

## Baseline Report for the German-Myanmar Programme on Sustainable Economic Development

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# BASELINE REPORT FOR THE GERMAN-MYANMAR PROGRAMME ON SUSTAINABLE ECONOMIC DEVELOPMENT

2016

## **Abstract Baseline Report Myanmar**

The resumption of German-Myanmar bilateral cooperation in 2012 was a unique opportunity to pay special attention to impact orientation of the German-Myanmar Programme on Sustainable Economic Development. DEval was asked by the German Ministry of Economic Cooperation and Development (BMZ) to incorporate evaluative thinking and evaluation expertise into the overall planning process of the programme right from the beginning with the aim to create the preconditions for an impact evaluation on program level at the end of implementation. This report presents the results of the baseline study which has been carried out as a respective first step towards this goal. The study will serve as a basis for comparison of observed changes over time, and whether these changes can be attributed to the interventions of the programme. DEval used a mixed-method approach for data collection: a country-wide, standardized SME survey, a standardized banking survey and semi-structured qualitative interviews with key informants. An extensive literature review enriched the obtained data with additional and complementary information from secondary sources. The triangulation of results on key questions of the programme generated useful insights for the implementation of the programme. Furthermore, as the report presents a compilation of new and existing data on the current situation in the Myanmar economic sector the data is also of great informative value for partners, donors and others already working in Myanmar or planning to resume work in the country.

# BASELINE REPORT FOR THE GERMAN–MYANMAR PROGRAMME ON SUSTAINABLE ECONOMIC DEVELOPMENT

*2016*



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The planning of interventions lies in the hands of heads of project within the German implementing organizations and in those of their respective partners. Because of their openness, DEval could work in close cooperation with the project teams right from the start. Special thanks in this regard go to Irina Scheffmann (head of the private sector development project at GIZ), Thomas Foerch (head of the financial sector development project at GIZ) and Konrad DeBortoli (head of the technical vocational education and training project at GIZ) and their teams, and also the teams from KfW and PTB.

Data collection was quite challenging and was made possible through the support of numerous actors. Above all, we would like to thank the Government of Myanmar, represented by the Myanmar Ministry for National Planning and Economic Development, for granting approval for the comprehensive data-collection activities conducted

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In the past, voicing critical opinions and reflecting on political developments could not be done openly in Myanmar. We would thus like to thank the experts, and especially those residing in Myanmar, for acting as interview partners and for their honesty and openness during conversations. All information will be treated in strictest confidence. We also appreciate their expressed willingness to participate in future interviews.



# ZUSAMMENFASSUNG

## Hintergrund

Das Interesse an Wirkungsevaluierungen und auch die Diskussion zu diesem Thema haben sich in den letzten Jahren insbesondere in der Entwicklungszusammenarbeit deutlich gesteigert. Randomized Controlled Trials (RCTs) wurden oft als der „Goldstandard“ unter den methodischen Designs von Wirkungsevaluierung bezeichnet. Eine Evaluierung von ganzen Entwicklungsprogrammen, die sich häufig durch Komplexität und Facettenreichtum auszeichnen, nur mit rigorosen Methoden allein ist allerdings selten möglich, da diese die Einhaltung strikter Kriterien in der Programmplanung und -durchführung voraussetzen. Das ist mit der Realität vor Ort und dem notwendigen hohen Maß an Flexibilität in der Durchführung der Programme oft schwer vereinbar. Jedoch sollte überdacht werden, ob sie als eine von mehreren Komponenten für die Evaluierung ausgewählter Teile des Programms eingesetzt und mit anderen Methoden kombiniert werden können.

Generell sind die Qualität von Wirkungsevaluierungen und die Bandbreite der anwendbaren Methoden stark von der Qualität der zur Verfügung stehenden Daten abhängig. Um die Wirkung einer Maßnahme am Ende ihrer Implementierung messen zu können, sind profunde Informationen über die Ausgangssituation (bevor die Maßnahme begonnen hat) sowie kontinuierliche Datenerhebungen während der Laufzeit der Maßnahme notwendig. Die Erhebung von Baselinedaten und weiteren Daten zu Vorbedingungen im Umfeld der Maßnahme sowie die frühzeitige Planung der kontinuierlich zu erhebenden Monitoringdaten sind wichtige Voraussetzungen für eine profunde Wirkungsmessung und sollten daher fester Bestandteil der Planungsphase von Maßnahmen sein.

In der Wiederaufnahme der bilateralen Zusammenarbeit zwischen Deutschland und Myanmar im Jahr 2012 sah das Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ) die einzigartige Möglichkeit bereits in der frühen Planungsphase des Länderprogramms zur Nachhaltigen Wirtschaftsentwicklung in Myanmar der Wirkungsorientierung besondere Beachtung zu schenken, um die Wirksamkeit des Programms zu erfassen. Das Deutsche Evaluierungsinstitut der Entwicklungszusammenarbeit (DEval) wurde gebeten diesen Prozess zu unterstützen und zu begleiten, um die Voraussetzungen zur Wirkungsmessung auf Programmebene zu schaffen.

Das Programm besteht aus sieben Projekten in den Bereichen Privatspektorenentwicklung, Finanzsektorenentwicklung, berufliche Bildung, Qualitätsinfrastruktur und Bergbau. Sie werden von der Deutschen Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, der KfW Entwicklungsbank (KfW), der Physikalisch-Technischen Bundesanstalt (PTB) sowie der Bundesanstalt für Geowissenschaften und Rohstoffe in Zusammenarbeit mit myanmarischen Partnern umgesetzt. Gemäß des deutschen Programmansatzes verfolgt jedes Projekt seine eigene, spezifische Zielsetzung und trägt darüber hinaus zu einem gemeinsamen, übergeordneten Programmziel bei. In diesem Fall ist es Ziel des Programms zur Schaffung von Voraussetzungen für eine nachhaltige und sozial ausgewogene wirtschaftliche Entwicklung in Myanmar beizutragen.

Der vorliegende Bericht stellt die erhobenen Baseline-Daten sowie den zugrundeliegende Ansatz der Wirkungsevaluierung des Programms „Nachhaltige Wirtschaftsentwicklung in Myanmar“ vor. Da nicht alle sieben Projekte gleichzeitig beauftragt und geplant wurden, konzentriert sich die Baselinestudie auf die ersten drei GIZ-Projekte zu Privatsektor, Finanzsektor und beruflicher Bildung sowie das PTB-Projekt zur Qualitätsinfrastruktur.

## Methodischer Ansatz

In Absprache mit den involvierten Stakeholdern hat das DEval einen theoriebasierten Ansatz gewählt, um „evaluative thinking“ und die Schaffung von Voraussetzungen für eine Wirkungsevaluierung bereits in die Planungsphase des Programms einzubetten. Dieser Ansatz umfasst die gemeinsame Entwicklung einer Programmtheorie sowie von Wirkungsmodellen auf Programm- und Projektebene. Dadurch konnte ein gemeinsames Verständnis von Zielen und zugrunde liegenden kausalen Mechanismen des Programms als Ganzem sowie der einzelnen, dazugehörigen Projekte entwickelt werden. Für jede intendierte Veränderung im Wirkungsmodell wurden Indikatoren entwickelt, daraus Informationsbedarfe abgeleitet und Überlegungen angestellt mit Hilfe welcher existierender Daten diese bedient werden könnten oder – falls es keine Daten vorliegen – mit welchen Instrumenten diese erhoben werden können.

Diese Informationen werden primär benötigt, um die Ausgangssituation zu erfassen und damit im weiteren Verlauf Veränderungen über die Zeit zu messen, aber auch um als Grundlage für evidenzbasierte Entscheidungen in der Planung und Steuerung des Programms und der Projekte zu dienen. Zur Erhebung dieser Daten hat das DEval einen Mixed-Methods-Ansatz gewählt, der im Wesentlichen eine landesweite, standardisierte Befragung von KMU, eine standardisierte Befragung von Personal von Banken sowie semi-strukturierte qualitative Interviews mit Schlüsselpersonen umfasst. Eine umfangreiche Literaturrecherche erweiterte die erhobenen Daten mit ergänzenden Informationen aus Sekundärquellen.

Der Studie liegt ein Längsschnittdesign zu Grunde, in dem vorgesehen ist, nach einer bestimmten Zeitspanne Folgerhebungen durchzuführen, in welchen dieselben Personen mit denselben Erhebungsinstrumenten befragt werden. Am Ende der Implementierung des Programms 2019/20 soll dann abschließend eine Wirkungsevaluierung durchgeführt werden.

### **Hauptergebnisse und Schlussfolgerungen zur Privatsektorentwicklung**

Die direkte oder indirekte Stärkung des Privatsektors ist eine der wichtigsten Prioritäten der Regierung von Myanmar und des Reformprozesses. Da die myanmarische Wirtschaft primär aus kleinen und mittleren Unternehmen (KMU) besteht, sind diese eine der wichtigsten Zielgruppen der wirtschaftlichen Reformen und auch des Programms zur Nachhaltigen Wirtschaftsentwicklung in Myanmar. In der von DEval durchgeführten KMU-Befragung wurden Schlüsselinformationen zu den Charakteristika von KMU in Myanmar sowie zu den Herausforderungen erhoben, vor denen diese stehen. Die Studie kam zu folgenden Ergebnissen:

- 98% der untersuchten KMU haben weniger als 50 Beschäftigte, zwei Drittel bestehen aus fünf bis neun Beschäftigten.
- Mehr als die Hälfte der untersuchten KMU bestehen seit mehr als zehn Jahren.
- Die untersuchten KMU haben durchschnittliche monatliche Umsätze zwischen einer und fünf Millionen MMK.
- Diese Umsätze werden zumeist über eigene Läden oder Großhändler in der Region generiert. Nur ein kleiner Teil der KMU ist im Export aktiv.

- Mehr als ein Fünftel der untersuchten KMU arbeitet informell und die Firmen, die registriert sind, sind dies meist auf kommunaler Ebene bei einem City Development Committee.

Die Priorisierung von KMU durch die Regierung spiegelt sich auch in der Verabschiedung des SME Development Law wieder, in welchem zum einen die Rolle der KMU klar hervorgehoben ist und zum anderen die Etablierung und Ausweitung von Unterstützungsstrukturen für KMU angekündigt wird. Des Weiteren enthält das Gesetz eine neue Definition von KMU, die von einigen ExpertInnen eher skeptisch betrachtet wird, da die dort definierten Unternehmenskategorien komplex und wenig trennscharf sind. Positiv anzumerken ist aber, dass im Rahmen der Erarbeitung dieses Gesetzes zum ersten Mal versucht wurde, die Perspektive des Privatsektors im Rahmen von mehreren Konsultationsprozessen direkt einzubinden.

Interessanterweise gaben die VertreterInnen der untersuchten KMU an, sowohl mit den bestehenden rechtlichen Rahmenbedingung als auch mit den Marktbedingungen zufrieden zu sein. Auch für die Zukunft erwarten sie eine steigende oder zumindest eine konstante Entwicklung ihrer Umsätze. Diese positive Einschätzung steht im Gegensatz zu den Ergebnissen des OECD Myanmar Business Survey 2014, des World Bank's Doing Business Report 2015, dem ERIA Myanmar SME Policy Index und weiteren Experteneinschätzungen, in denen die Rahmen- und Geschäftsbedingungen in der myanmarischen Wirtschaft deutlich kritischer eingeschätzt und bedeutende Defizite benannt werden. Die interviewten ExpertInnen geben zu bedenken, dass die positive Einschätzung der UnternehmerInnen darin begründet sein kann, dass der Wettbewerb in Myanmar immer noch begrenzt ist. Dieser wird ihrer Ansicht nach aber deutlich steigen, wenn Myanmar Ende 2015 ein vollwertiges Mitglied der ASEAN Economy Community wird. Zum jetzigen Zeitpunkt schätzen ExpertInnen den Privatsektor in Myanmar als nicht wettbewerbsfähig ein, zum einen aufgrund des Mangels nicht nur an Infrastruktur und Finanzmitteln sondern auch an adäquat ausgebildetem Personal sowie Forschungs- und Entwicklungstätigkeit, zum anderen aber auch weil von staatlicher Seite wenig Unterstützungsangebote für die Wirtschaft bestehen. Die Differenz zwischen der Einschätzung der ExpertInnen und den positiven

Zukunftserwartungen der UnternehmerInnen weist darauf hin, dass sich letztere zum jetzigen Zeitpunkt noch nicht darüber bewusst sind, welche Herausforderungen auf sie zukommen werden. Der laufende Reformprozess auf politischer Ebene sollte sicherstellen, dass der Privatsektor und insbesondere kleiner Firmen tatsächlich von diesen Reformen profitieren, nicht nur in Form von wirtschaftlichem Wachstum sondern auch in Form von verbesserter Kooperation zwischen Staat und Privatsektor, und dass sie dem steigenden internationalen Wettbewerb gewachsen sind. Darüber hinaus sollten auch die Probleme angegangen werden, die von den EigentümerInnen kleiner und mittelständischer Firmen genannt werden, wie die Rohstoffpreise, der Mangel an ausgebildeten Arbeitskräften, die politische Instabilität sowie die hohe Personalfuktuation.

Zum Thema Korruption unterscheiden sich die Angaben verschiedener Quellen. Die Diskrepanzen weisen darauf hin, dass verschiedene Bevölkerungsgruppen und Wirtschaftsbe- reiche in unterschiedlichem Maße davon betroffen sind oder eine unterschiedliche Wahrnehmung der Problematik von Korruption haben.

Die meisten befragten KMU-UnternehmerInnen geben an, zwar von Business Development Services gehört zu haben, sie aber nicht zu nutzen, weil sie für das Unternehmen entweder nicht verfügbar oder die damit verbundenen Kosten zu hoch sind. Möglicherweise verbessert sich die Verfügbarkeit dieser Angebote auch außerhalb Yangons durch die bevorstehende Dezentralisierung der zuständigen Behörden, dem Directorate of Investment and Company Administration (DICA) und dem Department of SME Development.

Ein weiteres Kernproblem der bestehenden Strukturen ist die unzureichende Kooperation zwischen Staat und Privatsektor. Den erhobenen Daten zufolge beginnt sich die Kooperation und Einbeziehung des Privatsektors allerdings zu verbessern. Häufig wird die Handelskammer (UMFCCI) als Vertretung des Privatsektors eingebunden, was aber vor dem Hintergrund der Tatsache, dass nur ein kleiner Teil der Unternehmen und insbesondere der KMU Mitglied von UMFCCI oder auch von anderen nationalen Verbänden ist, nicht ausreicht, um die Repräsentanz des Privatsektors im politischen Dialog zu stärken.

## **Hauptergebnisse und Schlussfolgerungen zur Finanzsektorentwicklung**

Der laufende Reformprozess stellt den Finanzsektor Myanmar und insbesondere die Zentralbank Myanmar (CBM) vor große Herausforderungen: Eine Modernisierung des Finanzsektors ist dringend nötig, gleichzeitig muss aber CBM personelle Kapazitäten ausbauen, um seiner Rolle als Hüter des Finanzsektors gerecht zu werden. Bisher ist CBM nicht vollständig in der Lage die rechtlichen Rahmenbedingungen und laufenden Prozesse zu überblicken, zu koordinieren und durchzusetzen. Als Schlüsselakteur in Myanmar Finanzsektor ist es von zentraler Bedeutung, CBM zu befähigen seiner Rolle und Aufgabe gerecht zu werden. Dafür ist die koordinierte Unterstützung durch verschiedene Stakeholder insbesondere in Form von zusätzlichem Personal und umfassenden Trainingsmaßnahmen auf verschiedenen Ebenen nötig.

Ein wichtiger Meilenstein auf politischer Ebene war die Verabschiedung des Central Bank of Myanmar Law in 2013, in dem die Unabhängigkeit der Zentralbank festgeschrieben ist. Die Verabschiedung des neuen Financial Institution Law of Myanmar wird in Kürze erwartet. Trotz dieser Entwicklungen sind weitere substantielle Reformen sowie die Ausbildung von weiteren personellen Kapazitäten notwendig, um einen funktionierenden Bankensektor zu etablieren. Die Tatsache, dass mehr als die Hälfte des befragten Personals von Banken angab, nicht mit den existierenden Regeln und Regularien vertraut zu sein, verdeutlicht die Notwendigkeit des Kapazitätsaufbaus. Interessanterweise erachtet das Bankpersonal trotz dieser Unkenntnis restriktive Regularien als Haupthindernis, das der Ausweitung von Finanzdienstleistungen für KMU entgegensteht.

Obwohl der Bankensektor immer noch von staatlichen Banken dominiert ist, sind einige private Banken im Land aktiv. Aufgrund der Anpassung der Regularien an internationale Standards, wird zudem erwartet, dass sich der Wettbewerb unter nationalen Banken sowie im internationalen Kontext in Zukunft verschärfen wird. Um zu gewährleisten, dass die Banken die überarbeiteten rechtlichen Rahmenbedingungen auch umsetzen und im Rahmen ihrer Arbeit berücksichtigen können, sind Kapazitätsaufbau- und Standardisierungsmaßnahmen notwendig.



Des Weiteren mangelt es im Finanz- und Bankensektor an angemessenen Ausbildungsprogrammen. Die existierenden Trainings werden häufig als zu theoretisch beurteilt - ein generelles Problem von Ausbildungen in Myanmar - und es fehlt an Basisprogrammen auf universitärem Level, die auf eine Karriere und Spezialisierung im Bereich Banken und Finanzwesen vorbereiten.

Der KMU-Befragung des DEval ergab, dass Firmen häufig auf informelle Finanzierungsquellen zurückgreifen und Banken eher für größere Kredite in Anspruch nehmen. Die Annahme von ExpertInnen, dass dies in einem Misstrauen gegenüber dem formellen Bankensektor begründet ist, konnten die Daten nicht belegen. Die meisten UnternehmerInnen geben vielmehr an, keine Vorteile im Vergleich zu informellen Finanzierungsquellen zu sehen und tatsächlich bieten diese keine nachweisbar schlechteren Konditionen als formelle Quellen. Diejenigen UnternehmerInnen, die in der Vergangenheit Banken genutzt haben, waren sowohl mit den Kompetenzen des Personals der Banken als auch mit dem Umfang und der Qualität der angebotenen Finanzdienstleistungen zufrieden. Die befragten MitarbeiterInnen von Banken erwarten nicht, dass die Nachfrage nach Finanzdienstleistungen durch KMU in Zukunft zunehmen wird. Die befragten EigentümerInnen von KMU zeigten sich interessiert neue und andere finanzielle Dienstleistungen zu nutzen, wenn diese für sie nützlich und verfügbar wären.

Es ist fraglich, wann nachfrageorientierte Angebote für den Privatsektor und insbesondere für KMU flächendeckend verfügbar sein werden. Es wird einige Jahre dauern, bis der Kapazitätsaufbau den Finanzsektor derart gestärkt hat, dass er ein Rückgrat der Wirtschaft Myanmars ist und bis die Menge an laufenden Reformen, die erwarteten Ergebnisse zeigt.

### **Hauptergebnisse und Schlussfolgerungen zu beruflicher Bildung**

Nicht nur der Berufsbildungssektor sondern der gesamte Bildungssektor in Myanmar ist fragmentiert, Verantwortlichkeiten und Aufgaben sind zersplittert. In diesem Zusammenhang war die Verabschiedung des National Education Laws ein Meilenstein auf politischer Ebene. Dieses Gesetz benennt zum einen das Ministry of Education als verantwortliches

Kernministerium für Bildung und legt zum anderen die Grundlage für weitere Regulierungen und Reformen. Ein weiteres wichtiges Gesetz für die berufliche Bildung ist das Employment and Skills Development Law. Es kündigt die Implementierung einer zentralen Einheit an, die für Entwicklung von Strategien zur Schaffung von Arbeitsplätzen, zum Abbau von Arbeitslosigkeit und zur Förderung von Kompetenzentwicklung verantwortlich ist.

Die Standardisierung, Zertifizierung und Akkreditierung von Qualifikationen entsprechend internationaler Standards ist eine Schlüsselaufgabe, um die Qualität des Berufsbildungssystems zu fördern. Die im Jahr 2007 gegründete Institution, der diese Aufgaben übertragen wurde, ist die National Skill Standard Authority (NSSA). NSSA ist allerdings noch in der Aufbauphase und daher auf Unterstützung angewiesen, um ihrer Aufgabe gerecht zu werden, vergleichbare und reliable Kompetenzstandards sowie entsprechende Zertifizierungen einzuführen und in Kraft zu setzen. Dies sind wichtige Faktoren um die Wettbewerbsfähigkeit der myanmarischen ArbeitnehmerInnen zu verbessern.

Der KMU-Befragung des DEval zufolge, ist den UnternehmerInnen das Berufsbildungssystem kaum bekannt und auch Kooperationen zwischen Unternehmen und Institutionen der Berufsbildung sind selten. Eine Verbesserung der Kooperations- aber auch Koordinationsmechanismen ist notwendig, um die Bedarfe des Arbeitsmarkts, d.h. insbesondere des Privatsektors in der Entwicklung von Trainings und Curricula zu berücksichtigen.

Die Mehrheit der von DEval befragten UnternehmerInnen gab an, mit den Kompetenzen ihrer Angestellten zufrieden zu sein und auch positive Erwartungen hinsichtlich der Kompetenzen von AbsolventInnen von Trainingsinstitutionen zu haben. Allerdings erwarten UnternehmerInnen wie auch ExpertInnen einen Anstieg der Nachfrage nach qualifizierten und geringqualifizierten Facharbeitern und weniger nach Management- und Führungspersonal. Der Befragung zufolge ist eine Aufwertung des Berufsbildungssystems entsprechend der Bedarfe des Arbeitsmarktes essentiell, um das grundlegende Problem des Fachkräftemangels in Myanmar zu lösen. Um dies zu erreichen, ist eine Entscheidung der Regierung

notwendig, welches Berufsbildungssystem als passend für Myanmar erachtet und angestrebt wird. Darüber hinaus sollte das Berufsbildungssystem ausgebaut und verbessert werden und sowohl unter Arbeitgebern als auch unter potentielle Auszubildenden bekannter gemacht werden. Dazu gehört auch die Verbesserung der Ausbildung von LehrerInnen sowie ihrer Arbeitsbedingungen.

### **Hauptergebnisse und Schlussfolgerungen zur Qualitätsinfrastruktur**

Sowohl der Privatsektor als auch die Regierung von Myanmar scheinen die Bedeutung zu unterschätzen, die Qualitätsinfrastruktur vor dem Hintergrund steigenden, überregionalen Handels in naher Zukunft spielen wird. Momentan ist das Qualitätsinfrastruktursystem in Myanmar veraltet, Verantwortlichkeiten und Kompetenzen sind unklar und zersplittert und es fehlt an einem einheitlichen Vorgehen der involvierten Ministerien. Nationale Standards sind bisher nicht konform mit internationalen Anforderungen und es fehlt an qualifiziertem Personal, moderner Ausstattung und angemessenen Abläufen. Aus diesen Gründen wurden bis auf wenige Ausnahmen derzeit keine international anerkannten Qualitätszertifizierungen in Myanmar vergeben.

Problematiken, die in anderen Bereichen in Myanmar bestehen, sind auch hier zu beobachten: Das Qualitätsinfrastruktursystem leidet unter einer hohen Personalfuktuation und es fehlenden Kooperations- und Koordinierungsmechanismen zwischen Politik und Privatsektor. Trotz dieser Hürden steigt allerdings die Anzahl an Unternehmen in Myanmar, die über internationale Zertifizierungen verfügen. Derzeit müssen diese meist sehr kostspielig im Ausland beantragt werden und was für KMU nur selten erschwinglich ist. Dennoch ist diese Entwicklung ein klarer Hinweis darauf, dass die Bedeutung von Qualitätszertifizierungen und der Bedarf daran im Privatsektor zunehmen.

Mit der Öffnung der Märkte und dem damit einhergehenden, zu erwartendem Anstieg an Import- und Exporttätigkeiten wird die Notwendigkeit international anerkannter Qualitätssiegel drängender. Ein funktionsfähiges und zuverlässiges Qualitätsinfrastruktursystem ist daher unabdingbar für die Entwicklung der gesamten Wirtschaft und von KMU im Besonderen.

### **Weitere Beobachtungen und Schlussfolgerungen**

Das Programm „Nachhaltige Wirtschaftsentwicklung in Myanmar“ wird entsprechend des Programmansatzes der deutschen bilateralen Entwicklungszusammenarbeit durch verschiedene Projekte implementiert, die sich auf unterschiedliche Interventionsbereiche konzentrieren aber ein gemeinsames, langfristiges Ziel verfolgen. Die Daten dieser Baseline-Studie zeigen, dass alle gewählten Interventionsbereiche – Privat- und Finanzsektorentwicklung, berufliche Bildung und Qualitätsinfrastruktur – hohe Relevanz für die Erreichung des gemeinsamen Programmziels haben. Die Interventionen als Teil eines gemeinsamen Programms zu planen und zu implementieren wird auch als sinnvoll im Sinne der Wirkungsorientierung erachtet, erweist sich allerdings in Bezug auf die Koordination und die Nutzung von Synergien als sehr anspruchsvoll.

Für die kohärente und wirkungsorientierte Planung eines solchen komplexen Programms ist ein theoriebasiertes Vorgehen ein zielführender Ansatz. Durch die gemeinschaftliche Entwicklung eines Wirkmodells entsteht ein gemeinsames Verständnis der zugrunde liegenden kausalen Mechanismen und der Beiträge, die die einzelnen Projekte zum übergeordneten Programmziel leisten. Die Präzisierung von Wirkzusammenhängen erlaubt es außerdem, Möglichkeiten zu elaborieren, wie diese Zusammenhänge evaluiert werden können. Da die Möglichkeiten von Evaluierungen häufig aufgrund fehlender Daten eingeschränkt sind, war es entscheidend, für alle Interventionsbereiche geeignete Datenerhebungsinstrumente zu entwickeln und im Rahmen durchführbarer Evaluierungsdesigns einzusetzen. Es wurde ein Mix aus quantitativen und qualitativen Erhebungsinstrumenten gewählt, um sowohl ein gewisses Maß an Breite als auch an Tiefe von Informationen zu erhalten. Alle diese Überlegungen flossen in die Konzeptionierung dieser Baseline-Studie ein, die den Startpunkt des Längsschnittdesigns bildet. Die Kombination der erhobenen Panel-Daten mit den projekteigenen Monitoringdaten ermöglicht nicht nur Vorher-Nachher-Vergleiche der übergreifenden Veränderungen, sondern auch die Beobachtung von Veränderungen über die Zeit und bildet damit die Basis für die Wirkungsevaluierung, die am Ende der Programmimplementierung vorgesehen ist. Darüber hinaus sind die erhobenen Daten auch für Programmentscheidungen

nutzbar, die bereits vorher zu treffen sind. Die Triangulation der Ergebnisse zu Schlüsselfragen des Programms ergab zusätzliche Einsichten und hilfreiche Informationen für die weitere Planung und Implementierung des Programms und seiner Projekte. Die Zusammenstellung von maßgeblichen neuen und existierenden Daten zur aktuellen, wirtschaftlichen Lage in Myanmar macht diesen Bericht zu einer wertvollen Informationsquelle für Partner, Geber und andere, die bereits in Myanmar tätig oder planen dort tätig zu werden.

# EXECUTIVE SUMMARY

## Background

In recent years, there has been an intensive debate and increasing interest in impact evaluations, especially in the context of development cooperation. Randomized Controlled Trials (RCTs) have sometimes been declared as the gold standard design of impact evaluations. Yet it is seldom possible to evaluate whole development programmes with rigorous methods alone as the complex and multi-faceted programmes do not meet the criteria of randomized controlled trials and require a higher degree of flexibility. But it might well be considered to use rigorous methods as one of several components in the evaluation for selected parts of the programme combined with other approaches.

Generally, the quality of impact evaluations and the range of applicable methods largely depend on the quality of available data. In order to analyse the impact of an intervention at the end of implementation, profound information on the initial situation (before the intervention started) and continuous data over time is needed. Baseline-data collection and further preconditions for impact evaluation as well as the planning of monitoring data collection have to be already embedded in the planning phase of interventions.

With the resumption of German–Myanmar bilateral cooperation in 2012, the German Ministry of Economic Cooperation and Development (BMZ) saw this as a unique opportunity to pay special attention to the impact orientation of the new German–Myanmar Programme on Sustainable Economic Development from the early planning phase onwards, with the aim of addressing the issue of measuring impact at country-programme level. Accordingly, the German Institute for Development Evaluation (DEval) was asked to support and accompany this process and to create the prerequisites for impact evaluation on programme level.

The programme consists of seven projects in the areas of private-sector development, financial-sector development, vocational education, quality infrastructure and mining. They are implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, the KfW Development Bank (KfW), the National Metrology Institute (PTB) and the Federal Institute for Geosciences and Natural Resources (BGR), together with Myanmar partners. Although each project has its own

specific objective, they all contribute to the joint overarching programme objective of creating preconditions for sustainable and socially balanced economic growth throughout Myanmar.

This report presents the results of the baseline-data collection and its underlying impact-evaluation approach for the German–Myanmar Programme on Sustainable Economic development. As not all seven projects were planned and commissioned at the same time, the baseline study focuses on the first three GIZ projects – on private and financial development, and vocational education – and the PTB project on quality infrastructure.

## Methodological approach

In agreement with the stakeholders involved, DEval chose a theory-driven approach in order to incorporate in the planning process both evaluative thinking and the creation of preconditions for an impact evaluation. This approach included the joint development of a programme theory-and results-model at programme and project level. In this way, a common understanding of the objectives and underlying causal mechanisms of the programme as a whole, and of the corresponding projects was developed. For each intended change in the results model, indicators were drafted and information needs were identified. Different methods were devised to satisfy these needs if there were no existing data sources.

The information is primarily needed to capture the pre-intervention situation as this will later allow the measurement of change over time, and inform programming decisions. Therefore, DEval opted for a mixed-method approach for data collection: a country-wide, standardized SME survey, a standardized banking survey, semi-structured qualitative interviews with key informants. An extensive literature review enriched the obtained data, with additional and complementary information from secondary sources.

As part of the underlying longitudinal design, it is envisaged that follow-up data collections will be undertaken in which the same respondents shall be interviewed with the same data-collection instruments after a defined time period. Finally, at the end of the implementation of the programme in 2019/20, an impact evaluation will be conducted.

### Main findings and conclusions on Private-Sector Development

A key priority of the Government of Myanmar (GoM) and its reform process is to directly or indirectly strengthen the private sector. As SMEs dominate Myanmar's economy, they are one of the most important target groups of the reforms and, consequently, of the German–Myanmar Programme on Sustainable Economic Development. The DEval SME Survey aimed at gathering information on the key characteristics and challenges of SMEs in Myanmar. It revealed the following results:

- 98% of the surveyed SMEs have fewer than 50 employees, and two-thirds have five to nine employees.
- More than half of the surveyed SMEs have been operating for more than 10 years.
- The surveyed SMEs indicated having an average monthly firm revenue between MMK 1 and 5 million.
- They generate their revenue mostly through their own shop(s) or wholesalers in the region, with only a marginal share from exporting their products.
- More than one-fifth of the surveyed firms operates informally, and those that are registered have usually done so at municipal level with a City Development Committee.

The government's prioritization of SMEs is also reflected in the adoption of the SME Development Law, which clearly emphasizes the role of SMEs and announces the establishment of extended support structures. Among others, it includes a new definition of SMEs, regarded with some scepticism by experts as it is rather complex and not distinct. Positive changes could be observed in the organization of the drafting process of the law, which for the first time tried to directly include the perspective of the private sector through several consultation processes.

Interestingly, the surveyed SME representatives stated that they were satisfied with the current regulatory framework as well as the current market conditions. For the future, they expect an increase, or at least a constant development of, their monthly revenue. In contrast to this positive assessment, other expert assessments and different studies, such as the OECD Myanmar Business Survey 2014, the World Bank's Doing Business 2015 report, or ERIA's Myanmar SME Policy Index, show a much more critical perspective and reveal major deficits. According to

interviewed experts, competition is still rather limited, which is a possible explanation of the positive judgment by SMEs. Due to the fact that Myanmar will become a full member of the ASEAN Economic Community by the end of 2015, experts expect competition to increase significantly. At this point, the Myanmar private sector is not seen as competitive, due to deficits such as missing infrastructure, lack of financing, inadequate skills and research development as well as insufficient government services. The difference between concerns of experts regarding the upcoming opening of Myanmar's markets and the positive future expectations of SMEs indicate that the latter are not yet fully aware of the challenges they are going to face. The ongoing reforms on a political level need to ensure that the Myanmar private sector – and especially smaller firms – does indeed benefit in terms of economic growth and an improved public–private cooperation, and is not over-run by increasing international competition. Moreover, the main business obstacles already perceived by SMEs need to be tackled, namely, the price of raw materials, lack of skilled workers, political instability and high labour turnover.

Information regarding corruption and its impact differ between different sources. This suggests that different population groups and areas of the economy are affected differently by corruption or have a different perception of the problem of corruption.

Most surveyed SME owners have heard of existing business-development services, but they hardly use them because the services they need are not available or the transaction costs are too high. Possibly, the upcoming decentralization of the Directorate of Investment and Company Administration (DICA) and the Department of SME Development will lead to an improved availability of such services outside Yangon.

Insufficient public–private cooperation turned out to be one major deficit in the current structure. Data revealed that inclusion of the private sector had already started to improve. The United Myanmar Federation of Chamber of Commerce and Industry (UMFCCI) is frequently involved as a representative of the private sector. However, since only a marginal share of firms, and especially of SMEs, is affiliated to the UMFCCI or any other national association, the inclusion of such organizations will not be sufficient to adequately strengthen private-sector representation in the policy dialogue.

### **Main findings and conclusions on Financial Sector Development**

The ongoing reform process brings along huge challenges for Myanmar's financial sector, and especially for the Central Bank of Myanmar (CBM). Modernization of the financial sector is very urgent, while at the same time CBM itself still needs capacity to adequately fulfil its role as the custodian of the financial sector; it is not yet fully equipped to oversee, coordinate and enforce the regulatory framework and ongoing processes. As it is the key actor in Myanmar's financial system, it is essential to enable CBM to fulfil its tasks. Accordingly, coordinated support from different stakeholders, especially through additional staff and comprehensive training measures at all levels is needed.

An important milestone on the policy level was the adoption of the Central Bank of Myanmar Law in 2013, which ensures its autonomy. The adoption of the new Financial Institution Law of Myanmar is expected next. Nonetheless, more substantial reforms, as well as capacity-building measures, are needed to establish a functioning banking sector. The importance of capacity building becomes particularly apparent in the fact that more than half of surveyed banking staff declare themselves unfamiliar with the existing rules and regulations. Though not familiar with the regulatory framework, it is interesting to note that they still consider restrictive regulations as the main barrier for the expansion of financial services to SMEs.

The banking sector is still dominated by state-owned banks but there are several private banks operating in the country. The revision of the regulatory framework according to international standards will accelerate the national and international competition among banks. Furthermore it necessitates capacity building for the banking staff in order to enable the banks to follow regulations that are in line with international requirements. In particular, the area of accounting and auditing is regarded as deficient.

In the financial sector as a whole there is a lack of adequate education programmes. The existing training is often considered as too theoretical – a general problem of education in Myanmar. Basic programmes at university level that would prepare students for a career and specialization in financing and banking are missing.

The DEval SME Survey revealed that SMEs mostly rely on informal financing services and only use banks as sources for higher loans. The expert assumption that mistrust of the formal banking system is one main reason could not be confirmed by the data. Most business owners stated that they do not see any advantage in using formal services, in comparison with informal sources and, indeed, that the conditions of financial services do not currently seem to be particularly attractive. Those who had interacted with banks judged the competencies of staff and the range and quality of services as satisfactory. The surveyed banking staff did not expect the demand for financial services by SMEs to change or increase in the future. In contrast to this assessment, SME owners expressed an interest in using other and newer financial services, if they were useful for them and available.

It is questionable when demand-driven services for the private sector, and in particular for SMEs, will be nationwide available. It will take some years until capacity-building measures have made the financial system a backbone of the economy, and until the reforms that are underway will show the expected results.

### **Main findings and conclusions on Technical Vocational Education and Training**

Not only the Technical Vocational Education and Training (TVET) sector but the Myanmar education sector as a whole is fragmented, with responsibilities and tasks scattered. In this regard, one milestone at policy level was the adoption of the National Education Law, as it defined the Ministry of Education as the core ministry in charge of education. Furthermore, the law laid the foundation for further regulations and reforms. Another important law for TVET is the Employment and Skill Development Law. It announces the implementation of a central body in charge of drafting policies on job creation, reduction of unemployment and the promotion of skills development.

One key challenge in upgrading the quality of TVET is ensuring standardization, certification and accreditation of qualification in line with international standards. The institution mandated to promote skills development is the National Skill Standards Authority (NSSA) founded in 2007. NSSA needs to be supported in fulfilling the task to introduce and enforce comparable and reliable skills standards and respected certification. This will



be important in improving the competitiveness of Myanmar's workers.

The DEval SME Survey revealed that SME owners are not familiar with the TVET system, and that cooperation is scarce. Better cooperation and coordination mechanisms need to be established in order to involve the needs of the private sector in the development of training programmes and curricula.

According to the DEval SME Survey, the majority of SME owners were satisfied with the skills of their employees. They also have positive expectations regarding the qualification of graduates of Myanmar's training institutions. Nonetheless, SME owners, as well as experts, foresee an increasing demand for skilled and semiskilled workers. The study revealed that an upgrade and revision of the TVET system according to the needs of the labour market could be essential in solving the profound problem of missing skilled labour in Myanmar. Therefore, the GoM needs to decide which kind of TVET system is anticipated and most appropriate for Myanmar. Additionally, the TVET system needs to be popularized among employers and trainees, expanded and upgraded, which includes the improvement of teacher training as well as the working conditions of teachers.

### **Main findings and conclusions on Quality Infrastructure**

The private sector and the GoM currently seem to underestimate the important role that will be played by quality infrastructure (QI) in the near future, with international trade continuing to rise. At this point, Myanmar's QI system as a whole is outdated, the regulatory framework is inadequate, responsibilities and competencies are unclear and scattered, and a harmonized approach of the different ministries involved is missing. Moreover, national standards are not in accordance with international requirements and there is a lack not only of qualified staff but also of modern equipment and adequate procedures. With a few exceptions no internationally accepted quality certificates were awarded in Myanmar.

Problems that occur in different sectors in Myanmar also hold true for this intervention area. The QI system suffers from a high labour turnover and a lack of cooperation and coordination between public and private sectors. Despite all these hurdles, a growing number of enterprises in Myanmar

obtains international certificates which have to be requested abroad which is expensive and often not affordable to SME. This indicates that the significance of the issue and the need for quality certificates has already started to rise among the private sector.

With the opening of markets and thereby the increase of exports and imports the need for internationally accepted quality certificates will become an even more urgent topic. A proper quality infrastructure is indispensable for the development of the economy as a whole and SMEs in particular.

### **Further remarks and conclusions**

The German–Myanmar Programme on Sustainable Economic development is – as determined by the overall structure of German bilateral country programmes – implemented through different projects focusing on different intervention areas to achieve a joint overarching long-term objective. The data collected in this baseline study show that all intervention areas, namely private-sector and financial-sector development, vocational education and quality infrastructure are highly relevant in this respect. To plan and implement the interventions as part of one joint programme turns out to be useful but also effortful in terms of coordination and synergies.

To plan such a complex programme in a coherent and impact-oriented manner is challenging, and the theory-driven approach is considered useful for this: the development of one unified results model helps in finding a common understanding about underlying causal mechanisms and how the different projects contribute to the overall programme objective. Moreover, the clear specification of cause-and-effect relationships allows to elaborate possible approaches for the evaluation of these relationships. As the opportunity to do this is often limited by the lack of available data, it was then crucial to apply appropriate data-collection instruments within feasible evaluation designs for different interventions. Accordingly, a mix of quantitative and qualitative data-collection instruments was applied to acquire a certain level of breadth and depth of information. The concept of this baseline study addressed all these considerations and represents the starting point of the overall longitudinal design. The collected panel data will, together with the project's monitoring data, allow not only a

before-and-after comparison for the overarching changes but also the opportunity to observe changes over time, and thus serve as a basis for an impact evaluation at the end of the programme's implementation. Furthermore, the data collected has proved to be highly valuable for prior programming decisions. The triangulation of results on key questions of the programme generated additional information and insights that will be helpful in further planning and implementing the programme and its projects. As the report presents an important compilation of new and existing data on the current situation in the Myanmar economic sector, the data are also very informative for partners, donors and others already working in Myanmar or planning to resume work in the country.

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# ABBREVIATIONS

<b>AEC</b> <i>ASEAN Economic Community</i>	<b>CPA</b> <i>Certified Public Accountants</i>	<b>FAO</b> <i>Food and Agriculture Organization of the United Nations</i>	<b>ITC</b> <i>Industrial Training Center</i>
<b>ASEAN</b> <i>Association of South East Asian Nations</i>	<b>CSO</b> <i>Central Statistical Office</i>	<b>FDA</b> <i>Food and Drug Administration</i>	<b>IZ</b> <i>Industrial Zone</i>
<b>BFILM</b> <i>Banks and Financial Institutions Law of Myanmar</i>	<b>DEval</b> <i>Deutsches Evaluierungsinstitut der Entwicklungszusammenarbeit/ German Institute for Development Evaluation</i>	<b>FESR</b> <i>Framework for Economic and Social Reforms</i>	<b>JICA</b> <i>Japan International Cooperation Agency</i>
<b>BGR</b> <i>Bundesanstalt für Geowissenschaften und Rohstoffe/ Federal Institute for Geosciences and Natural Resources</i>	<b>DICA</b> <i>Directorate of Investment and Company Administration</i>	<b>FIDSL</b> <i>Food Industries Development Supporting Laboratory</i>	<b>KfW</b> <i>KfW Development Bank</i>
<b>BMZ</b> <i>Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung/ Federal Ministry for Economic Cooperation and Development</i>	<b>DRI</b> <i>Department of Research and Innovation</i>	<b>FSD</b> <i>Financial Sector Development</i>	<b>M&amp;E</b> <i>Monitoring and Evaluation</i>
<b>CB Bank</b> <i>Co-Operative Bank Ltd.</i>	<b>ERIA</b> <i>Economic Research Institute for ASEAN and East Asia</i>	<b>FY</b> <i>Fiscal Year</i>	<b>MAC</b> <i>Myanmar Accountancy Council</i>
<b>CBM</b> <i>Central Bank of Myanmar</i>	<b>EPIC</b> <i>Education Promotion Implementation Committee</i>	<b>GDP</b> <i>Gross Domestic Product</i>	<b>MDRI</b> <i>Myanmar Development Resource Institute</i>
<b>CESP</b> <i>Costed Education Sector Plan</i>	<b>EU</b> <i>European Union</i>	<b>GIZ</b> <i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i>	<b>MES</b> <i>Myanmar Engineering Society</i>
<b>CESR</b> <i>Comprehensive Education Sector Review</i>	<b>EUR</b> <i>Euro</i>	<b>GoM</b> <i>Government of Myanmar</i>	<b>MFPEA</b> <i>Myanmar Food Producer and Exporter Association</i>
		<b>ISO</b> <i>International Organization for Standardization</i>	<b>MFVP</b> <i>Myanmar Fruit and Vegetable Producers Association</i>
			<b>MIB</b> <i>Myanmar Institute of Banking</i>

**MITS**

Myanmar Inspection and Testing Services Ltd.

**MMK**

Myanmar Kyat

**MNPED**

Ministry of National Planning and Economic Development

**MNQF**

Myanmar National Qualifications Framework

**MoC**

Ministry of Commerce

**MoE**

Ministry of Education

**MoH**

Ministry of Health

**MoI**

Ministry of Industry

**MoLESS**

Ministry of Labour and Social Security

**MoLFRD**

Ministry of Livestock, Fisheries and Rural Development

**MoST**

Ministry of Science and Technology

**MSTRD**

Myanmar Scientific and Technological Research Department

**MWEA**

Myanmar Women Entrepreneur Association

**MYEA**

Myanmar Young Entrepreneurs Association

**NAL**

National Analytical Laboratory

**NLD**

National League for Democracy

**NMI**

National Metrology Institute

**NQF**

National Qualifications Framework

**NSC**

National Standards Council

**NSSA**

National Skills Standards Authority

**OECD**

Organisation for Economic Co-operation and Development

**PSD**

Private Sector Development

**PTB**

Physikalisch-Technische Bundesanstalt/ National Metrology Institute

**QI**

Quality Infrastructure

**SEZ**

Special Economic Zone

**SME**

Small and Medium Sized Enterprise

**SMIDB**

Small and Medium Industrial Development Bank

**TVET**

Technical Vocational Education and Training

**UMFCCI**

United Myanmar Federation of Chamber of Commerce and Industry

**UNESCAP**

United Nations Economic and Social Commission for Asia and the Pacific

**UNIDO**

United Nations Industrial Development Organization

**USAID**

United States Agency for International Development

**USD**

US-Dollar



1.

# INTRODUCTION

*“Evaluation is the systematic and objective assessment of an on-going or completed project, programme or policy, its design, implementation and results.*

*The aim is to determine the relevance and fulfilment of objectives, development efficiency, effectiveness, impact and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision-making process of both recipients and donors.*

*Evaluation also refers to the process of determining the worth or significance of an activity, policy or programme.”*  
(OECD, 2002, p. 3)

In donor and recipient countries of development cooperation, there has been an increasing interest in and call for impact evaluations. As specified in the above definition by the Organisation for Economic Co-operation and Development (OECD), evaluation is an instrument to systematically assess and review an intervention as a basis for future decision-making. However, the quality and robustness of information provided through an evaluation greatly depends on the data available and, subsequently, the design and methods that can be used. High-quality and rigorous impact evaluation is thus only possible when evaluation and data collection were embedded into the programme cycle from the very beginning, ensuring that certain preconditions are in place, including a coherent and well-documented programme logic and baseline and monitoring data. While rigorous and particularly experimental designs used for impact evaluations of single interventions have received a lot of attention in the past, the debate only marginally focused on more rigorous evaluations of complex, multi-faceted programmes. At the same time, it is agreed that there is only limited use of such evaluation designs within the context of developing countries, as a certain level of flexibility is needed in the planning and implementation process of interventions, which is not in line with the strict data-collection and implementation protocol required by randomized controlled trials.

With the resumption of German–Myanmar bilateral cooperation in 2012, the BMZ saw this as a unique opportunity to pay special attention to impact orientation of the new German–Myanmar

Programme on Sustainable Economic Development, with the aim of addressing the issue of measuring impact at country-programme level from the early planning phase onwards. The programme particularly focuses on strengthening small- and medium-sized enterprises (SME) and consists of seven projects in the areas of private-sector development, financial sector development, vocational education, quality infrastructure and mining. The projects are implemented through technical and financial cooperation by the German implementing organizations, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, the KfW Development Bank (KfW), the National Metrology Institute (PTB) and the Federal Institute for Geosciences and Natural Resources (BGR), together with Myanmar partners.

Moreover, BMZ asked the German Institute for Development Evaluation (DEval) to support the programme’s impact orientation by incorporating evaluative thinking and evaluation expertise into the overall planning process, with the aim of creating the preconditions for an impact evaluation at programme level at the beginning of implementation. First, DEval advised and supported BMZ and the involved implementing organizations in the development of a programme theory, including results models at project level, to create a coherent understanding of expected results and what activities and causal mechanism will lead to certain anticipated changes. It was then considered through which indicators these results could be measured. Second, DEval derived a longitudinal impact-evaluation design with data-collection at different points in time, starting with a baseline study to ensure that comparable data are systemically collected before, during and after programme implementation. The use of complementary quantitative and qualitative data-collection instruments ensured the generation of in-depth contextual information as well as country-wide data on key indicators. This approach appeared to be the most suitable as it will allow for the necessary flexibility on adjusting data-collection instruments to changes in the programme and at the same time provides a rich data base against which to measure impact at the end of the programme.

The choice of data-collection instruments for the baseline study was discussed and jointly developed with the key stakeholders involved. The core instruments include a country-wide survey of

SMEs, key-informant interviews with designated experts in the different intervention areas, and a banking survey. Furthermore, existing valid and reliable secondary data were reviewed and incorporated in the analyses. An extensive document review enriched the contextualization of the data.

This report presents the results from these baseline data collections. It starts by giving an introduction to the overall country context in which the programme is implemented (Chapter 2). Chapter 3 briefly describes the programme and its seven projects. Chapter 4 introduces the methodological approach chosen to implement the necessary preconditions for a later impact evaluation. It further presents the data-collection instruments for the baseline study and discusses challenges

encountered and adjustments that had to be made throughout the process. Chapter 5-8 continue with the presentation of the findings of the baseline study for each intervention area, based on the respective results models. It also incorporates information from other data sources gathered through intensive literature review. The report closes with a chapter on overall conclusions relevant for the intervention areas and the programme as a whole, but also regarding the approach chosen for accompanying the planning process of development interventions with advisory and complementary baseline data collection.





## 2.

# GENERAL OVERVIEW OF CURRENT PROGRAMME CONTEXT IN THE FIELD OF ECONOMIC DEVELOPMENT IN MYANMAR



To adequately interpret the results of the baseline study, it is helpful to understand the economic and social context in which the German–Myanmar Programme on Sustainable Development is embedded. This chapter briefly describes the country of Myanmar and its history, and then examines Myanmar’s political situation, its economic state and its social conditions.

### Country profile

Myanmar is multi-ethnic state with an area of 676,590 km<sup>2</sup>, located in Southeast Asia, bordering Bangladesh, India, China, Laos and Thailand. Approximately 50 million people (51,419,420; provisional result of the 2014 Myanmar Census) live in the 15 states of Myanmar,<sup>1</sup> which are subdivided into 74 districts and 412 townships/sub-townships (MIP, 2015). The young and still-growing population<sup>2</sup> (median age: 27; annual population growth rate: 0.89%; (MIP, 2015)) is composed of 135 different ethnicities (Oxford Business Group, 2014).

### History

Myanmar’s modern history is complex. Burma (as it was called at that time<sup>3</sup>) was gradually taken over by the UK during three Anglo-Burmese wars (1824–26, 1852 and 1885), but achieved independence in 1948. The “Union of Burma” initially became a parliamentary democracy (OECD, 2013), but in 1962 a coup d’état paved the way for the “Burmese Way to Socialism”, which “advocated transition to a socialist economy, the nationalization of all major industries, rejected parliamentary democracy, increased the role of the military and reduced foreign influence” (OECD, 2013, p. 59). The period of post-independence was and still is characterized by conflicts, especially between the military-dominated GoM and different ethnic groups (Effner, 2013) fighting for their rights and independence (Bücklein, 2013). Due to military rule “Western countries imposed numerous sanctions on the country, which saw its economy isolated for more than half a century” (Oxford Business Group, 2014, p. 10). After a take-over by a new military regime in 1988, which ended a series of anti-government riots, there was a wave of arrests in 1989. At this time the leader of the opposition, Aung San Suu Kyi, was also put under house arrest for a total of nearly 15 years over a 21-year period. The opposition won the elections in 1990, but this result was completely ignored by the military. In 2003

the Government of Myanmar (GoM) announced a “Disciplined Democracy”. A new constitution was formulated in 2008 and Myanmar started its way towards a more decentralized system, although the constitution did not guarantee any rights or autonomy to ethnic minorities (Bücklein, 2013).

### Political situation

After general elections in 2010, U Thein Sein was appointed president in February 2011. He convened a civil parliament in April 2011 and started comprehensive political, administrative and economic reforms. Aung San Suu Kyi and other political prisoners were released. Aung San Suu Kyi and her National League for Democracy (NLD) won the by-elections in April 2012 and entered parliament (Bücklein, 2013).

The international community welcomed the political developments and, in response to the reform process, the European Union (EU) suspended sanctions in May 2012. At the same time, the United States announced that they would begin to ease their sanctions (Council of the EU, 2012; OFAC, 2014). German Development Minister Dirk Niebel visited Myanmar in February 2012, and in the same year the cooperation between both countries was partially resumed. The first official intergovernmental discussion after 20 years started in July 2013 (BMZ, 2013).

The way was now open for ceasefires to be brokered with most of the armed ethnic groups in conflict with the military government, such as the Kachin Independence Army in Kachin state (Einzenberger, 2014). Nevertheless, violent conflicts continued, including that between Buddhists and Muslims, which recently escalated with attacks on the minority Muslim Rohingya in Rakhine state. It will, presumably, take years to obtain comprehensive peace agreements and to sustainably solve the conflicts (Effner, 2013).

Myanmar’s transition necessitates not only a peace process with its ethnic minorities but also a large number of political and economic reforms, including “relaxation of press censorship, authorization of labour unions, legalization of public assembly and protest, and encouragement of foreign investment” (OECD, 2013, p. 60). The GoM has expressed the intention to conduct an

<sup>1</sup> Kachin, Kayah, Kayin, Chin, Sagaing, Tanintharyi, Bago, Magway, Mandalay, Mon, Rakhine, Yangon, Shan, Ayeyawady, Nay Pyi, Taw

<sup>2</sup> According to the OECD, the population structure is stabilizing and Myanmar should take full advantage of the growth momentum to “avoid getting old before getting rich” (OECD, 2014b, p. 33).

<sup>3</sup> In 1989 the military regime changed the name of the country from Burma to Myanmar. While Burma is the name of the dominant ethnic majority, the name Myanmar was chosen to include all ethnic groups, although the ethnic Burmese used the term “Myanma(r)” synonymous with “Burma(h)” (for more details see Hingst, 2007)

inclusive and participatory reform process involving civil society and the private sector (EU, 2013), but the reforms are complex and interminable. International donors state that Myanmar needs to be supported in its journey towards inclusive development and the participation of all stakeholders in the political process (Ministry for Foreign Affairs of Finland, 2015; Tanaka, 2015). While there have been remarkable initiatives and changes in recent years, it is yet too early to draw firm conclusions about the reform process as a whole.

#### *Elections in November 2015*

The transition process brings challenges for the GoM's democratic development and political stability. The elections on 8 November 2015 were eagerly awaited, and were expected to “put the democratization process of the country to the test” (Bücklein, 2013, p. 13). Some experts forecast a victory for the NLD although, according to the current constitution, Aung San Suu Kyi cannot be president because her two sons are British citizens.<sup>4</sup> Whatever the result of the election, the powerful position of the military will persist due to the constitution, which ensures them 25% of legislative seats (ICG, 2015). It remains to be seen how the election and the potential political changes affect the attitude of the GoM towards donor cooperation and private sector development and, consequently, the German–Myanmar Programme on Sustainable Development.

#### *Influential position of military and “cronies”*

Generally, the democratization of Myanmar is regarded as a positive development. However, there are critical voices regarding the control the military has not only over state enterprises and whole markets but also the media (Bücklein, 2013; ICG, 2012). Although the transition process limited their privileges, the military still has a wide-ranging influence (ICG, 2012), ensured by the constitution (Croissant, 2015).<sup>5</sup>

Over the years, an economic elite has emerged, which is well-connected to the military and to the former government. The so-called “cronies” are a fairly small number of business people who control major parts of the national economy due to privileges they had under the military regime (Bücklein, 2013; ICG, 2012; Palz, 2013). In order to remain in their influential position throughout the transition process, the cronies try

to “rebrand themselves as valuable contributors to the new economy” (ICG, 2012, p. i).

The process of opening up and of reform after decades of isolation is challenging. Furthermore, the GoM is facing the task of developing an economy that is competitively viable and adapted to the requirements of free markets (Bücklein, 2013). This will be discussed in the next section.

#### **Economic situation**

Myanmar became a member of the Association of Southeast Asian Nations (ASEAN) in 1997, and took on chairmanship of the ASEAN regional grouping in 2014 under the slogan “Moving Forward in Unity to a Peaceful and Prosperous Community”. By handing over the chairmanship to Myanmar, ASEAN reinforced the expectation that the country’s reform process would carry on. In late 2015, the ASEAN Economy Community (AEC) will be established. For Myanmar and its economy, which still suffers from decades of isolation and mismanagement, such early and full membership of AEC means a special challenge and perhaps even an overextension: “Myanmar must prepare its own human resources to take advantage of the planned freer movement of skilled labour under the AEC” (Milio et al., 2014, p. xix).

Myanmar has some rather good preconditions for prosperous economic development due to its advantageous geostrategic location: it is rich in natural resources, not only natural gas and diverse minerals (Bücklein, 2013) but also agricultural resources. Moreover, Myanmar has a privileged location between India and China. Further advantages are its young labour force and rich cultural heritage. Altogether, these factors provide Myanmar’s economy with strong potential (OECD, 2013).

Yet, a lot needs to be done before this potential can be fully used. For 2015, the World Bank ranks Myanmar 177 out of 189 countries in its Ease of Doing Business Index, while the World Economic Forum ranks Myanmar at 134 out of 144 on its Global Competitiveness Index. The latter names as the most problematic factors for doing business in Myanmar (in descending order): access to financing, corruption, inefficient government bureaucracy, inadequately educated workforce and policy instability (World Economic Forum, 2014).

<sup>4</sup> Section 59(f) of the constitution says that a presidential candidate, his/her parents, spouse, children or children-in-law shall not owe allegiance to or be a citizen of a foreign country.

<sup>5</sup> According to Croissant (2015), there are some doubts concerning the democratic legitimacy of the constitution.

The initiated economic reforms led to economic growth: “GDP [Gross Domestic Product] growth is estimated at 7.7% in Fiscal Year (FY) 2014 (ending 31 March 2015), reflecting strong expansion in construction, manufacturing, and services. The GoM’s ambitious structural reform programme has underpinned the strong growth performance in recent years” (ADB, 2015b, p. 227). And there is potential for an even higher growth in the next years as investments increase due to reforms and improved business conditions (Milio et al., 2014; ADB, 2015b).

After decades of isolation and economic sanctions by the EU and US, multiple reforms and comprehensive modernization is needed to use Myanmar’s potential. Since the beginning of the transition and reform process it also affects the corporatization or privatization of state-owned enterprises. Although the number of state-owned enterprises was reduced and lost importance, they are still a relevant part of Myanmar’s economy: state-owned enterprises not only “accounted for 8.7% of GDP on average from 2004 to 2010, more than half of government revenues and over 40% of exports” but also “dominate many fields such as agribusiness, forest, mines, energy, light and heavy industries, construction and telecommunications” (OECD, 2013, p. 108). The GoM chose a step-by-step privatization plan that aims to be transparent and efficient (MNPED, 2012). But there remain disadvantages for the private sector: “Much of the available credit is directed to state-owned businesses instead of the private sector” (OECD, 2013, p. 161). To ensure economic development in Myanmar, the privatization process should cut back the privileges of state-owned enterprises and ensure that there are no distortions of competition or disadvantages for private enterprises.

#### *Gaps between rural and urban areas*

So far, economic reform and growth are primarily affecting urban areas, especially Yangon, while there are only limited changes in the rural areas (Effner, 2013). According to the 2014 Myanmar Census, 70% of the population lives in rural areas (MIP, 2015) and these areas account for 85% of food poverty (UNDP, 2011). Furthermore, there is a rural–urban divide in access to public services (healthcare, education) and infrastructure. These discrepancies have been known about for some time and have already been targeted by previous governments (for example via the establishment of Industrial Zones in every

region; (OECD, 2013). The new GoM also prioritizes decentralization and sustainable regional development (MNPED, 2012).

As mentioned earlier, Myanmar’s economy is dominated by agriculture. In 2010 it accounted for 36% of GDP, whereas services contributed 38% and industry 26% (ADB, 2012). According to the World Bank, approximately 70% of the labour force works in agriculture or depends on agriculture for its income (World Bank, 2014b). Myanmar’s agriculture has the potential to be a driver of poverty reduction. With a relatively low population density (76 inhabitants/km<sup>2</sup>; (MIP, 2015) and water easily available, Myanmar is able to produce a broad array of agricultural products. However, the country needs to modernize its agricultural sector in order to increase agricultural productivity and to deliver the diversity of high-quality products demanded by the open market (OECD and ASEAN, 2013; OECD, 2014a). “A modern agricultural sector will require a robust financial system as well as improved extension services and farmer education” (OECD and ASEAN, 2013, p. 15). In addition, labour productivity has to increase. Together, these advances would lead not only to greater exports of agricultural products, but would also help reduce the existing high poverty rates in rural areas and ensure food security within Myanmar (Milio et al., 2014).

Although natural and agricultural resources represent an enormous potential for Myanmar, it has to be recognized that a growing economy, together with a growing population, will intensify the pressure on Myanmar’s environment. The GoM needs to develop capacities to manage this pressure and the accompanying challenges (OECD, 2013). This is particularly true if Myanmar tries to increase its trade activities.

Export growth can already be observed. The Ministry of National Planning and Economic Development (MNPED) publishes statistics on Myanmar’s exports: while exports in 2012–13 totalled USD 8,977.0 million, they reached USD 11,204.0 million in 2013–14. Myanmar exports consist mainly of manufactured products, primarily garments and gas, but also include agricultural products (rice, maize, black matpe bean, green mung bean, sesame seeds and raw rubber) and mineral products, especially jade (MNPED, 2015). Over the same period, imports increased from USD 9,068.9 million in 2012–13 to USD 13,759.5 million in 2013–14.

Sustainable and socially balanced economic growth can only be achieved when all parts of society benefit from it. The following section will thus describe the social conditions in Myanmar, with special regard to poverty and the situation of women.

### Social conditions

#### *Rich in resources but poor in wealth*

Although rich in natural resources, Myanmar remains one of the world's least developed countries (position 150 of 187 on the Human Development Index 2013; UNDP, 2014) with around 25% of the population below the poverty line. This is, however, a decrease of 6 percentage points in comparison to 2005 (UNDP, 2011). According to World Bank data, the unemployment rate in Myanmar was 3.4% (female 3.7%, male 3.1%) in 2013 and the labour force participation rate 79% (female: 75%; male: 82%) (World Bank, 2015a).

According to the World Bank's Doing Business 2015 report, the average annual income (Gross National Income divided by the mid-year population) was USD 1,270 in 2014 (World Bank, 2014a). General workers are paid an average wage of USD 53 per month; managers (at department chief level) USD 433 per month, and non-manufacturing managers USD 688 per month (JETRO, 2013).

Labour costs in Myanmar are the lowest in the region (except for managers in manufacturing, where it is second lowest) (JETRO, 2013). The more highly qualified the staff, the smaller is the gap in wages between Myanmar and neighbouring countries: "While the wage of a manufacturing worker in Myanmar, for example, is only about one-sixth of that of a comparable worker in China or Thailand, the wage differential narrows in job categories that require higher skills." (OECD, 2015, p. 7)

It is expected that wages will increase in the future (ADB, 2015b). The GoM decided to introduce minimum wages in 2015. These were negotiated between the government, employers and labour representatives. The National Minimum Wage Committee proposed a daily minimum wage of Myanmar Kyat (MMK) 3,000 (USD 2.65) in June 2015 (Nyan Lynn Aung, 2015). However, the minimum wage is a controversial topic, and discussion between employers and employees is sensitive, as there is not yet agreement as to the appropriate minimum salary to support

a decent standard of living while also allowing the country to be competitive within the region and internationally.

#### *Gender inequalities – not too obvious but prevalent*

Myanmar was ranked 80 out of 148 countries on the Gender Inequality Index (GII) in 2012, which is based on the assessment of gender-based inequalities in three areas: reproductive health, empowerment, and economic activity (Milio et al., 2014). In recent years, gender equality, which is laid down in the 2008 constitution, received increasing attention. Despite the frequently occurring problem that women are responsible for unpaid care and family work, their labour participation has steadily increased throughout all sectors in the last few years (Jackson and D'Cunha, 2015). As a result, women are not under-represented in Myanmar's labour market: the female percentage of total labour force was 49.8% in 2013 (World Bank, 2015a). According to the OECD, this might be due to Myanmar's agricultural-dominated economy requiring every family member to be involved in farming (OECD, 2014a). Yet, it is also the case that women's labour participation is increasing in the industrial and public sectors.

The comparatively high share of women in Myanmar's labour market is also in line with the results of the DEval SME Survey and the OECD Business Survey: in the surveyed SMEs in the DEval SME Survey three-quarters of business owners of SMEs were male (Amine and Stockmann, 2015). The OECD data suggests that the gender imbalance increases with larger organizations, as there were only around 7% female business owners in enterprises with more than 100 employees (OECD, 2014a). Yet, the distribution of female workers in different positions within SMEs is similar to that of men (see Figure 1). For example, the share of men in the management staff of micro-enterprises is 24.42% and the share of women in the same position is 18.93%.

Figure 1: Share of male and female employees in different functions, in percent



According to the UNDP, women are under-represented in high-level positions and higher-skilled jobs. Moreover, they earn less: “Women may be paid less for a same type of job or may not be considered for higher-paid jobs in some fields of work” (UNDP, 2015a). But in view of the fact that under-representation of women in higher positions and their unequal pay compared with that of men is also common in more developed countries, these findings are not that surprising.

The above considerations of Myanmar’s political, economic and social situation showed that there has been much progress in terms of democratization, economic development and social conditions, but a lot still needs to be done for a democratic, economically competitive Myanmar that offers its workers good living conditions.

This is where the German–Myanmar Programme on Sustainable Economic Development steps in. It aims to strengthen the economic performance and competitiveness of SMEs and thereby support income generation and increased employment. The programme, its projects and objectives are discussed in further detail in the next chapter.

3.

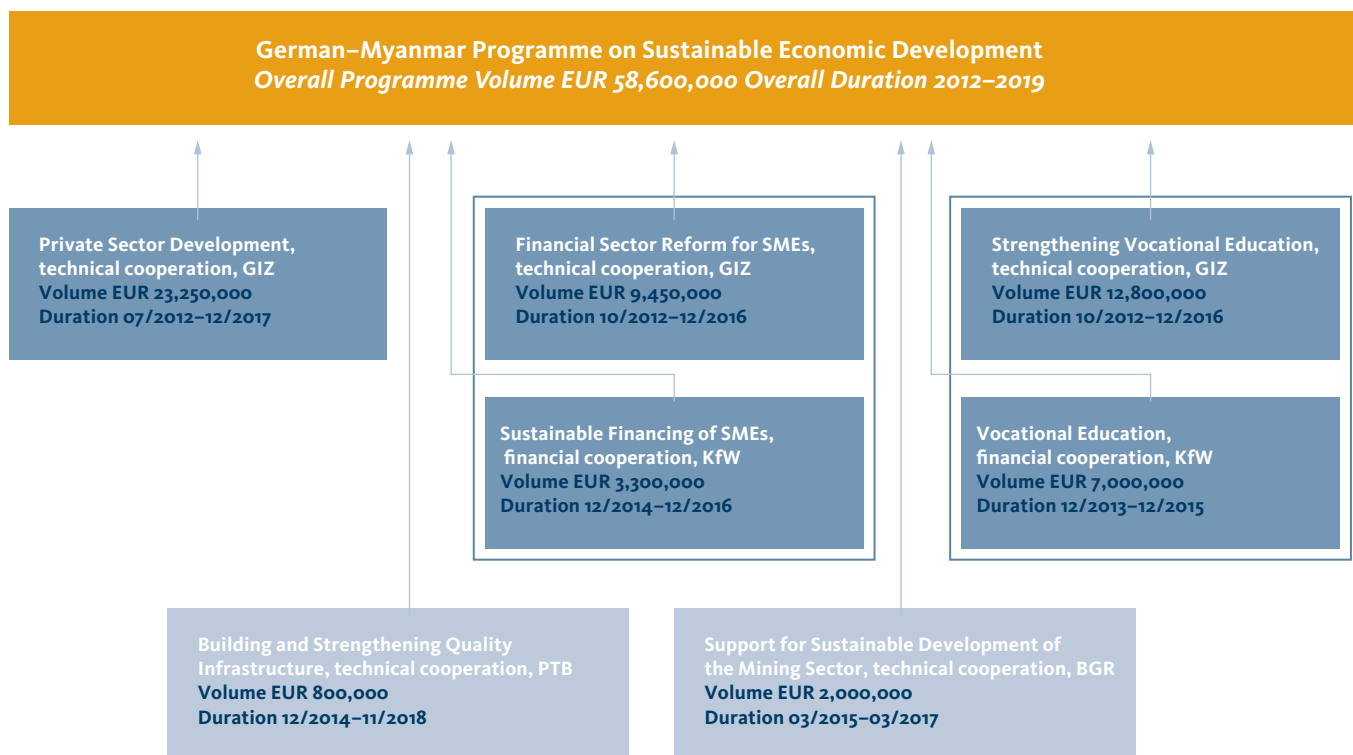
THE GERMAN-MYANMAR  
PROGRAMME ON SUSTAINABLE  
ECONOMIC DEVELOPMENT

*Programme on Sustainable Economic Development*

According to the programme proposal for the German–Myanmar Programme on Sustainable Economic Development (BGR et al., 2014) the successful continuation of the reform process that started in 2011 depends on whether large parts of society recognize it as leading to an improvement in overall living standards. The core problem identified is that Myanmar cannot realize its economic potential because of inadequate capacity in terms of human, institutional, political and infrastructural

resources. To address this problem, the German engagement will support economic development by strengthening the private sector in order to create employment. This will require the support of numerous institutions and reform processes in a range of subsectors. The programme is accordingly composed of seven projects, designed and implemented by different German organizations in cooperation with Myanmar partners. Figure 2 gives a general overview of the programme and its projects.

**Figure 2: Overview of projects comprising the German–Myanmar Programme on Sustainable Economic Development**



Source: Authors' compilation

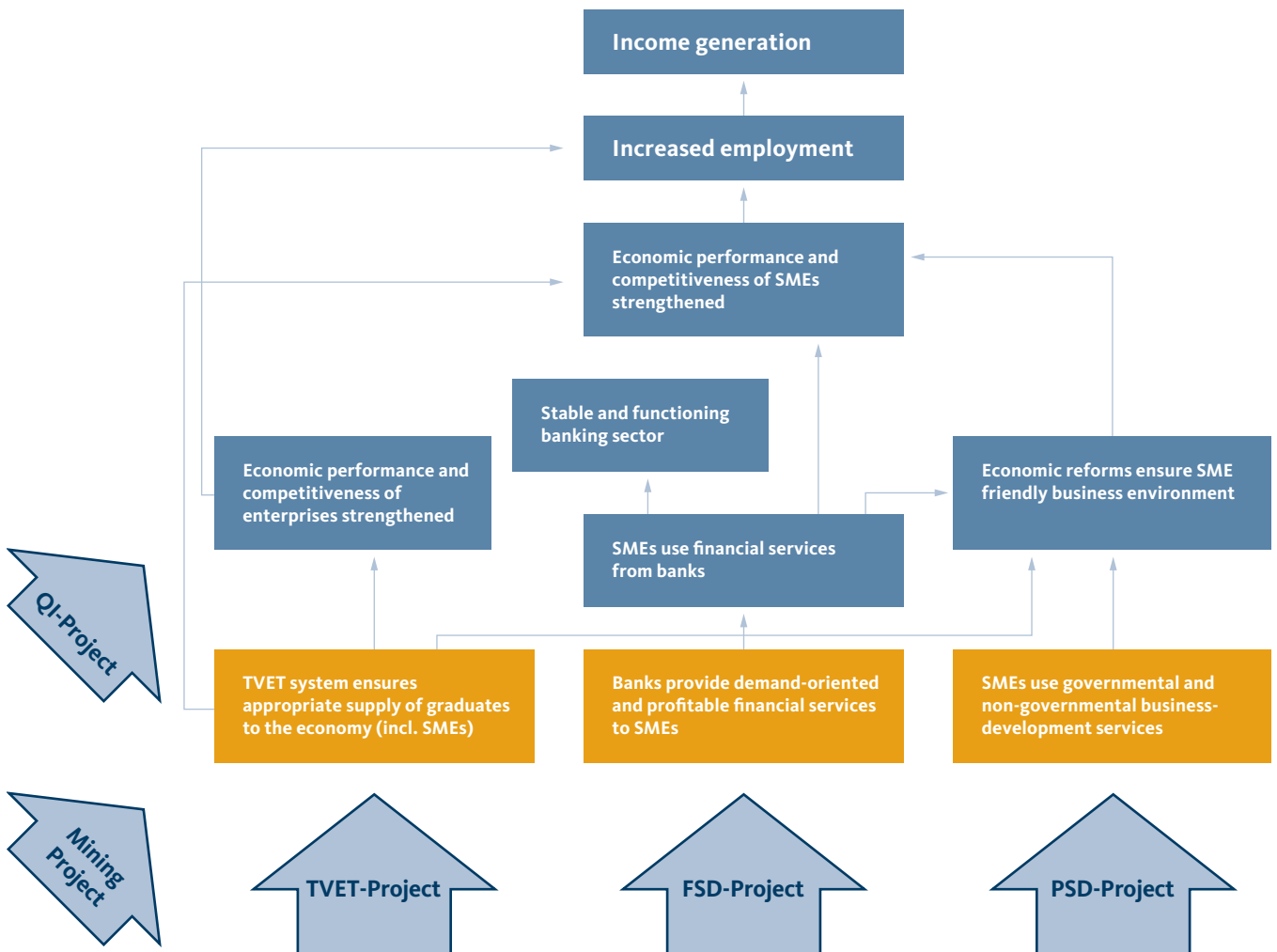
The overarching objective of the programme is to strengthen institutions and improve the political and infrastructural framework in order to create the right preconditions for sustainable and socially balanced economic growth throughout Myanmar. Although each of the projects in the programme has its specific intervention area and objectives (described in more

detail below), all seven projects contribute to this overarching objective. The joint planning of the programmes under the umbrella of the German–Myanmar Programme on Sustainable Economic Development should encourage the identification and the use of synergies between the different projects.

The projects within the programme operate mainly in five different intervention areas: private sector, financial sector, technical vocational education and training, quality infrastructure, and mining. The project objectives can be understood as intermediary objectives for the particular intervention area. It is assumed

that the intended overarching changes will only be reached and benefit Myanmar society as a whole when successive changes in all intervention areas have been achieved. The following figure shows the results model at programme level (see Figure 3).

**Figure 3: Results model at programme level**



Source: Author's compilation

All measures are planned and implemented in coordination with other actors. The German activities mainly focus on Yangon and Nay Pyi Taw as economic and political centres, as well as

Shan State as a focal region for interventions on the meso- and micro-level. The projects are planned to last for between two and four years. Follow-up projects, which will allow previous



changes and achievements to be taken into consideration and for the formulation of more advanced project objectives, will be planned for the second phase, finishing in 2019.

The following text describes each of the projects that are implemented as part of the country programme. Not all projects were planned and commissioned at the same time, however, as indicated in Figure 2. Consequently, at the beginning of the process only the three GIZ projects on private and financial development and vocational education were set up. Most resources and support focus on these three intervention areas, which can thus be understood as priority areas. The development of results models and the concept of the baseline study thus originated from these first projects and intervention areas. The additional projects and project teams were then steadily included in the results models and the development of data-collection instruments. Nonetheless, the last two projects, which also added new intervention areas in the field of quality infrastructure and mining, were only commissioned once data collection had already started. While it was still possible to take into consideration aspects related to quality infrastructure for some data-collection activities, mining, which only started in 2015, could not be included and will thus not be covered in this baseline report. All intervention areas will, however, be addressed by later data-collection activities and the final evaluation of the overall programme.

#### *Private Sector Capacity Development, technical cooperation, GIZ<sup>6</sup>*

The project aims to strengthen the capacities of public and private actors in charge of SME development. Just as in the other projects, a multi-level approach is pursued. First, on a systemic level, framework conditions and cooperation between different governmental, non-governmental and private actors are to be improved, for instance with regard to better involvement of all sides in the reform process and to the drafting of laws and strategies. Secondly, on an organizational level, relevant governmental and non-governmental institutions will be supported with process and management consultation. Thirdly, competencies of SMEs and individuals will be strengthened. The project therefore focuses on six activity areas:

1. Economic and political advice for SME development
2. Strengthening institutions for SME development

3. Cooperation between relevant economic actors
4. Trade policy and opportunities
5. Trade facilitation
6. Quality Infrastructure (QI) and standards (GIZ, 2015)

#### *Strengthening Vocational Education, technical cooperation, GIZ*

The overall purpose of the Technical Vocational Education and Training (TVET) interventions is to support the reform process in the TVET sector to a system oriented towards a labour market that produces well-qualified graduates for the private sector. On the policy level, the ongoing reform process includes a Comprehensive Education Sector Review (CESR) process that is led by the Ministry of Education (MoE) in cooperation with several donors. The aim of this review is to develop a countrywide education strategy. The CESR process covers all subsectors of the education sector, while GIZ focuses its support on vocational education.

In order to tackle the problem of lacking standardization and accreditation across all sectors, the National Skills Standards Authority (NSSA) was founded as a responsible subordinate authority under the Ministry of Labour and Social Security (MoLESS). The GIZ project assists in building and strengthening the NSSA. Experience and capacity will be built up gradually via pilot measures, with importance attached to stronger involvement and cooperation with the private sector. On the micro-level, the Industrial Training Center (ITC) Sinde is being supported (in cooperation with the KfW Development Bank (KfW), see below). Concepts and curricula are being developed and tested to introduce innovative ideas and cooperative training programmes, which it is hoped will then be transferred to other regions and institutions.

In sum, the project includes the following activity areas:

1. Introduction of needs-based training at ITC Sinde, implemented in close cooperation with KfW, with the aim of applying the lessons learnt to other sectors and regions
2. Strengthening of NSSA
3. Policy advisory
4. Fostering cooperation with actors from the private sector and civil society. (GIZ, 2014b)

<sup>6</sup> EUR 10,000,000 out of the EUR 23,250,000 are provided by the European Union (EU) through delegated cooperation covering activity areas 4-6, as mentioned in the following paragraph.

*Vocational Education, financial cooperation, KfW*

The project aims to improve the quality and quantity of TVET. It will thus contribute to a greater supply of skilled labour and thereby support Myanmar in tapping its full economic potential, especially in the ASEAN context. Workers will benefit from better qualifications by finding better-paid employment more easily, and enterprises will become more competitive through a better-qualified workforce. Initially, the project will target one training institution, namely ITC Sinde. It will support measures in the field of technical cooperation by providing support for rehabilitation, extension and renewal of equipment. In addition, ITC Sinde will receive modern technical hardware, and teaching and learning material for selected training programmes. KfW and GIZ work jointly at ITC Sinde towards the shared objective of increasing the quality of training and the success of graduates. (KfW, 2014). Further extension of KfW support to the Ministry of Education in the field of vocational education is currently under preparation and is expected to be implemented from 2016/17.

*Financial-Sector Reform for SMEs in Myanmar, technical cooperation, GIZ*

A stable and functioning financial sector is a precondition for economic development but is highly underdeveloped in Myanmar, where banks provide insufficient financial services for SMEs. The project aims to support the formal banking sector in the provision of sustainable and demand-driven loans for SMEs, targeting selected banks and enabling them to provide loans. Three banks have been selected for more in-depth cooperation: Kanbawza Bank (KBZ), Yoma Bank and Small and Medium Industrial Development Bank (SMIDB). Training and consultancy advice are also provided for key actors in the finance market with the aim of improving the political and regulative framework. Through institutional capacity development within the selected banks and the Central Bank of Myanmar (CBM), a framework will be established to support an SME-oriented transformation of the financial sector. (GIZ, 2014a)

*Sustainable Financing of SMEs, financial cooperation, KfW*

The project's objective is to support Myanmar's banking sector in the provision of sustainable and demand-driven financial services for SMEs. It consists of two components:

1. A refinancing facility for Co-Operative Bank Ltd (CB Bank) to promote lending to SMEs.

2. An accompanying measure that aims to enhance institutional capacity building and training to an adequate level to enable efficient administration of financial services.

The CB Bank will be the first pilot bank supported through KfW in developing and providing broader lending services to SMEs. The project is conducted in close cooperation with the technical cooperation project Financial-Sector Reform for SMEs in Myanmar (KfW, 2014).

*Building and Strengthening Quality Infrastructure, technical cooperation, PTB*

The project aims to improve the local availability of accredited, quality infrastructure services in accordance with international standards, especially in the agricultural and food sector. Strengthened capacity in testing and issuing quality certification will be essential to ensure increased use of these services. Measures will mainly focus on strategic and conceptual support of key actors in developing an adequate regulatory framework in cooperation with the private sector. Also, capacity development will be provided in the form of training in the field of metrology and conformity assessment. (PTB, 2014)

*Support for a Sustainable Development of the Mining Sector in Myanmar, technical cooperation, BGR*

Myanmar is rich in natural resources and its mining sector plays an important role in the country's economic development. Although the sector is developing rapidly, government supervision and control is lacking. Modern sustainable mining is crucial to avoid serious environmental and social impacts as well as conflicts with local people caused by the mining. An effective governance system for the management of the mining sector according to international standards is needed. The project aims to improve the quality of mining supervision and operations with respect to safety, social and environmental aspects. Selected actors will be supported in their execution of tasks in a market economy, and the competitiveness of SMEs in Myanmar's mining sector will be improved. This will lead to a broader inclusion of demographic groups in economic development. Through the upgrading of the commodities sector, the GoM is in a position to reduce the increasing pressure on natural resources and the local population. Mining can be used as an instrument for sustainable development. (BGR, 2014)

# 4.

## METHODOLOGICAL APPROACH

The main objective of DEval's involvement within the German–Myanmar Programme on Sustainable Economic Development is to create the preconditions for measuring the impact of the programme. After its implementation, an impact evaluation will be conducted of the programme to measure whether, and to what extent, anticipated (and unexpected) results were achieved, and whether they can be attributed to the interventions. In the international debate there is an ongoing discussion with regard to the definition of impact evaluation and the application of rigorous methods for the measurement of impact. Some scholars argue that in a strict sense “the primary purpose of impact evaluation is to determine whether a programme has an impact (on a few key outcomes), and more specifically, to quantify how large that impact is” (J-PAL, 2015). Attributing changes to a certain programme and then quantifying its impact is often difficult, especially in complex development interventions. The key challenge is to estimate the changes by comparing a defined group of individuals, villages, etc. that benefited from an intervention (the treatment group) with a corresponding group of individuals, villages, etc. that did not benefit from the intervention (a control group).<sup>7</sup> (See Info Box 1 for more information on the limitations of such experimental designs.) However, other scholars advance the view that “impact evaluation is not method specific – no single design or method can lay monopoly

claim to the production of evidence for policy learning; and all established methods have difficulty with many contemporary interventions” (Stern et al., 2012, p. 5). In addition, Bamberger et al argue that “there are wide ranges of methodologies available that could potentially be used to define alternatives to the conventional statistical counterfactual and that could provide estimates of the impact of the interventions” (Bamberger et al., 2012, p. 421). For assessing the impact of complex programmes various methodologies need to be considered.

Within the context of the German–Myanmar Programme on Sustainable Economic Development, with its seven projects that follow multi-dimensional approaches and thus implement a wide range of activities on macro, meso and micro levels, an all-embracing counterfactual design would not have been feasible, as a multitude of comparison groups would be needed and all interventions are to be implemented with new partners in a largely unknown and uncertain environment. This chapter explains how the challenge of laying the ground for measuring the impact of the programme has been tackled, followed by a description of the different data-collection instruments for the baseline study.

### **Info Box 1: Challenges in impact evaluation of development interventions: opportunities and limitations of randomized experiments**

Randomized Controlled Trials (RCTs) or Randomized Experiments (REs) have sometimes been declared as the “gold standard” of impact evaluation. Banerjee even stated: “When we talk of hard evidence, we will therefore have in mind evidence from a randomized experiment, or, failing that, evidence from a true natural experiment, in which an accident of history creates a setting that mimics a randomized trial” (2007, p. 12). Although RCTs or REs have their advantages, they often come along with some challenges: They are limited to a narrow range of interventions, which

are discrete and homogenous or unvarying (Bamberger and White, 2007). Furthermore the required randomization is in many cases difficult to implement (Bamberger et al., 2010). This is the case in the context of developing programmes, which are particularly complex, heterogeneous, and flexible due to changes over time. Therefore, it is only seldom possible to evaluate a whole programme with rigorous methods alone. However, they might well be considered as one of several components in the evaluation of a programme for selected parts (Vaessen, 2010) combined with other approaches. As described in Info Box 2, such a combination of different methodological approaches mostly comes along with considerable advantages.

<sup>7</sup> A design often considered as most rigorous for establishing such a counterfactual are Randomized Controlled Trials (RCT).

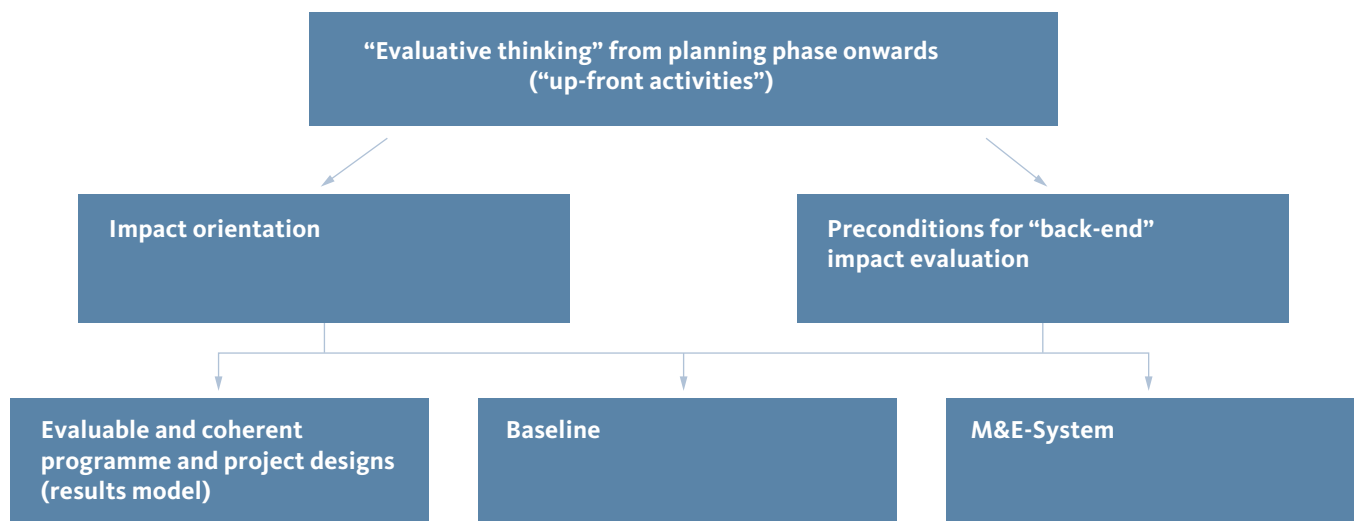
## 4.1 Overall concept and main working steps

### Concept and design

Before DEval started working on this assignment, it needed to clarify and differentiate what kind of support and activities were necessary and adequate in order to sufficiently embed impact orientation and evaluative thinking into the overall planning process of the German–Myanmar programme. In this regard, the DEval approach is in line with Patton’s definition of evaluative thinking. Patton defines evaluative thinking as “systematic,

intentional and ongoing attention to expected results. It focuses on how results are achieved, what evidence is needed to inform future actions and how to improve future results” (Patton, 2013). Accordingly, informing evidence is essential and needs to be collected before and during implementation. Despite the fact that the collection of baseline and monitoring data is often insufficient and neglected during the planning process of development interventions, a consultation process that aims at improving impact orientation needs to go beyond solely collecting baseline data and is summarized in Figure 4.

Figure 4: Working areas supported by DEval



Source: Authors' compilation

In order to carry out an impact evaluation after programme implementation it is necessary first and foremost to create a coherent understanding of expected results and what activities and causal mechanism will lead to certain anticipated changes. For this reason, DEval advised the programme stakeholders in the development of comprehensive results models in joint workshops: first at the overall programme level and secondly at project level (step 1). DEval took on the role of moderator and facilitator in this context, as the team members are the ones with the respective sectoral expertise and responsible for the implementation of the measures.

In step 1, a common understanding about the programme theory, intended results, assumptions, risks and synergies was achieved. A second round of workshops focused on formulating indicators for each intended result (step 2). At this point, it was ascertained which information needs could potentially be satisfied by means of existing secondary data, and which indicators could only be measured by own-data collection. On the basis of this information, DEval developed an appropriate baseline concept (step 3), including the respective methods to be applied (step 4). Both were discussed with BMZ, as well as with the implementing organizations. Initial thought was also

given to possible evaluation designs. The first consideration was the extent to which experimental or quasi-experimental designs were feasible as the preferred design for some interventions of the programme, allowing for the attribution of changes to specific interventions. Applying a purely experimental design within the context of the German–Myanmar Programme on Sustainable Economic Development, however, would have required a very determined and final plan of the interventions, with specific data collection tailored towards these interventions, and adherence to a clear implementation protocol for the full duration of the programme. In fact, the new context in Myanmar required flexible planning and implementation of the programme's interventions. Furthermore, programme implementation and evaluation are still treated as rather separate processes in German bilateral cooperation, which would not have allowed for the obligatory introduction of an implementation protocol across different implementing organizations.

In this context, Bamberger et al. also conclude that “strong designs are usually inflexible in that the same data collection instrument, measuring the same indicators must be applied to the same (or an equivalent) sample before and after the project has been implemented. This makes them much less effective for real-time learning by doing, and for monitoring. Projects are almost never implemented exactly as planned (Mosse, 2005) and consequently the evaluation design must have the flexibility to adjust to changes in, for example: project treatments and how they are implemented; definition of the target population; and changes in the composition of the control group. Mixed methods can provide a number of rapid feedback techniques to provide this flexibility to adapt to changing circumstances” (Bamberger et al., 2010, p. 7). Mixed methods also include a combination of (quasi-) experimental approaches with other methods. Even if the programme as whole cannot be evaluated with rigorous methods, it might be possible to apply them to certain parts of the programme, and to integrate them in a mixed-method design. This was and is also examined in the context of the German–Myanmar Programme on Sustainable Economic Development.

As a result, a theory-driven, longitudinal design was chosen for the planned impact evaluation. It enables a) observation of

changes over time, and not only at the end, and b) the application of complementary quantitative and qualitative data-collection methods that will be used to generate panel data, as they are planned in such way that the same respondents will be interviewed with the same data-collection instruments after a defined period of time.<sup>8</sup> Yet, all instruments may be adjusted and extended according to possible changes in the programme, guaranteeing a certain degree of flexibility. The available data will then allow for the triangulation of results and the application of further designs, ranging from a before-and-after comparison, difference-in-difference, and the application of quasi-experimental methods for the evaluation of the different intervention areas (see also the section below on information on the baseline concept).

DEval was then in charge of the implementation and quality assurance of the baseline data collection (step 5). As mentioned earlier, the results models and indicator sets are not only considered as the basis for the baseline study, but for all relevant data collection, including the monitoring and evaluation (M&E) system. As a result, project teams in charge of developing and establishing monitoring systems and mid-term evaluations can also use these results models as a starting point (step 6). Here, DEval took on a solely advisory role; all teams may consult DEval further during the course of their project.

Since all data-collection instruments are to generate panel data according to the longitudinal design, follow-up data collection will take place in 2016 and 2017 (step 7). After implementation of the German–Myanmar Programme on Sustainable Economic Development in 2019, DEval will conduct the impact evaluation (step 8).

The next sections first lays out the role and function of results models in more detail and then present the baseline concept and applied data-collection instruments.

#### *Results models and their application within the German system of development cooperation*

In a series of workshops with representatives of DEval and project teams in Myanmar, a joint understanding was established of the overarching outcomes and impacts of the programme and

<sup>8</sup> All interviewees agreed to also participate in follow-up surveys. However, due to staff fluctuation and other changes, it is to be expected that not all prior survey participants and interview partners will be available in the future. In this case the person holding the same position will be included.

the intended changes of the different projects within the programme. Based on the identified results and their interrelations, non-linear results models were drawn up for the programme and for the first three projects within the programme on vocational education, private and financial sector development.

A results model visualizes the programme's underlying theory of how an intervention contributes to a set of specific outcomes through a series of intermediate results. In contrast to linear, sequential results chains, which do not give any information on how the outcomes/impacts will be reached, a results model describes the causally interlinked intended changes (results) of a project or programme. Assumed causal mechanisms implicate two changes: a) changes in behaviour and b) the impact of the changed behaviour. Mechanisms mean statements like "if... then... because...". Moreover, the results model is used to decompress the relationship between activities and intended results. Every outcome needs certain activities throughout the process, not just at the beginning, as suggested in a results chain. Actually, a results model consists of (a set of) interrelated results chains. Furthermore, it is recommended always to make assumptions and risks explicit, as it helps to identify different

perceptions and understandings, and also to take them into consideration in the planning and monitoring activities.

The results models were developed in two steps. First, the overarching objectives of all three projects working in the core area of sustainable economic development in Myanmar were identified. To design the change process, the following key questions were asked: "What has to change, i.e. what has to get better or be different in the context of Myanmar?", "What is supposed to change by the common efforts of all three projects?" The focus here went beyond the interventions. The discussions also addressed weaknesses, influencing factors and potentials, and considered interfaces between the projects (including already existing information about the other additional projects) in order to effectively and efficiently contribute to the impacts.

Secondly, separate workshops were held with the teams of the three projects in order to design the intended change process by answering the questions "Who or what has to change in order to achieve the overarching objectives?", "Which actors have to change their behaviour in order to bring about a positive intended state of affairs?" The workshops' outputs were the three projects' results models, including possible risks

### Info Box 2: Advantages of multi-method approaches

The advantage of multi-method approaches lies in the wider and deeper range of information they reveal in comparison to one method alone (Leeuw, 2009). The triangulation of different methods reduces the problem of data quality, as the comparison of their findings strengthens the validity and consistency of findings, and reveals different perspectives on the evaluation subject (Leeuw, 2009). Moreover the benefits of quantitative and qualitative methods are combined while the limitations of both compensate each other (Bamberger, 2013). By combining (quasi-)experimental designs with qualitative methods it is possible to overcome the weaknesses of the first as well as the shortcomings of the second. In the context of complex programmes, in particular, there is the opportunity to use (quasi-)experimental approaches for

selected aspects of the programme, which meet the requirements for this methods and combine them with qualitative approaches for the other aspects. Bamberger et al. describe several advantages: "(...) Given that a central challenge in international development is that decision makers (development economists included) are in the business of studying people separated from themselves by vast distances – social, economic, political and geographic – there is a strong case for using mixed methods to both help close this distance and to more accurately discern how outcomes (positive, negative, or indifferent) are obtained, and how any such outcomes vary over time and space (context)" (Bamberger et al., 2010, p. 2). Other advantages are the possibility of addressing sensitive topics, of incorporating the local context and, as mentioned earlier, the flexibility to adjust to changes in the implementation of interventions.

endangering the achievement of intended changes and the overlapping areas of interventions between the projects.

It should be noted that all organizations and project teams involved in the German–Myanmar Programme on Sustainable Economic Development were offered the opportunity to develop a results model in cooperation with DEval. However, this was a voluntary process and only the so-called results matrix<sup>9</sup> is obligatory as it is a requirement of the project proposal that it is to be submitted before a funding decision is made by BMZ. Accordingly, results models were only developed for the GIZ projects. As intervention fields and indicators were similar and harmonized with KfW, these projects also largely integrate into these results models. They will be presented at the beginning of the respective findings section in chapters 5 to 8. For the remaining two projects on quality infrastructure and mining, only BMZ results matrices, but no results models, exist.

#### *Baseline concept and data-collection instruments*

Current and reliable data in general, and specifically on the programme’s intervention areas, is scarce in Myanmar. Economic data and comprehensive statistics are missing in particular for the SME sector (ADB, 2015a). The GoM recognizes the need for improved data and identified one of the four areas of policy priority in the Framework for Economic and Social Reforms

(FESR) to ensure “reliable and accurate gathering of statistical data and other information to better inform public policy decisions” (MNPED, 2012, p. 20). A few comprehensive and valuable publications became relevant for this study and are referred to in this report, above all the Myanmar Housing and Population Census, which was conducted in 2014 after the last census took place almost 30 years ago. Furthermore, in each of the intervention areas important studies by national and international organizations were conducted in the meantime.<sup>10</sup> Wherever useful, findings from these sources were integrated to deepen and broaden the information base. Yet, it was not considered sufficient to satisfy all identified information needs, so it was decided to conduct comprehensive primary-data collection.

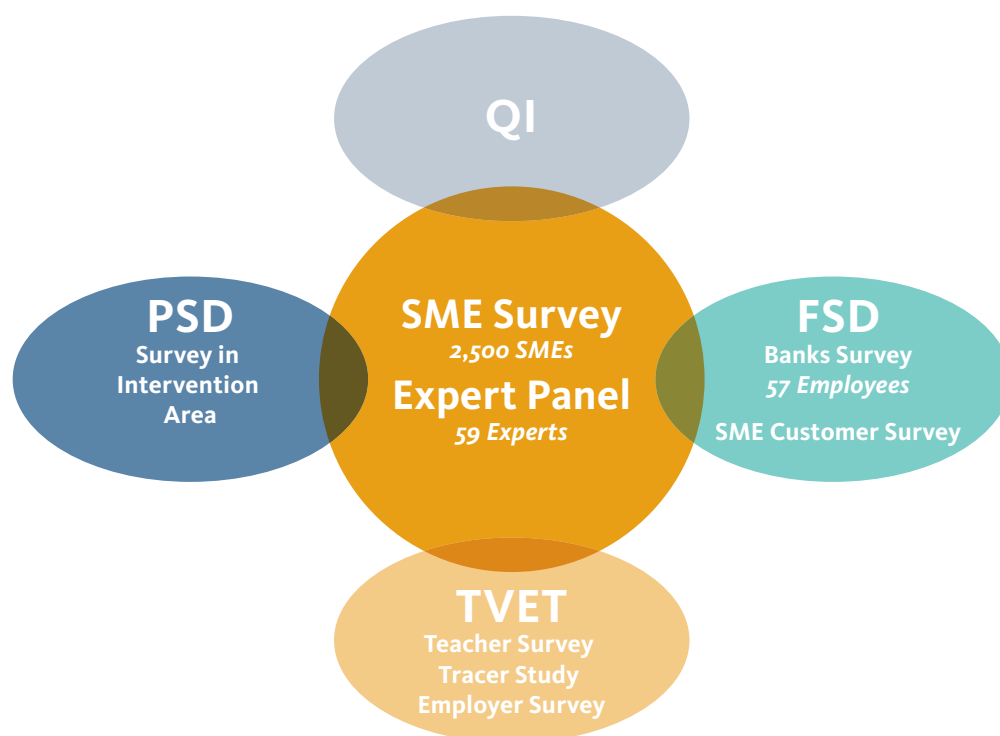
Complementary data-collection instruments were chosen with the aim, on the one hand, of collecting the different sorts of data needed to inform indicators and, on the other hand, to triangulate data. (See Info Box 2 for more information on multi-method approaches). Using different data sources for key questions was intended to include different perspectives and respondents, allowing a more realistic picture of the actual situation and controversial issues to be received. In total, eight data-collection instruments were anticipated for this baseline study, as shown in Figure 5 below:

<sup>9</sup> A linear, simplified results logic describing activities, outputs, objectives, core indicators, and data sources, as well as assumptions and risks.

<sup>10</sup> In the field of FSD, a lot of research has been conducted and published through the GIZ project team. With regard to vocational education, the International Labour Organization commissioned an “Assessment study of technical and vocational education and training in Myanmar” in 2014. The OECD Development Pathways Multi-dimensional Review of Myanmar and the World Bank Doing Business Survey are also insightful publications and resource documents on Myanmar’s economic and business sector, as is the ASEAN SME Policy Index published by the Economic Research Institute for ASEAN and East Asia (ERIA), and reports of the Asia Foundation. In addition, there are some informative publications of the Asian Development Bank (ADB), in particular the Asian Development Outlooks 2014 and 2015.



**Figure 5: Overview of planned data-collection instruments**



Source: Authors' compilation

As not all instruments could be applied as originally planned, first the ones that have been applied as part of this baseline study are explained, followed by a description of those that had to be postponed due to different reasons.

#### *Applied instruments*

The two core instruments of this baseline study are a country-wide SME survey and an expert panel. Both instruments were designed to collect data for all intervention areas. They were chosen as complementary instruments to reach a certain depth and breadth of data. Through the SME Survey, a quantitative instrument, standardized information was collected from a large sample of enterprises. This obtained large-scale, objective data on a range of pre-determined questions about the condition of enterprises in Myanmar. The weakness of this

instrument, however, is that it does not allow for any flexibility during interviews. It is not possible to discuss or discover new relevant issues or go into any depth. The expert panel was therefore chosen as a complementary instrument, as it was then possible to conduct in-depth, qualitative interviews with a number of designated experts in order to shed light on contexts and relationships or to generate new hypotheses which then also guided analysis of the quantitative data. Both instruments were designed in parallel. The questionnaire and interview guides were derived from the results models, indicator tables and in close consultation with project teams. The following section will briefly elaborate on all data-collection instruments, as presented in Figure 5. A more detailed description of the instruments, sampling strategies and implementation can be found in Annex I.

In the **SME survey** around 2,500 representatives of micro, small and medium enterprises in 11 cities of Myanmar were surveyed with a standardized questionnaire. As there was no complete and reliable register of firms, it was not possible to select a representative sample for the country as a whole. Instead, a two-step sampling approach was chosen. First, a so-called “block-screening approach” was applied. Several blocks with a high density of SMEs and economic activity were selected in each survey city. Enumerators then visited all firms in a particular block and collected a few basic pieces information on the composition and sector of the firms. Based on this list, firms were then randomly selected and re-visited for the actual survey. Even though such a two-step approach is rather resource intensive, it was the most promising in terms of collecting data that were representative and which, for example, included the informal sector. (See Annex I for more information on the sample and strengths and weaknesses of the approach chosen.)

The questionnaire comprised questions on the companies’ key characteristics, financial needs, staff qualification and recruitment processes, assessments of market conditions, the regulatory framework and business-development services (the detailed methodology and findings of the survey were also published separately in the DEval SME Survey 2015). The survey revealed a lot of information on the current situation of SMEs in Myanmar. Like every quantitative instrument, and as explained earlier, the gathered information cannot fully explain all findings and relationships between variables. Its aim is to collect information on predetermined variables, which can then be analysed and interpreted using statistical methods. But it does not allow much flexibility during data collection. Nor does it enable the gathering of additional information during interviews, such as additional context and background information that might help in better interpreting results and generating hypotheses. This was only possible by means of the complementary qualitative data collection.

In addition, 59 **semi-structured key informant interviews** were conducted as part of the expert panel. These interviews should help in gathering complementary information on the overall business environment in Myanmar, and on the conditions of SMEs. Designated experts in at least one of the intervention areas were identified and then assigned to three categories:

direct experts, who were directly involved in or benefit from the intervention; indirect experts, who were only indirectly involved by working for another donor organization in the same area, for instance, or indirectly benefit from an intervention; independent experts, who are not at all affected by the intervention but acquired expertise through research, as an entrepreneur or some other means. At least one expert from each category and intervention area was included in the so-called expert panel group (see also panel method design in Stockmann (2014) and stage two of Rowe’s “Rapid Impact Evaluation” (2014)).

Additional data collection was conducted to address the information needs of different projects. With regard to Financial Sector Development (FSD), a **standardized survey of banking staff** from local banks was conducted. The questionnaire and data-collection plan was developed by the DEval and GIZ project team, which also ensured data collection after training sessions with banking representatives, or by directly contacting partners from the remaining banks (see Annex I for more information).

#### *Instruments still to be applied*

In the field of vocational education, the projects were extended and changed substantially during the first phase. As a result, data collection had to be postponed to a point in time when core components were agreed with all partners. In fact, according to most current developments, all three data-collection instruments (**graduate, teacher and employer survey**) will still be appropriate. The teacher survey will be conducted in late 2015/early 2016.

The **SME survey planned in Shan State**, as chosen intervention area in the Private Sector Development (PSD) project, was supposed to focus on small farmers and enterprises in the tea sector. Unfortunately, it could not be implemented due to security concerns, which would have resulted in disproportionate resources having to be invested for the baseline data collection of one project component only. Moreover, as DEval would not have been able to join and oversee data collection in some rural areas, quality assurance could not be safeguarded. However, the overall SME survey does provide data on the Shan cities Taunggyi and Lashio.

The **FSD Customer Survey** aims to interview SME customers that gained first-hand experience in applying for or receiving new financial services specifically targeting SMEs, which are to be provided by the pilot banks. Accordingly, the first phase of the project aims at developing and offering such services to SMEs. The survey will only be implemented once these services are available.

However, as data collection will take place much later than the other data-collection activities, it was decided to prepare this report based on the comprehensive data already collected. Any additional data will be complementary and will be used for the final evaluation.

## 4.2 Quality assurance and limitations

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For all data collection undertaken as part of this baseline study, the highest possible quality standards were applied. For the SME Survey, a local partner firm was carefully selected and worked closely with. All training sessions with enumerators and survey managers, preparation of enumerator manuals and data entry sheets, and the quality assurance of each of the four survey teams were done by DEval. Experts with whom to conduct interviews were carefully selected, and full anonymity was guaranteed to ensure open and honest conversations. More detailed information on the various implemented and planned instruments can be found in Annex I.

As indicated earlier, some changes and adjustments were necessary because of existing structures and procedures or changes in the overall context. The following will summarize the most prevalent aspects.

While the underlying idea was that resuming cooperation in a new partner country after so many years would constitute a very clear-cut starting point and ideal baseline situation, it also had to be noted that working with new partners in a new context entails many uncertainties and unexpected challenges. Establishing a new legal framework for bilateral cooperation, installing country offices, and establishing relationships with new partners are very time- and resource-intensive processes that required a flexible and dynamic planning phase for joint

interventions. By contrast, the planning of interventions in an impact-oriented manner and the collection of baseline data requires concrete decision-making and interventions. As a result, the initiation of the data collection had to be postponed numerous times and took much longer than anticipated.

The consequences of hierarchical structures and opaque bureaucratic procedures also affected data collection for the SME survey directly. Often it was not clear how many and which authorities needed to grant permission, and occasionally documents granting permission were not accepted in the field. This led to delays, especially in the first phase of the SME survey.

Aside from external factors, structural shortcomings within the German system also limited efforts to ensure a results orientation to the programme during implementation. Even though the German system of bilateral cooperation is usually structured in programmes comprised of different projects implemented by different German organizations (in this case seven projects by four organizations), planning processes are still much decentralized and often take place at the project level within the responsible organization only. In this regard, the development of a theory of change at programme level and a harmonized M&E system with all involved organizations is not obligatory. Instead, organizations only have to agree on one overall programme objective and report annually on their individual contribution to this programme objective on a rather conceptual level. Evaluations usually only take place at project level. Even though DEval was asked to focus on impact orientation at programme level, this was only possible to a limited extent, as the implementing organizations usually work within their individual organizational processes and structures, which mainly focus on planning, implementing and achieving the objectives of the projects they were commissioned to do, rather than the overarching objectives of the programme. Nonetheless, all organizations try to cooperate regularly with each other and coordinate their work.

## 4.3 Remaining relevant steps

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The consultation concept developed by DEval involves several up-front activities to ensure preconditions for impact

measurement: above all, coherent programme planning, documentation and appropriate data collection. Nonetheless, these activities should not be understood as a closed, separate process but should be embedded in the whole programme cycle. In this regard, results models are to be understood as flexible planning instruments that need regular adjustments, depending on changes. Information about such changes could mainly be provided through monitoring data and possibly through small studies and interim evaluations. Furthermore, additional and follow-up projects that will be implemented in the second phase of programme implementation need to be planned carefully and should be based on the existing results models. It is thus extremely important that the M&E system systematically delivers current information on the relevant indicators. Determining cause-and-effect relationships will only be possible when the core intended results and its indicators are maintained during

programme implementation. Otherwise, comparability will not be possible. Even though the methodological design and data-collection instruments can be adjusted to take into account a certain level of changes in the interventions during the implementation phase, results-oriented planning and implementation still requires a certain balance between essential and binding planning on the one hand, and ensuring the necessary flexibility to adjust to the context on the other hand.

Moreover, it needs to be decided carefully when follow-up surveys should be organized to obtain the anticipated panel data.

The following chapters present the results models for each intervention area and the baseline data collected.



# 5.

## FINDINGS FOR THE PRIVATE SECTOR DEVELOPMENT PROJECT



As described earlier, the overarching objective of the German–Myanmar Programme on Sustainable Economic Development is to strengthen institutions and improve the political and infrastructural framework to create the right preconditions for sustainable and socially balanced economic growth throughout Myanmar. One central project within this programme is the Private Sector Development (PSD) project. This chapter starts with a description of the objectives of this project, followed by an overview of Myanmar’s private sector, its structure and relevant actors. The current situation in the private sector, with particular regard for the areas targeted by the project is then examined. This baseline data will serve as the basis of comparison for the data collected in a future impact evaluation.

## 5.1 Results model, PSD Project

As elaborated in Chapter 2, decades of economic isolation led to impoverishment and stagnation. In order to catch up with other countries and to modernize the private sector, comprehensive reforms and capacity development will be needed. The PSD project is most directly affecting and working with the programme’s target group: the private sector, and smaller firms in particular. The overall project objective is to contribute to an SME-friendly environment and the establishment of adequate support and advisory structures, such as business-development services. Once established and acknowledged, the aim is that SMEs increasingly make use of these support structures and benefit from the revised framework by improving their economic performance and competitiveness.

In order to support the revision of the regulatory framework, particular attention is given to relevant governmental and non-governmental organizations. On the policy level, GIZ cooperates with the MNPED and the Ministry of Industry (MoI) in terms of improving technical know-how, as well as in planning and implementing economic development instruments.<sup>11</sup> Advice is provided in the drafting process of laws and regulations, such as the SME Development Law (SME Law). Moreover, activities in the field of capacity development are directed towards the subordinate institutions directly engaging with the private sector: the Directorate of Investment and Company Administration

(DICA) and the SME Development Center (renamed the Department of SME Development in 2014). Both organizations are expanding and are increasingly present in the different states and regions in Myanmar. Thus, they begin to play a key role in the implementation and provision of new instruments, such as registering and licensing firms, managing investments and offering business support services.

The project also recognizes a deficit in terms of private actors. An open and democratic policy-making process requires available data on, and some level of involvement from, civil society. The Myanmar Development Resource Institute (MDRI) is the main national public-policy institute, which aims to increasingly contribute to current economic and political debates. They were involved in some research activities by GIZ. Other crucial actors representing the private sector are business and sector associations. In several intervention areas, stronger involvement and links with the private sector are anticipated, to be achieved by involving business and sector associations. GIZ thus aims at strengthening the capacities of the United Myanmar Federation of Chamber of Commerce and Industry (UMFCCI) and selected sector associations by helping them to clearly define their role and mission, and enabling them to represent the private sector in policy-making processes and to provide demand-oriented services to their members, especially SMEs.

GIZ aims at supporting regional economic development by targeting further support to a defined area. Pilot measures further strengthen associations by helping them to acquire knowledge and gain experience necessary to take up their role as promoters of business development for their particular sector (especially the sector clusters for mango, tea and the relevant sub-associations for tourism) or regarding cross-cutting themes. Individual measures and support is, moreover, provided through the so-called “Facility for Partnership (F4P)”. SMEs and civil society organizations (or networks of such) working in the private sector (mainly from Shan State) may propose interventions and can then be selected to receive support from GIZ under the F4P. The underlying hypothesis within the project is that the communities, local private-sector and sector groups, will learn from the pilot measures, will gain experience, and will then function as change agents in the area. In addition,

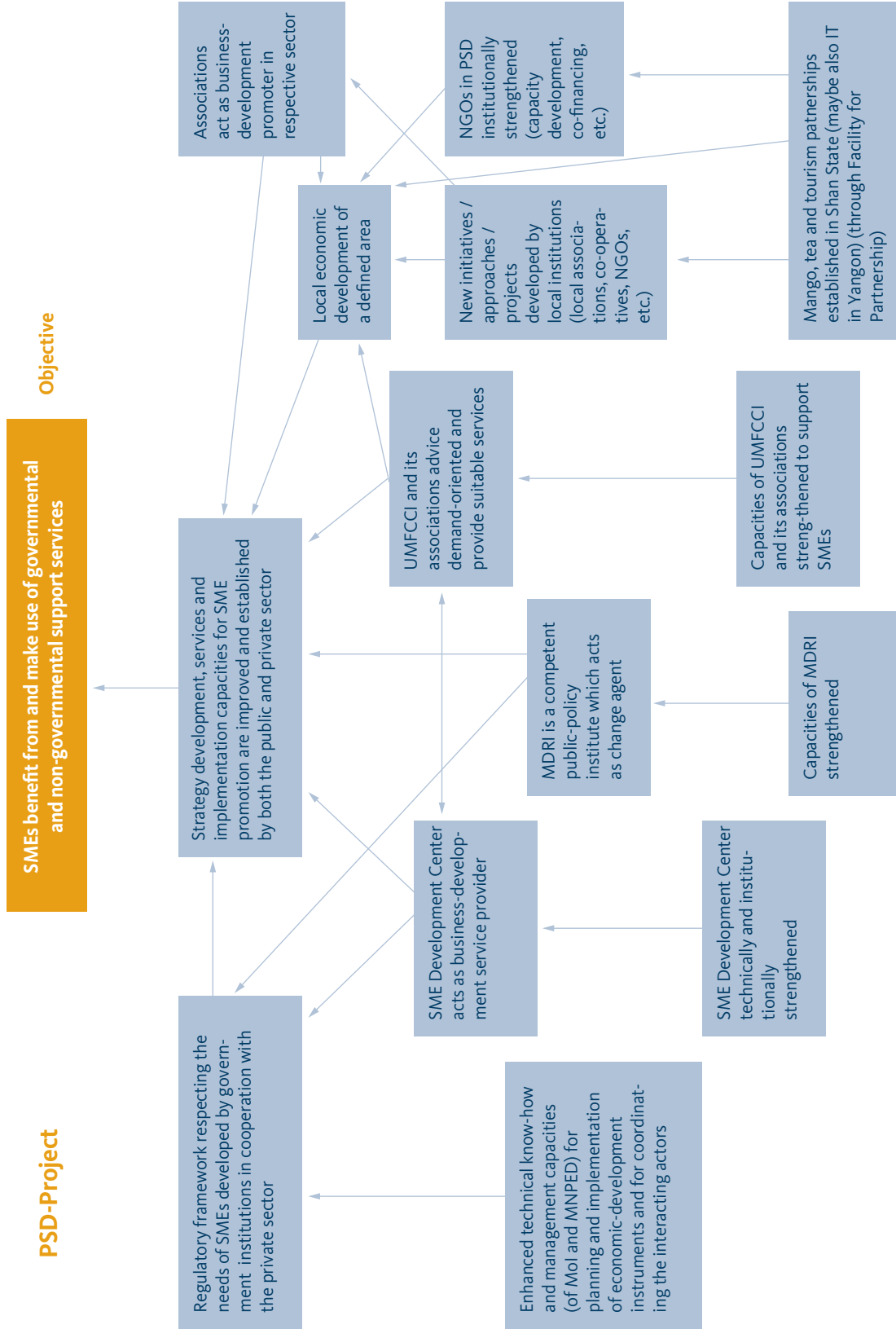
<sup>11</sup> The following description focuses on the parts of GIZ’s work financed by the BMZ. Recently, the project was extended by another component, which focuses on trade promotion and the MoC. It is largely funded by the EU and is not subject to this baseline study due to its late implementation.

targeted support is given to farmers and enterprises in the three previously mentioned subsectors to jointly develop and improve value chains.

As can be seen, the results model comprises different inter-linked fields in which changes are intended throughout the project. Initially, the baseline study aims to collect information on the current situation in these fields in order to develop comparable data for the planned impact evaluation. As a result, data collection and presentation mainly focuses on the issues and contexts that will be of central relevance for the evaluation. For instance, due to the very flexible approach chosen with the Facility for Partnership, and the limited possibilities to collect data in Shan State, it will not be as central to the report and the evaluation as the other main components of the project.



Figure 6: Results model of the PSD Project



## 5.2 Overview of Myanmar's Private Sector

This background information on Myanmar's private sector is important to better understand: the programme's main target group, the circumstances under which the project operates, who the key players and what the important confounding factors are.

The GoM started initiating fundamental structural reforms in 2011 with the aim of modernizing Myanmar and fostering economic growth. Short-term and long-term priority areas are defined in the FESR: "Policy Priorities for 2012–15 towards the Long-Term Goals of the National Comprehensive Development Plan" (MNPED, 2012).

Directly or indirectly strengthening the private sector stands at the centre of all interventions in this field, which is thus also the main target group of the German–Myanmar Programme on Sustainable Economic Development. According to the FESR, one of the priorities of the GoM is the development of SMEs, as they play a key role in the process of industrialization (MNPED, 2012; ADB, 2015a). SMEs dominate Myanmar's economy and represent a huge potential for Myanmar's future (OECD, 2013; Aung Kyaw, 2008). SMEs account for more than 99% of overall industries across Myanmar (U San Thein, 2013). The focus on the private sector and the introduction of a privatization scheme was part of the government's transition to a market economy and had already started in the 1990s (Cheesman et al., 2012), as further elaborated in Chapter 2. However, experts interviewed

emphasized that despite this rather early beginning of the privatization process, there has not been any focus on SMEs before now, which is also why there is so little data about them (Expert Panel).

Accordingly, the DEval SME Survey aimed at gathering information about what the key characteristics and challenges of SMEs currently operating in Myanmar are. The following will briefly summarize the main information gathered about SMEs. A more detailed presentation and analysis of the data can be found in the DEval SME Survey Report 2015.

*The average SME operates for more than 10 years, is micro-sized, registered at communal level and generates revenues mainly through its own shops*

Above all, it was found that the vast majority of firms (98% out of 2,490) are of small size and have fewer than 50 employees<sup>12</sup>. Amongst these, more than two-thirds have only five to nine employees. Almost one-quarter of firms surveyed were operating without registering with any government authority. Of those registered, the vast majority were registered at municipal level with a City Development Committee.

Table 1 shows the distribution of firms across the sample, taking into consideration different variables. For more details, please also see the DEval SME Survey Report 2015.

<sup>12</sup> For the DEval SME Survey, firms with 5 to 99 employees in 11 cities were identified via a block-screening approach. Around 2,500 firms were then surveyed after drawing a random stratified sampling procedure. Please refer to chapter 4 and DEval SME Survey 2015 for further information on the approach.

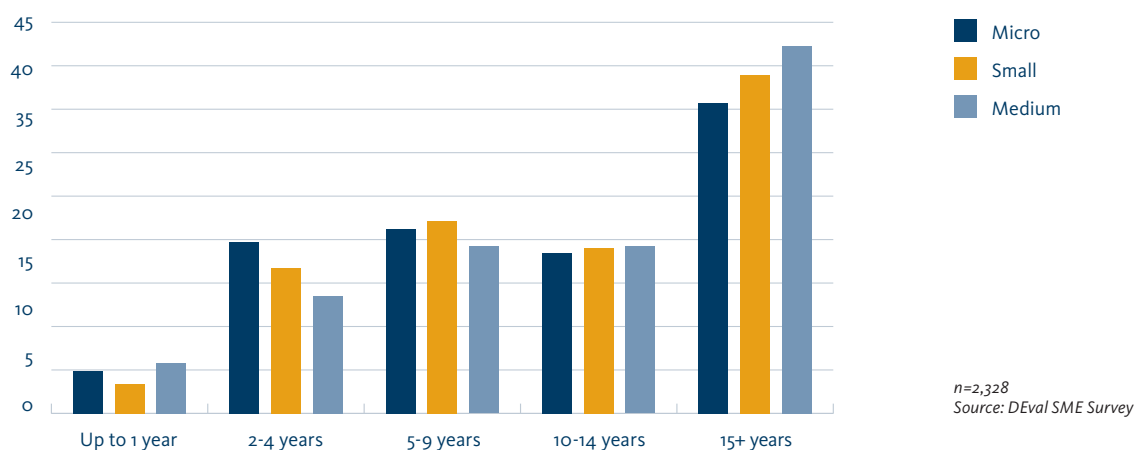
**Table 1: Comparison of samples according to firm size**

		Distribution of firms
Firm size	Micro (5-9)	67%
	Small (10-49)	31%
	Medium (50-99)	2%
Firms registered with government authority	Micro (5-9)	74 %
	Small (10-49)	89%
	Medium (50-99)	96%
	Total	79%
Membership of business association	Micro (5-9)	3%
	Small (10-49)	6%
	Medium (50-99)	7%
	Total	4%
Sample size		N =2,490

Source: Authors' compilation based on DEval SME Survey data

Despite the ongoing reform process, which has been promoted by the GoM since 2011, the clear majority of firms identified stated that they have been operating for more than 10 or even 15 years. Less than a quarter of surveyed firms started operation

in the last four years (see Figure 7). The recent and planned reforms have not yet shown any measurable effect in terms of an increase in the number of start-ups in the private sector.

**Figure 7: Age of business, in absolute numbers**

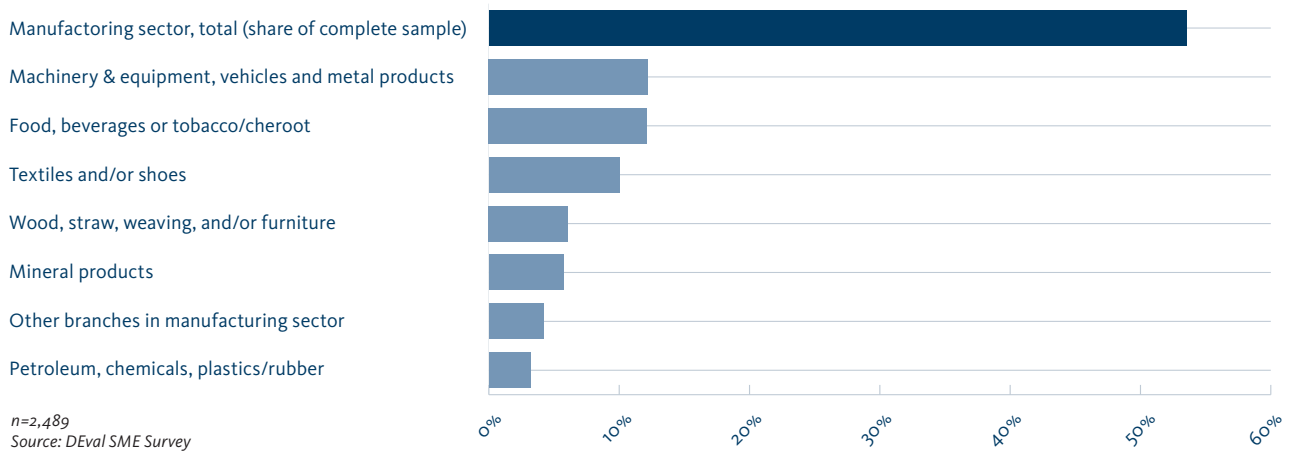
The SME Survey also tried to find out more about sectoral distribution, average revenues and main sources of revenue. The

analysis of sectoral distribution showed that firms are rather evenly distributed across the manufacturing and service sector

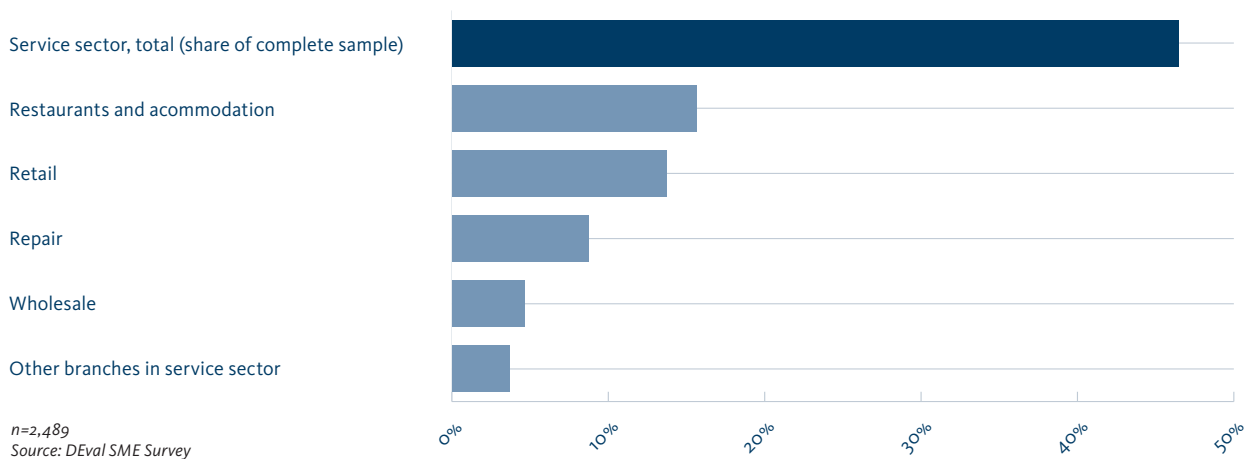
(54% and 46%).<sup>13</sup> In the service sector, the majority of firms belong to the category of restaurants and hotels (16%) or retail (14%). In the manufacturing sector, most enterprises operate

in the field of machinery and equipment, vehicles and metal products, and in the field of food, beverages or tobacco/cheroot (both 12%; Figure 8 and Figure 9).

**Figure 8: Activity of business in the manufacturing sector and its different branches, as a percentage of complete sample**



**Figure 9: Activity of business in the service sector and its different branches, as a percentage of complete sample**



Due to poor accounting and book-keeping systems (especially within small firms), the survey collected information on average

monthly firm revenues. Accordingly, the majority of firms indicated having revenues between MMK 1 and 5 million (around

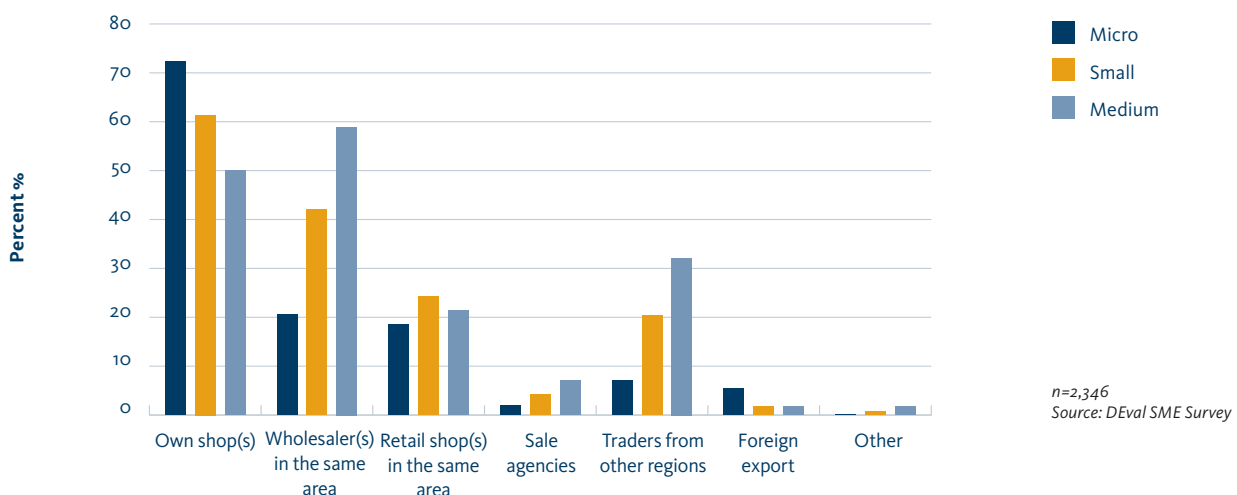
<sup>13</sup> The survey was only conducted in urban areas and thus excluded the agricultural sector.

EUR 680–3,400) in a typical month during the year before the survey was conducted. The differentiation of data according to the size of the firm shows – as expected – that the larger the firm, the larger the revenues.

As indicated in Chapter 2, Myanmar’s exports have increased in the last few years. This development, however, does not seem to result from significant exports of products from SMEs. According to the DEval SME Survey data, SMEs still mostly use

their own shop(s) or wholesalers in their region as marketing channels (see Figure 10). The bigger the enterprise, the more frequently firms work with traders from other regions, but exports still only play a very marginal role (only around 4% of all enterprises stated exporting at all; see Figure 10 and the DEval SME Survey report for more details). In some cases, enterprises might be unaware that their products are exported by intermediaries.

**Figure 10: Main marketing channels, in percent**



The GoM’s ambition to strengthen SMEs and improve their competitiveness, also include increasing their trading activities. This is, for example, done via the trade-finance schemes, useful in particular for the exporting of manufactured goods (Abe & Dutta, 2014) or trade exhibitions organized by the Ministry of Commerce (MoC). Moreover, an export-promotion programme for SMEs is planned (ERIA, 2014). Also UMFCCI aims at supporting SMEs in building increased export capacities with different activities, such as a “Smart Myanmar Project”, which aims to increase the quality of performance and production technologies, an SME Promotion Committee, which serves as an information provider, or the organization of and participation in trade fairs and exhibits (see ERIA, 2014 for more details).

This information characterizes Myanmar’s SME sector. In the following section, key baseline data on the PSD project are presented.

The following gives information on the current situation in the results area of the PSD project and the overall programme, as laid down in the results model. It will serve as a basis for comparison when the programme and its projects are evaluated in the future.

The rest of the chapter is structured according to the project’s different components or activity areas. At the policy level, findings on the legal and regulatory framework as well as market conditions are presented. The project also aims to support and strengthen key private and public actors in charge of establishing

support and service structures for the private sector, so findings regarding their role, current status and capacities are addressed. The existing supply of business-development services will also be discussed. The chapter ends with a description of the current situation according to relevant topics in the agricultural and tourism sector in Shan State.

### 5.3 Findings on the current legal and regulatory framework for SMEs

The ongoing reform process primarily started with the revision and adoption of several laws, the most significant of which, in terms of the project, is the new Small and Medium Enterprise Development Law (SME Development Law, Pyidaungsu Hluttaw, 2015a). In addition, several other laws were passed,<sup>14</sup> while some others, such as an E-Commerce Law is still outstanding (ADB, 2015a).<sup>15</sup>

*The recently adopted Small and Medium Enterprise Development Law will be the main framework for strengthening Myanmar SMEs in the future*

The SME Development Law provides the basis for all governmental measures in order to strengthen and support SMEs (more information on objectives in Info Box 3).

#### Info Box 3: Small and Medium Enterprise Development Law

##### Chapter (2) Objective

The objectives of this law are as follows:

- (A) to easily access the information related to business, technical support and financial support for the small and medium enterprise;
- (B) to reach local and international markets and enhance the competitiveness of small and medium enterprise;
- (C) to increase the employment opportunity and income of

the people through the development of small and medium enterprises;  
(D) to reduce the difficulties and obstacles in the business operations of small and medium enterprises.

The law foresees the formation of a Central Committee of Small and Medium Enterprises, composed of the President and Vice President as chairman and deputy. Members comprise the ministers of relevant ministries as well as other experts and representatives of business associations. The core task of this Committee is to promote the development of SMEs. The Committee lays down policies, gives guidance (e.g. to liaise with national and international organizations or to apply technologies), scales up the necessary human resources and coordinates different actors. Furthermore, the Central Committee forms a Working Committee and guides the formation of different boards (Chapter 5, SME Development Law). According to the SME Law, the Department of SME Development will be renamed “Small and Medium Enterprise Development Agency” and should operate with a more decentralized structure. Initially located only in Yangon, the Department of SME Development,<sup>16</sup> via its website, now lists 15 branches in 14 states, divisions and Naypyitaw, and 35 branches at district level. The decentralization process of the Department of SME Development that started in May 2014 led to an increase in staff, which is expected to continue further. Furthermore, so-called One-Stop Service Teams will be established which “implement registration of small and medium enterprises, provide services for the application of permits” (Pyidaungsu Hluttaw, 2015a, p. 3). Additional support to SMEs will be provided through an SME Development Fund.

The SME Law also introduces a new national definition of SME. “Under the new definition [...] SMEs are classified based on three criteria by sector: (i) number of employees, (ii) capita, and (iii) turnover.” (ADB, 2015a, p. 203). According to this definition, micro-enterprises are not considered a separate category, but are now also classified as small. The exact definition of small- and medium-sized firms depends on the sector, capital and turnover (see Annex II).

<sup>14</sup> Other laws that were passed to support private-sector development and to reform the economy are the Foreign Investment Law (2012), Citizens Investment Law (2013), Central Bank of Myanmar Law (2013) and the Foreign Exchange Management Law (2013) (Bissinger and Linn Maung Maung, 2014).

<sup>15</sup> A good overview of the relevant laws is enclosed in ADB’s Asia SME Finance Monitor 2014 (ADB, 2015a).

<sup>16</sup> [http://www.smedevelopmentcenter.gov.mm/?q=en/org\\_chart](http://www.smedevelopmentcenter.gov.mm/?q=en/org_chart)

Aside from clarifying the division of tasks and responsibilities among different governmental institutions, the law also anticipates better involvement of the private sector through close cooperation between the Central Committee and business associations. Accordingly, business associations shall be the main representative of the private sector and thereby take on an important role in this process. The cooperation of public and private sector will be discussed in more detail below.

*The SME Development Law is an important milestone, but not riskless*

According to experts interviewed, this law is an important step. It reflects the GoM's interest in strengthening the private sector, and includes improvements regarding the provision of support and facilitation mechanisms for SMEs.

However, scholars also express their scepticism regarding some provisions of the law, such as the requirement for businesses to register at a specially created registration office in the Department of SME Development in order to receive the services provided by the Department. Experts see a risk of an unnecessary bureaucratic burden, stating that "creating another registration office under the Department of SME Development adds cost and redundancy to business registrations. All registered businesses with a valid license from a Development Affairs Organization or Union ministry should automatically be eligible for any benefits under the SME law" (Bissinger and Linn Maung Maung, 2014, p. 32). However, the final regulatory and institutional set-up with regard to registration procedures have not yet been determined, and it remains to be seen whether changes do indeed lead to additional bureaucratic procedures. Apparently, a clear definition of the roles and tasks regarding registration is missing but needed.

Another aspect criticized by the experts is the definition of SME according to the SME Law, which differentiates between different sectors. As SMEs can operate in different sectors at the same time, an enterprise might meet the criteria for small enterprises in one sector and the criteria for medium enterprises in another sector. A distinct differentiation between small and medium enterprises is not possible based on this definition (Bissinger and Linn Maung Maung, 2014), which creates a new obstacle for the generation of reliable statistics on the private

sector. In addition, Abe and Dutta highlight that such a complex definition of SME can also hinder the implementation of policies targeting SMEs. An easy and straightforward definition is important in order to guide development policies and support measures such as SME financing schemes and training (Abe and Dutta, 2014). Moreover, the definition seems mainly to focus on enterprises in urban areas, which is considered problematic. By not including a separate category of micro-enterprises, it appears to focus more on larger firms mostly located in urban areas, rather than on SMEs in rural areas, where firms are often (very) small (Expert Panel).

In the near future, the SME Development Law will be complemented by a comprehensive SME policy which is to be drafted by the MoI. It will cover all relevant issues in the development of SMEs, such as financing and human resource development. (ADB, 2015a).

These revisions of the legal framework and the introduction of new laws are accompanied by a number of other wide-ranging reforms "which aim to liberalize trade and investment, shrink the size of state asset and enterprise holdings, expand the sectors in which private businesses can operate, and streamline the business environment for firms. It has also eased the enforcement of other economic restrictions, including licensing" (Bissinger and Linn Maung Maung, 2014, p. 5). The next section will discuss Industrial Zones (IZ) and so-called Special Economic Zones (SEZ) as one important instrument of the GoM in supporting industrial private-sector development.

*Industrial Zones and Special Economic Zones were created to foster industrial and economic development throughout Myanmar*

In 1995 the GoM established 19 IZs surrounding important cities throughout the country to strengthen industrial development and balanced economic growth. However, this initiative has not yet brought about the anticipated success. In fact, the DEval SME Survey data found that only 25% of firms (most of them manufacturing, especially those in machinery and metal products or repairs) are located within IZs, while most firms operate outside such zones. Moreover, only very few newly established businesses decided to settle within IZs.



In addition to the existing IZs, the GoM more recently started establishing SEZs: areas with streamlined procedures as well as fiscal and non-fiscal incentives such as tax exemptions or preferential custom regulations (Puusaag et al., 2015; OECD, 2014b). The Special Economic Zone Law (redrafted with the assistance of Japan) and the Dawei Special Economic Zone Law were both passed in 2011. Three SEZs are planned for Dawei, Kyaukphyu, and Thilawa, although only Thilawa is already operational (ADB, 2015a; Milio et al., 2014). Through the establishment of SEZs the GoM aims to attract foreign investment, to create jobs, keep workers from leaving the country (OECD, 2013) and “to move its economy in the long run from an exporter of raw material to one that produces competitive semi-manufactured goods with significant local value addition” (OECD, 2014b, pp. 146-147).

*IZs are currently not attractive to entrepreneurs; SEZs will prove attractive to foreign investors*

IZs do not seem to be too attractive to entrepreneurs (see DEval SME Survey for more details). This is further confirmed by a paper by the United Nations Industrial Development Organization (UNIDO) and a Friedrich Naumann Foundation paper that examines Myanmar’s IZs: “At present, the industrial zones do not present an optimal business environment. Infrastructure is poor, both skilled labour and credit are scarce and new technologies prove difficult to import. Costs of operations are high and a dearth of skilled labour limits the use of more sophisticated industrial processes. Some business owners in the IZs stated that they would be more competitive if they could operate outside the zones, due to more lax regulation, closer proximity to consumers and a cheaper supply of electricity.” (McCarty et al., 2015, p. 37). If GoM wants to strengthen IZs as centres

for industrial development, conditions will need to be more attractive.

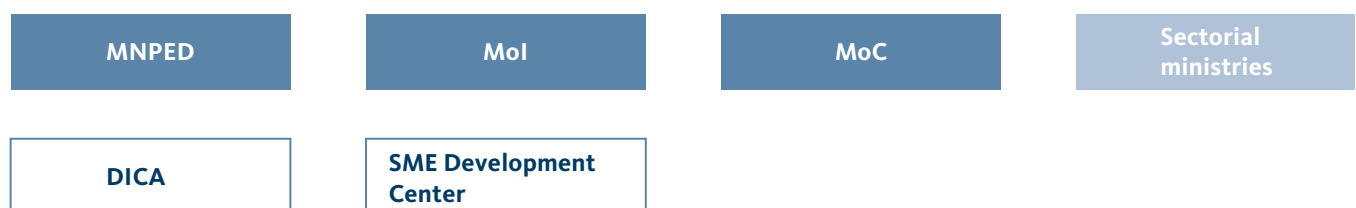
In order to make sure that the above-mentioned objectives of the newly established SEZs are reached, and that they contribute to Myanmar’s economic development, their establishment should be accompanied with supporting policies and measures: “[S]uccessful development of SEZs strongly depends on the capacity of managing committees to secure good governance and operations of these zones” (Puusaag et al., 2015, p. 49). Special attention should be given to the linkages to local companies to prevent the establishment of enclaves and to support dynamic industry clusters (OECD, 2014b; OECD, 2013).

The previous sections already indicated that a number of actors are working in different fields in the reform process. The next two sections will introduce the relevant actors in Myanmar’s private sector.

*MNPED, MoI and MoC are the line ministries mandated to promote private-sector development*

In order to understand the current system and some of the challenges occurring in the reform process, it is also necessary to understand the institutional context: in other words, the role of and relationship between the key actors. In fact, in the current system several ministries and subordinate institutions are mandated to reform and implement the regulatory framework and support structures for SMEs. This leads to a rather complex and fragmented system, as illustrated in the figure below (see Figure 11).

**Figure 11: Relevant governmental actors for the private sector**



Source: Authors' compilation

The Ministry of National Planning and Economic Development (MNPED) and the Ministry of Industry (MoI) can be determined as line ministries with important subordinate institutions. MNPED has been working under its current mandate since 1993. It is strongly involved in the formulation of national development plans. It cooperates and coordinates its work with other relevant ministries and regional authorities with the objective of contributing to the economic development of the country (MNPED, 2015)<sup>17</sup>. The Directorate of Investment and Company Administration (DICA) was established under MNPED in 1993 and is responsible for the administration and support of local and foreign investments, company registration and administration, as well as taking part in regional cooperation on investment matters. Its long-term objective is to become a key actor for private-sector development by providing an enabling environment for investments and business-development services.

MoI was merged into one ministry in 2011. Formerly, MoI No. 1 was responsible for the production of consumer products, whereas MoI No. 2 produced heavy industrial products. Aside from its responsibility for state-based production, it increasingly focuses on the promotion of the private sector and development of public-private partnerships to strengthen industrial development. Emphasis is also given to the development of SMEs, especially in the field of heavy industries.<sup>18</sup>

Another important subordinate institute, under the MoI, is the Department of SME Development, which was established in 2012 and defines its role as an incubator for SMEs. Up to now, it has focused only on manufacturing enterprises. It is supposed to support SMEs through advice regarding financing, networking activities (for example through SME database, trade fairs, business matching and connection to the ASEAN SME portal), knowledge and technology transfer, and capacity-building measures (e.g. training, workshops and coaching). The Department of SME Development not only works with SMEs; it also supports the MoI with input to the SME Development Law and related policy discussions. The Department of SME Development is intended as an interface between SMEs and the GoM.

With respect to trade-related questions, the Ministry of Commerce (MoC) is one of the main ministries in charge. Other sectoral ministries have certain regulatory and administrative rights regarding enterprises in their business fields, such as hotels and tourism, but also cross-cutting issues such as customs (OECD, 2013, p. 110). The GoM tries to strengthen cooperation between all relevant actors and has formed a Central and Working Committee for the development of SMEs in which representatives from all line and sectoral ministries are participating. The overall framework, core tasks of different authorities, and the broad distribution of tasks is laid down in the Small and Medium Enterprise Development Law, which was adopted in April 2015 and is discussed in more detail in the next section.

#### *Capacities and coordination of actors at the policy level are limited*

The experts interviewed by DEval see potential for improvement especially regarding the technical and human capacity of key political actors (e.g. MNPED and DICA) and point to the fact that coordination needs to be improved not only between different responsible ministries but also between union, regional and township governments. They also point to an information gap between the political system and the implementation level (DICA, Department of SME Development). Serious efforts will be necessary to reform the current system, although there is the risk that too many simultaneous reforms will compromise the reliability of the regulatory framework and overburden the stakeholders involved.

To give a complete picture of the actors involved in PSD, non-governmental actors also need to be taken into consideration.

#### *There are only a few relevant non-governmental actors involved in the policy dialogue on private-sector development*

Another important actor in Myanmar's private sector is the UMFCFI. This is the largest national business association, with a membership of around 28,639, of which 10,230 are considered "active" (Su Phyo Win, 2014). According to their website<sup>19</sup> the core tasks of UMFCFI is representing business interests and the views of the private sector to the GoM, participating in working

<sup>17</sup> More information about MNPED can be accessed under: [https://www.mnped.gov.mm/index.php?option=com\\_content&view=article&id=12&Itemid=2&lang=en](https://www.mnped.gov.mm/index.php?option=com_content&view=article&id=12&Itemid=2&lang=en)

<sup>18</sup> More information on the MoI can be accessed under: <http://www.industry.gov.mm/en/history>

<sup>19</sup> <http://www.umfcci.com.mm>

committees formed by the government, and forming dialogues with business people in the private sector.

The PSD Project also works with MDRI, which is a rather new but important think tank covering three programme areas (MDRI, 2015): macroeconomic reform, inclusive development and governance.

One of the objectives of the UMFCCI is to act as a bridge between the state and the private sector. In order for it to fulfil this intermediary role between parliament, relevant ministries and sector associations, a considerable share of enterprises should be members of the UMFCCI. In the DEval SME Survey only 16 (out of 2,490) enterprises indicated that they were members.<sup>20</sup> In order for UMFCCI to be considered the main representative of the private sector, it is essential that its membership among SMEs is increased.

It also needs to establish functioning communication mechanisms and services. Despite a long list of functions given on UMFCCI's website, the interviewed experts considered that the only service UMFCCI provided for its members is the granting of trade licenses. UMFCCI only recently started to develop and offer other services targeted at SMEs, such as training, financing, advising, networking etc. (Expert Panel).

Because of its role as intermediary, UMFCCI is a favoured partner for development organizations. According to the interviewed experts, UMFCCI accepted many of the invitations to collaborate, which is generally positive but led to it being overloaded with donor support (Expert Panel). Due to this, and the relatively few UMFCCI members, other associations and networks should be incorporated into development projects.

In the interviews the UMFCCI was characterized as an NGO that finds itself between the GoM and the employer as it cooperates with international donors and research institutions, conducts research projects and provides information for the economic development of Myanmar according to scientific standards (Expert Panel). The importance of holding a profound dialogue between the public and private sector via organizations in addition to UMFCCI is discussed in more detail in the next section.

#### *Public–private cooperation needs to be strengthened in order to create a business-friendly environment*

In the Framework for Economic and Social Reforms (FESR), it is stressed that a business-friendly regulatory framework is crucial to increase the competitiveness of the private sector and to stimulate growth (MNPED, 2012, p. 4). The GoM has started to reform the regulatory framework and to initiate a better private–public interaction and communication in order to understand the needs of enterprises. Based on this understanding, reforms can be developed that are truly beneficial to the private sector (Puusaag et al., 2015). With regard to SMEs, The Economic Research Institute for ASEAN and East Asia (ERIA) summarizes such processes in the following way: “basic meetings are conducted quarterly to discuss SME-related issues such as challenges for SMEs, advantages and disadvantages of SMEs, development programmes for SMEs and major factors for SME development. Participants in the consultations on SME policies are not only from the SDC [Swiss Agency for Development and Cooperation] and UMFCCI but also from the private sector as well as professionals who can give formal comments and suggestions on the draft SME law and related policies.” (ERIA, 2014, p. 165)

#### *GoM increasingly consults private-sector representatives in the reform process*

According to the SME Policy Index, some improvements regarding the better inclusion of SME's interests are noticeable. This is in line with other sources confirming some positive developments in terms of a stronger involvement of private-sector representatives in law-making processes. According to the experts interviewed, GoM already started to adjust procedures in this direction, which constitutes a change from the past. There were, for instance, a few feedback loops in the drafting process of the SME law, which included different actors such as UMFCCI, Department of SME Development, other ministries, some donors and the private sector (Expert Panel). The issue of public–private cooperation beyond law-making processes will also be discussed in more detail below.

Although there has been some progress (as described above), there is still a lack of information passing between the policy and implementation level. According to the experts interviewed,

<sup>20</sup> Being a member of an association seems to be rather uncommon among SMEs in Myanmar: only 4% of all surveyed firms in the DEval SME Survey indicated belonging to a business or sector association, particularly small sector associations targeting specific trades or products (see DEval SME Survey Report for more details).

an interface between SMEs and government is greatly needed. One interviewee indicated that the GoM does not even know how many SMEs exist in the country, and that the problem of lack of data needs to be tackled by the GoM (Expert Panel). However, with DICA and the Department of SME Development, there are at least two intermediary institutions now in place that are directly interacting and collecting information about SMEs. GIZ is working with both institutions in order to clarify understanding of the organizations’ roles and tasks among professional and managerial staff and to support them in fulfilling these tasks satisfactorily.

A study conducted by MDRI and the Asia Foundation further analysed the extent to which business–government engagement changed with the recent government, on the basis of interviews with business owners. According to their findings, engagement has indeed improved since the beginning of the reform process, and GoM officials seem to be more open. However, such engagement is mainly perceived through the establishment of a wide range of committees, such as the Urban Development Committees, Township Supporting Teams, or Development Affairs Committees, promoting engagement between the GoM and local stakeholders, but hardly at all through business and sector associations. Nonetheless, this change is still seen as

an important positive development. The major flaw identified, however, is that although committee members are more representative of the constituents, they are often appointed by the GoM and not elected by the businesses (Bissinger and Linn Maung Maung, 2014).

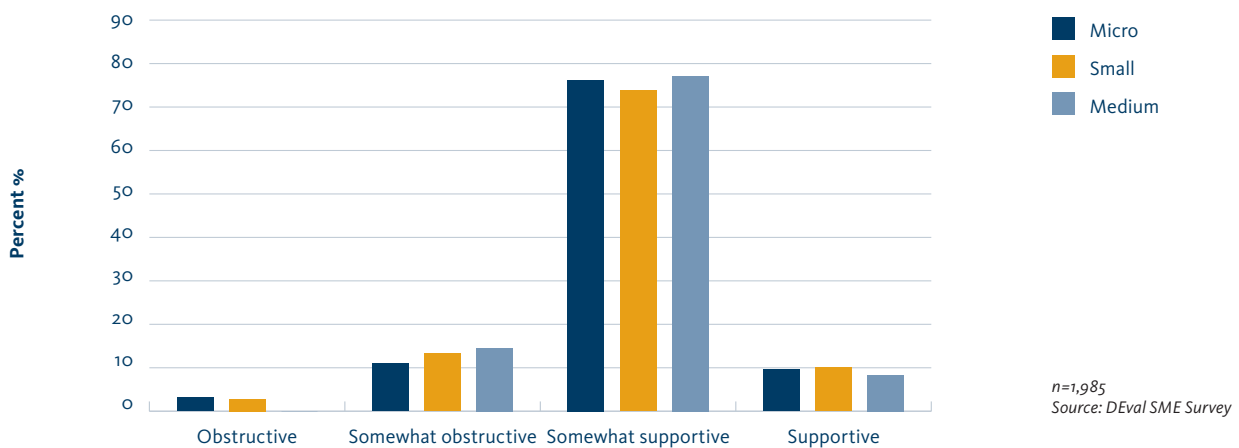
### 5.4 Overall assessment of the current legal and regulatory framework

While the previous section presented the core components of the legal and regulatory framework for SMEs, the following will present an assessment of the overall framework by SME owners themselves, but also from experts’ point of view.

#### *SMEs seem satisfied with the current regulatory framework, while experts depict numerous weaknesses*

The DEval SME Survey asked business owners to rate the current and past regulatory frameworks and to give an opinion about their expectations regarding the near future. Surprisingly, they painted a rather positive image of SME’s current regulatory framework in Myanmar. Although hardly any business representatives describe it as supportive, three-quarters state that it is “somewhat supportive” (see Figure 12).

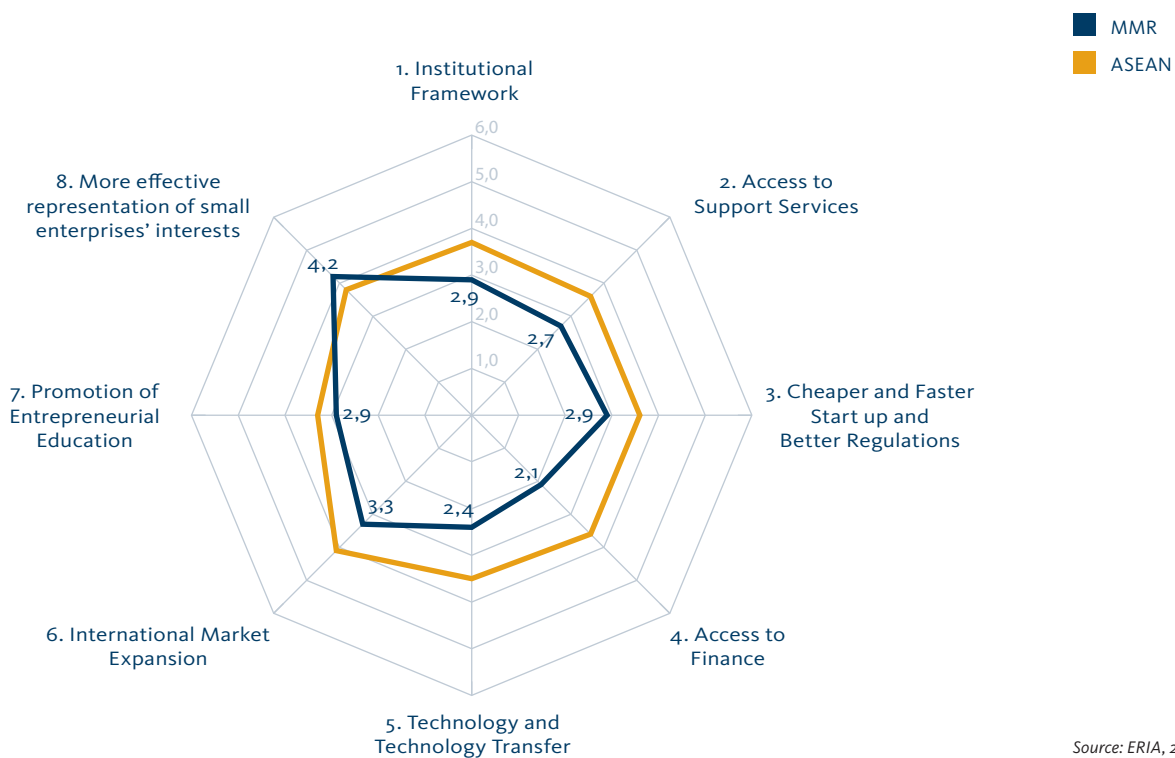
**Figure 12: Rating of current regulatory framework, in percent**



The findings of the DEval SME Survey are complemented by the findings of ERIA, which developed a Myanmar SME Policy Index. This index includes and rates different aspects of the market and policy framework. In Figure 13 the Index for Myanmar

is presented in comparison with the ASEAN average score. (The higher the scores in a certain dimension, the better the performance and practice.)

**Figure 13: ERIA's Myanmar SME Policy Index 2014**



According to this index, the experts interviewed, and other studies, the regulatory framework is still characterized by a number of weaknesses, not only for SMEs but for the whole private sector. (Abe and Dutta, 2014; OECD, 2014a). In this sense, Abe states that “Myanmar’s business sector has the potential to become the driving force of its economic development but that will require the installation of an institutional framework that creates an environment conducive to entrepreneurship and other private initiatives” (Abe and Dutta, 2014, p. 11). When compared to the ASEAN average, the index indicates that Myanmar is doing rather well in more effectively including the perspective of SMEs, but clearly below average in the other categories. According to the experts interviewed and other

sources, bureaucratic procedures in Myanmar are also considered a problem due to their inefficiency and transparency (Milio et al., 2014). Moreover, the long registration process for companies is highlighted as a problem (ERIA, 2014), although there are plans to shorten it (ADB, 2015b). Due to the poor infrastructure, applications even have to be submitted on paper (Expert Panel). Experts also point out that foreign investors are especially disadvantaged by certain regulations (for example, not being allowed to rent property for more than one year) and by the system’s lack of transparency (Expert Panel). Every ministry has its own regulations and procedures, which are not coordinated with each other. According to ERIA “the following measures are recommended for creating a conducive

environment for Myanmar’s SMEs. [...] To set up concrete SME development strategy and incorporate the cooperation and coordination among stakeholder organizations and agencies in strategy formulation; [...] - To establish a sound system for transformation from informal to formal sector through inter-ministerial and stakeholder consultation with effective monitoring systems.” (ERIA, 2014, p. 210)

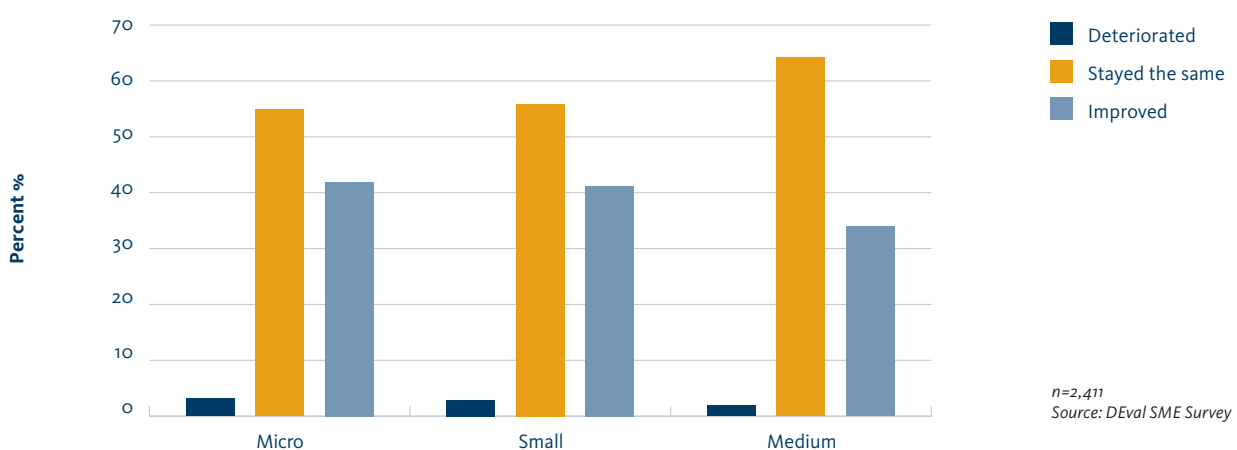
*Experts associate a lot of challenges with the comprehensive reform process, whereas SMEs expect further positive reforms*

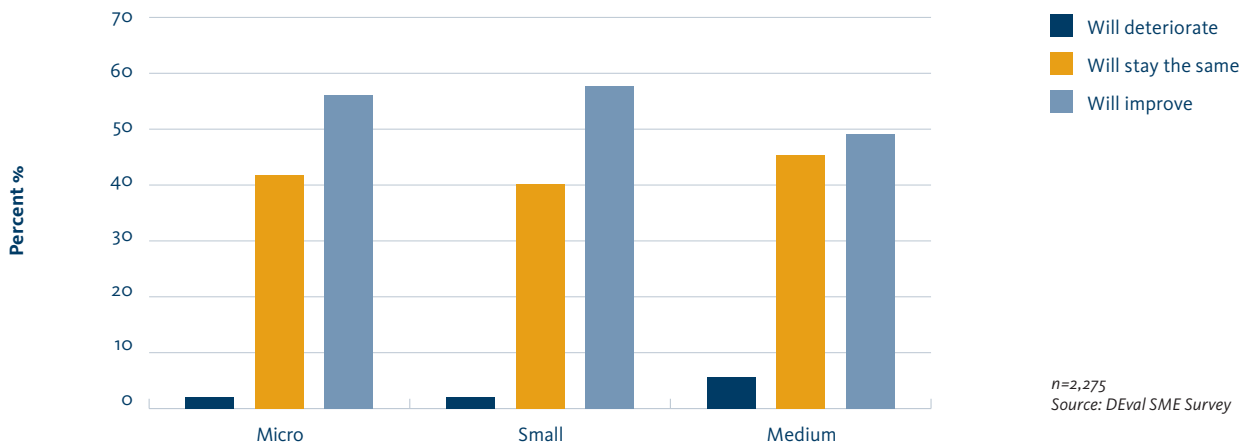
Finally, experts and business owners surveyed by DEval were asked to assess whether and how reforms in the last years were received and what their expectations are for the near future. Some of the experts interviewed described the reform process as a challenging task that puts high demands on those involved, as it requires intensive collaboration between different stakeholders (e.g. ministries, governmental and non-governmental institutions and the private sector). There is a risk of overburdening the participants of this process, especially as the reforms

regarding SMEs have to be integrated in an overarching strategy: “It is important that any initiative to promote SME development is formed as part of a wider private sector development strategy.” (Abe and Dutta, 2014, p. 16). In addition, experts interviewed admit that there is a challenge in finding the right balance for the reform process. On the one hand, very comprehensive and important reforms are ongoing, which requires a lot of resources and expertise. On the other hand, there is a lot of time pressure, and in a situation where everything is under reform the reliability of the regulatory framework is reduced.

Generally, SMEs seem to expect more positive changes in the regulatory framework. While most firms state that they did not yet perceive any changes in the framework (see Figure 14), they do expect to benefit from reforms in the near future, which indicates that firms do realize that things are changing instead of stagnating (see Figure 15).

**Figure 14: Opinions on development of regulations in past three years, in percent**



**Figure 15: Expectations on development of government regulations in next three years, in percent**

In addition, experts pointed out that the elections in November 2015 might contribute to a slowdown of the processes, as the decision makers are distracted with election campaigns, and it will be quite some time before the new GoM is fully operational (Expert Panel and ADB, 2015b).

In a market economy, SME development and private-sector development overall are not only influenced by the regulatory framework established by the GoM, but also by other market conditions, which are not, or only indirectly, in the hands of public authorities.

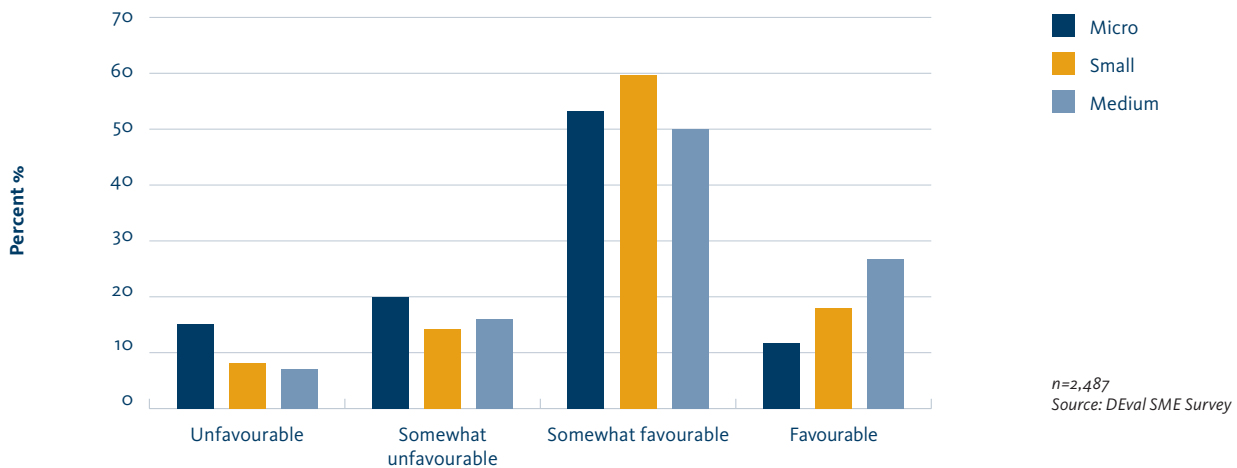
## 5.5 Market conditions for SMEs

This chapter will again start by presenting the SME representatives' perception of the market conditions and then contrast it to expert assessments obtained through interviews and other studies.

*SMEs are confident with market conditions and expect further growth, while experts highlight deficits in comparison with other countries*

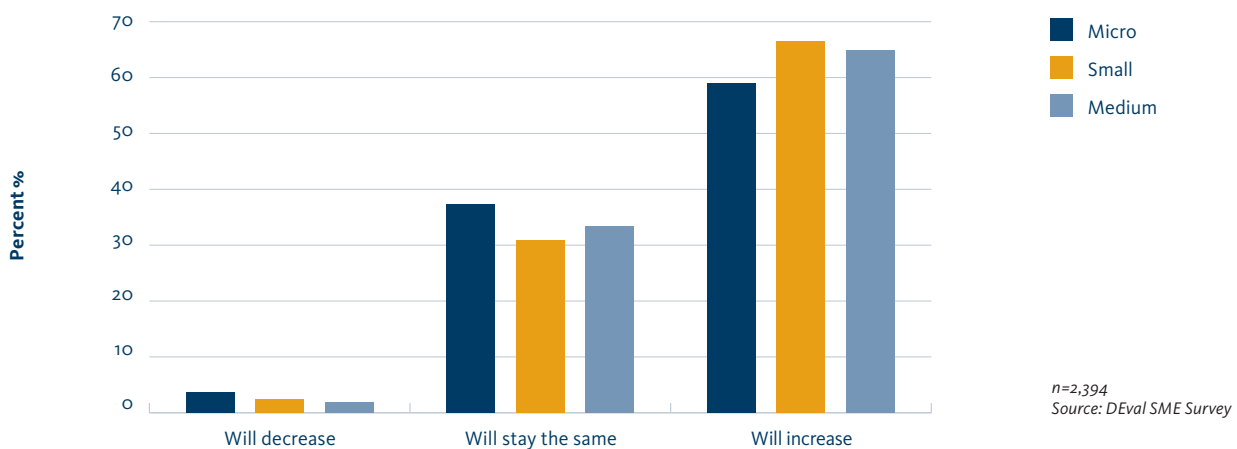
Around two-thirds of surveyed business owners assessed the market conditions for SMEs in Myanmar as positive (see Figure 16).



**Figure 16: Opinion on current market conditions, in percent**

Most business owners do not only assess the current market conditions as positive, but also the market conditions for SMEs during the last three years and the expected upcoming market conditions in the next three years (see DEval SME Survey Report for more details).

This finding is also in line with SMEs' revenue expectations for the upcoming year. Almost all firms surveyed expect an increase, or at least a constant development of revenues, for the upcoming year (see Figure 17).

**Figure 17: Expectations of monthly revenue in a year from now, in percent**

Other sources show a more critical perspective. For instance, the OECD Business Survey found a much more negative assessment of market conditions: only 33% of the surveyed

enterprises regarded the business conditions in Myanmar as rather favourable or better, whereas 67% described it as rather unfavourable or worse.<sup>21</sup> This can also be attributed to

<sup>21</sup> One assumed explanation is the different sampling methods. The OECD mainly used business associations to draw their sample, which led to an under-representation of micro-enterprises (67% in the DEval Survey and 35% in the OECD sample) and the informal sectors. But according to DEval's findings, the bigger enterprises assessed the market conditions better than micro-enterprises did (see DEval SME Survey Report). Therefore, the different sample methods are not a logical explanation for the observed differences.

differences in the sampling approaches chosen for both surveys. The sample used by the OECD Business Survey is mainly based on existing registers, and thereby also included larger firms than the DEval SME Survey, which used a block-screening approach and led to the inclusion of more small firms.<sup>22</sup> Nonetheless, DEval SME Survey data does not suggest that larger firms are more critical than small ones. It rather shows the opposite.

The World Bank's Doing Business 2015 report, which ranked Myanmar 177 out of 189 countries, points out some problems. Myanmar ranked worst of all countries on the indicator of how to start a business. It requires 11 procedures and takes 72 days to start a business. This is much more time-intensive than in other countries and thus also above the regional average. In the region of East Asia and the Pacific, 7.3 procedures on average are required, and it takes 34.4 days to start a business. In Myanmar, starting a business costs 155.9% of income per capita, compared to 27.7% on average in the East Asia and Pacific region. The other most problematic aspects cited in the World Bank's Doing Business 2015 report include enforcing contracts (rank 185), protecting minority investors (rank 178) and getting credit (rank 171). It also cites improvements, however, in particular the fact that trading across borders has got easier (rank 103 compared to rank 135 in 2014 World Bank, 2014a).

When asked about the market conditions and their future development, the experts on the one hand confirmed that competition is still rather limited, which would explain the generally positive assessment by SMEs. However, with regard to the future, they mentioned in particular the opening up of Myanmar to the ASEAN market, and its membership of the newly established AEC (see Chapter 2). Some of the interviewed experts are concerned about the consequences of the opening, due to the limited economic performance and competitiveness of Myanmar enterprises (Expert Panel). Many experts are afraid that Myanmar's existing problems, such as fast turnover in the labour market, will increase as a consequence of the process of opening up. An OECD report indicates key constraints, especially for the agro-food sector, namely poor infrastructure, lack of financing, inadequate skills and research and development, and insufficient government services (OECD, 2014a). Looking at their positive assessment of the future market conditions, SME business owners do not seem to share these concerns, or are

not yet aware of the consequences these changes might have for their businesses, as almost 70% expect an improvement in overall market conditions.

Aside from this rather positive assessment by SMEs, and the more critical opinions by experts that were reflected in the literature, the DEval SME Survey also tried to find out which business obstacles are considered as most pressing by SMEs.

#### *A large share of SMEs depicts similar main obstacles to business*

Despite their positive assessment of business conditions, the surveyed business owners in the DEval SME survey identified four main obstacles to business: price of raw materials (37%), lack of skilled workers (37%), political instability (34%) and labour turnover (33%).

Information differs regarding corruption and its impact on SMEs in Myanmar. One expert interviewed by DEval indicated corruption as "one of the root causes for most problems as it spreads through all areas and sectors from business to religion" (Expert Panel). Myanmar ranked 156 of 175 countries in the Transparency International Corruption Perception Index 2014 (Transparency International, 2015), which represents an improvement on 2011, when it was ranked 180 out of 183 (Transparency International, 2011). The GoM addressed the issue of corruption and submitted a draft law on anti-corruption, which entails a strategy to fight corruption in the public and private sector (MNPED, 2012). Different studies reveal different findings concerning the impact of corruption on doing business for Myanmar's SMEs. While a majority of enterprises in the OECD Business Survey (more than 60%) emphasized corruption as one of the major business obstacles, only 3% of the surveyed business owners in the DEval SME Survey rated corruption as an obstacle. In the World Bank Enterprise Survey, only a minority of firms regarded corruption as a constraint for their business (9%). Further research is needed to explain these differences. (See DEval's SME Survey Report for more details.)

This chapter showed that doing business in Myanmar is influenced by a couple of hurdles. One might assume that business-development services could be helpful in handling these. The next section will discuss business-development services and their usage in Myanmar in more detail.

<sup>22</sup> Please also see chapter 4 for more information on the methodological approach chosen for the survey, and DEval SME Survey 2015 for a detailed comparison between the DEval and OECD survey results.

### *Governmental and non-governmental business-development services for SMEs*

There are three main providers of business-development services for SMEs in Myanmar. First, there are anticipated governmental providers, such as DICA and the Department of SME Development. Secondly, business and sector associations such as UMFCCI provide such services. Thirdly, there are private-sector service providers (Wijesena and Hakemulder, 2014). As reported on their website, the Department of SME Development recently offered a couple of training sessions, which are described in Annex III, with support from development partners.

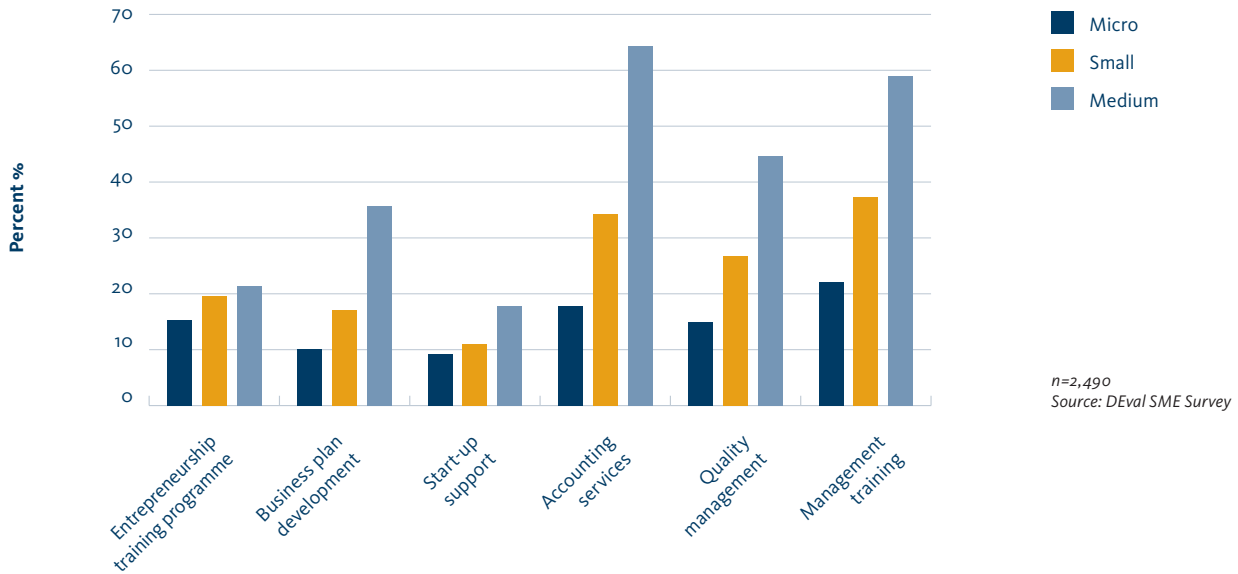
### *Business-development services are in demand, but existing services are not demand-oriented and unknown*

Business-development services are very much in demand, but according to the experts interviewed, both DICA and the Department of SME Development have rendered these services to a very limited extent due to missing technical but above all human capacities. One interviewed expert called for more specialized, shorter and cheaper courses (Expert Panel) to attract more participants, since the existing training courses at Department of SME Development cost around MMK 30,000 and last five full days. Aside from the high fee, small entrepreneurs cannot afford to spend so much time on training. In fact, according to the SME Survey data, on average only around 2% of firms that know about business-support services but do not make use of them state that they are too expensive (i.e. fees are too high), but more than 30% state that transaction costs are the main problem.

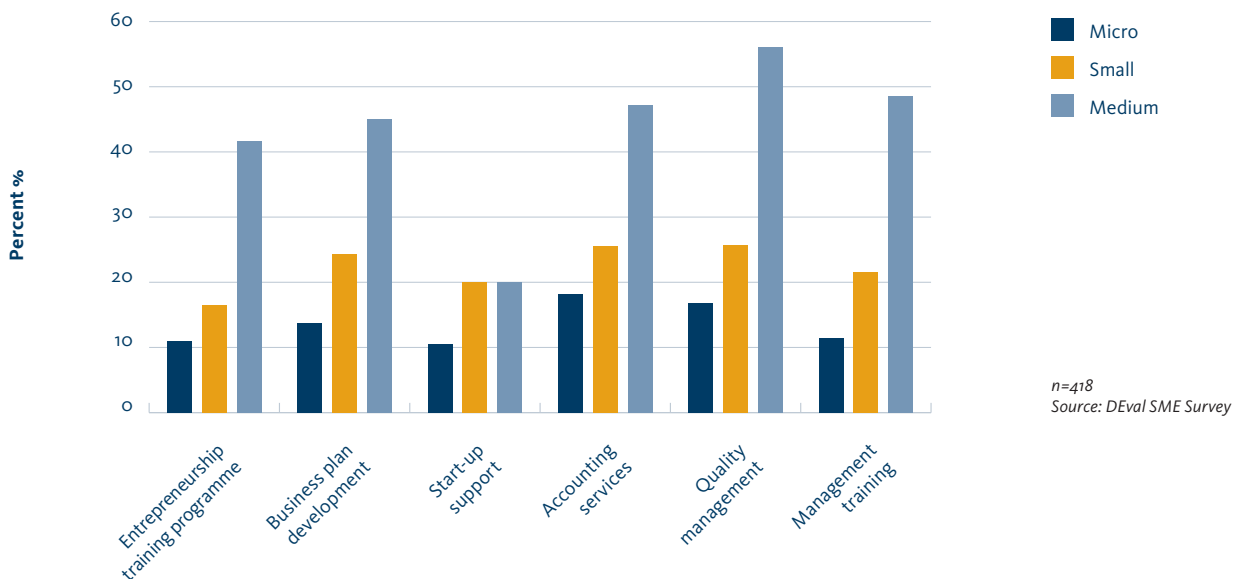
UMFCCI provides courses on management topics, targeted at the medium and large enterprises that represent the majority of its members (Wijesena and Hakemulder, 2014). The Myanmar Young Entrepreneurs Association (MYEA), founded by UMFCCI, aims to support start-ups in all sectors. In December 2013, MYEA had around 120 members, who are young CEOs and business owners below the age of 45 (Expert Panel). Its activities include training seminars, annual meetings, and gatherings with international experts. It is currently being planned to enhance these activities with consulting and financing for start-ups (Expert Panel). Training sessions targeted at women in rural areas have been organized by the Myanmar Women Entrepreneur Association (MWEA). MWEA was founded in 1995 and currently has 1,700 members, with 60 of them working for MWEA on a voluntary basis.

As can be seen, there exist some business-development services in Myanmar, but they do not seem to be well known. Fewer than half of business owners surveyed (43%) were aware of the existence of some form of business-development services. And even if they do know about business-development services, they do not necessarily make use of these services. Except for start-ups, SMEs make more use of such services than micro-enterprises. Accounting and management are the most common business-development services in terms of knowledge and use (see Figure 18 and Figure 19).

**Figure 18: Businesses with knowledge about different business-development services, in percent**



**Figure 19: Share of SMEs receiving support or attending training in different fields, in percent**



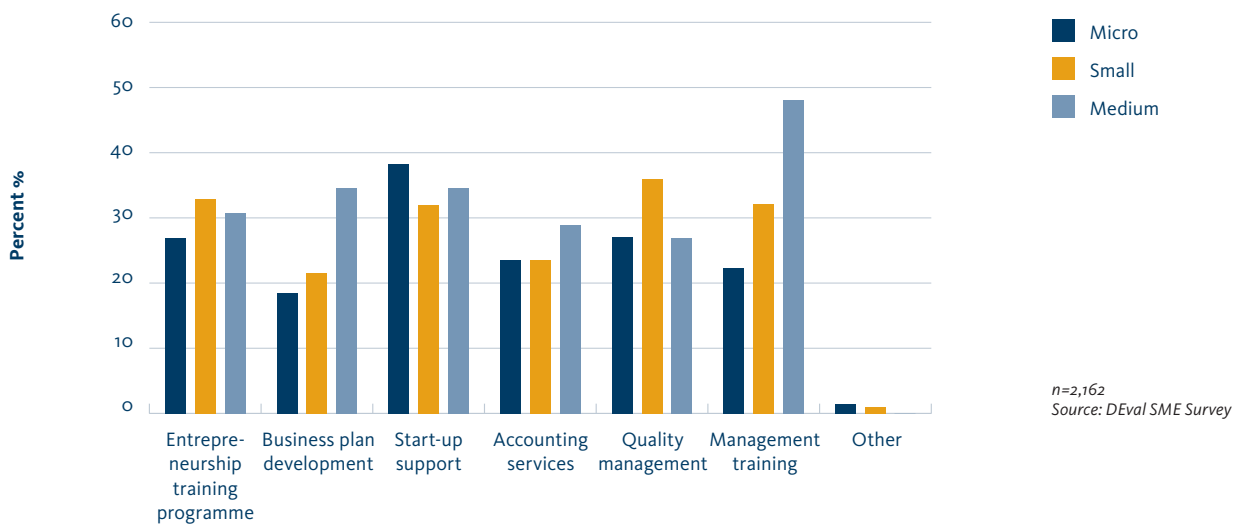
Asked for the reasons why they do not use business-development services although they know about them, business owners

in the DEval SME Survey most often mentioned irrelevance and high transaction costs. It can be assumed that SMEs would use

and, if affordable, also pay for business-development services if they were more relevant to their specific problems. When asked about preferred business-development services, business owners of medium firms stated an interest in management training, and business-plan development in particular, while small firms are interested in quality management and entrepreneurship trainings, and micro-firms have most need of start-up support

(see Figure 20). The ILO conducted an assessment of Myanmar's business service and training market that indicated slightly different findings: information on the market, knowledge of and skills in reaching customers and making sales, workers' technical skills, and linkages to buyers and suppliers were the services for business improvement most in demand (Wijesena and Hakemulder, 2014).

**Figure 20: Business-development services needed by SMEs, in percent**



The low availability as well as the low uptake of business-development services, and the need for such services, are confirmed by other surveys (ERIA, 2014; Puusaag et al., 2015). According to the ILO study, only a fifth (19.7%) of the 315 surveyed SMEs used business services, more than half of them (55%) from private business-service providers, whereas nobody named business associations or chambers as the provider of the used services (Wijesena and Hakemulder, 2014).

Recently there seems to be some progress in regard to business-development services. As mentioned earlier, the Department of SME Development will be decentralized by opening branches and One-Stop Service Teams. According to ERIA, the MoI planned in 2014 to establish a new online portal for SMEs, which provides “information for registration, financing, training courses, custom procedures, market access, and industrial

zones, and will link with related organizations and agencies” (ERIA, 2014, p. 38). To meet the demand, the existing progress needs to be intensified and expanded (ERIA, 2014; Puusaag et al., 2015; Wijesena and Hakemulder, 2014).

As a last point, this chapter will present findings relevant to the pilot measures of the PSD project.

## 5.6 Findings relevant to the pilot measures in Shan State

In 2012, GoM declared the second phase of its reform strategy. In this regard, four main economic objectives were announced:

1. Sustaining agriculture development towards industrialization and all-around development
2. Balanced and proportionate development among states and regions, with equal share of budget and taxation, foreign aid and local investment
3. Inclusive growth for the entire population
4. Compilation of quality and accurate statistics (Kudo and Kumagai, 2012, p. 1).

#### *The potential of Shan State is limited by political instability*

The PSD project directly aims to contribute to the implementation of the first two policies with its engagement in Shan State. As described in Chapter 2, the agricultural sector is the key economic sector in Myanmar, and will play a vital role in the development of the country's economy. It accounts for the majority of workforce and for 30%–40% of GDP, according to the World Bank. Other national sources, such as the Central Statistical Office (CSO), suggest an even higher share of around 44%, last measured in 2007/08 (FAO and WFP, 2009). Shan State has strong potential due to its advantageous climate, which allows it to grow a range of agricultural products (UNDP, 2015b, p. 12). One MNPED representative further states that it is regarded as a bit more developed than some other states and has thus been chosen as one of the priority regions to be prepared by the GoM for producing exports (Expert Panel). According to the Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP), however, strong regional differences within Shan State need to be taken into consideration as in Northern Shan State, in particular, “socio-political dynamics complicate efforts to summarize the food security situation at household level. There

is political instability resulting from rival ethnic groups, recent wars and efforts to eradicate poppy cultivation. This volatility is a threat to personal safety as well as household food security” (FAO and WFP, 2009, p. 29).

#### *Increasing Myanmar's agricultural productivity can be the key to fighting poverty*

The OECD has concluded that land yields and labour productivity are generally low in the Myanmar agricultural sector, which is seen as the main reason for low incomes and high poverty rates in rural areas. The following improvements are regarded as necessary to improve agricultural productivity:

- connection to markets
- agricultural workers' access to quality land
- land rights
- freedom in crop selection
- higher public and private investments to increase know-how, input use, and capital investments in cultivation and post-harvest technologies. (OECD, 2013)

Several other experts, including representatives from the Tea Working Group that works with GIZ and those who are focusing on QI (see also Chapter 8), emphasized the enormous losses caused by inadequate use of fertilizers and poor standards and technologies for food processing, storage and transportation. On the micro and meso levels, the project focuses on jointly developing value chains and initiating pilot projects to encourage progress at different stages of the value chain. The value chain for tea was determined as follows:

**Figure 21: Value chain for tea**



Source: Own illustration

The project will work together closely with the sector association and working groups and other public and private partners to design and decide on initiatives that aim at increasing productivity and quality standards.

*Tourism has the potential to become a key pillar of Myanmar's economy*

Tourism is seen as one of the most promising sectors in Myanmar. According to the World Travel and Tourism Council, the total contribution of travel and tourism in Myanmar was around 4.8% of GDP in 2014. It is expected to rise by 6.7% in 2015 and by 8.4% per annum until 2025. While the majority of tourists are coming from the Asian region, an increase in Western tourists in particular is expected. This steady increase will also require substantial upgrading and expansion of infrastructure and services. Even though privatization efforts in the tourist sector were started in the 1990s, the number of private hotels seems rather limited when compared to other tourist destinations. According to CSO data, the number of state hotels declined from

39 to 9 between 1991 and 2011. At the same time, the number of private hotels, which were not previously permitted to operate, increased to 705 (OECD, 2013, p. 116). Despite the fluctuating security situation throughout Shan State, Southern Shan State and, in particular, the regions around Taunggyi and Inle Lake are considered major tourism destinations with a lot of potential.

The project will follow a similar approach to that used to enhance cooperation in the areas of tea and mango production. It is expected that associations and groups of SMEs directly working in tourism or as suppliers to tourist facilities will be strengthened through pilot measures in Shan State.

Due to the tense security situation in Shan State and the postponed planning of interventions in the area of tourism, baseline data collection, as anticipated, was hardly possible for this activity area. The final evaluation will thus mainly be based on monitoring and secondary data, as well as data that will be collected as part of the evaluation.

### Main findings on private-sector development:

- The GoM clearly understands the strengthening of the private sector and especially SMEs as a key priority for economic development in Myanmar. This was laid down in several strategy documents, such as the FESR, and is also reflected in respective laws and regulations that were drafted and adopted over recent years (e.g. the SME Development Law). Experts agreed that this prioritization reflects a shift by the government, as despite early efforts towards privatization, the focus on private-sector strengthening and especially SME development is a more recent development.
- The policy and project focus on SMEs requires reliable information on key characteristics of this target group. The DEval SME Survey identified the following:
  - The overwhelming majority of firms are small, with fewer than 50 employees (98% of sampled firms).
  - More than 20% of firms operate informally and are thus not registered with any government authority.
- More than half of firms started operating more than 10 or even 15 years ago. Fewer than one-quarter started during the last four years.
- The average monthly revenue of SMEs is around MMK 1 to 5 million. It is mainly generated through shops and regional wholesale.
- The manufacturing and service sectors are roughly the same size.
- An important milestone in SME development was the adoption of the SME Development Law. It clearly emphasizes the role of SMEs and foresees the establishment of extended support structures. Moreover, the drafting process for the law was more participatory than in the past as it included several consultation processes with different national actors: UMFCCI, donors and private-sector representatives. Some provisions in the law are, however, seen as critical by experts, especially the potential additional bureaucratic burden and inefficiency that could be introduced by opening registration offices under the Department of SME Development, and the new national definition of SME, which is quite complex



and thus impedes the generation of statistics and the implementation of SME-development policies.

- The government further tries to foster industrial development through IZs and SEZs. With regard to IZs, which have been established since 1995, it can be concluded that they do not yet constitute an attractive business environment due to poor infrastructure, lack of skilled workers and insufficient technologies. Considerable changes and reforms are necessary to increase the attractiveness of IZs for entrepreneurs and to upgrade them to hubs for industrial development. The SEZ initiative is still rather new, and primarily aims at attracting foreign investment. Aside from its potential to support economic development, there is also a risk to establishing enclaves for foreign companies if proper management and links to local companies are not secured from the outset.
- The main non-governmental actors identified as representative of the private sector, also named in the SME Development Law, are business and sector associations and, above all, the UMFCFI. However, at this point the UMFCFI is not able to fulfil this role as only a marginal share of firms, and of SMEs in particular, throughout Myanmar are affiliated to UMFCFI or any other national association, and only very limited interaction takes place, especially for those located in smaller cities or rural areas.
- Overall, SME representatives are satisfied with the current regulatory framework, but expect further improvements in the next three years. Otherwise, existing studies still predominantly highlight flaws and weaknesses in the current system and in comparison to other countries in the ASEAN context. The following issues were highlighted as the main deficiencies: bureaucratic, inefficient and opaque procedures, poor cooperation and coordination among relevant stakeholders, lack of data, insufficient exchange of information between the policy and implementation level. Better inclusion of SME interests, and interaction between the public and private sectors, are highlighted as most positive developments to this point.
- With regard to overall market conditions, SMEs indicate satisfaction with the current situation, whereas experts and international studies are much more critical, especially when comparing the situation in Myanmar to that in other countries and regions. According to the WB Doing Business Survey 2015, Myanmar only ranked 177 out of 189 countries. The greatest number of problems was identified with regard to starting a new business.
- The most pressing business obstacles identified by SMEs are the price of raw materials, lack of skilled workers, political instability and labour turnover.
- Opinions with regard to corruption as an obstacle to business vary greatly. In 2014, Myanmar ranked 156 out of 175 countries included in the Transparency International Corruption Perception Index 2014. Also, experts agree that it is a major problem affecting all areas and sectors in Myanmar. However, according to SME representatives surveyed, the problem is perceived as less severe and harmful to business operation than other obstacles.
- With regard to business-support structures, different potential governmental, semi-governmental and private business-development service providers could be identified, and a significant share of SMEs had already heard about some sort of available support. Nonetheless, such services are hardly used, mainly because the services needed are not available or transaction costs are too high. However, with the decentralization approach envisaged for DICA and the Department of SME Development, it is to be expected that accessibility to support services will improve outside Yangon.



6.

## FINDINGS FOR THE FINANCIAL SECTOR DEVELOPMENT PROJECT

The aim of the programme is to support economic development in Myanmar. Several conditions are seen as crucial for the establishment of a successful market economy. In this regard, a business-friendly, stable and functioning financial sector is indisputable. After long-lasting isolation and economic sanctions (see Chapter 2) the financial sector in Myanmar is very underdeveloped. Financial services, especially for SMEs, are insufficient. Therefore, aside from private-sector development, one other main intervention area of the programme is financial-sector development. One technical-cooperation project and one financial-cooperation project jointly support the provision of financial services specifically targeted at SMEs.

The chapter will start by presenting the intervention logic and main components implemented by GIZ and KfW. The findings will be structured along these components and are mainly based on the DEval SME Survey, the DEval-GIZ Banking Study, expert interviews and secondary literature.

## 6.1 Results model FSD Project

The objective of the FSD project is to strengthen and expand the banking sector in such a manner that demand-oriented and profitable financial services are available to and obtained by SMEs. On the one hand, the technical-cooperation project by GIZ strongly focuses on the capacity development of key actors responsible for revising and supervising the banking sector, and on the other hand it focuses on the implementation level by supporting selected banks and providing capacity-development measures for the broader banking sector. Financial cooperation primarily focuses on the latter aspect and supports selected banks.

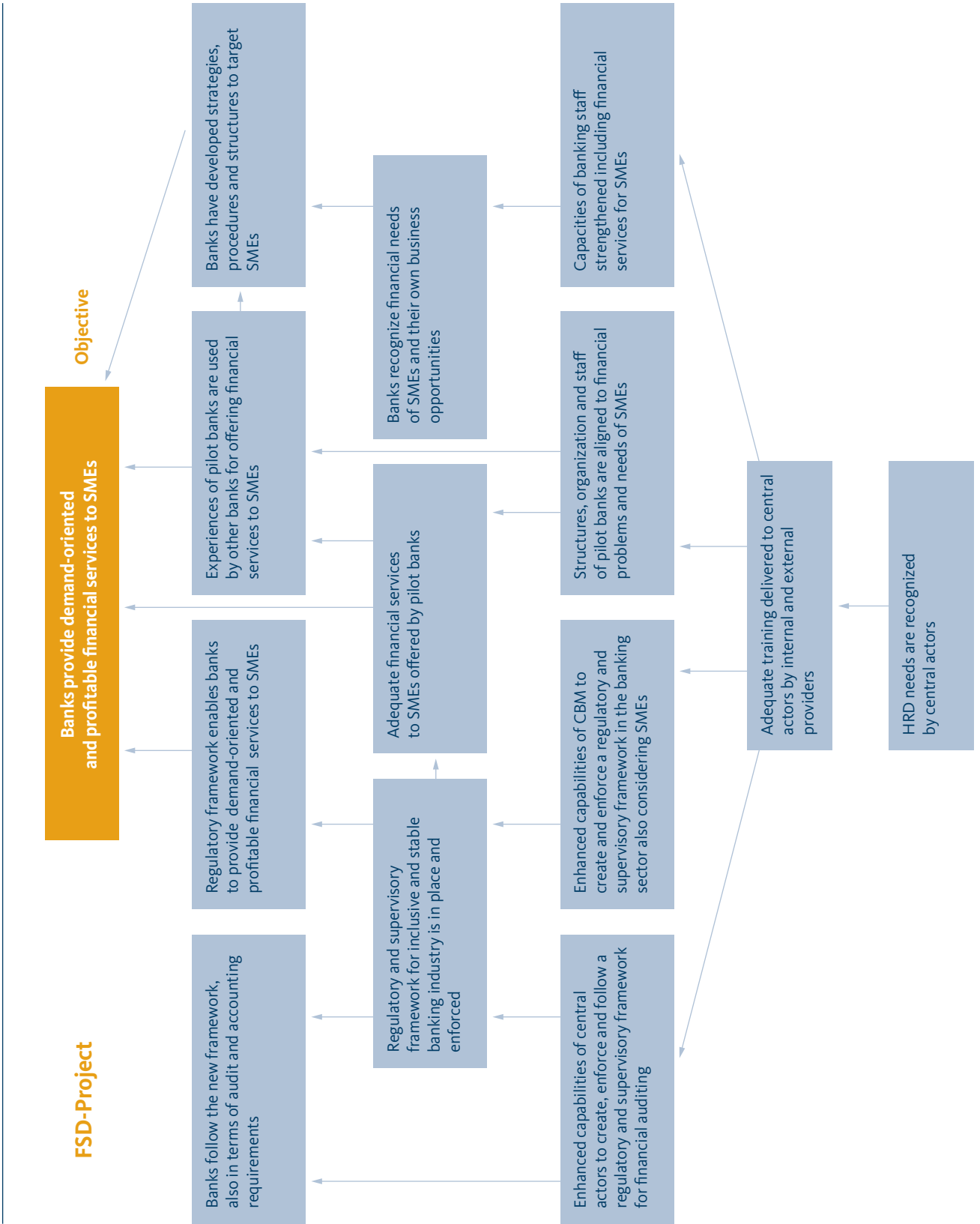
A key problem identified throughout the overall banking sector is a lack of skills and capacities. As a result, one early aim of the project is to raise awareness of existing deficits and needs in order to devise adequate training and strategies for developing human resources.

On the policy level the project focuses on the Central Bank of Myanmar (CBM) and key actors in the financial sector. The CBM will be supported and enabled to revise the regulatory

framework in the banking sector. Special emphasis will be given to regulations supporting the provision of services to SMEs. Capacity-development measures not only focus on drafting and adopting the revised framework, but also at enabling the CBM to implement it fully. In addition, key actors are supported in strengthening and enforcing regulations for financial reporting and auditing. The supported actors are not only the CBM but also the Myanmar Accountancy Council (MAC), the Office of the Auditor General (OAG), and the Myanmar Institute of Certified Public Accountants (MICPA). It is necessary to both revise and enforce the regulatory framework and reporting and auditing requirements in order to enable banks to develop and offer demand-oriented and, at the same time, profitable financial services to the private sector and SMEs in particular. Both will be important in establishing a stable banking sector.

Besides these changes on the macro level, enforcement will only succeed if individual banks have the know-how and capacities to follow the new laws and regulations. In order to facilitate this process, GIZ is cooperating with three pilot banks (Kanbawza Bank, Yoma Bank and SMIDB) and KfW with one pilot bank, the Co-Operative Bank Ltd. These banks are strengthened and closely assisted in adjusting their internal structures and processes in order to align to the financial problems and needs of SMEs. The four banks shall be enabled to develop and provide adequate financial services to SMEs. Therefore, they first need to recognize the financial needs of SMEs and the business opportunities they have in this regard. Secondly, appropriate strategies, procedures and structures are to be developed. The pilot banks' experiences shall then be shared with other banks. By facilitating exchange between banks and offering training to other banks it is expected that some sort of spill-over effect will occur and that other banks will be interested in and benefit from the pilot banks' experience. Ideally, these other banks will also start offering financial services to SMEs. An important synergy will be realized with the Private Sector Development (PSD) project (see Chapter 5), which will endeavour to provide better access to information and business support to SMEs. The long-term objective is that adequate financial services are available and will increasingly be recognized and used by SMEs.

Figure 22: Results model of the FSD project





## 6.2

### Findings on the regulatory framework for the financial sector in Myanmar

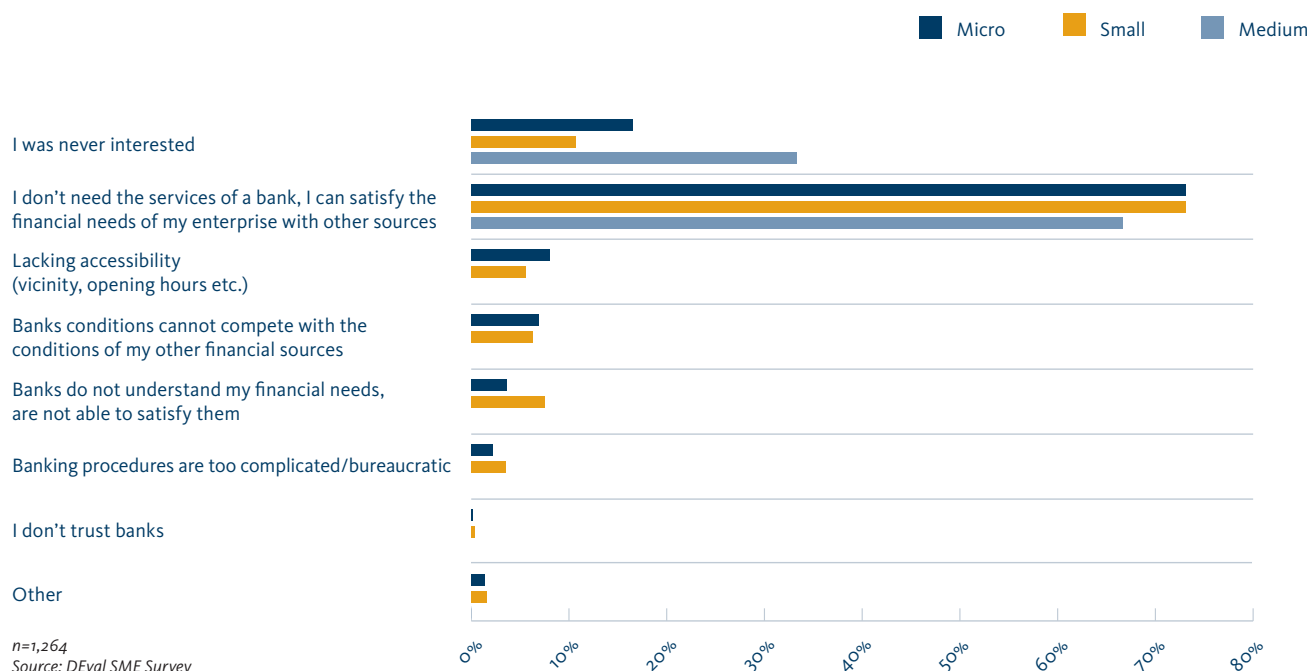
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*Further reforms are needed to improve the regulatory framework in the financial sector and strengthen the formal banking industry*

In the Framework for Economic and Social Reforms (FESR), the GoM clearly laid down the importance of monetary policy and the financial sector by stating that “macroeconomic stability and strong economic growth depend in large part on a shift from direct to indirect instruments of monetary policy and the creation of an efficient, competitive and stable financial sector” (MNPED, 2012, p. 3). Experts further agreed that dramatic reforms and capacity building are necessary to establish a functioning banking sector. Accordingly, the complex set of rules and regulations constitute a challenge for banks’ day-to-day business. Among others, the strict liquidity requirements, fixed interest rates, lack of reporting standards and collateral regulations were mentioned as examples (Expert Panel and Turnell, 2014). The FESR also highlights where reforms in the provision of financial services are needed first. It is considered crucial to improve bank lending regulations and, above all, to allow commercial banks to give loans for durations exceeding one

year. Banks also need more flexibility regarding the acceptance of collateral. Most only accept property, although since 2012 the CBM has allowed other kinds of collateral, including agricultural products, gold and savings. (Aye Thidar Kyaw, 2015; KPMG, 2013). Such measures will increase the attractiveness of the formal banking sector.

Opinions vary over whether distrust of the banking sector is another challenge that needs to be overcome. According to experts interviewed and existing literature, this issue is considered problematic. It is mainly caused by waves of demonetization in the past. In 2003, Myanmar was hit by a major run on its private banking sector, which led to financial and economic crisis (Expert Panel and Foerch et al., 2015). Such an event was a trigger for people and even business owners to manage their money and run their businesses without using financial services from banks: “Most people bring money in a bag” (May Lay, 2012). This assumption, however, was not confirmed by the business representatives interviewed for the DEval SME Survey. Those who do not regularly interact with a bank were asked for their reasons, and fewer than 1% of interviewees stated that it was due to a lack of trust in banks (see Figure 23).

**Figure 23: Reasons for not having a preferred bank, in percent**

One expert further explained that after the financial crisis the already widespread informal and, in particular, family resources for lending were strengthened further (Expert Panel). The survey data suggests that most people are used to relying on these informal structures, but are generally also open to other, formal, sources of finance.

An important precondition for reforming the financial regulatory framework is a strong and capable central bank, as it is responsible for creating and enforcing such framework. A major milestone was the adoption of the Central Bank of Myanmar Law in July 2013, which ensures its autonomy (Pyidaungsu Hluttaw, 2013a). The overall aim of the CBM is to preserve and maintain domestic price stability (clause 2 (5)). Its objectives are defined as to:

- promote monetary stability
- enhance financial system stability
- develop an efficient payments and settlement system
- support the general economic policy of the GoM conducive to sustained economic development.

Another crucial step will be the revision of the 1990 Financial Institutions of Myanmar Law under which all financial institutions are still operating and which contributes to the rigid financial sector. A new Banks and Financial Institutions Law of Myanmar (BFILM) (Pyidaungsu Hluttaw, 2014a) was drafted in 2014 but has not yet been adopted by the GoM. Several other strategies and laws further highlight which priority areas for (financial sector) reforms should be tackled to support business development. Aside from priorities laid down in the FESR, as mentioned above, the SME Development Law emphasises the need for investment and direct access to finance, ideally in the form of special loans with low interest rates for SMEs (clause 10).

#### *Auditing and accounting standards and practices are insufficient*

The new BFILM draft also lays down new auditing and accounting regulations for banks. It determines that every licensed bank is required to set up an Audit Committee. Moreover, the framework for regular external audits in line with international standards and reporting to the CBM is specified (clause 10). Expert interviewees pointed out that current practice in the

field of accounting and auditing is a long way from being in accordance with international standards. Comprehensive reforms and capacity building will also be necessary in this area. The problem of lack of capacity was highlighted as particularly serious. It will take immense efforts to bring structures in line with international standards, and before compliance with the new standards can be ensured (Expert Panel). In this context it was also emphasized that the MAC was described as woefully understaffed, and also that the number of currently certified public accountants (CPA) in the country was considered much too low (Expert Panel). As a result, the German project not only focuses on strengthening the CBM and commercial banks, but also on other selected institutions, especially with regard to providing training for the banking sector as well as accounting and auditing. First, important and fundamental changes were initiated by the Myanmar Financial Reporting Standards and Myanmar Standards on Auditing, which were both released by the MAC in 2009 and 2010. They follow the International Financial Reporting Standards and International Standards on Auditing. The MAC announced Myanmar Standards in Auditing in 2009, which were expanded in a second notification, released in 2010. But the implementation and enforcement of these standards is not yet satisfactory, and is what hinders the supervision of banks by the CBM (Foerch et al., 2015).

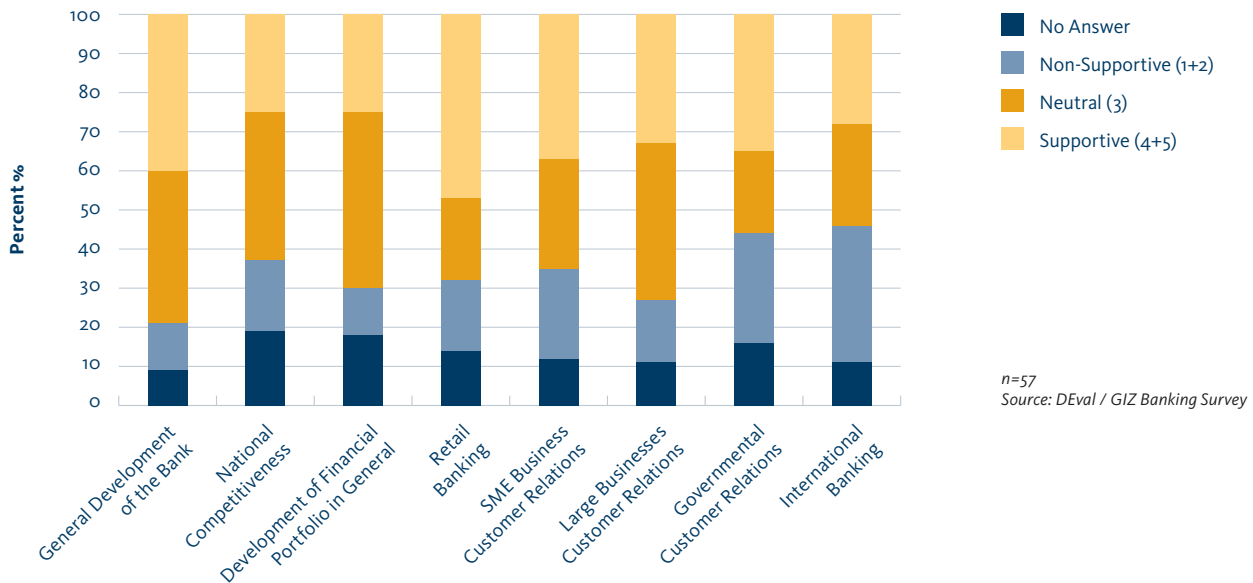
*The banking sector needs to support and comply with the revised framework*

Experts also noted that despite the need for comprehensive and quick reforms, there are risks associated with it. The CBM will need a lot more know-how to supervise the banking sector. In addition, although it is crucial that all relevant stakeholders are

able to comply with the new regulatory framework, many banks are not able to do so because of capacity problems (Expert Panel and Foerch et al., 2015)). It will therefore be important to improve cooperation between the CBM and other key actors, such as commercial banks. Otherwise the system will most likely not be functioning and stable. Some experts indicated that despite all necessary measures regarding the liberalization and opening up of the financial sector, these processes will take time, and it is still important to keep this in mind before fully exposing local banks to competition from international banks (Expert Panel).

This opinion is also further supported by findings of the DEval/ GIZ Banking Survey. 57 employees from 17 local banks were asked to assess the current regulatory framework in terms of different areas of business. Only a small share thought that the framework is not supportive (see Figure 24). The largest deficits were seen in the fields of national competitiveness, development of financial portfolio in general and international banking, as opposed to general development of the bank and retail banking, where the regulatory framework is considered most appropriate. This suggests that not everyone might see the need for such comprehensive reforms, which could cause limited support and willingness to follow the new system. As also determined in other chapters of this report, the target groups or beneficiaries of interventions do not always seem to be aware of certain flaws and weaknesses in the regulatory framework. However, it is to be assumed that better understanding of why certain changes are necessary and facilitated will be useful, especially when those affected by the changes are also expected to enforce and follow these rules.



**Figure 24: Assessment of regulatory framework according to various business areas by banking staff, in percent**

### 6.3 Findings on the capacities of the CBM and other key actors in revising and enforcing the regulatory framework

*The CBM is not yet fully in a position to act as the custodian of the financial sector*

The previous section clearly showed that the first comprehensive reforms in the financial sector are currently ongoing and that additional ones are still outstanding. In this sense, one expert concludes that the “CBM has a lot on its plate” (Expert Panel) as it will be in charge of drafting, coordinating and supervising many of these processes. Moreover, experts agreed that the current capacities of the CBM are not yet sufficient enough to fulfil this tasks. The CBM only became an autonomous institution quite recently, which was a rapid move and a big step. Nonetheless, gaining full independence and establishing the division of labour between the CBM and the Ministry of Finance on all levels will take time. Many experts emphasized that, on an operational level in particular, many things are still unclear (Expert Panel).

CBM faces the challenging task of leading this process. Capacities and know-how need to be urgently strengthened toward developing a strategy in form of a viable short- and medium-term plan. (Expert Panel). International experts and donor representatives who were asked what needs to be done first in terms of capacity development at the CBM highlighted, in particular, that systematic planning, prioritization and a human-resource development strategy within the CBM, are needed the most in order to facilitate joint planning processes. Therefore everything that is offered in the form of training or support is welcome (Expert Panel and Szeps, 2012; Foerch et al., 2015). In this context, some experts also mentioned that there are numerous and diverse training activities in the financial sector and even more are planned. Some raise concerns regarding the coordination between the different donor organizations and international banks. This will be challenging, especially when taking into consideration that the CBM faces serious challenges in coordinating cooperation, that there is no donor-coordination group in place, and that international banks, which also increasingly offer support, act independently, i.e. outside the structures of development cooperation. A harmonized approach and strong coordination to improve the effectiveness of the

different measures and achieve the joint objective of modernizing and strengthening the financial sector will be necessary, but will require strong efforts by all stakeholders (Expert Panel).

#### *There is a lack of adequate training programmes for the financial sector*

A sustainable approach to capacity development in the financial sector would entail key public actors not only being active in developing a strategy, but also in developing and offering adequate education programmes and training. Unfortunately, this is hardly the case and only limited willingness is observable on the side of, for example, the Myanmar Banks Association, which became an independent organization in 2013 in order to represent the domestic banking sector, and the associated Myanmar Institute of Banking (MIB). At the time of data collection in 2014, they offered a few training sessions in banking, which were sometimes implemented in cooperation with the Yangon Institute of Economics, but the services are generally far from sufficient. MIB hardly ever provides specific courses on specialized banking topics targeted at specialists and managers of banks<sup>23</sup> and “the demand for the classes greatly exceeds the current supply” (Foerch et al., 2013, p. 25). The training is also considered too theoretical, a general problem of education in Myanmar that will also be further discussed in the following chapter on vocational education. In view of future growth in the banking sector, which will include an increase in the need for qualified staff, existing training has to be expanded in terms of quality and quantity (Foerch et al., 2015). In fact, the private training providers and banks seem to be more willing to invest in such forms of capacity building (Expert Panel and Foerch et al., 2013, p. 25).

#### *The CBM needs an expansion of staff and training*

Experts agreed that in order to strengthen the capacities of the CBM two things are most important: recruiting additional staff and providing comprehensive training to ensure better qualified staff at all levels (Expert Panel). With regard to the recruitment of new staff, at the time interviews were conducted, a number of new positions were planned. However, the recruitment process had already taken a long time and experts were not sure about the reasons for these delays. Some even doubted whether all the agreed positions would be filled (Expert Panel). While all experts generally agreed that training was needed, donors

presented varied solutions. Most donor representatives admitted that the existing know-how and skills level was below expectations, and that adjustments to approaches and trainings were necessary. One expert stated that there are some “qualified staff but they have not been exposed to modern banking for a long time. Technically, the banking system has stood still for the last 30 years.” (Expert Panel). Moreover, all staff are recruited as civil servants, with a master’s degree that was usually obtained from a local university. The level is not necessarily comparable to international standards and only some have degrees in relevant fields such as business or commerce. As mentioned earlier, there are currently only a very few programmes taught at any university in Myanmar that directly focus on finance or banking. Some courses are offered by MIB in cooperation with the Yangon Institute of Economics (Foerch, 2015). As a result, hardly anyone actually has a profound and specialized background in banking and finance (Expert Panel).

One problem is that poor English language and computer skills (e.g. with Word and Excel), especially at the level of the operative, limit the absorptive capacities of those who could attend the available training (Expert Panel), so it is usually only the leading CBM staff – the decision makers – who are able to take more advanced training courses. Training primarily targeted at the level of the operative is fairly basic – from English classes to introductory training in banking and finance – which is insufficient to keep these staff members up to date with the reforms and changes that are needed in the financial sector. Interviews with donor representatives showed that some seem to focus on more advanced training for leading staff and others on basic and introductory training (Expert Panel).

#### *Employment conditions at the CBM are not considered attractive*

Besides the expansion in the number of staff and training courses, a third area was mentioned by some experts as needing improvement. Apparently, the CBM does not yet enjoy a reputation comparable to that of central banks in other countries and is not yet considered a very attractive employer. As a result, the few able and qualified people available would rather work for the private sector or private banks (Expert Panel). In this regard, one expert further noted that there is an overwhelming share of women among CBM employees, which is good, but also unusual. Once people recognize how powerful a

<sup>23</sup> Since a specialized one month full time course on SME Finance was introduced with support from GIZ.

central bank actually is, it is expected that the CBM will attract more qualified men (Expert Panel). Until then, however, there is a significant risk that newly trained staff will leave the CBM to work in the private sector. This again supports the conclusion that capacity development should not only focus on the few, better-qualified management level, but also target the broader, operative level.

Aside from the CBM and the regulatory framework in the financial sector, the project also aims to improve reporting and auditing standards, and supports actors in this field. In fact, experts agreed that skills and practices with regard to documentation, financial reporting, monitoring and auditing are still far from ideal (Expert Panel). There is no proper basis for assessments of banks, which will also constitute a problem for the CBM and its supervisory work. There is a lot of reporting from banks to the CBM, but there is a lack of standardization, and sometimes it is even submitted on paper. Thus, most agree that it will take quite some time before structures and practices are in line with international standards (Expert Panel). Moreover, accounting systems are rather uncommon in the private sector. Larger firms, in particular, will increasingly require certified accountants, and services are needed to provide basic accounting skills to smaller enterprises (Expert Panel).

#### *Myanmar lacks qualified accountants*

According to a 2014 World Bank study, there are approximately 550 professional accountants in Myanmar. An expert interviewed estimated that there are no more than 600 registered CPAs with a valid license working in Myanmar at the moment (Expert Panel). The World Bank's study indicates that "only graduates from the Institute of Economics, majoring in Commerce or Accountancy, or Diploma in Accountancy certificate holders (issued by Myanmar Accountancy Council, MAC) are eligible to apply for admission to pursue a two-year CPA training course conducted by MAC" (World Bank and ASEAN Federation of Accountants, 2014). Given the growth of Myanmar's financial sector and the new framework of auditing and accounting requirements (which is described in more detail below), the demand for professional accountants will very soon exceed the supply (World Bank and ASEAN Federation of Accountants, 2014). Due to this shortage of qualified accountants, the requirements for those attending the training to become a CPA

have been changed recently. The courses are now open to "any graduates with Diploma in Accounting conferred by MAC of any year", which has led to "an unprecedented number of over 700 students that are admitted to the first year CPA classes" (Myanmar Insider, 2014). The certificate has to be renewed by regular tests, but CPAs in permanent positions are often not expected to renew their license by their employers, which is why they are not necessarily working in compliance with current rules and regulations (Expert Panel).

## 6.4 Findings on the capacities of the banking sector in Myanmar

This section will start by presenting some key characteristics of the Myanmar banking sector, followed by an assessment of the capacities by experts, and then end with information on bank services with regard to SMEs.

### *Governmental banks still dominate the banking sector*

According to a recent publication, Myanmar's banking sector consist of four state-owned banks, namely Myanma Economic Bank, Myanma Foreign Trade Bank, Myanma Investment and Commercial Bank, Myanma Agricultural and Development Bank and an increasing number of private banks. In 2010 there were 19 private banks operating in Myanmar, but for 2014 the numbers vary between 22 (Nehru, 2015) and 23 private banks (ADB, 2015a). Not all are fully private; nine of them are assessed as semi-government institutions (Nehru, 2015). Regarding the financing of SMEs, the Small and Medium Industrial Development Bank (SMIDB) plays a major role, as it "was established in 1996, with the support of the Ministry of Industry, as a specialized bank for SMEs [...]" (ADB, 2015a, p. 206). SMIDB has eleven branches and offers special SME loans with an 8.5% interest rate (as opposed to the standard loan rate of 12%) and a three-year repayment period instead of the common 12 months repayment period (Abe and Dutta, 2014; Foerch et al., 2015). Most of SMIDB's customers are SMEs in the manufacturing sector, followed by wholesale and retail trade (Abe and Dutta, 2014).

As in other sectors in Myanmar, it is challenging to obtain reliable and comparable data: "This is especially true for the financial sector. Most banks do not publish annual reports or disclose

their financial data. Transparency is, however, increasing as well as efforts towards improving financial data.” (Foerch et al., 2013). The GIZ has published two comprehensive reports on Myanmar’s Financial Sector, which will greatly complement the data collected as part of this baseline study. According to these reports, the indicators for a stable and functioning banking sector show a constant increase over recent years.

The credit-to-GDP ratio was 9.78 in FY 2009/10 and rose to 15.19 in FY 2013/14. Despite the constant increase, it remains the lowest among the ASEAN countries (Foerch et al., 2015, p. 20).

There is also a constant growth in the total assets of Myanmar’s banking sector (including CBM): in March 2010 the total assets were MMK 3,853 billion (11% of GDP), but they reached MMK 30,147 billion (55% of GDP) in March 2014 (Foerch et al., 2015, p. 52). A differentiation according to bank type for 2010 shows that the four state banks have total assets of MMK 1,037.56 billion (3.07% of GDP), while private banks have total assets of MMK 1,891.31 billion (5.06% of GDP) (ADB, 2014b). It can be concluded that the state banks “continue to dominate the domestic banking market, with their total assets accounting for more than two-thirds of total banking sector assets. The assets of the private banks have been rising rapidly over the past few years, but their total assets now command only about one-third of the banking market” (ADB, 2014b, p. 52). Among private banks, KBZ holds around 30% of assets and is clearly the biggest private one (Expert Panel).

An increase is also observable regarding deposits. The overall amount of deposits in the banking sector as a whole increased from MMK 4,911 billion in the FY 2010/11 up to MMK 17,385 billion in the FY 2013/2014. Meanwhile, total borrowing rose from MMK 275,812.13 million in the FY 2010/11 to MMK 1,367,517.97 million in FY 2013/14 (Foerch et al., 2015).

The loan-to-deposit ratio for all non-state owned banks was 0.65 in FY 2012/13, and 0.68 in FY 2013/14 (Foerch et al., 2013). Looking at figures for individual banks, it can be seen that “banks can lend up to 80% of their deposit base” (KPMG, 2013, p. 11). In 2013 the loan-to-deposit ratios differed among the banks in Myanmar from 0.81 for the Myanma Livestock and Fisheries Development Bank Ltd (KPMG, 2013), 0.50 for SMIDB (ADB, 2015a) and 0.31 for

the Sibir Tharyar Yay Bank Ltd. (KPMG, 2013). But the “maximum loan-to-deposit ratio of 80%, applicable only to private sector banks [...] was recently abolished” (Nehru, 2015, p. 19).

The presence and role of international banks is still rather limited. In October 2014, the CBM granted licenses to nine international banks. A CBM governor interviewed by the Myanmar Times stated that the decision was based on the following criteria: technical skills, service and discipline, capability in their home country and regional footprint.<sup>24</sup> While some experts raised concerns that licenses were awarded too early, as local banks are not yet competitive, this seems to be taken into consideration by the CBM and the GoM through several restrictions and obligations that are imposed on license holders. Aside from the requirement that foreign banks shall make an investment of USD 75 million, they are only allowed to lend to foreign companies and local banks, not to local firms, they are only allowed to open one branch, and the license prohibits international banks from becoming involved in retail trade. An initial license is issued for 12 months. If banks are not deemed to be operating in line with the defined conditions, the license will not be extended (Mullins and Pyae Thet Phy, 2014; Myanmar Times, 2014).

#### *Considerable knowledge deficiencies exist among staff of commercial banks, but they are not recognized by SMEs*

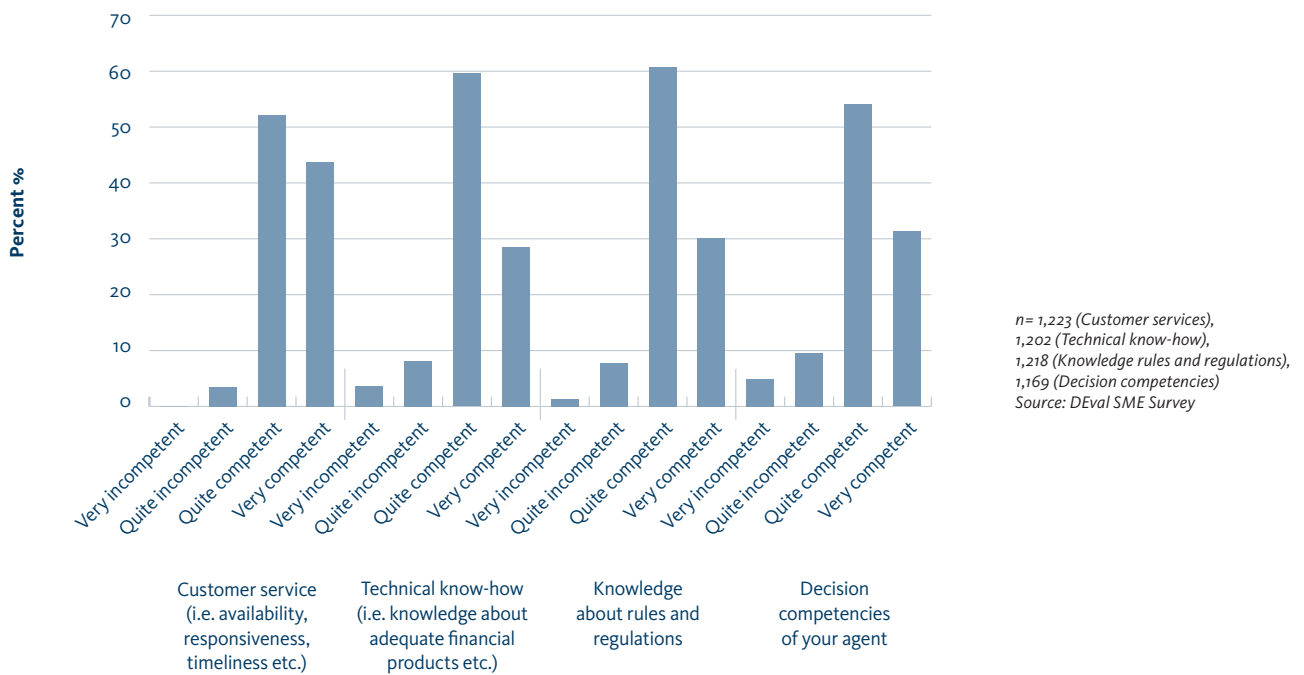
With regard to the capacities of banks, experts stated that there are considerable differences. Experts further agreed that commercial banks so far only provide very simple financial services, and processes are lengthy and inefficient (Expert Panel). There are some private banks that operate on a much more advanced level than other governmental and private banks in the country. These larger banks also have the financial means and interest to invest in training and capacity building. They are aware of their deficits and also willing to recruit and invest in qualified international staff. Even though there are restrictions regarding the employment of international staff, most still manage to hire them at least as advisors. According to the experts interviewed, only some of the larger commercial banks will be able to stand up to increasing international competition. Instead, some of the smaller banks will most likely become part of joint ventures (Expert Panel).

<sup>24</sup> Australia and New Zealand Banking Group (ANZ) (Australia), Industrial and Commercial Bank of China (ICBC) (China), Malayan Banking Berhad (Maybank) (Malaysia), Bangkok Bank (Thailand), Overseas-Chinese Banking Corporation (OCBC) and United Overseas Bank (UOB) (both Singapore), Bank of Tokyo – Mitsubishi UFJ, Mizuho Bank and Sumitomo-Mitsui Banking Corporation (Japan)

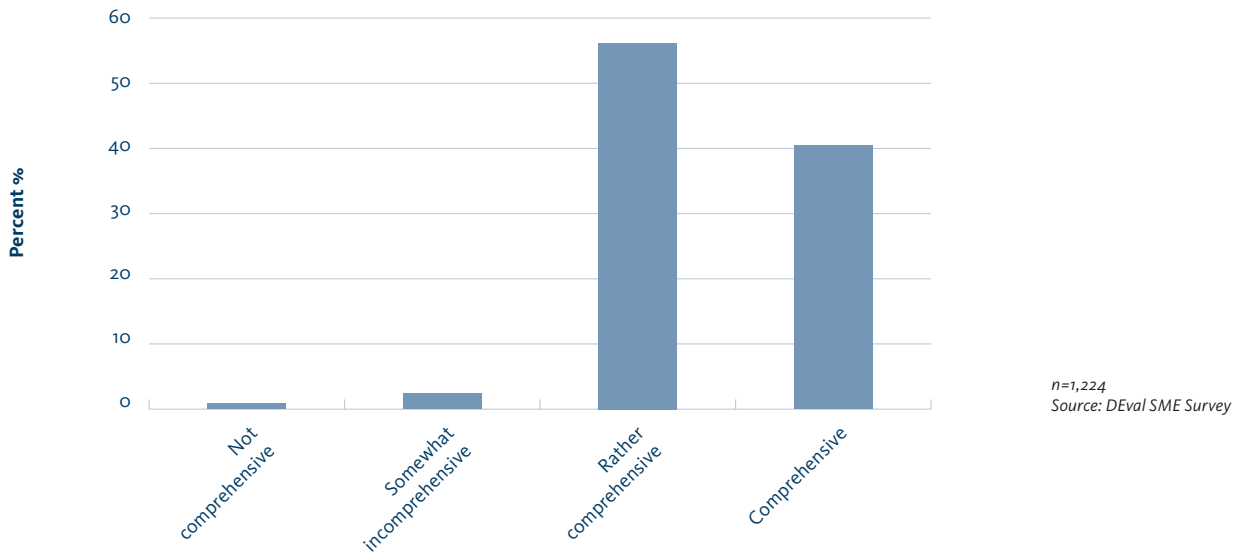
With regard to the services and competencies of banks, it is interesting to note that the opinions of experts and SME business owners vary considerably. In the DEval SME survey, those business representatives who were regularly interacting with a bank and referred to a particular preferred bank were

asked to rate both the competencies of their agent. As shown in Figure 25 and Figure 26, businesses were satisfied both with the competency level of their agents and the services offered by their preferred bank.

**Figure 25: Rating of competences of preferred bank, in percent**



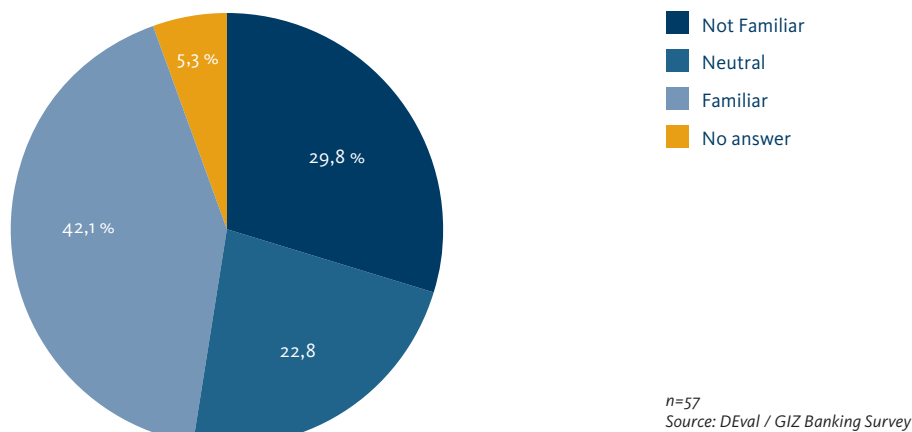
**Figure 26: Rating of range of services offered by preferred bank, in percent**



Within the Banking Survey, banking staff were also asked to estimate their familiarity with the current regulatory framework in the financial sector. Interestingly, only around 42% (24 out of 57) stated that they were familiar with the current set of laws, rules and regulations in Myanmar (see Figure 27). When taking into consideration that fewer than half of banking staff consider themselves well acquainted with the regulations of the sector they are working in, this finding supports the expert

assessments that financial literacy is still far from sufficient. Moreover, it further supports the conclusion made from the DEval SME Survey that a certain level of awareness and experience is also necessary on behalf of businesses. With increasing financial needs, modernization and international competition, the awareness and demand for new financial services will most likely increase, and with it expectations regarding banks' services and agents' competencies.

**Figure 27: Self-assessment of familiarity with regulatory framework by banking staff, in percent**



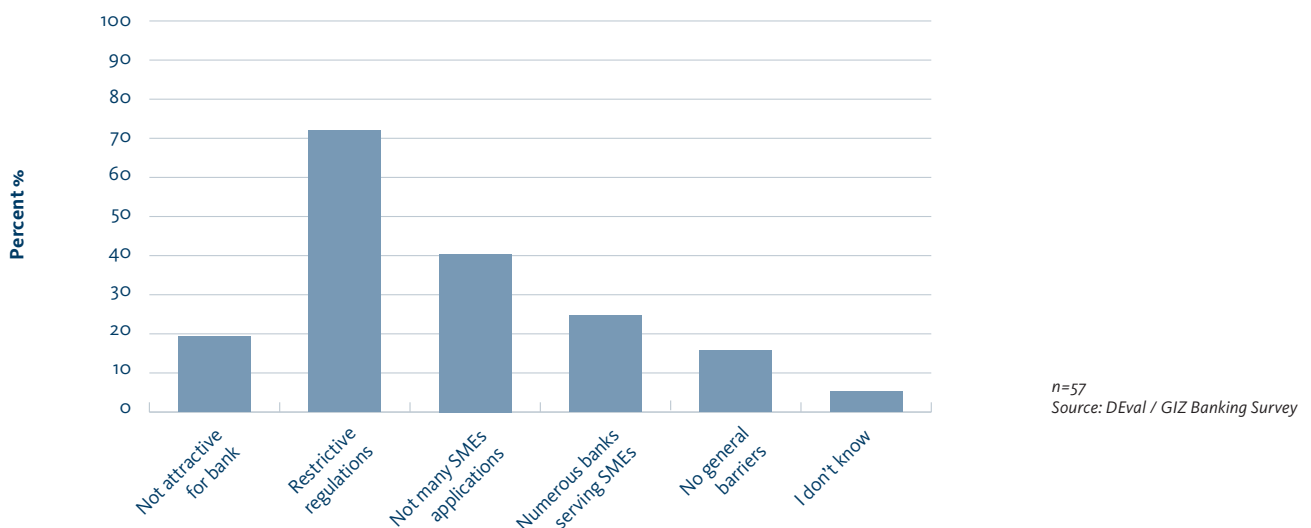
According to DEval/GIZ Banking Survey, small and medium businesses represent 52.4% of the customers of the surveyed banks (small businesses: 25.5%; medium businesses: 26.9%; n=29). The representatives of the banks surveyed (n=57) were asked to roughly assess the share of SME-credits in the bank's total credit portfolio. Whereas 15.8% of the representatives stated they did not know the share and 10.5% did not answer the question, 22.8% name the share of SME-credits between 0% and 20%, 12.3% between 20% and 40%, and another 22.8% between 40% and 60%. Only 15.8% of the representatives stated a share that is higher than 60%. On average, the share of the SME portfolio seems to be around 29%, according to the survey data.

*Despite poor familiarity with the regulatory framework, banking staff think current regulations are a limiting factor for banks in extending their SME portfolio*

Bank representatives were also asked for barriers to expanding business relations with SMEs. Almost three-quarters (41 out of

57) stated that the regulatory system was too strict (see Figure 28). This is somehow divergent from the feedback presented earlier in Figure 24, where only 23% of respondents said that the regulatory framework was not, or only a little, supportive with regard to SME business relations. The second most common reason is that SMEs do not apply for loans and thus do not seem to be interested in such loans. Interestingly, 14 (25%) think that there are many banks already serving SMEs. This indicates that there is a certain perception that services addressing the allegedly limited SME business segment is already sufficiently covered, which would then mean that the surveyed banking staff are not sure whether expanding the SME portfolio is an attractive business opportunity (stated by 20%). Only 9 respondents (16%) stated that there are no general barriers. One expert interviewed, however, also assumed that the problem for short-term and even more for longer-term loans is not only the restrictive system, but unavailable re-financing lines (Expert Panel).

**Figure 28: Barriers to expanding SME portfolio according to banking staff, in percent**



With regard to the common financial services used, Duflos states that short-term lending is currently the most usual form of financing, while other financial services are uncommon in Myanmar (Duflos et al., 2013). In addition, DEval asked banking

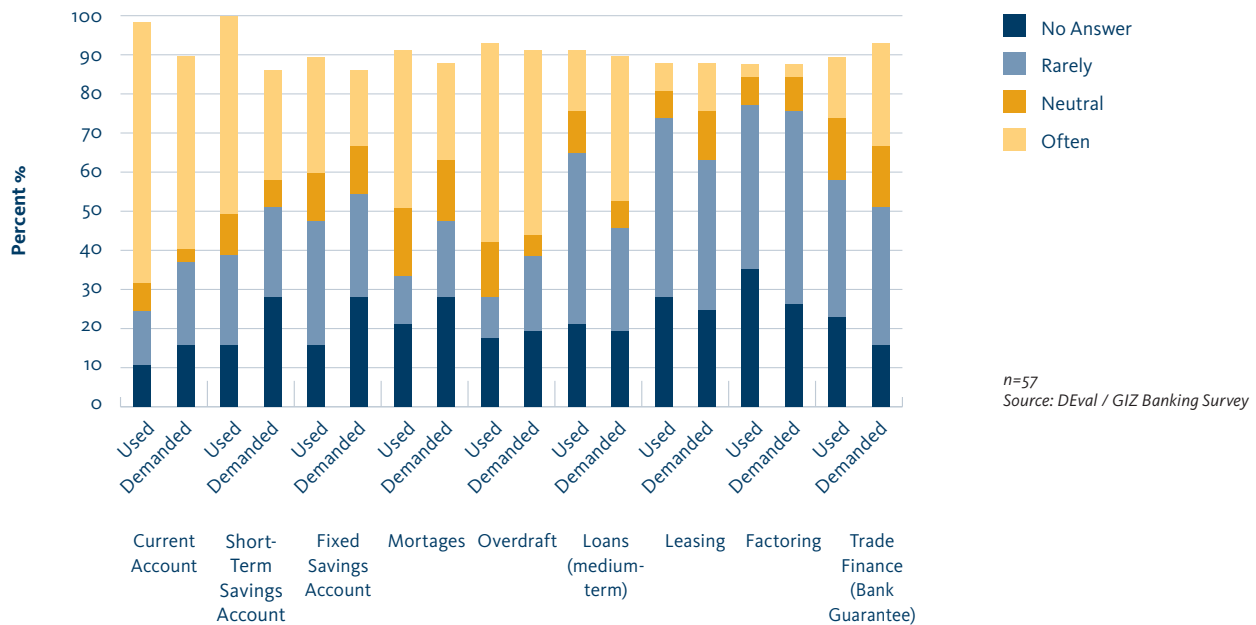
staff to identify which products or services SMEs demanded (regardless of current regulations) and which services SMEs currently used. As shown in Figure 29, a significant share of respondents was not able to answer the question at all (no



answer – light grey). Moreover, respondents consider the current use and demand of SMEs as rather low, as indicated by the red and orange segments. The highest use and need is seen with regard to current accounts, overdraft, saving options and loans. Moreover, the findings of the survey on financial services also

indicate a certain uncertainty in the use of financial terminology and currently existing services. Factoring, for instance, is not yet an available service in Myanmar. More than half of respondents who state that it is often or rarely used thus seem to confuse it with another service.

Figure 29: Comparison of use and demand of SME services, in percent<sup>25</sup>

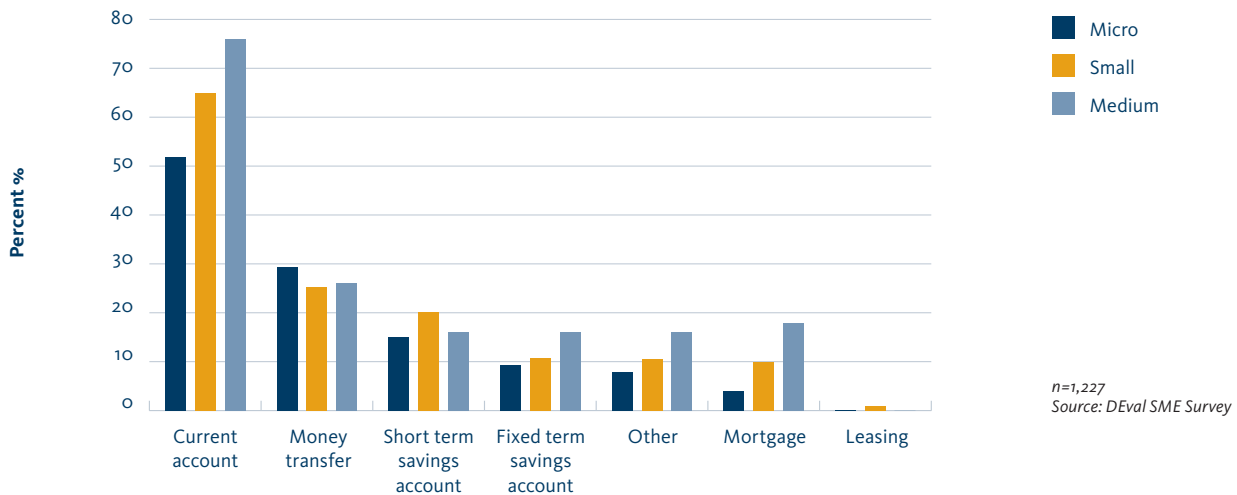


*SMEs only use very limited financial services, but seem to be interested in trying new options*

SMEs were asked the complementary question to the one represented in Figure 29: which financial services they currently used. Out of 2,490 SMEs surveyed, only 20% had an outstanding loan. Moreover, the vast majority of SMEs only use simple financial services, if at all. The most popular service used was clearly

current accounts, followed by money transfer (see Figure 30). With regard to simple services, the expectation of banking staff was largely right. Also with regard to the demanded maturity of loans, the banking staff made the appropriate assessment, as the majority of business owners expressed interest in medium-term loans between one and three years.

<sup>25</sup> In the survey, respondents were generally asked to rate on a scale from 1 (not familiar at all) to 5 (very familiar). For increased readability the categories 1 and 2 (not familiar and not familiar at all) and the categories 4–5 (familiar and very familiar) were summarized in the figures used for this report.

**Figure 30: Financial services used by enterprises, in percent**

Note: „Money transfer“ was not a given category but specified by many respondents under „other financial products“. The numbers presented here for the usage of this services are thus presumably much lower than if it would have been specified as an independent category.

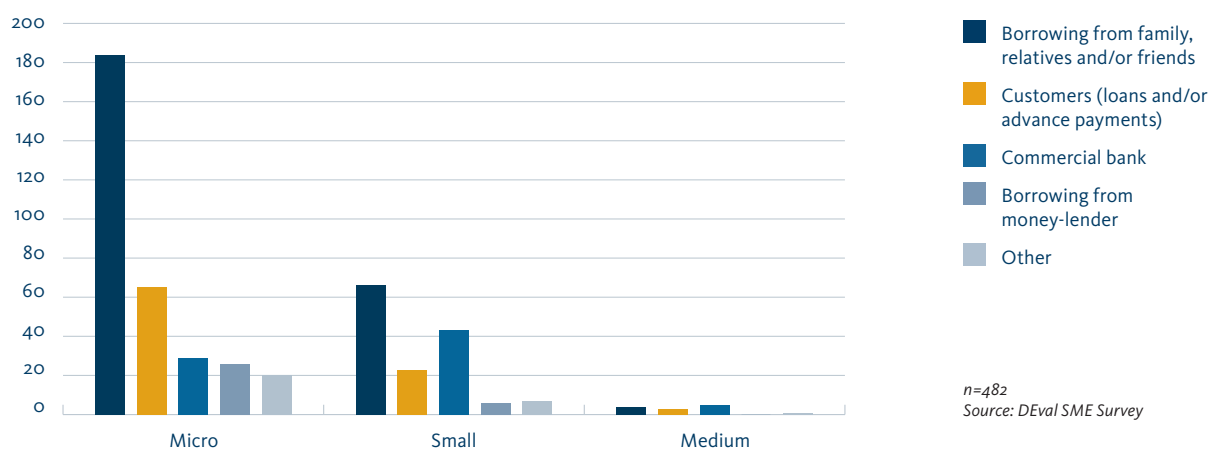
Once explained to them, many business owners stated that they could imagine making use of other financial services as well. This finding is not fully congruent with the opinion of banking staff. SMEs do have significant further funding needs, and the intention to satisfy them. Moreover, they seem to be open to using additional and new financial services. This shows that it is not only important to train banking staff and develop financial services for SMEs, but it will also be important to improve the financial literacy of small businesses as they will, otherwise, not make use of such services.

*Most financial services are obtained from informal sources, and conditions do not generally seem to be worse than those from formal ones*

According to the literature, SMEs suffer from difficulties obtaining “adequate financial services at reasonable costs” (Puusaag et al., 2015, p. 22). The above described general problems in the formal financial sector that are also affecting the access to finance by SMEs: the core problem is strict and inappropriate regulations for obtaining credit. Limited short-term lending and strict collateral requirements are especially considered obstacles for adequate financing of SMEs (Foerch et al., 2013). As a consequence, SMEs largely rely on informal sources of capital such as family, friends or money lenders, but these,

according to the literature and experts’ informal sources, offer worse conditions and charge high interest rates (Turnell, 2014; Puusaag et al., 2015).

This assessment is only partially confirmed by the results of the DEval SME Survey. Only around 20% of enterprises surveyed had a current outstanding loan. Of those, the majority had indeed been obtained through informal sources (see Figure 31). Nonetheless, the clear majority of firms with an outstanding loan stated that they had received the amount asked for, and did not indicate any problems in finding adequate financing. Also, requirements with regard to documentation and collateral seemed to be stricter for formal than for informal sources. Moreover, money was also given without any interest, especially when it was obtained from family and friends or customers (DEval SME Survey, Amine and Stockmann, 2015, p. 41). Accordingly, the survey data does not confirm the assessment of experts according to which conditions from formal sources are generally better than from informal ones. However, it could be determined that larger loans are more frequently obtained from formal sources. This suggests that those who are in need of larger amounts might be most interested in applying for loans from formal sources.

**Figure 31: Overview of sources for loans by firm size, in total numbers**

ADB postulates that up-and-coming non-bank financial institutions (NBFIs) might be an alternative funding source for SMEs, particularly in rural areas (ADB, 2015a). These are entities carrying out one or more activities: financing of company business, leasing and other money services, for instance. They are registered as finance companies under the 1990 Financial Institutions of Myanmar Law, or as micro-finance institutions,

falling under the country's micro-finance law. As of the end of 2014, 10 finance companies are active in the country, 6 of which were registered in 2014. With their range of services and outreach to rural areas, they are seen as an alternative to SMEs, offering formal access to a range of financial services that is not yet available, and will probably not be sufficiently covered by commercial banks in the foreseeable future.

### Main findings on financial-sector development

- It is generally agreed that the financial sector will need substantial reform and capacity building to become a stable backbone for the Myanmar economy and to contribute to economic growth.
- GoM acknowledges that financial services and improved lending policies are crucial to support private-sector development and to strengthen the formal banking sector as a key provider for services to private firms.
- Despite the expert assumption that there is generally very little trust in the banking system, this cannot be confirmed by data from the DEval SME Survey. Nonetheless, a large share of SMEs does still fully rely on the informal sector and does not see the advantage of using financial services from a formal source.
- First important milestones in the reform process were accomplished with the adoption of the Central Bank of Myanmar Law in 2013, which established CBM as an autonomous institution. Another important step will be the adoption of the revised Banks and Financial Institutions Law of Myanmar, drafted in 2014, which will replace the Financial Institutions of Myanmar Law from 1990 and then serve as the basis for the formal banking sector, while also determining principles regarding accounting and auditing.
- Yet, a number of further improvements and reforms of the regulatory framework will be necessary. According to surveyed banking staff, dissatisfaction with the

framework is, however, not too striking. The survey results suggest that changes are mainly needed with regard to the financial portfolio of banks, competitiveness and international banking.

- Know-how, compliance and supervision of auditing and reporting standards are generally regarded as insufficient in the financial sector, and even more so in the private sector. Experts agree that comprehensive capacity building and standardization will be necessary before banks are able to comply with regulations in line with international requirements. According to the World Bank, there were approximately 550 professional accountants in Myanmar in 2014, which is also far from sufficient to establish a proper system for accounting and auditing.
- The current situation of CBM is very challenging. On the one hand major reforms are underway already and things are developing very quickly, but on the other hand CBM is still facing major constraints in terms of lacking capacities, know-how and strategic planning. According to experts, CBM especially needs to be strengthened through additional staff and comprehensive training measures. As a result, CBM is not yet able to fully take up its role in overseeing and coordinating ongoing processes. A sustainable and harmonized approach is needed, with even greater need for strong coordinating efforts from all stakeholders that directly involve or support the reform process.
- Another problem with regard to capacity building is the lack of adequate education programmes. Even though there is an increasing number of donor support and short-term training programmes, there are hardly any basic programmes offered at university level that prepare for a career and specialization in finance and banking.
- With regard to the banking sector, governmental banks still dominate the industry, but the relevance and share of total assets of commercial banks is steadily increasing. Experts highlight the great variation in know-how and capacity when describing the banking sector. Most potential is seen in several large commercial banks with rather comprehensive financial means and planning capacities which enables them to make the 'right investments' e.g. in training and capacity building, and also to recruit international banking experts as advisors.
- International banks have only just started operating in Myanmar, with limited access to the market. The first licenses were only granted for one year with clearly defined restrictions and obligations
- As to be expected, due to the generally poor financial literacy throughout Myanmar, SME representatives who have had previous interaction with a bank were usually satisfied with the range and quality of services provided. However, a self-assessment conducted as part of the survey of banking staff indicates that they are aware of certain deficiencies. In fact, fewer than half of the staff surveyed consider themselves familiar with the regulatory framework of the financial sector.
- Since the project is interested in expanding financial services for SMEs, information on this matter is of particular relevance for this study:
  - A clear majority of surveyed banking staff consider restrictive regulations as a main barrier to expanding a bank's SME portfolio.
  - Banking staff assume that the current use and potential future demand of financial services by SMEs is rather similar. Most discrepancies are expected with regard to the maturity of loans. It was assumed that many SME are interested in receiving medium-term to long-term loans.
  - Results of the DEval SME Survey suggest that business owners were indeed interested in using other and new financial services, if useful and available. However, at the moment current accounts and money transfers seem to be the most common services used. Around 20% of surveyed firms had an outstanding loan (both from formal and informal sources).



7.

## FINDINGS FOR THE TECHNICAL VOCATIONAL EDUCATION AND TRAINING PROJECT

It is not only financing that can be an obstacle for SMEs in Myanmar. One of the most frequently mentioned business obstacles in the DEval SME Survey, and also according to the OECD Survey and other publications (Hayden and Martin, 2013, p. 50; Naing Yee Mar, 2009), is the scarcity of skilled labour. Qualified workers are crucial to the development of Myanmar's economy, which is why one part of the German–Myanmar Programme on Sustainable Economic Development focuses on Technical Vocational Education and Training (TVET). In addition, workers would profit from becoming better qualified, as it would lead to higher earnings (see Chapter 2) and help combat poverty in Myanmar.

In this chapter, the underlying results model of the TVET project is presented, followed by an examination of the current situation in the TVET sector and of the areas targeted by the programme. As the programme works on the micro, meso and policy levels, the findings are subdivided into three sections. Findings concerning the policy level are presented first. The current situation of the NSSA is reported on next, followed by relevant findings on the micro level, especially those concerning the cooperation with ITC Sinda and other vocational schools.

## 7.1 Results Model TVET Project

In order to strengthen the Myanmar TVET system, GIZ and KfW are working jointly in the field of TVET, the objective of the projects in this field being to ensure a sufficient supply of well-qualified graduates to meet the needs of the economy. In other words, both the quality of the education programmes and the number of student graduating each year needs to be improved. Of course, graduates will be trained to work in any enterprise, but the interventions will also specifically take into consideration the needs of SMEs.

The project identified three major intervention areas where change processes can be triggered. On the micro level, individual TVET schools will be supported. So far, cooperation has started with the ITC in Sinda, under the Ministry of Industry (MoI), and will be further extended to other TVET schools under the Ministry of Education (MoE). On the meso or institutional

level, support will be given to the National Skills Standards Authority (NSSA), which was founded under the Ministry of Labour and Social Security (MoLESS) to deal in particular with standardization and accreditation in the field of vocational education. On the policy level, major reforms addressing the education sector as a whole are underway. German bilateral cooperation supports the Comprehensive Education Sector Review (CESR) process, which aims to provide information and to formulate recommendations for reforms. The outcome of this process will be a Costed Education Sector Plan (CESP) and its use by the GoM. The development of this strategy will be greatly supported by CESR.<sup>26</sup>

With regard to the cooperation with ITC Sinda, the project focuses its activities on achieving two major changes: (i) establishing high-quality and demand-oriented training programmes that enable graduates to find suitable employment and (ii) developing and improving teacher-training programmes. Even though the project primarily targets ITC Sinda, the idea is also to achieve harmonization with, and spill-over effects for, the five other ITCs, which are supported by other donors.

The underlying principle of the dual vocational training system in Germany is the inclusion of both theory and practice. While theoretical skills are provided in vocational schools, practical training takes place as formalized on-the-job training within enterprises. In order to develop demand-oriented training programmes, the crucial element is thus the strong engagement of the private sector in vocational education. Accordingly, the project aims at establishing cooperation between vocational schools (in this case ITC Sinda, but other schools will be included later on) and private enterprises. Any revisions of curricula and training programmes and the introduction of new and more relevant TVET concepts first require adequate knowledge of the needs of the private sector and especially of SMEs, which have limited resources for training, and make up the majority of the Myanmar private sector. Appropriate channels for cooperation between both sides have to be established first, in order to develop, introduce and test new, demand-oriented training curricula and formats. Ideally, training programmes that prove successful will then also be harmonized with other ITCs and possibly other vocational schools as well.

<sup>26</sup> Moreover, the projects in the field of TVET will soon be complemented with a larger component focusing on teacher capacity development in vocational education overall. Currently, this is only embedded in the cooperation with ITC Sinda. However, this is a rather recent development and will not yet be the subject of this report. Data collection for this component is planned and it will be subject to the final evaluation.



The quality of vocational education, just as in all other education subsectors, strongly depends on the skills and capacities of teaching staff. Accordingly, the project also aims at the development of teacher capacity. Teacher-training programmes for selected disciplines will be developed and established at ITC Sinde. The intention is not only to train teachers from Sinde, but also from other ITCs, and teachers from training institutes under other ministries. Again, revising and introducing such training programmes requires information on current training practices and their shortcomings.

As laid down in Chapter 3, for the cooperation with ITC Sinde and other vocational schools, two projects will be implemented. The GIZ project on technical cooperation will focus on capacity development, while KfW will support these measures with targeted investments into teaching equipment and materials, and equipment-related training.

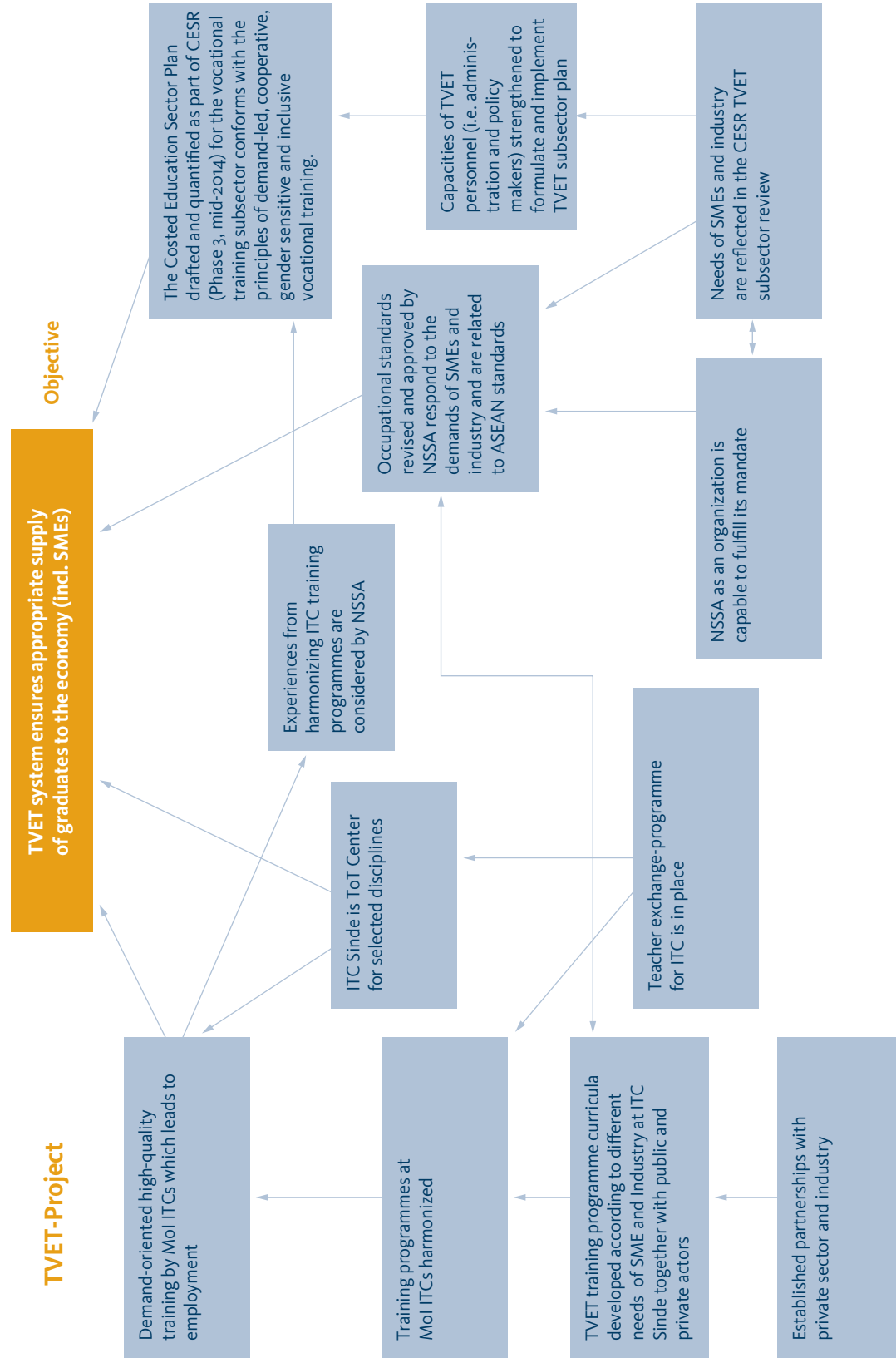
The second important intervention area focuses on the NSSA as an important and still rather new authority, the aim of which is to ensure better standardization and accreditation in the field of vocational education. GIZ will support the process of building up adequate organizational structures and capacities within the NSSA to fulfil its mandate. GoM decided to introduce a National Qualifications Framework (NQF) for Myanmar, which will be in

line with ASEAN standards. The NSSA will be responsible for preparing occupational standards for the skills levels that are to be covered by vocational education. Once introduced, the NSSA will establish procedures for inspecting and accrediting vocational education programmes. This will greatly contribute to the transparency, reliability and quality assurance of TVET in Myanmar, with an outreach to the ASEAN community. The cooperation between and GIZ and the NSSA should also benefit from the experiences and lessons learned at ITC Sinde.

An objective of the GoM is to adopt an overall long-term education sector plan. As already mentioned, GIZ is in cooperation with other Development Partners involved in this process through CESR. An important priority of GIZ involvement in this context will be to raise awareness of the needs of the labour market and to increase private-sector involvement in this process. Experts recommended a comprehensive assessment of labour needs in order to ensure that the supply meets the demands of the labour market. According to their opinion, this cannot be part of the CESR process (Expert Panel). The project will strengthen the capacities of policy makers, who will be responsible for translating the outcomes of the CESR process into concrete TVET policies and regulations. The planned and costed TVET strategy should also assign a clear role to the private sector or respective representatives.



Figure 32: Results model TVET project



## 7.2

### Overview of the TVET Sector

#### *The TVET system needs comprehensive reform and modernization to respond to the needs of the labour market*

During numerous interviews with business and education experts, the education system in Myanmar was criticized for being outdated. Students do not learn how to think and work independently, but rather how to follow instructions and to learn things by rote. Teachers use traditional and outdated methods, as they are not aware of teaching styles that give room for discussion, critical thinking or self-reflection, and that help develop problem-solving skills (Expert Panel).

With regard to vocational education, it was pointed out that the institutional set-up is way too fragmented (19 ministries are involved), training programmes do not match the needs of the labour market, and teachers are not sufficiently qualified (Expert Panel) (see also (ADB, 2014b; Puusaag et al., 2015; Kohn and Huttemeier, 2013). In the DEval SME Survey, difficulties occurred in the translation of the phrase “technical vocational education and training”. This suggests that there is a very different concept of vocational education and training in Myanmar from that held by the donor organizations. Moreover the findings of this survey showed that the vocational education system in Myanmar is largely unknown to business owners. Almost 80% of business owners stated that they had not known of the TVET system, and less than 1% of surveyed firms had ever cooperated with a TVET institution. Additionally, hardly any worker employed by these SMEs had undergone formal vocational education from a private or public institution.

In accordance with these findings, reforming the education sector is another priority area of the GoM. In September 2014, the National Education Law (also referred to as ‘mother law’) was adopted (Pyidaungsu Hluttaw, 2014). It is to serve as the basis for further regulations and reforms in all formal education subsectors, namely basic education, technical and vocational education and higher education as well, as non-formal education. Further implementation and subordinate policies will be ensured by the National Education Commission, which is composed of the Minister of Education, other ministers and scholars (clause 4). The drafting and adoption of the law caused

a number of nationwide controversies with regard to higher education, but hardly any with respect to the other subsectors. Yet, a few interviewed experts questioned whether it is indeed the most conducive approach to consider vocational education as one standard subsector for education, or whether it would be better dealt with separately, as actors and objectives in vocational education are different from other traditional education subsectors under the MoE (Expert Panel). Nonetheless, according to the law, TVET is fully included and further divided into the following:

- basic-level technical and vocational education that can be attended by those who have completed primary school
- middle-level technical and vocational education that can be attended by those who have completed high school
- diploma-level technical and vocational education that can be attended by those who have completed high school
- non-formal education and vocational education for improving ability regardless of educational level, gender, or age, offered in schools opened by government or private organizations that meet the criteria (clause 5 (21)).

Moreover, the law stipulates that the MoE is the responsible line ministry that will cooperate with “other relevant ministries” on the development of teacher education, curricula, entrance requirements and periods of study for teacher training by relevant by-laws, as well as for ensuring ethnic equality in all fields related to education (e.g. language, literature, etc.) and the improvement and widening of opportunities for citizens to access TVET (clause 5 (20 and 21)). According to a draft version of the Technical and Vocational Education and Training Law, it is intended that responsibility for non-formal TVET be signed over to the MOLESS (Pyidaungsu Hluttaw, 2015b). Separate education by-laws will further determine qualification requirements for teachers in all levels of education (clause 9). The National Education Standard and Quality Assurance Committee will be responsible for the assessment of educational quality and standards (clause 10). There will be a transition period of up to five years before all schools have to comply with the education law (clause 13).

The ongoing CESR process brings together Myanmar experts and representatives from international donors. It started in 2012

and its aim is, in three phases, to conduct fundamental research on the current Myanmar education sector, an in-depth analysis of the data, and to develop recommendations for reforms of the educational system. It includes six components, with one being TVET. Meanwhile, the Education Promotion Implementation Committee (EPIC), which was founded in 2013 and is composed of senior Myanmar education experts, is supporting the process by drafting policies, the first of which was the National Education Law. After the law was adopted in 2014, 12 key initiatives were announced for 2015–16 as “quick wins”, while the MoE continues to work with CESR and EPIC to develop subsector laws, budgets and policies for the overall Education Reform Programme (CESR, 2014).

### 7.3 Findings on actors and legal regulations in Myanmar’s TVET sector

*The high degree of fragmentation and lack of coordination constitute a challenge for the reform process and the establishment of a single, coherent TVET system*

As indicated earlier, the TVET sector is highly fragmented into both private TVET providers and many ministries and their TVET providers. The lack of coordination and communication between the different actors results in a lower quality of training being offered, and a complete lack of training in some areas (Milio et al., 2014). The planning of TVET seems to be “relatively uncoordinated, with duplication and lack of knowledge on labour market needs” (Milio et al., 2014, p. 119). Yet, core actors were determined especially for the policy level.

MoE is in charge of education policy overall including vocational education. It is advised and supported by two advisory groups:

- CESR, which is led by MoE with the involvement of other education stakeholders, above all, ministries and development partners
- EPIC, which is led by the president’s office and co-chaired by MoE and Ministry of Science and Technology (MoST), other ministerial members, an advisory group of academics, retired faculty members and local experts, as well as 18 working groups with over 600 people involved (Tin Tin Shu, 2013).

- TVET Taskforce, which later will be the TVET Council.

The Employment and Skills Development Law was adopted in 2013, and is particularly relevant for the so-called non-formal TVET. It foresees the creation of a central body that will be in charge of drafting policies on job creation, reduction of unemployment and the promotion of skills development (Pyidaungsu Hluttaw, 2013b). The latter will most likely be done by the NSSA (see next section for more information). Accordingly, this “skills development team will prescribe requirements for employers to either conduct on-job training or afford employees other forms of training. This move aims to ensure that workers’ skills are updated and kept relevant. Employers that employ workers in factories, workshops or similar establishments, will further be required to contribute to a skill development fund.” (Nyein Kyaw et al., 2013). The law further determines that MoLESS will be the ministry in charge of job-matching between employers and employment seekers, and includes a provision that allows foreigners to open and run training schools.

At this point, a law on formal vocational education and a National Education Sector Plan (NESP) is planned. The CESR is “to guide government and development partner investments in the sector up through the next 5-year period” (ADB, 2014b, p. 112). According to the CESR “strategic prioritization and costing will be critical to ensure that the Sector Plan is based on a realistic budget, and activities targeted to results and improved learning” (Tin Tin Shu, 2013, p. slide 12).

The continuing overarching reform process in Myanmar involves the opportunity to adjust economic and education reforms and to ensure that “the needs of industry are continuously and systematically reviewed and fed back in the education system” (ADB, 2014b, p. 124).

Experts interviewed who were not directly involved so far view the process in a rather critical light. As mentioned earlier, they were questioned in particular about whether it was a good idea only to handle TVET within the context of education policy. They felt that because of TVET’s relevance to the labour market and the much-needed linkage to the industry, key actors and topics should be different from those in the other education subsectors (Expert Panel). Moreover, both experts and CESR see

a danger that establishing parallel structures will lead to even more fragmentation.

To prevent parallel structures, the work of EPIC and CESR is closely aligned (Expert Panel and Tin Tin Shu, 2013). There are also signals that the current division of labour and cooperation between them is working. Before the adoption of further laws, MoE, together with EPIC and CESR, developed 12 key initiatives. It was recommended by CESR that training courses should be long term, competency based and linked to labour markets (CESR-Team, 2014a, p. 59). One of the 12 initiatives formulated for 2015/16 now includes the “provision of TVET competency-based modular short courses” (CESR, 2014).

For the policy level, it can thus be concluded that there are still many reforms outstanding, and, with regard to vocational education in particular, the high number of stakeholders involved constitutes a challenge. However, all sides seem to be aware of this challenge and also that a revised and unified TVET system will only be successfully linked to the labour market and implemented if everyone from the public and private side is involved and agrees to comply with the system. Recent developments in early 2015 show progress regarding the public–private cooperation.

The next section will consider the current situation on the meso level, where the focus is on cooperation with the NSSA as the most important partner, and the development of a NQF as one of their most important tasks.

## 7.4 Findings relevant for cooperation with the NSSA

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*The adoption of a National Qualifications Framework is an important step in standardizing education programmes and creating comparability with certificates issued in other countries*

The ASEAN Qualifications Reference Framework (AQR) is a regional common reference framework. The process started in 2012. Myanmar fully committed to it, but only started working on the Myanmar National Qualifications Framework (MNQF) in 2013. A first draft was developed by July 2014 (Kyi Shwin, 2015). Both the system of TVET accreditation and NQF are still in the early stages of development (UNEVOC-UNESCO, 2014). The MNQF will most likely comprise eight levels (Expert Panel), of which the following four will be relevant to vocational education (Kyi Shwin, 2015):

## Qualification Certificate System

Qualification	Job level	Skill, Knowledge and Ability
Certificate 1	1. Semi-skill worker	Understands safety requirements Has basic practical skills and operational knowledge in a defined range of tasks Can carry out routine tasks given clear direction Can receive and pass on information Can access and record information Take limited responsibility
Certificate 2	2. Skilled worker	Has practical skills and operational knowledge in a range of tasks Can carry out skilled tasks Take limited responsibility for output of self
Certificate 3	3. Advanced skilled worker	Has some theoretical knowledge Has a range of well developed skills Can apply solutions to routine problems Can interpret available information Can take responsibility for output of others
Certificate 4	4. Supervisor	Has a broad knowledge base, and can apply some theoretical concepts Can identify and apply skills and knowledge Can identify, analyze and evaluate information Understands and can take responsibility for quality, safety and environmental issues

*The NSSA is a rather young institution with the challenging mandate to advance standardization, certification and accreditation in vocational education*

According to the Mol, “in Myanmar [...] there isn’t any nationally recognized skill/competency standards and testing certification system for various occupations. However, the government has recently set the NSSA to take effective measures on setting up of national level skill/competency standards and system of testing and certification in Myanmar, which would help greatly in the development of highly skilled work force and at the same time contribute to mutual recognition of skills within the ASEAN region” (NSSA, n.d., p. slide 8).

The main objectives of the 2007 founded NSSA are thus to:

- establish occupational competency standards
- accredit training providers and competency assessors (both private and public ones)
- oversee assessment and certification of skilled workers at the national level.

According to experts and NSSA representatives interviewed, most of the NSSA’s capacities are needed for the development of the MNQF and the definition of occupational standards for certificate level one to four (Expert Panel).<sup>27</sup> Some experts viewed the process somewhat critically and described it as too lengthy and expensive. According to them, not much effort should be invested in adjusting internationally accepted standards to the national context as this would hinder transnational transparency of qualifications and thereby the mobility

<sup>27</sup> Working on competency standards is quite comprehensive as it includes a job description, skills required, level of skills required, conditions relating to the work activity, performance criteria and evidence of the competency (NSSA, n.d. slide 13). In total, it is planned to adopt 1400 occupational standards, prepared in 14 different occupational competency standard committees, each working on different sectors. NSSA also started working on testing first standards for certificate level one and certified the first workers (Expert Panel and GMS Working Group on Human Resource Development, 2013).

of workers within ASEAN (Expert Panel). The first round of pilot testing and assessments will reveal more information on this.

#### *Improved labour-market orientation of vocational education requires better public–private cooperation*

Another important aspect that is recognized by experts and the project itself is the important coordination role played by the NSSA. In order to establish a unified system, both the public and the private actors need to agree and comply with it. On the public side alone, 19 ministries are involved in TVET.<sup>28</sup> As a result, these ministries and the private sector, in the form of various business and sector associations (UMFCCI, Myanmar Engineering Associations, etc.), need to be involved in the process (Expert Panel and NSSA, n.d.), not only in the development of standards but also in their implementation (Expert Panel).

One key message concluded from the Second Round Table Meeting of the Technical TVET Working Group was that the “identification of standards, competencies and the design of curriculum and assessment should include industry. Training partnerships with industry should be encouraged” (Dernbach, 2014, p. 17) Milio further states that “the involvement of the private sector has been limited to the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), and should be supplemented by the participation of a wider range of business representatives, so as to result in a real demand-driven TVET system” (Milio et al., 2014, p. xviii). This is in line with a finding from the DEval SME Survey according to which only a marginal share of the private sector is organized within UMFCCI or other associations (see Chapter 5 on PSD).

Once the MNQF is adopted, experts see a major challenge in establishing a functioning system for accreditation and quality assurance, as recruiting companies need reliable information on the applicant, and a guarantee that the qualifications certified with a particular diploma are in accordance with international standards. Another institution will most likely be necessary. Yet, finding enough sufficiently qualified assessors for this testing and accreditation will be very difficult (Expert Panel). Kohn agrees, stating that the “the long term objective will be to produce courses, which have the same objective and content disregarding under which ministry and where in the country

obtained [...]. The use of national skill standards will be the ‘ice breaker’ for this purpose.” (Kohn and Huttemeier, 2013, p. 22).

In this context, CESR also asserted a mismatch between the actual TVET training and the National Skills Standards, which was identified during the CESR process (CESR-Team, 2014a). In order to overcome this problem within the foreseeable future, the introduction of short-term, competency-based training linked to the labour market was recommended. According to the CESR, a Competency Based Training model would ensure that the training corresponds to the needs of the industry in terms of skills, knowledge and attitudes, as specified in the Skills Standards: “Competency Based Assessment is the process of showing that a person can perform the Skill Standards.” (CESR-Team, 2014b, p. 30). Through training based on competency-based curricula developed by the NSSA, public as well as private TVET providers should align their curricula to the demands of the private sector (Milio et al., 2014).

## 7.5 Baseline data for the cooperation with ITC Sinda and other vocational schools

### *Hardly any staff working for SMEs underwent vocational education*

One designated objective of the intervention is to introduce needs-based and thus labour-market-oriented vocational education programmes. It is therefore relevant, first, to learn what the labour market actually needs. Above all, the DEval SME Survey found that the vast majority of firms are not just small and medium sized, but rather of micro and small size, which means fewer than 50 employees. It is thus to be expected that the majority of workers will also have to seek employment in such firms. SMEs were asked whether they plan to recruit new staff in the near future and in which category, and of those SMEs that plan to hire staff the majority will be looking in the field of unskilled and semi-skilled workers (39% of surveyed firms). From the perspective of the labour market, the demand for workers in this segment seems to be highest. This is particularly interesting in Myanmar, where a lot of prestige is attached to university degrees<sup>29</sup> but vocational education is rather unpopular. Only a small share of the staff in SMEs underwent TVET education

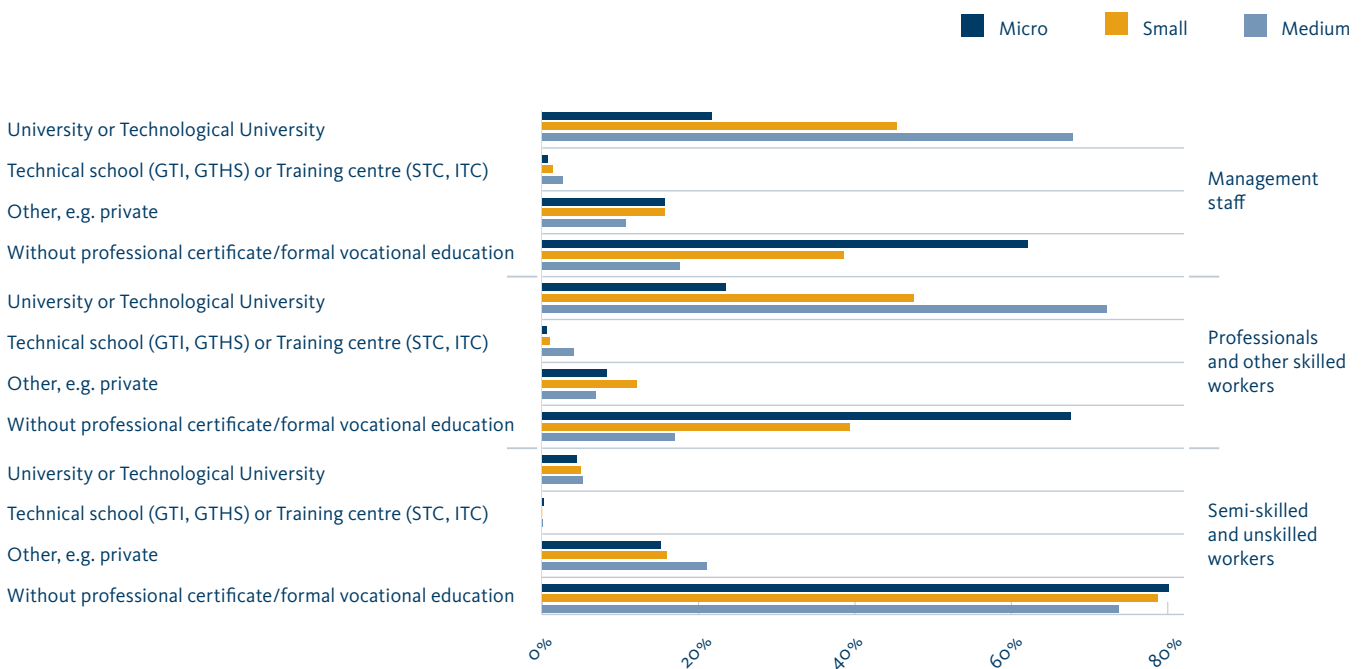
<sup>28</sup> The MoE and the MoST used to be the main ministries in charge of formal vocational education. Moreover, the promotion of vocational training and skill development mainly lies within the MoLESS as it mostly deals with employment issues. Furthermore other sectoral ministries are also involved in TVET in their specific sector.

<sup>29</sup> Interestingly the DEval SME Survey showed that 5% of people hired as semi-skilled or unskilled workers were trained at university level. It seems that someone with a university education is not, per se, regarded as qualified for higher-level tasks.

(on average less than 1% of the staff employed by the surveyed firms) (see Figure 34). This might be caused by a lack of knowledge: 78% of surveyed firms stated that they do not know

about the Myanmar TVET system, while awareness of vocational education seemed to be higher in larger enterprises.

**Figure 34: Qualification of current staff, in percent**



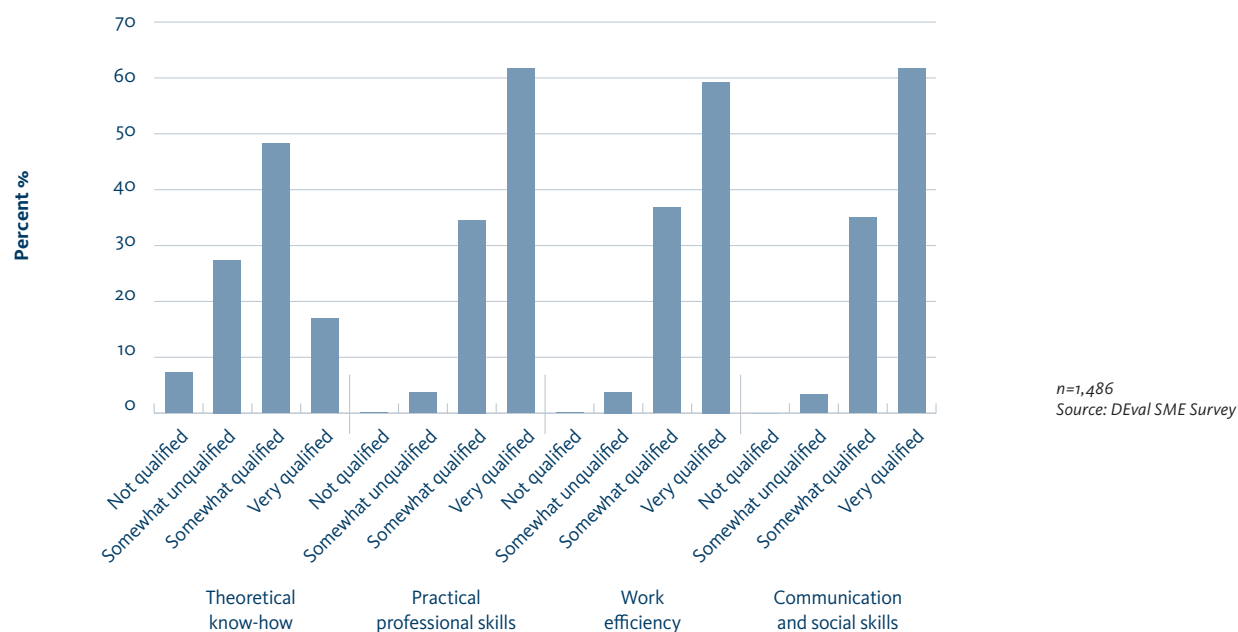
*n=2,490 (firms employing management staff), 1,365 (firms employing skilled workers), 2,448 (firms employing unskilled workers)*  
 Source: DEval SME Survey

Experts interviewed further highlighted that unskilled and semi-skilled workers are not valued by enterprises in Myanmar. Firms are not willing to invest in these workers. As a result, candidates with a TVET degree might be considered too expensive, and firms will often prefer to provide some on-the-job training to untrained candidates and pay a lower salary. In fact, more than three-quarters of surveyed firms provide on-the job training (70% of micro-enterprises, 78% of small enterprises and 86% of medium enterprises; see DEval SME Survey Report). It can be assumed that this on-the-job training does not go beyond basic skills and knowledge. Another reason for hiring unskilled workers is the insufficient number of TVET-graduates in the labour market.

*SME owners regard the qualification of workers and graduates as sufficient*

In fact, business representatives currently regard the skills-set of their workers as sufficient (results were similar for skilled and unskilled workers). They were asked to rate the skills-set of their workers in four main categories: theoretical and practical skills, work efficiency and communication and social skills. The vast majority of business representatives rated their workers as somewhat or even very qualified on all categories. Only with regard to theoretical know-how did some consider the performance of workers as less qualified (see Figure 35).



**Figure 35: Rating of skilled workers by business representatives, in percent**

In addition, businesses were asked also to assess the qualification of graduates according to the same categories. Interestingly, it shows rather different results with regard to the rating of practical and theoretical skills. For all graduates, independent of the school that was visited (university, technical school or training centre), ratings were also generally positive, but worst with regard to practical skills. This opinion is congruent with other sources. Experts and literature point out that the TVET system is not successfully linking theory and practice (Expert Panel). As also mentioned earlier, there is a strong focus on theoretical knowledge in Myanmar's TVET and overall education system (ADB, 2014b). Accordingly, a lot of awareness raising will be needed to ensure that enterprises and the economy as a whole see an added value in workers with formalized TVET training (Expert Panel), and to convince them to cooperate with the TVET system (e.g. by providing internships) in order to improve practical skills of TVET graduates (the cooperation between TVET and private sector which will be discussed in more detail below).

SMEs were also surveyed on their recruitment practices and it turned out that businesses experienced difficulty, or sometimes

even great difficulty, in finding skilled, semi-skilled and unskilled staff, and much less difficulty in finding management staff. According to the findings of the DEval SME Survey, and as confirmed by the interviewed experts, the common method of recruitment is to ask colleagues and friends. Advertisements in newspapers and online are used much less frequently (18% of the surveyed SMEs), but according to the experts interviewed this is slowly becoming more popular in cities (Expert Panel). The existing employment agencies, especially in the Yangon area (Expert Panel), were not mentioned as a relevant actor in the recruitment process by the enterprises surveyed. The data clearly indicate that formal recruitment processes that pay attention to degrees and certificates are not yet relevant in Myanmar.

#### *The current TVET system cannot provide sufficient qualified workers for the growing demand*

Experts state that the Myanmar economy is not yet competitive, as it struggles with very low technological standards and insufficiently qualified staff. In fact, the lack of technical skills and practical knowledge was highlighted as one of the main obstacles for economic development (Expert Panel). Findings from

both sources (DEval's SME Survey and the Expert Panel) suggest that the demand for workers will increase, but mainly for those with practical skills and not as much for academics. This further supports the relevance for immediate reform of the TVET sector. It is also in line with conclusions from other sources attesting that it is anticipated that future economic development in Myanmar will entail a change in the required type of workers (Milio et al., 2014). McKinsey estimates a sharply increasing demand for highly skilled workers, with up to around 26 million required by 2030 (Chhor et al., 2013). Even though other stakeholders do not make such concrete estimations, they generally agree that Myanmar's education system should be modernized in order to respond better to the increasing demands of the labour market (CESR-Team, 2013; ADB, 2014b).

Aside from the critical quality of vocational education, the number of graduates produced is also far from sufficient. According to the DEval SME Survey, only 0.28% of workers amongst surveyed SMEs had undergone formal vocational education. In the 2014 Population and Housing Census, only 0.13% of the Myanmar population (60,270 persons) stated vocational training as their highest level of education completed (MIP, 2015).<sup>30</sup> A study conducted for the Asian Development Bank confirms that the Myanmar TVET system can only provide access to a limited number of the around 1 million students exiting early from primary and secondary education (Kohn and Huttemeier, 2013, p. 19). The transition from primary to secondary education also seems to be problematic: "Analysis of enrolment data suggests that secondary education is the bottleneck: of the estimated 1.1 million new enrollees in first grade in 2002, four-fifths successfully completed primary schooling 5 years later, but only one-tenth completed secondary education by passing the matriculation exam at the end of grade 11 in 2013." (ADB, 2015b, p. 229).

#### *The private sector should be better involved in the TVET system*

The project wants to better align the TVET system to the needs of the labour market by increasing involvement of, and cooperation with, the private sector. According to experts interviewed, there are no such cooperation mechanisms and procedures in

place, despite the clear need for them (Expert Panel and Milio et al., 2014). There have only been a few initiatives so far that, for instance, tried harder to involve actors such as UMFCCI. The experience did not, however, lead to the expected success (Expert Panel). Moreover, experts highlighted that there is no current practice of internships in Myanmar. Universities do not require and support students to gain practical experience before graduation, and firms consider it not worthwhile to invest in working space and training for someone who will then leave the company. It is thus rather difficult to find firms willing to cooperate in such a scheme (Exp. 10, 20DE). This is also consistent with the findings of the DEval SME Survey. Hardly any firm has ever cooperated with a TVET institution (1%; 14 in total). There is a large discrepancy, however, between these findings and the data of the OECD Business Survey, in which 41% of the surveyed business stated that they had cooperated with an institution to provide training, in particular with private vocational institutes (15%), UMFCCI (5%) and government agencies.<sup>31</sup> It is to be expected that the project will have to proactively seek out firms with which to set up permanent partnerships between vocational schools and enterprises.

#### *The quality of teacher-education programmes is inadequate*

The other activities will focus on teacher capacity development. Several experts stated that teacher education in Myanmar is very poor. There are only very few specialized institutions that train in teaching methods, and holding such certificates is not obligatory for becoming a teacher (Expert Panel). A small survey conducted amongst teachers of ITC Sinda by GIZ showed that only half of the teachers had some sort of practical skills from industry, and fewer than one-fifth had completed a teacher training. Also, teachers stated that they were more comfortable giving classes in the classroom than in the laboratory or workshop (MoI and GIZ, 2013).

Experts state that teaching jobs are considered rather unattractive because of poor salaries when compared with those in the private sector (many teachers need a second income e.g. as a farmer or driver<sup>32</sup>, particularly when they send their children to university) and due to the fact that teachers are assigned to

<sup>30</sup> Diploma: 0.3% (115,002); University/College: 7.0% (3,226,966); Postgraduate and above: 0.3% (134,585)

<sup>31</sup> In contrast to the composition of the DEval sample, a large share of the businesses surveyed by the OECD stated that they were a member of UMFCCI or another business association. A possible explanation for the discrepancy could be that members of UMFCCI are more likely to contact the association when looking for cooperation partners in the private sector. An analysis of the correlations between business association membership and collaboration with these training institutes showed that they are very weak and statistically insignificant (see DEval SME Report for more details).

<sup>32</sup> Officially, education is either free or tuition fees are very low. However, due to poor teacher salaries it seems to be common at least in higher education to only provide basic information during lectures. In order to obtain good grades or pass certain courses, important knowledge will only be provided during extra private lessons, which are very expensive. Corruption, in the sense of 'buying a degree' or bribing curricula and exams, also seems to be a problem (Expert Panel).

schools by the GoM throughout the country. It does not seem to be possible to apply to a particular school (Expert Panel). As a consequence, many teachers are hardly able to attend long-term training away from their place of residence and their second job. This has to be taken into account when planning measures to qualify teachers.

Another issue raised is the problem of unsuitable training materials. Often materials in schools are outdated and not in line with the equipment used in the private sector. Accordingly, teachers are not used to handling modern equipment either. With regard to other learning materials, it drew the criticism

that a lot of it is not available at all or only available in English. Officially, students and teachers start learning English in secondary school, but English skills are usually very poor, in practice. A few experts think it would be more constructive to at least add Myanmar explanations to English learning materials (Expert Panel). More in-depth information on general teacher capacities will also be gathered through another survey that will be conducted when activities in this area are expanded (see chapter 4 on data-collection instruments for more information). The NSSA and its intended accreditation of training providers will presumably help to achieve an equal and sufficient level of teacher qualification.

### Findings on vocational education and training

- The Myanmar education system, including vocational education, is criticized for being outdated and for not preparing students to be proactive, critical thinkers.
- With regard to TVET, it is also generally agreed that it is not sufficiently oriented towards the needs of the labour market. In addition, the DEval SME Survey showed that business representatives are often not familiar with the TVET system and that cooperation between TVET institutions and SME is very uncommon.
- On the policy level, the adoption of the National Education Law was an important precondition for further regulations and reforms, including respective subsector laws. Moreover, the law determines the Ministry of Education as the core ministry in charge of education, including all subsectors, which should help in trying to overcome the high fragmentation of tasks and responsibilities within the education sector. Nevertheless, especially with regard to vocational education, strong coordination with other relevant ministries will still be essential to increase labour-market orientation.
- According to experts, better coordination and communication between the numerous public and private actors in TVET will be decisive in increasing the overall quality of the system. It also needs to be awaited to what extent recommendations and information from the two created bodies, EPIC and CESR, will be coordinated and used.
- For TVET the Employment Skills and Development Law is of major relevance as it provides for better job matching and the promotion of skills development.
- Inadequate skills, outdated technology and an insufficiently qualified workforce are major bottlenecks for economic development in Myanmar. As a result, the NSSA was founded under the MoLESS to address this problem. One major challenge will be to upgrade skills and TVET certificates to a level comparable with international standards and aligned to the needs of the labour market. For this purpose, the government decided to introduce an MNQF: a national qualification framework that complies with the ASEAN Qualifications Reference Framework. NSSA is the institution mandated to introduce adequate occupation standards, ranging from semi-skilled workers to supervisors. In a second step, testing, certification and accreditation of training institutions is envisaged in order to establish a transparent and efficient TVET system that produces qualified graduates and issues qualification certification in line with international standards.
- Findings from the DEval SME Survey indicate that SME representatives are not yet aware of the urgent need for upgrading skills to increase competitiveness. The clear majority of business owners describe the skills of their employees as satisfactory, and also have a generally positive perception of skills acquired by graduates trained in Myanmar.

- With regard to job matching, DEval SME Survey data show that firms still mostly rely on informal recruitment procedures and personal networks. At the same time, business owners confirmed that recruiting workers can be difficult, which might lead to a certain openness to new recruitment channels, especially for semi-skilled workers.
- Both the survey data and expert assessments indicate that there will be an increasing demand for semi-skilled and skilled workers in particular, but to a lesser extent for academics. The current TVET system, however, is not yet prepared to satisfy such an increasing demand.
- In order to expand the TVET system, one major aspect will be a sufficient number of well-qualified teachers. Despite the insufficient teacher-training programmes, several sources pointed out that being a teacher in Myanmar is not considered attractive due to working conditions and salaries. If this problem cannot be solved, it may constitute a major obstacle to upgrading the overall TVET system.



8.

## FINDINGS FOR THE QUALITY INFRASTRUCTURE PROJECT



Myanmar's geostrategic location provides good preconditions for economic development. But although economic growth is already apparent, multiple reforms are needed to make the most of the country's potential and to prepare Myanmar for the upcoming challenges that membership of the AEC will bring. One key prerequisite for participating in the global economy, and thus for economic development at large, is an efficient and internationally recognized quality infrastructure (QI). Producers and service providers operating across national borders need to adhere to quality standards set by clients and consumers of other countries. In order to comply with such standards, enterprises need various accreditation, calibration, certification and analytical services that are usually provided by specialized private and governmental QI institutions, able to render user-oriented and internationally accepted quality services. The absence of an effective national QI causes SMEs in particular to be excluded from international value chains, as they are often unable to invest in required laboratory equipment or to order these services abroad, and thus lack reliable standardization of their products. Strengthening the quality infrastructure system in Myanmar is therefore a further component of the programme, as it is an important aspect of the country's intended contribution to economic development.

As explained earlier, results models were only developed for the main intervention areas: development of the private and financial sectors and of vocational education. Physikalisch-Technische Bundesanstalt / National Metrology Institute (PTB), as the responsible implementing agency for the project on quality infrastructure, chose not to work with a results model but to develop objectives and indicators more in line with a results chain. The next section will briefly elaborate the project's objectives.

## 8.1 Results model/objectives of the QI Project

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As will be outlined in the following sections, virtually no QI system is in place in Myanmar at the time of writing. While a number of governmental institutions claim to be in charge of developing and governing such a system, it is unclear where authority and responsibility lie, which is impeding the development of an appropriate legal framework and qualified QI service providers. Furthermore, due to Myanmar's nearly four-decade

long isolation from international markets, its industry lacks awareness of the necessity of QI, which results in little demand and use of what services are available (see detailed findings in section 8.2).

Against this backdrop, PTB proposed a project aimed at strengthening the QI infrastructure in Myanmar by improving local accessibility and use of internationally recognized QI services, particularly in the agro and food sectors. Flanking the GIZ intervention in Myanmar, notably its PSD project, the PTB project pursues a multi-level approach, consisting of strategic, conceptual and organizational advice and training in the fields of metrology and conformity assessments. Both policy and private-sector institutions will be involved in the development of strategies, rules and regulations as well as in sensitization and information measures. These measures aim to increase the demand for QI services by placing particular focus on the development of QI networks that will ensure a continual dialogue between the public and the private sectors.

According to these objectives, the main target groups of the PTB project are the users of QI-services, namely SMEs, public authorities and Myanmar society at large. The main benefits for these target groups should be a reliable legal framework, improved competitiveness, better management of capacities and, eventually, safer products (e.g. food) and services.

The political partner of the PTB project is the Ministry of Science and Technology (MoST), with its implementing agency the Myanmar Scientific and Technological Research Department (MSTRD) (renamed DRI – Department of Research and Innovation in 2015) and the National Analytical Laboratory (NAL). As intermediaries to the private sector, the PTB also collaborates with Myanmar trade unions such as the UMFCCI, the Myanmar Food Producer and Exporter Association (MFPEA), the Myanmar Fruit and Vegetable Producers Association (MFVP) and the Myanmar Engineering Society (MES).

## 8.2 Findings

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The assessment of the Myanmar quality infrastructure system is based on interviews with national and international experts

from the field of QI development, such as UNIDO, United States Agency for International Development (USAID) and Japan International Cooperation Agency (JICA). The empirical findings are further substantiated by a document review and a quantitative analysis of available data from other donors, as well as national and international statistics (e.g. CSO, ADB etc., see detailed references in the following).

*The current QI system is characterized by an outdated regulatory framework and immense capacity problems*

According to the findings from the Expert Panel, the quality infrastructure system in Myanmar is characterized by three key problems, which impede its further development and thus the competitiveness of the Myanmar industry:

- **Outdated and inadequate regulatory framework:** All experts agree that the current laws and regulations are no longer adequate. Fragmented responsibilities and outdated laws inhibit the development of a quality infrastructure system suitable for a modern economy.
- **Lack of qualified staff:** Due to almost four decades of political and economic isolation, Myanmar has no experience of working according to current international standards. Experts have either left the country or retired, and junior experts are usually not sufficiently qualified as the education system does not provide any suitable training schemes in the field of metrology.
- **Lack of adequate equipment and procedures:** Also connected to Myanmar's political isolation is its deficient technical infrastructure. As there are virtually no laboratories, there is also not much equipment, and the available tools are either outdated or not working, or simply not suitable for measurements according to current standards. Most experts further identified deficits in the overall infrastructure (especially in roads and electricity) as the reason why there are limited means for storage and transportation, which leads to poor-quality products, particularly in the all-important agricultural sector.

In addition to these regulatory and infrastructural deficits, a number of interviewees highlight a lack of awareness as a main obstacle for the development of a QI system. It is interesting to note, however, that it often depends on the affiliation of the

respondent as to which actors are assumed to require sensitizing to the issue. While governmental staff tend to emphasize the necessity to increase the awareness of the industry and, in particular, of SMEs, private-sector experts tend to highlight the lack of awareness and direction on the governmental side. Some experts, however, state that overall awareness on quality management is poor in both the private and public sectors (Expert Panel). It has also been stated that there is insufficient market pressure to produce high-quality goods and services, except among companies interested in exporting, which are thus exposed to competition in international markets (Expert Panel).

The findings from the expert interviews are thoroughly confirmed by the assessments made in other surveys and policy analyses. According to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), for instance, awareness of advanced technologies, which is an essential prerequisite for complying with international quality standards, constitutes the third biggest obstacle for business operations (Puusaag et al., 2015).

The lack of an adequate QI has also been referred to in the ASEAN SME Policy Index 2014 as a major handicap for innovation in the entire region. It is emphasized that in Myanmar, in particular, an overall coherent innovation strategy is missing (ERIA, 2014). Finally, outdated and inadequate standards and legislation, as well as limited capacities, were also identified by UNIDO as reasons to engage in establishing and internationally integrating a national QI in Myanmar (McCarty et al., 2015, p. 25 ff). Concerning the regulatory framework, however, it should also be mentioned that, in contrast to the before-mentioned assessments, according to the SME Survey, most SME representatives do not perceive existing regulations regarding food hygiene or security of other products as major business obstacles (Amine and Stockmann, 2015).

*Internationally traceable standards as preconditions for a proper quality infrastructure system are not in place, and the issue does not seem to be regarded as a priority at policy level*

One key requirement for any QI is the availability of internationally traceable standards (e.g. for mass, time, radiation). In that regard, the interviews provide a distinct picture about the



current situation in Myanmar: there are none available and there is no National Metrology Institute (NMI) in place that could provide such standards. Accordingly, Myanmar is neither a regular nor corresponding member of the Organisation Internationale de Métrologie Légale (OIML, International Organization of Legal Metrology, world lead agency for legal metrology) nor of the Bureau international des poids et mesures (BIPM, International Bureau of Weights and Measures, world lead agency for scientific-technical metrology) and, according to their websites, does not yet take part in any key or supplementary comparisons (OIML, 2015; BIPM, 2015). The only governmental institution in charge of and capable of providing at least six national standards (i.e. for mass, volume, pressure, electricity, temperature and dimensional lengths) is the MSTRD (now DRI) under the MoST.

According to many experts, this situation is mostly due to the fact that QI has not been a priority area of the GoM in the past, although some state that efforts to revise the system date back as far as 30 years. As a result, the rules and regulations that do exist are usually outdated (Expert Panel). Again, this assessment is at least implicitly shared in the above-mentioned studies: in other words, the recommendation to focus more strongly on QI development in the future and to update the regulatory framework.

*The number of governmental and non-governmental actors, and also donors involved in QI, is limited and will hardly be sufficient to ensure the necessary upgrading and expansion of standards and services*

In order to understand why Myanmar appears to have such a hard time developing a functional QI system, one needs to have a look at the constellation of actors in that field, which proves to be a landscape with scattered responsibilities and competencies.

So far, it is possible to identify a few political and institutional actors that will play a significant role in the establishment of such a system. From this it is presumed that the MoST will be in charge of setting up an NMI, most likely by upgrading the MSTRD with adequate funding, staff and infrastructure. Yet, MSTRD is a department of the ministry with very limited research capabilities and only one chemical laboratory, the National Analytical Laboratory (NAL), which provides basic

quality services and non-traceable standards for a few dimensions (Expert Panel). Nor are its overall tasks and responsibilities clearly determined yet. While the NAL appears to be well equipped with modern devices, it lacks not only basic material such as fridges or glassware, but also the operation and human resources to extend its services. Furthermore, the impression is that the ministry has not decided yet whether the NAL should be upgraded to a national reference laboratory or whether it should render its services directly to the industry.

Another problem that also affects QI is the high turnover of workers. For instance, the staff that planned and ordered equipment for the NAL back in 2013 left MSTRD, and sometimes it is not even clear why some equipment has been ordered at all (Expert Panel). On the positive side, it has been highlighted that the influence of the military seems to be decreasing to the extent that MoST staff are recruited according to their qualifications and not their affiliation to the military, as is still the case in some other ministries (Expert Panel). While it is predicted that MoST will take the lead in establishing a general QI, other governmental actors are likely to defend their stakes as well. One of these actors is the Ministry of Health (MoH), which is in charge of providing a regulatory framework for food safety in Myanmar. The responsible department in the ministry is the Food and Drug Administration (FDA), which has five divisions, one being in charge of food controls. The FDA receives its samples through the Myanmar Inspection and Testing Services Ltd (MITS), an inspection body based in Yangon, with local branches close to the Chinese and Thai border. The MITS takes between 1,000 and 2,000 food samples per year and sends them to the FDA for testing. The equipment of MITS is regularly calibrated by MSTRD (Expert Panel).

Another actor in the field of QI is the Ministry of Livestock, Fisheries and Rural Development (MoLFRD), which currently has the only internationally accredited ISO 17025 laboratory in the country at its disposal. However, this laboratory can only provide residue tests for a few parameters (e.g. pesticides) and thus cannot qualify for comprehensive chemical analysis (Expert Panel).

In the private sector, three sector associations are of particular relevance for the development of the quality infrastructure

system: The Myanmar Food Producer and Exporter Association (MFPEA), which is the primary association for exporting enterprises, the Myanmar Fruit and Vegetable Producers Association (MFVP), which focuses primarily on supporting farmers in agricultural value chains, and the Myanmar Engineering Society (MES). While all three associations are under the umbrella of UMFCCI, the MFPEA is the only association that has access to its own laboratory: the Food Industries Development Supporting Laboratory (FIDSL). The FIDSL offers testing services to food producers in exchange for service fees, and is thus financially self-sustaining. It currently has about 400 members, mainly from Yangon and the Mandalay region, and has the capacity to analyse about 200 samples per month. However, as FIDSL is not internationally accredited, its certificates are only valid for national markets. It has, however, received approval from the EU on the basis of an FAO audit, which allows it to certify food products for export to the EU (Expert Panel).

The collaboration between governmental and private-sector actors currently becomes manifest in the establishment of the so-called National Standards Council (NSC). The NSC consists

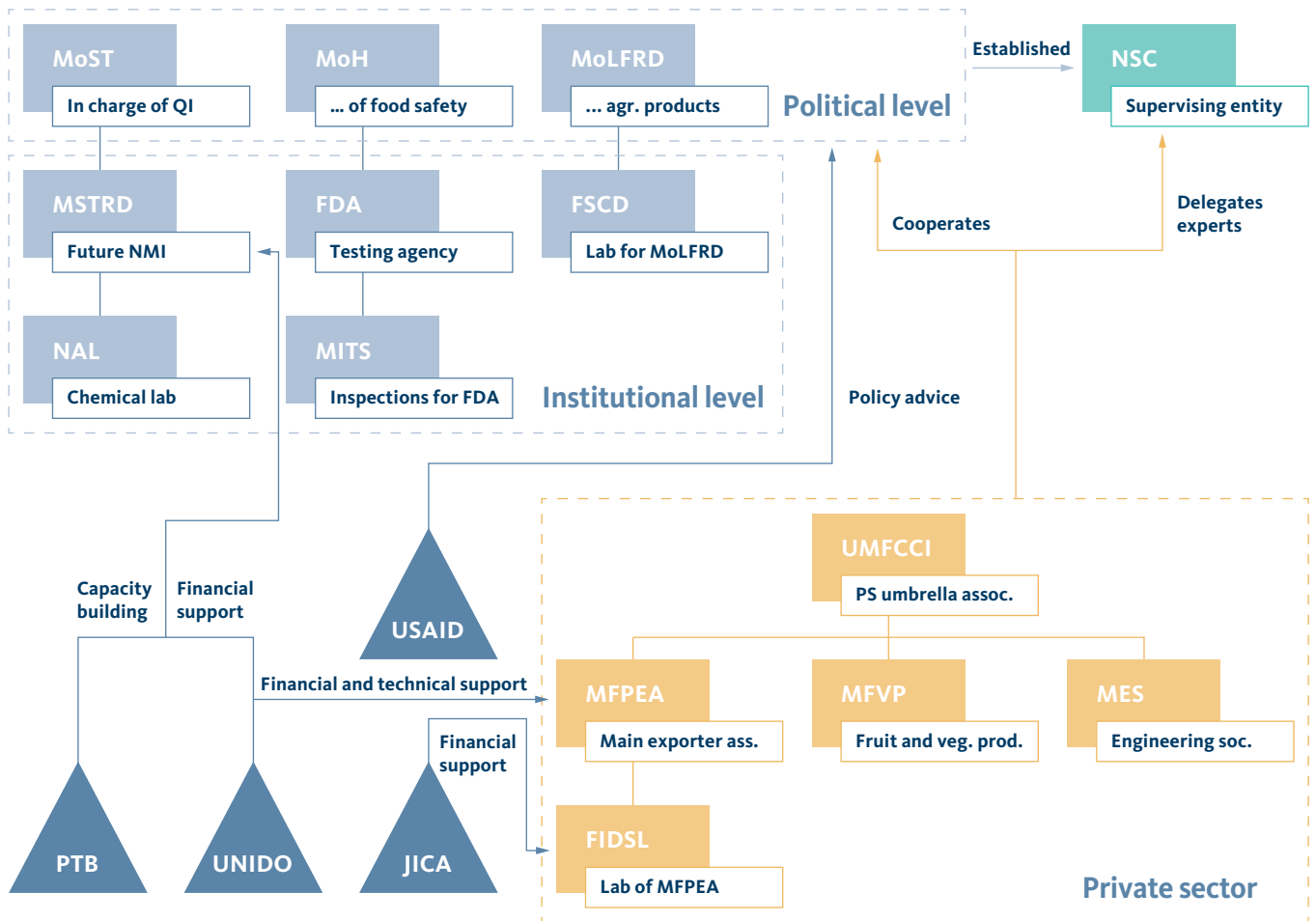
of both governmental and sector association representatives who, according to their own statements, provide expertise for the further development of the quality infrastructure system. The NSC is mandated by the GoM to elaborate a revised regulatory framework and to monitor the compliance of the industry in the future.

In addition to Myanmar institutions, donor agencies also play an increasing role in the QI system. Besides PTB, these are UNIDO, USAID and JICA.<sup>33</sup> As outlined above, UNIDO aims to develop a national QI by providing technical and financial support to MSTRD and MFPEA in particular, with funds from the Norwegian Agency for Development Cooperation (Norad). JICA supports the laboratory of the MFPEA (FIDSL) with technical infrastructure and capacity development measures. USAID primarily provides policy advice for the GoM.

As Figure 36 shows, even though it exists, the number of governmental, private sector and donor actors makes the Myanmar QI a complex framework to act in:

<sup>33</sup> At the time of data collection it was planned that the EU will also be funding activities in this field from 2015, to be implemented by GIZ.

Figure 36: Actor-mapping in the field of QI



Source: own illustration

The figure shows that different actors cooperate with different partner institutions and use different forms of support (policy advice, financial support, technical support etc.). The actors meet regularly at coordination meetings. As also stated during interviews on TVET and PSD, fragmentation and the failure of line ministries to work together or to harmonize strategies is a general problem not just related to QI (see also chapters 5, 6 and 7). Thus, as in other fields, more and better coordination between key governmental actors is deemed to be necessary in the future (Expert Panel). The lack of collaboration between associations on the operative level also appears to prevail. Several interviewed sub-associations of UMFCFI signalled their

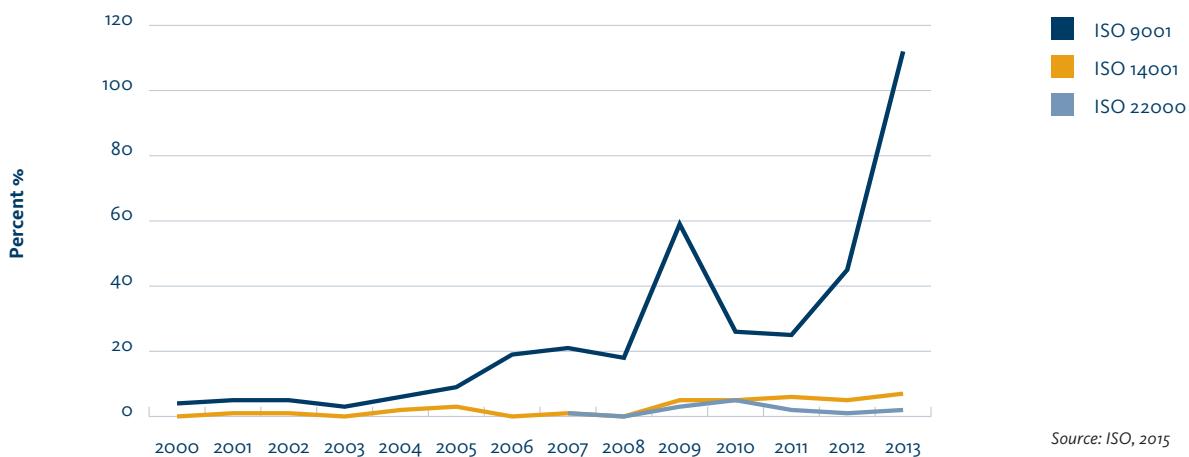
willingness to support the GoM, but did not show much interest in collaborating with each other. However, some experts also highlighted that many private sector actors still do not trust the government and are thus reluctant to cooperate (Expert Panel).

Most international quality certifications are not available in Myanmar, and seeking them abroad is very costly. Despite the absence of a quality infrastructure system and of standardization requirements for the domestic market and accredited assessors or laboratories, the interview results indicate that there is a considerable demand for International Organization for Standardization (ISO) standards certification within the

industry, namely for ISO 9000 (quality management), 14000 (environmental management), 17000 (laboratory management) and 22000 (food safety management). Firms possessing the financial means try to obtain certification for their products abroad, which is very costly (e.g. in Thailand, Singapore, Netherlands, Switzerland, Sri Lanka, etc.) (Expert Panel). It is interesting to note in this context that none of the government

representatives knew the number of ISO-certified enterprises in Myanmar, even though this data are regularly published by the ISO itself. The chart below (Figure 37) shows that an increasing number of Myanmar enterprises has applied, in particular, for quality management ISO certificates outside the country in recent years:

**Figure 37: Number of ISO-certified enterprises in Myanmar 2000 to 2013, in absolute numbers**



Still, the number of certified enterprises represents only a tiny share of the Myanmar industry, amounting to about 0.3% of all registered enterprises in 2013.<sup>34</sup> Thus, it is also not surprising that in the SME survey only one enterprise states having an ISO certificate.

Another demand for certification can be identified in the agricultural sector. While some experts believe that the introduction of Global Good Agricultural Practice (GlobalGAP), a private standard for aqua- and agricultural producers, would be beneficial, the GoM does not show any interest in supporting this certification system as it is not legally relevant (Expert Panel).

Concerning monitoring, MSTRD staff state that a list of demands for quality services from enterprises located in the industry centres is available, and that the department plans

to monitor the development of the demands in the future. However, no data-collection instruments or survey designs have been developed yet. One expert (Expert Panel) reports having once tried to conduct a needs survey, but failing because the companies did not participate as they feared that their data would be forwarded to the government or competitors.

*Despite the limited number of actors, lack of coordination and inconsistent regulations are also a problem in the field of QI*

As mentioned in the previous section, fragmented responsibilities are a key challenge for developing a consistent regulatory framework. During the expert interviews, examples of confusing and sometimes even contradictory regulations were provided. For instance, in the field of food processing, several ministries provide rules and procedures for quality assessment, such as the MoH (general food processing), the MoLFRD (aqua- and agricultural products) or the Ministry of Commerce (MoC)

<sup>34</sup> Own calculation based on ISO and DICA data. According to the PWC Myanmar Business Guide 2014 in 2013 DICA reported a total of 39,477 registered companies and business organizations in Myanmar (PWC 2014: 17). For the same year ISO reports a total of 121 certified enterprises.

(imports). Licenses are also granted by associations such as the UMFCCI and the MFVP, which leads to the problem that food importers and domestic producers have to comply with different sets of rules. Another example is that, while MSTRD, under MoST, is responsible for the overall QI framework, other ministries such as the MoI or the Ministry of Energy have their own standards, which are not always consistent with those from MoST (Expert Panel).

In order to overcome this regulatory chaos, the MoST established the NSC, which was mandated to draft two laws, one for standardization and accreditation (entered into force in July 2014) and one for metrology (not yet enacted), which should provide for a consistent framework (Expert Panel). Thereby, the committee works together with experts from abroad, e.g. Thailand, Singapore or Japan. However, it remains unclear if the NSC should only be a regulatory body or also an implementing agency. If the latter were the case, its responsibilities would conflict with the already existing governmental QI institutions (see Figure 37 above).

*Even if a proper QI system is formally established, enforcing such standards and overseeing compliance will require considerable resources*

In general, experts appear rather confident that an appropriate regulatory QI framework will be adapted in the future. One

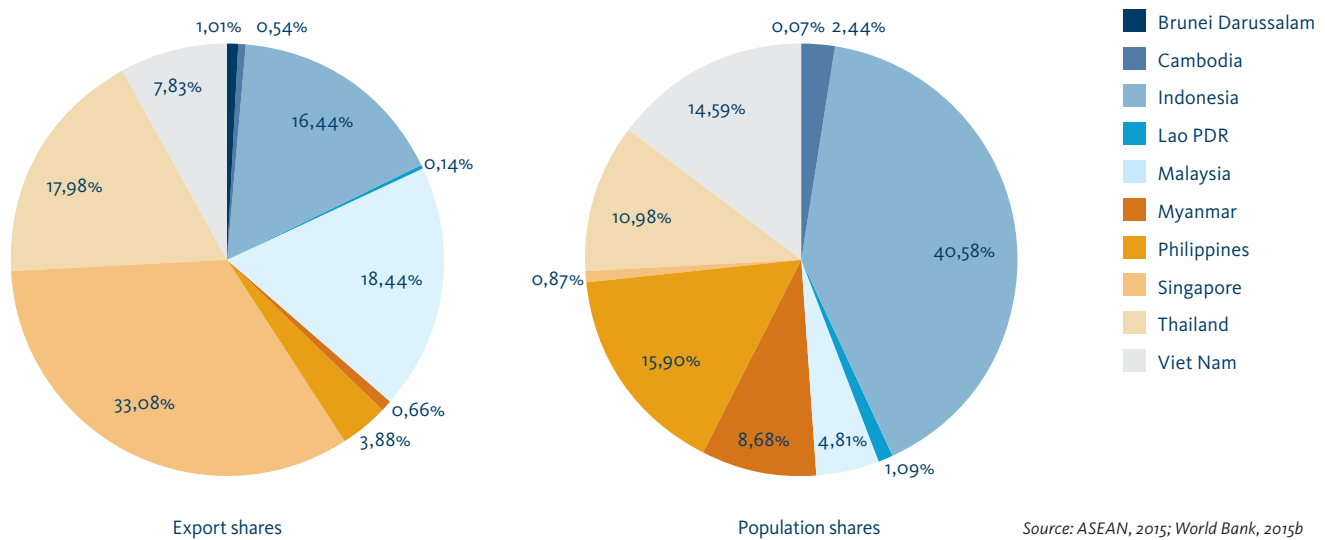
expert demurred, however, stating that it will be much more challenging to actually implement such a system (Expert Panel). Currently, there are no provisions or sanctioning procedures in the case of non-compliance. If samples, e.g. in the food or cosmetic sectors, test positive for some harmful substance, there are no penalties or standard procedures to follow. In addition, corruption remains a major problem, and it will be extremely difficult to hold larger cronie-owned businesses accountable (see also Chapter 2). Thus, even if there is a revised framework, it will be of equal importance to establish a strong system for monitoring and sanctioning non-compliance (Expert Panel). Also, illegal import and export, primarily in the Myanmar–China border area, and to some extent at the Thai border, becomes an increasing problem that needs to be tackled (Expert Panel).

*With increasing trading activities, quality management will become a very urgent problem for the competitiveness of Myanmar's enterprises*

According to all interviewees the biggest challenge for the Myanmar economy in the next years is its opening up to ASEAN and international markets. As Figure 38 shows, Myanmar exports only represent a small fraction in the ASEAN region, ranking eight out of ten nations, with a total market share of approximately 0.7%, while accounting for nearly 9% of the region's population.<sup>35</sup>

<sup>35</sup> Own calculation based on ASEANstat data (<http://aseanstats.asean.org>).

**Figure 38: Export shares and population shares in the ASEAN region, in percent**



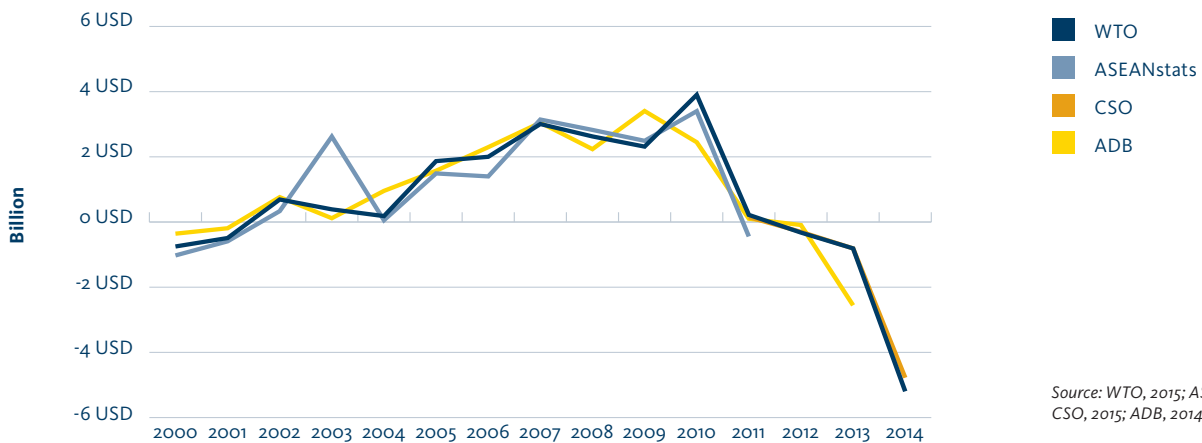
The only products exported in large amounts are raw materials such as gas and oil, and a few agricultural and fishery products. Besides the manifold economic obstacles, as discussed in the previous chapters, experts also partially ascribe this situation to inadequate QI.

As it appears to be very difficult for Myanmar enterprises, especially SMEs, to comply with international quality standards and thus to export certified high-quality products, experts have identified two areas of concern for the opening up of the Myanmar economy to international markets. On the one hand,

the GoM needs a strategy to prepare and protect local companies. On the other hand, the GoM is deemed not yet to have sufficient expertise and to be generally too slow to act. Many fear that the Myanmar market will be flooded with imports, while exports will not rise correspondingly.

Such fears are indeed justified, as trade statistics show (Figure 39). While numbers differ to some extent depending on the source,<sup>36</sup> the overall trend toward a substantially increasing trade deficit is obvious, as shown in the following graph:

<sup>36</sup> Differences are due to different measurement periods (calendric vs. fiscal year) and databases. It however could not be resolved what caused the peak in the ASEANstats data in 2003.

**Figure 39: Myanmar Trade Balance 2000 - 2014**

It is perceived that Myanmar enterprises are not well aware of the quality requirements and are thus not prepared adequately for the export of their products (Expert Panel). While there are a few competitive products (e.g. mango), it is suggested that the quality of many others is too poor for the international market. Some, however, expect that once standards are established, taxes and production costs will go down and increase competitiveness (Expert Panel). Therefore, international experts, in particular, do not see a need for protecting the local industry.

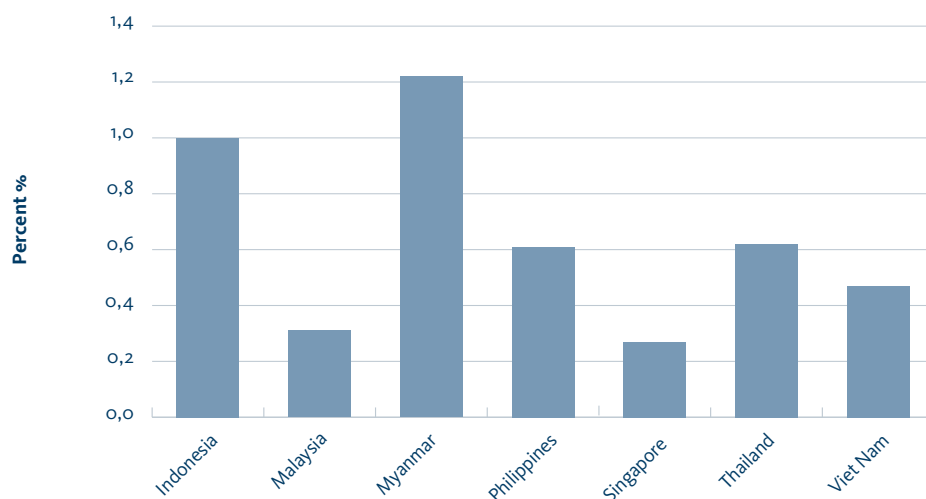
So far, Myanmar only has 18 factories able to produce exportable goods. Questions were raised as to whether there are any SMEs able to produce for the international market at all. With regard to food safety, SMEs struggle to provide adequate processing, and with packaging and general hygiene problems in particular (Expert Panel). In sum, experts see problems with the current

quality of products, and the fact that the few existing high-quality products that might be exportable are in most cases not certified.

Other reasons mentioned by some experts (Expert Panel) for the lack of interest among Myanmar industry to export its products are the already mentioned outdated regulations and the lack of laboratories for certification. Without a legal framework and a functioning QI, most producers assume it too risky to try to send their products to other countries.

Again, statistical data confirm the assessments and fears, as shown in the Japan Imported Food Monitoring Report, in which Myanmar ranks particularly high in the share of violations against the Japan Food Sanitation Law when compared with other ASEAN states, as Figure 40 shows.



**Figure 40: Share of positively tested food samples in 2013 by the Japanese Quarantine Management Office, in percent**

Source: Japan Ministry of Health, 2014, p. 35<sup>37</sup>

Note: Own calculations based on a minimum of 100 samples; Brunei, Cambodia and Laos were omitted due to too small number of tests.

#### *Increased awareness and a clear strategy by the GoM is necessary to upgrade and ensure adequate quality of local products*

All experts agree that despite its increasing awareness so far the GoM has no consistent strategy for tackling the problem of the inadequate quality infrastructure system. While the MoC is currently working on an export strategy, it does not yet seem possible to ensure the quality of products selected for export (Expert Panel). As well as the improvement of QI in existing value chains and the setting up an NMI, MoST also plans to establish a national accreditation body. However, due to the complex technical and organizational requirements, some experts assume that it will take at least four to five years until such an entity will be operational (Expert Panel).

Expert opinions differ with regard to the question of what strategy the GoM should follow to set up a functional QI in

Myanmar. While government representatives favour first establishing top-level quality services by governmental bodies (Expert Panel), some private sector and independent experts plead for a bottom-up strategy, in the sense that the GoM provides the necessary regulatory framework for second- and third-level laboratories to develop. The prevailing idea is that the private sector needs quality services fast, and that foreign top-level institutions could accredit these second- and third level-labs and also cater for tracing their standards. As already mentioned, it has been noted in several interviews that there is still general mistrust of the GoM, which is assumed not to work transparently. According to some, such mistrust could compromise the whole system right from the beginning, and contribute to its failure (e.g. if enterprises continue to send their standards and samples to foreign countries) (Expert Panel).

<sup>37</sup> Own calculations based on a minimum of 100 samples; Brunei, Cambodia and Laos were omitted due to too small number of tests.

## Findings on Quality Infrastructure

- The Myanmar QI system suffers from an outdated and inadequate regulatory framework, a lack of qualified staff and of adequate equipment and procedures.
- Furthermore, the private sector and government apparently still lack awareness concerning the necessity of QI for economic development, although the significance of the issue is at least rising in the political sphere.
- The availability of internationally traceable standards is a key requirement for the establishment of a national QI system. Yet, no such standards are available in Myanmar. Accordingly, Myanmar is not a member of the international agencies for legal and scientific metrology either.
- Further to the structural deficits, unclear and scattered responsibilities and competencies among the political actors aggravate the development of a national QI system. Accordingly, the responsibilities of the subordinated institutions and laboratories are likewise unclear, which makes it even more complicated for the industry to find the required services. So far, the development strategies of the different ministries are not yet harmonized.
- A general problem that also affects the QI is the high turn-over of workers, which impedes institutional capacity development. Private laboratories are scarce and cannot provide internationally recognized QI services.
- Collaboration between the private sector and government is still in its infancy, and mutual trust is established only slowly. Mistrust of the government still prevails among private-sector actors.
- Statistics show that a small but rising number of enterprises in Myanmar is becoming certified according to ISO 9001. Certification becomes more and more important to Myanmar enterprises, particular in the agricultural sector and for those who want to export.
- Currently, exports play only a minor role in Myanmar. However, with the opening up of the country to ASEAN and international markets, they are expected to gain significance in the near future.
- Besides financial and regulatory obstacles, Myanmar companies face serious problems if they want to compete internationally, as their products do not comply with international quality standards.
- In contrast, imports rose considerably in the last few years so that Myanmar companies now also have to compete with foreign companies in domestic markets.
- So far, no consistent government strategy to solve the above-mentioned issues is visible. Moreover, opinion on which strategy to follow differs among the experts. While some prefer a top-down strategy by establishing high-quality services provided by governmental bodies, others suggest a bottom-up strategy by providing a beneficial regulatory framework for second- and third-level laboratories to develop.



9.

## CONCLUSIONS

### *Myanmar's opening up offers unique opportunities*

The relaunch of German–Myanmar bilateral cooperation offers the unique opportunity to design interventions without any path dependency, as there has been no international cooperation for decades. Also, from an evaluation point of view, this constitutes a unique opportunity as it allows for the capturing of change relative to a pre-intervention situation without any prior donor involvement. DEval was asked to accompany this process with the aim of better incorporating evaluative thinking and impact orientation in the planning phase of the new interventions and creating the necessary preconditions for measuring impact.

This baseline study is one first step in the implementation of an impact evaluation of the German–Myanmar Programme on Sustainable Economic Development. It will serve as a basis for comparison of observed changes over time, and measure whether these changes can be attributed wholly, or at least partly, to the interventions of the programme. At the same time, it presents an important compilation of data on the current situation in the Myanmar economic sector, especially with respect to the programme's main focal areas: the private sector, the financial sector, vocational education and quality infrastructure. It may thus also be relevant for further work and decisions to be made by partners and donors working in related fields.

The final impact evaluation will address the question of measuring impact at the level of a complex and multifaceted country programme. A theory-driven approach was chosen, firstly by developing results models at programme and project level. On this basis, information needs were derived and a mix of quantitative and qualitative data-collection instruments developed within a longitudinal design. The application of a longitudinal design is considered the most appropriate in order to adequately address and react to likely adjustments and changes in the country programme. While data on core information needs and indicators will be available from the first round of data collection, instruments may be complemented and adjusted during follow-up studies to generate data relevant to additional future indicators or activity areas of the programme. Moreover, the mixed-methods approach chosen for data collection allowed for data triangulation and thus helped to obtain a comprehensive and reliable picture of the situation

at hand. It was possible to better interpret quantitative findings from the DEval SME Survey, or to understand results within a broader context by contrasting them with information from expert interviews or recent secondary data. Furthermore, the triangulation of different methods showed differences between, for example, experts and SME owners regarding the awareness of problems. This indicates the areas where target groups might yet lack awareness or acceptance of changes and reforms proposed by experts and donors, which is relevant for those implementing the projects.

### *Conclusions with regard to the German programme approach*

With regard to the overall programme level, it can be concluded that the different intervention areas are all major pillars necessary to sustainable economic development in Myanmar. It is thus considered useful to plan and implement the different projects from the outset under the umbrella of one joint programme. Nonetheless, in order to achieve the identified joint overarching objectives, a lot of attention needs to be invested in adequately coordinating the different projects and making sure that they are all indeed moving in the same direction. Working with one harmonized approach to develop a common results model proved to be a useful tool for coordinated and coherent planning for the whole programme. It will, however, be essential to further advance and develop these results models when new core information, such as monitoring data, becomes accessible or when new programming decisions are to be made.

With the presented data, it could also be confirmed that SMEs, the main target group for the overall programme, are the engine of economic development in Myanmar. Even though different data sources indicate different shares, it is beyond doubt that SMEs make up the overwhelming majority of the private sector in Myanmar. As a result, the regulatory framework, as well as reforms in various economically relevant policy areas, have to take into consideration the needs and demands of SMEs. In other words, a healthy and growing private sector as a catalyst for economic development will only be achieved when SMEs are adequately included and targeted by support measures. For the different intervention areas of the German–Myanmar programme, it is thus important to acknowledge that SMEs will be amongst the main users of business-development services: they will make up a significant share of clients requesting

financial services, they will be the future employers for many TVET graduates, and with increasing regional and international competition it will be products of and services provided by SMEs that need to comply with international quality standards.

#### *Private-sector development*

Recent strategy papers and adopted laws and regulations indicate that GoM is clearly directing a lot of attention to private-sector strengthening and to SME development in particular. The obtained data shows that the majority of SMEs in Myanmar are small, with fewer than 50, and often even fewer than 10, employees. Even though the newly adopted national definition for SMEs does not foresee a separate category for micro-enterprises, this information is essential for the establishment of support schemes by the government and donors. The adopted definition of SMEs is seen as problematic by several scholars, as its complexity might, on the one hand, impede the generation of statistics and could, on the other hand, create problems in adequately targeting support schemes. Whether such scepticism is appropriate remain to be seen, though, as it largely depends on how things transpire in the future.

With its tradition of a few, very large, state-owned enterprises, the current system is not yet prepared to sufficiently support the high number of SMEs that make up the majority of private-sector enterprises in the country. As a result, capacity development on all levels will be crucial. Findings clearly showed that key actors at the policy level suffer from a lack of human and technical capacities. Furthermore, coordination between the relevant actors at policy and meso levels and private actors still constitutes a serious challenge. The data underline the importance of project activities in supporting the formulation of laws and regulations, together with the establishment of cooperation mechanisms between governmental actors and also between the public and private sector. In this context, it will be important to ensure adequate private-sector representation. It was further pointed out that business and sector associations, including UMFCCI as the largest national business association, are not yet in a position to act as core private-sector representatives and are even less able to speak for SMEs, which are barely included in such networks. Interventions should thus bear in mind that associations or other networks need to be

strengthened to make sure that the perspective of the private sector is represented at the policy level.

Aside from recently adopted laws, GoM has already started a few other initiatives with the aim of promoting economic, and especially industrial, development, for example by the creation of IZs since the 1990s and of future SEZs. Both are certainly interesting concepts, where targeted support of the PSD project will surely be able to contribute to the successful implementation or revision of it.

At different points it could be seen that experts and other studies had a much more sceptical or problematic perception of some essential aspect of the business environment, as compared to surveyed SME representatives. In this regard, SMEs perceive the current regulatory framework as rather positive, and also expect to benefit from changing future market conditions, whereas experts rather focus on deficits, structural weaknesses as compared to other countries, and anticipated future competition that is associated with full participation in the AEC. It is to be expected that such information and the consequences of such developments can hardly be estimated by SME representatives, who have mostly operated in isolation from the international market during the last decades. However, these findings indicate that SMEs look positively into the future and expect the government to work in their favour. It will thus not only be of major importance to show that private firms will indeed benefit from the reform process with regard to promoting economic growth, but also with regard to building trust and improving public-private cooperation. Despite the positive overall assessment of the framework by SME representatives, when asked about major business obstacles some problems did become evident, especially the importance of qualifications and vocational education for workers. The policy agenda should take into consideration these concerns of SMEs.

#### *Financial Sector Development*

If reform efforts yield results, SMEs will increasingly need and demand financial services. However, the financial sector is not yet fully functioning, and the formal sector only provides a few financial services to SMEs. To change this, comprehensive reform of the financial sector are necessary, with CBM as one core actor. Even though revision of the regulatory framework

is urgently needed, CBM is itself struggling with considerable capacity problems. The project thus needs to support CBM in doing both at the same time: bringing about major reforms to revise and modernize the financial sector and enabling CBM to independently create and enforce such a framework. Experts agree that CBM is not yet in a position to fully guide these processes, and that it is the responsibility of donors and other involved stakeholders to coordinate their own work and support measures.

Another key component of the project is to strengthen the banking sector, which is actually in charge of developing and providing financial services to SMEs, but banking staff need help to understand the changing regulatory framework and to comply with it. Expert feedback and self-assessments by banking staff indicate that the banking sector is also facing serious capacity problems. Nonetheless, experts emphasize that there are great variations between banks and some already have rather good preconditions, accompanied by the willingness to invest human and financial resources into capacity development and further professionalization. The approach of the project, which is to work with some banks and to provide training for other interested banks in the hope of a certain spill-over effect, might thus work, at least for the better-equipped banks.

However, taking into consideration the revisions of the regulatory framework, and the needed level of capacity development of CBM and other actors in the fields of auditing, reporting and commercial banks, it seems unrealistic that banks will be able to assign considerable capacities to attracting SMEs as a growing potential group of clients and to developing and providing a range of financial services tailored towards their needs in the near future. Moreover, a large share of the SMEs surveyed is not yet regularly interacting with a bank. The majority still rely on informal sources. Those who do have relations with a bank are satisfied with their services, but at the same time only use very simple financial services. Even though many firms signalled an increased need for financial services in the future and would also be interested in testing new services from formal sources once available, it is questionable when such services will indeed be available for most of these enterprises. Nonetheless, experts also pointed out that there are generally major and very comprehensive reforms underway in all areas and sectors. Many

countries already needed much more time to draft and adopt the number of reforms that Myanmar has introduced over the last few years. The government and donors will only be able to take one step at a time, and certain processes will take quite some time until they are sufficiently implemented and show results.

#### *Vocational education and training*

When looking at the data and other existing studies, the problem of unskilled labour is generally highlighted by all sources. Experts agree that the quality of the overall education system, including TVET, is insufficient. Vocational education is, on the one hand, currently not able to train students to meet the needs of the labour market, and on the other hand its coverage – the number of graduates produced – is far from sufficient to meet the estimated demands of the labour market. Again, the approach of the projects to support TVET institutions in upgrading vocational education both quantitatively and qualitatively can only be supported by the obtained data. On the policy level, the first laws have been adopted, but many important complementary regulations are still underway or outstanding. It is also unclear what kind of overall TVET system is anticipated by the government and seen as most appropriate for Myanmar. Such a strategic decision would simplify the adoption of a costed, country-wide sector plan, but it would also help in coordinating donor activities. Moreover, the issues of job matching and skills development, as laid down in the Employment and Skills Development Law (Pyidaungsu Hluttaw, 2013b) are of major importance to increase school-to-work transition and the overall quality of vocational education. The NSSA, as a rather new institution in charge of skills development, standardization and accreditation, surely has a key task within this reform process and will require a lot of support and capacity development. Both the competitiveness of workers and the competitiveness of SMEs recruiting these workers will strongly depend on appropriate skills development.

The conceptualization of the TVET system as a whole, and of single training courses, should be guided by the needs of the economy. In the near future, an increasing number of international companies will enter Myanmar and look for qualified staff. If schools and certificates are not reliable and accredited, in compliance with international standards, staff will be recruited



elsewhere, which will also become much easier with the free movement of workers that will be one consequence of opening up to ASEAN. At the same time, SMEs will be affected by stronger competition through these new firms and imported products. As a result, they will also be pressured to keep up with these developments. Again, SMEs do not seem to be too aware of these future risks and developments. While surveyed SMEs do confirm that it is rather difficult to recruit new workers, the overall qualification of workers and graduates is considered sufficient. This suggests that interventions should also bear in mind information or awareness-raising campaigns to better inform business owners about the TVET system and new developments. Otherwise, it might be too late for many firms to react to the rapidly increasing requirements and competition.

#### *Quality Infrastructure*

With increasing competition, not only will the issue of skilled labour become more pressing, but so will the quality standards of many products. In the past, too little attention was given to ensuring and scrutinizing the quality of locally produced items. As a result, not only are the regulations and standards insufficient, but so is the infrastructure, and there is, in particular, a shortage of laboratories (government or private) able to test and certify local products in compliance with international

standards. At the moment, only a few SMEs are exporting their goods; most use national trading channels, and therefore do not yet see any need for quality certification and quality management requirements. Presumably, this will change with Myanmar's membership of the AEC, but at the moment, only a very few Myanmar enterprises are able to seek international quality certification for their products or services. Receiving certification through neighbouring countries is possible but very expensive and thus not affordable for SMEs. With increasing imports from other countries and interest in exports, it is thus imperative to establish a proper quality infrastructure system when supporting SME development.



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# ANNEXES



## Annex I: Additional Information on Data Collection Instruments

The following provides more details about the different data-collection activities that took place or are still planned.

### Small and Medium Enterprise Survey

#### Objectives

Data on the business environment and conditions of SMEs in Myanmar was scarce<sup>38</sup> at the beginning of implementation of the German–Myanmar Programme on Sustainable Economic Development. After developing the projects' results models, indicator tables have been derived that pose some general and some project-specific questions regarding the framework conditions for SMEs, for example information on obstacles in starting or expanding a business, access to financial and development support services, challenges in recruiting qualified staff, etc. The DEval SME Survey, as one instrument of the conducted baseline study, provides specific quantitative information to inform indicators for all three intervention areas. Its aim was to gather information on the current conditions of SMEs in Myanmar in potential economic hubs as well as observable changes after the projects have been implemented. The surveyed cities have been selected in such a way that economic areas where the projects are operating can be captured. Moreover, additional areas with economic growth potential but no planned interventions were included in order to provide information about changes on the macro and policy level that aim to improve the overall business environment in the country.

#### Type of Instrument

Quantitative, standardized questionnaire

#### Design and Approach

The survey is designed as a panel study. It is planned to repeat it in a few years, including the same representatives from the

same enterprises. Where the person has left the enterprise, his or her successor will be interviewed.

Due to the lack of a complete register of firms, it was decided not to draw the sample from any existing registries. Instead, a two-step approach was chosen, with the first phase of the survey being a compilation of a complete list of firms in selected areas. During the listing of firms, a so-called block-screening approach was used in order to construct the sampling frame. The idea of the block-screening approach is that enumerators are deployed to one block in an area of a city that has a high density of SMEs. All establishments that resemble a business are then screened and a short screening questionnaire is applied. This questionnaire collected basic information about the firm which was then used to generate the sampling frame of SMEs. Due to delays in receiving all necessary permissions for data collection, the block-screening was conducted successively in all cities<sup>39</sup> between spring and autumn 2014. In total, 5,908 SMEs were included in this first step of the block-screening approach (see Table 2).

In the second step, firms were randomly selected to be included in the survey. The exact number of firms in each township was informed by the lists of firms from the first phase. According to the proportion of firms falling into different (economic) sectors, location (inside or outside industrial zones), and category in terms of firm size (micro, small or medium), a stratified sample was drawn. Due to the small number of medium firms, all medium enterprises found during the firm listing were included in the sample. In addition, substitute firms were selected in case of non-response.<sup>40</sup>

In total 2,519 SMEs have been surveyed. The following table shows the sample distribution per city:

<sup>38</sup> In the meantime several donors and research institutions addressed the problem of missing data and conducted surveys and studies that are helpful in understanding Myanmar as a re-emerging partner country, and its economy in particular (e.g., ADB, ERIA, ILO, OECD and World Bank).

<sup>39</sup> The SME Survey was conducted in eleven cities, namely Lashio, Monywa, Sagaing, Mandalay, Taunggyi, Mawlamyine, Kale, Bago, Yangon, Patheingyi, and Pyaw. The cities were selected on the basis of the following criteria: representation of the socio-economic and ethnic composition of the country, representation of the sectoral distribution of firms in Myanmar, growth potential, high concentration of SMEs.

<sup>40</sup> Where representatives from SMEs could not be interviewed, they were replaced by another enterprise from the same sector (services or manufacturing) as well as from the same location (inside or outside industrial zones). As all medium enterprises found during the firm listing were included in the sample, they had to be replaced by small enterprises in case of non-response.



**Table 2: Sample size per city**

City	No. of SMEs in block-screening	No. of sample SMEs	No. of SMEs included in analysis	Inhabitants per city <sup>41</sup>
Pyay, Bago Division	344	150	150	910,902
Monywa, Sagaing Division	722	200	197	757,358
Mandalay, Mandalay Division	1,346	450	428	6,165,723
Lashio, Shan State	292	150	149	621,248
Kale/Kalay, Sagaing Division	76	50	50	509,368
Taunggyi, Shan State	267	150	148	1,701,338
Sagaing, Sagaing Division	274	199	199	520,591 (district)
Mawlamyine, Mon State	89	70	69	1,232,221
Bago, Bago Division	355	200	200	1,770,785 (district)
Patheingyi, Ayeyarwady Division	178	100	100	1,630,716
Yangon, Yangon Division	1,965	800	800	7,360,703
<b>Total</b>	<b>5,908</b>	<b>2,519</b>	<b>2,490</b>	<b>23,180,953</b>

This survey is the only current Myanmar business survey that is not based on any register, but used a block-screening approach. This approach was chosen as it promised to generate an unbiased perspective of SMEs in Myanmar independent of their registration with a certain authority or membership with any sector or business association. Despite this advantage it brings about a few weaknesses that can be associated with the block-screening approach. The cities were chosen according to the criteria laid out above. Within those cities the blocks with most economic activities were selected. The data presented in this report thus only gives a good overview of SMEs in areas with higher economic activity throughout Myanmar. It is neither representative for Myanmar nor for individual cities, which also applied to other existing surveys. However, our approach was chosen to provide a better picture, closer to reality than approaches where samples are drawn from registers compiled by authorities or associations, which may only include certain types or groups of businesses.

#### *Implementation of the Survey*

The questionnaire was developed on the basis of project indicators (see above) and in close collaboration with the project teams.

The survey was implemented in cooperation with the consortium of Mekong Economics Ltd. (MKE) and L Sein Tun Associates Co. Ltd. (SRCS) as locally based partner. A coordinator on behalf of MKE was responsible for general coordination and administration processes. An MKE auditor reviewed all completed questionnaires for errors and conferred with the survey and data entry team if necessary.

Implementation and data entry was provided by an SRCS team consisting of a team leader who acted as contact person for all survey teams and led the permission processes with local authorities during the block-screening and survey process. In total, there were four survey teams, including one survey manager and four to five enumerators, which allowed for data collection in up to four cities at a time. Moreover, a database manager was in charge of ensuring flawlessness, and worked with an additional team based in Yangon that was responsible for timely data entry.

During the whole process of survey preparation and survey implementation, strong emphasis was put on gathering high-quality data. DEval was closely involved in every step, organized enumerator training and prepared a comprehensive enumerator manual that was used during data collection. A highly qualified

<sup>41</sup> Most recent data published by the Department of Population - MIP, 2015. For Yangon and Mandalay only numbers on district and regional level are available. The numbers were not used to construct a sample size per city, but are included as reference to gain a better understanding of overall city sizes.

team was selected for the implementation of the survey. They were supported and supervised by team leaders and DEval staff during data collection and possessed excellent knowledge of the questionnaire before going to the field. Back translations of the instruments further ensured the prevention and elimination of mistakes and misinterpretation. Moreover, random checks of completed questionnaires by the survey supervisors and double data entry were mechanisms to ensure quality of the data collected. Data analysis was done by DEval.

The process of seeking permissions and conducting the block-screening dragged on as numerous authorities needed to be identified and to grant permissions and mainly took place in 2014. After pre-tests of the questionnaire were conducted in November 2014, data collection took place between December 2014 and March 2015. Survey results were published in a separate SME Survey Report in August 2015. The exact timing of follow-up surveys still needs to be determined.

## Expert Panel

### Objectives

The overall objective of the Expert Panel is to establish a group of knowledgeable and experienced experts who were consulted at the different stages of the projects' implementation (particularly at the beginning and end of implementation). Expert knowledge and assessment is particularly valuable in a country like Myanmar that has been isolated for decades and where reliable data are scarce. The Expert Panel serves to provide data on the macro (political, system) and meso (institutional) level in the private, financial and vocational education sector. It is to shed light on the overall socio-economic framework conditions that will affect and be affected by the interventions and their impacts. Thus, it also facilitates identifying the manifold cause-and-effect relationships between the interventions and their environment and by doing so to validate the underlying theories of change of the projects from an independent perspective. Interviews specifically aimed at gathering information on the respondents' observations and assessments of change, and causes of change, with respect to the framework conditions for SMEs regarding business environment, access to financial services, changes in the regulatory and supervisory framework within the financial sector, and of the capacities of the central bank in guiding and steering these processes: the qualification

needs, changes in the TVET system, requirements and practices regarding quality management etc.

In the long term the overall objective of the Expert Panel can be summarized as twofold: It seeks to:

- identify the changes occurring in the system (i.e. macro, policy) and institutional level during project implementation, and to assess the contribution of the projects to these changes (and vice versa)
- validate the results obtained by other data-collection instruments applied during the baseline and throughout project implementation by providing further information for data triangulation.

### Type of Instrument

Qualitative, semi-structured interviews

### Design and Approach

The study is designed as panel. All experts agreed also to participate in follow-up interviews. In cases where someone is no longer available, their successor will be included as replacement.

The panel consists of 59 experts who are familiar with the relevant institutions and policy fields addressed by the German-Myanmar Programme on Sustainable Economic Development. Whenever possible or appropriate, they have also been interviewed on their perspective regarding the other respective intervention areas. Usually, one expert per listed institution/department has been interviewed. This table only lists experts in their main area of expertise.

For each intervention area, experts were assigned to three categories, which were defined as follows:

- "Direct" experts: Experts from partner organizations which directly benefit from the interventions.
- "Indirect" experts: Experts with expertise in one of the intervention areas who work for an organization, institution or company that indirectly benefits from the interventions.
- "Independent" experts: Academics, journalists or entrepreneurs with expertise in at least one of the intervention

areas, but who do not personally benefit or work for an organization that benefits from the interventions.

In order to receive a more independent assessment, the number of experts for each category and intervention areas was to be as balanced as possible. It was most difficult to identify fully independent, but knowledgeable experts but, nonetheless, a minimum of three independent experts could still be identified for each intervention area.

Experts were identified, in cooperation with the project teams, through internet research and using the snowball principle i.e. experts were asked also to suggest further relevant experts with designated expertise in at least one of the intervention areas.

#### *Implementation of the Survey*

Interview guides were developed on the basis of results models, project indicators and in cooperation with the project teams. At the time the expert interviews were organized the project on quality infrastructure had been commissioned. As a result, interviews on this topic could be organized to gather qualitative data on this intervention area.

All interviews were conducted by Miriam Amine and Dr Stefan Silvestrini during three visits to Myanmar in December 2014, March/April 2014 and February 2015.

First follow-up interviews in the financial sector will be conducted in late 2016. The other follow-up interviews are planned for 2017 onwards.

### **Banks Survey**

#### *Objective*

The purpose of the banking study was to assess whether changes in the regulatory and supervisory framework did indeed facilitate the expansion of financial services by SMEs. Therefore, staff of Myanmar banks was asked about their assessment and familiarity with the regulatory framework in the financial sector, whether possible obstacles exist regarding the expansion of their banks' SME portfolio, the extent to which reforms have been perceived as easing requirements to establish customer

relations with SMEs, and whether banks have reacted by offering specific financial services for them.

#### *Type of Instrument*

Quantitative, standardized questionnaire

#### *Design and Approach*

The survey is designed as a panel. The same bank representatives are to be included in all follow-up surveys. In case they are not available anymore, the successor will be included as replacement.

Respondents of the questionnaire are leading and management staff from all banks that participated in GIZ training. In cases where a bank was not represented, the management staff of the loan department or, if it existed, the SME finance department was contacted to complete the survey. In total, staff from 56 banks participated. 35 completed the survey after the training and 21 were asked to do so afterwards.

#### *Implementation of the Survey*

The questionnaire was developed in close cooperation between DEval and the GIZ team working on financial sector development. Data collection was also ensured by the GIZ project team. The first round of data collection took place after a GIZ training in May 2014. The questionnaire was distributed to all participants after the training. Representatives of banks who could not attend the training were then contacted shortly after.

Data analysis as presented in this report was done by DEval.

As there were not many relevant reforms and changes regarding SME finance, the survey was not repeated in 2015. The next round of data collection is planned for 2016, after the banking law has been passed.

### Additionally planned data-collection activities

#### Pilot Banks' Customer Survey

<b>Objectives</b>	So far, financial services from banks have hardly targeted SMEs. SME customers of pilot banks will thus be asked regarding their knowledge, source of information and experience with pilot banks. Some complementary questions on knowledge about the existence of financial services from banks were placed in the DEval SME Survey in order to gather information from SMEs who had not yet tried or succeeded in applying for financial services from banks (see above).
<b>Data Sources</b>	SME customers of pilot banks
<b>Instrument</b>	(Semi-)standardized questionnaire
<b>Design</b>	Cross sectional
<b>Timing</b>	At the beginning of the cooperation there were very limited financial products for SMEs available. Moreover, banks have not systematically monitored and documented what kind of financial service is required and provided to what type of customer. It was thus not possible to determine which customers were SMEs. Data collection will take place once SME-specific financial services have been introduced in the project's pilot banks. The best timing for the first round of interviews needs to be agreed upon with the project team.
<b>Status of Implementation</b>	The scope of the survey will depend on the number of SME customers the pilot banks work with until end of the project. It might be conducted in cooperation with a national partner.

#### Graduate Survey/Tracer Study

<b>Objectives</b>	A major aspect of cooperation in the field of vocational education is to cooperate with the ITC Sinte and other TVET institutions under the Ministry of Education with the aim of improving training programmes both qualitatively and quantitatively. It is thus of general relevance for the projects, and also the responsible ministry and training institution, how graduates assess the relevance and quality of their programme after graduation, how long it took them to find adequate employment, and whether acquired skills and certificates are helpful.
<b>Data Sources</b>	Graduates of supported TVET institutions
<b>Instrument</b>	Standardized questionnaire (+ possibly complementary qualitative interviews)
<b>Design</b>	Cross-sectional cohort comparison
<b>Timing</b>	So far, only cooperation with ITC Sinte has started and the other schools are still to be determined. Tracer studies should not only be conducted as part of the cooperation, but should be used as a regular instrument by schools to trace the employment prospects of their graduates. Accordingly, schools should be supported in collecting and analysing such data themselves. Some schools may be collecting certain information already and might only be interested in updating the questionnaire or receiving support on how to better collect and analyse the data. This support will be provided by GIZ as part of the TVET project. DEval will provide support in reviewing and improving questionnaires used for data collection. A decision on the timing and scope of the graduate survey will be made once all schools are selected.
<b>Status of Implementation</b>	Implementation should be done by the TVET schools themselves. Support will most likely be provided by GIZ in the first year.

### Teacher Survey

<b>Objectives</b>	Another major component in the field of TVET aims at teacher capacity development. Different training and other capacity development measures will be provided to TVET teachers throughout the country. The survey will try to find out where teachers see their strength and weaknesses, what kind of education they received, where they have obtained training in the past and whether it was beneficial, and also asked where they would like to receive further training.
<b>Data Sources</b>	TVET teachers throughout Myanmar
<b>Instrument</b>	Standardized questionnaire
<b>Design</b>	Panel
<b>Timing</b>	Early 2016
<b>Status of Implementation</b>	GIZ will start offering training in late 2015/early 2016. Moreover, the Ministry of Education sees teacher capacity development as one priority area in the field of TVET. Currently, there are around 2,000 TVET teachers in Myanmar. Ideally, all teachers attending GIZ training will receive the questionnaire as part of this training. Moreover, MoE will forward it to the other TVET schools and request their teachers to participate in the survey. The questionnaire will be developed in cooperation with DEval.

### Employer Survey

<b>Objectives</b>	In order to assess whether qualifications of TVET graduates respond to the needs of employers, the perspective from the private sector also needs to be captured. Thus, the Employer Survey will be addressed at enterprises that cooperate with the selected TVET institutions (e.g. for internships) and/or hired respective graduates. Employers will be asked for an assessment of the qualification of the graduates, the TVET system and remaining qualification needs. Complementary questions were also included in the DEval SME Survey.
<b>Data Sources</b>	Enterprises which employ graduates from TVET institutions that receive support by GIZ and KfW and/or cooperate with any of those TVET institutions
<b>Instrument</b>	Standardized questionnaire (and possibly some complementary qualitative interviews)
<b>Design</b>	Cross sectional
<b>Timing</b>	To be determined.
<b>Status of Implementation</b>	Data collection will be done by GIZ once all schools are selected. DEval will support in developing the questionnaire and be responsible for data analysis.

### SME Survey in the agricultural sector in focal areas

<b>Objectives</b>	One activity area of the PSD project provides business support to farmers and SMEs in Shan State. Cooperation first started in the fields of tea and mango and will steadily be extended to tourism as well. Even though data on these sectors is very scarce and relevant, data collection in rural areas in Shan State turned out to be extremely difficult due to the tense security situation, which would only have allowed for limited participation and quality assurance by DEval, and difficulties in finding a strong and qualified local partner for data collection. Accordingly, implementing such a survey would have been very resource intensive and insecure. It would have been disproportionate to the benefits of such a baseline survey, which is why it was cancelled.
<b>Data Sources</b>	SMEs and farmers in Shan State
<b>Instrument</b>	(Semi-)standardized questionnaire
<b>Design</b>	Panel (same enterprises, same representatives; in cases where the person has left, the person in the same position will be interviewed)
<b>Timing</b>	--
<b>Status of Implementation</b>	Cancelled.

## Annex II: Classification for Small, Medium and Large Enterprises

Table 3: Proposed classifications for small, medium and large enterprises under the SME Development Law				
	Categories	No. of Employees	Capital Investment (MMK in million)	Turn-over of previous year (MMK in million)
1	<b>Small</b>			
(a)	Manufacturing sector	≤ 50	≤ 500	
(b)	Labour-intensive / piecework business	≤ 300	≤ 500	
(c)	Wholesale businesses	≤ 30		≤ 100
(d)	Retail businesses	≤ 30		≤ 50
(e)	Service businesses	≤ 30		≤ 100
(f)	Other businesses	≤ 30		≤ 50
2	<b>Medium</b>			
(a)	Manufacturing sector	51 - 300	501 - 1,000	
(b)	Labour-intensive / piecework businesses	301 - 600	501 - 1,000	
(c)	Wholesale businesses	31 - 60		101 - 300
(d)	Retail businesses	31 - 60		51 - 100
(e)	Servicing businesses	31 - 100		101 - 200
(f)	Other businesses	31 - 60		51 - 100

Source: Department of SME Development, SME Development Law

### Annex III: Training offered by Department of SME Development

Table 4: Training offered by Department of SME Development			
Name of Training	Batch	Date	Participants
SME Entrepreneurship Training Programme	1.	15.07.2013-18.07.2013	64 SME entrepreneurs and staff of Department of SME Development
	2.	30.07.2013-02.08.2013	46 SME entrepreneurs
	3.	13.08.2013-16.08.2013	59 SME entrepreneurs
	4.	27.08.2013-30.08.2013	79 SME entrepreneurs
Training of Trainers (ToT) for SME Branches Training		08.09.2014-11.09.2014	11 participants from Department of SME Development, Directorate of Industrial Supervision and Inspection and 5 participants from Myanmar Entrepreneurs Development Association (MEDA)
Leadership and Effective Career Skills Training		29.09.2014-01.10.2014	32 participants from the branches of Directorate of Industrial Supervision and Inspection offices
Cluster Development Awareness Training		06.04.2015-29.09.2015	75 participants from SMEs enterprises, organizations and staff from Department of SME Development
Understanding Intellectual Property & Consumer Protection Training		30.03.2015-03.04.2015	60 participants from SME enterprises and organizations
Seminar on Metal Cutting Tools		27.04.2015	40 participants from governmental department organizations and SME entrepreneurs
Entrepreneurship Training, 7 modules		28.3.2015-6.9.2015	20 participants from SME enterprises, organizations and staff from Department of SMEs Development

Source: Department of SME Development





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