This report was funded by the DaNa Facility and Cordaid, and prepared by the Centre for Inclusive Development Partnerships (CIDP).

About CIDP
The CIDP is an innovative not-for-profit dialogue and policy advocacy initiative. Founded in 2017, CIDP aims to facilitate inclusive, sustainable gains in Myanmar’s national dialogue, governance and economic development processes. CIDP has been working with Micro, Small, and Medium Enterprise (MSMEs) in Myanmar at multiple levels, particularly in conflict affected areas. CIDP’s MSME initiative goal is to create an enabling and inclusive economic environment in conflict affected areas through the creation of MSME platforms that can foster dialogue and trust-building among communities, thus supporting collective efforts for democratic transition and reconciliation processes in the country.

CIDP’s Areas of Focus are SME Support, Inclusive Peacebuilding, Policy Advisory Services, and Public Private Partnerships & Coordination.

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About the DaNa Facility
The DaNa Facility is an innovative £25 million private sector development programme funded by the UK Government’s Department for International Development (DFID) and managed by DAI Europe and KPMG. The programme runs from May 2016 to December 2020, supporting inclusive and responsible economic growth by working with government, businesses, and stakeholders through a combination of grants and technical assistance.

About Cordaid
Cordaid strives to fight poverty in the world’s most fragile and conflict-affected areas. We deliver innovative solutions to complex problems by emphasizing sustainability and performance in projects that tackle health, education, economic opportunity, security and justice, relief, and resilience. Cordaid is deeply rooted in Dutch society, with more than 300,000 private donors. We are a founding member of Caritas Internationals.

Cordaid’s portfolio in Myanmar includes urban and rural resilience, humanitarian aid, and private sector development, with operations in Yangon and 4 states/regions.

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ABBREVIATIONS AND GLOSSARY

CSO  Civil Society Organisation
DICA  Directorate of Investment and Company Administration
DRC  Danish Refugee Council
EDNA  Entrepreneurship Development Network Asia
GDP  Gross Domestic Product
IDP  Internally Displaced Person
INGO  International Non-Government Organisation
JST  Joint Strategy Team
KBC  Kachin Baptist Convention
KDNG  Kachin Development Networking Group
KIA  Kachin Independence Army
KIO  Kachin Independence Organisation
KMSS  Karuna Mission Social Solidarity/Caritas Myanmar
LIFT  Livelihoods and Food Security Fund
MAP  Making Access Possible
NGO  Non-Government Organisation
RBF  Responsible Business Fund
SME  Small and Medium-Sized Enterprise
UK  United Kingdom
UN  United Nations
WFP  World Food Programme

Figure 1: Map of Kachin State

EXECUTIVE SUMMARY

The purpose of this study is to help donors, humanitarian and development practitioners, local enterprises, and other stakeholders improve their understanding of private sector development in Kachin State.

Kachin is at a pivotal point in its development. In response to increased foreign investment and the changing Myanmar economy, businesses are attempting to transition from extractive practices to more sustainable business models. At the same time, development and community groups have shown interest in supporting responsible business development to provide new solutions and help communities negatively impacted by persistent conflict.

The study analyses data from surveys of 225 small and medium-sized enterprises (SMEs) and 80 firms owned by internally displaced persons (IDPs), along with additional information from focus group discussions and interviews with other key stakeholders in Myitkyina, Waingmaw, Bhamo, Mohyin, and Putao.

Findings from the study identify five key challenges for SMEs:

- An over-reliance on Chinese buyers and a lack of diversified market access
- A lack of equipment and technical skills needed to process raw materials
- Access to finance
- Sourcing quality raw materials at affordable prices
- Human resources and occupational health and safety

The study identified four key challenges for IDP SMEs:

- Accessing raw materials for business use
- Access to finance
- The need for longer-term programmes to provide sustained support for enterprises
- Better access to market linkages

In addition, the study highlights two sectors—agribusiness and textiles—that have the strongest potential for transformative and inclusive growth, examines their challenges and opportunities, and looks at several SMEs operating in these sectors. The final section outlines recommendations for developing programmes to support enterprise development in Kachin and identifies three different roles:

1. **Supporters** providing funding and programme support directly to SMEs and IDP enterprises through a mix of direct grant support for capital expenses and product development, technical assistance, and other forms of business development.

2. **Facilitators** bringing together donors, service providers, SMEs and other groups to share opportunities, research, and build networks to overcome shared constraints.

3. **Connectors** creating connections between Kachin SMEs and IDP enterprises and actors outside Kachin to build expertise and market connections and bring experts to Kachin.

Programme-specific recommendations are given for each role, with possible options ranging from:

- Grant-funded capital assistance
- Funding for SME and IDP integration programmes
- Investment readiness programmes
- Events to promote Kachin products and branding

Key cross-cutting recommendations for programme interventions include:

- Focusing on high-potential products and people that can create a profitable and sustainable business
- Embracing market-oriented design that encourages market testing, feedback, and redesign when funding enterprise development
- Empowering women in business as core to programming given the critical role women workers and business owners leaders play in their communities

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*The term SME in this document also refers to micro-businesses and informal businesses*
1. INTRODUCTION AND OVERVIEW

This study aims to provide a better understanding of the current circumstances of micro, small and medium-sized enterprises (SMEs) in Kachin State, including enterprises run by internally displaced people (IDPs), as well as the challenges they face. Previous studies on interventions to support livelihoods in Kachin have emphasised the need to take a longer-term, more market-focused approach. In line with this approach, this report seeks to identify opportunities to develop inclusive private sector programming interventions.

The study includes both a comprehensive ecosystem mapping and the identification of potential interventions that could support inclusive private sector development and sustainable livelihoods in Kachin. (The methodology is described in detail in Annex A: Methodology and Scope.) The research process included:

- A desk review of existing reports and resources on livelihood and development opportunities
- Collection of quantitative and qualitative data on 225 SMEs, as well as firms run by 80 IDPs living in 15 camps
- Interviews with more than 100 business leaders, government officials, and representatives of civil society and non-governmental organisations
- Ten roundtable sessions/focus group meetings
- An analysis of the broader ecosystem of SME support and identification with potential for inclusive and responsible growth
- An examination of challenges, opportunities, strengths, and weaknesses
- A detailed discussion of agribusiness and textiles as sectors with potential for scalable impact with examples of successful firms

Based on the data and analysis, recommendations are provided that are intended for a diverse cross-section of actors with an interest in supporting the development of inclusive business and more sustainable approaches to livelihood development in Kachin. The hope is that the study will support the development of interventions that are adaptive and context driven, sustainable, and effective.

2. KACHIN STATE: THE CONTEXT

Kachin State is located at the northern tip of Myanmar, sharing a border with India to the northwest and China to the northeast. The northern part of the state is mountainous with Hkakabo Razi, at 5,889 metres, the highest peak in Southeast Asia. The state is the second largest by area in Myanmar but is one of the most sparsely settled with a population of about 1.7 million. Only 36% of the population live in urban areas.

Kachin is divided into 4 districts, with Myitkyina in the centre, Putao in the north, Mohnin in the west, and Bhamo in the south. The city of Myitkyina, with a total metropolitan population of about 306,000, is the state capital. Kachin is home to a number of ethnic groups. The term Kachin refers to a multilingual group of different ethnicities that have traditionally inhabited the state. There are also Burmese, Gurkha, Punjabi, and Chinese communities.

The history of armed conflict in Kachin between the Kachin Independence Army (KIA) and the Myanmar armed forces (known as the Tatmadaw) dates from the 1960s. The breakdown of a 17-year ceasefire in 2011 gave way to the most recent iteration of conflict and hostilities between the KIA, Tatmadaw and, at times, smaller militias and armed groups have left many thousands in a state of protracted displacement.

While the KIA has been pushed back in recent years, it maintains territory in many parts of the state, especially in traditionally pro-Kachin areas. The KIA and the headquarters of its political wing, the Kachin Independence Organisation (KIO), are based in Laiza where the KIA still holds several pockets of territory. Laiza is located in the southeastern part of the state bordering China’s Yunnan province.

Fighting between the KIA and the military was particularly heavy in 2017–2018 in areas such as Tanai and Injangyang and led to further waves of displacement. However, the intensity of the conflict in 2019 has been relatively low. Still, any prospect of peace remains elusive with the constant potential for a resumption of armed conflict coupled with insecurity due to forced conscription, landmines, and unexploded ordnance.

2.1. INTERNAL DISPLACEMENT AND DISCUSSION OF RETURNS

The conflict has led to multiple waves of displacement over the past 8 years, placing significant strain on local service providers. A network of 9 civil society organizations—known as the Joint Strategy Team (JST)—largely leads the humanitarian response, either funded by or in partnership with donors, international non-governmental organisations (INGOs), and UN agencies. With most IDPs taking refuge on Baptist or Catholic church lands, the majority of humanitarian action is led either by the Kachin Baptist Convention (KBC) or Karuna Mission Social Solidarity (KMSS), both of which are JST members.

The most recent reporting by the UN Office for the Coordination of Humanitarian Affairs estimates that about 106,000 IDPs remain in both government-controlled areas and

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* See also: Myanmar Information Management Unit, Kachin. Accessed 25 November 2019 at https://themimu.info/states_regions/kachin
* The Karuna Mission Social Solidarity is also known as Myanmar Caritas
nongovernment-controlled areas, with most of the camps clustered in the Myitkyina, Waingmaw, Hpakant, and Bhamo areas. Some IDPs have been living in camps for 8–9 years, with others arriving more recently. Reporting by organisations such as the International Crisis Group have noted a “growing impetus for returns and resettlement” caused by increasing restrictions in the camps coupled with reduced material support. Limited income opportunities have led to risky and illegal migration. Additionally, concerns that IDPs could lose their land of origin because of changes in existing land laws including the 2018 Vacant, Fallow and Virgin Land Law have prompted many IDPs to try to return to their land despite security concerns. Formal return projects have now started with 200 IDPs transported to Nam San Yan Village in Waingmaw on 5 March 2019. While the potential for return brings hope to Kachin IDPs with over 80% wishing to return home, there is still great uncertainty over when this could happen and whether conditions are conducive for safe return. Recent reporting by Frontier raises concerns over this first attempt in March 2019, noting that several local and international groups are sceptical about the safety and support for IDPs upon return. Limited livelihood opportunities coupled with a lack of basic support once community members transition from donor-supported IDP camps make the prospect of return difficult.

2.2. KACHIN ECONOMIC OVERVIEW

The conflict has been fuelled in part by economic factors. Kachin is rich in natural resources including jade, gold, amber, and other valuable commodities. Reporting by groups such as Global Witness on jade and the Kachin Development Networking Group on gold and amber highlight the detrimental roles that extractive industries play in the region. These reports detail how men travel to mine sites to work and how profit from the mines either leaves the state or goes to politically connected figures. The reports expose the links between extractives, militarisation, and drug abuse. The distribution of income from these natural resources will likely continue to be a key point of dispute for some time to come. While the natural resources sector is important, an estimated 64% of people living outside cities derive their income from agriculture. Crops vary from staple commodities such as rice, corn, and potatoes to avocados, pineapples, and bananas. In mountainous and remote areas, many communities practice taungya, where farmers travel to mountainous plots to intercrop different vegetables, fruits, and spices for family use and sale. Crops can include vegetables such as wild corn and wild rice and more high-value crops such as spices. The practice is often combined with shifting cultivation, where community members shift between different cultivation areas. In cities, the economy has diversified with a number of SMEs providing various offerings, including car repairs, education, beauty services, and food and beverage services. In cities such as Myitkyina there has been a recent boom in hotel construction; however, hopes that the tourism sector would grow rapidly over the past 4 years have not been realised due to government restrictions on travel by foreigners and concerns about conflict and security. Most value-added production occurs in urban areas with the most value addition generated from gems and jewellery, textiles, traditional clothing, handicrafts, and food products for local markets. Most of the Kachin-based value addition from extractives focuses on amber, with most goods produced just north of Myitkyina by small household vendors or by SMEs belonging to the Gems and Jewellery Entrepreneurs Association. Throughout Myitkyina and other urban centres, several companies and informal weaving groups produce textiles for local sale and export. Kachin textile designs are popular throughout Myanmar and have a market among the Kachin diaspora in neighbouring countries.

2.3. KACHIN TRADE LINKAGES

Trade, especially with China, plays a critical role in the Kachin economy, with shipping routes running south along the Myitkyina–Mandalay highway or east through the Kanpyitkye gate into Yunnan. When shipping to Mandalay or Yangon, most goods are shipped to shipping companies or logistics groups on the east coast of Myanmar or Hpa-an. Trade to China from Myitkyina–Waingmaw generally moves through the Kanpyitkye gate and Tenchong, through the Lwejel gate in Bhamo, or smaller unregulated border crossings. In 2019, China accelerated plans to upgrade the Kanpyitkye gate and build a huge special economic zone at Namjiun, 25 kilometres northwest of Myitkyina, as part of the One Belt–One Road Initiative. The Chinese government has announced plans to invest $400 million and build nearly 500 factories in Namjiun with the long-term goal to promote cross border trade and improve infrastructure through north western Kachin.

Kachin exports include corn, rice, fruit, timber, stone, and minerals and most are largely unprocessed. Exports of some agricultural products, such as bananas and watermelon, have drawn controversy over the last few years for their high use of chemicals and the negative impact on soil health. By some estimates, tissue-culture banana plantations use as much as 12% of all agricultural land in Kachin. Imports to Kachin typically consist of vegetables, processed food products, and Chinese consumer goods.

2.4. CHANGING ECONOMY

As the Myanmar economy grows and becomes more interlinked with China and ASEAN, there has been increasing interest from Kachin SMEs as well as development actors who...
to develop and scale local products that can have a positive impact on communities by transitioning away from an economy almost wholly reliant on raw materials and extractives. But while conflict and displacement are among the biggest economic challenges, other problems include high rates of drug use, HIV/AIDS, limited education opportunities, and the migration of skilled workers to larger cities like Yangon. Understanding the SME landscape and the challenges they face is paramount to unlocking new opportunities for inclusive growth.

3. BACKGROUND AND RATIONALE

Over the past 5 years, several studies have examined the challenges, gaps, and opportunities for promoting livelihoods and small business growth in both Kachin and in Myanmar more broadly. These reports all highlight the need to take a longer-term market-oriented approach targeting the development of innovative and inclusive SMEs.

The Asia Foundation’s Myanmar Business Environment Index, funded by the DaNa Facility, ranks Kachin within the normal ranges for many indicators and gives above-average rankings for land documentation and power access. Kachin does well on transparency and the issue of favouritism in policy-making but scores poorly on law and order and on crime and security—only 1.3% of respondents describe the security situation as good. The state also ranks poorly on entry costs.69

The Making Access Possible (MAP) Refresh Diagnostic on Financial Inclusion in Myanmar, conducted by the UN Capital Development Fund and FinMark Trust, includes information on financial inclusion in Kachin showing that: 70

- 47% of Kachin households are involved in farming. Of these households, 32% are dependent on savings for their farming inputs, 23% borrow money from the state-owned Myanmar Agriculture Development Bank (MADB) and 13% claim not to use any inputs.
- Most residents are still unbanked with formal financial access ranking below the national average, although banking access is slightly higher at 28% than the national average of 25%. In 2018, 44% of households had formal access compared to the national average of 48%. Formal financial access is driven mainly by credit from the MADB (21%), in line with the national average, microfinance institutions (MFIs), and formal remittance channels.
- The use of informal financial products in Kachin stands at 51%, compared to the national figure of 50%, largely driven by borrowing from money lenders, village savings groups, and informal funeral funds and solidarity systems typically organised through churches. Some 19% of Kachin adults belong to informal groups compared to the national average of 12%.

- At 26%, Kachin has a higher proportion of adults dependent solely on informal financial mechanisms compared to the national average of 22%. Only 26% of adults use only one formal product with 18% using 2 or 3 regulated products.
- Only 32% of households have a bank account at a formal financial institution but that is 8% higher than the national average.

The MAP Diagnostic highlights the need for providing startups and young businesses with access to risk capital, which it says would be better than credit for “longer-term, more investment-oriented equity capital.”71

As one might expect, a 2019 study published by the Inter-Cluster Sector Coordination Group found that gender imbalances in the economy are commonplace and that women’s wages are lower across multiple forms of labour. Also, household work is underpaid and undervalued.72

Many of the Kachin studies have focused on humanitarian interventions with IDPs and host communities, documenting the numerous challenges faced in helping IDPs develop more sustainable and transformative livelihoods.

A 2017 study by the Danish Refugee Council found that the “majority of livelihood interventions lacked income generation and market-oriented approaches” and noted that future projects would require a shift to longer-term interventions to incorporate market and income analysis to ensure sustainability after project financing ends.73 Without this additional investment and mentoring support, IDPs will not be able to reach self-reliance, the report said.

In October 2018, a report published by the Humanitarian Assistance and Resilience Programme Facility noted that short-term humanitarian assistance has not promoted IDP self-reliance or sustainable livelihoods and was not helping IDPs integrate into local job markets. The report underlined the importance of long-term livelihood assistance, particularly in agriculture, so that IDPs receive the support needed for self-reliance and long-term resettlement.74

This concern was discussed in a call for proposals by the Livelihoods and Food Security Fund (LIFT) in 2018: “The employment and income opportunities for IDPs are dependent on where they are located, the economic situation of host communities, and resources available, especially land for agriculture.”75

Data from the Market Research Report prepared by the Danish Refugee Council (DRC) found that men who are internally displaced typically farm on leased land, return to their farms at harvest time, work in extractive sectors, or migrate to China to work in low skilled jobs.76 Similarly, the KMSS Early Recovery Assessment noted that 24% of IDP respondents in government-controlled areas and 13% of respondents in areas not under government

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73 Danish Refugee Council (2017), Market research and alternative livelihoods options for Internally Displaced Persons (IDPs) in Kachin and Northern Shan State.


76 DRC (2017), ‘Market research and alternative livelihoods options for Internally Displaced Persons (IDPs) in Kachin and Northern Shan State.’
control intermittently returned to their land to cultivate crops. Some IDPs work for Chinese-owned farms but earn wages that are only about half the average rate for casual labour compared to other industries in some cases, particularly with women.

Before they were displaced, men and women were generally involved in agriculture, growing field crops as well as fruit, nuts, and spices. The call for proposals said that when designing programmes and long-term income strategies to support IDPs and host communities, the local situation and local actors must be properly taken into account.

The LiFt call described various development projects such as basket weaving and soap making, and noted that, “These efforts are, at times, promising but have been unable to reach the scale needed to fill the significant gap in livelihood opportunities.” Further building on the results of the studies mentioned above, LiFt noted that few of the projects had any effect on job creation or the creation of sustainable businesses, a failure it said was primarily because of a lack of initiatives such as market assessments, skills training, startup kits, funding, and training in financial literacy and business planning.

Common themes from these studies include:

- Current livelihood approaches in Kachin are often too limited in duration and lack access to sufficient support services required to create income for IDPs and local communities after grant funding ends
- Longer-term interventions are needed that work with IDPs to gradually build the skills they require to run a business and support themselves
- In addition to training and possible financial support, livelihood development programmes must provide a wide range of technical assistance covering issues such as market development and startup assistance
- Livelihood options would be more effective if integrated with SMEs and existing job markets
- Many projects struggle to find ways to connect private sector actors to development outcomes, especially in the case of assistance to IDPs

Taken together, these studies identify various ways to create stable and long-term livelihood opportunities and enterprises for IDPs in camps and for host communities.

4. SURVEY ANALYSIS: KACHIN SMEs

The SME survey data covered 225 businesses and was supplemented by roundtable discussions as well as interviews with key stakeholders.

4.1. SME SECTOR BREAKDOWN

Food and drink were by far the largest sector involving SMEs and is a broad category covering bakeries, restaurants, food and drink production, and the preparation of medicinal herbs and purified water. Agriculture was the second largest and covers agricultural production as well as farm inputs. Agricultural SMEs primarily sold unprocessed commodities and do not perform value-added operations. The clothing sector covered textile production, tailoring, footwear and related products. The wood and bamboo sector covers not only furniture but wood handicrafts. Transportation covers vehicle repairs, transportation, travel and tours, and other shipping services. Jewellery production and work with semi-precious stones such as amber is classified under minerals. Chemical businesses were composed only of rubber businesses.

4.2. SME DEMOGRAPHICS

Survey responses showed that most business owners are above the age of 40, with the smallest number between 18–30 years of age. Those aged 45–55 were split between genders, with slightly more men represented. But the number of women may be overstated because a large number of SMEs surveyed were in the clothing sector, which is largely dominated by women.

Figure 3: Age and Gender

Figure 2: Business Types of SMEs Surveyed

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*UN Women (January 24, 2019), ‘Gender Profile for Humanitarian Action, and across the Humanitarian-Peace-Development Nexus’

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4.3. WOMEN IN BUSINESS

To better understand gender dynamics in each business type, we compared male versus female ownership for business types where there were 6 or more respondents.

Some sectors such as hotels or food and drink showed relatively even gender distributions, while sectors such as clothing and agriculture showed expected differences between women and men. Further analysis showed some businesses were largely male dominated—5 out of 6 bakeries and all 7 electronic shops were run by men. Conversely, the textile sector was entirely run by women. Women generally created designs, provided labour, and owned the businesses.

Interviews with SME owners and other stakeholders indicated that while some respondents were supportive of women-run business, others viewed some businesses as being more or less appropriate for women. Some stakeholders also said women could not work full-time as they have household duties or are more vulnerable to security threats.

4.4. COMPANY CHARACTERISTICS

When registering their businesses, most owners preferred single proprietorships, where one person owns the business and takes responsibility for it. While 64% of SMEs were registered with the government, only 29% belonged to such business associations as the Kachin State Chambers of Commerce and Industry or the Myanmar Fruit and Vegetable Producers Association.

Among those SMEs that answered questions on their financial status, 41% had incomes of less than 500,000 MMK (US$330) per month and only 7% earned more than 25 million MMK (US$16,500) per month. Nearly all the companies would qualify as small enterprises under the 2015 SME Development Law, which defines small enterprises as those with under 500 million MMK (US$330,000) in capital or less than 50–100 million MMK (US$33,000–US$66,000) in annual turnover.

SMEs were asked to estimate their average monthly income for the previous year and to give a current estimate of company assets. Some SMEs did not answer because they were unable to estimate revenues or assets. Others were concerned about sharing information with a common concern being that if they reported their revenues or assets, the government would target them for taxes.

Figure 4: Major SME Business Types by Gender

![Figure 4: Major SME Business Types by Gender](image)

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**Table 1: Business Age and Revenues**

<table>
<thead>
<tr>
<th>How old is your business?</th>
<th>SME Estimated Monthly Income</th>
<th>Estimated Company Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 1 Year</td>
<td>17%</td>
<td>15.6%</td>
</tr>
<tr>
<td>1-2 Years</td>
<td>23%</td>
<td>24.9%</td>
</tr>
<tr>
<td>2-3 Years</td>
<td>23%</td>
<td>20.0%</td>
</tr>
<tr>
<td>4-5 Years</td>
<td>17%</td>
<td>17.8%</td>
</tr>
<tr>
<td>11-20 Years</td>
<td>20%</td>
<td>23.1%</td>
</tr>
<tr>
<td>20+ Years</td>
<td>23%</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

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4.5. EMPLOYMENT

Most SMEs reported fewer than 10 employees, but many declined to answer, either because they did not have any employees or possibly because they did not understand the question. Most SMEs (46%) reported no change in employee numbers over the previous 12 months. Businesses with 21-50 employees typically include large restaurants and hotels that require a large number of employees, with some working in poorly paid or part-time jobs, and some working in higher-level management positions.

SMEs with more than 51 employees were largely in the construction, water, agriculture or hospital sectors, where there are large numbers of part-time labourers. For example, the 2 agricultural SMEs with over 50 employees grew soybeans and watermelons and hired part-time workers during harvest. Starlight Water Purification was the largest employer with more than 100 staff in a variety of distribution roles.

Employment quality varies, with some businesses such as hotels trying to encourage human resource development, while others, such as plantations, hire large numbers of seasonal workers. Most SMEs struggle to generate enough stable revenue to hire more than 5 employees, and in cases where business did expand, SME owners noted problems with management and human resource issues.

4.6. SALES CHANNELS AND PROMOTION METHODS

Only 6.7% of firms traded beyond the state and only 3.6% had foreign sales. Almost all the firms selling outside the state were involved in agriculture or value-added agribusiness, although a few were involved in weaving and construction. Promotion methods relied primarily on word-of-mouth, especially for smaller businesses without the budget or knowledge to run marketing campaigns. Stakeholder interviews and roundtable discussions showed a clear desire by firms to increase sales of quality Kachin products to other parts of the country and eventually start exporting. And many businesses said that while they believed that Kachin could become a successful exporter because of its strong product line-up, firms often lack technical assistance, business knowledge, and the ability to reach new markets.
4.7 SME BANKING AND FINANCE

Figure 10 shows SME responses about access to finance and loan size. While 44% of SMEs reported having a bank account, only a minority had applied for or received a loan. Where loans were reported, they were generally small, with 65% of respondents saying they had applied for loans under 15 million MMK (US$9,900). Some 14% reported securing loans greater than 50 million MMK (US$33,000).

When asked to describe their financing options, many smaller firms said they could not legally borrow 10 million MMK (US$6,600) or more through bank SME programmes or microfinance organisations due to collateral restrictions. Owners described how firms that have access to immovable collateral could borrow more easily than those firms without. This is in line with 2017 data showing that 82% of investments by SMEs were financed with their own capital.\textsuperscript{31}

\begin{figure}[h]
\centering
\includegraphics[width=0.8\textwidth]{figure10.png}
\caption{SME Access to Finance}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=0.8\textwidth]{figure11.png}
\caption{Future Financial Needs}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=0.8\textwidth]{figure12.png}
\caption{Business Challenges}
\end{figure}


4.8 KEY CHALLENGES AND CONSTRAINTS

SMEs were asked to rate their financial needs over the next 3-5 years on a scale of 1 (strongly decreasing financial need) and 7 (strongly increasing financial need). Most owners (54%) said their needs would generally increase with 20% expecting strong growth in financial needs. But the largest single group at 27% indicated that their financial needs were unlikely to change.

As indicated in Figure 12 above, SMEs reported occupational health hazards as the most critical challenge, followed by regulations, access to raw materials, and the poor quality of raw materials.\textsuperscript{32}

\textsuperscript{32} SMEs were asked to identify the three most difficult challenges currently affecting their businesses and rate these challenges between most critical (blue) and moderate challenges (grey).

Occupational health hazards ranged from safety during construction to pesticide and chemical use in plantation agriculture, as well as concerns about driving on poorly maintained roads with heavy truck traffic, especially in resource areas. Issues around tools and equipment reflected the need for better processing equipment, particularly for packaging, food processing, weaving, and production systems.

Overall, when all the categories were combined, financial needs were identified as the biggest challenge, followed by the poor quality of raw materials, electricity, and accessing tools and equipment. Challenges around raw materials included procuring specialty goods, as most have to be ordered from Yangon, Mandalay, or China. There are also local issues with unprocessed commodities such as quality control, seasonal supply, and a lack of storage options. The regulation issue includes a perception that foreign businesses have an advantage accessing land and a concern about paying border taxes for cheap imported goods. The category of Other Challenges included such issues as conflict and increased competition.

For larger-scale producers and manufacturers, further discussions highlighted transportation and access to quality raw materials as key challenges especially in the agriculture and food production sectors. These firms said conflict and poor infrastructure meant high costs for transporting raw materials and limited quality control, especially
when dealing with brokers. Service-focused industries such as textiles noted longstanding challenges with finding and training workers and keeping them motivated.

As noted in Figure 13 above, financing dominated the list of constraints to growth with 70% of SMEs reporting it as an issue.84 However, internet connectivity, unreliable power supplies, and unreliable workers were considered the most critical constraints. Key stakeholder interviews echoed these findings and many entrepreneurs reported that they relied on informal sources of finance such as personal funds or support from family or friends to finance growth.

Several SMEs noted the interlinked nature of challenges and reiterated the importance of access to resources, training and other forms of technical support in addition to funding. For example, a well-known businessman discussed how he could finance expansion himself but does not know how to access the experts and technical resources needed for expansion.

Finally, major traders and producers said a key constraint involves access to new markets, particularly markets that do not rely on Chinese buyers. Nearly all the 20 large-scale traders and producers that were interviewed said that reliance on Chinese markets was a key concern. They complained that cross-border traders were the key buyers for many commodities but that these traders could not be relied on to make regular yearly purchases. They also noted concerns about Chinese goods being sold below local market prices. This unpredictability in demand plus the threat of competition were cited by larger companies as reasons for not investing in expansion.

4.9. SUPPORT SERVICES AND NEEDS

As shown in Figure 14, 60-80% of respondents found some benefit in business services, with business plan development and financial literacy being the greatest needs.85 However, 30-40% of respondents said they had greatly benefited from business services when they had used such services on more than one occasion. While 52% of respondents said they have business plans, the same percentage expressed interest in further business plan development.

Owners and stakeholders noted in interviews that in some cases SMEs were unhappy with the length or depth of courses they were offered, particularly those on financial literacy. A small minority of respondents viewed professional programmes or business plan development as having little benefit, explaining that the business environment can change quickly in Kachin and that they knew how to run their businesses. Over 60% of respondents believe that business conditions will improve over the coming 5 years—only 5% believe conditions will deteriorate. This view was echoed in interviews and roundtable discussions with key business leaders where, despite concerns about foreign competition or conflict, most were positive about future business potential. The main reasons for optimism included the belief that Kachin will be able to trade with India, China, and lower Myanmar in the future, that governance and infrastructure will improve, and that a peace deal can eventually be worked out. Asked about their experience over the past 5 years, responses varied from mixed to somewhat positive, with 40% of respondents saying that conditions have improved for them.

When it comes to identifying business needs, 41% of owners said finding support services such as business development, technical support and training and market development.
5. SURVEY ANALYSIS: IDP SMEs

Throughout this section and the report, we will use the term IDP SME to describe a spectrum of activity involving IDPs and ranging from formal businesses with several employees to informal operations selling food or other products.

5.1. IDP SECTOR BREAKDOWN

Leaving aside the textile and tailoring sector, IDP businesses generally showed a relatively uniform distribution across sectors. But it may be possible that the textile sector is over-represented because it is dominated by women, and men typically work outside the IDP camps during the day and were not available when interviews were carried out. In interviews, some individuals raised concerns that if IDPs report income from outside the camp or report leaving the camp, they may lose benefits.

Most business categories reflect businesses that involve selling or performing services from a fixed location. The textile and tailoring category included weaving, dying, tailoring to fit, sales and related activities. Businesses involving amber included polishing and value-added product creation. Handicrafts included bags, bamboo products, and other goods. Livestock involved mostly pigs and fish farming.

5.2. DEMOGRAPHICS

As discussed above in section 5.1, conducting interviews during the day resulted in a high percentage of women respondents. IDP entrepreneurs were somewhat younger than their counterparts in the general SME category—40% were older than 40 compared to 51% among non-IDP business owners.

5.3. LEGAL STATUS, AGE, INCOME, AND SIZE

The vast majority of respondents (78%) reported either that their businesses were not registered with any authority or did not give an answer (5%). Some 15% reported that they have some form of formal registration with either the Township Development Committee—which typically has oversight over microenterprises or informal businesses—or another form of registration. Two per cent of respondents reported that their businesses were registered with the Camp Management Committee.

More than 70% of respondents believed that camp management was supportive. A minority (14%) had disputes over issues such as areas where they could operate. Some said meetings and training interfere with work.
Most respondents informally run their business and have no partners. The 9 that had a company registration had gone through formal channels to register as a SME.

Most enterprises have been created recently, with 47% having been in operation for less than 2 years with respondents noting that they were created based on assistance or guidance from livelihood or other programmes. However, some enterprises (11%), mostly tailoring enterprises, have been in operation for over a decade, dating back to before the conflict started. In some cases, women previously did casual work sewing or tailoring but now do it because they need to earn an income.

The few IDP enterprises with assets above 1 million MMK (US$663) mostly consist of sewing operations that have made some investment in machinery and have large inventory and large shops. There is also one large amber operation. But 42% of IDP enterprises estimated monthly incomes at 250,000 MMK (US$165) or less. Some respondents noted that business income barely if at all covered costs and that they still need food grants.

5.4. BUSINESS EMPLOYMENT

Most IDP businesses—85%—are run by the owner alone or with only one employee. This is especially the case where businesses were created based on livelihood programmes. IDP enterprises that generated higher levels of employment typically involved textiles and tailoring, agriculture, or construction and carpentry, and had several part-time workers.

One group involving textile weaving, for example, involved 19 women who work together whenever they have free time from household duties. Other examples include 2 groups of 7-8 men who do repair and carpentry work.

5.5. LOCATION

Most IDP businesses (59%) only operate inside the camp compared to 42% that have some operations outside the camp selling goods or purchasing supplies. Some 41% said they ran a similar business in their previous location, most often textiles and agriculture-related activities. If possible, 71% of respondents said that they plan to go back to their village or original home and run a similar business.

5.6. PROMOTION METHODS AND CUSTOMER BASE

A number of IDP businesses (44%) relied on camp residents as customers and that was naturally the case for the large percentage of shops that only did business inside the camp. About 19% of businesses, largely textiles and some handicrafts, sold products to shops outside the camp, while about 20% relied on non-governmental organisations, local and international, to buy their products. The Other category varied widely. During interviews, some textile producers discussed selling to tourists or selling at large events. Additionally, some producer groups sell their products house-to-house.

Most enterprises (30%) relied on word-of-mouth for advertising. About 26% promoted their business using Facebook, camp newsletters, or posters and leaflets. Interviews with some directors of livelihood programmes expressed a concern that IDP businesses will have difficulty reaching customers or new markets after their grant programmes end.
### 5.7. Banking and Finance

While only 5% of IDP enterprises have bank accounts, over 40% have applied for a bank or microfinance loan, and almost 40% have an outstanding loan. Most of the loans are for amounts less than 1.5 million MMK (US$990); only 10% are greater than 7.5 million MMK (US$4,950). Most loans came from microfinance institutions, especially those that target IDP camps, or from relatives or informal networks. But not everyone volunteered to say where the loan originated and 63% provided no information about loan size.

As can be seen from Figure 23, the reliance on development programmes or informal sources of finance can be seen in collateral requirements—83% of loans did not require collateral. Generally, almost all major SME loans require some form of collateral. These shorter-term loans seem to fit with the needs of IDP businesses, with most (64%) reporting that they require only short-term financing of less than one year. Concerns were raised in some interviews about the risks of taking longer-term loans because of the uncertain nature of camp governance and the possibility of business disruptions caused by conflict.

### 5.8. Key Challenges and Constraints

As was the case with SMEs owned by the general population, finance and access to raw materials were key issues and identified by IDP businesses as the 2 main challenges. IDP owners said they struggled to source raw materials from outside the camp or had trouble overcoming cash flow issues. Almost every business involved in producing goods had difficulty developing the connections that regular businesses rely on to source raw materials. Other key challenges included skills training, human resources development, and ways to access better tools and equipment.

Some IDP businesses reported challenges after NGO livelihood programmes ended, as they no longer had a simple way to get help in solving problems or acquiring equipment. This is in line with the DRC livelihoods study, which noted the need to provide more “in-depth skills trainings.”

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**Figure 23: Loan Particulars**

- **Length of Loan Needed by the IDP SME**
  - 3+ Years: 16%
  - 1 - 3 Years: 16%
  - Under 1 Year: 16%

- **Collateral Needed for loan**
  - Yes: 17%
  - No: 83%

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Challenges</td>
<td>6.3%</td>
</tr>
<tr>
<td>High Taxes</td>
<td>3.8%</td>
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<tr>
<td>Transportation</td>
<td>20.0%</td>
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<tr>
<td>Regulatory Framework</td>
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<td>High Price Raw Materials</td>
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<td>Bribery</td>
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<td>Occupational Health Hazards</td>
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<td>Low Product Demand</td>
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<tr>
<td>Finance</td>
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<tr>
<td>Access to Spare Parts</td>
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<td>Low Tool Quality</td>
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<td>Accessing Tools</td>
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<td>Electricity</td>
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<tr>
<td>Low Raw Material Quality</td>
<td>46.3%</td>
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<tr>
<td>Accessing Raw Materials</td>
<td>46.3%</td>
</tr>
</tbody>
</table>

**Figure 24: Business Challenges**

- **Length of Loan Needed by the IDP SME**
  - 3+ Years: 16%
  - 1 - 3 Years: 16%
  - Under 1 Year: 16%

- **Collateral Needed for loan**
  - Yes: 17%
  - No: 83%
Finance was the greatest constraint to growth and expansion for 70% of IDP businesses, followed by access to tools and equipment (54%) and access to raw materials (44%). Interviews with several camp businesses indicated that many do not grow large enough to encounter bigger problems involving power supply or transportation, as their small scale keeps activities simple. And business operators again echoed the criticism that once NGO livelihood programmes end, they face constraints in growing the business beyond the level of support they received from the programmes. The shorter-term or programmatic nature of some livelihood support programmes put a ceiling on growth prospects due to limited raw materials and financial access, they said.

5.9. SUPPORT SERVICES AND NEEDS

Most training programmes were run by KMSS, KBC, and DRC, with the Nyein Foundation also running some livelihood support programmes. Most training programmes focused on a mix of financial literacy, basic business skills, and technical skills such as weaving.

Figure 26: Support Services and Needs

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Figure 26: Support Services and Needs

5.10. FUTURE EXPECTATIONS

While most IDP businesses said business conditions were unfavourable, the majority also believe that conditions have improved over the past year. Close to 60% are optimistic that things will continue to improve over the next year.77

There was a strong sense of optimism that either the business environmental or political and security situation will improve over the course of the next year, citing factors as described below.

The biggest reason for believing that the business situation will improve is the expectation that support from NGOs, international donors, UN agencies and local civil society will increase. Although there were sceptics, some IDP businesses said they thought more support would be forthcoming because many groups came to ask questions about work and livelihoods.

Other factors behind the view that conditions might change included improving security and the possibility of livestock-raising, and amber polishing. Among those that did receive training, about 80% found it helpful.

Most business (65%) have some form of business plan, with many reporting that they worked with a training programme to learn how to create one or used a template. The need for continued business plan development and other forms of business support was a commonly cited concern.

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Figure 27: Perceptions of Business Conditions

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6. THE SME ENVIRONMENT

6.1. PLAYERS IN THE SME ECOSYSTEM

6.1.1. Government

The Ministry of Industry and its Department of Small and Medium Enterprises Development (better known as the SME Department) is one of the key central government actors for SME development in Kachin. The Directorate of Investment and Company Administration (DICA), and the Ministry of Commerce also play roles. Most SMEs have their company registration with DICA, which has an office in Myitkyina. The creation of this office has eased the process for registration over the past year and the agency plans to expand operations in the future. The SME Department is still expanding its role—it provides additional registration to food and goods producers—and is getting feedback from local producer SMEs on issues where the department could get involved. If SMEs receive an SME licence, they can apply for tax reductions and other benefits supported by the SME Department, although trade support and the provision of product permits is still limited in some cases.

The government’s Food and Drug Administration reports that it has given permits to several water companies but hasn’t done so for food producers. However, it is interested in working with SMEs to give permits and to encourage exports. Connections to laboratories for quality testing and certification are dependent on Yangon.

Government officials report difficulty in traveling to many parts of Kachin due to the conflict and poor travel conditions. Also, the lack of legal enforcement in Kachin complicates licensing and permits. Many local SMEs do not see the benefits of registration, licencing and permits; they worry that legalising their status will only lead to higher taxes. Also, few SME operators trust the Government to establish supportive policies. At the same time, several SMEs noted the need for government involvement, particularly in areas such as trade promotion and action against illegal imports, which often undercut local products.

6.1.2. Private Sector Associations

Kachin has several semi-governmental or independent associations of SMEs. Some, such as the Kachin State Chamber of Commerce and Industry, are older and more formalised, with leadership representing different business sectors. Others are sectoral, such as the Construction Entrepreneurs Association, and the Travel and Tourism Association. Overall, most associations and private sector bodies are either recently formed or loosely organised around several key players. This limits longer-term advocacy and effectiveness.

6.1.3. The Financial Sector

6.1.3.1. Banking Loans

Most major banks—including include Kanbawza, Asia Green Development Bank, Yoma, and AYA Bank—maintain offices in Myitkyina and throughout the state. They provide SME loans based on collateral—typically land or another immovable and easily valued assets. The Myanmar Agriculture Development Bank and other government programmes provide financing to farmers with land documents, with a focus mostly on rice and other staple crops. The Japan International Cooperation Agency has launched a 2-step loan programme with the local government and several banks to support SME development.

Previously, some programmes offered loans with lower collateral requirements, but banks and government agencies now typically require collateral in the form of land or buildings, which many SMEs cannot provide. While there is a strong demand for SME loans and funding available through programmes such as the 2-step loan offer—which aim to provide loans to SMEs with credit issues—these programmes are often hamstrung by internal bank processes or metrics used to evaluate the ability of an SME to repay.

6.1.3.2. Microfinance

Several organisations, such as VisionFund, KEB Hana, and church-based networks under KBC and KMSS run microfinance programmes or have supported community microcredit saving groups. Most microfinance programmes offer loans under 1 million MMK (US$660) but with strict repayment criteria. After paying back several loans, individuals or microcredit groups can apply for larger loans. Some microfinance organisations require collateral for loans greater than 10 million MMK.

Donors are also involved. For example, the United Nations Capital Development Fund has recently joined with the Ministry of Agriculture, Livestock and Irrigation and the Department of Cooperatives to increase financial inclusion. Overall, microfinance providers play a strong role in the development of SMEs but face challenges in accessing remote areas, in carrying out due diligence on borrowers, and in providing the larger amounts needed to support SME growth.

6.1.3.3. Informal Finance

Larger SMEs often rely on informal financial arrangements for startup capital or expansion, especially in cases where they do not have the collateral needed for SME loans. Such financing typically comes from family, friends, or informal lending or savings groups and can offer various forms of repayment including a percentage of profits if the business is profitable. Informal lenders also include brokers and other traders who play a large role financing SMEs and producers that deal with commodity markets.

Many producers and SMEs in remote areas or outside formal systems lack the documentation needed to get traditional bank loans and so rely on brokers or traders to provide capital. Many small traders rely on pawnshops for short-term financing, especially around festivals or when they encounter cash flow challenges. These actors play a key role in the ecosystem due to the lack of formal banking loans.

6.1.3.4. Investors and Impact Investment

Most impact investors and formal investment groups maintain operations in Yangon but have not considered projects in Kachin due to the distance, difficulty in identifying good investment opportunities, and additional risk factors.
Money Transfer Services

Many larger SMEs often maintain bank accounts at multiple banks to facilitate easier money transfers or payments—as most companies have a preferred bank, this gives an SME a level of flexibility. Mobile money systems such as Wave Money and OK Money have started to enter the market but are still not widely used by SMEs.

6.1.4. Business Development Services

Business development services in Kachin are limited compared to larger business centres such as Yangon but are nevertheless growing due to increased demand from both SMEs and the development sector for professional services. There are, for example, several accreditation and training programmes through the London Chamber of Commerce and Industry that are common across the state. In accounting, for instance, the London chamber programme provides different levels of training for company staff or aspiring accountants. Another example involves Advance, a small Myitkyina-based company that runs accounting training programmes, provides audits, and designs cloud software solutions for accounting systems. Business development firms report sales growth as more businesses are established in Myitkyina. Local SMEs noted that these services are needed and that because of a lack of skilled labour, they have to hire staff from lower Myanmar, especially for positions requiring a professional background or technical skills.

Several groups work with development partners to provide training in areas such as skills training. For example, the SME Department and the Entrepreneurship Development Network Asia (EDNA) cooperate in providing courses from the International Labour Organisation. Innovative SMEs from ethnic areas have participated in programmes run by Yangon-based accelerators such as One to Watch but these programmes tend to be Yangon-based. Other programmes such as the Don Bosco Vocational Training Centre in Myitkyina offer courses in carpentry, welding, electricity, and tailoring, among others. But Kachin’s distance from lower Myanmar and poorly developed connections between ecosystem players prevents more effective engagement between Yangon and Myitkyina groups.

6.1.5. Development Agencies

Many actors are implementing development projects with organisations such as the Metta Development Foundation, SwissAid, and LIFT to strengthen the agribusiness sector, civil society and improve market access. These programmes include a variety of approaches, including working with community forestry groups, village associations for agricultural product improvement, and providing training on agriculture best practices. Metta, for example, has a farmer field school. Other development groups such as Oxfam, KBC, and KMSS have also implemented agriculture and agribusiness development programmes to improve local value chains and provide training or inputs to farmers and farming groups.

Other donors such as the Responsible Business Fund (RBF) focus on working with established SMEs to upgrade their operations. RBF provides partial capital financing as grant funding to implement infrastructure or process upgrades to improve recycling, energy use, food safety and other responsible business practices. It has already funded one Kachin company and during its fourth call for proposals has engaged extensively in the state and received more than 50 proposals from SMEs and service providers. These programmes have been met with varying degrees of success. The lack of success has been attributed to many of the issues identified by SMEs in this study. These problems include ensuring sustainability once project funding ends, access to technical resources, purchases of equipment that are outside the scope of the grant programme, and finding ways to bring local products to different markets. Other limitations have included a lack of flexibility and an inability to respond effectively to market needs.

6.1.6. Importers And Exporters

Due to Kachin’s proximity to China, and to a lesser extent India, foreign trade plays a key role in the state’s SME ecosystem. While many commodities are traded down to Mandalay, buyers from foreign countries, especially China, drive much of the demand for agricultural commodities, often causing price fluctuations and boom and bust cycles when Chinese demand increases or decreases. SMEs and producers with family ties or stronger connections with Chinese markets typically do better, but many traders and SMEs say they must rely on Chinese demand for goods even though they cannot depend on getting the same price from year to year. At the same time, local producers raised concerns about Chinese importers flooding the market with cheaper goods.

6.1.7. Education

The Kachin education sector includes government colleges and universities as well as several private education groups recently founded by Kachins who have studied abroad and returned home. Examples of private groups include Naulshawng, the Kachinland School of Arts and Sciences, and Pinnyatagar Academy, which runs social science and English language training programmes. Many of these schools have plans to expand to teach business and social enterprise skills in the coming years. Although these programmes provide education opportunities for young people, many SME operators said there remains a perception that one must travel to Yangon or go abroad to get a good education.

6.2. PLAYER IMPACT

To better understand key players and their effect on the Kachin ecosystem, more than 20 key leaders in the knowledge, business, and community sectors were asked about their understanding of the impact of different players and their roles in the Kachin business ecosystem.

Stakeholders rated each group for its impact in terms of strength and in terms of positive or negative effect. This gives a picture of how different players fit together in the Kachin ecosystem and who the key drivers are. In Figure 34 above, the size of each actor’s circle indicates the magnitude of the impact on the economy. Blue groups are SMEs, red represents financing organisations, green represents government or semi-governmental institutions, and orange represents networks, educational groups, and service providers.

In the top right of Figure 34, innovative local companies such as Lucky Bakery, one of the largest distributors of baked goods, and Lusha Foods, which produces meat products, have the strongest and most positive impact. Groups such as the educational institutions mentioned above, business associations and social enterprises were seen as having a mostly positive effect, but with limited impact. Chinese companies, especially from outside Kachin, were seen as having a strong impact but with negative effects. Government agencies are near the centre, reflecting their changing role as they focus more on engaging the private sector and supporting local development.
6.3. A CLOSER LOOK

6.3.1. Strengths, Weaknesses, Opportunities and Threats

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>• Historical and current trading patterns with China and lower Myanmar as well as possible future trade links with India</td>
<td>• Dependency on Chinese markets, investors</td>
</tr>
<tr>
<td>• Strong Kachin-brand recognition in Myanmar and with the Kachin diaspora</td>
<td>• Border-gate markets controlled by Chinese brokers</td>
</tr>
<tr>
<td>• A significant textile industry based on history and cultural identity</td>
<td>• Lack of cooperation between business, civil society, NGOs, communities and government</td>
</tr>
<tr>
<td>• Rich agricultural region with a variety of fruits, vegetables, nuts and spices grown across different climate zones</td>
<td>• Dependency on trade in unprocessed commodities</td>
</tr>
<tr>
<td>• High-value agriculture products such as unique fruits, walnuts, cinnamon, and Kachin chilli</td>
<td></td>
</tr>
<tr>
<td>• Arable land, three-season agriculture</td>
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The following analysis of strengths, weaknesses, opportunities and threats (SWOT) of the SME environment was developed after reviewing the data collected from the survey and additional interviews.

The SWOT analysis helps highlight areas of potential such as agricultural diversity and connections between industries with export linkages, as well as areas where threats exist, especially from conflict, Chinese actors, and potential land conflicts.

6.3.2. Issues and Challenges

Optimism Reigns

Close to 60% of businesses surveyed were created after 2009, with strong growth in recent years across several sectors. Even with the possible return of conflict and low security ratings, 40% of SMEs believe the environment has improved, and over 60% expect things to improve over the next 3 years. This optimism for a better future was apparent in many of the interviews, as local Kachin development organisations and businesses believe the Kachin business environment will improve but recognise as well that support is needed.

Concerns About China And A Desire To Export

One factor that regularly surfaced during interviews was the increasing role of Chinese firms and goods in the Kachin economy. Kachin SME owners and other key stakeholders reported a strong desire to export their goods to Yangon, Thailand, and other ASEAN countries, as well as China.

Interest in Innovation

Despite the fact that the Kachin economy is based largely around extractive industries and exports of unprocessed products, particularly to China, there is a broad interest in marketing local value-added products. Such interest was particularly strong among food and beverage businesses. Business leaders, development stakeholders, and civil society leaders wish to see Kachin products developed from the state's fruits, spices, foods, textiles.
and handicrafts, and expressed a desire to try new approaches and create new products. Barriers around packaging, perishability of food products and branding need to be overcome to turn the desire for innovation into long-term inclusive growth. But the state is among the nation’s leaders when it comes to innovation—a 2017 Myanmar survey placed Kachin second when it comes to innovation.88

Financing and Risk Capital Needs
As noted, most SMEs reported self-financing for critical expansions and risk capital. Identifying SMEs that could put small to medium amounts of risk capital to good use in developing new products or in upgrading production processes could unlock significant economic potential. This would especially be the case if the capital injection were paired with targeted technical assistance to overcome SME-specific or sector challenges.

Need for an Interconnected Approach
As we have seen, the challenges and constraints to growth for SMEs are varied. SMEs in our survey have underlined the need for an integrated programme of capital assistance, funding for marketing and product development, and targeted technical assistance.

The need for an interconnected approach can also be seen in the variety of support needs. SMEs mentioned everything from help with intellectual property protection to improving perishability of packaged foodstuffs, to help with certification. SMEs strongly benefited from previous programmes such as startup support and quality management. However, many SMEs noted the need for business and product development support, particularly when startup programmes end. Any SME support programme should work closely with local partners to identify key needs and design technical assistance programmes to fit those needs.

But programmes also need to move past shorter-term group training towards longer-term accelerator models. In such programmes, SMEs can receive targeted support and mentorship over a long period of time, typically from groups that have experience helping SMEs in similar contexts.

Potential for Social Enterprises and Inclusive Business Practices
Solutions to several of the key challenges show the potential for helping SMEs become more inclusive in solving these problems. Working with local SMEs to improve their sourcing practices through value chain and community studies or improving human resource development can help SMEs pioneer inclusive practices. Several innovative SME leaders discussed their interest in using their businesses to help improve their communities by paying more stable prices to raw material producers, developing training programmes, and finding other ways to make positive impacts. However, many were not sure where to start or were concerned that spending time to implement these programmes could cut profits. Providing support to develop inclusive and responsible business practices as part of an overall assistance package would de-risk the adoption of these practices and lead to best-practice examples that could be copied by other SMEs.

Collective Action and Shared Growth
In addition to helping Kachin SMEs overcome some of the enterprise-specific issues, there are areas where shared cooperation could help SMEs solve collective problems. Examples include working with groups of SMEs to coordinate external marketing events and connections to promote Kachin products in Yangon and abroad. Other examples include facilitating permits for groups of SMEs, improving occupational safety risk, and overcoming other regulatory issues. Creating groups of SMEs receiving support would allow them to identify areas of shared interest and cooperation, further unlocking shared growth.

7. THE SME ENVIRONMENT FOR IDPs

7.1. PLAYERS IN THE SME ECOSYSTEM

7.1.1. Government
The Department of Social Welfare is the main department tasked with coordinating IDP and humanitarian projects. The Department is mandated to provide support to IDPs and help with income generation and the process of return. However, supporting programmes and their impact has been limited. At a local level, most camp administration is carried out by local camp management committees, often in partnership with donors and government entities such as Township Development Committees. In areas outside government control, the KIO provides some limited assistance programmes to IDPs.

7.1.2. The Financial Sector
Several microfinance institutions such as VisionFund provide lending services to IDPs and IDP groups. There are several different models of microfinance, with some models lending to individuals if they have a good history of repayment. Other models provide funding to groups with the group responsible for making repayments.

Development actors such as KBC and KMSS have provided support to IDP savings and loan groups in several camps. Applying for larger loans is difficult, as many IDP enterprises lack collateral and do not have access to informal financing mechanisms. Startup grants from NGOs play a critical role in initial financing, but access to these grants depends largely on the programme cycles of donors and NGOs. As with the SME sector, IDPs that engage in agricultural activities or trading typically depend on informal finance from brokers or other groups for shorter-term capital needs that may not fit with traditional microfinance programmes. Such needs might, for example, relate to shifting cultivation or harvesting plants grown in the wild.
7.1.3. Development Sector Programmes

Local and international NGOs play a central role in the IDP ecosystem and there are a wide variety of programmes. They include the Durable Peace Programme II funded by the European Union and implemented by a consortium of 7 international and national organisations including Oxfam, KBC, KMSS, Metta, and Swissaïd to establish SMEs through the provision of small grants that are typically in the range of US$1,000–US$20,000 and are coupled with business development support and training. The LEAD project is run by the JST, a group of IDP aid providers funded by LIFT. LEAD supports microenterprises owned by IDPs and host communities, with some partners such as KMSS using a training-of-trainers approach on Start Your Business and Improve Your Business modules from the International Labour Organisation. The DRC supports livelihoods through SME development and supports firms developing value-added products using amber and bamboo.

Organisations and donors such as the UN Development Programme, the World Food Programme and the Humanitarian Assistance and Resilience Programme deliver humanitarian assistance providing food and other life-saving goods and services to IDPs. Donors have also implemented cash grants with the goal of developing local business ecosystems and further developing longer-term solutions for IDP communities.

7.1.4. Religious Organisations and Civil Society

In addition to humanitarian and development organisations, there are a number of smaller civil society organisations and NGOs that work in camps in both government and non-government-controlled areas to provide livelihoods support, business training and other forms of assistance. These smaller groups often have less funds and resources but can have greater flexibility to adapt programming to fit local needs. Similarly, local churches and other religious bodies play a critical role in the day-to-day activities of many IDP communities, sometimes providing land or other resources.

7.1.5. Business Support Services

Some business training programmes such as EDNA have run programmes for IDP firms in partnership with donors. There are a variety of livelihood training and other programmes aimed at supporting business services to the larger livelihood development programmes. Other training programmes include the KLS Business Training Centre, where a variety of organisations come from Yangon to deliver short-term training. In addition to business training, there is also some support for legal services to aid IDPs in land disputes and other cases.

7.1.6. Education Sector

Most education opportunities for IDPs are provided through programmes funded by donors and run by local camp management groups or local religious organisations. Livelihood and business skills education programmes vary depending on the camp and programme. Some camps have more learning opportunities than others. Some local education institutions run small scholarship programmes for IDP students, but these programmes are typically limited due to a lack of funds.

7.2. A CLOSER LOOK

7.2.1. Strengths, Weaknesses, Opportunities and Threats

A SWOT analysis makes it clear that there is potential to develop mechanisms to stimulate the involvement of IDPs in key sectors of the local economy. Doing so will benefit local SMEs, which have access to a reliable workforce, as well as IDPs who want better and more reliable incomes. Numerous challenges need to be overcome, particularly around some of the challenges inherent to many development and livelihood programmes by donors and INGOs, as well as contextual threats such as the continuation of armed conflict.

7.2.2. Issues and Challenges

Subsistence-Level Earning

Most IDP firms reported that the income they make is barely enough to cover food and expenses; many families rely on food grants and other donations to make ends meet. Most businesses are activities carried out by individuals to make additional income. These activities can be developed into businesses with growth potential and stable earnings but doing so will require targeted programmes that can solve problems over a longer period of time. Research such as the DRC Market Research Report recommends a time frame as long as 3-plus years for livelihood programmes supporting IDP enterprises.

Access to Raw Materials and Finance

Having been displaced from their homes, IDPs running small businesses confront their biggest challenge when trying to access raw materials. Many have struggled to obtain additional inputs for their businesses and have been limited by being stuck in IDP camps, far from home. Similarly, finance, especially for cash flow, is a significant issue. IDP SMEs need assistance to meet suppliers and purchase raw materials, especially after grant programmes or livelihood support projects end.

Figure 31: SWOT Analysis of the IDP SMEs

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mix of skilled and unskilled labour</td>
<td>A lack of links to the broader business ecosystem</td>
</tr>
<tr>
<td>Good organisational support</td>
<td>The NGO livelihood project cycle is often less than 12 months and the project focus is not market based</td>
</tr>
<tr>
<td>Access to local and international NGO support programmes</td>
<td>Low value, quality and quantity of many goods</td>
</tr>
<tr>
<td>Networks and agricultural knowledge in original villages</td>
<td>Limited access to land and space</td>
</tr>
<tr>
<td>Potential to sell socially branded goods</td>
<td>Support does not reach everyone because many men are working during the day</td>
</tr>
<tr>
<td>Recognised need from donors and development organisations for longer-term business programmes</td>
<td>Low confidence and aid dependency, and a training-focused mentality</td>
</tr>
</tbody>
</table>
### Threats

- High degree of uncertainty due to the political, economic and social situation
- Support is project-based with the possibility of future reductions
- A rise in armed conflict or tension between IDPs and host communities
- Weak financial situation and family responsibilities
- Losing land and local livelihoods due to land confiscation and recent changes in the land tenure law

### Opportunities

- Potential to broaden market access
- Possibility to link with broader Myanmar business ecosystem promoting social enterprises and community products, especially from conflict areas
- Potential for group and cluster development
- Cooperation with donors and government for longer-term business approaches
- Widespread interest in providing support for the return and resettlement process if the political situation improves
- Possibility to link with broader Myanmar business ecosystem promoting social enterprises and community products, especially from conflict areas
- Potential for group and cluster development
- Cooperation with donors and government for longer-term business approaches
- Widespread interest in providing support for the return and resettlement process if the political situation improves

### Need for Longer-Term Support

If IDP firms can overcome the initial challenges of accessing raw materials and financing cash flow, they are likely to encounter additional challenges and will require longer-term support to grow sustainably.

### Additional Financing Needed

While there are a number of borrowing options for IDP businesses, additional financing is often critical for the growth of these enterprises. IDPs often have cash flow problems that come with bringing a product to market. While SME programmes can provide initial grant funding, options to continue financing for purchasing key equipment and other cash flow improvements are needed.

### Need for Expanding Products and Market Access

One of the challenges mentioned by trainers and IDP SMEs is the focus on standard training workshops that tend to produce many similar businesses without improving market access and demand. This can lead to situations where several IDP camps receive training to develop small businesses and produce, for example, products such as quince jam as a value-add product. This then leads to a saturation of quince jam in the local market if access to new markets is not supported. Product creation is sometimes viewed as the endpoint of the programme, while there is often a need to continue product development and access new markets. This problem can be compounded by the number of IDP enterprises who only do business inside their camp and struggle to link to businesses outside the camp and diversify their customer base beyond development groups and camp communities.

Groups such as the DRC have held product fairs, but linkages between camp-based business and the broader SME ecosystem are still weak. One successful example is the availability of fruit products created by IDPs through the Grace IDP Women’s Group at several Myitkyina hotels. Further expanding market access to social enterprises or improving products and working with distributors would help IDP enterprises reach scalable growth. This is echoed by studies such as the DRC Market Research Report, which notes the need to provide market access training to livelihoods staff to improve market linkages.

### Moving Past the Training Model

Several Kachin SMEs and IDP groups raised concerns over the emphasis on shorter-term training models. Some reported that the large number of short programmes run by different development groups discourages IDPs from working with longer-term programmes or with private sector partners. The perception is that there is little point to investing time in 6 or more months of skills development training if another donor will come and offer cash grants or other assistance for attending short-term training sessions. Many women, who have been the primary target of many of these training programmes, also have responsibilities in the household as primary caregivers in the family, which can limit their involvement in longer training programmes. In order to overcome these gaps, donors need to clearly develop longer-term programmes and take time to identify participants that are interested in long-term skills development.

### The Potential for SME Engagement

Several SMEs have indicated a willingness to either work with IDPs or buy raw materials from IDP producers. Development projects could take advantage of this willingness to identify SMEs with employment or sourcing potential. There is potential for this type of linkage where IDPs are involved in the textile sector or small-scale farming.

### Potential for Organising Working Groups

Most of the IDP firms with larger numbers of employees were working groups of men or women organised around common activities. Women’s groups are typically organised around textiles while men’s groups are organised around carpentry, maintenance and construction. This has allowed members to work together to take on bigger projects, and especially for women, opened part-time options because different members can take time off for household duties and other responsibilities. Working with SMEs or business development groups to integrate and support IDP groups could be a success for both, with IDP groups receiving stable incomes and SMEs getting stable workers.

### Irregular Farming

As previously noted, some IDPs return to their home villages several times during planting or harvesting season. IDPs in these cases have a strong interest in continuing traditional farming practices. With the proper linkages to SMEs and customers, there is potential to help develop stable income sources in preparation for longer-term resettlement projects and to diversify income sources. But the approach will need to be carefully designed because the situation for IDPs returning to cultivate crops varies from area to area and some may not feel comfortable reporting their activity to donors fearing they could lose assistance or support.

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**Note:** The table titled “Opportunities” and “Threats” includes the potential to link with broader Myanmar business ecosystem promoting social enterprises and community products, especially from conflict areas, and the potential for group and cluster development. However, the table is not fully visible in the provided image. The text discusses the need for longer-term support, additional financing, and the challenges faced by IDP businesses in accessing markets and expanding their product range. It highlights the importance of connecting IDPs with SMEs and longer-term business approaches, as well as the potential for group and cluster development. The text also mentions the issues of irregular farming and the need for SME engagement, particularly in the context of textile and construction work. The approach needs to be carefully designed to ensure sustainability and support for IDPs and local businesses. **DRC** refers to the “Market research and alternative livelihoods options.”
8. CONFLICT SENSITIVITY AND DO NO HARM

To ensure that support programmes have positive and inclusive impacts in Kachin, donors, implementers and other supporting groups must consider the need to be sensitive to the state's ethnic and political tensions, the role of donors and businesses in value chains and business ecosystems, and the relationships between donors, local communities and SMEs.

8.1. POLITICAL CONFLICT AND ETHNIC TENSION

Kachin is in a state of protracted crisis characterised by ongoing and sporadic conflict, unresolved political grievances, and an array of competing interests over resources. Therefore, donors and implementing partners need to understand local conflict issues and social and power dynamics as well as market conditions and the business environment. Recent demographic changes have created inter-communal tension and are changing the ethnic balance. This has also affected the local economy in terms of who controls market access—markets in some areas are now dominated by businesses in China and Yangon.

Each ethnic group has its own economic network. It is important, therefore, that SME ecosystem support is provided in ways that benefit all communities to avoid inflaming communal tensions. In the Myitkyina and Bhamo urban areas, many retail and wholesale businesses are owned by ethnic Chinese and people of Indian origin. There are also more Burmese and Shan-owned businesses than Kachin-owned businesses. As a result, Kachin businesses feel they are being pushed to one side.

However, non-Kachin groups often do not have well-functioning social institutions such as KBC and KMSS, which are seen as Kachin-dominated. It is therefore important to consult with and include other groups in the SME ecosystem. It is also important to work with businesses that have built trust among all communities.

8.1.1. Responsible Business Practices and Ecosystem Impacts

Some community members in Kachin have expressed concerns that improving the SME ecosystem may directly or indirectly encourage investment by large businesses, which could in turn have a harmful effect on local communities or the environment. If responsible practices are not followed. Additional concerns were raised that projects should avoid supporting elites and operations that provide little benefit for local communities.

When providing value chain support or networking activities, it is important to pay attention to middlemen or brokers who may be more interested in quick profit. Particularly in agriculture, any interventions linked to particular commodities must balance promoting the commodity and encouraging growers and SMEs, while at the same time controlling expectations and preventing situations where the market becomes overheated because brokers believe a development group will fund significant purchases.

Consideration must also be given to the possible negative effects of encouraging farmers to plant new crops or increase plantation size because they believe they will get higher prices. In Kachin there has been a history of these boom and bust cycles, some caused by development projects that gave training to large numbers of communities improving production and providing inputs without considering the effect on market prices of introducing new supply. In other contexts, such as lower Myanmar and Afghanistan, where large amounts of funding flowed into low-profit value chains in conflict areas, projects often created unsustainable activities and inflated local commodity prices with grant funding, only to have the local businesses close down when the funding ran out.

Also, consideration should be given to the possible negative effects when farmers start growing the same crop because they have learned that the product can fetch higher prices. This can result in large quantities at harvest that depress market prices, reduce incomes, and generate community tensions.

8.2. DONOR AND DEVELOPMENT ENGAGEMENT

Many organisations based outside the state have struggled to implement programmes grounded in the local context and even local organisations can have difficulties sustaining positive impacts in longer-term programmes. This has created some degree of fatigue and mistrust across SMEs, IDP firms, local organisations and communities and a fear that support will stop as soon as the projects end, with nothing to replace them except more short-term projects. As a result, recipients may experience “workshop fatigue” and limit the time or energy spent in workshops because they do not expect any sustainable longer-term impacts. This is especially the case for organisations based in Yangon that make only periodic trips to Kachin.

Some business owners have said that donors do not understand the state's business context or longer-term needs. They have also raised concerns that if they do participate in a programme that they can be criticised for taking money that should go to IDPs. They also worry about being blamed by the community for participating in programmes that do not have successful outcomes. This creates hesitation to work with development partners even when there is a clear mutual benefit. To overcome this challenge, donors should focus on longer-term projects and ensure that proposed outcomes are realistic.

8.3. WORKING WITH TRUSTED PARTNERS

To address the issues discussed above, donors or development partners considering private sector development programmes should spend time to identify enterprise partners that have a positive reputation in the community, a history of responsible business practices, and are interested in long-term and inclusive business growth. Supporting such partners can help develop positive relationships in the broader ecosystem and show that donor-supported business projects can have positive impacts.
9. RECOMMENDATIONS

These recommendations are intended for use by donors and other actors interested in effective private sector development and improving livelihoods in Kachin. They provide options that could be implemented as new programmes or incorporated in existing programmes.

The challenges and opportunities discussed in this report require an integrated approach from donor and development organisations to support SMEs, IDP enterprises, and inclusive business ecosystems. To create a programme that accomplishes these goals, a donor or partner organisation must have a permanent presence in Kachin and work directly with SMEs, IDP enterprises and service providers on the ground. The following recommendations are intended to support stakeholders interested in creating inclusive and transformative growth in the state.

9.1. CORE RECOMMENDATIONS

Focus on products and people with high potential: The focus of any intervention should be on firms with marketable products. Emphasis should be placed on SMEs and IDP firms that either have strong non-grant income or have a realistic plan to earn most of their income from sales.

Embracing Market-Oriented Design: Interventions must be based on researching, developing, or producing to scale products that can succeed in a competitive market. Creating innovative products requires multiple stages of market testing, feedback, and redesign. Partner SMEs or IDP firms should be encouraged to either test-market their products or gather customer feedback if their products are already on the market. Such information is critical to designing and refining a product to improve its chances of success in the market.

Women’s Empowerment: Supporting women can lead to more positive business outcomes, particularly in business sectors such as textiles and agribusiness. Working with women business owners, working groups and community coordinators can lead to more sustainable businesses, larger community impacts and a more equal society. Care should be taken when designing approaches to ensure women enterprise leaders and women’s community groups are encouraged to participate and can get equal access to benefits. Incorporating gender programming can magnify social impacts and strengthen the SMEs they support, particularly at agriculture processing firms buying from women grover’s groups and textile enterprises producing traditional Kachin designs and fabrics, which employ mostly women.

To scale success, 3 different roles are needed:

1. Supporters: Provide direct support to SMEs and IDP enterprises that have the potential to grow. Support could include direct grants for capital costs and product development, technical assistance and other forms of business development.

2. Facilitators: Bring together donors, service providers and SMEs or groups with inclusive business potential. This avoids replicating research and allows for scaling positive results through network building and pooled funding.

3. Connectors: Help create networks between SMEs and IDP enterprises and actors outside Kachin. This is key to creating sustainable and inclusive businesses that will grow over time. This could be accomplished by bringing experts or advisers to Kachin or by bringing Kachin groups to Yangon or regional SME hubs.

9.2. ACTIONABLE PROGRAMMES AND SPECIFIC EXAMPLES

Supporters—Testing New Products and Ideas

Donors should work with SMEs and IDP firms that have innovative business or product ideas. The goal would be to identify successful microbusinesses that can take advantage of opportunities by providing them with small amounts of capital to meet financing needs and connecting them to other ecosystem support actors. Working with programmes to help innovative microenterprises transition to sustainable business can build on success and help overcome the livelihoods programme gap.

Examples of possible programmes include:

- The Durable Peace Programme as noted above is helping create more than 120 IDP microenterprises. Identifying and providing further scaling assistance can help these businesses grow and overcome the challenges they face.

- Groups such as Sut Shanahan and DRC work in IDP camps to sell local products. Partnering with them to test and research new products will lead to more opportunities for IDPs producers.

- Providing risk capital to SMEs and entrepreneurs who have innovative and inclusive ideas can jumpstart businesses that would not otherwise grow due to gaps in donor support and traditional financing. Support could be provided through seed funding programmes working with groups such as One to Watch or EDNA.

Supporters—Inclusive Value Chain Analysis

Several established SMEs or growing social enterprises have shown strong interest in or are already working with IDPs and populations living in conflict areas. Supporting these groups directly or partnering with them to provide value chain analysis on sourcing raw materials will help overcome many of the problems associated with raw material challenges, and will also help develop inclusive businesses. Several SMEs and donors such as Oxfam and Kasante have already conducted value chain analyses on several commodities and have run programmes involving farmers. Results of these studies could be used to inform IDP and SME integration programmes. Value chain projects could include:

- Work with IDPs and returnees to understand the potential of generating agriculture livelihoods before and during return and after resettlement. Understanding economic and agriculture trends and issues through value chain analysis will inform future programmes with inclusive businesses.

- Work with farmer networks. One SME recently met with KMSS and organised several farmer groups in Bhamo to discuss working together to improve prices and market access for local crops, and address other challenges. Working with this group and similar networks to identify growth opportunities through in-depth value chain analysis can ensure that business development programmes are targeted and sustainable.

Supporters—IDP and SME Integration Programmes

Working with SMEs to integrate IDPs into their value chains for existing or new products either as producers or workers is key to creating stable incomes for displaced and conflict-affected communities. This would require working directly with SMEs to understand their needs and co-design training programmes with donors, SMEs, actors working with IDPs such as KMSS and KBC, and similar networks. Examples include:

- Providing risk capital to SMEs and entrepreneurs who have innovative and inclusive ideas can jumpstart businesses that would not otherwise grow due to gaps in donor support and traditional financing. Support could be provided through seed funding programmes working with groups such as One to Watch or EDNA.

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Facilitators—Business Services Fair

There are an increasing number of business service providers in Kachin. Some such as VisionFund, KEB Hana Microfinance and EDNA have donor support. Others operate as businesses. Examples include Advance as well MGL Express, which provides shipping solutions from Myitkyina to points throughout the country. Programming examples would include:

- Funding and financing fairs that bring together microfinance groups, banks providing SME finance, and other funders to meet inclusive entrepreneurs
- Business development and service events bringing together key providers offering services such as accounting support, packaging, and logistics
- Fairs and events should include brief discussions led by experienced entrepreneurs and service providers, “speed-dating” to allow entrepreneurs to meet staff from finance or service providers, and networking opportunities for entrepreneurs to identify partners and common challenges
- Marketing for fairs and events should focus on private sector engagement and specific services to avoid perceptions that these are NGO-focused events
- Organisers should work to ensure that IDP firms and similar microenterprises, including those run by women, are included and made to feel that they can benefit

Facilitators—Developing Markets and a Kachin Brand

Work with SMEs and IDP firms to promote the Kachin brand and products in Yangon and other markets is needed to help improve the perception of Kachin products. The brand would emphasise Kachin’s location in the foothills of the Himalayas and highlight the pure, unique, organic products that originate in the state. This can lead to increased sales for locally produced products such as fruits, vegetables and spices. Efforts could include:

- A programme that builds on interest in Kachin products and foods in areas such as Yangon, where Mu Ai, a Kachin restaurant, recently won Myanmore’s Food Restaurant of the Year award. It could also target Chiang Mai, home to a substantial Kachin population where SMEs report initial success building connections to sell their products.
- Aiding inclusive SMEs and IDP firms to design logos and develop branding and marketing plans, ideally in partnerships with Kachin-based groups that have already launched brands. For example, One to Watch has funded several entrepreneurs selling organic food products.

Facilitators—Donor, Investor, and Government Coordination

There is increased interest from donors and partners in developing programmes in Kachin. Key stakeholders noted a perception that donors arrive in Kachin and waste time asking the same questions. Creating a common list of contacts for inclusive development of SME and IDP firms would build confidence among Kachin recipients and help direct assistance to priority areas. Coordination efforts could connect or work with:

- Donors such as the United Kingdom’s Department for International Development and the United States Agency for International Development, which have funded multiple programmes in Kachin, with groups such as Cordaid, the DRC, and SwissAid

• Textile groups such as Hkaku and others already work with some IDPs in their production process. Programmes that identify IDPs interested in textiles and that create suitable training programmes would lead to stable jobs.
• Agribusiness producers such as Kasante, Lucky Bakery and Grace IDP Women’s Group all sell value-added agricultural products and currently work with either IDP communities or have expressed interest in doing so. Working with groups to develop programmes to support IDPs who grow or process raw materials can create stable sources of income.

Supporters—Grants for Capital Costs, Technical Assistance, and Product Development

Several key SMEs have either needed partial capital funding to purchase equipment or specific technical assistance to grow their businesses and overcome barriers. Groups such as RBF have already had success working with SMEs to provide partial equity for responsible investment projects.

Providing targeted assistance to innovative and inclusive SMEs and working with them to expand their businesses will unlock growth, build relationships and create a foundation for additional programmes to build the ecosystem.

Current grant support programmes typically have gaps in funding. For example, some livelihood programmes struggle to provide capital funding or targeted business assistance once the project ends, while others such as the RBF will not fund any civil construction or cover other business costs. Covering additional costs can allow inclusive entrepreneurs to scale their business and further develop the ecosystem.

Key areas of funding could include expanding production, improving business processes through technical assistance, or designing and testing new products.

Facilitators—Investment Readiness & Business Management

Creating events to capitalise on the increasing interest in the state and bringing together accelerators, incubators, and other impact investors would create opportunities for local SMEs and help Yangon-based groups interested in building project pipelines. Few SMEs and even fewer groups run by or working with IDPs are ready to launch profitable businesses. Working with partners to help inclusive businesses improve management and reach profitability is key to the long-term viability of the ecosystem. Programming examples include:

- Entrepreneur mentorship programmes, pairing experienced business leaders with groups building new products and businesses, drawing from the experience of accelerator programmes in Yangon
- Providing startup kits paired with intensive coaching to help entrepreneurs access the resources they need to grow their businesses
- Creating inclusive SME development programmes with partners such as the RBF or One to Watch, both of which are interested in expanding programmes in Kachin. Programmes would cover topics such as business planning, product development, quality management, and marketing.

Examples include:

- Providing targeted assistance to innovative and inclusive SMEs and working with them to expand their businesses will unlock growth, build relationships and create a foundation for additional programmes to build the ecosystem.
- Current grant support programmes typically have gaps in funding. For example, some livelihood programmes struggle to provide capital funding or targeted business assistance once the project ends, while others such as the RBF will not fund any civil construction or cover other business costs. Covering additional costs can allow inclusive entrepreneurs to scale their business and further develop the ecosystem.
- Key areas of funding could include expanding production, improving business processes through technical assistance, or designing and testing new products.
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- Creating inclusive SME development programmes with partners such as the RBF or One to Watch, both of which are interested in expanding programmes in Kachin. Programmes would cover topics such as business planning, product development, quality management, and marketing.
External donors seeking to expand programmes in Kachin such as RBF and accelerator programmes such as One to Watch and Seedstars
Private sector groups offering services to or interested in working with SME and IDP firms such as Advance or other local businesses that want to improve social impact
Donor programmes with local business coordination bodies such as the Kachin State Chambers of Commerce and Industry and other business associations
The Kachin SME Department’s 9-member committee in coordinating SME development efforts and improving the regulatory environment
DICA in activities to promote inclusive business development and improve the regulatory environment

Connectors—Identifying External Resources and Solutions
While SMEs and IDP SMEs face many unique challenges, some problems that they have identified have been addressed in similar contexts in the rest of the country and in other countries. Identifying these resources and bringing experts to Kachin can help to overcome some of the constraints. Examples include:

- Working with Phandeeyar to identify possible service providers with innovative solutions. For example, Agri-Tech is a hydroponics company based at Phandeeyar’s accelerator programme. It recently partnered with Chin agribusiness producers to develop a mobile command and control system for solar dryers.
- Groups such as One to Watch have experience working with PUM, a Dutch-based programme with an international roster of business experts, in bringing volunteers to work with innovative entrepreneurs in Myanmar. While PUM pays for the flights, insurance, visas and other expenses, local SMEs must pay for lodging, interpreters and other local costs. This is beyond the budgets of smaller SMEs. There are several similar programmes in the United States and European Union that provide targeted technical assistance.

Connectors—Study Trips for Research and Market Entry:
Funding targeted groups of entrepreneurs or individual entrepreneurs with innovative and scalable business ideas to travel to Yangon or neighbouring countries such as Thailand can lead to important technology and idea transfers. Several SMEs report success traveling to Chiang Mai and Mandalay to learn how larger producers process and package their products and reach out to new customers. Examples could include:

- Travel to see organic food and value-added product development in Mandalay and Chiang Mai
- Visits to major textile centres in Yangon and meetings with innovative Myanmar textile companies and responsible buyers
- Organising Kachin partners around events such as a Kachin Night at Parasol, a restaurant at the French Institute in Yangon, can spark interest and sales. These events could highlight IDP firms and other microenterprises that would not have the resources on their own to bring their products to Yangon.
- Preparing local SMEs to meet larger buyers such as City Mart, Metro, or international textile buyers in Yangon

10. CONCLUSIONS
Kachin is at a key moment in its development. Infrastructure is improving, foreign investment is flowing into the country, political changes are taking place. Persistent conflict in the state has created social mistrust and tensions, displaced communities, and made the business environment more difficult, particularly for those attempting to start a new business.

Supporting SMEs will help the Kachin economy, which is traditionally dependent on exporting extractives and other raw commodities, make the transition to more inclusive, responsible and sustainable local enterprises, further strengthening communities.

We know that Kachin SMEs, including those owned by IDPs, face multiple challenges and constraints. But mapping the ecosystem and listening to views of IDP owners and other key stakeholders in Kachin offers a more nuanced and comprehensive understanding of the different issues and actors that affect SMEs and IDP SMEs and helps explain their engagement or lack of engagement with government agencies, financial groups and other stakeholders.

While Kachin small businesses face significant challenges, our study indicates that there is also significant potential for SMEs and IDP SMEs to overcome barriers and grow responsibly and inclusively using innovative approaches. There is real scope for entrepreneurship in the state when so many SMEs have expressed optimism for the future. The agribusiness and textile SMEs have significant potential for transformative and inclusive economic change. The companies we profile in Annex C: SME Profiles show significant promise and provide an excellent starting point for a donor or development partner to co-create a private sector development programme. Supporting the development of these successful firms can help them grow, hire more employees, and create benefits along the value chain. Incorporating gender programming into these approaches can further magnify the positive social impacts and provide stable incomes.

Working with local partners to develop inclusive and scalable SMEs and other enterprises can aid in supporting solutions to Kachin’s diverse problems. The need for such businesses is especially important as the security environment changes and discussions continue on the possibility of return or resettlement for conflict-affected populations. With the right approach and partners, Kachin could become a model for creating inclusive development in a difficult environment, showcasing new models to the humanitarian and developmental problems affecting many parts of Myanmar.
ANNEX A: METHODOLOGY AND SCOPE

The study used a participatory research approach through roundtable and focus group discussions, as well as key stakeholder interviews. Quantitative data was collected using answers to questionnaires from SME owners and IDPs who are running businesses. Secondary research was used to supplement the findings.

The research team adopted an approach sensitive to conflict issues and the need to do no harm. This included discussing local ethnic conflict dynamics within the team before implementing activities and before setting up interviews, taking care to ensure that an inclusive range of ethnic and religious communities were consulted, and that time was made available during the process to discuss any issues that came up. This also included conducting interviews in a culturally appropriate manner that suited the local environment and minimised concerns from the government or other stakeholders. Enumerators used local ethnic languages wherever possible and were careful not to raise expectations about possible assistance for SMEs and IDP businesses.

Study Scope

SME owners, including IDPs, were the focus of the study, with separate questionnaires designed for IDPs and non-IDPs. More than 100 business leaders, men and women, as well as government officials, representatives of civil society and NGOs, both local and international, were also interviewed in the townships of Myitkyina, Waingmaw, Bhamo and Mohynin. Many of the individuals interviewed were leaders in their respective sectors or were innovative, entrepreneurial business owners. Ten roundtable or focus group meetings were held in Myitkyina, Bhamo and Mohynin, and individual meetings with business and government contacts were also help. These contacts are noted in Annex D: List of Contacts.

SMEs in Myitkyina–Waingmaw and Bhamo were selected because multiple preliminary interviews identified these towns as the most important yet accessible business centres. Survey respondents were identified in Myitkyina using the local Kachin business directory published by the Kachin State Business Pages, a local version of the yellow pages, and the SME Department’s list of registered SMEs in Kachin. The survey team made a random selection of shops and businesses based on business sectors. In Bhamo, the business directory was incomplete so businesses were identified with the support of local business leaders, farmers, NGOs and border traders. In all, 225 SME questionnaires were completed from these areas, with additional surveys from Mohynin and Putao to provide further perspective.

Questionnaires were completed from 80 IDPs from 15 IDP camps near the urban centres of Myitkyina, Waingmaw, Mohynin and Bhamo. These camps are listed in Annex G: IDP Camps Surveyed. Camps were selected based on interviews with officials and staff at KBC, KMSS, and the DRC, who recommended camps where enterprise development programmes had taken place and that were generally representative of the camp community. In each camp, the survey team attempted to collect data from 20–30% of enterprises. Survey teams encountered several challenges with data collection: most men travelled outside the camp for work and some camps were difficult to access because of government restrictions or because they were too remote.

Desk Research and Preliminary Visits

Desk research provided the team with documents and contacts in Yangon and Kachin. A visit to Myitkyina was made to brief the coordinator and some of the enumerators, as well as the social development agencies that would be involved. Interviews were conducted in Yangon with impact investors, grant providers and relevant UN agencies.

SME Questionnaires and Interviews

The questionnaire was designed to collect relevant facts about the ecosystem for SMEs and IDP-owned businesses. It included questions that would indicate actions necessary to improve the business ecosystem. The questionnaire was finalised by the team and with local coordinator in Kachin before being translated into Burmese. Data collection was done in June 2019 through field visits by the team from the Centre for Inclusive Development. Interviews were handled by a local team of enumerators.

Data Verification & Analysis

After data collection, the research team did follow-up interviews for data verification. Recommendations were developed through collaborative discussions.

ANDE Ecosystem Diagnostic Tool

The ANDE Entrepreneurial Ecosystem Diagnostic tool was used to measure entrepreneurship in the following way: "Entrepreneurship is often considered a means to specific socio-economic development goals, which suggests that there is a need to measure the level of entrepreneurship, the factors that determine these levels, and ultimately, the impact of the entrepreneurial activity. Three broad elements are important in assessing the entrepreneurial ecosystem: determinants, entrepreneurial performance, and impact. These 3 elements make sense as a starting point for ecosystem assessment."

Figure 32: Determinants

<table>
<thead>
<tr>
<th>DETERMINANTS</th>
<th>Finance</th>
<th>Business Support</th>
<th>Policy</th>
<th>Markets</th>
<th>Human Capital</th>
<th>R&amp;D</th>
<th>Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Access</td>
<td>Industry Networks</td>
<td>Tax Rates</td>
<td>Domestic Sales</td>
<td>Graduation Rates</td>
<td>Patents</td>
<td>Entrepreneurial Motivation</td>
<td></td>
</tr>
<tr>
<td>VC Access</td>
<td>Incubator/ Accelerator</td>
<td>Tax Incentive</td>
<td>International Sales</td>
<td>Quality of Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to Grants</td>
<td>Legal/ Accounting Services</td>
<td>Cost to Start Business</td>
<td>Target Market Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to Angels</td>
<td>Stocks</td>
<td>Markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ANNEX B: KACHIN’S BUSINESS POTENTIAL

Selecting Business Sectors: A Way Forward

The textile and agribusiness sectors were identified by stakeholders in the business and development communities as sectors with some of the best potential for inclusive and responsible growth.

When discussing other sectors, stakeholders noted the following challenges:

- Tourism, including ecotourism, has significant potential in Kachin, especially in the mountains north of Putao. However, government restrictions prevent foreign tourists from traveling to these areas. Travel restrictions coupled with limited infrastructure and the threat of conflict limits the scalable potential of the tourism sector for the immediate future.
- Value-added amber products show strong potential to generate incomes. The amber supply chain, however, carries several social impact concerns due to its relationship with conflict, displacement and drug use. This could also create future potential legal issues as the extractive sector undergoes reform in Myanmar. 44
- While livestock-raising presents some income potential, especially if larger-scale meat exports to China were possible, the sector would need substantial support to move past the level of providing basic livelihoods. Challenges previously encountered include managing disease, improper livestock-raising techniques, a lack of available veterinary medicines, cold-storage challenges, and legal difficulties exporting to higher-value markets.

Working with SMEs and IDP communities to produce, market and export higher-value agricultural products (especially non-perishable products) and unique textile products presents the biggest opportunities to transform Kachin from an extractive-based economy to an economy based on inclusive and responsible enterprises. Discussions with SMEs and IDP enterprises showed interest by communities and local businesses in seeing the agribusiness and textile sectors succeed and highlighted the economic and social impacts that growing these businesses can have.

The Agribusiness Sector

The agriculture sector is critical to creating inclusive growth in the state given that more than 60% of the population lives in rural areas, mostly in remote and mountainous villages. Supporting farmers and growers around cities and remote areas could lead to improved and stable incomes, sustainable growth and economic inclusion. At the same time, as IDPs discuss returning to their villages, understanding how to rebuild rural livelihoods will be key to ensuring that the return and resettlement process can succeed in the long term.

Kachin has a range of agricultural zones, with southern areas such as Mohnyin, the lowlands around Myitkyina and Waingmaw and some areas of Bhamo suitable for growing crops such as rice, corn and vegetables as well plantation agriculture for rubber, bananas and other fruit. More mountainous areas lend themselves to vegetables, spices, and crops more suited to cold weather. One SME reported exporting several tonnes of quince to China and banana plantations have exported their entire crops to Chinese traders who often own the plantations.

In addition to bulk commodities, some Kachin farmers also grow or harvest crops such as peanuts, pepper, Sichuan peppercorns, ginger, cinnamon, walnuts and other non-timber forest products, mostly from mountainous land under traditional land management systems. Some of these products are sold directly to Chinese buyers, while others are sold to Myanmar brokers, who consolidate larger quantities and ship the goods to China, Mandalay or Yangon. Unprocessed goods make up the bulk of these sales. While some communities report getting good prices year to year, other communities say they depend on brokers or have issues with quality control.

Value-added production is still minimal throughout Kachin, with most brokers shipping raw material to plants in China, Mandalay or Yangon that do further processing and packaging. In some cases, local producers are using basic packaging and processing, especially for dried quince and other fruits, or peanut and mustard oil. Some enterprises have had local success producing spices or medicinal products with basic packaging. Several of these value-added moves have resulted from livelihood development training programmes. Further development of such products could create strong possibilities for increased sales but will require a thorough understanding of market challenges.

Agribusiness Challenges

Challenges facing farmers, growers, and SMEs involved in agribusiness include fluctuating market prices, boom and bust cycles caused by demand shifts in China, land grabs, foreign investment, challenges with technology and perishability and disruptions due to conflict. These factors combine to create an environment of continual instability that retards longer-term advancement and product development.

Kachin agricultural markets suffer from the normal harvest-price fluctuations, with prices falling during peak harvest season and supply disappearing after a few months as most traders do not have enough capital or sufficient storage facilities to store goods for the full year. In addition to these yearly price cycles, demand from Chinese brokers can sometimes drive price increases or demand for a commodity, only for the market to crash in one or 2 years after the fad has passed and Chinese brokers stop buying. In addition to fluctuating demand, cheaper vegetable and egg imports from China often push down the price of local goods, as Chinese factory farms can mass produce cheaper processed food products with longer shelf life.

Land grabs and land-use changes present both short-term and long-term challenges. When farmers lose money because of the challenges discussed in this section, they often feel financial pressure to rent land to brokers who will often offer a high price per acre in upfront rental payment than the farmers could generate on their own. In other cases, brokers or businesspeople will grab large sections of land and then work with foreign investors to plant bananas or watermelons. Most of these plantations use environmentally destructive planting practices, use large amounts of pesticides, and repeatedly plant intensive crops without replenishing the soil's nitrogen content. After 2 to 4 years of using the land, the plantation owners move on and leave the owner to clean up the mess. Without better income options for farmers and better government regulations, this process is likely to continue and could have a drastic long-term environmental impact.

Local Kachin organisations are interested in developing alternatives to bananas and other intensive crops but run into other challenges. Several large agricultural SMEs and business groups such as the Kachin State Chambers of Commerce and Industry have discussed challenges in finding technology to develop non-perishable fruit and agriculture products. Large-scale plantations for fruit, rubber and other commodities are often met with losses due to weak market linkages and an inability to move perishable products to markets.
without loss. Overcoming these issues will require a mix of technical assistance, capital investment and product development to take advantage of Kachin’s agriculture potential.

The conflict creates problems for both transportation and demand. When fighting shuts down roads or border crossings, demand can briefly crash resulting in brokers and farmers not being paid. Conflict can also cause fluctuations in demand in other ways. Several food and vegetable producers and traders recounted how they often relied on high demand for foodstuffs from miners, but when the conflict erupted in mining areas in 2017, activities were disrupted and the market crashed.

The agribusiness sector faces a circular problem. Growers and businesses with land say they can bring in a good crop but cannot predict demand and find it difficult to get good prices from brokers even if they improve quality. SMEs and other producers that buy from grower communities face challenges finding working capital and predicting demand, making it difficult to commit to making large purchases at harvest. Growers face similar challenges finding buyers who will give a good price during harvest season. They often cannot afford to keep crops long after harvest and need to sell them promptly to earn money. These factors force both SMEs and growers to depend on brokers who buy large amounts during harvest time and sell at higher prices throughout the year.

These challenges, coupled with ongoing conflict, a lack of knowledge and fluctuations due to changing foreign demands, create an unstable market environment, disincentivising longer-term investments that could produce better products. There are, however, several ways to overcome these problems.

Agribusiness Opportunities

Several SMEs and other local enterprises that produce basic value-added products are interested in improving technology and production methods. These range from small IDP enterprises producing potato and banana chips to family businesses producing peanut oil or wine. Many of these producers often do not use hygienic best practices and only produce when they have orders or raw materials. Supporting technical investments, training, product development and marketing would help producers interested in innovation grow their business and help scale local demand for raw commodities. Most businesses struggle to expand because of low profit margins, the high costs of investment, and a lack of technical knowledge, making development challenging even in cases where there is local demand.

Larger SMEs are working to market unique fruits and nuts. These products present significant opportunities for value addition through the use of consumer packaging or upselling to higher-value suppliers in Yangon or abroad. A common challenge for SMEs is developing sanitary food production spaces. The Myanmar Food and Drug Administration has not given food production permits to any SMEs and most permits are issued by the SME Department. While this is not an issue if selling locally, it does prevent producers from reaching higher-value markets. Further value chain analysis on fruit, vegetable and spice products would help target support to scale up these businesses. Pairing technical assistance with capital investments to increase production and improve products and supply could help overcome these challenges.

The textiles and clothing sector

Textiles are important for employment, especially for urban residents and camp-based IDPs. There are 110 private registered businesses and 9 registered cooperatives engaged in textile manufacturing in Kachin.

Figure 33: By the Numbers: Weaving and Textile Sector

<table>
<thead>
<tr>
<th>Categories</th>
<th>Automated Machinery #s</th>
<th>Traditional Looms #s</th>
<th>Monthly Production (MMK-Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privately Owned</td>
<td>110</td>
<td>228</td>
<td>973</td>
<td>251</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>9</td>
<td>71</td>
<td>588</td>
<td>99</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
<td>299</td>
<td>1,561</td>
<td>350</td>
</tr>
</tbody>
</table>

In addition to the 119 weaving and textile businesses registered at the Microenterprise Development Department, there are another estimated 180-200 unregistered business, all working with various retailers and shops. About 5 factories operate with 80 to 100 machines, and another 30 have 20 to 40 machines, either automated or handlooms. The rest are smaller, mostly home-based, businesses. The Myanmar Artisans coordinator in Myitkyina, Hkawn Nu, estimates that 10,000 people are employed in some form in the industry.

The traditional textile industry has found success with local consumers, with buyers throughout Myanmar, and with the Kachin diaspora. Sales volumes per month have increased from 30 million MMK (US$19,800) in 2018 to 35 million MMK (US$23,100) in 2019, and sales are likely even greater given informal sales through Facebook. More than 95% of the weavers are female Burmese coming from lower Myanmar and most weaving businesses are owned by ethnic Burmese who play a strong role in keeping the weaving industry in Kachin alive. Many ethnic Kachins are involved in selling these products.

Production is centred in 2 major wards in Myitkyina, Shwe Nyaung Bin and Rambo, where almost all households are involved in weaving as small-scale home-based businesses. They supply products made not only on handlooms for womenswear but with automated machines for menswear. Smaller weaving centres can be found in other townships and in some IDP camps.

One challenge is the scarcity of skilled labour, which some limited programmes are now addressing. Some local religious and civil society organisations are providing training. Programmes such as the government-run Kachin State Weaving School and the Myanmar Artisans programme provide training for weavers on a small scale. However, there are still some challenges with training enough people, ensuring that training fits local needs, and that it connects trainees to SMEs. To recruit workers, business owners report offering advance payments.

Productivity generally depends on the skills of the weaver and the complexity of design. It can take 2 to 30 days to produce a longyi—a sheet of cloth approximately 2 metres in

44 Source: SME Department and Microenterprise Department (Cottage Industry), Interview June 2019
length and 1 metre in width that is worn around the waist running to the feet—depending on the design and the skill of the weaver. An unskilled worker can take about 3 times as long as a skilled artisan. Payment is on a per unit basis. Production costs are around half of the value of the finished product. For example, the total cost of a longyi selling at 35,000 MMK (US$23) might be 20,000 MMK (US$13) and labour would represent about half of that. Kachin designs are generally traditional and local people place great value on them. There are more than 15 types and prices range from less than about 10,000 MMK to as much as 50,000 MMK (US$330). Some businesses have started innovating by using the designs in home textiles and even as accents for dresses or shirts. Customers typically buy more in the winter, but there is seasonal demand from September to May. Shops and market stalls both in Myitkyina and Yangon’s Bogyoke Aung San market maintain large stocks of Kachin textiles.

Thread is imported and dye-houses use chemical dyes. These dye-houses dispose of their wastewater in the drains and the effluent ends up in rivers. The municipality does not try to enforce environmental rules. A textile development project implemented by Myanmar Artisans and funded by the DaNa Facility has introduced training in natural dyes at the government weaving school and there are plans to set up a natural dyeing business.

**Textile Sector Challenges**

Despite the strong and stable demand for Kachin textiles there are several challenges, including human resources, concerns over brand protection, lower-quality copies, market access, and the need to improve machinery and production processes. The key to sustained growth will involve improved training programmes and efforts to overcome these sector-specific problems.

Human resource recruitment and management is the biggest problem among existing businesses due to the scarcity of labour. Business owners sometimes complain that local Kachin workers are unreliable. Some textile SME owners say that in their experience Kachin employees have been more interested in getting involved in trading to earn higher incomes or in moving to China for work. Some owners also say that ethnic Kachins typically expect advance payment and tend to use more traditional weaving methods, which can be slower. Given those views, owners say most of their staff come from lower Myanmar and are seen as more committed and reliable in working with handlooms in their homes or in a factory.

SME owners and textile groups say working with IDP camps is also a challenge because women are not available during the day because of household duties, and this makes Kachin workers are unreliable. Some textile SME owners say that in their experience Kachin women have not responded in large enough numbers when SMEs offered training programmes. It generally takes one person to operate a loom producing traditional womenswear whereas automated machines are used to produce men’s longyi; if operators are trained, they can handle 2-3 machines at once. However, many textile business owners cannot retain trained staff and do not have good human resource systems. SME owners say there are no formal certifications for textile workers and stressed the need for a system to produce skilled workers in this labour-intensive business. But, even if businesses can upgrade to automated machines and train workers, electricity and other infrastructure problems remain an issue.

Myanmar Artisans considers consistent regard for quality as the main constraint, as it is throughout the Myanmar clothing industry. Training and coaching can help but quality control cannot solve the problem alone—workers must be aware of quality throughout the weaving process. Another common challenge is inventory control because weaving centres, shops and public markets seem to have very large stocks of finished products. Large inventories reduce working capital as businesses cannot make money until existing stock is sold.

Copying and competition are also concerns. Some SMEs say the reason that the Kachin textile industry is still booming is partly because the border trade has been closed to synthetic Chinese imports since 2015. If more Chinese firms decide to copy Kachin textile designs, they could flood the market with cheaper mass-produced textiles and displace existing products. Most textile SMEs worry that their designs will be copied by other local, Indian, or Chinese businesses who will produce cheaper and lower-quality products, driving down the perception of quality and undercutting local producers. This concern reduces interest and investment in new designs, machinery, and business development.

**Textile Opportunities**

Supporting design and innovation for Kachin textile products would increase product competitiveness and generate scale across Myanmar and foreign markets. While it is important to support infrastructure and machinery improvements—especially larger-scale looms that may have a long repayment period—helping SMEs protect their intellectual property and create trademarks is critical to scaling production.

Several SMEs reported they could expand production but need assistance in various areas to ensure programme success. The Myanmar Textile Value Chain Analysis funded by the DaNa Facility noted that imported weaving machines improve product quality and raise productivity by 20-30% but are 2-3 times more costly, limiting use by smaller SMEs.48 Improving or creating market and sales channels where none exist, or improving existing channels, could also help producers generate sustained demand and increase sales volumes. Doing so could include support for developing more systematic online marketing channels, both formal and informal, as selling through social media is a key driver, especially for younger generations. Efforts could also include incorporating new textile designs and products into trade shows or fashion events and helping local SMEs develop better market information to compete and grow in foreign markets.

While the Kachin textile industry has survived due to the popularity of the Kachin longyi and Chinese border closures, it could face future challenges if Chinese imports increase. Many producers are aware of this challenge and with proper support could form a textile association to improve productivity, reduce shared costs, and share solutions such as trademarks or other intellectual property protection. An association could also promote other support efforts such as mentorship, advisory services, and development of best practices.

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ANNEX C: SME PROFILES

The following profiles of innovative agribusiness companies highlight how different actors are creating solutions to the challenges faced by Kachin businesses.

Kasante
Kasante is a social enterprise that processes walnuts and other food products. The company works with local communities that dry the walnuts, then sell roasted and flavoured shelled walnuts in several different packs. Current product offerings include 80-gram paper bags and 100-gram plastic boxes with roasted and caramel-sesame walnut flavours. Products are sold in Kachin, Mandalay, and Yangon.

The company is in conversation with donors to build associations to coordinate walnut and spice growers in conflict-affected areas. The bulk of the company’s walnuts are sourced from Sadong and Chipwi, where many of the growers have been displaced. Kasante has plans to scale up walnut and spice production and sell its products across the country and into ASEAN markets. It plans to implement a corporate social responsibility programme to bring new technologies to walnut growers, pay more stable prices, and support student scholarships and other community programmes.

Lucky Bakery Food and Fruit Processing Centre
Lucky Bakery is one of the best-known Kachin food brands. The company was founded by Brang Mon in 1989 and has now expanded to become one of the largest food production operations in the state. Large bakeries produce breads, cakes and a variety of snacks that are distributed in stores in almost every town in the state. There are also 3 premium outlets where customers can buy pizzas, cakes and other baked goods, along with one café bakery. Brang Mon has always had a strong interest in agriculture and in March 2019 received a Good Agriculture Practice certificate for a mango plantation that exports to Thailand. He plans to build a large food processing centre that would meet international standards and produce fruit juice, jam, and other products.

Sut Shanan
Sut Shanan is involved in a variety of activities and was set up by KBC to improve agribusiness, offer money transfer services and provide market access through retail stores for IDPs and microcredit members. The group supports rice farmers, buying baskets of rice at its rice mill, built in 2016. The mill has a packing and packaging facility and sells through commercial outlets and Sut Shanan shops. It is now in discussions with donors such as RBF about upgrading the mill.

The group also runs a money transfer business with a main office and 25 agency offices that provides transfers for a 0.2% fee, targeting areas underserved by banks or other money transfer groups. In addition, Sut Shanan shops sell a variety of handicrafts, edible oils, food items and other goods provided by microcredit members and IDP groups. In the future, the group plans to set up a logistics service by purchasing trucks and partnering with farmers to improve market linkages—particularly as more IDPs return to their original villages—in the Myitkyina-Bhamo corridor.
Royal Kachin Weaving

This Myitkyina-based family business distributes high-quality Kachin traditional clothing throughout Myanmar and to some export markets. The company sells at wholesale prices to other shops and retails premium products at an outlet in Yangon. Monthly sales are greater than 10 million MMK (US$6,600) in the Yangon outlet alone. The company has more than 400 employees and has recently expanded to Thailand and other overseas markets where elements of the Kachin diaspora are located. It is currently developing online sales and has additional plans to increase marketing for Kachin traditional clothing designs.

Figure 36: Royal Kachin Weaving Packaging Displayed on Facebook

Hka Hku Traditional Kachin Weaving (Hkawn Nu)

The company was started by Hkawn Nu, who is also the Regional Coordinator of Myanmar Artisans. The company operates 33 handlooms, 5 machine looms and employs 22 weavers, members of local communities, IDPs, and people from lower Myanmar. It also employs IDPs and women who do home-based weaving. Most sales are made through a small shop in the town market, and purchases by regular customers from Yangon and China, and by buyers who appreciate the quality of her products. She makes her own designs either to custom order or from designs she finds on the Internet. The firm normally produces about 26 high-quality longyis per month, with weavers working around 8 hours a day. Revenues are 2.5 million–3 million MMK per month (US$16,500–US$19,000) and most weavers make around 200,000 MMK per month (US$130). In the future, she plans to expand her factory and has already bought land. She needs about 100 million MMK (US$66,000) to purchase 150–200 looms and plans to hire 300 people for weaving, cooking, maintenance and colour dying.

ANNEX D: LIST OF CONTACTS

Agribusiness, Food and Beverages Contacts

- Chint Lwin, Chairman of the Rice Growers Association
- Brang Mun, Lucky Bakery
- Waingmaw Wine, Yone Tan Ward, Waingmaw
- Tu Hkawng, Jubilee Coffee
- Hkalen Uma
- Star Light, Water Purification Association, c/o the Kachin State Chamber of Commerce and Industry
- Mung Ring La, Lusha Foods (herb sausage)
- Daw Too, Managing Director, Aunty Too Family Trading
- Zau Li Gam, Coffee grower and member of the Kachin Ethnic Business Association
- Kyaw Zin Oo and Mw Wei, Kyai Tai Aung Restaurant, Mohnyin

Assemblies, Associations and Chambers

- Paw Oo, Chairman of the Kachin State Chamber of Commerce and Industry
- Daw Too, Vice Chairman, Highway Freight Association
- Aung Win, Chairman of the rubber association
- Chint Lwin, Chairman of the Rice Growers’ Association
- Tu Ring Maran, Chairman, Myanmar Constructors Entrepreneurs Association
- Than Htaike Aye, Chairman of the Growers’ Association
- Ah Hpu, Chairman of the Purified Water Association
- Aung San, Chairman of the Timber Association
- Htun Nyut, Chairman of the Real Estate Association
- Kyaw Min Oo- Bhamo, Young Entrepreneurs Association
- Aung Ko, Rice, Bean, Corn, Sesame Commodity Exchange and Bhamo Region Entrepreneurs
Ah Phu, Vice Chairman of the Kachin Ethnic Entrepreneurs Association
Labang Gam Aung, Secretary General, Kachin National Consultative Assembly
Malizup Padang Zau Du, Secretary General, World Jingho Chamber of Commerce
Seng Hikum, Travel and Tours Association

Business Support Services
Khun Sa, Lawyer
La Sam Kareng, KLS Business Training Centre
Seng Tu, Account Solutions

Construction
Than Htike Aye, Asia CMI Company
Tu Ring Maran, Chairman, Myanmar Constructors Entrepreneurs Association
Building and Repair Odd Jobs, IDP Camp

Education
Nbyen Dan Hkung Awng, Director, Kachinland School of Arts and Sciences, Humanity Institute

Government Agencies
Ministry of Commerce
Ministry of Agriculture
Yamin Thant, Head of SME Department
Zaw Moe Hein, Assistant Director, Directorate of Investment and Company Administration
Khaing Win, Deputy Director, Ministry of Hotels and Tourism

INGOs/Civil Society/Investment and Grant-Making
Robert Groenen, Country Director, One to Watch, Rockstart
Ada Chai, Programme Coordinator, One to Watch
Moe Aung, Business and Social Development
Amamath Reddy, Team Leader, RBF
Hka Li, Director, KBC, Humanitarian and Development Department

Microfinance
Tat Li, Branch Manager, VisionFund Myanmar, Waingmaw, Myitkyina
Bawk Nu, Branch Manager, VisionFund Myitkyina
KBC MCU group

Other Services
Brian Powell, Freelance Consultant
Grace IDP Women’s Product (Amber Soap, Shampoos and Other Products)

Social Enterprises
Seng Ja Roi, Sut Shanan
Htonphu Nin Htay, Managing Director, Kasante Textiles
Yamin Than, Director, SME Department, Kachin State

Textiles
Aung Maung, Director-General, Small Scale Industry Department (SSID), Kachin State
SME ECOSYSTEM IN KACHIN REPORT

ANNEX E: KACHIN ECONOMIC STATISTICS

Kachin State Economic and Financial Statistics, 2018-2019 fiscal year

- GDP: 1,694,172,900,000 MMK (US$1,119,743)
- GDP Growth: 9.3%
- Estimated Total Revenue: 19,523,574,000 MMK (US$12,903,502)
- GDP per capita: 940,00 MMK (US$621)
- Other Ordinary Income: 10,711,486,000 MMK (US$7,079,312)
- TAX Revenues: 1,828,105,000 MMK (US$1,208,195)
- Tax Allocation: 5,189,983,000 MMK (US$3,429,610)
- Legislative Development Fund: 1,800,000,000 MMK (US$1,189,689)
- Total expenditures (estimate): 177,806,134,000 MMK (US$117,518,836)
- Central government transfer to cover state deficit: 158,282,560,000 MMK (US$104,614,672)
- Tax revenues per capita: 1,369 MMK (US$0.77)
- Kachin state land area: 89,042 square km
- Poverty index: 28.6
- Population (2014): 1,689,441
- Urban Population: 562,386


- Myit Zuu Tun, Headmaster, Kachin State Weaving School
- Ko Pyae Phyo Oo, Noe Tuu traditional Kachin Weaving and Auto Machines
- Cho Aye, Manaw Thway, Traditional Kachin Weaving
- Ma Nang Bang, Textile Trader, Kachin traditional wholesaler to Yangon and Online Shops
- Thazin May, Online Shop
- Ma Su Latt, Kachin Traditional Dresses and Clothes
- Hay Mahn Htun, Crafts Programme Officer, Turquoise Mountain Myanmar
- May Myanmar, Kachin Longyis, Yuzana Qtr, Myitkyina
- Hkawn Nu, Hkakku Textiles and Myanmar Artisans
- Sai Thurain Maung, Training Officer, Lutheran World Federation, Yangon
- San Thein Maung, Deputy Program Manager, Lutheran World Federation, Yangon
- Hkawn Nu, Hkakku traditional Kachin weaving and Turquoise Mountain regional coordinator

Tourism and Hospitality
- H Zau Lai, General Manager, Hotel Madira, Myitkyina
- Khaing Win, Deputy Director, Ministry of Hotels and Tourism
- Seng Hkum, Green Xingra
SWOT Analysis

STRENGTHS
• Transparency
• Favoritism in Policy

OPPORTUNITIES
Kachin State performs poorly with respect to crime, the hard data indicator in the Law and Order subindex. The ability to improve on crime prevention could lead to large improvements in governance in Kachin State, particularly since Law and Order is strongly correlated with business satisfaction and expansion.

WEAKNESSES
• Law and Order
• Entry Costs

THREATS
Kachin State performs very well on Transparency. Some other states/regions do better in terms of the survey indicators, but Kachin does much better than any other state regarding examples provided of relevant business documents and posted information at township offices. However, if performance worsens along these dimensions, Kachin will do much worse on Transparency overall.

Kachin State Economic and Financial Statistics, 2108-2019 fiscal year

<table>
<thead>
<tr>
<th>Name</th>
<th>MMK / US$</th>
<th>Share of Total Expenditures (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Institutions</td>
<td>708,04,360,000 MMK</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>US$46,797,091</td>
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<tr>
<td>Home Affairs</td>
<td>1226,964,000 MMK</td>
<td>7%</td>
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<tr>
<td></td>
<td>US$80,067,415</td>
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<tr>
<td>Agriculture, Livestock and Irrigation</td>
<td>5336,550,000 MMK</td>
<td>3%</td>
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<tr>
<td></td>
<td>US$3,526,768</td>
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<tr>
<td>Natural Resources and Environmental</td>
<td>2384,382,000 MMK</td>
<td>1%</td>
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<td>Conservation</td>
<td>US$1,576,677</td>
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<tr>
<td>Electricity and Energy</td>
<td>15060,000,000 MMK</td>
<td>8%</td>
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<tr>
<td></td>
<td>US$9,911,754</td>
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<tr>
<td>State Logistics Office</td>
<td>96,407,000 MMK</td>
<td>0%</td>
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<td></td>
<td>US$63,450</td>
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<tr>
<td>Health and Sport</td>
<td>2712,065,000 MMK</td>
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<tr>
<td></td>
<td>US$1,792,465</td>
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<tr>
<td>Planning and Budgeting</td>
<td>3380,499,000 MMK</td>
<td>2%</td>
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<td></td>
<td>US$2,233,972</td>
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<tr>
<td>Construction</td>
<td>54959,965,000 MMK</td>
<td>31%</td>
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<td>US$3,324,520</td>
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<td>Municipal Affairs</td>
<td>10864,952,000 MMK</td>
<td>6%</td>
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<td>US$7,180,436</td>
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<tr>
<td>Total</td>
<td>177,806,000,000 MMK</td>
<td>100%</td>
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<tr>
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<td>US$117,518,836</td>
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</tbody>
</table>
ANNEX G: IDP CAMPS SURVEYED

MOHNYIN
2 of 4 camps were surveyed
1. Shan Camp, Mohnyin, 71 IDPs
2. St. Patrick Catholic Church, 68 IDPs

BHAMO
5 of 8 camps were surveyed
The 5 camps hold 6,703 IDPs out of a population of 7,893 IDPs in Bhamo
1. AD-2000 Tharthana Compound, 1,059 IDPs
2. Lisu Boarding-House, 779 IDPs
3. Mu-yin Baptist Church, 55 IDPS
4. Phan Khar Kone, 783
5. Robert Church, 4,027

MYITKYINA
8 of 23 camps were surveyed, including the largest camp with more than 1,386 IDPs
The camps listed below house more than 4,500 IDPs
1. Du Kahtawng Baptist, 197 IDPs
2. Jan Mai Kawng Baptist Church, 1,313 IDPs
3. Jan Mai Kawng Catholic Church, 404 IDPs
4. Maliyang Baptist Church, 308 IDPs
5. Nan Kwai St. John Catholic Church, 316 IDPs
6. Pa Dauk Myaing (Pa La Na)-II, 1,386 IDPs
7. Pat Kone Baptist Church, 502 IDPs
8. RC Naung Pong Camp, xxx

WAINGMAW
5 of 16 camps were surveyed including 3 camps with more the 2,000 IDPs and one with 1,786 IDPs
The 5 camps cover more than 70% of the IDPs in the township
1. Hkat Cho, 449 IDPs
2. Maina AG Church, 2,064 IDPs
3. Maina Catholic Church (St. Joseph), 1,786 IDPs
4. Maina KBC (Bawng Ring), 2,787 IDPs
5. Waimaw Baptist Zonal Office, 2,350 IDPs

REFERENCES

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