other participants during discussion. Therefore, seats should be arranged in a semi-circle in about four rows. It is desirable that the rows in the back should higher than the one in front.

-Group discussion rooms: The ideal size of a small group is five or six persons. This means that we will need approximately eight group discussion rooms.

-OA equipment: Projectors, personal computers, video equipment, microphones, simultaneous interpretation equipment, etc.

viii) The role of the management office

The management office plays an important role during the period of preparation and while the courses are being held. Although the size of the staff of the management office will depend on the number of participants, it seems at least five persons will be needed.

-Preparations for the courses

Communication with instructors, planning of the major course subjects and preparation of materials

-Preparations relating to participants

Recruiting of participants, management of tuition fees, communication with would-be participants

-While the courses are in progress

Preparation of classrooms and OA equipment, preparation of materials

ix) Sharing of expenses

A desirable picture is for the party in Myanmar to shoulder the costs incurred in Myanmar, while the expenses incurred in relation to bringing lecturers from overseas should be financed by, for example, assistance from overseas aid organizations. In order to finance expenses incurred in Myanmar, it would help to establish a fund and use interest income from the fund in addition to income from tuition fees and donations.

x) Preparatory steps for the establishment and management of the UMFCCI Advanced Management Program

(i) Identification of specific needs

- A survey on the business goals and image of a successful businessperson in Myanmar (an interview survey)
- Identification of needs for courses offered in the program and curriculum (an interview survey)

(ii) Discussion of courses

- For whom the courses are designed?
- Selection of the faculty (Instructors are to be chosen from among experienced professors at business schools, management consultants, successful businesspersons in Myanmar and neighboring countries and also from Japan.)
- Contents of the curriculum (Attention should be paid for enhancement of case-study materials for knowledge-type subjects, such as marketing methodology and financial analysis, and enhancement of teaching methods for problem solving-type subjects.)
- Some cases should be selected particularly from among Japanese companies and host country companies in such neighboring countries as Malaysia, Singapore and Thailand to allow visits to these companies and discussions with their executives and others.

(iii) Discussion of the program format

- Discussion of the format of juridical person (Foundation, etc.)
- Discussion of finance [Income: Interest income from the management of the foundation's funds + donations + tuition income + assistance from foreign governments (for remuneration to foreign lecturers), Expenditure: Management office personnel expenses + other expenses + remuneration to Myanmar lecturers + remuneration to foreign lecturers]
- Management office functions (Course planning, communication and negotiation with outside instructors, development of case-study materials, operation of courses, recruiting of participants, exchanges with leading overseas management schools, general affairs and accounting work)

(iv) Discussion of facilities (layout, equipment and machinery, etc.)

- (v) Discussion of recruiting method for participants
- (vi) Visit to leading management schools in Japan
- (vii) Discussion of the feasibility of tie-ups with leading management schools in Japan

(4) Further recommendations on establishment of UMFCCE advanced management programs for SMEs directors

In providing advanced management programs, the Evening MBA Programme (EMBA) of the Yangon Institute of Economics, which is a government funded educational institute, should be taken into consideration, since both senior executives of private enterprises and senior government officials attend it. The criteria for the selection of candidates for this program are that candidates are over 30 years of age, have been in an executive position at a private or governmental organization for at least five years and pass the entrance examination (which is similar to GMAT) and an interview. This program is one of the best programs for company executives. But there are some weaknesses as shown below.

- The EMBA program is designed for studies for two and a half years; hence, it is too long for busy executives.
- Not all executives are qualified to meet all the criteria, especially to pass the GMAT-like entrance examination. Therefore, many would-be students are unable to attend the EMBA.
- The program can admit only around 50 candidates per year; hence, it can accept only a handful of executives.
- Some lecturers are experienced only in teaching theories and are more or less out of touch with the current trend of business and the economic environment, hence, the effective application of theories in practical business situations is sometimes wanting.
- The program is more or less influenced by the old-fashioned British way of teaching, so that class room interactions through debate sessions, presentations, debates, brainstorming case studies, etc., are not very common (although they exist some times) and most of the lecture time is filled with one way lectures.

Although there are some weaknesses, the EMBA program is playing an important role in training senior executives, since it is the most effective management program in the country.

The proposed Advanced Training Programs for executives of UMFCCE member enterprises will be important, because they will be able to help enhance management skills of directors of Myanmar's enterprises. But it should be noted that the programs will be not only for executives of UMFCCE member enterprises but also for executives of a broad category of private enterprises.

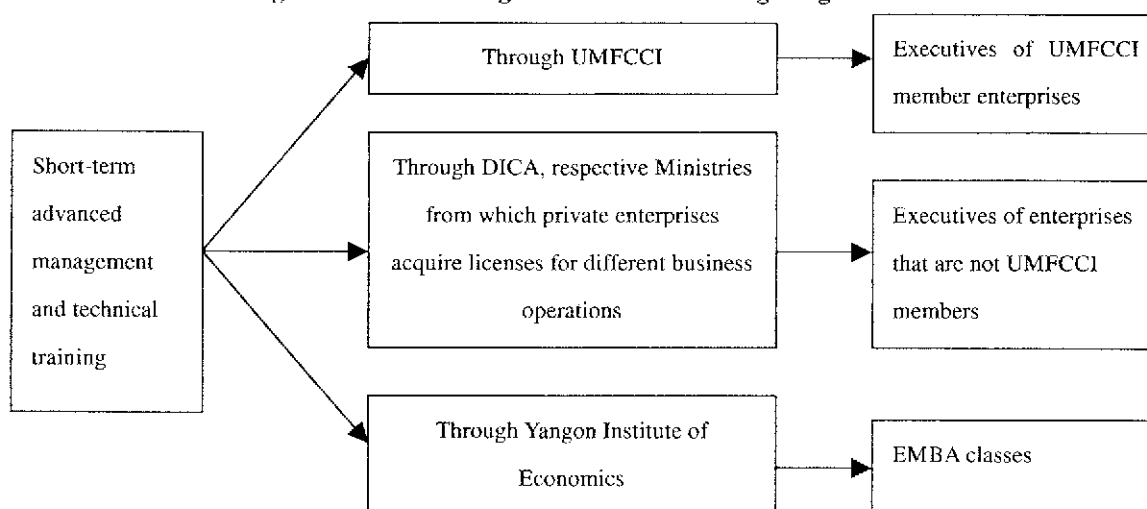
The short term management programs as well as technical training programs should be

provided. Management courses should focus more on executives rather on middle-level management and technicians. A higher weight in technical courses should be given to middle-level management and technicians rather than executives. These programs will equip executives with in-dept knowledge of business management and generalized technical knowledge, and the middle-level management and technicians with generalized knowledge of business management and various in-dept technical knowledge, so that people at different levels of an organizational hierarchy will have the opportunity to learn what they need within a short period of time.

In offering effective short-term management and technical training programs, the existing EMBA classes should be used as models, since these classes are filled with executives of different private enterprises and high-level government officials. By arranging the brainstorming sessions, case study analyses, debate sessions, discussions and presentations during the short-term training conducted at EMBA classes, not only executives of different private enterprises but also government officials will have in-dept understanding of how things can be managed, how to identify the sources of problems, how to effectively solve problems, etc., so that understanding and cohesion between the private sector executives and senior government officials will be enhanced.

Thus the target market for the short-term advanced management and technical training programs should not be limited to executive directors of UMFCCI member enterprises. There should be at least three target market segments as shown below.

Figure 5-12 Three Target Market for Training Programs



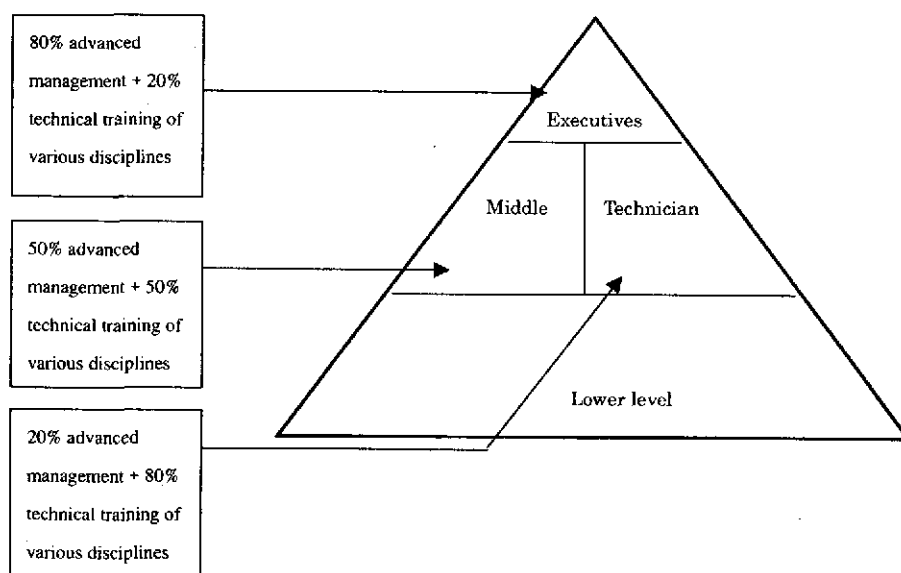
Source: JICA Study Team

Short-term advanced management and technical training programs shall be provided to directors or UMFCCI member enterprises through UMFCCI, which will organize its member

enterprises and arrange for training. These programs should also be provided to directors of enterprises that are not UMFCCEI members. These non-member enterprises are operating different types of businesses with licenses issued by various governmental organizations and Ministries. These enterprises should be organized by the association that specializes in SME development which is under the UMFCCEI with the cooperation of the DICA and other governmental organizations, such as the Ministry of Industry 1, the Ministry of Industry 2, the Ministry of Cooperatives, the Myanmar Fisheries Department, the Ministry of Construction, the Ministry of Hotel and Tourism. Training programs provided. EMBA classes should also be considered, since this type of effective short-term training programs is also necessary for executives and senior government officials, although they are studying in other advanced EMBA courses. The short-term programs are sometimes more effective and more practical.

Training programs should not be the same for everybody, and their structure should be tailored-made for different levels of hierarchy of private enterprises as shown below.

Figure 5-13 Structure by Hierarchy of Training Programs



Source: JICA Study Team

The lectures for advanced management training should be given by experienced academics who have been involved in various private sector research and analyses as well as foreign and local experts. Lectures by successful local businessmen should be limited. These lectures by successful local businessmen should be limited to within seminars, since the business concepts of most of these people are valid only for a short period of time and not in the long run.

Some successful businessmen say that running industrial businesses does not benefit them and that it is more profitable to set up factories, collateralize them for bank loans and

engage in speculative activities, such as buying and selling US dollars, properties or real estates. Hence their aim of setting up factories is not to manage them and earn profits but to collateralize them and engage in speculative trading with the loans from financial institution. Their concept is misleading.

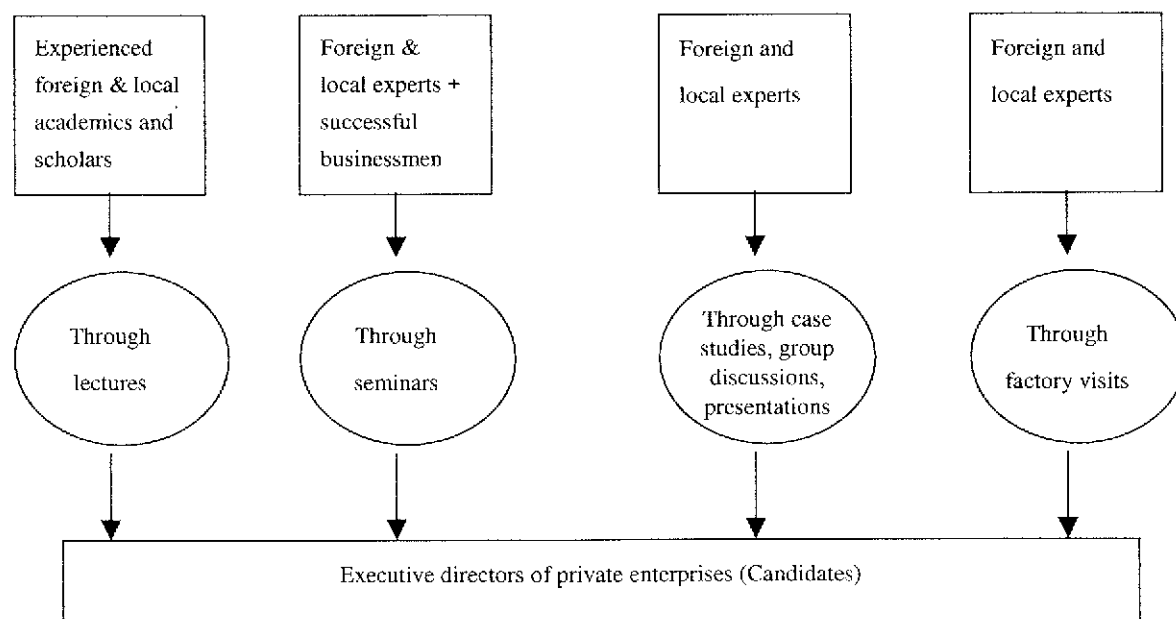
Some successful local businessmen say that it is not good to run businesses with borrowings and that the company should be absolutely unleveraged so that there is no interest burden, which makes businesses more successful. This concept is also very misleading. It is at odds with international understanding of financial management according to which debt financing is preferred to some extent since it tends to minimize weighted average cost of capital (WACC), but over-borrowings tend to damage organizations since WACC will rise after some point as a result of financial cost of distress.

Hence some of the concepts of successful local businessmen are very misleading. Thus, after every seminar conducted by successful local businessmen, follow up classes using appropriate case studies should be arranged to point this out. Otherwise, the students may be misled.

However, some of the concepts of successful local businessmen are quite valuable and these should be conveyed through seminars, but misleading concepts should be corrected in follow-up classes, as discussed in the previous paragraph.

The following are different types of training to be provided by different categories of instructors through lectures, seminars, case studies, discussions, presentations, factory visits, etc.

Figure 5-14 Training Programs for Executive Directors of Private Enterprises



Source: JICA Study Team