

5.2.5 To Set Up Technology Guidance Centers in Industrial Zones

(a) Objectives

Establish centers to offer technological information as well as consulting and guidance services relating to technology to businessmen and provide technological and technical training to workers.

- a) Managers of SMEs in Myanmar are beset by extreme paucity of all kinds of information. Our questionnaire has found that 86% of businessmen are not satisfied with the availability of technological information, with those responding “very dissatisfied” accounting for 6.4% and “rather dissatisfied” accounting for 79.6%. Because of the difficulties associated with overseas travels, there is an absolute shortage of technological information from overseas. In our interviews, we were often told that the interviewees wanted catalogs of Japanese machinery. Although catalogs of machines belong to the most elementary technological information, even this level of information is not easily available in Myanmar. The scarcity of information is impeding technology development and stands in the way of industrial development. As obstacles to technology development, “difficulties in obtaining technological information,” “shortages of equipment for technology development” and “shortages of funds for technology development” were each cited by more than 30% of the enterprises.

To begin with, information necessary for managing a business must be “discovered” rather than given. Information discovered by a businessperson is his or her proprietary information not shared with other businesses and can serve as an important weapon in competition. However, in Myanmar even the type of basic information that is considered as common sense and shared by everyone in other countries is lacking. The discovery of information is possible only when there is a foundation built with accumulated information. When such fundamental information is lacking, the businesses’ ability to discover information is bound to be small. The gap in the availability of fundamental technological information with other countries is not the responsibility of individual businessmen and should be closed by the government policy.

Support is also necessary when a business develops its original technology beyond the basic technology. Most SMEs are unable to own expensive measuring instruments or other equipment necessary for technology development. For most SMEs, the source of technology improvement and development is very often the technological knowledge of the owner-manager of the business (our questionnaire shows that 84.4% of the enterprises surveyed responded that the person in charge of technology development was the owner-manager himself or herself). Since technological knowledge of an individual is

limited, he or she must supplement his or her knowledge with technological knowledge outside of his or her specialization. At the same time, SMEs find it difficult to systematize on the basis of scientific principles new technological information they have discovered. These problems cannot be solved through self-help efforts of the SMEs alone and require support from government policies.

- b) The improvement of the workers' technological knowledge and the capability and skills for machine operation is also necessary to raise the technological level of a business. Our questionnaire has found that 37.5% of the workers were middle school graduates while 32.1% were primary school graduates. In other words, 70% of the workers only have elementary school education. Hence, it is assumed that a large part of workers start the job without any technological knowledge. They acquire necessary technological knowledge gradually on the job, but the low levels from where they start mean that their progress has to be slow. The concentration of technology development activities to the owner-manager, as described above, may be attributed to the difficulties in nurturing employees with good technological knowledge.

At present, the Ministries of Industry No. 1 and No. 2 have their own training centers under their umbrella. Although an overall picture is not available, the outline of a training center at Sinda under the umbrella of the Ministry of Industry No.2 is as follows.

- Objective: Fostering skilled workers
- Students: Middle school graduates between the ages of 16 and 18. There are admission tests, consisting of written examinations and interviews. From among approximately 600 applicants, 120 to 130 successful candidates are chosen.
- Duration: Two years. The students must pay tuitions and accommodation fees (the training was provided free of charge through 1997). The students are housed in a dormitory.
- Courses offered: Machinery fitter, machine tool operator, tool and die maker, motor vehicle mechanics, electrical machine maker, electrical fitter, pattern maker and mechanical draftsman
- Graduates: The center opened on December 1, 1975. It has graduated a total of 2,500 persons to date. Of these, an estimated 300 students were sent by private enterprises which were their employers. Of the cumulative total of graduates, approximately 1,500 persons are estimated to be working at private enterprises.

As the above information shows, the center is basically a vocational school. However, it is not designed to directly respond to the training needs of private enterprises and only a small number of students have been sent by private enterprises. The center's

location does not offer convenient access, either, as it takes six or seven hours by car from Yangon to Sinde.

Since Myanmar's SMEs are more labor-intensive than those in other countries, the level of technological knowledge and other factors of individual workers greatly affect the quality of products. In order to raise the general level of technology at enterprises, it is necessary to offer technological training courses designed specifically to meet the needs of private enterprises and for their employees.

(b) An outline of the proposed centers

a) Location:

It is recommended that a technology guidance center is established in each industrial zone so that it can be used without difficulties by enterprises and also to offer knowledge that matches the nature of the local industry. In the immediate future, such centers should be established in two or three industrial zones.

b) Managing body:

Contents of the activities should be planned and managed by a management committee comprising the businesspersons operating businesses in the industrial zone.

c) An outline of activities:

The management committee proposed in the previous paragraph will plan concrete activities, which should have the following two pillars.

Technological guidance to businessmen and technological training for workers should form the two pillars of the centers' activities.

(i) Technological guidance:

- Offer technological information: Offer information on machinery and equipment, materials, production management, etc. for each of the major industries, including food processing, textiles, general machinery, electrical and electronics, and metals. Special emphasis should be placed on overseas information (to be offered in translated versions), which is in short supply. It is recommended that the overseas information include information on the inventories of used machinery in Japan (in Japan, there is a web-site for used machinery). The collection of information should also include books, magazines and videos. The center should also refer businessmen to the sources of information in addition to offering information.
- Technological consulting: The center should be available to respond to consultations

regarding problems with equipment, products, etc. and in technology development and offer solutions. It should also offer advice for systematization of and manual-making for technology.

- Testing services: The center will conduct tests, measuring and analyses of products, parts and materials upon request from enterprises and issue “report cards” stating test results. These report cards should enhance the reliability of the product and may help cultivate new customers.
- Allowing use of machinery and equipment: The center will make its testing instruments and equipment available for making trial products, gauging and analyses to businesses that do not own their own testing equipment.
- On-site guidance: The employees of the center will visit the factories of enterprises to offer on-site guidance.
- Exchanges among enterprises: The center will help supplement and complement technological information through information exchange among businesses.

(ii) Technological training

Build a system so that company employees can study while working and receive technological training that meets their needs. One possibility would be to conduct a series of short courses with different themes so that businesses can choose the themes they are interested in.

For example, the curriculum for technological training relating to machinery can include the following:

- Processing technology: Cutting, grinding, welding
- Measurement and testing: Measuring technology, testing technology
- Designing technology: Machinery designing, hydraulic pressure and air pressure circuits

Each of these courses may last for about 10 days, so that businesses may choose the themes they are interested in and send their employees. It may also allow a worker to complete the entire curriculum in three months.

5.2.6 Introduction of a system for selling state-owned machinery to the private sector

As a means of modernizing the equipment of private enterprises and making effective use of machinery used by SOEs, we propose the creation of a system under which machinery no longer in use at SOEs will be sold to private enterprises. Our interview survey has revealed that a large number of small and medium-sized manufactures wish to replace their machinery but they do not necessarily want the most up-to-date machinery. Not a few of them will be happy to use used machinery if they are inexpensive and easy to use. Thus, the

creation of a system to sell on request the *machinery made* redundant due to equipment replacement at SOEs to SMEs and very small enterprises which will be happy with used machinery is desirable both for making effective use of the equipment and saving the acquisition cost of private enterprises. However, we need to exercise caution since we cannot say that there are no technically gray areas concerning the assessment of the value of the machinery and the cost of moving it, or that there is no possibility of arbitrary decisions by the persons in charge with respect to the method and timing of moving the machines. The major points to be noted are as follows.

(a) In creating the system, the relevant ministry should keep the following in mind:

- The relevant ministry should set rules for sales (frequency of sales, methods of announcing the auctions, qualifications and other conditions required of the possible purchasers, penalties for violation of the rules, etc.) and make them public.
- The relevant ministry should collect information on machinery to be sold from each SOE and make all information public according to the rules.
- The result of the sales should be made public without delay.
- The rules of resolution of disputes should be set in advance.

(b) In order to participate in the above system, SOEs should make the following provisions in advance. Each SOE should have detailed rules concerning the disposal of machinery it no longer needs (sell, abandon, divert, etc.)

- Clerical procedures for sales should be determined in advance and a manual covering the assessment method for the equipment, the process of sales, the section which is responsible for the clerical work, etc. should be prepared.
- Establish a system for regular inspections to see if disposal of machinery is appropriate.

(c) Points to be kept in mind in the management of the sales system

- Avoid as much as possible the concentration of enterprises benefiting from the sales to particular sectors, regions, etc.
- Make clear and transparent the process of and reasons for the decision-making regarding sales.
- The sales price must be appropriate so that it can be accounted for to any third party.
- Create a system which makes sure that the successful bidder use the machine in-house and bans re-sale of the equipment for a certain period.
- The efficiency (performance), attributes, problems, etc. of the machinery must be

accurately disclosed and shown on the label.

As in ordinary transactions, the rights and obligations of the seller and buyer must be clearly defined.

5.2.7 To Create Organizations for Joint Business

For SMEs to survive the competition with large SOEs and foreign companies, they must overcome their weaknesses, such as their excessively small sizes, low technological capability and low credibility. One of the important measures to achieve this is forming organizations, including cooperative businesses. At present, business associations are not engaged in cooperative or joint businesses. However, as SMEs in Myanmar specialize in their core businesses, there is a growing trend among them to jointly undertake activities which are outside of their expertise. If businesses can be encouraged to conduct businesses joining forces so that they can complement one another, the overall competitiveness will be enhanced. If the present cooperatives cannot be enforced flexibly, the revision of the law should also be considered. We recommend the following three measures. Since the Ministry of Cooperatives has the jurisdiction over the activities of SMEs for forming cooperative unions, this study recommends the formation of cooperative unions that are open to SMEs as well as extremely small enterprises.

(a) Information exchange and alliance system

We believe that this system should be managed jointly by the Ministry of Industry No.1 and the Ministry of Cooperatives. The latter should accumulate information on the activities of cooperative businesses across the nation and on technology and marketing and offer it to the SMEs that want it in accordance with certain rules. The information should be open to everyone and access to it should not be limited to proprietorships or cooperative unions that are registered with the ministry. The concrete steps can include the following:

- a) Mapping of products made by SMEs which are engaged in cooperative businesses
- b) Refer relevant businesses to outside organizations, and by increasing members support the businesses to mutually improve the product quality and production technology.

(b) Commendation system for cooperative businesses

The Ministry of Industry No.1 and the Ministry of Cooperatives should join forces to introduce a system to commend successful cooperative businesses and introduce successful examples. The recipients of the commendation should be the following:

- a) Business entities that have succeeded as a result of using the information on cooperative

- business activities, technology or marketing provided by the Ministry of Cooperatives
- b) Businesses that have dramatically improved product quality or reduced costs by using parts supplied by other cooperative entities

It is necessary, however, for the relevant ministries to take necessary measures to protect the intellectual property rights of the entities whose activities or technology/marketing information have been offered to them.

c) Sponsoring seminars on technological innovations and starting businesses

In order to encourage cooperative or joint businesses, the relevant ministries should actively hold seminars on technological innovations, starting new businesses and developing new businesses to support cooperative or joint businesses. The companies under the jurisdiction of the Ministry of Industry No.1 as well as those registered with the Ministry of Cooperatives should be encouraged to participate in these seminars. Seminars should be held in different administrative divisions taking into consideration the condition in each region. They should get broad support both from the central government (i.e., the Ministry of Industry No. 1 and the Ministry of Cooperatives and the governments of the administrative divisions and be held under the joint sponsorship of these government bodies.

5.2.8 To Rehabilitate and Up-Grade Industrial Zones

(1) Major problems of industrial estates development in Myanmar

Even though Myanmar has been implementing some extent of Industrial estate, the following issues can be defined as some major problems:

(a) Poor & lack of physical facilities & services

Since all of industrial estates are currently faced electric power shortage and factories are required to purchase their own generator in order to operate their factories. Shortage of electric power supply is not only infrastructure services but also other facilities and services are missing or limited supply such as water treatment facility and communication facilities. Also the internal road, drainage, administration office are normally poor conditions compared with the other Asian industrial estates.

Forwarding service, banking, insurance, post & courier services and other supporting services, are in the most cases missing within or near by. The large number of industrial estates are just lands which were divided with minimum access roads, water supply, power supply (frequent black out), lack of the commercial facilities and a small office for management purpose. The best industrial estate in Myanmar is the Mingaradon industrial estate which can

be provided the physical facilities such as water supply, wastewater treatment plant, drainage, electric power and telephone lines and administration office with supporting staffs are available. However, even Mingaradon industrial estate, electric power supply is not sufficient and other commonly available services are still missing.

(b) Lack of legal laws & regulation for the industrial estate

There are no specific laws and regulations for industrial estates in Myanmar unlike any other countries in Asia and China. Because of lack of laws and regulations for the industrial estates, these industrial estates must follow the Ministry of Industry 1 Directives and standing orders and local development committees' laws and regulations. This over rapping regulators (three) tends to create frequent changes in rules and regulations and interventions for the factories operating in the industrial estates

(c) Lack of autonomous authority for managing the industrial estate

In Myanmar, each industrial estates have small managing staff (one or two person, often part time) and there is no central organization to formulate policy and manage the industrial estates. Since the development of industrial estates is the most effective tool to promote both domestic and foreign direct investment, Asian countries have been given a top priority to develop and manage the industrial estate nation-wide and providing one-stop-window service, which allows the investor to get all necessary government permits from the authority. Also because of various infrastructures, services and amenities are needed for successful industrial estate, efficient and strong coordinating capacity are needed by the Authority. At moment, the management organization is too weak and not able to manage, coordinate and promote investment in Myanmar efficiently.

(d) Limited type of industrial estates to meet the needs of private sector

All countries has developed various types of industrial estates in order to promote various industries such as Special Economic Zone (SEZ), Export Processing Zone (EPZ), Technical Promotion Zone (TPZ), Heavy Industry Zone and General Industrial Zone (GIZ) or mixed of a few functions. It is important to select the best type of industrial estate functions to meet the need of each region. In Myanmar, the industrial estates developed so far is only one type a mixed industrial estates catering mainly SME's for both export-oriented and domestic –oriented. For the future, specialized industrial estates are needed to support special requirement of various industries.

(e) Further hidden problems in industrial zone development

The development of industrial zones is one of the major activities of the Department of Human Settlement and Housing Development (DHSHD) under the Ministry of Construction.

There are two types of industrial zones in and around Yangon. The first type is oriented towards general industries for the local entrepreneurs, whereas the second type is targeted to attract the foreign investors. From the viewpoint of the development of SMEs in Myanmar, the first type will be discussed here.

Land in industrial zones is provided (sold) to private enterprises. One acre of land in an industrial estate costs Kyats 9 million, which is a subsidized rate. Following the guidance of the central government, industrial zones are developed by the DHSHD or sometimes in cooperation with foreign investors, and sold at the subsidized rate to private enterprises which need to develop various industries.

But, many private enterprises which need to develop their businesses find it too expensive to purchase the land from the developer (DHSHD). The price of one-acre plot of industrial estate, which is Kyats 9 million, is like a fairy tale. There are some private enterprises which had funds to buy at this rate during the promotional period during which the activities are supervised by the central government. However, apart from once-in-a-while promotional periods, many private enterprises are unable to buy land in industrial zones at the quoted rate. They need to pay at least 50~300% more than the official rate.

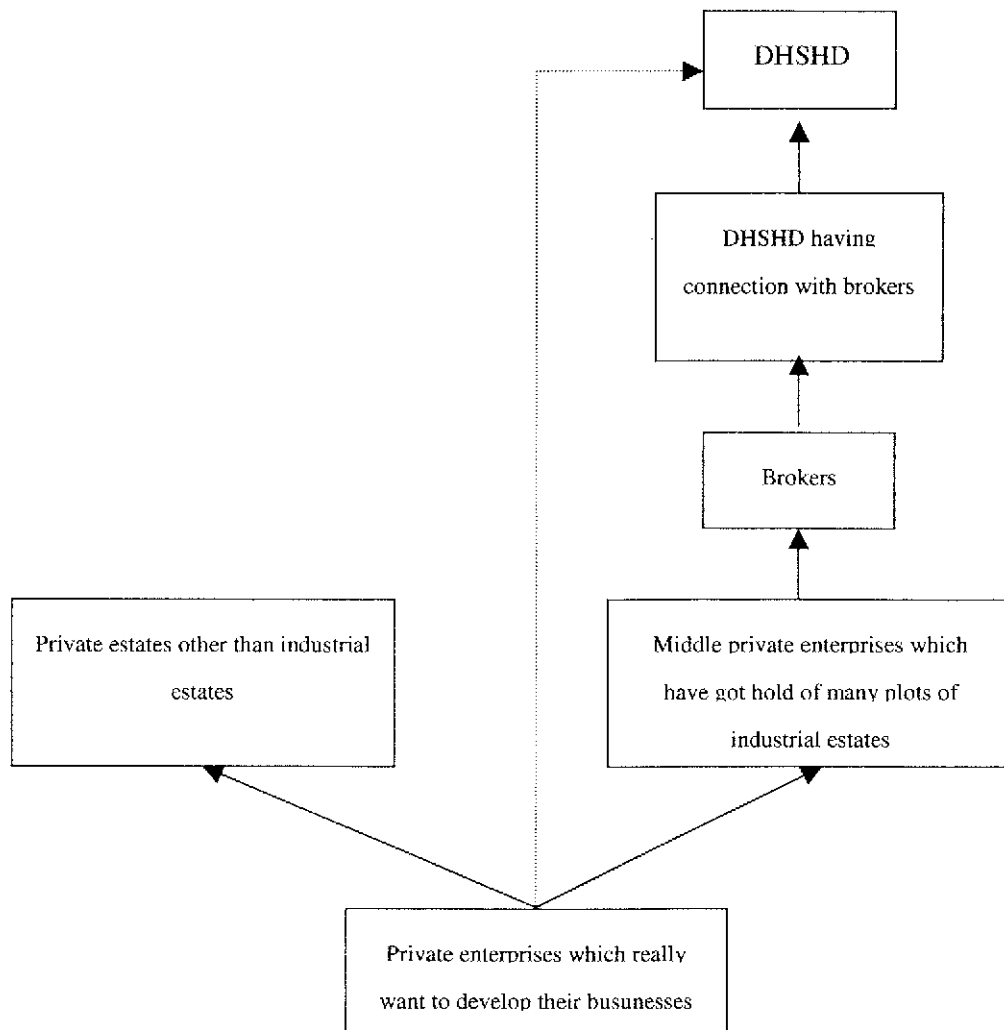
There are some private enterprises which have purchased many plots of estates at various industrial zones, so that other private enterprises have no choice but to buy land from this handful of enterprises. We will refer to enterprises which purchase many plots of estate at various industrial zones as "middle enterprises" and private enterprises which need the land as "end-user enterprises". In order to purchase these industrial estates, middle enterprises have to deal with brokers. These brokers look for the vacant industrial estates with the assistance of the DHSHD staff. Middle enterprises make several proposals for the development of various industries (although they may have no intention to develop them) to the DHSHD for its approval. The amounts of money that are required to pay bribes to DHSHD officials through brokers for their approval vary from 50 to 300% of the official price depending on the location of the estate. (These brokers can easily be spotted in the tea shop just next to the main office of the DHSHD).

Because of the difficulties in obtaining a plot in industrial zones and high prices (the official price + brokerage fee + donation to the DHSHD staff and officials + markup for the middle enterprise), SMEs with limited funds find it very difficult to acquire industrial estates. There are also other difficulties in purchasing real estates other than those in industrial zones because some of them are even more expensive than the estates in industrial zones and because enterprises are not allowed to operate in residential areas or in the areas that are not meant for industries.

Consequently, some SMEs rent small areas within estates owned by somebody else in the outskirts of cities and operate small businesses. Since these locations are not meant for operation of industries, SMEs have to negotiate with township authorities and pay some

informal money. The following chart shows how a private enterprise in need of an industrial estate may acquire it.

Figure 5-15 Flow Chart on Acquisition of Industrial Estates by Private Enterprises



Source: JICA Study Team

The dotted line represents very rare cases which are observed during promotional periods when private enterprises with no connection with authorities or brokers have the chance to buy industrial estates directly from the DHSHD. Middle enterprises, which purchase several industrial estates, should be scrutinized. It is not difficult to find out whether or not an enterprise which purchases directly from the DHSHD is really engaged in manufacturing. It can be found through census surveys at various industrial zones whether the companies operating businesses have bought the estate directly from the DHSHD, purchased it from another enterprise or renting it from another enterprise. This problem (the fact that private

enterprises find it difficult to acquire industrial estates and have to pay high prices to middle enterprises despite the central government's policies to give all private enterprises needing to develop the right to purchase industrial estates directly from the DHSHD at the subsidized rate), should be highlighted to the central government.

This situation calls for surveys on all industrial estates by an independent research team. Results of such surveys may answer the following questions.

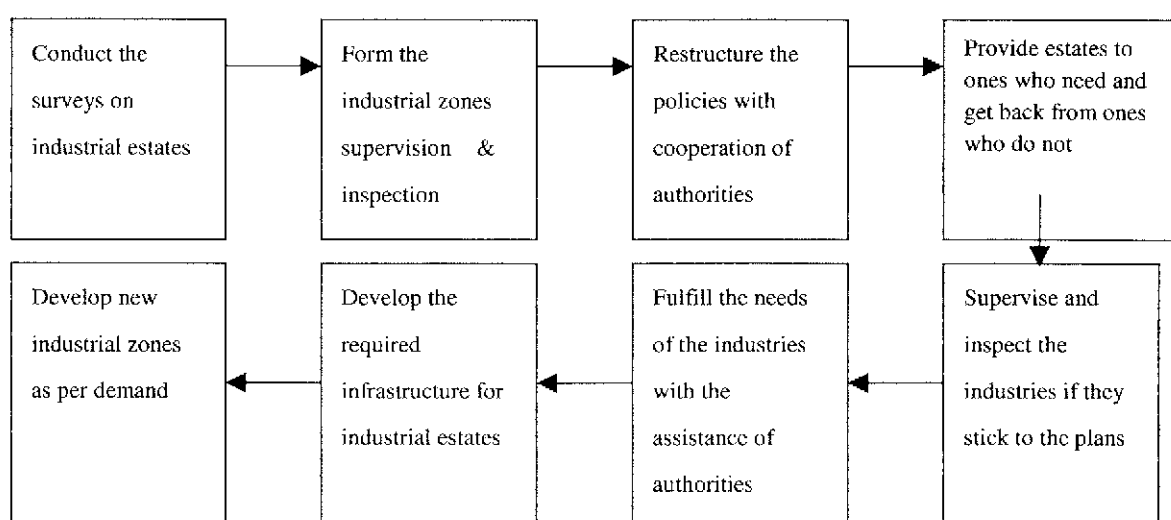
- What is the percentage of companies that are operating in industrial zones which have purchased the estates directly from the developer? What is their breakdown by industry? How much did it cost to acquire the estate?
- What is the percentage of companies operating in industrial zones which have purchased the estates through brokers? What is their breakdown by industry? How much did it cost to acquire the estates?
- What is the percentage of companies operating in industrial zones that have purchased the estates from middle companies? What is their breakdown by industry? How much did it cost to acquire the estates?
- What percentage of the companies that have acquired estates in industrial zones but have not started the construction of factories? When did they purchase the estates? What are the percentages of companies that intend to build factories and those that do not intend to do so?
- What are the percentages of the companies that plan to build factories but have not acquired land and of those whose applications for land have been rejected?
- What is the percentage of companies that have acquired more than one plot of land in industrial zones? Are they fully utilizing all the land they have acquired? [There are quite a few companies having small or medium-size operations on a huge estate (2-4 acres) although their actual need may be just for a quarter of an acre.]

A survey on each industrial estate will answer these questions and highlight the difficulties faced by SMEs in acquiring industrial estates. The reports of such surveys should be made available to the central government to allow it to understand the true situation and their copies should also be made available to the DHSHD, which is the main developer of industrial zones. It will also reveal misconducts and poor supervision of staff members in relevant governmental bodies.

The situation also calls for an efficient supervision and inspection committee for SMEs in the industrial zones. Middle companies apply for the acquisition of industrial estates pretending to set up several operations, although they do not plan to set up even one operation. Some middle companies apply for the acquisition of several industrial estates although they

plan to set up only one operation (e.g. Company S applied for 10 acres of industrial estate to set up one paint factory). They pretend to be in the process of building a business as planned by constructing the building on the estate they have acquired and leaving some small machines in the building. Then, they sell the estate to a third party at a price that includes (government price + brokerage + donation to the DHSHD staff members and officials + costs of construction of the building + a higher mark-up). Thus the companies actually planning to set up operations are forced to pay high fixed costs for the acquisition of the industrial estates. The plan for the development of industrial zones should be as follows.

Figure 5-16 A Plan for Development of Inclusive Zones



Source: JICA Study Team

In the procedures shown above, the first and the second steps, which are to conduct surveys and to form a supervision and inspection committee, are most important, since other procedures would follow smoothly if the first and second steps are taken efficiently.

The supervision and inspection committee for enterprises in industrial zones should be under the control of the supervision and inspection committee of the proposed SME Development Agency. The agency should cooperate with the management committee of each industrial zone, industrial zone developers, private enterprises, and other relevant parties. The DHSHD should be involved only as the developer of industrial estates and zones, whereas the management committees of each industrial zone assisted by the proposed SME Development Agency should be wholly responsible for the management of industrial estates, allocation of SMEs at industrial zones, etc., as well as for inspection, supervision, provision of assistance, and other functions with the support and cooperation of various governmental organizations.

The activities of the proposed SME Development Agency should include the following.

- To allocate land to SMEs that are really planning to develop businesses in industrial zones. That is to provide industrial estates to those who are really planning to set up businesses. (It should be noted that this is the main objective of the DHSHD, although in practice the majority of companies which purchase industrial estates are speculators. The DHSHD also has an installment payment system under which private enterprises gain ownership of the property only when they set up operations. However, due to a lack of proper inspection and supervision, this rule is not always fully enforced.
- To sell just enough plot for the proposed operations of SMEs.
- To force the return of the property from companies that do not plan to set up industries as proposed in the specified time period. Transfer of industrial estates from one company to another for profit-making should be strictly prohibited. Private enterprises need convincing that the acquisition of industrial estates is easy, simple and quick for those who actually plan to develop businesses.
- To cooperate with the Ministry of Electrical Power for uninterrupted and reliable supply of electricity. If the Ministry is not able to provide reliable power supply, the establishment of large-capacity generators for each industrial zone should be considered, since it would be more cost effective than each company using small diesel generators. It should also cooperate with the Department of Public Works for uninterrupted water supply and construction of roads in some industrial zones that still have poor infrastructure.
- To cooperate with Ministry of Finance and Revenue and private financial institutions to make financial transactions convenient, smooth and quick. To cooperate with the Directorate of Investment and Companies Registration (DICA), the Ministry of Industry 1, the Ministry of Industry 2, and others for prompt processing of registration of SMEs in specific industries.

(2) Other land issues for private industries

In Myanmar, there are following types of land.

- Free hold land (or land owned by forefathers)
- Grant land
- Permit land
- Farmland

The first two types of land could be purchased freely by any local citizen. Grant land is the land with government permission for ownership for a period of normally 80 or 90 years, which can be extended for a same period. Permit land is the land for which an application to the government for the issuance of grant is in process. Permit land and farmland are not to be

purchased.

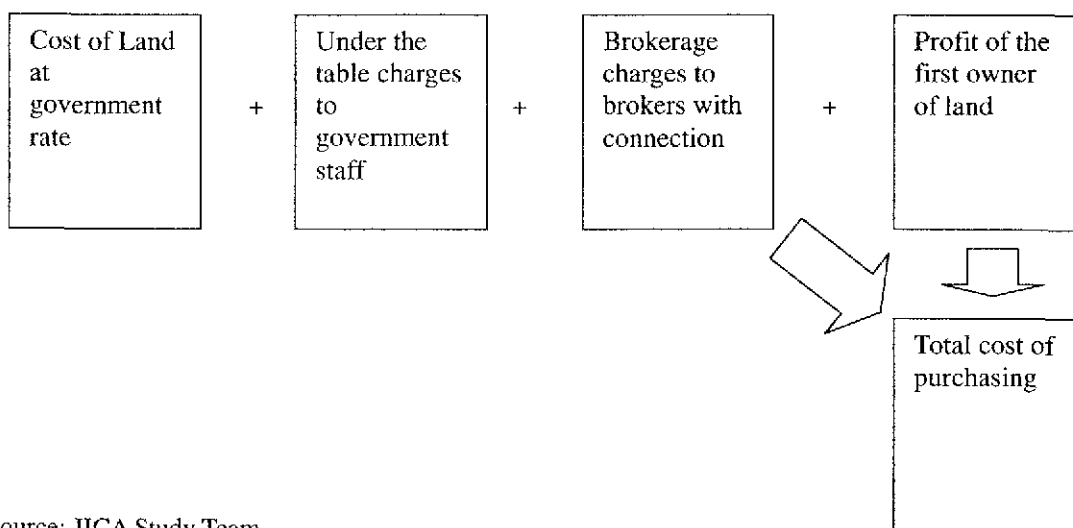
But there are several cases in which people or enterprises purchase the third and forth types of land, although there is no guarantee that the government will not confiscate the land sometime in future.

There are two areas in which SME/SMIs run businesses. They are as follows.

(a) Purchasing land in industrial zones

Approximately 5% of SME/SMIs manage to buy plots in designated industrial zones. However, the majority of SME/SMIs cannot afford to buy land in industrial zones simply because their purchasing prices are very expensive. A breakdown of the total cost of purchasing a piece of land in an industrial zone is shown below.

Figure 5- 17 A Breakdown of the Total Cost of Purchasing an Industrial Zone



Source: JICA Study Team

The first case is to deal directly with brokers, pay under-the-table charges and acquire land directly from the government. In this case, the buyer of the land would be its first owner. If the land (intended for purchase) is located in an industrial zone having poor transportation access, the additional cost (to be paid in addition to the government selling price) amounts to approximately 10~20% of the government official cost. The additional amount is to be paid as brokerage fees and under-the-table charges. If the land intended for purchase is located in an industrial zone having better transportation access, the additional cost (to be paid in addition to the government selling price) amounts to approximately 250% of the government official cost.

However, it is becoming difficult for SME/SMIs to purchase directly from the government through brokers, since most of the land in industrial zones is already occupied and purchased by speculators, who are already the first owners of the property. As a result, the

purchaser must follow the second case, which is presented below.

In the second case, entrepreneurs have no choice but to buy land from the speculators and they have to pay approximately 40~ 50% more than the government official cost to the first owner if the plot is located in an industrial zone having poor transportation access. If the area intended for purchase is located in an industrial zone having better transportation access, entrepreneurs have to pay a premium equivalent to six times of the government selling price to the first owner.

Thus, purchasing prices of land in industrial zones are becoming inflated because of these speculators, a fact which discourages the development of SME/SMIs.

(b) Purchasing land outside of industrial zones

Businesses (however small they may be) are not allowed to operate in residential areas. Such small businesses may include offset printing and automobile workshops. However, there are some businesses operating in or around residential areas under a tacit understanding with local authorities.

Very few entrepreneurs can afford to buy proper land or properties to operate their small industries or businesses because of the following reasons.

a) Land and property prices are getting very expensive

On account of pure speculation, land and properties are getting more and more overpriced. Some land and property prices are found to have jumped by 500% within the year between the end of 2001 and the end of 2002, making it impossible for small and medium enterprises and industries to buy land and properties. Moreover, they are already in a difficult situation on account of increased rental charges.

b) Tax

Approximately 95% of companies (especially SME/SMIs) avoid tax payments by manipulating with the help of audit firms their financial statements to be filed to the Internal Revenue Department. Hence, these enterprises normally do not have reported disposable income.

When businesses buy land or properties, the Internal Revenue Department follows up the case to find out whether they have bought the property with their disposable income. If not, an amount equivalent to 50% of the value of the land or properties will be levied as tax. Although there are many ways to show an after-tax income through maneuvering with income tax officers, they are cumbersome.

Hence, enterprises are discouraged from buying land due to the fear of possible income tax actions in the future.

c) Approval of neighbors

Any entrepreneur wishing to operate small or medium-sized industries needs to register with the Yangon or Mandalay City Development Council (YCDC or MCDC). One of the procedures such business has to go through is to obtain the approval in writing of at least seven neighbors, expressing no-objection to the business to be run.

Some industries find it difficult to meet this requirement. Since they cannot buy land, they rent a place and are new to the neighbors around the place. Some people do not want any industries in their neighborhood, since they are sensitive to noise and other environmental issues.

Thus, the choice of land small businesses can buy is limited, since they have to buy land in an area where there are several other small and medium-sized enterprises. This raises the price of land in such an area.

d) Power meter

The availability of power meters further limits the choice of SME/SMIs in selecting the land to buy. The power meter is connected to power electric cable and is exclusively for industrial use. The electricity charges for using high power-consumption products like electric motors, hot plates, etc., are less expensive when the power is used through a power meter than when it is used through an ordinary household electric meter.

However, the application for the installation of a power meter is almost impossible unless one has connection with senior authorities at the Ministry of Electrical Power. The cost of installation is also very high due to under-the-table charges at different levels.

Thus, SME/SMIs have to find a piece of land where power meter is already installed. Again, such land is more expensive.

e) Type of land

There are different types of land, such as Free hold land (land owned by forefathers), grant land, permit land and farmland. Land in the outskirts of cities is usually farmland where farming used to be conducted in old times. As transportation improves and becomes cheaper, such locations become attractive for setting up industries. However, the law stipulates that farmland is not to be owned by any citizen and the government has the right to take this type of land back at any time. This makes it difficult for SME/SMIs to buy such land because it is not secure. They have to look for grant land or free hold land, which is normally much more expensive.

(f) Infrastructure

The access to the telecommunication system, electricity supply, water supply,

transportation, etc., further limits the choice of entrepreneurs in finding the location for setting up business. Most small and medium-sized industries cannot afford to buy land that has adequate infrastructure.

There are cheaper plots of land in the outskirts of cities, but they do not have even the basic infrastructure, such as electricity, water supply and telecommunication, which makes it impossible to set up proper businesses. As such, only cottage industries are located in these locations.

(3) Recommendations

Although SME/SMIs are legally able to purchase and own land, most of them find it difficult to purchase land because of the factors mentioned above. However, most of the problems can be solved with the cooperation of the relevant authorities. The following are several recommendations to help solve these problems as much as possible.

Table 5-14 Recommendations

	Urgent Target	Medium-term Target	Long-term Target
Conduct research and surveys	Conduct comprehensive research in industrial zones to see how many plots of land are occupied by speculators.	Take actions to make these speculators surrender land if they do not plan to set up industries within six months. Even if they plan to set up industries, the size of land actually required should be calculated and the speculators should be made to surrender excess land. (There are many cases of people acquiring five acres of land to set up one small industry.)	
	Conduct surveys on SME/SMIs that actually plan to set up industries and have contacted brokers regarding land.	Make necessary arrangements to help these SME/SMIs acquire land without difficulty at the cheaper official rate.	Surveys should be consistently conducted to extend assistance to SME/SMIs and to eliminate speculative activities.
Purchase tax exemption	No tax should be levied if the land is purchased for an industrial purpose and for setting up SME/SMIs (In	The current investment law (Myanmar Citizens Investment Law) gives tax holidays and other	

	this case, it is very important for the SME Committee to make constant inspections of land purchasers, because speculators pretend to set up industries and occupy the land).	benefits only to big corporations. A new law which allows small and medium enterprises to enjoy the same benefits should be passed.	
Reduce paperwork	Bureaucratic procedures, such as the requirement to get approval from at least seven neighbors to set up industries, should be eliminated, as long as businesses comply with environmental measures.		
	Establish only one window for the development of SME/SMIs, although they could be under the supervision of different authorities depending on the type of industry		
Provide proper infrastructure	Proper infrastructure, such as power meters and water supply should be provided promptly.		Industrial zones exclusively for small and medium industries where these industries can purchase land at cheaper prices should be developed.
Re-classify land	Farmland which is no longer used for farming should be made available for private industrial use, and the status of land should be re-classified.	The Supervision Committee should make sure that such land is not purchased by speculators, who intend to re-sell to investors at a profit.	

Source: JICA Study Team

5.2.9 Modernization of Equipments and Financing

Some of the equipments used by SMIs in different sectors are found to be quite obsolete. For instance, about 90% of the equipments of small and medium sized plastic factories are low quality locally made equipments. Most machinery and equipments of SMIs in other sectors are found to be low quality products from China. It is mainly because Chinese equipments are cheaper than others and also because the transportation of Chinese equipments is easier

through the border trade. High quality machinery equipments made in Japan, US, Europe, etc., are much more expensive than the products from China. The price is one of the main factors that is considered most by the buying industries in Myanmar.

Industries in Myanmar realize that high quality machinery and equipments play important role for long-term quality production despite the fact that they take into serious consideration of the price factor. Hence there must be the trade-off solution to get reasonably high quality machinery and equipments at lower prices. Since most of the industries have been operating with low quality and non-reliable machinery and equipments, the production efficiency has been declining due to frequent break downs and this situation calls for the need of the modernization of equipments. The modernization is not meant to the state-of-the-art level but to the reliable level of standard in the initial stage. Thus in order to have the trade-off solutions to get reliable quality machinery and equipments with reasonable price, it is recommended to purchase the good quality reconditioned machinery and equipments from Japan, US, Europe, etc. These machinery and equipments made by reputable and internationally recognized corporations shall have higher quality than low quality products from China and their prices shall be significantly lower since they are not brand new but are of reconditioned or good-second-hand standard.

To get the source for the purchase of reliable quality reconditioned or good-second-hand standard machinery and equipments made by reputable and internationally recognized corporations of Japan, US, Europe, etc., at the reasonable price, is definitely not easy for SME/SMIs in Myanmar. Only some large-scaled enterprises like REVA company (which had a chance (through its partner company in Taiwan) to buy Japan-made footwear production machines from the Indonesia factory that was shut down) could find the source through their foreign connections to buy these types of machinery and equipments. Hence the situation calls for the need of the formation of additional department under SME/SMIs development association of UMFCCL. This department shall build up its connections through its existing connected foreign companies or through international chamber of commerce or through international aids organizations to find the source for the purchase of good quality reconditioned or good-second-hand machinery and equipments made by reputable companies of Japan, US, Europe, etc.

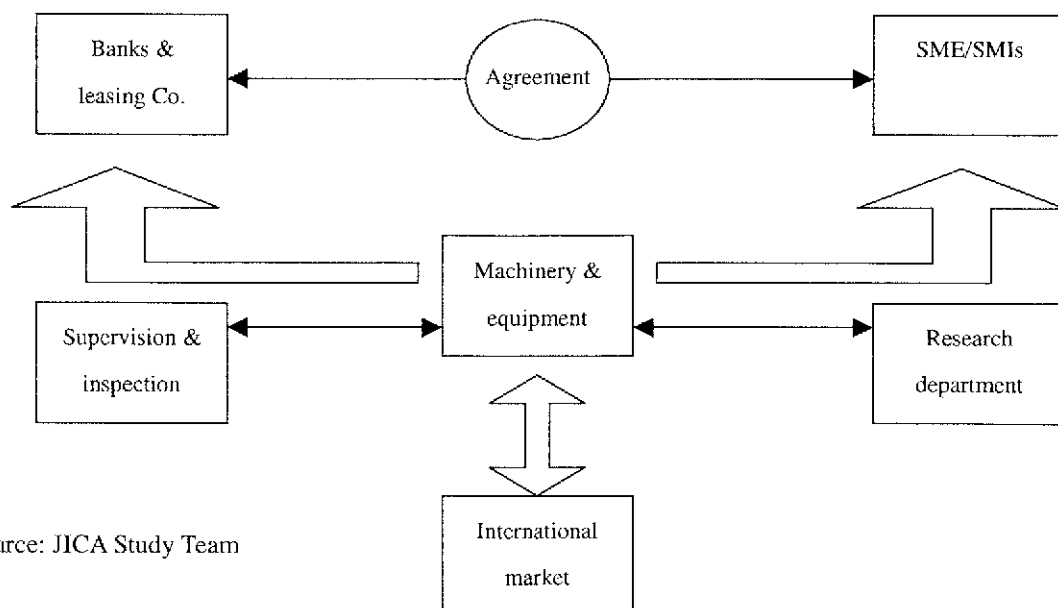
Then the said department should be the medium between Leasing companies, financial institutions and SME/SMIs to fulfill the machinery and equipment needs of SME/SMIs through the following system. Machinery and equipments sourcing department of SME/SMIs association under UMFCCL shall find the source for the purchase of reconditioned or good-second-hand machinery and equipments made by reputable companies of Japan, US, Europe, etc., at reasonable price. This department shall be acting as the medium between the leasing companies and financial institutions for the possible financing for the purchase of machinery and equipments. (Note: there is only one leasing company with the name of

Oriental leasing company under Myanmar Oriental Bank, a private financial institution, but higher-purchase system is introduced by several private banks such as Asia Wealth Bank, Yoma Bank, Oriental Bank, etc.).

SMIs wanting to acquire machinery and equipments should go ahead according to the following steps.

- SMIs wanting to acquire machinery and equipments should inform machinery and equipment sourcing department of SMIs development organization under the UMFCCL.
- Machinery and equipment sourcing department shall find, through its international contacts, appropriate high quality reconditioned or good-second-hand machinery and equipments made by reputable companies of Japan, US, Europe, etc., at reasonable price.
- Machinery and equipment sourcing department shall acquire the recommendations and credit ratings of the applying SMIs from supervision and inspection committee and research department.
- Machinery and equipment sourcing department shall arrange the leasing arrangement or hire purchase system with private financial institutions for the purchase of these machinery and equipments.
- The leasing or hire-purchase agreement is to be made between SMIs and the concerned bank while machinery and equipment sourcing department is to source the supply of high quality equipment at reasonable price and supervision & inspection committee and research department are to give recommendations and credit ratings that are taken into serious consideration by private financial institutions for credit decision.

Figure 5-18 Leasing Procedures



Source: JICA Study Team

Arrangement of interest free loans will not be possible and practical at the current stage in Myanmar on account of government's budget constraints but there is the possibility for the acquisition of government-owned factories with existing machinery and equipments in them by private sector in accordance with the privatization measures.

The arrangement for the acquisition of government-owned factories by SMIs in private sector requires full cooperation of the respective Ministries mainly the Ministry of Industry 1, the Ministry of Industry 2, the Ministry of Cooperatives, the Ministry of Transport, the Ministry of Mines, etc. This activity is found to be still limited and shall not be significantly improved in near future with the current mentality of government organizations wanting to get hold of all their belongings as much as possible. Thus the formation of machinery and equipments sourcing department and its activity as the medium between financial institutions, international organizations and SMIs in Myanmar, should be focused more.

Furthermore, The interest rate, that is 36% per annum, currently charged by leasing company should be reduced. This interest rate is higher on account of high portion of risk attached to SMIs in Myanmar that normally are not transparent. With the emergence of supervision & inspection committee and research department of SMIs development association under the UMFCCL, the portion of risk, attached to SMIs that are made transparent with the assistance and supervision of the said association, shall be significantly reduced. With the abovementioned system, the existing SMIs shall find it quite easy to modernize their existing machinery and equipment or to replace their obsolete low quality equipments with high quality reliable machinery and equipment, to start new line of industries with high quality reliable machinery and equipment, etc.

5.2.10 To Develop Intermediate Function of UMFCCL and Business Associations

Our proposal for SME financing policy will be discussed in detail in another section. Short- and medium-term policy items include the following: i) setting of explicit lending policy by the government and financial authorities, ii) increasing the flexibility of assessment rate of collateral, iii) education of bank employees in modern lending theories and practices, iv) strengthening the functions of business associations that act as a conduit between SMEs and financial institutions, v) promotion of the leasing industry, vi) phased removal of interest rate ceilings, and vi) nurturing of venture capital funds.

The strengthening the functions of UMFCCL that act as a conduit between SMEs and financial institutions should be stated. The existing banking system is still rigid and not favorable to providing funds to SMEs. Therefore, Myanmar should promote to diversify the fund raising conduits to private SMEs through not only banking sector but also non-banking sector. One of the recommended ways in non-banking sector for providing loans smoothly to

SMEs, banks should use the intermediate function of UMFCCI and business associations. Under such situation as the screening capability of banks for lending to SMEs is not well-established, the bank's effective using the information on enterprises which the UMFCCI and business associations have accumulated, becomes an important step turned to the lending expansion to the SMEs. As UMFCCI and business associations are in existence nearer SMEs rather than banks, they have various kinds of information useful to screening credit quality of private SMEs. The enhancement of UMFCCI and business associations for supporting fund-raising for SMEs is of great importance even as seen in Japan after the World War II. Therefore, they could strengthen a leadership role to guide private SMEs how to make a feasibility study and how to make a business plan for new business for project necessary to obtain a loan. These schemes are recognized as sprout to "SMEs Financing Scheme through SMEs Diagnosis System" in the medium and long term development. The SME Diagnosis Consultation System developed in Japan long years ago, now spreading Asian countries in each local derivative manner.

Banks in Myanmar should tie up the UMFCCI in the following two points. Firstly, the UMFCCI could introduce promising SMEs to banks which wants to raise funds from banks, sometimes, on charges bases. As the UMFCCI has many SMEs as members, forming close relationship between the UMFCCI and banks is very important to selecting promising private SMEs for lending. Secondly, the bank could request the UMFCCI to provide consulting service to SMEs for drawing up feasibility study on projects and business plan on business expansion to private SMEs. In the future, through consulting service provided by UMFCCI, SMEs could acquire the capability to work out feasibility studies on projects and business plans on business expansion by themselves. In addition to the above two, the UMFCCI should establish training courses for bankers and SMEs respectively to enhance the capability to analyze creditworthiness of SMEs.

5.3 SME Financing in Myanmar

5.3.1 SME Financing in Myanmar

In Myanmar, the size of enterprise is normally categorized by following criteria.

- Paid-up capital
- Production value
- Power utilization (horse-power)
- Number of workers

The above-mentioned criteria are set by the Ministry of Industry 1, where small and medium enterprises are required to register their businesses. The categorization of small, medium and large enterprises could be seen as follows.

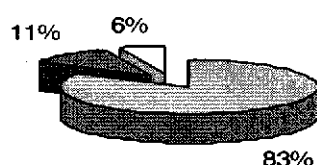
Table 5- 15 Categorization of Small, Medium and Large Enterprises

	Paid-up capital (Kyats in mil)	Production (Kyats in mil)	Power utilization (Horse-power)	Workers (person)
Small	Below K 1.00 mil	Below K 2.5 mil	Below 25 HP	Below 50
Medium	K 1.00 ~ 5.00 mil	K 2.50 ~ 10.00 mil	25 ~ 50 HP	50 ~ 100
Large	Above 5.00 mil	Above 10.00 mil	Above 50 HP	Above 100

Source: Ministry of Industry 1

As of 2002, there are 28,254 enterprises registered under the Ministry of Industry 1 and the total value of production of all these enterprises is registered as Kyats 36,901.72 million. The percentage shares of small and medium enterprises are as follows.

Figure 5-19 Number of Enterprises as of 2002



Small Medium Large

Small	Medium	Large
3,1761	4,268	2,225

Source: Ministry of Industry 1

It is found that the large-scale enterprises account for only 6% and SMEs account for 94% of total enterprises registered under the Ministry of Industry 1. If we take into account all registered enterprises in Myanmar, large-scale companies account for only 1% of total number of registered companies. The numbers of small, medium and large enterprises registered at the Ministry of Industry 1 by geographic area are as follows.

Table 5- 16 Number of Enterprises by Geographic Area in Myanmar

Geographic Areas	Number		
	Small	Medium	Large
KaChin State	690	64	17
KaYah State	217	25	2
KaYin State	435	17	29
Chin State	402	1	0
SaGaing Division	3,583	356	131
TaNinThari Division	714	41	81
Bago Division	4,140	424	222
MaGway Division	1,817	177	25
Mandalay Division	6,239	1,266	549
Mon State	1,894	118	65
Rakhaing State	930	75	59
Yangon Division	3,354	1,063	934
Shan State (Southern part)	1,823	68	17
Shan State (Northern part)	699	42	14
AyeYarWaddy Division	4,824	531	80

Source: Ministry of Industry 1

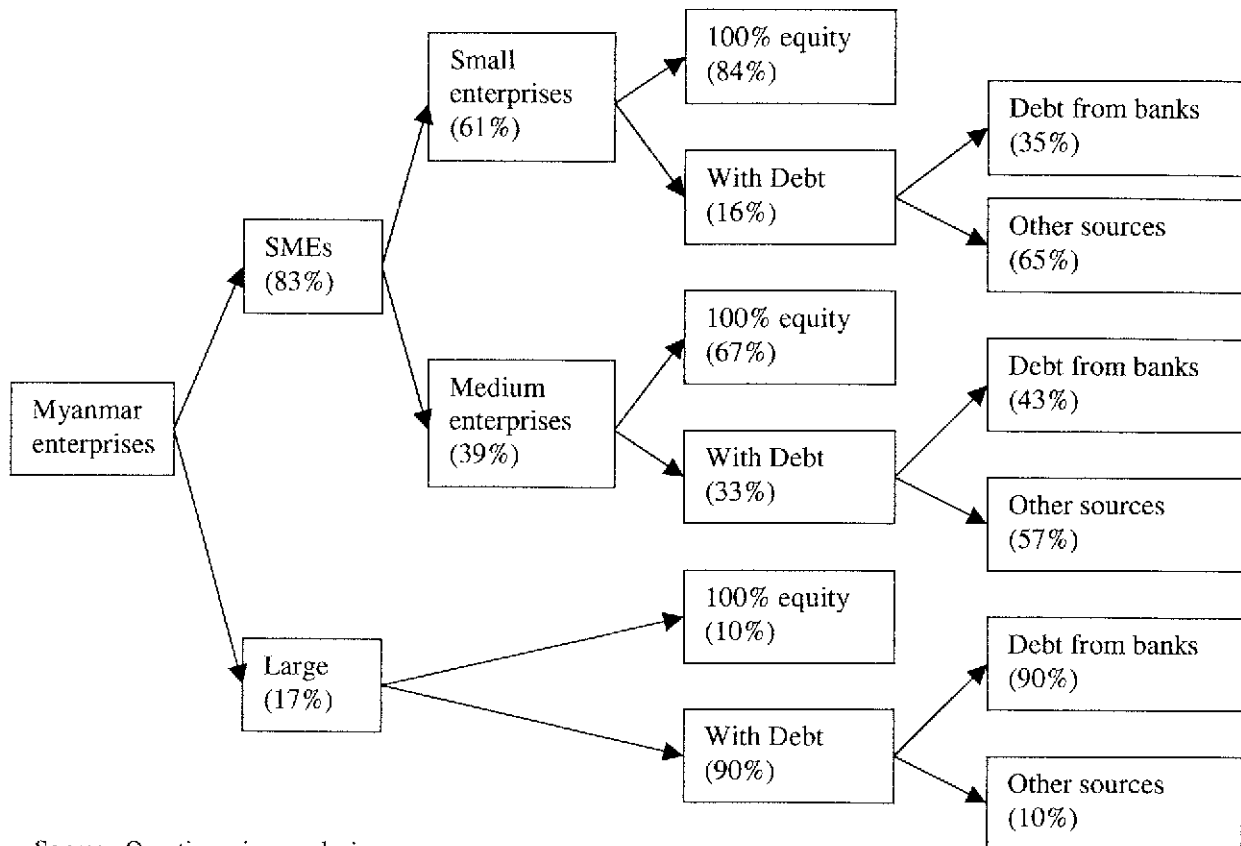
It is further found that small enterprises are concentrated mainly in Mandalay division, where 20% of them are located. Fifteen percent of small enterprises are in Ayeeyawaddy division, 13% in Bago division and only 11% in Yangon Division. In the case of medium enterprises, they are mainly concentrated also in Mandalay division, where 30% of them are located. Twenty-five percent are in Yangon division and 13% in Bago division. In the case of large enterprises, they are mainly concentrated in Yangon division, where 42% of them are located. Twenty-five percent are in Mandalay division and 10% in Bago division. Out of these registered industries, about 36% are in rice mill industries, 9% are in edible oil mill industry, and 7% in timber saw mill industries.

In order to analyze the small and medium enterprises in Myanmar, we shall categorize economic enterprises into small, medium and large based on the number of workers. According to the Ministry of Industry 1, enterprises having less than 50 workers are categorized as small companies. But in Myanmar, a company having 40~50 workers can be regarded as medium-size enterprise. Thus, in further analyses, we shall take enterprises having less than 20 workers as small

enterprises, having 20-100 workers as medium enterprises and having above 100 workers as large companies. As a result of short interviews with 200 small and medium enterprises and a questionnaires analysis, it was found that Myanmar enterprises consist of large enterprises (17%) and SMEs (83%), which in turn are composed of small enterprises (61%) and medium enterprises (39%). Small enterprises normally tend to run businesses with their own equity either as a pool of funds contributed by relatives or business partners, as they do not want to share the benefits with others and also because they do not want to pay interest. It is confirmed by the questionnaires analysis that 84% of small enterprises are running business with 100% equity. It was also found that out of 84%, 9% of small enterprises obtain equity funds from relatives, 14% from friends, 5% from both relatives & friends, and 72% of small enterprises have been doing business with their own money that is neither from their relatives nor friends.

A certain percentage of small enterprises run their businesses with debt financing but out of these small industries, the percentage of those that acquire debt financing from the banks is small. It is also confirmed by the questionnaires analysis that only 16% of small enterprises are running business with a certain percentage of debt financing. Out of 16%, only 35% of small enterprises borrow from banks and the remaining 65% borrow either from relatives or friends or business partners or from outside informal market. Thus only the medium and large scaled industries are found to be the ones that acquire financing mostly from financial institutions in Myanmar. Small industries are the ones that are mostly left out of formal financial sector mainly on account of lack of adequate collaterals. It is also confirmed by the questionnaires analysis that 33% of medium enterprises are operating business with a certain percentage of debt financing. Out of 33%, 43% of medium enterprises borrow from banks. Thus the percentage of medium enterprises running with debt financing is higher than small enterprises and the percentage of medium enterprises that could borrow from the banks is also higher than small enterprises. It is further found from the questionnaires analysis that 75% of small enterprises did not want to borrow from banks and were rejected once on account of a lack of enough collateral and sound financial statements. Ninety percent of large enterprises are found to have been running businesses with debt financing while companies run with 100% equity accounted for 10%. Out of the 90% that have been running businesses with debt financing, 90% of them are found to have acquired loans from the banks.

Figure 5- 20 Measures for Raising Funds by Size of Enterprises



Source: Questionnaires analysis

Out of companies which get loans from banks, it is found from the questionnaires analysis that 13% are small companies, 23% are medium companies and 64% are large companies. Thus, it is estimated that 13% of bank loans are directed to small enterprises, and also 23% to medium enterprises.

On account of a lack of collaterals and connections, small sized industries and enterprises, having the biggest share in terms of number, do not have adequate amount of funding to develop new projects or to expand their existing businesses. This situation calls for the need of business associations which could act as the financial intermediaries between formal financial institutions and small industries to pave the way for efficient funds injection towards small and medium enterprises.

5.3.2 Supply-Side Analysis of SME Financing

5.3.2.1 SME Financing in the Formal Financial Sector

(1) Analysis of SME financing through individual private and semi-private banks

There are 20 private and semi-private financial institutions available in Myanmar as of 2002 providing loans to business enterprises that include small and medium-sized enterprises. We shall first of all analyze the total loan provision of private and semi-private banks to private enterprises that include small, medium and large enterprises. Then, loans channeled to small and medium enterprises shall be categorized and be analyzed separately.

According to the questionnaires analysis, it is found that 13% of bank loans are directed to small enterprises and 23% directed to medium enterprises. One of the reasons why only a small percentage of bank loans is directed to small and medium enterprises is that financial institutions in Myanmar are quite conservative and impose stringent requirements for approval of loans. These stringent requirements could not be fulfilled by small and medium enterprises. Loans to deposits ratios of the banks are also found to be high on account of their conservativeness, leading to the situation in which a considerable sum of deposits from the public stays idle as shown in the following table.

Table 5- 17 Loans to Deposits

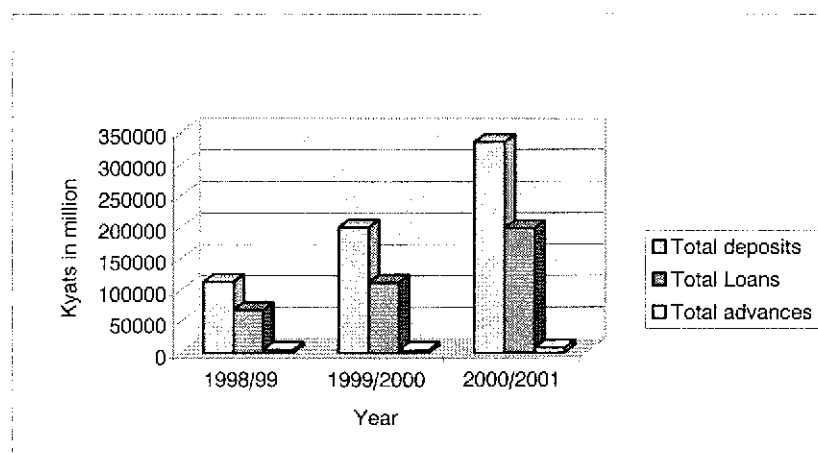
	Kyats in mil		
	1999	2000	2001
Total deposits	112,352.94	199,461.21	33,101.30
Total loans	67,670.69	111,432.35	197,444.97
Idle amounts	44,682.25(40%)	88,028.86(44%)	136,656.33(41%)

Note: the percentages in parentheses are calculated as deposits divided by idle amounts

Source: 20 private & semi-private banks

Although total amount of loans channeled to private businesses through the 20 private and semi-private banks is found to have increased by 65% in 2000 and 77% in 2001, it is found that only 60% of total deposits of the 20 private and semi-private banks were given out as loans in 1998/99, 56% in 1999/2000 and 59% in 2000/2001. (The growth percentages are calculated based on the loans and deposits data acquired from the 20 private and semi-private banks) Over 40% of deposits are found to have stayed idle over the last three years. Total deposits and loans of the 20 private and semi-private banks are as follows.

Figure 5- 21 Total Deposits & Loans of 20(Twenty) Private and Semi-private Banks



Source: 20 private & semi-private banks

Since over 40% of the deposits from the public are idle and not channeled efficiently to private businesses through financial institutions acting as financial intermediaries, the increasing credit demand of private enterprises in Myanmar has not been met. The situation of credit supply to small and medium enterprises is even worse.

Majority of loans to businesses are provided by Asia Wealth Bank (AWB). Loans placed by AWB accounted for 32% of total loan provision of the 20 private and semi-private banks in 1999, 36% in 2000 and 43% in 2001. The reason for the increase in loan provision of AWB bank is mainly the increase in deposits received. The reason for the increase in deposits is mainly the above average quality of services provided by AWB bank in comparison to other banks. It has been standing as the bank providing the highest level of loans to private businesses in Myanmar. It is followed by Yoma Bank, which provided loans accounting for 14% of total loan provision of the 20 private and semi-private banks in 1999, 18% in 2000 and 20% in 2001. Loans provided by the 20 private and semi-private banks during the last three years from 1999 to 2001 could be seen in the following table.

Table 5- 18 Trends of Loans by Banks

Name of Bank	1999		2000		Kyats in mil 2001	
	Loans	Percentage	Loans	Percentage	Loans	Percentage
Asia Wealth	21,719.75	32.1%	40,305.15	36.2%	83,996.61	42.5%
Yoma	9,612.48	14.2%	19,995.94	17.9%	39,108.47	19.8%
May Flower	9,355.84	13.8%	13,905.60	12.5%	22,059.48	11.2%
Myawaddy	7,507.34	11.1%	8,669.39	7.8%	8,371.65	4.2%
Myanmar Oriental	4,461.14	6.6%	7,183.59	6.4%	9,234.03	4.7%
Yangon City	3,650.92	5.4%	2,406.47	2.2%	2,691.20	1.4%
First Private	2,472.98	3.7%	3,306.79	3.0%	3,797.02	1.9%
Industrial Dev	1,137.87	1.7%	1,287.10	1.2%	1,497.39	0.8%
Livestock	2,132.85	3.2%	2,519.94	2.3%	2,790.07	1.4%
Inwa	770.72	1.1%	1,718.51	1.5%	2,980.84	1.5%
Myanmar Citizens	1,207.54	1.8%	1,485.01	1.3%	1,535.78	0.8%
Universal	784.01	1.2%	2,808.74	2.5%	5,397.17	2.7%
Cooperative	574.87	0.8%	1,109.55	1.0%	2,001.08	1.0%
Sibin Taryarye	985.30	1.5%	1,186.04	1.1%	1,532.08	0.8%
Tun	666.64	1.0%	888.47	0.8%	1,570.57	0.8%
Asia Yangon	152.75	0.2%	122.83	0.1%	108.67	0.1%
Kanbawza	138.37	0.2%	1,305.82	1.2%	7,797.85	3.9%
Coop Promoters	130.17	0.2%	830.75	0.7%	447.52	0.2%
Yadanabon	147.12	0.2%	151.07	0.1%	231.83	0.1%
Coop Farmers	62.02	0.1%	245.59	0.2%	295.65	0.1%
Total	67,670.69	100%	111,432.35	100%	197,444.97	100%

Source: 20 private & semi-private banks

Out of the total loans provided by the 20 private and semi-private banks, only 13% is estimated to be directed to small enterprises and 23% is directed to medium enterprises. (The percentages are estimated based on the questionnaires analysis). That means that out of Kyats 197,444.97 million loans provided by the 20 banks in 2001, only Kyats 2,566.85 million were provided to small enterprises and Kyats 45,412.34 million were provided to medium enterprises.

Total loans provided by the 20 banks are estimated to have increased by 77% from 2000 to 2001. Out of the 77% increase, the loan provision to small and medium enterprises is estimated to have increased by only 15%. This estimation is based on the interviews with several financial institutions.

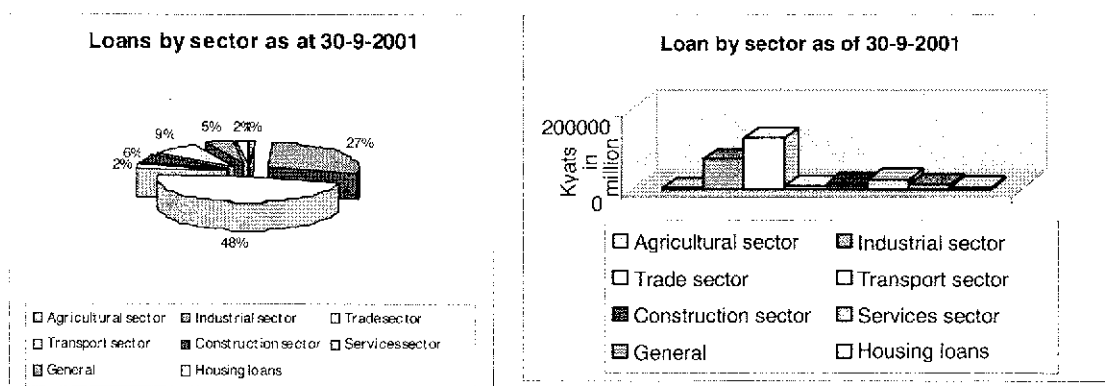
(2) Analysis of SME financing in the industrial sector through private and semi-private banks

By analyzing total loan provisions of different financial institutions to different organizations in different sectors, it is found that loan provisions to private enterprises in the industrial sector accounted for 27.4% of total loan provisions as of September 2001. The industrial sector is found to be the one receiving the second highest amount of loans from the 20 different private and semi-private banks. The sector which received the highest amount of loans from these banks is found to be the trade sector accounting for 48% of total loan provisions.

Since loans directed to small and medium enterprises account for 36% (according to the questionnaires analysis), it is estimated that the loans provided to small and medium enterprises in the industrial sector is only 9.8%. Thus, small and medium enterprises in the industrial sector are not benefiting much, although the loan provisions have increased. This calls for the need of government's directive to channel high percentage of loans to sound small and medium enterprises in the industrial sector for their development. Other specific recommendations are given in the later sections.

Small enterprises account for 83% of all industrial enterprises registered under the Ministry of Industry 1 while medium industrial enterprises account for 11% and large industrial enterprises account for 6% (source: Ministry of Industry 1). Thus small and medium enterprises in the industrial sector account for 94% and their development could help develop Myanmar's industrial sector. Thus their development is crucial and could be fuelled by channeling the required funding through financial institutions.

Figure 5- 22 Loan by Sector as at 30-9-2001



Source: 20 private & semi-private banks

Most of the financial institutions do not provide long-term loans to any business and are willing to provide loans just to the trade sector where trading turnover is quite high. Some business

enterprises in the trade sector collateralize their reasonably liquid stocks. Some business enterprises collateralize highly liquid assets like gold, and the banks are willing to provide loans even for about 90% of the amount of gold collateralized. Since the gold prices are believed to be always in the up-trend, some speculators buy gold, collateralize at the bank, get loans, buy more gold with the loan provided, collateralize the gold for additional loans in order to purchase more gold and so on. Some business enterprises collateralize time deposits at the bank for the acquisition of loans. Most business enterprises collateralize real estate and properties. Hence loans are provided just based on price trend and liquidity of the collaterals but not based on the future cash flows of business. Most of the small enterprises have limited assets to be collateralized, leading to the situation that their funding needs have to be met by other means.

Most financial institutions lack the knowledge of assessing the future potentiality of businesses and industries through financial and industrial analyses and thus lending decisions lie mostly in the hands of appraisers who value the collaterals. As usual, credit worthiness of the borrower also depends on future cash flow of the project and the credit worthiness of guarantors. However, since the financial reliability of small and medium enterprises cannot be assessed by their financial statements, which never reflect their actual business positions. This unreliability of financial statements is due to the mutual distrust between business enterprises and tax authorities.

Thus the lending decision gives the highest weight on the value, price trend and liquidity of collateral and gives the second highest weight on the size of business the borrower is ready to do and credit worthiness of the guarantors of the borrower. This situation is making the gap between small and medium enterprises and financial institutions wider and wider.

We have understood, as mentioned above, that loans provided by the 20 banks to the industrial sector is 27.4% of total loan provision and out of this only 9.8% is estimated to be directed to small and medium enterprises in the industrial sector. Now we shall see which bank, out of the 20, is found to be the one that provides the highest percentage of loans to the industrial sector. This analyses are useful to find out the significance of their activities (providing higher percentages of loans to the industrial sector) towards the development of small and medium enterprises in the industrial sector.

Table 5- 19 Loans to Industrial Sector by Banks in Fiscal 2001

Kyats in thousands			
Financial Institutions	Total loans	Industrial sector	Percentage
Yoma Bank	55,960.09	12,011.25	21%
Myanmar May Flower Bank	25,029.81	4,752.48	19%
Myawaddy Bank	8,560.68	4,389.04	51%
Myanmar Oriental Bank	11,527.15	3,404.62	30%
Kanbawza Bank	23,150.32	2,757.78	12%
Myanmar Universal Bank	8,738.51	919.06	11%
Innwa Bank	3,508.4	754.88	22%
First Private Bank	4,736.7	1,486.27	31%
Yangon City Bank	2,576.53	759.33	29%
Myanmar Citizens Bank	1,432.47	337.82	24%
Cooperatives Bank	4,381.27	738.39	17%
Myanma Industrial Development Bank	1,657.32	923.36	56%
Myanma Fisheries Development Bank	6,572.01	4,042.93	62%
Tun Foundation Bank	2,242.1	419.69	19%
Si Pin Thar Yar Ye Bank	1,631.96	250.55	15%
Cooperatives Promoters Bank	593.59	133.49	22%
Cooperatives Farmers Bank	314.71	84.56	27%
Asia Yangon Bank	162.18	53.66	33%
Yadanabon Bank	250.19	88.85	36%
Total	163,025.99	38,308.01	100%

Source: 20 private & semi-private banks

Out of the 20 private and semi-private banks, Myanmar Universal Bank is found to be the bank which provides the smallest percentage of loans to the industrial sector (11% of its total loan provision), whereas Myanma Fisheries Development Bank provides the highest percentage of loans to the industrial sector (62% of its total loan provision). Myanma Fisheries Development Bank provides loans to industries like fish processing plants, shrimp processing plants, etc. The following is the top five ranking of financial institutions based on the percentages of loan provision to the industrial sector. The first ranked one provides the highest percentage of loans to the industrial sector and the fifth ranked one provides the lowest percentage.

1. Myanma Fisheries Development Bank
2. Myanma Industrial Development Bank
3. Myawaddy Bank
4. Yadanabon Bank
5. Asia Wealth Bank

Myanma Fisheries Development Bank is found to be the provider of the highest percentage of loans (out of its total amount of loans) to the industrial sector. This is due to the fact that this bank is a semi-private bank and it tends to follow the implicit directive of government, which encourages

the loan provision to the industrial sector. This implicit directive is conveyed by the instructions issued by the Central Bank that sets the ceiling on interest rates on loans provided to the industrial sector below the interest rates on loans to other sectors. Although it could be ranked as 1st in terms of loan percentage to the industrial sector, in terms of total deposits, MFDB was ranked only as 11th in 1999, 13th in 2000 and 14th in 2001 among the 20 private and semi-private banks. Its ranking is found to have fallen in the past three years due to the fact that it received less and less deposits. The reason why the deposits received are lower is mainly due to lower quality of services. While other private banks have been competing with one another in terms of service quality by setting up satellite networks, installing efficient banking software and advanced technology, etc., to make financial transactions faster and to increase customer convenience and satisfaction, MFDB has not been that active (as it is not uncommon among the businesses in which government stake is involved) and has been run in the traditional way. As a result, this bank is losing its customers slowly in the competitive deposit market. Thus, although it is found to be the bank that provides the highest percentage of loans (62%) to the industrial sector, the amount of loans provided to the said sector is only Kyats 4,042.93 million [which is just 12% (Kyats 4,042.93/34,020.37 million) of Asia Wealth Bank's loans to the industrial sector]. Out of Kyats 4,042.93 million, loans to small and medium enterprises are estimated to be only Kyats 1,455.45 million (according to the questionnaires analysis). Thus it is found that although its percentage of loan provision to the industrial sector is the highest, it does not provide satisfactory help to the funding needs of small and medium enterprises.

In terms of total deposits, Myanmar Industrial Development Bank was ranked ninth in 1999, 12th in 2000 and 13th in 2001 and its ranking is also falling. Hence, it is losing its customers on account of not sufficient efficiency in providing quality services, and as a result its loan provision to the industrial sector is just 0.95% (Kyats 923.36/34,020.37 million) of industrial loans provided by Asia Wealth Bank. Out of Kyats 923.36 million industrial loans, loans provided to small and medium enterprises is estimated to be just Kyats 332.41 million (36%) according to the questionnaires analysis. Thus as explained above in Myanmar Fisheries Development Bank, the significance of its industrial loans to the development of small and medium enterprises is not satisfactory.

Yadanabon Bank has only the main office in Mandalay with no branch in any city. The amount of deposits received by this bank is found to be the lowest among the 20 banks and hence it was ranked 19th in 1999 and 20th in 2000 and 2001. Thus, its loan provision to small and medium enterprises in the industrial sector is very insignificant, as in the cases of the above two banks. It is difficult for this bank to help develop SME financing.

To sum up, the higher percentages of industrial sector loans provided by smaller (low ranked in terms of deposits and loans) banks are not able to significantly develop SME financing. Thus, high ranked (in terms of deposits and loans) banks like Asia Wealth Bank, Yoma Banks, May

Flower Bank should be encouraged through implicit as well as explicit directives and instructions to provide higher percentages of industrial sector loans to SMEs in order to have quick impact on the development of SME financing. In order to find out the sources that should be encouraged to increase percentages of loans to SMEs in the industrial sector, the ranking of 20 private and semi-private banks in the past three years in terms of total deposits is shown in the following table.

Table 5- 20 Trends of Total Deposit by Banks

Kyats in millions								
1998/99			1999/2000			2000/01		
Rank	Financial Institutions	Total Deposit	Rank	Financial Institutions	Total Deposit	Rank	Financial Institutions	Total Deposit
1	Asia Wealth	44,866	1	Asia Wealth	93,062	1	Asia Wealth	143,731
2	Yoma	14,864	2	Yoma	31,674	2	Yoma	66,252
3	May Flower	13,769	3	May Flower	20,776	3	May Flower	33,058
4	Myawaddy	10,682	4	Myanmar Oriental	12,636	4	Myawaddy	18,796
5	Myanmar Oriental	8,457	5	Myawaddy	11,082	5	Myanmar Oriental	14,741
6	Yangon City	5,740	6	First Private	4,660	6	Kanbawza	13,095
7	First Private	2,951	7	Universal	4,261	7	Universal	10,899
8	Myanmar Citizens	2,261	8	Yangon City	4,193	8	Inwa	7,346
9	Industrial Dev	1,959	9	Myanmar Citizens	3,031	9	First Private	6,439
10	Inwa	1,748	10	Inwa	2,712	10	Yangon City	4,800
11	Fisheries Dev	1,135	11	Kanbawza	2,420	11	Myanmar Citizens	3,427
12	Universal	1,080	12	Industrial Dev	2,347	12	Cooperative	2,581
13	Tun Foundation	1,026	13	Fisheries Dev	1,684	13	Industrial Dev	2,405
14	Cooperative	635	14	Cooperative	1,509	14	Fisheries Dev	2,277
15	Sibin Taryarye	497	15	Tun Foundation	1,466	15	Tun Foundation	2,190
16	Kanbawza	258	16	Coop Promoters	998	16	Sibin Taryarye	857
17	Asia Yangon	197	17	Sibin Taryarye	528	17	Coop Promoters	696
18	Coop Promoters	156	18	Coop Farmers	196	18	Coop Farmers	252
19	Yadanabon	45	19	Asia Yangon	143	19	Asia Yangon	134
20	Coop Farmers	27	20	Yadanabon	82	20	Yadanabon	126

Source: 20 private and semi-private banks

It is found that there were only four banks in the top ten positions that provide above 30% of their loans to the industrial sector. This situation calls for the support of central government through the Central Bank of Myanmar to give instructions to high-ranking financial institutions to direct their loan provision more to the industrial sector for the development of small and medium enterprises in the said sector. There should also be training programs aimed for bankers on how loans to the industrial sector could develop the nation's economy and also for credit officers of the banks on how to assess the feasibility study undertaken by SMEs in the industrial sector through feasibility studies. The main idea for the training is to help them understand that the decision for credit should not be limited only to the value of collateral. Further detailed programs that should be

undertaken for the development of SME financing are mentioned in the later sections.

Banks are also found to be providing very short loans under the name of “advances” to trading businesses. Total advances paid by the banks to private trading businesses are found to have been around 7% of total loans in 1999 and 4% in 2000 and 2001. Banks are involved in lending very short loans to close friends, relatives and connections in order to enable them to fulfill their financial needs in brokerage business, speculation activities in commodities (that is to buy commodities which are hot in the market so that profits will be realized when sold in one or two weeks after purchase), etc. These businesses do not significantly contribute towards the development of SMEs and the country. And furthermore, these lending activities could not be stated as loans to financial authorities and this type of loans fall in the category of advances. If the portion of these advances is higher, smaller amounts of loans will go to the people or companies that are engaged in proper industries or businesses. Thus, a high percentage of advances definitely has a negative impact on SME financing. The situation, however, is not worsening since the percentage of advances fell from 7% (1999) to 4% (2001). A comparison of total loans and total advances provided to businesses is shown in the following table.

Table 5- 21 Trends of Total Loans and Advances by Banks

	Kyats in mil					
	1999		2000		2001	
	Loans	Advances	Loans	Advances	Loans	Advances
Asia Wealth	21,719.75	1,061.36	40,305.15	346.59	83,996.61	698.71
Yoma	9,612.48	1,174.69	19,995.94	1,422.55	39,108.47	1,636.98
May Flower	9,355.84	3.22	13,905.60	48.93	22,059.48	283.95
Myawaddy	7,507.34	4.50	8,669.39	14.83	8,371.65	9.63
Myanmar Oriental	4,461.14	160.89	7,183.59	74.69	9,234.03	484.13
Yangon City	3,650.92	0.04	2,406.47	5.86	2,691.20	5.10
First Private	2,472.98	40.00	3,306.79	13.27	3,797.02	34.95
Industrial Dev	1,137.87	1.31	1,287.10	0.26	1,497.39	0.55
Fisheries Dev	2,132.85	623.37	2,519.94	1,013.50	2,790.07	1,573.61
Inwa	770.72	374.81	1,718.51	99.19	2,980.84	-0.27
Myanmar Citizens	1,207.54	113.23	1,485.01	0.41	1,535.78	0.10
Universal	784.01	309.40	2,808.74	130.09	5,397.17	103.66
Cooperative	574.87	612.58	1,109.55	972.57	2,001.08	1,326.80
Sibin Taryarye	985.30	4.43	1,186.04	0.65	1,532.08	0.55
Tun	666.64	75.35	888.47	7.89	1,570.57	43.98
Asia Yangon	152.75	15.54	122.83	44.05	108.67	66.21
Kanbawza	138.37	11.29	1,305.82	12.18	7,797.85	761.35
Coop Promoters	130.17	0.00	830.75	0.04	447.52	321.44
Yadanabon	147.12	0.00	151.07	16.03	231.83	12.60
Coop Farmers	62.02	0.00	245.59	37.56	295.65	94.10
Total	67,670.69	4,586.00	111,432.35	4,261.14	197,444.97	7,458.12

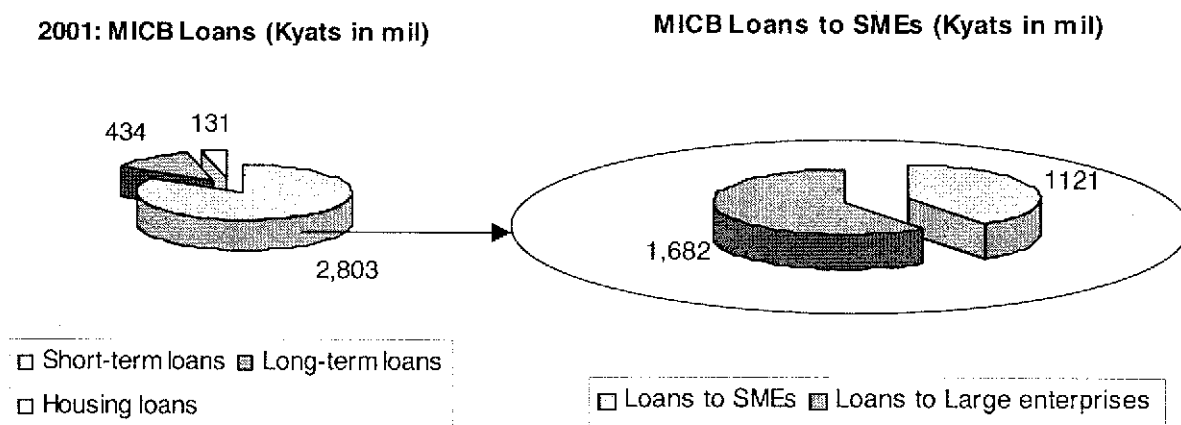
Source: 20 private & semi-private banks

(3) Financing SMEs in the industrial and production sector through MICB, a government commercial bank

Myanma Investment and Commercial Bank (MICB) is a government bank and provides short-term and long-term loans to the private sector. Long-term loans are directed mostly to large companies. But short-term loans are provided not only to large companies but also to medium enterprises and loan provision to small enterprises is estimated to be small. Since this bank does not categorize loans going to SMEs, a high percentage of loans go to export/import businesses, which account for 24.4% of its total loan provision. It is also confirmed by the questionnaires analysis that 30% of enterprises which get loans from this bank are involved in trading business (that is export/import business). We initially categorized the size of enterprises (either small, medium or large) based on the number of workers. Export/import businesses normally do not require large numbers of workers. Thus, most of the export/import businesses fall under the category of small and medium enterprises. Hence, according to our criteria in categorizing small, medium and large enterprises, the portion of short-term loans provided by MICB to SMEs is not small, since a major portion of its short-term loans are directed to export/import businesses that fall into the category of SMEs.

It is found that MICB provides 4% of its total loans as housing loans to civil servants, 13% as long-term loans and 83% as short-term loans. Long-term loans are provided mostly to large enterprises. Short-term loans are provided to small, medium and large enterprises. According to the questionnaires analysis, 30% of small enterprises (mostly exporter/importer) and 10% of medium enterprises receive loans from this bank. Loans to SMEs can be estimated as follows.

Figure 5- 23 MICB Loans (Kyats in mil)



Source: Myanma investment and commercial bank

Myanma Investment and Commercial Bank (MICB) was started in September 1989 as one of the departments of Myanma Economic Bank (MEB). It was separated from MEB on 1 September, 1990. MICB has been providing banking services to the following businesses.

- Export business
- Import business
- Foreign currency transactions
- Opening foreign currency accounts
- Corresponding with foreign banks
- Other financial services

MICB also engages in local currency transactions and receives deposits and provides loans in the local currency.

Like Myanma Foreign Trade Bank (MFTB), letters of credit (LCs) issued by correspondence banks are confirmed by MICB and informed to the exporters. LCs which are not issued by correspondence banks are confirmed by MICB through its correspondence relationship and informed to the exporters. It checks the shipping and required documents when products have been exported in accordance with terms and conditions of the LCs. Out of export earnings, 8% are deducted as commercial tax and 2% as income tax (total 10%). Export earnings are credited to the exporters foreign currency accounts. Export earnings can be used to purchase imports or withdrawn in foreign exchange certificates (FEC). Only the products approved by the Ministry of Commerce are allowed to be imported and only out of export earnings, since foreign exchange reserve is quite low. And only Document Against Payment (DP) system is used and Document Against Acceptance (DA) system is not used.

From 1993 to 1999, the amount of import bills increased by 1123% and export bills by 526% during the 6-year period. Income received from export and import businesses by MICB was US\$ 4.46 million in 1993 and US\$ 7.34 million in 1999. The income from export and import bills is found to have increased by 65% during the same period. As of 30 November 2001, MICB had total deposits of Kyats 7,076,153,951 out of which total current deposits accounted for 59%, savings deposits 26%, total fixed deposits 15% and other deposits 0.002%.

The total deposits of MICB as of 30 November 2001 accounted for 2% of total deposits of the 20 (Twenty) private and semi private banks in 2001.

Foreign currency accounts, held by organizations and individuals, can be categorized as follows.

- Accounts held by local companies
- Accounts held by local citizens
- Accounts held by foreign citizens
- Accounts held by foreign companies approved by Myanma Investment Commission (MIC)

- Accounts held by other foreign companies
- Accounts held by JVs
- Accounts held by MEB

From 1993 to 1999, the number of accounts held by local companies increased by 263% and foreign currency deposits in those accounts increased by 459%. The number of accounts held by local citizens increased by 139% and foreign currency deposits in these accounts increased by 1065%, which was quite a significant increase. The number of accounts held by foreign citizens increased by 224% and US\$ deposits in these accounts increased by 413% during the same period. The number of accounts held by foreign companies approved by MIC increased by 303% and US\$ deposits in these accounts increased by 89%. The number of accounts held by other foreign companies increased by 267% and US\$ deposits in these accounts increased by 191%. The number of accounts held by JVs increased by 205% but US\$ deposits in these accounts declined by 42% during the same period.

The total number of foreign currency accounts increased by 185% and foreign currency deposits increased by 472% from 1993 to 1999.

From 1990 to 1997, businesses in Myanmar experienced a boom. Myanmar's economy started to suffer after 1997 as a result of contagion effect of Asia financial crisis, since most of the major business players in Myanmar were from the Asian region. The significant increase in the number of accounts and US\$ deposits at MICB from 1993 to 1997 is not surprising since it is one of the only two banks where US\$ accounts can be maintained. After 1997 up to 1999, enterprises still maintained their accounts and tried to keep US\$ deposits as much as possible. One of the reasons for this was to be able to import profitable items which are normally restricted. The importation of ordinary items is becoming less profitable on account of severe devaluation of the local currency. Thus, the majority of enterprises, including small and medium exporters/importers, tried to import profitable items, such as palm oil and vegetable ghee, the importation of which was normally restricted by the government. In order to be able to import these items, they must have sufficient export earnings at the bank, normally about 10 times the value of imports. The right to import these restricted materials is even taken as incentive for those who have higher export earnings since the imports of these materials are highly profitable. Thus, most companies try to increase US\$ deposits (export earnings) at the bank to be able to reap these benefits. Some companies that do not have export earnings try to increase them by exporting materials on behalf of other exporters so that the export earnings are credited into their own accounts after the shipment.

Total loans provided by MICB also accounted for 2% of total loans provided by the 20 (Twenty) private and semi-private banks in 2001.

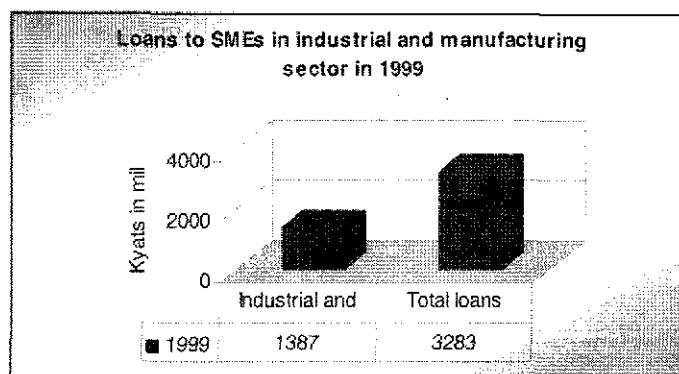
Loans are provided normally to different categories business as follows;

- Fisheries and mining businesses
- Industrial and manufacturing businesses

- Construction businesses
- Transport businesses
- Trading businesses
- Services businesses
- Export businesses

Loans provided to fisheries and mining businesses accounted for 0.5% of total loan provisions up to 1999, industrial and manufacturing businesses accounted for 42.2%, construction businesses for 2.4%, transport businesses for 2.6%, trading businesses for 24.4%, services businesses for 15.6% and export businesses for 12.2%. This is shown in the following pie chart. The highest portion of MICB loans is found to have been provided to industrial and manufacturing businesses. This was followed by loans to the trading sector, as in the cases of other private and semi-private banks. Loans provided to SMEs in the industrial and manufacturing sector were as follows.

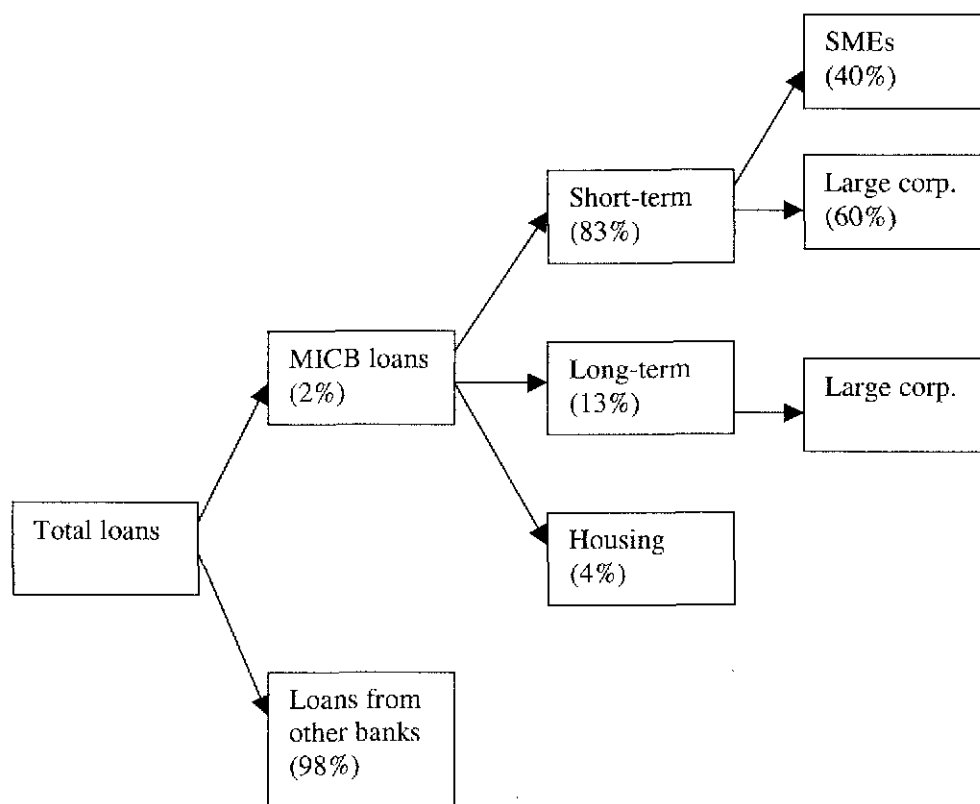
Figure 5- 24 Loans to SMEs in Industrial and Manufacturing Sector in 1999



Source: Myanmar economic bank

Loans to the industrial sector provided by MICB was about 2% of loans provided to this sector by the 20 private and semi-private banks. (Loans to the industrial sector provided by MICB amounted to Kyats 1,387 million. Loans to the industrial sector provided by the 20 private and semi-private banks amounted to Kyats 72,328 million. Thus, loans to the industrial sector provided by MICB were only 2% (Kyats 1,387/72,328) of loan provision to the same sector by the 20 private banks.). Loan provision by MICB to small and medium enterprises in 1999 was as follows.

Figure 5- 25 Loans by Enterprise



Source: MICB, private, semi-private & State banks, questionnaires analysis

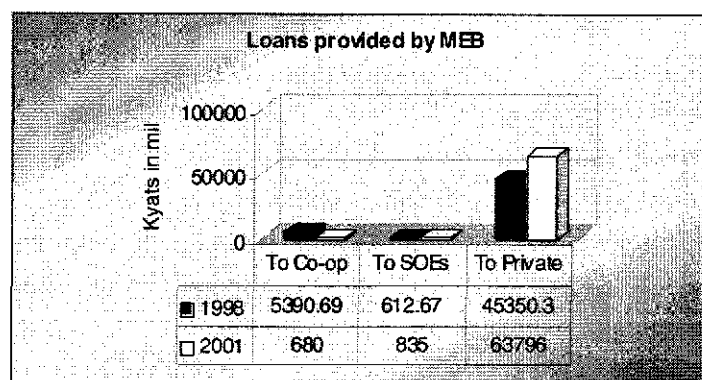
(4) Financing SMEs through MEB, a State-owned economic bank

MEB is the largest state-owned bank acting as commercial, investment as well as development bank in Myanmar. It has 279 branches throughout the country offering domestic banking services to both private and state enterprises. The accounts of all government departments and state economic enterprises are maintained with MEB acting as fiscal agent for the Central Bank. The deposits received by MEB could be categorized as government deposits, current deposits, savings deposits, deposits in terms of savings certificates, time deposits and other deposits. In 2001, out of total deposits received by MEB, government deposits accounted for 0.2%, demand deposits for 8%, savings deposits for 82%, deposits in terms of savings certificates for 9%, time deposits for 0.3% and other deposits for 1%.

Loans provided by MEB could also be categorized as loans to cooperatives associations, loans to state economic enterprises and loans to the private sector. As of 31 October, 2001, loans to cooperatives accounted for only 1%, loans to state economic enterprise also for only 1% and loans to the private sector for 98% of total loans provided by MEB. Its categorization can be seen clearly

in the following figure.

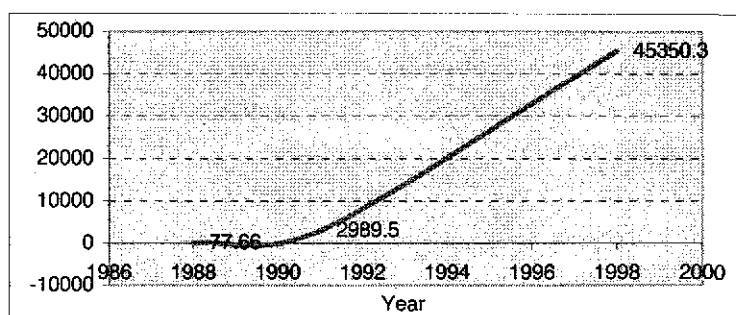
Figure 5- 26 Loans Provided by MEB



Source: Myanmar economic bank

It is found that total loan provisions of MEB increased by 27% from 1998 to 2001, since they increased from Kyats 51,352million in 1998 to Kyats 65,310 million in 2001. As the following table shows, loans provided to the private sector increased during the 10 years between 1988 and 1998 and this helped develop private businesses. But whether loan provision to SMEs increased or not is a big question mark, since MEB does not categorize loans to SMEs. But according to our questionnaires, there are no small and medium enterprises that have ever received loans from MEB. MEB categorizes its private loans into five areas: housing loans, personal loans, urban development loans, inter-bank lending, loans to agricultural and livestock breeding. Thus, loans might possibly have gone to SMEs just in agricultural and livestock breeding sector. But loans in this category accounted for only 0.002% of its total private loans. Thus, loans to SMEs could even be negligible. The trend of loan provisions by MEB channeled to the private sector during the ten years from 1988 to 1998 is as follows;

Figure 5- 27 Loans to Private Sector by MEB(Kyats inMillion)



Source: Myanmar economic bank

Out of the loans provided by MEB to the private sector, personal loans are found to be the highest accounting for 89%. The second highest was housing loans which accounted for 7%, the third was urban development loans which accounted for 4%. Loans provided to industries in agricultural and livestock breeding account for only 0.002% of total private sector loans provided by MEB. As mentioned above, out of 0.002% of total private sector loans, 0% of loans is directed to SMEs according to questionnaires analysis.

The increase in MEB loans to the private sector does not benefit either the industrial sector or SMEs in Myanmar. Since majority of its loans to the private sector goes to individuals, especially civil servants, and housing development for government staff, the ratio of non-performing loans of MEB is found to be the highest. Out of total loans provided to the private sector as at 31 March 1998, there were 5,612 NPLs amounting to Kyats 6,512.6 million. The category of loans in which NPLs are mostly encountered is personal loans, so that these NPLs have almost nothing to do with SMEs. It is a common lending policy in Myanmar banking that the banks are cautious to lend to SMEs as the banks are afraid of NPLs occurrence in SMEs.

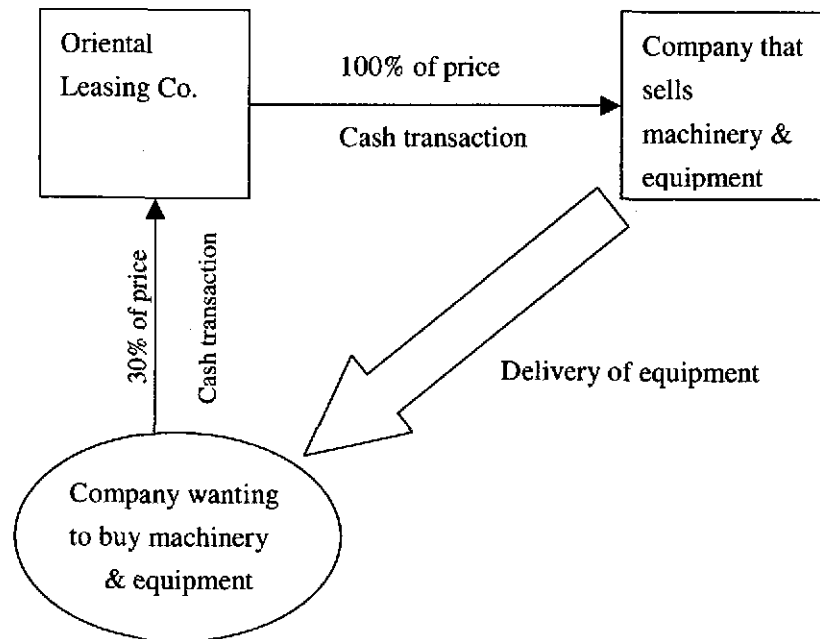
(5) Analysis of Oriental Leasing Company, a private leasing company.

Oriental Leasing Company is one and the only leasing company that exists in Myanmar, though it is still on a trial basis. The practice of leasing did not exist in the financial market in Myanmar. Only rental purchase system was introduced by Yoma Bank which arranged rental system for the rental of mostly Daewoo and Suzuki cars at first. This was followed by other banks that introduced financing systems for the rental of properties. The leasing industry for business equipment and machinery was launched by Oriental Leasing Company. Oriental Leasing Company was founded on 25 January 1995 and is one of the subsidiaries of Myanmar Oriental Bank, which is a private financial institution. The initial capital of the company was Kyats 5 million, 99% of which was contributed by Myanmar Oriental Bank. SMEs or individuals can purchase materials, such as household materials, machinery & equipment, cars and motorbikes, through the leasing company. There are two methods under which companies or private businessmen can gain funding from this leasing company.

Method 1

Under this method, companies wanting to purchase business-related machinery, equipment or vehicles need to propose to the leasing company. If agreed, the leasing company pays 100% of the cost of these items to the selling party. The buying company needs to pay 30% of the cost to the leasing company. It means that leasing company provides funds for 70% of the cost of machinery, equipment or vehicles purchased for businesses.

Figure 5- 28 Method 1 for Leasing

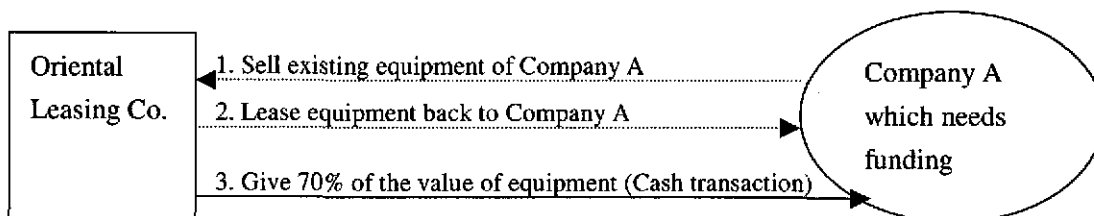


Source: Interview with Oriental leasing company

Method 2

Under this method, companies can sell their existing machinery, equipment or vehicles to the leasing company and lease them back. In this case, the leasing company pays 70% of the assessed market value of the item. Under the first method, small and medium enterprises can start businesses immediately by paying only 30% of their business related machinery, equipment or vehicles. Under the second method, small and medium enterprises can obtain funding to fulfill their short term financial needs by selling their own machinery, equipment or vehicles and leasing them back. Hence both methods are useful to small and medium enterprises.

Figure 5- 29 Method 2 for Leasing

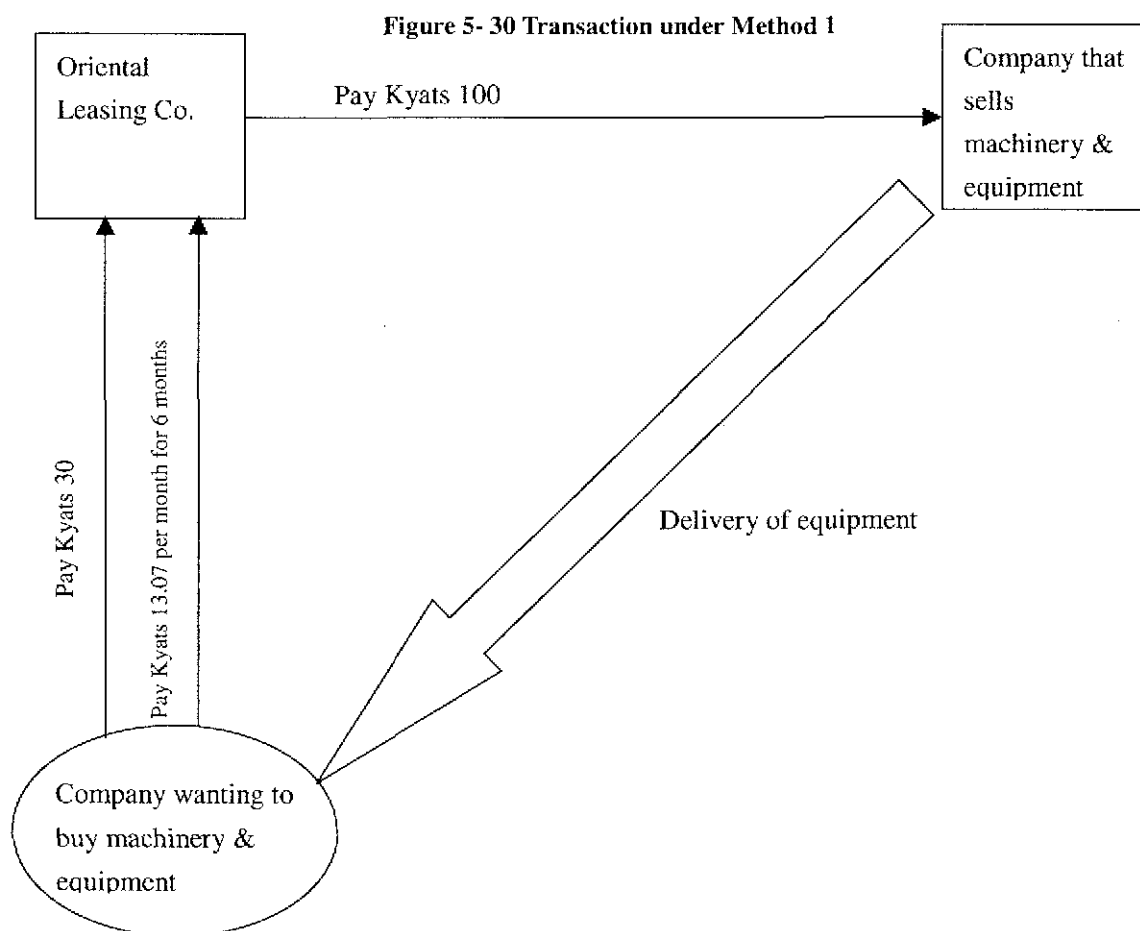


Source: Interview with Oriental leasing company

But there are three facts that discourage business enterprises to get funding from this leasing company. They are as follows.

- (a) The interest rate charged by the leasing company is high at 2% per month.
- (b) Leasing period is short: at minimum 3 months and maximum 12 months.
- (c) Amortized leasing amount plus interest should be paid every month.

The (c) transaction under method 1 should be explained. If one business enterprise (called company A) buys machinery at the value of Kyats 100 from Mr. B, the leasing company will pay Kyats 100 to Mr. B and the company A will pay Kyats 30 (30% of the amount) to the leasing company. If the leasing period is six months, total interest charged for the said period is Kyats 8.4 (Kyats 70 x 2% x 6 months). The company A has to pay Kyats 13.07 ((70.0+8.4) Kyats/ 6 months) to the leasing company every month including principal before the end of the six months. Thus, although the interest rate charged by the leasing company is 2% per month, monthly payment is larger.



Source: JICA Study Team

Total value of leasing by category is shown below.

Table 5- 22 Total Value of Leasing by Category

Businesses & products	in Kyats	
	Value of leasing 1998	Value of leasing 1999
General households and consumers products	8,563,870	26,680,055
Vehicles for rent and for use	10,325,000	20,703,500
Hotels and restaurants related materials	2,334,545	17,046,300
Medical related materials	12,793,500	9,796,411
Printing materials	15,651,198	14,450,000
Materials for amusement parks	13,264,818	5,000,000
Motorbikes & bicycles	4,547,070	4,490,000
Agricultural related materials	-	-
Industrial materials including materials for home industries	14,308,080	38,147,032
Computers & projectors	117,555	505,470
Mining materials	3,341,520	9,321,900
Food & Beverage trading businesses	1,500,000	8,050,000
Fisheries businesses	2,520,000	21,319,000
Construction related businesses	13,545,000	17,057,000
Travel related businesses	5,780,000	7,810,000
Educational services	1,750,000	700,000
Plastic businesses	-	9,070,000
Transport businesses	8,800,000	52,432,000
Elevator trading businesses	-	7,500,000
Motor vehicles and parts trading businesses	13,345,438	22,585,000
Moulding businesses	-	605,000
Motel businesses	-	800,000
Jems trading businesses	-	2,657,900
Lottery sales businesses	-	24,750,000
Total Value of Leasing	132,487,594	321,476,568

Source: Oriental Leasing Company

The total amount of leasing increased by 143% between 1998 and 1999, but leasing was concentrated more in printing materials in 1998 (accounting for 12%) and in transport businesses in 1999 (accounting for 16%). The amount of leasing extended to SMEs in the industrial sector accounted for 11% in 1998 and 12% in 1999 and increased by 167%.

There are several reasons why SME leasing has increased. One reason is that the processing for SME leasing decision is quite fast and takes only about one week. Hence, many SMEs are becoming aware of the convenience in financing the purchase of required machinery and equipment. The second reason is the strong promotion of leasing to SMEs since the chairman of the Myanmar Oriental Bank (which is the parent organization of Oriental Leasing Company) is the ex-authority of

the Central Bank of Myanmar. The future outlook of leasing activities would be promising in Myanmar if Oriental Leasing Company improves further the existing repayment system (as explained above), which discourages many SMEs. If the repayment method is made simple by allowing borrowers to pay interest every month and principal at the end of the loan period, it would play a more important role in the development of SME financing. Management of other private financial institutions should introduce more promising methods. The leasing industry is one of the key industries that could help develop SME financing in the short run. Financial status of Oriental Leasing Company for the past six years is shown in the following table.

Table 5- 23 Brief Financial Situation of Oriental Leasing Company Over the Past Six Years

Description	Kyats in mil					
	1995	1996	1997	1998	1999	2000
Paid-up capital	5	8	10	30	100	200
Short-term borrowing from MOB	0	0	25	40	50	78.4
Profit before tax	0.02	0.53	2.79	8.79	28.44	53.95
Tax	0	0.16	0.83	2.63	8.53	16.18
Statutory reserve	0	0.09	0.48	1.53	5.07	9.5
Other reserve	0	0	0.13	0.3	0.76	4.2
Contingency reserve	0	0	0	0	0.4	0
Dividend	0	0	1.4	4.02	12.6	24
Retained profit	0.02	0.28	0.03	0.31	0.06	0.06

Source: Oriental Leasing Company

(6) Activities of Myanma Small Loans Enterprise, a government enterprise for small financing

Myanma Small Loans Enterprise was established in 1952 as a government pawn shop. It became Myanma Small Loans Enterprise on 2 August 1992. It is the government enterprise providing small loans to SMEs and individuals with collaterals. Before 1998, it accepted different types of collaterals such as gold, bicycles, watches, electronics products, but since 1998, it has accepted only gold as collateral. It provides loans accounting for 90% of the value of collateralized gold at the interest of 36% per annum. The amounts of loans provided by Myanma Small Loans Enterprise from 1993 to 1999 are shown in the following table.

Table 5- 24 Performance of Myanmar Small Loans Enterprise

Kyats in mil		
Year	Loans amount	Profit
1993	494.5	49
1994	1,603.8	93
1995	1,872.2	113
1996	1,791.6	109
1997	1,711.1	94
1998	2937	154
1999	6,020.9	351

Source: Myanmar small loans enterprise

Loan provision of Myanmar Small Loan Enterprise to SMEs is found to have increased year by year. The main reason for such increase is that there is a rather simple lending procedure from Myanmar Small Loan Enterprise than from other private financial institutions. Hence people cannot even be bothered with the interest rate that is 36% per annum.

There are also 96 licensed private small loans enterprises throughout Myanmar. These small loans enterprises are just mere pawn shops, but financing are not directed to SME's. But it is estimated that around 50% of its loans are provided to small businesses which are home industries run by family members. But the 36% interest rate for the loans provided by Myanmar Small Loan Enterprise discourages small enterprises and individuals from financing their short-term financial needs. Myanmar Small Loan Enterprise borrows from Myanmar Economic Bank (MEB), one of the state banks, only at 12% per annum and lends to the public at 36% per annum. Other private small loans enterprises charge even more than 36% as interest depending on the quality and type of collaterals. Because the percentage of borrowers (who borrow for personal use) is increasing, according to interviews with employees of Myanmar Small Loan Enterprise and licensed private small loan enterprises. Thus, in the future, these enterprises will be more like sources of short-term personal loans instead of sources of SME financing.

5.3.2.2 Instructions of the Central Bank of Myanmar

The Central Bank of Myanmar has issued a few instructions relating to interest rates on financing private industrial businesses for their development. On 24 September 1999, instruction number 5/99 was issued by the Central Bank, which instructed private banks that interest rates on loans provided to industries in industrial zones should not exceed 15% per annum effective 1 October 1999. On 24 September 1999, instruction number 6/99 was issued by the Central Bank, which instructed that financing should be focused on the following businesses effective 1 October

1999. It instructed the banks that all the loan contracts with the above-mentioned industries should be renewed at the interest rate of 15% per annum. It also instructed to lend 50% of the value of collaterals.

- Agricultural machinery production industries
- Industrial machinery and equipment production industries
- Industries producing import-substitution products

On 29 March 2000, instruction number 5/2000 was issued by the Central Bank, which instructed private banks that interest rate on loans provided to industries at industrial zones and agricultural projects should not exceed 13% per annum effective 1 April 2000. On 29 March 2000, instruction number 6/2000 was issued by the Central Bank, which instructed the private banks that loan provisions to local industries in industrial zones and agricultural projects should be in accordance with the instruction as follows.

- (1) Major industries to be focused for loan provision
 - Agricultural machinery production industries
 - Industrial machinery and equipment production industries
 - Industries producing import-substitution products
- (2) Agricultural projects
- (3) All the loan contracts with the above-mentioned industries should be renewed at the interest rate of 13% per annum.
- (4) It also instructed to lend 50% of the value of collaterals.

Thus, from the instructions issued by the Central Bank of Myanmar to the private financial institutions, it is evident that the Central Bank has been participating in the process for the development of private industrial businesses. But it is found that the Central Bank has not focused satisfactorily on the financing of SMEs. Majority of businesses are found to be still of small and medium size and the development of these firms plays an important role in the development of the nation. It is also found that the Central Bank instructed to lend 50% of the value of collaterals. The lending amount should not be fixed in this manner. The lending amount should also depend on the future cash flows of enterprises. Of course, to be more conservative it should at least depend on the quality and liquidity of properties held as collaterals. But it is not appropriate for the Central Bank of Myanmar to intervene by setting the ceiling on the percentage of lending amounts.

5.3.2.3 Financing in the Informal Financial Sector

On account of the shortage of credit, informal financial sector has expanded in Myanmar. Most small and medium enterprises do not have an easy access to formal financial sector, since bank loans are usually provided based on the forced-sales value of properties held as collaterals.

The percentage of forced-sale value of properties provided as bank loans depends also on types, liquidity and volatility in price of properties. Normally, 30-90% of the values of properties are provided as loans. Higher percentages of the value of properties are lent in case of gold and in case where the borrowers have savings certificates with the value higher than or equal to the amounts of the loans.

Small enterprises needing funds for the expansion of their businesses have had almost no choice but to rely on the informal financial sector. Some of the businessmen in Myanmar wish to do business with their own equity because of stringent regulations to get bank loans. It is confirmed by the questionnaires analysis that 52% of small enterprise and 40% of medium enterprises do not expect to borrow from the banks. Out of them, it is further found that 9% think it is difficult to acquire loan from banks, 24% do not want to pay interest, 7% have friends who want to be their partners, and the rest have other reasons that are described quite vaguely by saying that they wanted to have unity by doing business with relatives and friends, etc. Most of them do not have adequate levels of equity to start a new business or to expand existing businesses, leading to the slow development of industries in Myanmar. But some SMEs rely on the informal financial sector to meet their short-term financial needs. The major participants in the informal financial sector are as follows.

- Fund management companies
- Financing brokers

(1) Fund management companies

Fund management companies have emerged due to the absence of proper regulation. In practice, they are not fund management companies and actually they are commercial organizations that need funding for their businesses. On account of the actual absence of equity market, they have no chance of raising the capital through initial public offerings of equities or bond issues. Hence, they call on the public who are willing to lend them to run businesses. They call on the people who have surplus of funds to lend them at different interest rates depending on the maturity of lending. They enter into contracts with the public lenders, and the contract contains face value, maturity and the interest rate. Common characteristics of these contracts are as follows.

Table 5- 25 Interest Rates of Fund Management Companies by the Maturity of Lending

Maturity	Interest per month
3 months	3~ 4.5%
6 months	3.5~ 5%
12 months	5~ 6%

Source: JICA Study Team

They receive money similar to fixed deposits either at Kyats 500,000 or 1,000,000 and pay interest for that amount. They seem to be getting fixed deposits and run their businesses based on them. Actually, the contracts they enter into with the lenders serve as the bond. If the lending party lends Kyats 500,000 for the period of 12 months at an interest rate of 3.5% per month, this could be regarded as a bond having the characteristics of 12 month maturity, 5.5% coupon rate with the face value of Kyats 500,000. Coupons are redeemable every month and the investor can get back the principal amount at maturity.

Thus, these organizations raise required funds through the issues similar to high coupon bonds, which are known as high interest borrowing in Myanmar, leading to the situation that their cost of debt capital is extremely high. In order to cover their costs of capital, they tend to get involved in high risk businesses to be able to reap higher return. Some organizations of this type are not involved in industrial businesses but in high-risk trading, illegal US\$ speculation, property speculation, etc. The names of some major organizations of this type in the informal financial sector are as follows.

- MuDiTar Company
- NaingAungMyay Company
- PinLonHtaikHtar Company
- HtooChar Company
- AyeYarMyay Company
- LinThitSar Company
- ThitSarPanKhin Company
- Arrow Company
- ThaBarWa Company

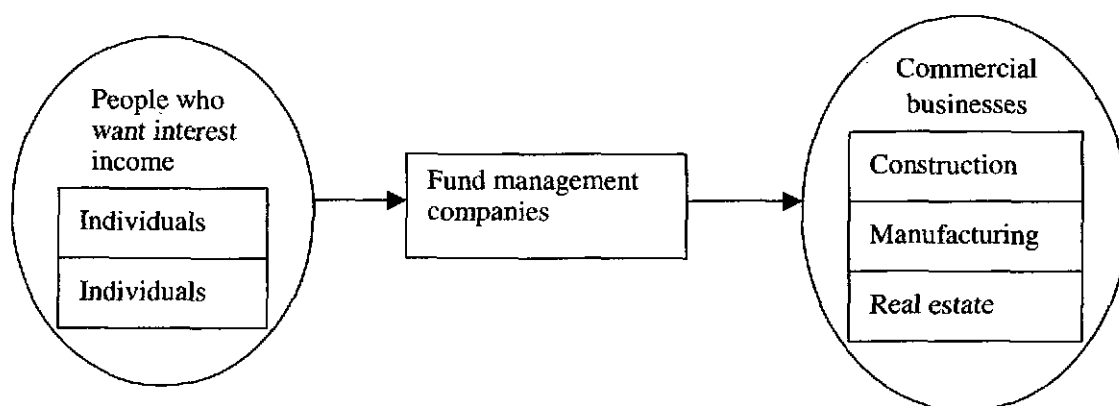
If the above-mentioned companies accept deposits from the public, that is against the Financial Institution of Myanmar Law. However, there is no specific law that controls the activities of these companies. These companies are incorporated simply under the Companies Act as private limited companies and are not allowed to get involved in financial activities that include receiving deposits. The market size of these fund management companies increased through mid-2002. Before that time, the market size of these companies was estimated at a quarter of the market size of formal financial institutions. But after the news came out in the mid-2002 that financial authorities were planning to issue a new directive to control these illegal financial activities, the market size of these fund management companies appears to have shrunk.

These organizations have their own backbone businesses. For instance, Arrow Company is a note-book production firm, PinLonHtaikHtar Company is a construction company, ThaBarWa Company provides education services. But the economic justification of their businesses, financial reliability ratings, soundness of their businesses and their credit worthiness are big question marks,

and hence investors bear high risk in exchange for high coupon interest rates. There are advantages and disadvantages in the development of this informal market. The advantage is that some organizations which do not have access to bank loans can get the funding through this informal market and can fulfill their temporary financial needs quickly. Thus they can run their existing businesses and expand smoothly without having any financial constraints. But the disadvantage is that they tend to enter into high-risk projects in order to cover their high capital cost and that investment management is not sound, which may lead to the situation in which the confidence in economy would collapse when something bad happens to these high-risk projects.

But the paths of loans directed to commercial businesses are found to be quite opposite. These are loans provided willingly by the public to commercial business organizations (acting as fund management companies) without holding any kind of properties as collaterals. Only the contract between the lender and borrowing company is signed and according to the contract, the lender provides the sum to the company trustfully as investment and the borrowing company guarantees to pay interest (mentioned as dividends in the contract) every month to the lender. Although the contract is much like a bond, since a fixed percentage of dividend is guaranteed for the investment, it is written to sound like a preferred stock. Hence, commercial businesses borrow directly from the public without needing to give any collateral. This path of lending to the private businesses is as follows.

Figure 5- 31 Path of Lending by Fund Management Companies



Source: Interviews with market participants

Individuals who are scared of inflation and have smaller degrees of risk aversion tend to lend to those commercial business organizations (acting as fund management companies) instead of depositing with the banks. A contract according to which each individual lends an amount to the company based on trust is signed between the individual lender and commercial borrower. The

minimum amounts of loans vary from Kyats 300,000 to Kyats 500,000. At present, however, the minimum lending amount has been increased to Kyats 500,000. Some commercial businesses pay interest monthly but the principal can be taken out only after the term of loans. But some companies pay interest and principal amount together only after the term of loans. No property is held as collateral and only one contract is signed between an individual lender and a commercial borrower.

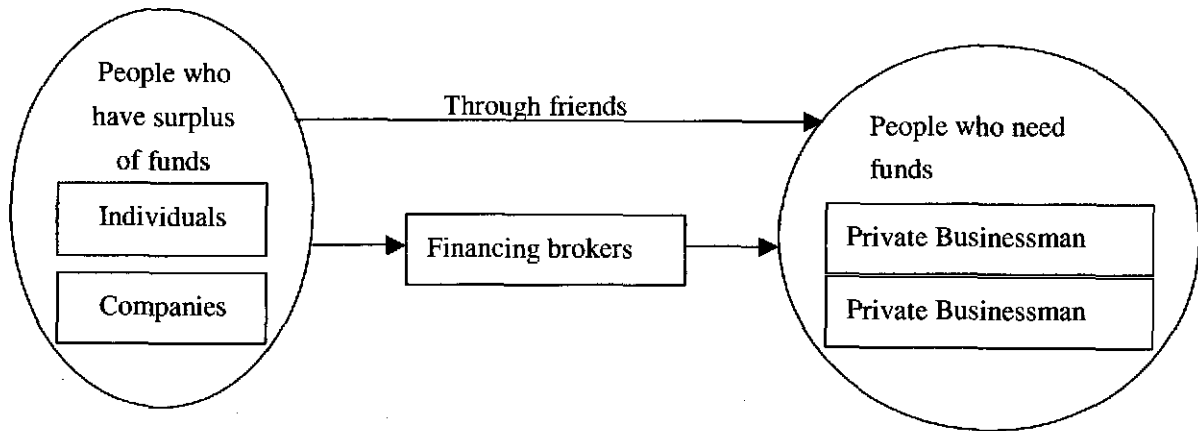
These commercial borrowers are involved in assorted kinds of businesses, ranging from trading of beans and pulse to exchanging the local currency and US\$ based on speculation. Some commercial borrowers are involved in trading beans and pulse for future based on speculation. They commit to buy specific type of beans and pulse on a future date. If the prices are higher than the amount they committed to buy, they can sell at the future market price which is higher. It is quite similar to commodity futures in major financial markets.

(2) Financing brokers

Financing brokers are acting like the financial intermediaries between the ones who need funding and the ones who have surplus of funds. Financing brokers' activities are quite sophisticated but limited, since they can be regarded as sources of funds for small enterprises and households but cannot be regarded as sources of funds for medium enterprises. Most of them are individuals and are not operating as companies. They are under no legal control. The market size of them is just minimal. Interest rates of loans going through financing brokers depend on the types of collateral and vary from 3% to 6% per month. But although collaterals are regarded as collaterals between the concerned parties, they are not expressed as collaterals on the contracts but are expressed as sales. For instance, if a motor car is taken as collateral, a sales contract between the borrower and lender is written so that it will be terminated when the loan is paid back by the borrower.

Processing for loan provisions are found to be much faster than banks and percentages of loan provisions against the value of collateral are also found to be higher than banks. Borrowers usually have their own businesses and tend to borrow in order to gain merits of higher turnover. Interest rates normally vary from 3% to 4% per month, hence 48% per annum, depending on the extent of trust and closeness between the lender and the borrower. The path of loans provided to these private businesses can be seen as follows;

Figure 5- 32 Path of Lending by Financing Brokers



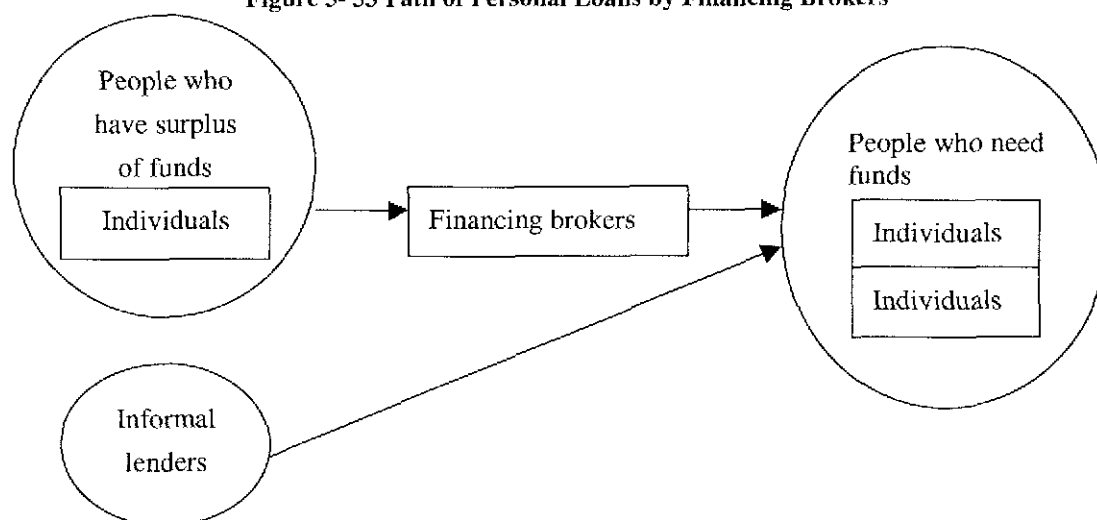
Source: Interviews with market participants

Personal loans are provided based on properties held as collaterals but processing for loans provision is much faster than banks and the percentage of loan provision against the value of collateral is higher than banks'. Most of the properties held as collaterals are gold, cars, land & properties. Interest rates depend on types of properties and vary from 4% to 10% per month, hence vary from 48% to 120% per annum. Interest rate is normally 4% per month in the cases in which gold is held as collaterals and is normally about 6% per month in the cases in which land and properties are held as collaterals. Interest rates vary from 6% to 10% per month in the cases in which vehicles are held as collaterals. If the vehicles stay with the lender before the repayment, interest rate is lower and is higher if only the license books (owner's books) of vehicles held as collaterals stay with the lenders. For instance, Mr. U wants to borrow money and collateralizes his car. Then Mr. A has two choices. One choice is to leave the car and owner's book with the lender and another choice is not to leave the car but only the owner's book with the lender. Every car in Myanmar comes with an owner's book. Nobody dares to buy a car without an owner's book. Cars without owner's books are illegally imported through borders. Thus if Mr. U picks the first choice (that is to leave both car and owner's book with the lender), he will have to pay less interest, but if he takes the second choice (that is just to leave the owner's book with the lender), he will have to pay higher interest. In every case, the borrower is to sign a sales contract with the lender according to which the borrower sells his or her properties (which are held as collaterals) to the lender and all the documents related to the properties are held by the lender. In addition, borrowers even have to sign blank contracts in some cases. In Myanmar, contracts must be stamped. Thus, Internal Revenue Department sells blank papers on which stamps are already printed. These are blank papers with stamps printed on them. When anyone wants to enter into an agreement, he just needs to buy those blank papers with stamps already printed and write whatever agreement on that paper

and sign. In some cases, the borrower has to sign on these blank contract papers with printed stamps at the top and leave them with the lender. This is to give option to lenders to write anything on the blank contract and sue the borrowers in case the borrowed amount cannot be repaid on time.

The loan period is 6 months but borrower has to pay interest for 7 months since one month interest is the fee for financing broker. At the end of 6 months, the borrower has to pay Kyats 100 back to the lender through financing brokers. The activities of financing brokers and informal lenders are the same. The only difference is that financing brokers lend other people's money while informal lenders lend their own money. The paths of personal loans provided are as follows.

Figure 5- 33 Path of Personal Loans by Financing Brokers



Source: JICA Study Team

5.3.3 Demand-Side Analysis of SME Financing

5.3.3.1 Analysis of the Behavior of Different Sizes of SMEs as it Relates to their Financing

According to the Ministry of Industry 1, enterprises are categorized into small, medium and large depending on levels of production, utilization of power and the number of workers. In our demand analyses, we will focus mainly on the number of workers in categorizing small and medium enterprises. The re-categorization of small and medium enterprises is as follows.

Table 5- 26 Recategorization of SMEs

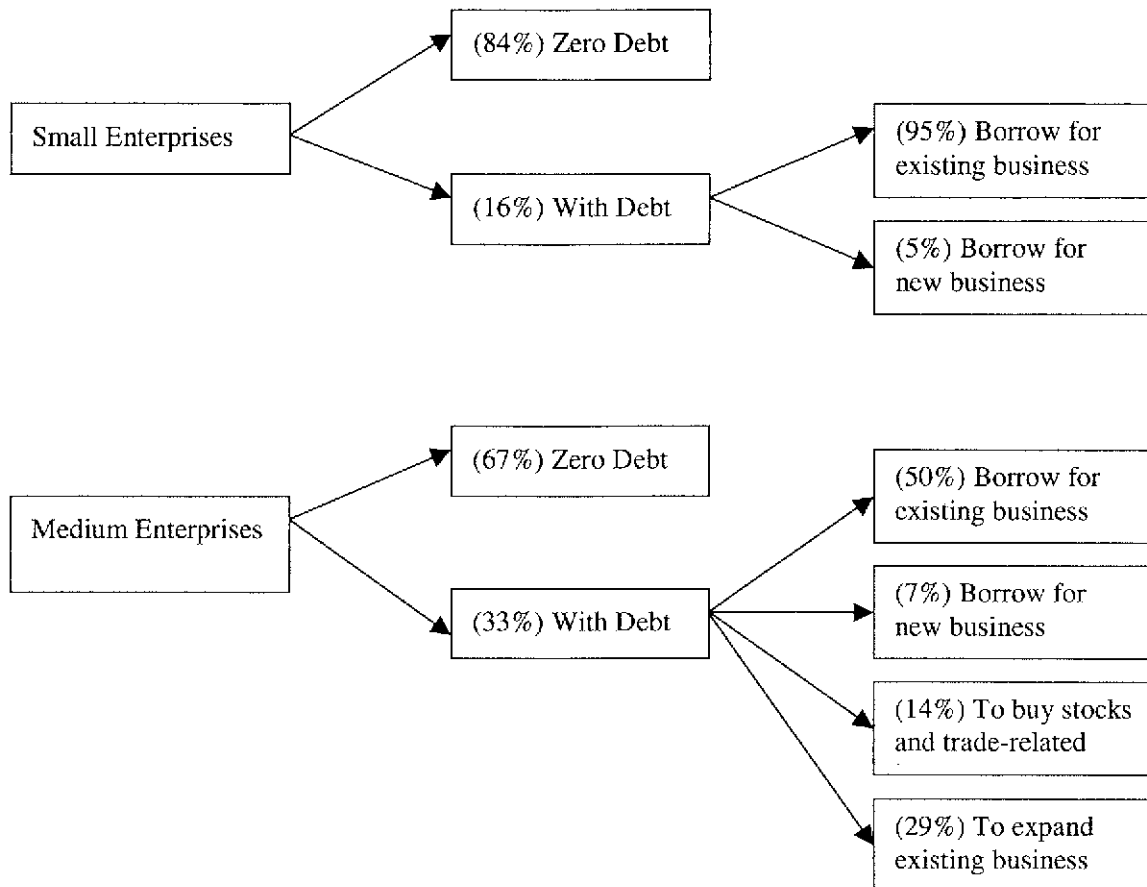
Size	Number of workers
Small-scale enterprise	1 ~ 19
Medium-scale enterprise	20 ~ 99
Large-scale enterprise	100~

Source: JICA Study Team

As a result of short interviews with 200 small and medium enterprises and the questionnaires analysis, it is found that 84% of small enterprises are currently doing businesses with zero debt whereas 67% of medium enterprises are currently running with zero debt. Hence, a higher percentage of small enterprises is currently running businesses with 100% equity either from their relatives or from friends or of their own. Thus, 16% of the sample group are currently running business with a certain percentage of debt capital and a majority of them has the equity capital of 60 ~ 69%. Out of 33% of medium enterprises that are currently doing businesses with a certain percentage of debt capital, a majority has equity capital of 60 ~ 79%.

It is found that most of the small enterprises that borrow do so mainly for their existing businesses, since 95% of them do so for their existing businesses, and only 5% of them do so to start a new business. Fifty percent of the medium enterprises that borrow do so for their existing businesses, 7% to start a new business, 14% to buy business related products like stocks and the remaining 29% borrow for other reasons, mainly to expand their existing businesses.

Figure 5- 34 Debt Financing by Size of Enterprises



Source: Questionnaires analysis

This means that both small and medium enterprises are operating businesses mainly with their own equity as capital. A majority of them contributes from their own pockets and some companies obtain funding either from relatives or friends. A further analysis shows that 76% of small enterprises think that it is best to borrow the required funds for their businesses from the banks, whereas 69% of medium enterprises agree with it. Thus, it can be seen that although most small and medium enterprises normally acquire required funds from their own pockets, from relatives or friends, they think that it is better if they are able to get the funds from the banks. Moreover, a majority of small enterprises thinks that the most convenient term of loans for their businesses is 2-3 years, whereas a majority of medium enterprises thinks that it would be more convenient if they could borrow for a period of 3-5 years.

Most of the small enterprises want to expand their business, and this situation can be seen as a signal for business growth provided they can get an adequate level of funding at a low interest rate.

According to our questionnaires analysis, 30% of small companies are content with their existing businesses but 50% of them intend to expand their businesses and 7% of them are thinking of starting a new business. Whereas 7% of medium enterprises are content with their existing businesses, 85% of them intend to expand their businesses and 8% of them intend to start a new business. Thus it can be seen that medium enterprises intend to expand their existing businesses more than small enterprises do. But the percentage of small or medium enterprises that wish to start a new business is not high.

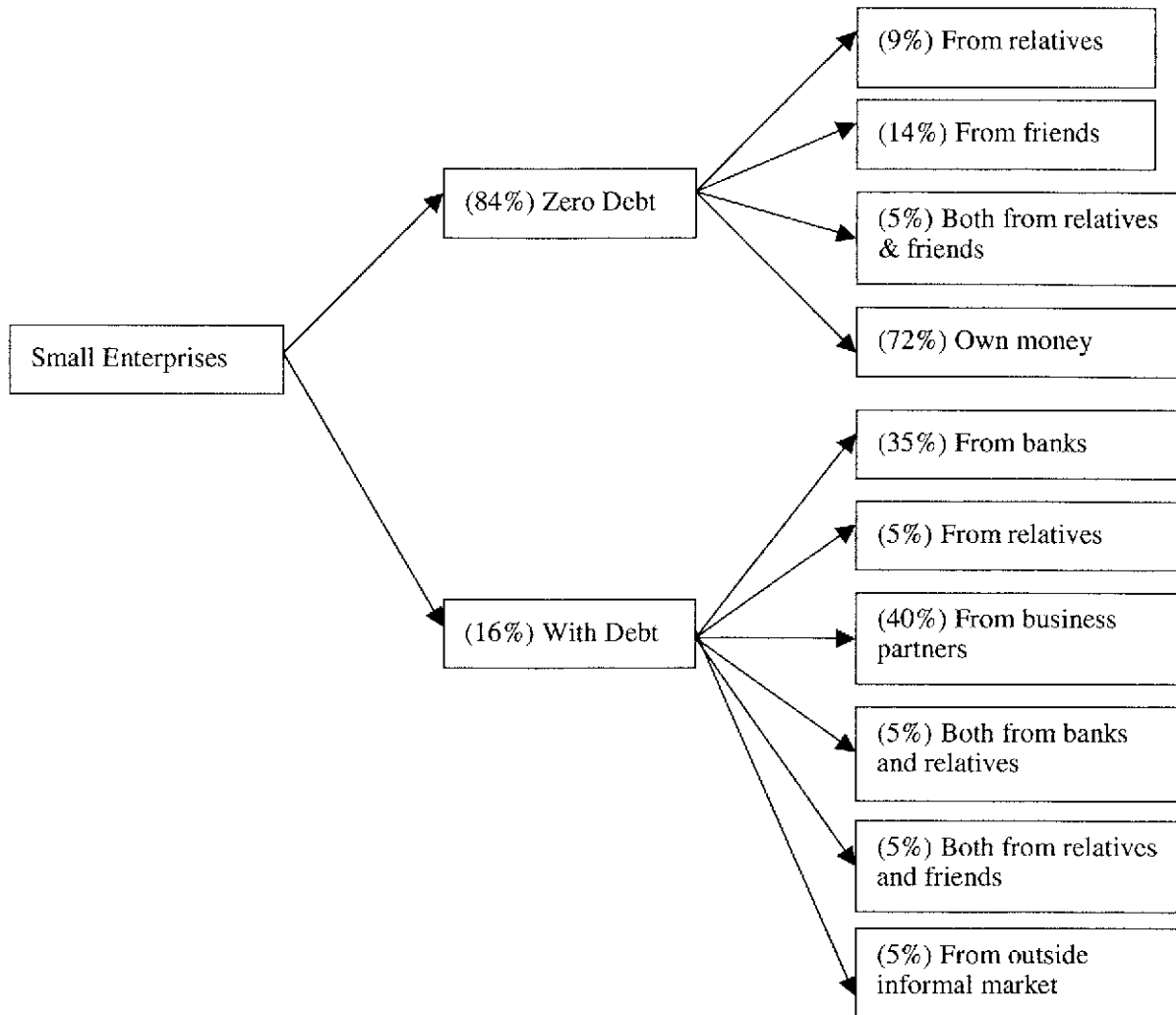
High percentages of both small and medium enterprises have the intention of expanding their existing businesses. According to our further analysis, 87% of small enterprises require additional funding from external sources to realize their intentions whereas only 57% of medium enterprises do so and the rest think that they are able to get adequate levels of funding from their retained earnings and reserves.

Out of the enterprises that require funding from external sources, 11% of small enterprises intend to obtain funds from relatives and 26% from friends, 7% intend to borrow from friends, 48% from banks, and the rest intend to borrow from outside the informal market. Thirty percent of medium enterprises intend to obtain funds from friends while 5% intend to borrow from friends, and 60% from banks. Thus, it is found that both small and medium enterprises intend to borrow from banks for their existing businesses but the question is whether they are able to get adequate loans from them. Out of the enterprises that do not intend to expand their businesses with debt financing, 9% of them think that it is not easy to borrow from banks, 24% do not want to pay interest, 7% have friends who want to be their partners and the rest have other reasons that are described quite vaguely, such as that they wanted to have solidarity by doing business with relatives or friends. Thus, it can be seen that the majority of them does not want to pay interest for their loans. This is due to the uncertainty of business situation, because of which they do not normally want to take the burden of loans and interest payments.

5.3.3.2 Major Sources of SME financing.

As mentioned above, 16% of small and 33% of medium enterprises are operating businesses with a certain percentage of borrowing. Out of them, 35% of the small enterprises that borrow have done so from the banks, 5% from relatives, 5% from friends, 40% from their business partners, 5% from banks & relatives and 5% from relatives and friends. It is found that the remaining 5% borrowed from outside the informal market.

Figure 5- 35 Debt Financing by Small Enterprises

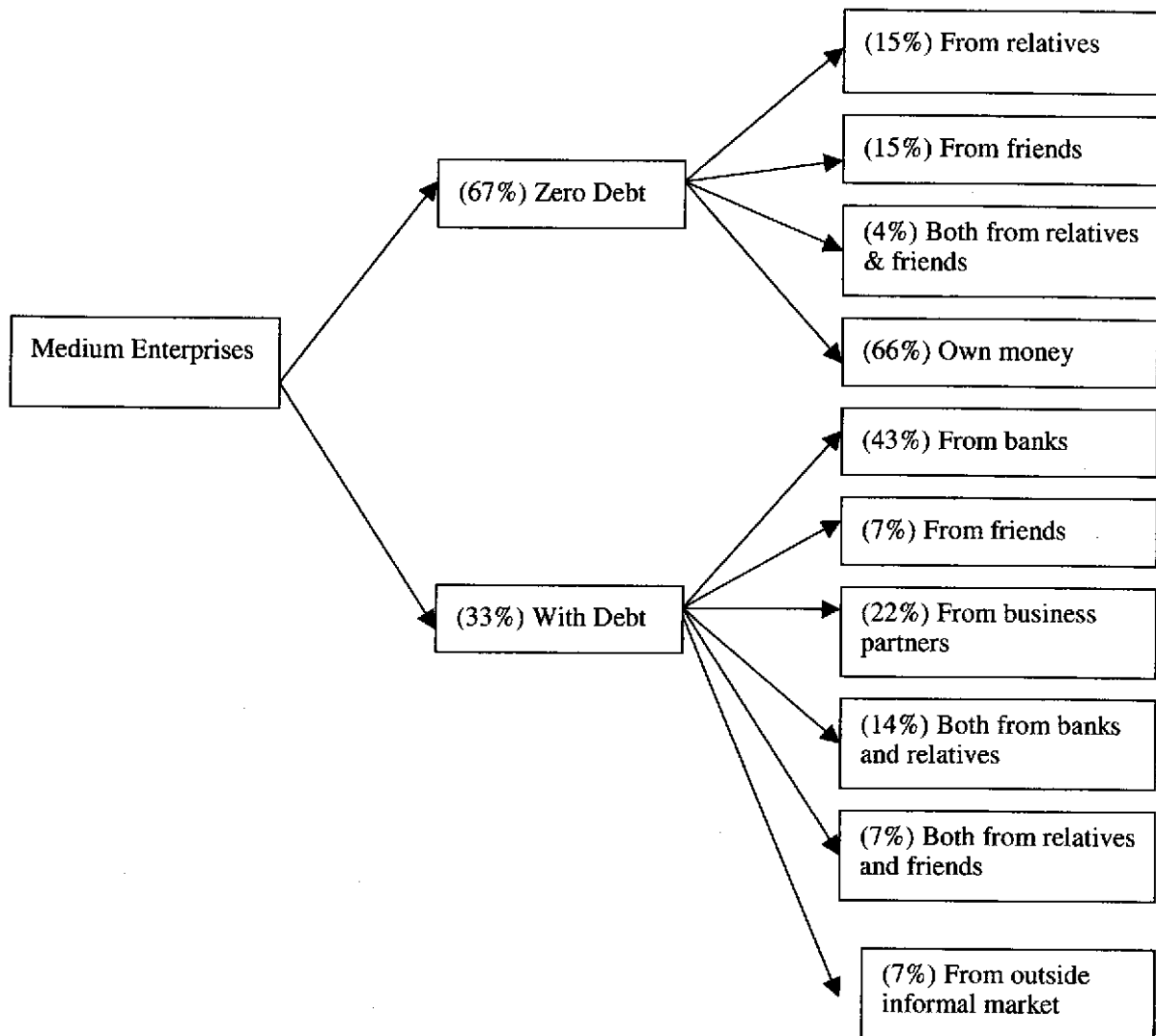


Source: Questionnaires analysis

Out of medium enterprises, 15% normally obtain equity from relatives, 15% from friends, and 4% both from relatives and friends. But the majority of medium enterprises (about 66%) is operating solely with their own equity, borrowing neither from their relatives nor friends.

Meanwhile, 43% of the medium enterprises that borrow have done so from the banks, 7% from friends, 22% from their business partners, 14% both from banks and relatives, and 7% both from relatives and friends. The remaining 7% have borrowed from outside the informal market. Thus, out of small and medium enterprises that are operating businesses with some borrowed money, a large percentage has done so from the banks. It is also found that quite a high percentage of companies borrow from their business partners. But only a small percentage of enterprises are found to have borrowed from their relatives or friends.

Figure 5- 36 Debt Financing by Medium Enterprises



Source: Questionnaires analysis

It is further found that out of the enterprises that have borrowed, 45% of small enterprises have done so more than four times during the life of the enterprises. Out of medium enterprises, 50% have borrowed more than four times. Thus, it is evident that small and medium enterprises have to borrow several times in order to meet their financial needs, since it is difficult for them to obtain long-term credit.

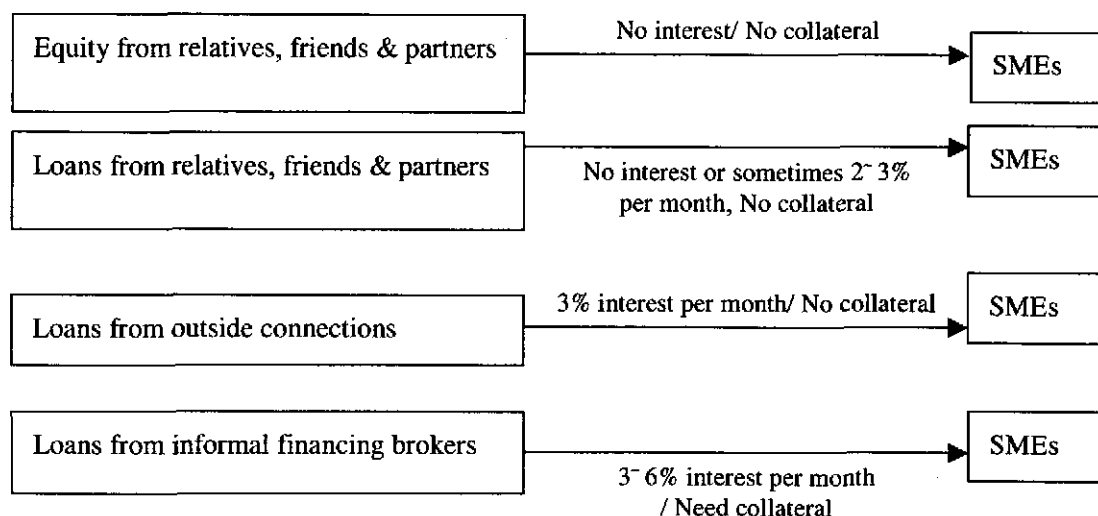
A further analysis of our questionnaire results show that 36% of small enterprises obtain credit from Asia Wealth Bank, which is a private bank. The second largest percentage of them get

loans from Myanma Investment and Commercial Bank, which is a state-owned bank. These enterprises are mainly involved in export/import businesses. Export/import businesses in Myanmar normally operate with a small staff and hence they fall into small and medium enterprises according to our categorization of sizes of enterprises on the basis of the number of workers. Out of medium enterprises, 56% borrowed from Asia Wealth Bank and the second highest percentage from Myanmar Universal Bank. It was also found that other private and semi-private banks favor large enterprises in making credit decisions.

In order to be able to borrow from the banks, all enterprises must collateralize gold, jewelries, real estate, land and building, vehicles, stocks or machinery. It is found that the majority of small and medium enterprises collateralize land and buildings or real estates. Most of them need to convince the banks of the financial reliability of their businesses. This situation makes the enterprises that do not have properties, land and building or real estates unable to get credit from the banks. Out of those which have borrowed from the banks, the majority was able to borrow amounts equivalent to only 30 ~ 49% of the value of the collateral. Thus, the value of collateral must be at least two or three times the amount they wish to borrow. Hence, even the enterprises that have assets which can be used as collateral were unable to borrow adequate amounts of funds from the banks. It was further found that it normally takes one to two months to obtain loans from the banks. Thus, the long period required to obtain funds discourages small and medium enterprises from borrowing from the banks. It was also found that about 48% of small and medium enterprises borrow from the banks because they have connections and friends there. Thus, since the majority of rationed credit is directed only to the enterprises which have friends and connections at the banks, it is hard for other enterprises to borrow.

About 16% of the enterprises go to the banks that are quick in credit decision making, while 12% go to the banks that have good public relations. Thus, the primary factor most enterprises consider in deciding from which bank to borrow is whether they have connections or friends. The second factor is whether the bank is quick in loan processing and the third is whether the bank is good in public relations. All enterprises that borrow from the banks pay an interest rate of 15% per annum. There are other enterprises that borrow from relatives, friends or business partners. Some pay interest rates of about 2% per month while others pay no interest, since business partners borrow from one another depending on their needs.

Figure 5- 37 Sources of Loans to SMEs



Source: JICA Study Team

When companies get funding either as loans or equity from relatives, friends or partners, they do not need to pay interest in most cases. They do not even have to collateralize. If they borrow through outside connections (that is from friends of friends or friends of partners, etc.), they normally pay 3% interest per month, and the loan agreement is normally based on trust and no collateral is required. But in some cases, vehicles or properties are required as collaterals. In case the borrowers have to collateralize, they normally obtain loans in amounts equivalent to about or above 80% of the value of the collateral. Thus, the main reason why some companies do not borrow from the banks is that they do not have enough collateral.

Thus the analysis on the major sources of financing highlights that

- Most of small and medium enterprises have been doing businesses with their own equity, not borrowing from relatives or friends.
- Some companies get a certain percentage of equity from relatives and friends. In these cases, most companies get equity funds from friends or business partners rather than relatives.
- A smaller percentage of companies do businesses with a certain percentage of debt, and it is found that most of the small enterprises borrow from their business partners. This is because they are not able to get loans from the banks easily. On the other hand, most of the medium enterprises borrow from the banks, since they find it a little bit easier to do so than the small enterprises do.
- Out of a small percentage of companies that do businesses with a certain percentage of debt, a majority gets loans from the banks. The majority of them gets only short-term

loans and hence they have to borrow many times to meet their financing needs.

- A majority of the enterprises that gets loans from the banks do so from Asia Wealth Bank. The procedures and criteria for loan provision at this bank are found to be easier than those of other banks.
- A majority of companies considers whether they have friends or connections with the bank before they decide from which bank they will borrow. Hence, whether or not they have friends or connections is one of the major factors to be considered in order to choose the source of their funding. If they do not have friends or connections, the second major factor they consider is the speed of loan processing. The third factor is the public relations of the bank.
- When companies borrow from the banks, they must have collaterals that are worth two or three times the amount they want to borrow. But when they borrow from their relatives, friends or other connections, they sometimes do not need collaterals, since most of the loans are based on trust. They sometimes pay an interest of 2 ~ 3%. And the loan amount they can get is normally above 80% of the value of collateral in case they need to collateralize.

5.3.3.3 Estimates of Credit Demand of SMEs in Myanmar

It is found that most of the small and medium enterprises need credit either for their existing businesses or for the expansion of their existing businesses. A questionnaire analysis shows that about 28% of the companies need the funding of Kyats 50.0 ~ 99.9 millions (US\$50,000 ~ 99,900). The distribution of credit demand by size is as follows.

Table 5- 27 Range of Credit Demand of SMEs

Credit demand (Kyats in mil)	Percentage
0.1 ~ 0.4	2%
1.0 ~ 2.9	5%
3.0 ~ 4.9	2%
5.0 ~ 9.9	8%
10 ~ 19.9	6%
20 ~ 49.9	17%
50 ~ 99.9	28%
100 ~ 200	16%
Above 200	17%

Source: Questionnaires analysis

In 2001, the number of registered enterprises was 42,262.

Table 5- 28 Number of Registered Enterprises

Registered Enterprises	
Exporters/Importers	15,142
Business representatives	2,230
Myanmar companies limited	15,418
Partnership firms	1,264
Foreign companies and branches	1,414
JVs not under FIL	60
JVs under FIL	116
Other organizations	39
Tourist enterprises	601
Tourist transport business	423
Hotel business	343
Lodging house business	178
Tour guide businesses	5,034

Source: Central Statistical Organization

Out of the above, enterprises owned by Myanmar nationals numbered 38,502. The companies doing projects under the approval of Myanmar Investment Commission (MIC) that are regarded as large companies numbered 528. Hence, Myanmar companies that fall into the category of small and medium enterprises is estimated at about 37,974. This does not include very small home industries that are not registered at any of government organizations.

In 2001, the 20 private and semi-private banks supplied credit of Kyats 204,903 million as loans and advances to the private sector. The state-owned banks provided loans and advances to the private sector as follows.

Table 5- 29 Loans & Advances to Private Sector

2001	Kyats in mil
Loans & advances of 20 private & semi-private banks	204,903
Loans & advances of State-owned banks	
Loans & advances of MICB to private sector	3,368
Loans & advances of MEB to private sector	63796
Total loans & advances provided to private sector	272,067

Source: 20 private & semi-private banks, MICB, MEB

The questionnaires analysis shows that 2% of small and medium enterprises require minimum Kyats 0.1 to maximum 0.4 million in order to expand their existing businesses. And a majority of them requires the above amount for three to five years. Thus, the credit demand of 2% of small and medium enterprises for the next three to five years can be estimated at minimum Kyats 76 million (37,974 SMEs x 2% x Kyats 0.1 million) and maximum Kyats 304 million (37,974 SMEs x 2% x Kyats 0.4 million).

The analysis also shows that 5% of small and medium enterprises require credit of Kyats 1~2.9 million for the next three to five years. Thus, the credit demand of 5% of small and medium enterprises for the next three to five years can be estimated at minimum Kyats 1,899 million (37,974 SMEs x 5% x Kyats 1 million) and maximum Kyats 5,506 million (37,974 SMEs x 5% x Kyats 2.9 million).

Although 17% of enterprises require credit of above Kyats 200 million, this amount can be regarded as a bit over the top and these firms were not included in the estimate of credit demand.

Thus total credit demand of SMEs in Myanmar could be estimated as follows.

Table 5- 30 Amounts of Credit Demand of SMEs

	Kyats in mil	
	Maximum	Minimum
Credit demand for 2% of SMEs	76	304
Credit demand for 5% of SMEs	1,899	5,506
Credit demand for 2% of SMEs	1,823	2,977
Credit demand for 8% of SMEs	14,810	29,324
Credit demand for 6% of SMEs	23,924	47,608
Credit demand for 17% of SMEs	130,631	325,923
Credit demand for 28% of SMEs	533,535	1,066,002
Credit demand for 16% of SMEs	592,394	1,184,789
Credit demand for 17% of SMEs	Ignored	Ignored
Total estimated demand for credit for next 3~5 years	1,299,092	2,662,433

Source: Questionnaires analysis

Thus, the total credit demand of SMEs in Myanmar for the next three to five years can be estimated at minimum Kyats 1,300 billion and maximum Kyats 2,662 billion.