

#ClosingTheGap Mekong

# Regional Report

Entrepreneurial Ecosystem Assessment



Commissioned on behalf of:  
Dutch Good Growth Fund (DGGF): Investment funds local SMEs  
April 2019

# Regional Report

## Entrepreneurial Ecosystem Assessment

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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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### **Disclaimer:**

#ClosingTheGap Myanmar has been commissioned on behalf of DGGF as part of the ClosingTheGap series of entrepreneurial ecosystem assessments. The findings and recommendations are at the discretion of the consultants – Emerging Markets Consulting - and do not necessarily reflect the opinion of DGGF and/or its partners



Ministry of Foreign Affairs



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**Abbreviations**

**ANDE** Aspen Network of Development Entrepreneurs

**BSS** Business Support Services

**DGGF** Dutch Global Growth Fund

**MFI** Microfinance Institution

**MGB** Moderate Growth Business

**NBFI** Non-Banking Financial Institutions

**NE** Necessity Entrepreneur

**SGB** Small Growing Business

**SHB** Small High-Growth Business

**SME** Small and Medium Enterprise

**SNE** Successful Necessity Entrepreneur

**WBES** World Bank Enterprise Survey

# 1. Introduction

This study has been conducted on behalf of the Dutch Good Growth Fund (DGGF) ‘Investment Fund Local SMEs’<sup>1</sup>, an initiative of the Dutch Ministry of Foreign Affairs. This study was commissioned to get a better understanding of the ‘missing middle’ in the Mekong region – that is, of those entrepreneurs that have outgrown microfinancing but do not yet have access to conventional financial services. In-depth country studies were undertaken in Cambodia, Lao PDR, Myanmar and Vietnam. This report provides a regional overview derived from the key findings and conclusions of individual country studies. It presents practical insights and critical analysis of the trends and findings in terms of success factors and gaps in each country’s entrepreneurial ecosystem related to SME growth and access to finance.

## Methodology

An entrepreneurial ecosystem includes physical, intellectual, and financial capital; formal and informal networks; and cultural norms. These factors collectively create the environment in which entrepreneurs act.

Gathering a good understanding of the ecosystem(s) in which entrepreneurs operate is essential in order to better understand the constraints of missing middle entrepreneurs and lobby for possible ecosystem improvements that can stimulate their growth.

The #CTGMekong studies used the Aspen Network of Development Entrepreneurs (ANDE) framework for ecosystem assessment<sup>2</sup>, combined with entrepreneurial capabilities, to guide our understanding of the capabilities that successful entrepreneurs need to acquire.



The different entrepreneurial capabilities assessed are described in the table below.

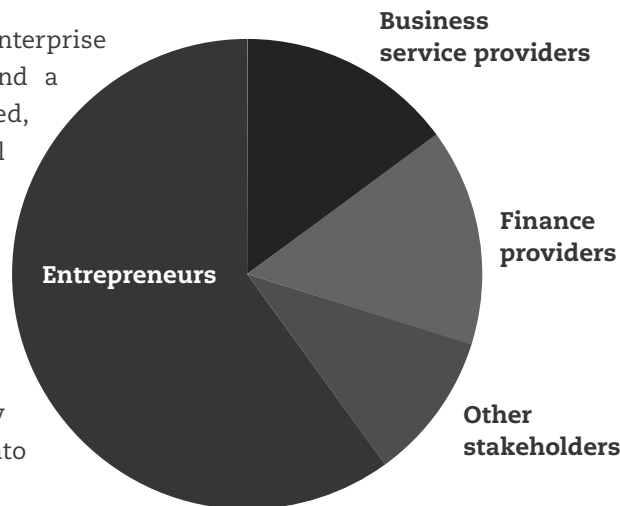
ENTREPRENEUR CAPABILITIES	DESCRIPTION
Strategic planning	Short and long-term planning of products and services to be offered; local and international expansion plans; generating new business models; business restructuring; and exit strategies
Market & environment related	Engagement with potential customers and end users to gain an understanding of unmet market and societal needs; market intelligence; and management of distribution channels
Generating & testing products	Generating new products or services and testing them in the market
Acquiring finance	Acquire and raise finance in order to expand businesses
Business operation	Financial management, value chain management; staff management; and other operational management
Acquiring & retaining human resource	Acquire and retain human resources in order to expand businesses
Networking	Network and partner with other individuals and organisations

<sup>1</sup> <http://english.dggf.nl/investment-funds-local-smes>

<sup>2</sup> Entrepreneurial Ecosystem Diagnostic Toolkit, Aspen Network of Development Entrepreneurs, Dec 2013.

Desk research, which included analysis of World Bank Enterprise Survey (WBES)<sup>3</sup> data, was completed for each country, and a total of 160 local stakeholders in 4 countries were interviewed, comprising entrepreneurs, financial institutions, international organisations, business associations and business development service providers.

Additionally, participatory workshops were held with ecosystem stakeholders in each country from December 2017 until May 2018 in order to obtain more nuanced information through discussion of preliminary findings and group roleplay exercises. The results of these workshops were incorporated into each country report.



## 2. Overview of CLMV Entrepreneurial Ecosystems

### Overview of the Region

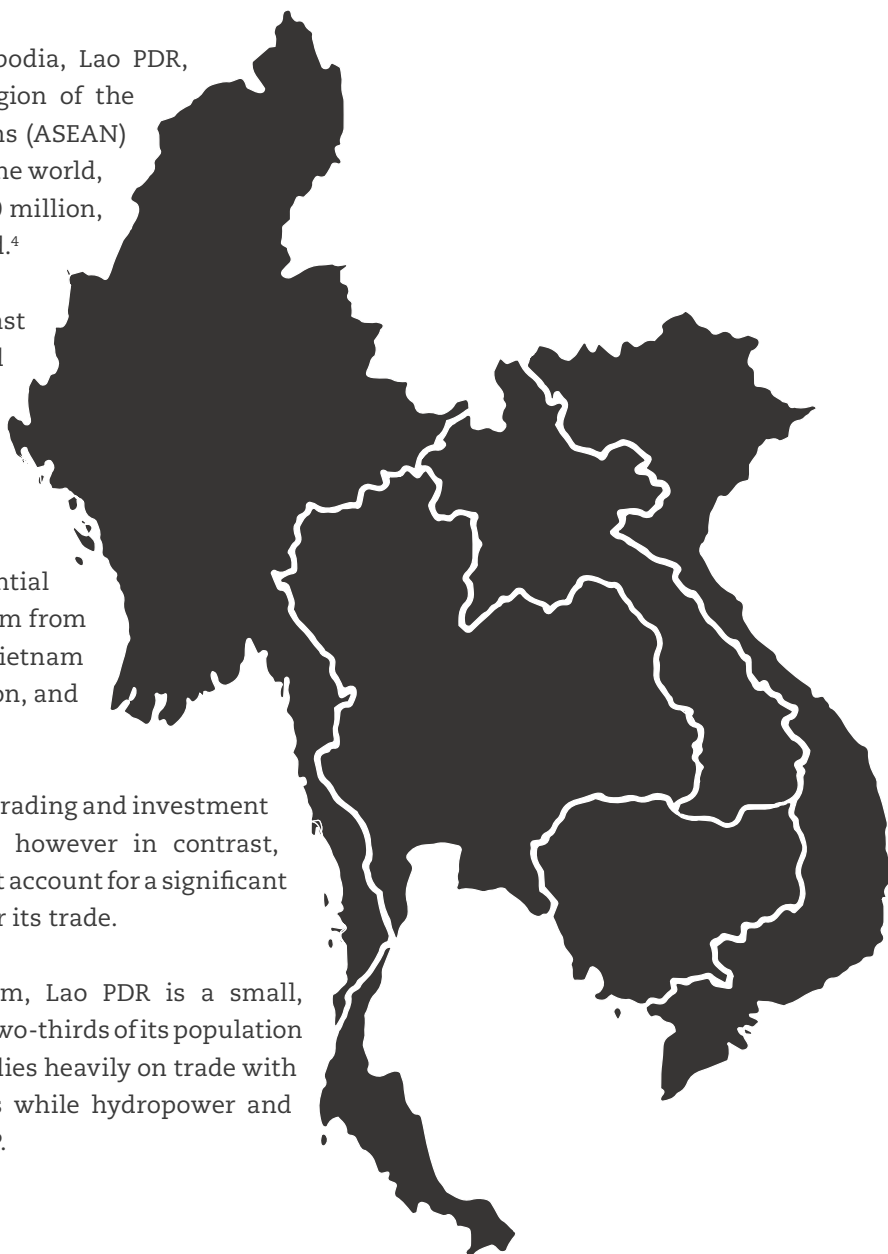
The #CTGMekong economies of Cambodia, Lao PDR, Myanmar and Vietnam, are a sub-region of the Association of South East Asian Nations (ASEAN) – one of the fastest growing regions in the world, and with a combined population of 640 million, the third largest trade bloc in the world.<sup>4</sup>

The CLMV economies are the least wealthy in ASEAN, and all are classified as lower middle income countries according to the World Bank, with GDP per capita ranging from US \$1,300 to \$2,700 per annum.

However, this masks a substantial development gap that separates Vietnam from Cambodia, Lao PDR and Myanmar. Vietnam accounts for 56% of the CLMV population, and 68% of its GDP.

Consequently, Vietnam is a significant trading and investment partner for Cambodia and Lao PDR, however in contrast, Cambodia, Lao PDR and Myanmar do not account for a significant proportion of investment in Vietnam or its trade.

On the opposite end of the spectrum, Lao PDR is a small, unpopulous, landlocked country, with two-thirds of its population living in rural poverty. The economy relies heavily on trade with neighbours to supply its commodities while hydropower and extractive industries constitute its GDP.



<sup>3</sup><http://www.enterprisesurveys.org/>

<sup>4</sup> Source: ASEAN UP (<https://aseanup.com>)

Table 1: Key Facts on Economic Performance

COUNTRY	POPULATION (MILLIONS)	GDP NOMINAL (US\$, BILLIONS)	GDP PER CAPITA (US\$)	GDP GROWTH 2012 – 2017 (AVG. % PA)	CLMV TRADE (% TOTAL TRADE) <sup>5</sup>
Vietnam	95	241.4	2,552	6.2%	1.2%
Myanmar	53	67.3	1,279	7.2%	1.7%
Cambodia	16	24.1	1,485	7.1%	7.5%
Lao PDR	7	18.2	2,690	7.4%	8.2%
Total	170	355.3	∅	∅	∅

Source: World Bank 2017

Vietnam scores considerably higher in the World Bank's 'Doing Business Indicators', due to sustained improvements over the past five years. It currently has the highest score in nine out of 11 categories. Cambodia and Lao PDR's average performance is similar, while Myanmar's is currently the lowest in this ranking.

Table 2 Relative performance on Doing Business (distance to the frontier)

INDICATOR	EASE OF DOING BUSINESS	STARTING A BUSINESS	DEALING WITH CONSTR. PERMITS	GETTING ELECTRICITY	REGISTERING PROPERTY	GETTING CREDIT	PROTECTING MINORITY INVESTORS	PAYING TAXES	TRADING ACROSS BORDERS	ENFORCING CONTRACTS	RESOLVING INSOLVENCY
Cambodia	54	52	42	57	55	80	50	61	67	33	48
Lao PDR	53	73	75	53	70	55	32	54	63	56	0
Myanmar	44	75	70	53	52	10	25	64	48	25	20
Vietnam	68	82	79	79	71	75	55	73	71	60	35

100 = frontier (best score across countries and time)

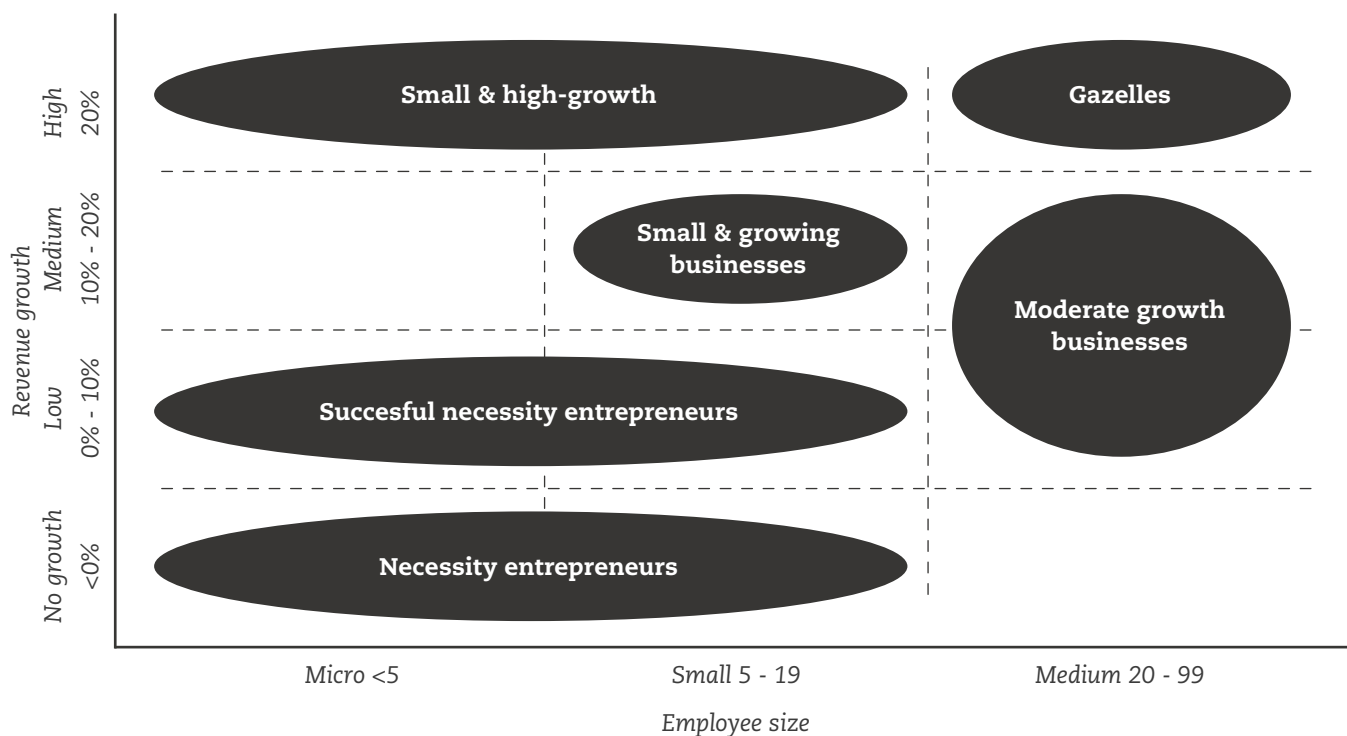
Performance across individual indicators in Cambodia, Lao PDR and Myanmar is also more erratic. Cambodia benefits from an extremely high ranking in 'Getting Credit' due to the presence of a credit bureau, but it is particularly unfavourable in 'Starting a Business', requiring a lengthy 99 days, compared with Lao (66 days), Myanmar (13) and Vietnam (24). Myanmar performs particularly poorly at 'Trading Across Borders', which makes a significant challenge for exporting and importing firms. Lao PDR lacks a mechanism for 'Resolving Insolvency' entirely.

<sup>5</sup> Imports from CLMV + Exports to CLMV / (Total Imports + Total Exports)

## SME Landscape in CLMV

In order to understand the characteristics of SMEs in each country, we segmented WBES data according to each firm's size and growth (Figure 1).

Figure 1: SME Segmentation Framework



Some characteristics of each of the SME sub-segments are described below.

### Necessity Entrepreneurs (NE)

- Typically have six to eight full-time employees.
- About half are female owned, except Myanmar, which counts 28%.
- The majority are in services (>50% in all four countries), but they are generally more likely to be in Retail than other sub-segments.
- Almost none export, except in Vietnam where 11% of them do.
- They don't invest in R&D.

### Successful Necessity Entrepreneurs (SNE)

- Typically have fewer than 10 full-time employees, except in Vietnam where 60% have 10 or more.
- Majority are female-owned in Cambodia and Vietnam, but not in Lao PDR and Myanmar.
- The majority are in services (>45% in all four countries). More are in Manufacturing than are NEs (except in Myanmar).
- Although few export, more SNEs are exporters than NEs, SGBs and SHBs, except in Lao PDR.
- They generally don't invest in R&D.

### Small Growing Businesses (SGB)

- Typically have fewer than 10 full-time employees, except in Vietnam where 60% have 10 or more.
- Half are female-owned, except in Myanmar where 30% are.
- About 20% are in Retail, except Myanmar where 40% are. In Cambodia and Lao PDR, about a third are in Manufacturing, where in Myanmar and Vietnam only about 10% are.
- Very few export.
- In Cambodia and Lao PDR, more invest in R&D than do NEs and SNEs. But not in Myanmar and Vietnam.



### Small, High-Growth Businesses (SHB)

- Typically have fewer than 10 full-time employees, except in Vietnam where 63% have 10 or more.
- About half are female-owned, except Vietnam where 40% are.
- Most are in Services (>53% in all four countries). In Cambodia and Lao PDR, fewer are in Manufacturing than SGBs.
- Less likely than SNEs and SGBs export.
- In Vietnam and Cambodia, more invest in R&D than NEs, SNEs and SGBs.

### Moderate-Growth Businesses (MGB)

- On average have 32 full-time employees. 20% have more than 50 full-time employees.
- Majority (about 70%) are male-owned, except in Vietnam where 53% are female-owned.
- Half are in services, and MGBs are much more likely to be in Manufacturing than NEs, SNEs, SGBs and SHBs (except in Lao PDR).
- Although only a minority export (between 12% and 23%), significantly more do than NEs, SNEs, SGBs and SHBs.
- Much more likely to invest in R&D than NEs, SNEs, SGBs and SHBs.

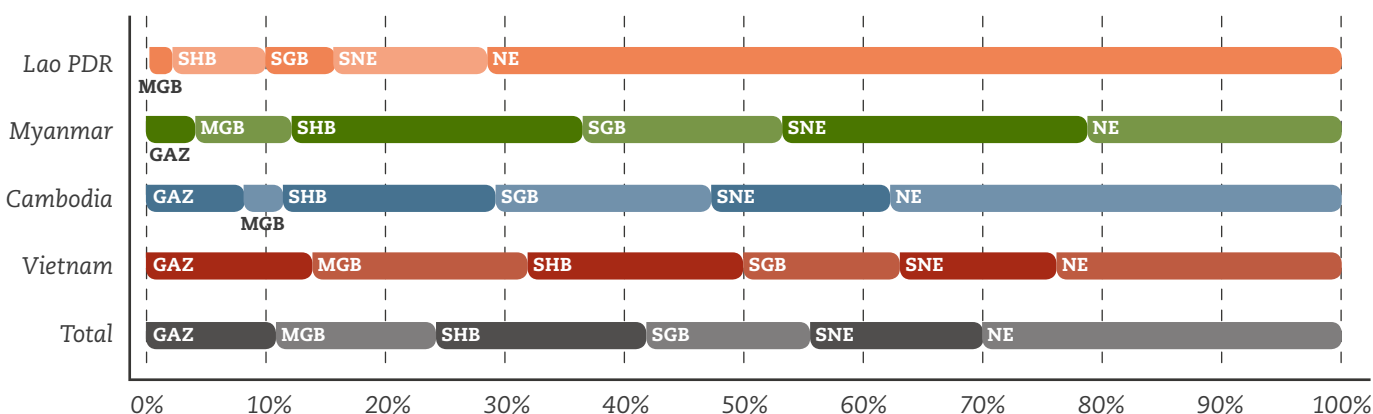
### Gazelles

- Higher number of full-time employees than other sub-segments, except in Cambodia where MGBs are bigger.
- Female ownership rates are lower than some other sub-segments (Lao PDR 23%, Myanmar 32%, Cambodia 36%, Vietnam 43%).
- Less than half are in Services, except Vietnam where 67% are in Services. In Myanmar and Laos, much more likely to be in Manufacturing than other sub-segments.
- Generally more likely to export than other sub-segments.
- More likely to invest in R&D, except Lao where MGBs are more likely.

Across the whole of CLMV, (successful) necessity entrepreneurs account for the largest proportion of SMEs (Figure 2). However, in Cambodia, Myanmar and Vietnam, Gazelles and moderate-growth businesses account for a significant proportion of employment, simply due to their larger size (Figure 3). In Lao PDR, most SME employment remains in necessity entrepreneurs.

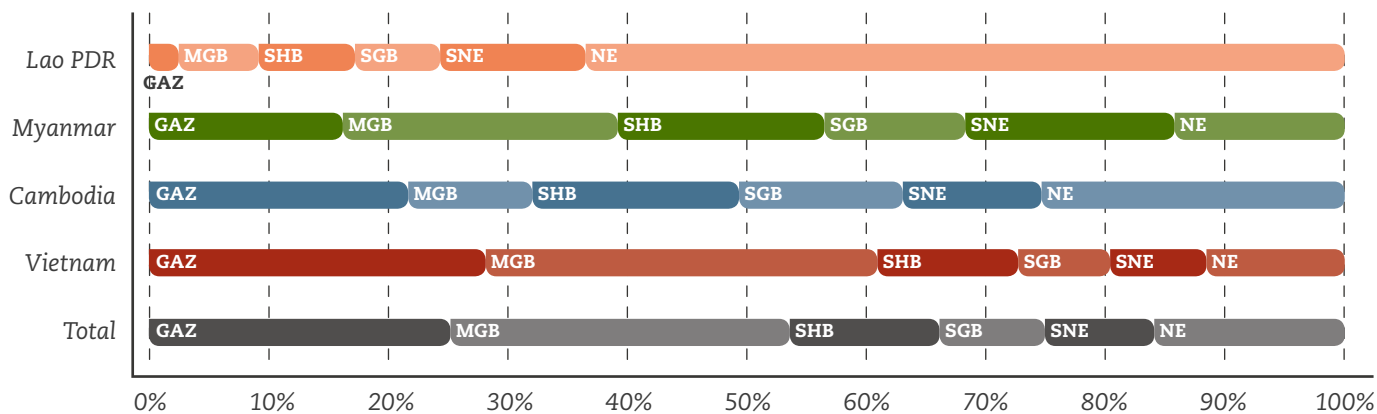
As the region’s most developed country, Vietnam has the highest proportion of Gazelles and moderate-growth businesses, followed by Cambodia and Myanmar. Lao PDR has by far the largest proportion of necessity entrepreneurs, reflecting its overwhelmingly rural and microbusiness-based economy.

Figure 2: Relative Representation of Each Sub-Segment in Each Country’s SME Sector



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

Figure 3: Share of Total Full-Time Employees by Sub-Segment in Each Country's SME Sector



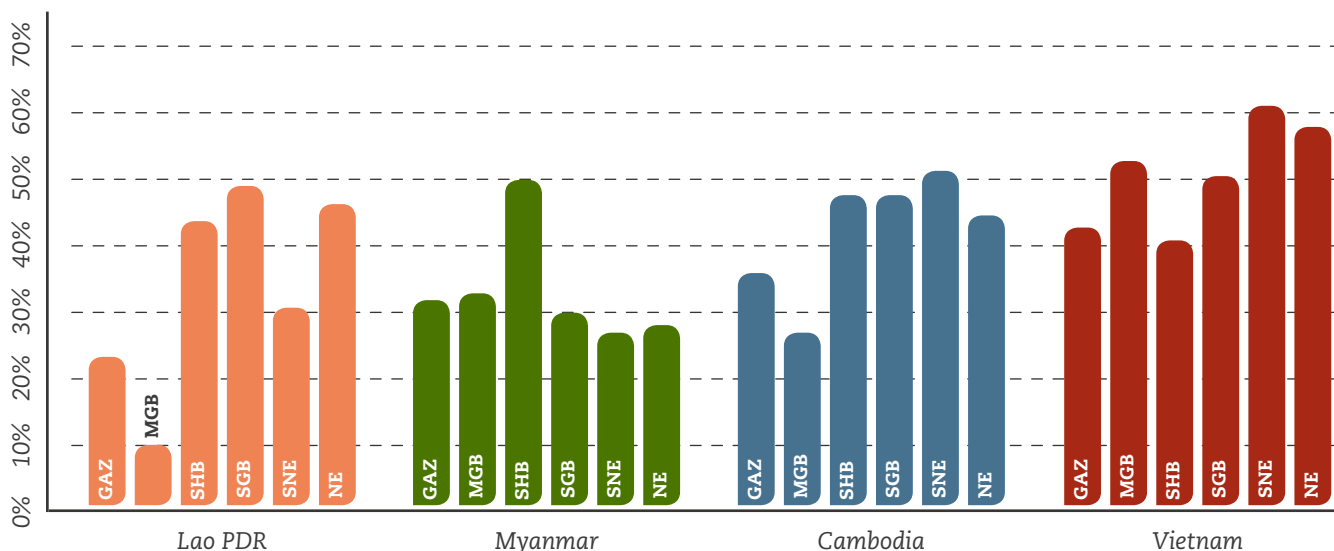
Source: EMC analysis based on Enterprise Surveys <http://www.enterprisesurveys.org/>, The World Bank

In general, the highest representation of women-owned businesses is in Vietnam, though Cambodia also registers a higher number. Larger companies in the segmentation framework are less likely to be owned by women. Other studies suggest that unregistered enterprises with fewer than five employees are far more likely to be owned and managed by women.

Myanmar has a smaller proportion of female SME ownership than other countries. In Vietnam and Cambodia, successful necessity entrepreneurs have the greatest proportion of female ownership, whereas female ownership in Lao PDR is highest among small growing businesses and in Myanmar among small high-growth businesses. Across all CLMV countries, the highest proportion of women-owned businesses were in Vietnamese successful necessity entrepreneurs, and the least were in Lao moderate-growth businesses.

Women entrepreneurs in the region disproportionately experience challenges than their male counterparts. The most common issues are society's expectations regarding traditional gender roles and family; difficulties obtaining bank loans due to limited access to security; financial skills; limited personal networks; and prevailing informality.

Figure 4: Share of Women-Owned Businesses by Sub-Segment by Country



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

<sup>6</sup> However, in Vietnam the proportion with a female top manager is significantly lower for all sub-segments. In the other countries the proportion with a female top manager tends to be slightly higher than the proportion female-owned.  
<sup>7</sup> WBES data excludes unregistered enterprises, and for Cambodia, Lao PDR and Vietnam enterprises with less than 5 employees.

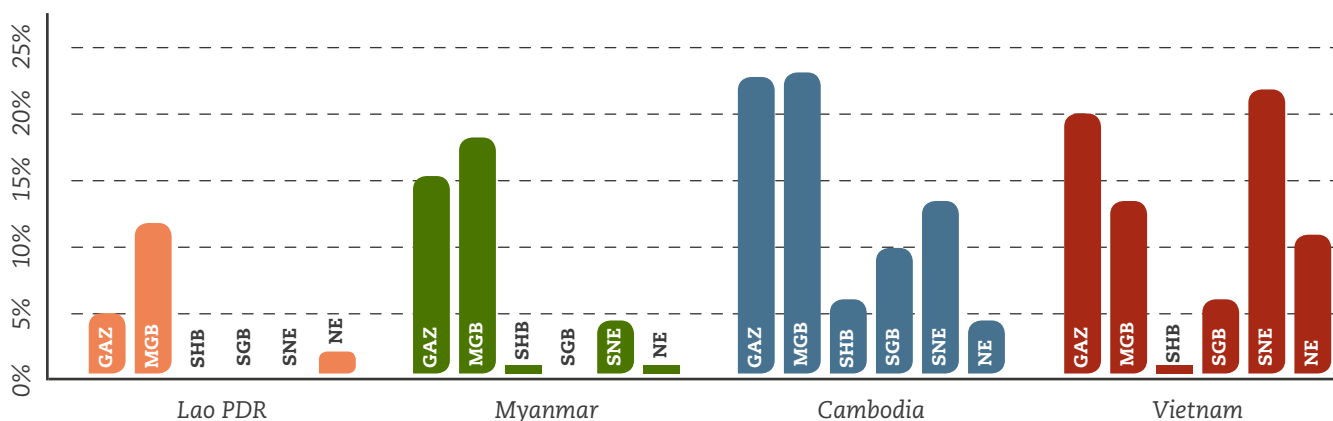
While the WBES does not provide data on young entrepreneurs aged 18-35, some observations can be made based on interviews with entrepreneurs and other participants in the ecosystem.

Ecosystem builders in Cambodia and Myanmar are making concerted efforts to convert students and recent graduates into young entrepreneurs via networking events and early-stage accelerators. However, much of these activities are focused on tech and social impact and remain within the capital cities. Young entrepreneur organisations are influential advocates for more startup- and SME-friendly policies, so the scene is poised to expand. Entrepreneurs in Lao PDR tend to be older, although the younger generation is showing increasing interest in entrepreneurship. Vietnam has a broad range of ages within its startup ecosystem due to the mainstream media exposure via various televised competitions, but young entrepreneurs' interest is mostly limited to the tech industry.

Young entrepreneurs face hurdles of cultural acceptability, limited networking opportunities and difficulties accessing finance due to lack of track-record and experience. This constituency has shown high levels of motivation to overcome challenges to scaling their companies, but like female entrepreneurs, young entrepreneurs require stronger support.

International market orientation also varies across countries. According to WBES, less than 10% of SMEs in the region directly export, however Gazelles and MGBs are more likely than other SME types to do so. Cambodian and Vietnamese businesses tend to export more than their counterparts in the other two countries (see Figure 5).

Figure 5: Proportion of Businesses that Export, by Country and Sub-Segment



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

### 3. Ecosystem Overview

This section summarises the relative strengths and weaknesses of each ecosystem parameter by comparing the CLMV countries according to their level of development. The key strengths and weaknesses are also identified at a regional level. A more detailed SWOT analysis for each country is available in the individual country reports.

Figure 6: Ecosystem Parameter Scoring

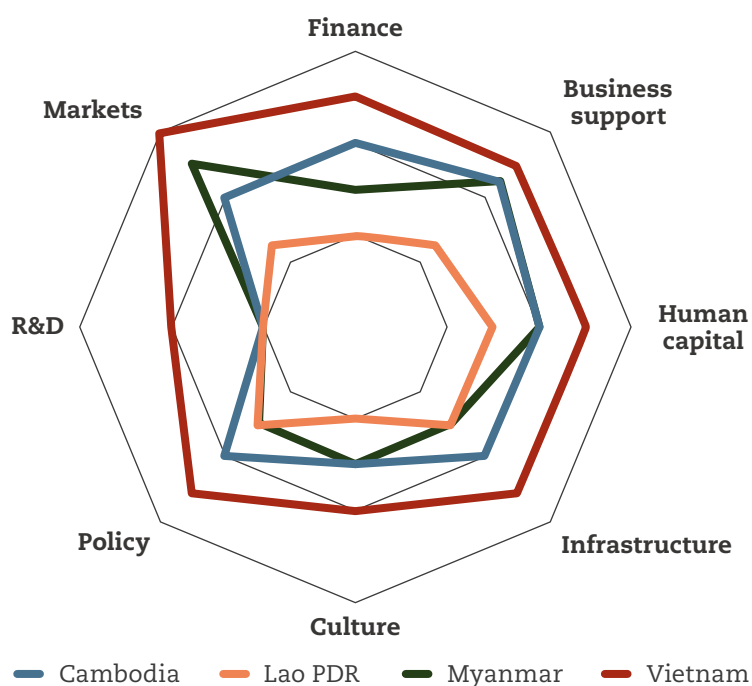


Table 3: Strengths and Weaknesses of the Ecosystem

PARAMETER	STRENGTH	WEAKNESS
Finance	Risk capital industry is emerging in Cambodia and Myanmar, and is by comparison strong in Vietnam.	Lack of asset finance, credit information in Cambodia, Lao PDR and Myanmar limits credit to SMEs.
Business Support Services (BSS)	Entrepreneur-focused BSS are emerging rapidly in Cambodia and Myanmar. Vietnam is very well developed by comparison.	In Lao PDR, support for entrepreneurship is practically non-existent.
Human Capital	Vietnamese and Myanmar diaspora have important impacts on innovative startup activity.	Aside from Vietnam, access to education constrains entrepreneurial activity.
Infrastructure	Adoption of mobile internet and smart phone technology has been fast.	Problems with transportation and electricity span all countries.
Entrepreneurial Culture	Entrepreneurial culture is popularised in Vietnam, Cambodia and Myanmar via multiple channels.	In Lao PDR, there is a lack of aspirational roles models and associations.
Policy	Vietnam's experience indicates how strong incentives can lead to high rates of SME formalisation.	SME informality – linked to high tax rates, corruption – remains a problem in Cambodia, Lao PDR and Myanmar.
Innovation & R&D	Vietnam is heavily investing in national R&D capacity.	Cambodia, Lao PDR and Myanmar possess limited R&D capability.
Markets	Proximity to large and growing markets in Asia. Vietnam and Myanmar benefit from large domestic markets. Vietnam has a range of international free trade agreements.	Cambodia and Lao PDR have small domestic markets. Export market access for SMEs in Cambodia, Lao PDR and Myanmar is a challenge.

## 4. Financing Gap

The availability of financial services for SMEs varies a great deal from country to country, especially in terms of credit, investment and the role of government (see Table 4).

Table 4: Financial Landscape in CLMV

Banks	Banks are well-represented in each country. However, they tend to serve larger corporate clients and operate in larger urban areas. Banks can cover only a small part of the investment needed by SMEs.
Microfinance Institutions (MFIs)	MFIs vary a lot across countries. Cambodia has the most extensive network, and MFIs are increasingly a viable finance alternative for SMEs. In other countries, MFI networks and loan sizes are limited due to regulation.
Government SME Credit	The governments of Vietnam, Lao PDR and Myanmar are more involved in the provision of finance to SMEs, reflecting a history of state control. The Cambodian government by contrast has very limited direct involvement in the provision of financial services and therefore financial support for SMEs.
Leasing	Leasing is growing in each country, though in Lao PDR and Cambodia, much is focused on consumption and not financing SME investment. There is a lack of asset finance across the region.
Private Equity	Reflecting its larger economy, PE is most developed in Vietnam <sup>8</sup> , followed by Cambodia and Myanmar. There are no investment managers based in Lao PDR.
Venture Capital	Tech-oriented VC is similarly strongest in Vietnam, followed by Myanmar, which benefits from close ties to Singapore's VC community. Cambodia is catching up fast, with several launches in the past two years.
Angel Investors	Angel networks in Vietnam are developing due to higher quality startup community, but still fragmented. In Myanmar and Cambodia these will emerge gradually, as the ecosystem graduates more investible startups.

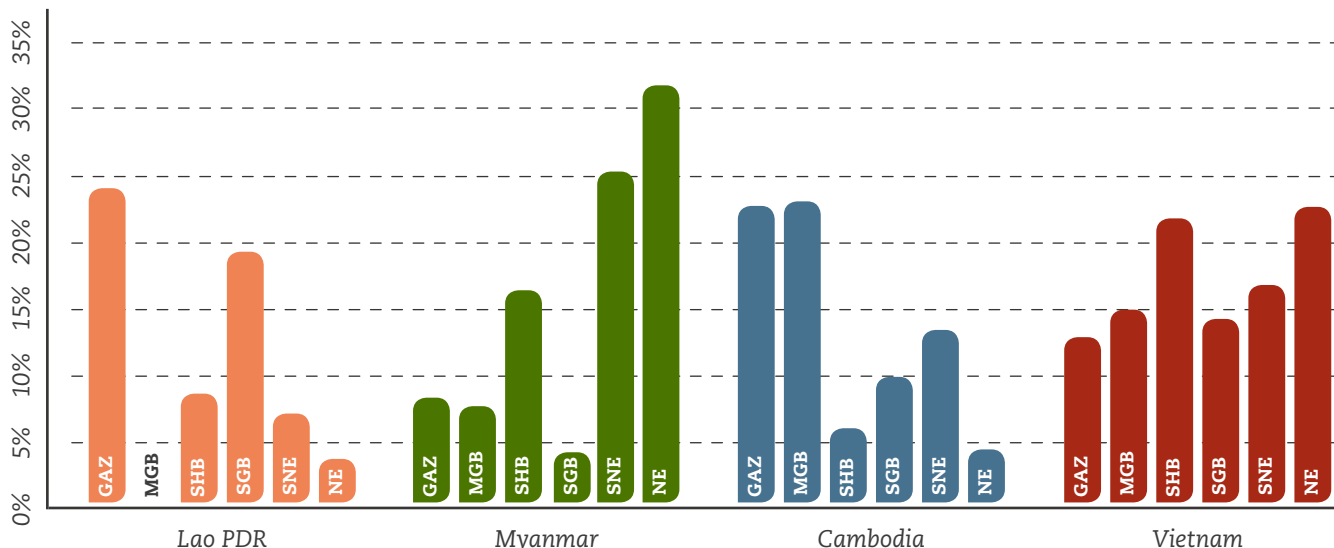
Similarly, firms' rankings for their 'access to finance' (Figure 9) vary considerably across countries and sub-segments, so it is difficult to draw conclusions. Access to finance is a relative factor that may be significantly impacted by other constraints that are not directly related to demand and supply of credit.

Vietnamese SMEs are more likely than the other countries to view access to finance as their biggest constraint, although Vietnamese SMEs are more likely than other SMEs in other countries to use finance. The opposite is true of Cambodian SMEs: they have relatively low access to bank loans or lines of credit yet are less likely to report access to finance as a constraint. In Myanmar and Vietnam, slower growth and smaller firms are more likely to report 'access to finance' as their biggest constraint, while in Lao PDR it is larger, faster-growing firms that see it as an issue.

These differences are indicative of the high level of variation between ecosystems, both in terms of SMEs' level of development and the sophistication of the financial sector in each country.

<sup>8</sup> Vietnam has also attracted significant interest from global and regional private equity firms, however this is not directly relevant to 'small and medium enterprises'.

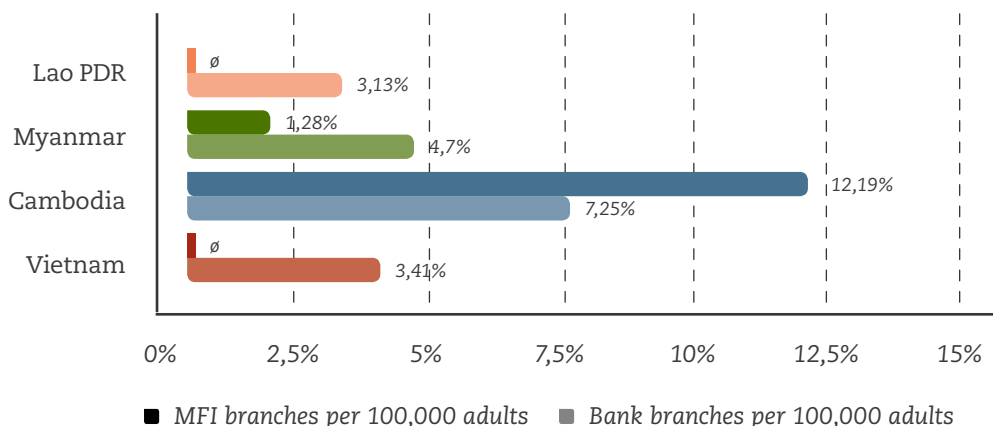
Figure 7: Businesses Reporting Access to Finance as their Biggest Constraint



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

In terms of credit, the high level of market penetration (see Figure 8) in Cambodia is driven by MFIs: excluding the banks that used to be MFIs, other banks have on average just 10 branches.<sup>9</sup> The majority of Cambodian MFIs have transitioned to private sector ownership, whereas in Vietnam, Myanmar and Lao PDR the sector is mainly under government or development sector control and operated for poverty alleviation.

Figure 8: Financial Institution Market Penetration per Country



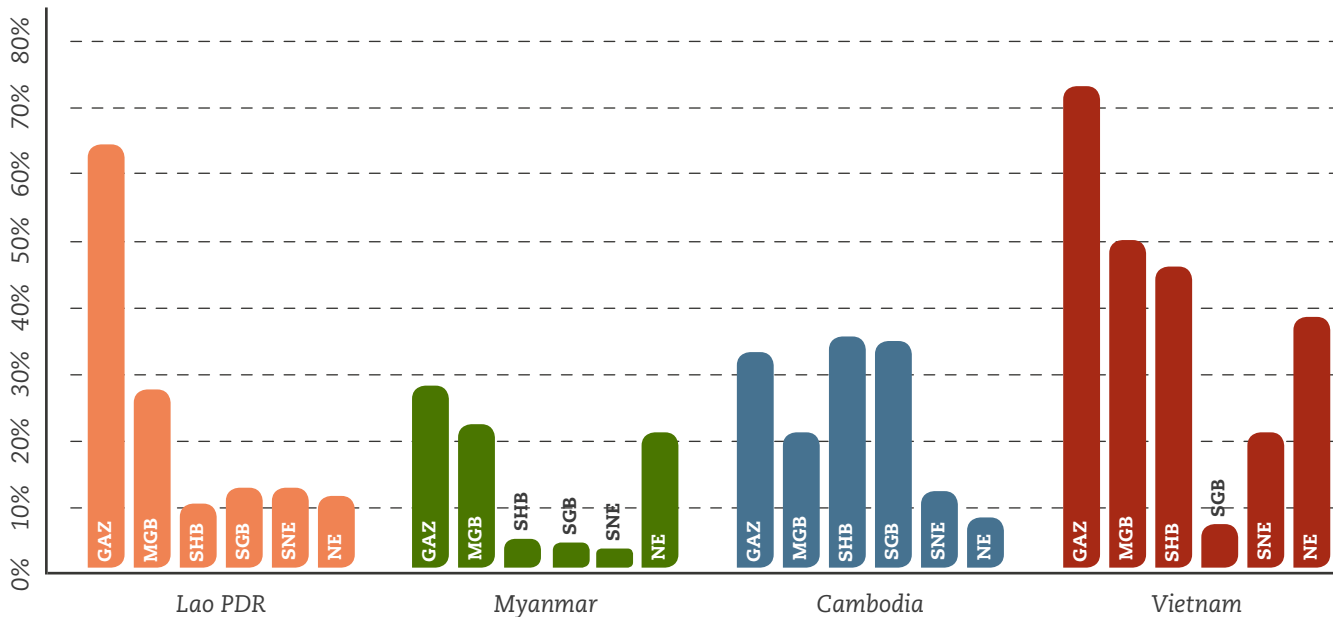
Source: International Monetary Fund, Financial Access Survey (2017); No MFI data for Vietnam and Lao PDR available

In general, SMEs do not make significant use of loans or a line of credit across all sub-segments (see Figure 7), though those that do are usually larger and growing faster. Similarly, faster-growing and larger firms are more likely to use banks or non-banking financial institutions (NBFIs) to finance working capital or investment (Figure 8). SMEs generally deploy these finances to working capital rather than investment, which they are more likely to finance internally. Given that SMEs operate in an uncertain environment and lack the ‘ability to acquire finance’, this may be sensible: they can be reluctant to acquire debt that they may not be able to pay off, particularly because almost all loans require immovable assets as collateral.

Vietnamese businesses are generally more likely to have a bank loan or line of credit than those in the other countries, and within Vietnam, it is the larger and/or faster-growing businesses that are more likely to have a loan (see Figure 9).

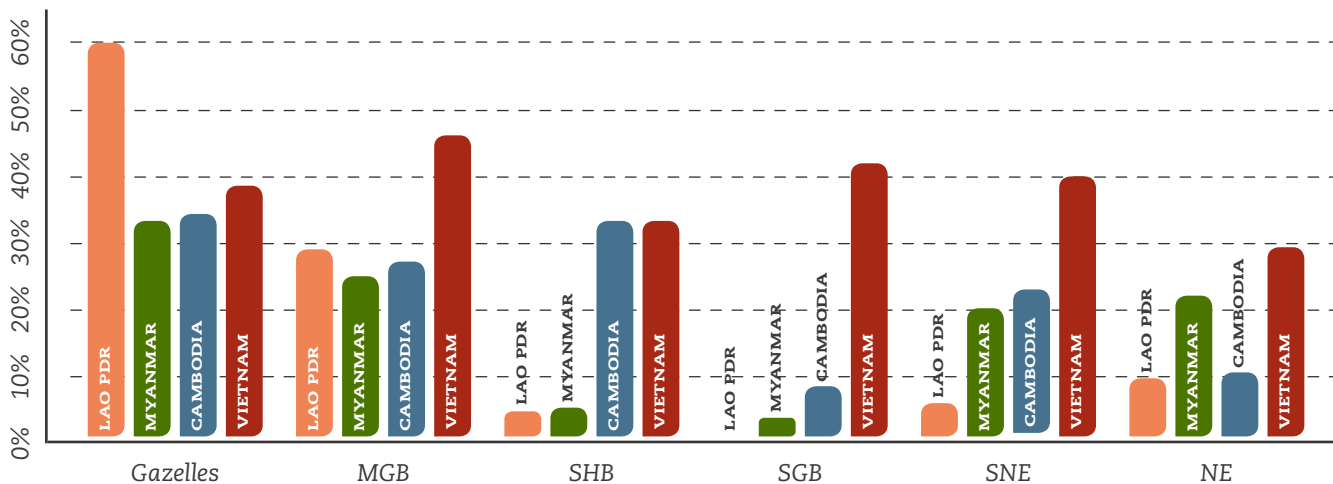
<sup>9</sup> Of the 783 bank branches, 420 belong to ACLEDA and Sathapana, both of which used to be MFIs.

Figure 9: Businesses with a Bank Loan or Line of Credit



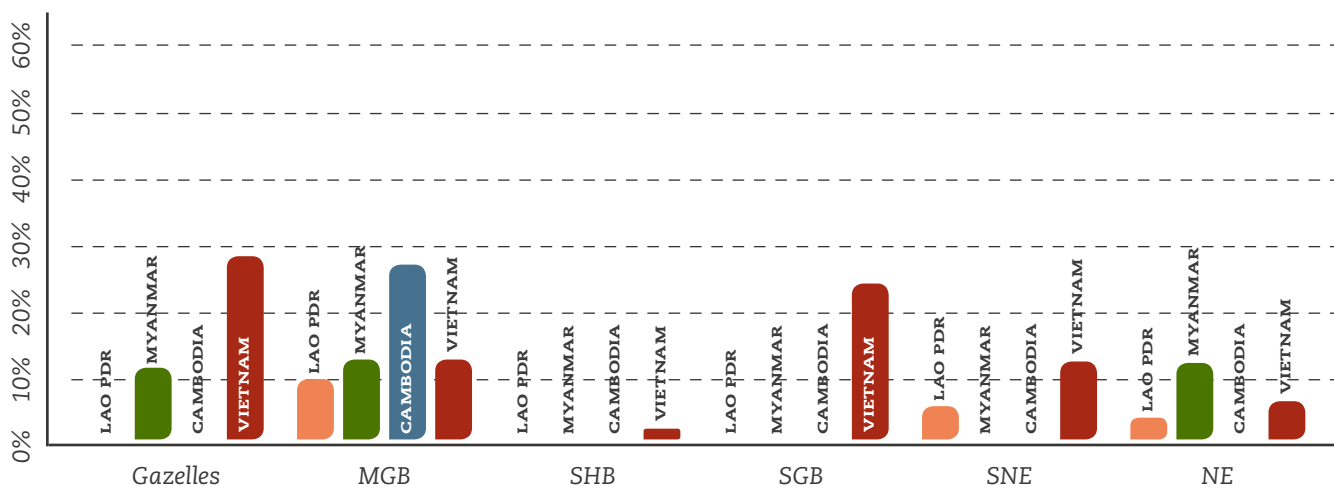
Source: EMC analysis based on Enterprise Surveys <http://www.enterprisesurveys.org/>, The World Bank

Figure 10a: Proportion of Businesses using Banks or NBFIs to Finance business capital



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

Figure 10b: Proportion of Businesses using Banks or NBFIs to Finance Investment



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

With respect to the supply of risk capital, there are substantial differences. Vietnam is attractive to domestic and foreign investment managers, thanks to its large and sophisticated economy that offers more opportunities and greater growth potential. Lao PDR, in contrast, fares the worse: it has a smaller, less diverse economy, in which SMEs face growth challenges and consequently attract less interest from both domestic and external investors. Both Myanmar and Cambodia lie between these extremes: they have a very small number of comparatively well-established investment managers, with five to 10 years’ track record, but the sector is still relatively small. In all countries, stock markets are relatively underdeveloped compared to the financial systems in each country, particularly in small-cap exchanges. Because it is unlikely that founding investors can take the standard exit route when a company lists, this further prevents investors from entering countries with an already-weak supply of risk capital.

Experienced investors in these markets note that the quality of entrepreneurs and SMEs has improved dramatically, albeit from a very low base, and at least for the domestic-based investors, pipeline development is becoming easier.

## 5. Business Support Services Gap

Finance alone does not give a complete picture of the ecosystem, as the needs of local entrepreneurs are complex and multi-faceted, and they require business support services alongside finance.

In all countries, successful entrepreneurs reported that they still struggle to identify specialised business support services – e.g. investment advisory, business consulting services, market research – due to relatively limited choice of service providers, prohibitive costs, or difficulties qualifying the specific scope of services required.

Among the CLMV countries, provision of business support services is weakest in Lao PDR, where entrepreneurship programmes have yet to be established. Vietnam is unsurprisingly the most advanced, with numerous hubs and acceleration programmes catering to entrepreneurs and growth-oriented small business in Hanoi, Ho Chi Minh City and Danang. Cambodia and Myanmar are broadly comparable: there is a diversity of initiatives, but they are recent, small in scale and concentrated in the capital cities.

Cambodia, Myanmar and Vietnam have strong entrepreneur-focused domestic business associations, which take leading roles in promoting entrepreneurship, networking and advocacy.



## 6. Other Ecosystem Parameters

The other ANDE ecosystem assessment parameters are discussed in the following table, with a regional summary for each topic.

Table 5: ANDE Ecosystem Assessment Parameters Summary

Entrepreneurial Culture	Vietnam, Cambodia and Myanmar have stronger entrepreneurial culture, with well-developed support networks and well-known examples of successful entrepreneurs. In Lao PDR, these attributes are lacking.
Policy	SMEs in all countries face challenging business environments, and only Vietnam has demonstrated significant progress in the last five years. However, each country is taking steps to improve the general ease of doing business and implement specific SME incentives, in order to reduce informality, improve quality of government services.
Infrastructure	Transportation systems, heavy infrastructure, and electricity are problematic in Cambodia, Lao PDR and Myanmar, due to lack of state and private sector investment. In Lao PDR, this is particularly challenging as it is a large, sparsely populated and landlocked country. China is emerging as a significant investor.
Markets	The relative size of domestic markets in Vietnam and Myanmar provide opportunities to SMEs that are lacking in Cambodia and even more so Lao PDR, which are more reliant on export market success.
Human Capital	Access to an educated workforce was consistently rated as a key challenge by entrepreneurs, and also, entrepreneurs rated their own 'entrepreneurial capabilities' as in need of improvement. This is true even of Vietnam through its educational attainment is considerably higher, with near total secondary and 31% tertiary enrolment rates.
Innovation and R&D	This remains low in all countries other than Vietnam, which is aggressively pursuing home-grown advanced technology through state-funded institutes and other financial support schemes.

## 7. Way Forward

To strengthen the entrepreneurial ecosystems of the Mekong region at both the national and regional levels, three key priorities need to be addressed.

- There is **still a lack of appropriate business support** in all four entrepreneur ecosystems, including entrepreneurial skill development and tailored coaching. This results in a human resource gap for SMEs and low entrepreneurial skills, especially in countries like Lao PDR and Cambodia, where the general education system is considered relatively weak.
- **Access to finance is another major constraint**, which prevents those businesses with the potential to grow from obtaining the means to do so. The finance gap manifests itself in different ways; depending on the level of overall SME development (highest in Vietnam), and sophistication of financial service providers (especially low in Myanmar and Lao PDR). Availability of risk capital is low in all countries, although emerging rapidly in Vietnam.
- **Ecosystem support systems in all countries tend to be fragmented**, with little communication or collaboration between actors. This lowers the efficiency of resource allocation and is confusing for entrepreneurs. There is also a lack of ecosystem linkages at a regional level between CLMV and more developed countries in the ASEAN region such as Thailand.

Notwithstanding the diversity of the different ecosystems in Cambodia, Lao PDR, Myanmar and Vietnam, there are some common opportunities for development, which are discussed below.

### **Improve and Diversify the Offer of SME Finance, including Local Capital**

All countries benefit from improving market information, which enables financial institutions to price credit risk more efficiently. Credit bureaus and loan registries, increased rates of SME formalisation and SME capacity are necessary conditions to achieve this.

Establishing or improving secured transaction frameworks that can support moveable and intangible asset finance will further unlock credit for growth-oriented SMEs to invest in productive assets and handle uneven sales growth. Cambodia's experience indicates that MFIs can be a viable source of credit to SMEs when regulation permits. The alternative is to encourage banks to diversify from corporate finance and establish SME lending capabilities. All countries will benefit from fintech solutions that reduce transaction costs and improve risk pricing through automated credit assessment.

Regarding risk capital, all countries will benefit in the long term from mobilising domestic investors, as these are potentially more motivated and more tolerant of country risk factors. The key to this mobilisation is effective regulation to create onshore markets; establishment of platforms that efficiently aggregate demand and supply; and most importantly, creation of investible firms with strong growth prospects. Vietnam is flourishing in comparison to Cambodia, Lao PDR and Myanmar, but similarly lacks developed angel networks and SME-friendly stock exchanges.

There are domestically-based investment fund managers in Vietnam, Cambodia and Myanmar, but much activity is focused on the emerging tech sector, and SMEs in traditional sectors receive less attention relative to their need.

### **Specialise and Improve Non-Financial Support to SMEs**

In all countries, a strong demand for tailored business support services is clear, but it is a challenge to provide these sustainably, absent external financial support.

With respect to acceleration programmes specifically: graduates of acceleration are often not reliably investible, frequently because many programmes target startup entrepreneurs who lack experience and therefore access to the professional networks that inform and create market opportunity. Further, there is a lack of linkages between accelerators and financiers: the acceleration programmes don't integrate provision of commercial risk capital for early stage firms. Finally, mentorship is weak, lacking either knowledge of domestic context or the specific skills required by faster growing firms.

Despite much interest in technology and innovation, tech startups are generally weakly linked to the larger economic sectors in each country. The tech ecosystem is more likely considered a supplementary sector to Mekong economies' primary industries, rather than the core source of innovation, scalability and as a result, revenue for these countries. With this in mind, non-financial support services need to broaden their applicability to the SMEs outside the tech ecosystem.

### **Foster Partnerships and Collaboration**

Ecosystem stakeholders all identified the need for further collaboration among them to improve policies and regulation. This is true particularly within emerging technology areas where global standards are not well articulated. Governments in Cambodia, Myanmar and Lao PDR have the opportunity to set a long-term innovation agenda, aided by entrepreneur associations.

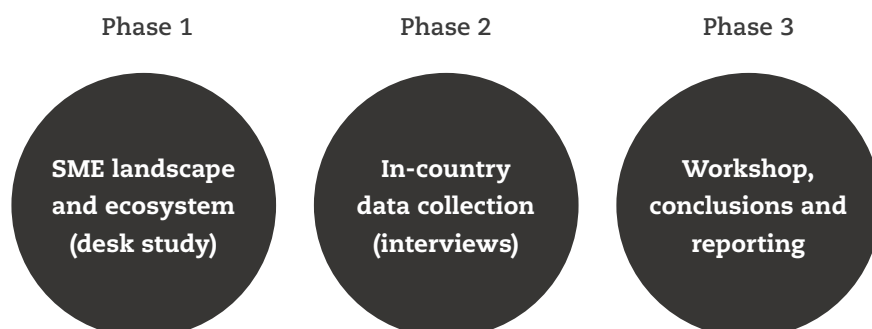
Acceleration programmes are frequently challenged to produce investible startups, and therefore stakeholders who design these programmes should aim to facilitate closer collaboration between entrepreneurs, finance, and corporate sectors. This would provide participants with mutual benefits: An entrepreneur's venture gains relevance through exposure to markets and contacts. Corporations, which typically dominate traditional industrial sectors, benefit from SME-led innovation and deeper domestic supply chains. Investors benefit from more robust business plans.

Similarly, programmes that support regional collaboration between international firms and domestic entrepreneurs can serve as an important channel for sharing innovative practices and strengthening the entrepreneur ecosystems in each country.

# Annex: Notes on Methodology

The aim of the project is to understand SMEs, the entrepreneurial ecosystem in which they operate, and financing and support offerings, needs and gaps. SMEs are often addressed as a homogenous group. But in reality, they vary widely. It is important to understand the differences among SMEs. Hence our approach includes sub-segmenting SMEs for each country. This allows us to deepen the analysis, identify key challenges for each sub-segment, and to better tailor and target solutions.

The studies were implemented in three phases:



The desk study included a review of existing literature and analysis of data. As requested by DGGF, a major focus was utilising the World Bank’s Enterprise Survey (WBES) data for each country. Other data sources that helped describe the entrepreneurial ecosystem were also used. The WBES and these other sources are discussed in more detail below.

## World Bank Enterprise Survey sample

DGGF recommended that the World Bank Enterprise Survey (WBES) would form an integral part of the #CTG analysis. WBES data covers 148 countries (139 of which use the same methodology), including all countries in the #CTG Mekong, and therefore provides good basis for inter-country comparisons.

Generally, the WBES surveys registered businesses with five or more employees. An exception is Myanmar, where smaller businesses (“micro”) were also included.<sup>10</sup>

The following data summarises the full WBES sample for each #CTG Mekong country.

PROGRAMME	CAMBODIA	LAO PDR	MYANMAR	VIETNAM
Sample size	373	368	607	996
% of sample that is:				
Micro	0%	0%	6%	6%
Small	52%	59%	54%	30%
Medium	31%	28%	27%	40%
Large	17%	13%	14%	30%
Manufacturing	35%	30%	60%	69%
Retail	32%	29%	15%	6%
Services, non-retail	33%	41%	25%	25%
Woman ownership	41%	36%	29%	44%
Woman-managed	53%	38%	29%	22%
Registered	98%	99%	100%	100%
Exporter	9%	9%	9%	21%
- small	6%	1%	1%	7%
- medium	8%	16%	9%	13%
- large	19%	28%	40%	41%
Foreign-owned	10%	13%	5%	9%
- small	3%	6%	1%	2%
- medium	5%	19%	1%	4%
- large	39%	30%	27%	23%
State ownership	0%	2%	0%	4%

Source: World Bank Enterprise Surveys.

<sup>10</sup> Although the number of micro businesses surveyed in Myanmar was quite small (see table).

The methodology for the WBES can be found here: <http://www.enterprisesurveys.org/methodology>

### **WBES coverage**

In the WBES the population is the non-agricultural economy. It comprises manufacturing, construction, wholesale, retail, hotels, IT, transport, storage, and communications. It excludes:

- Financial intermediation
- Real estate
- All public administration
- Mining and quarrying
- Utilities
- Professional services (legal, accounting, consulting, advertising, etc.)
- Education (including private)
- Health and social work (including private)
- Hairdressing and other beauty treatment

Businesses with 100% state ownership are also excluded. In each country, businesses in the cities/regions of major economic activity are interviewed.

### **Stratified sampling and weights**

The WBES uses stratified random sampling<sup>11</sup> when building up its survey sample. This helps ensure the final total sample is not concentrated in one or two industries, for example. Or if only a few large businesses were interviewed (reflecting their share of the total number of businesses), those chosen might not be representative of large businesses. Stratified sampling avoids this. Three strata are used in the WBES: industry, establishment size, and location. For the #CTG Mekong countries, the industry strata are: manufacturing, retail, and services. The establishment size strata are: small (5 to 19 employees), medium (20 to 99 employees), and large (100 or more employees). The location stratification varies by country, but is typically the four or five regions where most businesses operate. So, for example, large businesses make up 17% of the Cambodia WBES sample, even though they account for a much smaller percentage of total businesses in Cambodia.

Since the sampling design was stratified and employed differential sampling, individual observations must therefore be properly weighted when making inferences about the population. Under stratified random sampling, unweighted estimates are biased (unless sample sizes are proportional to the size of each stratum). Any estimate or indicator that aims at describing some feature of the population should consider that individual observations may not represent equal shares of the population. The WBES dataset provides three weights (strict, median, weak) for each observation<sup>12</sup>. All data in the reports derived by EMC are estimates for the total population using WBES median weights<sup>13</sup>.

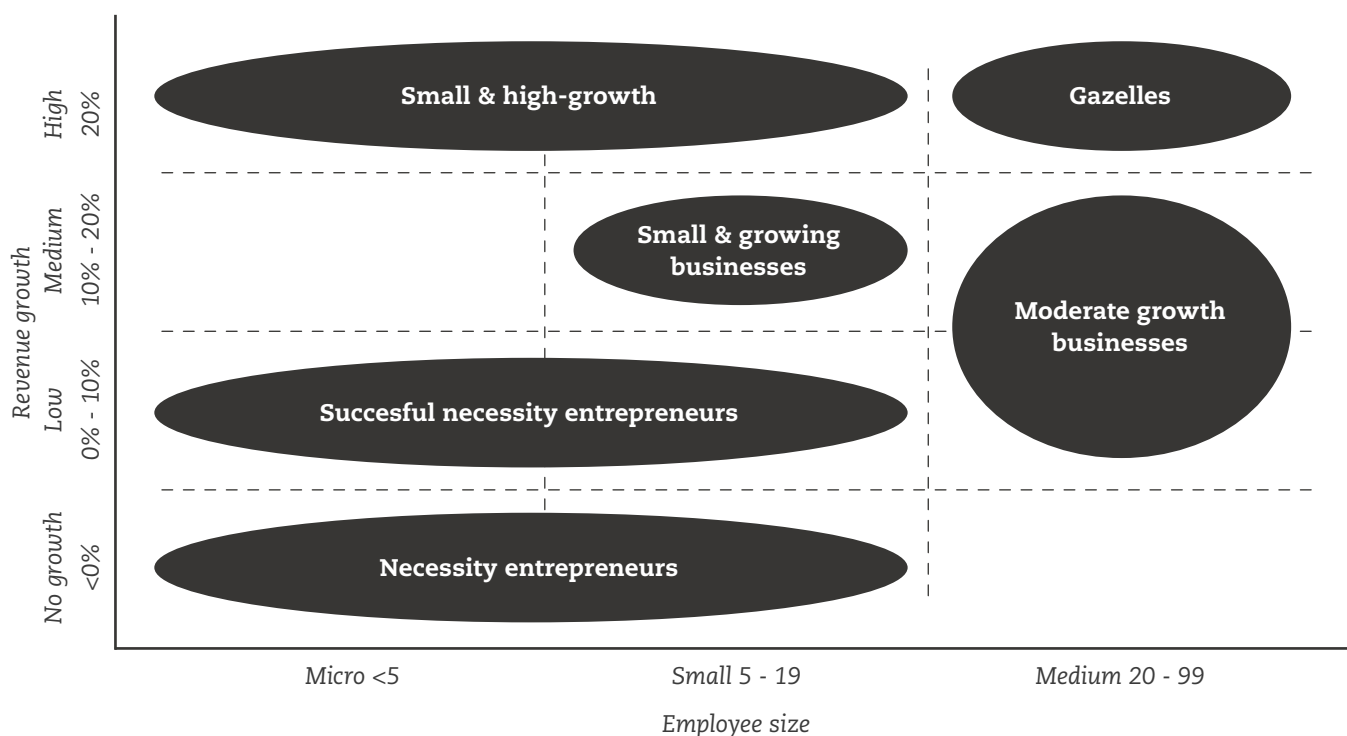
<sup>11</sup> A stratified random sample is one obtained by separating the population elements into non-overlapping groups, called strata, and then selecting a simple random sample from each stratum.

<sup>12</sup> WBES Implementation Reports include more information on sampling and weighting.

<sup>13</sup> Data published on the Enterprise Surveys website is also based on median weights.

## SME segmentation

For segmenting the SMEs using WBES data, we followed the approach of #CTG Kenya, using the same nomenclature for the business categories, see the below illustration:



## WBES Issues

- Unregistered businesses and micro businesses are excluded. These make up a significant proportion of the private sector in the #CTG Mekong countries.
- Sample size is not large, especially once segmented. Therefore, we need to be mindful of this when discussing sub-segments.
- Revenue growth data was not provided by many businesses, further reducing the sample for segmentation.
- Segmenting by revenue growth excludes young businesses; WBES provides revenue for latest year and 3 years ago, so businesses younger than 3 years are excluded by our segmentation. However, there were very few start-ups and early-stage businesses in the WBES samples for the #CTG Mekong countries.
- Entrepreneur age is not included in WBES, and therefore it is not possible to segment firms by age of their owner or top manager.
- WBES counts establishments, not enterprises. One enterprise (firm) can have multiple establishments (for example, a head office plus a depot). Although for the #CTG Mekong countries the majority of the WBES samples were single-establishment enterprises; Cambodia 93%, Lao PDR 91%, Myanmar 74%, Vietnam 92%.
- As with all business surveys, there can be data quality issues. For example, the reliability of small businesses accurately recalling/reporting sale revenue from 3 years ago. In undertaking the WBES, businesses were re-contacted to clarify answers where necessary.

## Entrepreneurial ecosystem analysis

The framework for analysing the entrepreneurial ecosystem was the ANDE<sup>14</sup> Entrepreneurial Ecosystem Diagnostic Toolkit. The first study for the DGGF #ClosingTheGap series piloted in Kenya applied a version of this Toolkit. The framework was modified slightly for #ClosingTheGap Mekong by adding entrepreneurs' capabilities at the centre of it.

<sup>14</sup> Published by the Aspen Network of Development Entrepreneurs (ANDE), December 2013.

## Data for ANDE themes

The WBES provides data for most of the ANDE themes and was used in the reports where possible. The WBES is particularly useful for Finance, Human Capital, Policy, Infrastructure and R&D/Innovation. Other sources also provide data closely related to the ANDE themes, including the Global Entrepreneurship Monitor, the Global Entrepreneurship Index and the Global Competitiveness Index. These were used selectively through the reports. However, some of these sources don't cover all #CTG Mekong countries.



Hence, in addition to WBES, other secondary data sources were reviewed, and these include:

- **Infrastructure** Logistics Performance Index; GSMA Mobile Connectivity Index; countryspecific data
- **Human Capital** Global Competitiveness Index; UNESCO; World Bank Human Capital Project; WEF Global Gender Gap indicators
- **Entrepreneurial Culture** Global Entrepreneurship Monitor; Hofstede Uncertainty Avoidance Index; country-specific data
- **Markets** Global Competitiveness Index; World Bank trade data; country-specific data
- **Policy** World Bank Doing Business; Global Competitiveness Index; country-specific data
- **R&D and innovation** Global Innovation Index; country-specific data
- **Finance** country-specific data, local sources
- **Support** local sources

The insights from analyzing the above data were then supplemented with key informant interviews in Phase two of the research.

## Workshops

#CTG Workshops brought together entrepreneurs and service providers to review, validate and challenge research findings to date and engage in an interactive session towards elaborating solutions to address gaps identified in the ecosystem.

They were held on the following dates:

- 12 December 2017 - Phnom Penh, Cambodia
- 15 May 2018 - Hanoi, Vietnam
- 17 May 2018 - Ho Chi Minh City, Vietnam
- 12 June 2018 - Yangon, Myanmar
- 13 July 2018 - Vientiane, Lao PDR

During #CTGMekong workshops in Lao PDR, Myanmar and Vietnam<sup>15</sup>, groups were asked to comment on 'entrepreneur personas' that typified businesses and growth challenges faced by firms in each sub-segment, as well as identify gaps and propose solutions. Personas were selected for the main subsegments of interest and then designed to reflect research and key informant interviews. A facilitator focused each group discussion on two key questions:

- What other challenges do you think <persona> might face?
- How could the ecosystem help them overcome these challenges?

Conclusions from the workshops and group discussions were captured in the final reports.

<sup>15</sup> Personas were introduced following the #CTG Cambodia workshop.