#ClosingTheGap Mekong

Executive Summary

Myanmar

Entrepreneurial Ecosystem Assessment

Commissioned on behalf of:
Dutch Good Growth Fund (DGGF): Investment funds local SMEs

April 2019

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The Dutch Good Growth Fund, part Investment funds for local Small and Medium Enterprises (SMEs), is a “fund of funds” investment initiative from the Dutch Ministry of Foreign Affairs. The initiative aims to improve financing for the “missing middle” – i.e. entrepreneurs who have outgrown micro-finance but do not yet have access to regular financial services. The Seed Capital and Business Development (SC&BD) program was established to increase the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary investment funds and local SMEs. The program incorporates a knowledge development and sharing component that supports research, tests assumptions and shares insights into financing SMEs in developing countries and emerging markets - fostering industrywide knowledge exchange.

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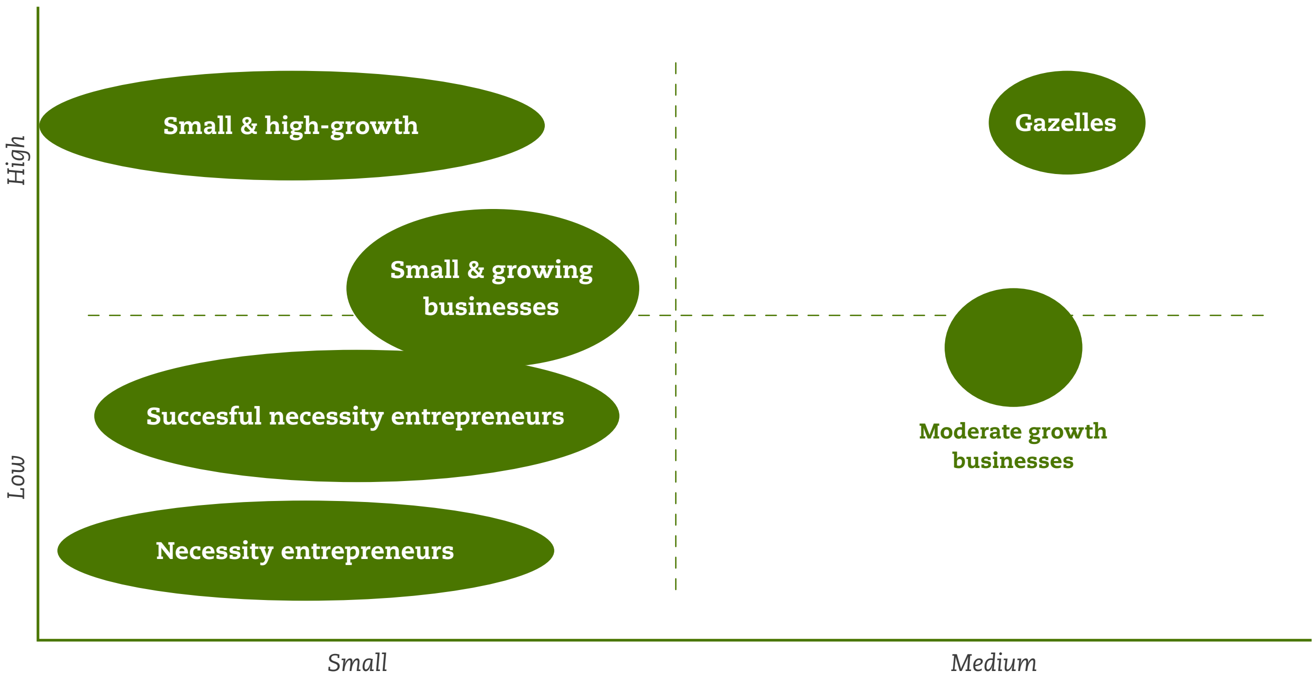
Since 2011, Myanmar has been on a path of transition from military rule and a state-controlled economy, towards democracy and a market-based economy whilst also managing the challenge of wealth creation. These transitions are taking place in a context of religious and ethnic diversity – the Burmese majority accounting for two-thirds of the population.

In the context of our #CTGMekong study, Myanmar stands out in two ways. In its current political and economic incarnation, Myanmar is by far the youngest country. Geographically, though it is only connected to one #CTGMekong country, Lao PDR, it sits between two of the largest and fastest growing economies in the world – China and India.

As a result, much economic commentary focuses on Myanmar's great long-term economic potential. The country benefits from natural endowments of size, location and natural resources, in addition to the benefits of a young workforce and the future demographic dividend.

Analysis of data from the 2016 World Bank Economic Survey (WBES) shows that 38% of registered SMEs are small and low-growth firms, with 5-19 employees and growth rates between 0-10% per annum. Among surveyed firms, about 35% of all small and medium firms are women-owned (>50% women ownership), which is lower than in Cambodia, Lao PDR and Vietnam. Myanmar SMEs are less likely to innovate than their counterparts in other Mekong countries, and this seems particularly true of medium sized firms.

Figure 1: Myanmar SME sub-segments, 2016



Source: EMC analysis based on Enterprise Surveys http://www.enterprisesurveys.org, The World Bank

[1] World Economic Forum Classification

SMEs Operate in a Challenging Business Environment

Entrepreneurs and growth-oriented SMEs share many common challenges of emerging economies, but they are further disadvantaged by the recent political and economic transformation. Consequently, the policy and regulatory environment, measured by the World Bank Doing Business index, is the worst of all #CTGMekong countries, and has shown little improvement since Myanmar entered the index in 2014 – one year prior to the formation of the first democratically elected government. Business surveys in 2017 and 2018 reflect a similar sentiment amongst domestic and foreign investors. The challenges of a weak enabling environment fall heavily upon rural SMEs. Government reforms, and the private sector response, are most impactful in Yangon and major urban centres, and take time to propagate outwards. This is exacerbated by Myanmar's complex administrative bureaucracy and regional politics.

Myanmar lacks human capital and R&D resources, however it benefits from a large market, and history of 'self-sufficiency' during periods of international isolation, which may have encouraged development of local manufacturing capacity. Unsurprisingly, Myanmar lacks infrastructure, due to many years without investment, though the country's potential to become a major regional logistics hub is a major draw for international investors and governments.

Access to Credit Is the Key Financial Issue

In finance, similar policy and regulatory challenges have inhibited development of the banking and MFI sector. In stark comparison to Cambodia, Myanmar has been wary of liberalisation and foreign ownership, which has limited investment and innovation. Whilst all firms in Myanmar find it difficult to access credit, SMEs find it more difficult, due to higher transaction costs and lower revenue associated with smaller loans. Risk capital fairs far better: the country has attracted a lot of interest due to Myanmar's fundamental advantages. Investment in tech-sector startups is outstanding in comparison to Lao PDR and Cambodia, though ticket sizes are very small, reflecting the risk of investing in relatively inexperienced domestic entrepreneurs. The frontier market private equity sector experienced huge excitement in the years immediately prior to and following the elections, however this receded markedly in 2017, due to concerns over economic reform, though confidence in long term potential remains high.

Business Support Services Favour Tech Startups

In Business Support Services, Myanmar has a flourishing tech startup ecosystem in Yangon, which provides sufficient deal flow and risk diversification for the aforementioned tech investors. However, the size and risk profile of this type of investment lies outside the mandate of the most private equity managers, and those who are searching for investible SMEs with traditional business models have found it difficult to generate a pipeline. There have been few options for 'traditional SMEs', however recent investments in acceleration programmes will improve the situation.

Key issues affecting the Myanmar ecosystem are summarised in this SWOT table.

Figure 2: SWOT analysis of the Myanmar ecosystem

STRENGTHS
- Large internal market, natural resource endowments and strategic location provides growth opportunities
- Support for digital tech entrepreneurs is particularly strong, both acceleration and investment
- Highly attractive to foreign capital investment

WEAKNESSES
- Government has weak track record implementing improvements to the business enabling environment
- Weak financial services sector in general
- The ecosystem is still small, fragmented and centralised in Yangon
- Weak offering for entrepreneurs in non-tech, traditional sectors

OPPORTUNITIES
- Expansion beyond Yangon
- Support for women entrepreneurs
- Support for Gazelles, and exporting firms in particular

THREATS
- Lack of coordination amongst ecosystem stakeholders
- Macro-economic instability; no improvement of business enabling environment

Recommendations

Ongoing reform is required to improve the regulatory environment, in general and more specifically for SMEs. In the finance sector, the government announced plans in 2018 to improve SMEs' access to credit via better credit information, governance in the financial sector, and a broader range of foreign invested banks.

In addition to these, we identified opportunities to improve support to Gazelles, exporting firms and women entrepreneurs.

Supporting Gazelles' Growth

Gazelles – fast growing medium-sized firms – have the potential to be key drivers of economic development, in particular as Myanmar seeks to integrate into regional value chains and strengthen backward linkages in the country. However, as with other countries within #CTGMekong, there appears to be few options for support, as the firms may be too large for existing 'startup' initiatives.

This may be particularly important for Myanmar – in comparison with Cambodia, a Gazelle in Myanmar is considerably less sophisticated across a range of measures. Gazelles are also less likely to have foreign or female ownership and be female-managed. Workers are less educated, and their employer is less likely to provide them with formal training. Fewer of Myanmar's Gazelles are exporters despite Myanmar's export potential, and they tend to be less innovative and tech savvy, even amid Myanmar's developing tech ecosystem.

Fostering SME Capacity

Myanmar has the potential to become a major exporting hub, thanks to its natural endowments and the investment interest these generate. However, this has yet to materialise, and Myanmar's exports as a proportion of GDP lags behind all countries in our #CTGMekong study, including landlocked Lao PDR.

This is also reflected in the WBES data across almost all sub-segments, which shows that Myanmar SMEs are far less likely to export. This is perhaps unsurprising: Myanmar firms have access to a large domestic market, which Lao PDR and Cambodia lack, and have had a short time to develop internal capacity or external domestic business services to support export capacity.

In order to realise its potential as an exporting nation, support for small and medium businesses would be beneficial to help export orientated entrepreneurs to access overseas opportunities and seed the domestic market for business services.

In summary, SMEs in Myanmar face familiar challenges to other developing economies, compounded by a political and economic environment that is still in transition. This has also impacted the financial sector, and consequently SMEs' access to credit. A flourishing tech ecosystem indicates high potential, yet at this time, there have been few opportunities for SMEs with traditional business models.

Targeting Women Entrepreneurs

Myanmar has a smaller proportion of female SME ownership than the other #CTGMekong countries. This is important and represents an opportunity, insofar as our small business sub-segments (NEs, SNEs, SGBs, SHGs) account for 88% of registered establishments and 61% of employment.

Research from other economies indicates that women entrepreneurs can face specific barriers dealing with bureaucracy – therefore particularly salient in deeply bureaucratic Myanmar. These challenges may arise from lower educational attainment, literacy levels, and underrepresentation of women in senior positions (defined as 'legislators, senior officials and managers') that an entrepreneur may encounter when formalising and developing her business.

However, we didn't encounter examples of acceleration programmes that provide support tailored to the specific challenges faced by women entrepreneurs.