



## A New Policy Framework for Myanmar's SME



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ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

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**Abstract:** Myanmar's emergence from decades of isolation provides an opportunity to learn from the experiences of its neighbours to guide its economic transition and achieve strong and inclusive growth. The development of small and medium-sized enterprises (SMEs) is an effective mechanism in achieving socioeconomic growth, but Myanmar poses a list of challenges that need to be overcome first, including poor infrastructure and limited market access. This paper proposes policy recommendations under seven key issues: business enabling environment, entrepreneurship development, access to financing, business development services, innovation and technology, market access, and cluster development. These recommendations are based on existing reviews of the Myanmar business community and the SME policy frameworks of various countries and combine to form a comprehensive policy framework. This policy framework will provide the government of Myanmar an opportunity to facilitate SME development, and with that the development of the country.

**JEL Classification:** L53, O10, O25

**Keywords:** Small and medium-sized enterprises, economic development, Myanmar, clusters, innovation and technology, business development services.

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## 1. Introduction

Myanmar is emerging from decades of isolation with regained and growing support from international communities. The nation has a high potential for rapid development given its rich natural resources, abundant labour force and strategic location between the region's two economic giants, China and India. Many lessons can be drawn from the experiences of Myanmar's neighbours, which could help guide its economic transition and achieve strong and inclusive growth (ADB, 2012).

Promoting and sustaining economic growth is in the interest of every nation. Small and medium-sized enterprises (SMEs) are, in many countries, recognized as the backbone of economic growth, contributing significantly to the GDP through job creation and income generation while alleviating poverty (ESCAP, 2012). Promoting the development of SMEs, therefore, should be viewed by governments around the world as an effective mechanism in achieving socioeconomic development.

SME growth is, however, often constrained by various factors, such as limited access to information and technological know-how, lack of economies of scale, deficiencies in corporate governance and limitations in access to funds. Government interventions have been required to create enabling environments for SME growth. Such interventions include transparent licensing and permit procedures, financial provisions, information gathering and sharing, infrastructure (along trading routes and borders) and efficient customs procedures (ESCAP, 2012).

SMEs in Myanmar are facing the same aforementioned obstacles: poor infrastructure, inadequate access to finance, limited market access, outdated technology, low skill and productivity levels and a lack of business development services (BDS) (OECD, 2013a). Such factors are hindering SMEs in Myanmar from reaching their full potential and bringing the widespread benefits of socioeconomic development to its people.

This paper aims to present a new policy framework for Myanmar's SME development. For this purpose, it analyses the major issues confronting Myanmar's business community and formulates policy recommendations for SME development in Myanmar. The paper begins with a discussion of the SME sector and related development barriers and assorted issues important to policymaking. The paper then moves on to present a set of policy recommendations that have been developed based on existing reviews of the Myanmar business community and the SME policy frameworks of various countries, with a focus on the Asia-Pacific region. Policy recommendations have been categorized under seven "key issues," namely: (1) business enabling environment (BEE); (2) entrepreneurship development; (3) access to financing; (4) business development services (BDS); (5) innovation and technology; (6) market access; and (7) cluster development.<sup>2</sup> The paper concludes by proposing a comprehensive policy framework.

## 2. General Characteristics of SMEs

SMEs represent over 95 per cent of private enterprises and account for over 50 per cent of employment in the Asia-Pacific region (ESCAP, 2012). Indeed, since the late 1970s, SMEs have become regarded as a key agent for industrialization, particularly in the least developed countries, where the role of SMEs holds even more significance since they represent the best prospect to increase overall employment and value added (Chen, 2004). Many countries have implemented policies to support SMEs, including

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