

SECTOR ASSESSMENT (SUMMARY): MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES¹

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. Rapid tourism growth is generating enormous inclusive economic opportunities for Myanmar's micro, small, and medium-sized enterprises (MSMEs). In 2014 Myanmar received 3.08 million international tourists, a 50.7% increase from 2013. During 2011–2014, tourism receipts increased from \$319 million to \$1.78 billion, directly supporting 338,500 jobs or 1.2% of total employment. Domestic tourism is also significant, with about 2.2 million domestic trips and \$65 million equivalent annual domestic tourism expenditure.² Travel and tourism directly contribute 1.6% to gross domestic product (GDP) through internal spending on accommodation, food and beverages, tours, entertainment, transportation, retail trade, and other subsectors, led mainly by MSMEs.³ While impressive, tourism's contribution to GDP could nearly double if Myanmar is able to foster stronger market linkages between tourism-related MSMEs and complementary national service, production, and processing industries.⁴

2. Myanmar's key tourism assets include historic heritage in Yangon and other cities, unspoiled beaches, and diverse cultural and natural attractions. The main source markets are Thailand, comprising 17.5% of international arrivals; the People's Republic of China (11.1%); Japan (7.3%); the United States (5.5%); and the Republic of Korea (5.1%). In 2014 the number of accommodation establishments reached 1,106, with 43,243 bedrooms. Forty-six hotels are under construction and will soon add 9,443 additional bedrooms. Average length of stay for international overnight visitors is 9 days and average spending \$170 per day. Excluding accommodations, international tourists spend the most on activities and tours, shopping, and meals, with 90% sampling local foods and 78% interested in purchasing handicrafts.

3. Since 2011 Myanmar has taken several measures to facilitate inbound tourism, including ratification of the Association of Southeast Asian Nations (ASEAN) Framework Agreement on Visa Exemption, allowing tourist visas on arrival and expanding aviation services. Consequently, scheduled international inbound flights increased from 4,200 in 2011 to 14,700 in 2014. Inbound air seat capacity reached 2.5 million in 2014 with a 64% passenger load factor. Efforts to improve roads and bridges in the east–west and north–south economic corridors, together with modernization of immigration facilities will accelerate regional integration and boost tourist movements across land borders with the People's Republic of China, the Lao People's Democratic Republic, and Thailand. Public and private efforts to promote tourism in Mon State near picturesque Mawlamyine, Mudon, and the venerated Kyaikhto pagoda are already having positive effects; the number of international tourists increased from 80,000 in 2012 to 150,000 in 2014. Meanwhile, Kyaikhto pagoda receives more than 1 million domestic tourists each year. With these favorable trends, Myanmar is expected to achieve its growth target of 7.5 million

¹ The summary focuses on tourism-related enterprises and is based on Asian Development Bank. 2014. *Myanmar Unlocking the Potential Country Diagnostic Study*. Manila. <http://www.adb.org/publications/myanmar-unlocking-potential>

² Government of Myanmar, Ministry of Hotels and Tourism. 2014. *Myanmar Tourism Statistics 2014*. Nay Pyi Taw. Including 1.34 million overnight visitors who arrived by air and 1.94 million day-trippers who entered at land borders.

³ World Travel and Tourism Council. 2014. *Travel and Tourism Economic Impact 2014 Myanmar*. London.

⁴ ADB. 2004. Technical Assistance for the *Greater Mekong Subregion Tourism Sector Strategy, 2005–2015*. Manila. (TA-6179 REG). Up to 40% of Myanmar's tourism receipts leave the country to purchase tourism-related imports.

international tourist arrivals and annual tourism receipts of \$10 billion by 2020.⁵

4. Privately owned MSMEs account for 90% of all enterprises, and are the largest source of employment in the country (70% of the total workforce).⁶ The Ministry of Industry reports 43,232 registered small and medium-sized enterprises (SMEs), of which 1,408 are located in Mon State (the actual number could be 80% higher as business owners are typically unaware of obligations to register or consider their business too small to require registration).⁷ Sixty-three percent of SMEs focus on food and beverage processing, followed by construction materials (7.6%), metal and petroleum products (4.4%), garments (4.0%), and consumer goods (2.6%). Most manufacturing output is consumed locally, with 2012 exports equal to about \$1 billion or 10% of aggregate exports. Subsectors with significant growth potential for output and employment are labor-intensive, low-skilled manufacturing, tourism and travel, agribusiness, construction, and retail services. While official data on microenterprises is not recorded, the International Labor Organization estimates the number as least 2.3 million, and increasing by 32,500 per year.⁸

5. Opportunities for MSME development are enhanced by Myanmar's (i) active role in ASEAN and the trade and investment prospects this brings, (ii) wide availability of low-cost labor, (iii) abundant arable land and rich marine resources, (iv) growing middle class with increasing purchasing power, and (v) rapidly growing international and domestic tourism. In Mon and other states situated along the East–West Economic Corridor, MSMEs are primarily engaged in agribusiness, food processing, and handicrafts, predominately for local consumption. The percentage of women-owned enterprises is high in trading (60%), manufacturing (51%), general services (48%), and tourism services (43%). However many potential women entrepreneurs are disadvantaged by household chores, mobility constraints, and social structures that limit their confidence and the development of entrepreneurial attitudes.

6. In Mon State about 39% of the population is underemployed; more than 16% of families are classified as poor, despite rapidly increasing trade and tourism.⁹ Approximately 55% of residents operate MSMEs that produce and sell fresh fruits and vegetables, jams, dried seafood, farm inputs, charcoal, and handicrafts including bamboo and woven products, to traders, residents, and tourists. These enterprises are often characterized by low productivity and make limited contributions to reducing household poverty. Their constraints are similar to other small entrepreneurs in Myanmar: (i) inadequate product knowledge and access to business support services, (ii) lack of business management skills and access to skill training, (iii) limited market linkages with higher-value domestic and regional supply chains, (iv) limited access to affordable finance and appropriate processing technology, and (v) insufficient infrastructure and institutional support. In 2013, migrant workers submitted \$588 million to Mon State. Family members use the funds to support basic survival needs; they are underutilized as a source of MSME finance.¹⁰

⁵ Government of Myanmar, Ministry of Hotels and Tourism. 2013. *Myanmar Tourism Master Plan, 2013–2020*. Nay Pyi Taw.

⁶ Microenterprises employ fewer than 10 workers, small enterprises 10–50 workers, and medium-sized enterprises 51–100 workers. Government of Myanmar. Private Industrial Enterprises Law (1990) and Cottage Industries Promotion Act (1991).

⁷ Government of Myanmar, Ministry of Industry. 2012. *Small and Medium-Sized Industries Statistics, 2012*. Nay Pyi Taw.

⁸ International Labour Organization. 2014. *Assessment of the Business Service and Training Market in Myanmar*. Geneva.

⁹ Government of Myanmar, Ministry of National Planning and Economic Development; Swedish International Development Cooperation Agency; United Nations Children's Fund; and United Nations Development Programme. 2011. *Integrated Household Living Conditions Survey in Myanmar (2009–2010)*. Nay Pyi Taw.

¹⁰ International Organization for Migration. 2014. *Assessing Potential Changes in Migration Patterns of Myanmar Migrants and their Impacts on Thailand—Analysis of Findings for Stakeholders in Myanmar*. Bangkok.

7. MSMEs require support to improve (i) production methods, product quality, and market linkages; (ii) access to business support services, vocational training, and new technologies; and (iii) public infrastructure, in particular urban–rural access roads, electricity, water supply and sanitation, and market facilities. Transaction costs to comply with cumbersome regulations for business start-ups, construction permits, employing workers, registering property, accessing affordable credit, protecting investors, paying taxes, and trading across borders need to be reduced. Similarly, regulations and taxes that impede exports and imports need streamlining to foster greater participation in regional value chains.

2. Government's Sector Strategy

8. The government's development agenda focuses on sustainable inclusive economic growth, job creation, and poverty reduction.¹¹ The National Comprehensive Development Plan emphasizes the transition from predominantly low-productivity agriculture to higher-value production by promoting MSMEs and trade to facilitate inclusive growth.¹² The government's National Export Strategy, 2015–2020 aims to increase production and value addition in agriculture and forestry, textile and garment manufacturing, and tourism by strengthening trade finance, information, promotion, and facilitation; logistics; and quality management primarily to benefit MSMEs. The Tourism Master Plan, 2013–2020 recognizes that tourism-related MSMEs have an important role in economically empowering the poor, particularly women and ethnic groups. The master plan proposes five MSME development projects to pilot approaches for strengthening market linkages between tourism and other national industries.¹³

9. In line with the Framework for Economic and Social Reforms, the government demonstrated a strong commitment to strengthen the enabling business environment by establishing SME development service centers in 2012 and forming the Central Committee for SME Development in 2013. SME development service centers collect and record SME data; provide advisory services on technology, financial management, and marketing; distribute external market information; arrange business matching with entrepreneurs; and serve as a credit guarantee corporation. The Central Committee for SME Development is chaired by the President with two vice presidents and comprises 20 ministers, including the Union Minister for Hotels and Tourism. It is tasked with formulating and promulgating laws, regulations, and procedures for SME development; ensuring that the government and private banks provide financial capital for the SME sector; networking with local and foreign organizations to meet the technical requirements of SME establishment; encouraging market-based development of SMEs in rural and urban areas; helping to develop SME support industries; encouraging local and foreign investment; strengthening market linkages; and strengthening human resources. The government recognizes both entities require considerable internal and external support to effectively carry out their broad mandate.¹⁴

¹¹ Government of Myanmar. 2011. *Framework for Economic and Social Reforms: Policy Priorities for 2012-15 towards the Long-Term Goals of the National Comprehensive Development Plan*. Nay Pyi Taw.

¹² Government of Myanmar. 2012. *National Development Plan, 2012–2016*. Nay Pyi Taw.

¹³ The estimated cost is \$6.45 million, of which \$4 million is allocated for projects to strengthen market linkages in agriculture, crafts, and home-based cottage industries.

¹⁴ Government of Myanmar. 2013. *Communique: First Meeting of the Myanmar Development Cooperation Forum*. Nay Pyi Taw.

3. ADB Sector Experience and Assistance Program

10. The interim country partnership strategy, 2015–2016 of the Asian Development Bank (ADB) for Myanmar supports the government's overarching priority of sustainable and inclusive economic growth.¹⁵ ADB is focusing assistance to help the country overcome key development constraints through strategic investments in energy, skills, transport, and urban development. The interim strategy also mainstreams thematic areas of good governance, environmental sustainability, social safeguards, conflict sensitivity, private sector development, and regional cooperation and integration into ADB's Myanmar country operations.

11. Indicative ADB assistance for the East–West Economic Corridor during 2015–2017 includes (i) East–West Economic Corridor Eindu to Kawkareik Road Improvement (\$100 million); (ii) Enhancing Rural Livelihoods and Incomes (\$12 million); (iii) Third Greater Mekong Subregion (GMS) Corridor Towns Development (\$80 million); (iv) GMS Capacity Building for HIV/AIDS Prevention and Management (\$10 million); and (v) Economic Empowerment of the Poor and Women in the East–West Economic Corridor (\$3 million). Complementary nonsovereign activities will support MSME development through banking, trade finance, and other financial intermediation. Capacity building for project management, procurement, and civil society engagement is being systematically provided for government counterpart agencies utilizing capacity development technical assistance resources.

12. Other development partners and civil society organizations that promote MSME development and tourism in the East–West Economic Corridor are CARE International, German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit, International Organization for Migration (GIZ), International Trade Center, Japan International Cooperation Agency, Norwegian Refugee Council, Pyoe Pin, Swiss Agency for Development Cooperation, Swisscontact, Trocaire, and World Vision. The focus is on vocational training, microfinance, and value chain development. ADB actively seeks synergies with other development partners and shares knowledge on development issues during various national sector working group meetings and the annual Myanmar Development Cooperation Forum.

13. Past ADB assistance to help the Ministry of Hotels and Tourism prepare Myanmar's first tourism master plan is rated highly successful.¹⁶ The plan sets out a logical sequence of capacity building and infrastructure investments to maximize tourism's contribution to employment and income generation, and ensure that the social and economic benefits of tourism are distributed equitably. Lessons from ADB efforts to support MSME development linked to tourism and agriculture and craft value chains in other GMS countries (rated successful) include (i) conduct sufficient demand analysis during project preparation, (ii) improve cross-sector coordination to build synergies within ADB and with other development partners, (iii) target enterprises that can increase the proportion of tourist destination spending that reaches the poor, (iv) ensure sustainable operation and maintenance plans are in place for facilities well ahead of project closure, and (v) utilize private sector product development, marketing, and expertise.¹⁷

14. Given the significant contributions that MSMEs can make to Myanmar's sustained economic growth and poverty reduction, ADB should continue to selectively support projects with activities that strengthen the enabling business environment, focusing on improving domestic

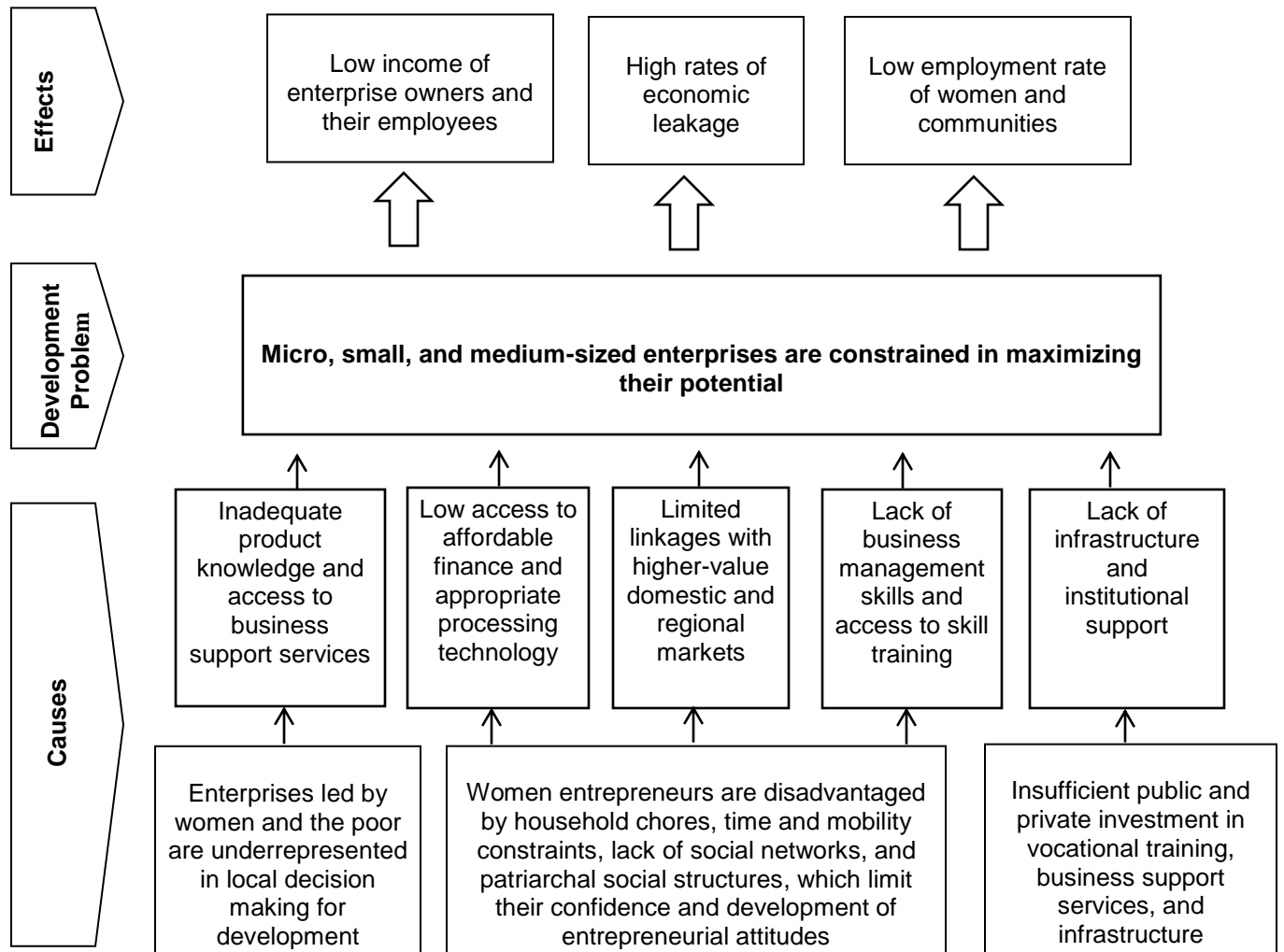
¹⁵ ADB. 2014. *Interim Country Partnership Strategy: Myanmar, 2015–2016*. Manila.

¹⁶ ADB. 2013. *Technical Assistance Completion Report: Myanmar Tourism Master Plan in Myanmar*. Manila.

¹⁷ ADB. 2011. *Completion Report. Greater Mekong Subregion Mekong Tourism Development Project*. Manila; ADB. 2011. *Proposed Grant Assistance to the Kingdom of Cambodia for Improving Market Access for the Poor in Central Cambodia*. Manila.

and regional connectivity, vocational education and training, urban services, access to electricity, agricultural productivity, and access to affordable finance.

Problem Tree for Micro, Small, and Medium-Sized Enterprises



Source: Asian Development Bank.