

**THE IMPACT OF GOVERNMENT INTERVENTION ON THE SMALL  
RICE MILL BUSINESS IN RAKHINE STATE, MYANMAR**

By

**TunTunKhine**

**THESIS**

Submitted to

KDI School of Public Policy and Management

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Committee in charge:

Professor June Soo LEE, Supervisor

  
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Professor Chang Yong CHOI

  
Changyong Choi  
\_\_\_\_\_

Professor Ji Sun BAEK

  
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# **The Impact of Government Intervention on the Small Rice-Mill Business in Rakhaine State, Myanmar**

## **Unit 1**

### **Introduction**

Abe, Troilo, Juneja & Narain (2012) identified small and medium enterprises (SMEs) as an important player in promoting economic development in different countries. One sure type of SME is the rice mill industry, which provides job opportunities and value chain profit on agriculture and production of other raw materials for local communities they are located in. According to the Organization for Economic Co-operation and Development (2013), Myanmar has approximately 127,000 registered enterprises, of which 99.4% are SMEs (p.104).

However, a major factor hindering Myanmar's economic growth is that most SMEs are inefficient and operate informally.

There is not enough support from the state and local government entities in terms of technology support, funding, and relaxing prohibitive regulations for the development of SMEs, particularly in the rice mill industry. Myanmar has not performed well in this particular sector unlike in Sri Lanka, for example, where the rice suppliers and consumers (Senanayake and Premaratene, 2016). Therefore, this paper shall research the lack of government policy intervention for small rice mill business development in Myanmar, with focus on Rakhine state.

Rakhine state, located in the southern coastal area of Myanmar, is one of the fourteen regional divisions of the nation. The total population of the state is 3,188,807. Among them, 83% of the population dwells in the rural areas, and their main livelihood is agriculture. Consequently, the core product from their field is rice and their lives rely primarily on the successful rice production function. Thus, support for small rice mills will be useful to lessen the suffering of local residents and businesses. The objective of the study is to identify the real requirements for industry development to be reduce poverty among rural residents in Rakhine state.

## **Research questions**

- 1) How does the government currently support the development of the small rice mill industry in Rakhine state?
- 2) What can be done to achieve more job opportunities for residents and satisfy supply chain for producers and consumers?

## Unit 2

### Literature Review

Small and medium enterprises (SMEs) are vital instruments in reorienting government and policymakers to become more socially responsive (Smallbone and Welter, 2012). There are different definitions of SMEs. The European Commission identifies SMEs as any unit involved in economic activities with only a few workers, including those operated by family-owned enterprises and the self-employed (p.63). In many developing countries, SMEs belong to the informal sector of the economy but they serve as an essential foundation for economic growth that can be relatively more resilient to the adverse effect of economic change such as financial crisis and rising unemployment rate (p.64). The operations of SMEs are labor-intensive and can contribute to regional economic development, with benefits not only for urban areas but also in driving rural economic growth.

However, SMEs cannot bear the burden entirely on its own without the support of government, and as such, government policies can be a powerful tool to help SMEs overcome the limitations of their function as they go through the development process (Teixeira and Barros, 2014). The proper distribution of programs and actions are essential in the development of SMEs today. In particular, policy decentralization, especially in the SME sector, can be a development strategy for public sector reform and contribute to the design of overall trade policy. Power sharing for local level governments establishes an important cooperative link for internationalization system.

The Center for International Private Enterprise (CIPE, 2010) reported that a close relationship between local authorities and small-scale businesses could help achieve policy goals such as increasing employment opportunities and raising the living standard of people living in these communities. In the case of Myanmar, the development of the SME sector provides an opportunity for the overall evolution of the country's economy. However, such opportunity is currently not being maximized by the government. In particular, management strategies for the small rice-mill business in Rakhine state, the main subject of this paper, does not adequately address concerns of business persons, leading to poorer expectation for the future growth of the industry.

According to (Bissinger and Maung, 2014), there is limited engagement between the local government and the SME sector. Other challenges include the significant degree of centralization in certain functions such granting permission for land use, the complicated

process of registering new businesses, and the lack of subsidy to develop SMEs in the region. Many agencies are involved, but there is no precise definition of decision-making powers. “Instead of different parts of the different department having different responsibilities, every part of government plays a role in everything” (p. 4). There are obvious problems in the current administration process of Myanmar that need to be addressed.

### **Degree of Centralization**

Centralization of administration has led to inefficiencies, which serve as obstacles to developing SMEs in Myanmar. Bissinger (2016) noted that there are different ways to look at the degree of centralization when doing business in Myanmar. On the one hand, centralization can be seen as a monopoly concerning decision-making in the government administration process of SMEs development. On the other hand, decentralization can be considered as the handover of power to manage and reduces a level of government control, in particular among the local administration. One of the forms of decentralization is de-concentration, which means the creation of lower-level administrative units and transfer of central government functions and authority that enables active involvement among local people.

The likely effect of decentralization involves better organization and adequate delivery of support to local businesses, including SMEs in the rural area of the country. Provision of facilities for production and distribution among local firms and entrepreneurs, as well as establishing appropriate legal and institutional framework, can be a proactive strategy of decentralization. Perfectly directing the role between public and private actors encourages economic development.

The target of decentralization is the gainful system of economic and social processes and services at the grassroots level of the society aimed toward the sustainable development of a region within a country (Anderson, 2003). This includes using rural regional assets for main business and other related sectors within the area. Decentralization can also support the promotion of job opportunities for the people who continue to live within the community without the need to migrate to other towns or villages. It is a way to keep human resources and capital to achieve the goal of regional development and reduce joblessness among local people.

### **Opportunities and Challenges**

SME development and job opportunities are closely related to each other. A report by EIM Business & Policy Research (2011) noted that in the EU, around 85% of an increase in

employment between 2002 and 2010 could be attributed to the growth of SMEs. In other words, SMEs create more and more jobs annually, which can link to economic development.

Moreover, SMEs provide additional value in the performance of supply chains, which in turn helps develop businesses (Hong and Jeong, 2006). In practice, supply chain management process includes the areas of customer service, demand order fulfillment, manufacturing flow management, product development, commercialization, quality, and returns (p. 293). The key contributions of SMEs are the added value of raw materials transformed into semi-goods or finished goods and ensuring rapid circulation management.

In the case of the Rakhine state, however, the small rice mills industry sector is largely underdeveloped, with little innovation to provide job opportunities for the area. Additionally, businesses do not have enough capacity to implement proper management of the supply chain. There is also limited chance to develop further business processes, which leads to little expectation regarding promoting SMEs, especially in the small rice-mills sector, in the area.

### **Synthesis of Literature Reviewed**

Government interventions to support SMEs can help small-scale entrepreneurs and in the long run, lead to sustainable development of an area. At present, government strategies on the small rice-mills business in Rakhine state, Myanmar does not address problems faced by local business owners. There is little engagement with government, and the current administrative process adds unnecessary burdens in terms of granting permits and starting businesses. SME support and administration is highly centralized, with decision-makers having little or no input from the local communities concerned. This then becomes a missed opportunity to find innovative ways to organize better and provide benefits for local businesses, especially in rural areas. Decentralization helps drive development at the lowest grassroots level of society. Furthermore, SMEs provide opportunities regarding job creation and improvement of the supply chain. Thus, it is important to evaluate whether current interventions by the government work and find ways to improve these policies to maximize opportunities.

## Unit 3

### Methodology

On writing paper, the relevant methodology will be applied as necessary. First, reading literature review on related field of study from SMEs journals, official publications of some of the organizations, and book. Second, the Quantitative method will be crucially applied for this paper to get findings. The primary data will be used instead of secondary to reflect the current situations and reality. Under this approach, the survey questions were constructed and visited the site of millers to whom the questions are asked using face to face interview method which is the best way to avoid distortion. All covered open as well as close-ended question type would provide in the survey question.

Third, the pre-test of survey questionnaire with local miller about the validity and consistency was carried out. The sample size of (204) firms (millers) was targeted as the respondent for the survey on a random sampling. To represent the whole population of Rakhine State; the sample randomly selected from four district out of five: (Sittwe, Myauk-Oo, Kyauk Phyu, Thantwe and Maung Taw), one area left due to the neglect able small number of miller and political instability, which is Maung Taw district. Finally, the answers for survey question from the respondents will be converted into the findings using STATA application. The sample size of 204 were prepared as follows: (14) from Sittwe District; (92) from Myauk-Oo District; (28) from Kyauk Phyu District and (70) from Thantwe District.

The roadmap for running data gone with like this. The independent variables will be Degree of Centralization which is included by three categories: permission for land, registration process and subsidy from the government and the dependent variables are job opportunity and supply chain. Under the job opportunity and supply chain have also different categories such as: total family member, total daily worker and total skill worker from job sector and distance advantage, trading customers and ton per month come from supply chain process. As for moderator, type of business is land poverty, factory type, machine capacity, capital source, tax pay, amount of revenue and expenditure.

The model is constructed as follows:

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where,  $Y_1$  = Job opportunity

$X_1$  = tot\_fam = total family member

$X_2$  = tot\_dai = total daily worker

$X_3$  = tot\_sk = total skill worker

$$Y_2 = \delta_0 + \delta_1 A_1 + \delta_2 A_2 + \delta_3 A_3 + \tilde{u}$$

Where,  $Y_2$  = Supply Chain

$A_1$  = dis\_adv = distance advantage

$A_2$  = tra\_cus = trading customer

$A_3$  = ton\_p\_mon = ton per month

In addition, the necessary data will be collected from government sources as well as other reports and articles by local and international non-government organizations. After achieving the findings, to make the policy recommendation, policy papers, journals and the previous scholar's paper will be added to follow some phases. Based on these, the optimum positive recommendation will be contributed to the country's development through decentralization of government reducing the unnecessary red tapes.

## Unit 4

### Finding

In this registration process function, there exist seven offices to where the millers must visit to do register. According to the survey there are 8 millers who do not have register at particular year and the rest register at least one step. But, there are only two millers did the complete registration process but the rest are no. The number of registers who did the registration process but not complete are as follow: neither six step registering firm, five step (1), four step (120), three step (1), two step (23) and one step (49).

The registration office which the firms are visiting is Directorate of Industrial Supervision and Inspection Department (Township level) and total registration number is (174) millers and the registration number of other department in township level is mere millers visit. The list of millers who did the registration with respective department are as follows: (163) millers with Village Head Office, (116) millers with Township General Administration Department, (114) millers with Township Consumers Affair Department, (12) millers with Township Development Committee and (13) millers with Township Fired Department.

Consistent with the STATA result, the achievement of tot\_fam regression run with permi\_tot has only one significant p-value on rev\_total, but there is very weak positive correlation. At run with reg\_tot, it has significant p-value and rev\_total for similar result as previous one. As for tot\_dai, there is no significant p-value with independent variables and only similar result as earlier ones. In tot\_sk has one significant result at independent variables and the rev\_total is the same as formers. The variable dis\_adv is significant with reg\_tot and no sign with permi\_tot, but there is not significant in rev\_total. In tra\_cus, the coefficient and standard error is abnormal situation and there is only significant sign with rev\_total.

Regression of ton\_p\_mon with permi\_tot, there is strong positive relation, significant p-value and coefficient mean if one firm is permitted, then it will promote 1.5 ton of production raise per month. There is no permitted on 40 firms and the rest of 164 have a least permission from single office. But there is only a few amount of permitted number in township level. According to the results, to reach more effective supply chain process, and easing for all kind of level of millers to get permission is very supportive in ton per month production amount.

When it regress permi\_tot and ton\_p\_mon, the result is worthy understanding of how independent and dependent variables are related. One additional registration makes 0.78 ton

per month growth. According to the result, doing more registration in business is very positive effect on the more process of supply chain (ton\_p\_mon) and the more total permission function outcome is also the same with above meaning.

## Unit 5

### Policy recommendation

There is a strong positive relationship between permission for land used and some production ton per month in rice miller industry. There is finding the more grant for land used is directly effect on the business better off. Therefore, the extra allotment of the permit and easing the process is needed to move centralization approach of official function of the government body to reduce decentralization negotiated plan is the essential point for the industry. If they have more permission to land to run business for the miller, it will be better support for the regional economic development of the Rakhine State and the whole country, Myanmar.

As registration process, there is also the strong positive relationship between registration to get permission running business and number of production ton per month in rice miller industry. The more number of register is higher the production yield of the industry. It can be found that there are those who unregistered. The main reason of the no registration is a lengthy process of registration to finish official progression. There was among who registered entire every step had an uncountable small number of the entry, exactly just two. For making task allocation of authority and decision-making power to permit to responsible staff or distribution of accountability and responsibility to several officials is very well technique to lessen registration process.

Decentralization of registration process effect on motivation to do register and consequence for ton per month number raise. Regarding reduction of registration process, One Stop Service Center in regional level is a fair way for resident millers especially who live in the rural area; they are not familiar with the most official working function. It also very impacts on registration operation.

There is two type of registration such as permanent and temporary. Temporary mean, the small millers need to register every fiscal year for their permit renewed. Frequent registration makes avoiding to register. Thus, to support the registration service it will be better three years instead once a year or for a suitable period reserve. The authority is required to predetermine the appropriate time allowed to miller in order to be able to decide by the respective staff distribution of power to the relevant staff, either abusing or corruption can

happen. Accordingly, establishing follow up an action and forming monitoring group is the best to correct the negative externality.

## Unit 6

### Conclusion

In Myanmar, there were many changes in 2011. After multi-party general elections in 2010 November, the new civilian government appeared according to the 2008 constitution, and the restructured mechanism of administration in government body was appeared and township and district level government framework also become active. Due to most of the long-term habit with military government, regulation the way of democratic administration function is a little bit confusing for the citizen. Especially, decentralization of administrative function and button up approach is astounding for the state and division areas such as rural area Rakhine states which is very far from the government authorized office.

However, some regional level government have authority and been distributed decision-making power for administration such as giving permission and registration for land use and operating the business especially in SMEs and other service sectors. It is perfect situations the person who want to run business in the particular region. Although some cases are needed to decide by the union government, while most can be done by local authority. It is a good point of transformation from centralization to decentralization process of the government frame, especially on the development of SMEs positively. For example, the state banks become planned to give loans to SMEs, Myanmar Agricultural Development Bank to mills business loans by, Micro-finance loans from INGO, NGO to SMEs in rural areas are very related with on government laws and rules relaxing. It is the positive effect fundamental of decentralization.

On the other hand, there are some of the weak facts in decentralization when it was running governance operative process. Firstly, if the government departments want to serve the home service for official work of registration for the business, it will require to appoint sufficient staff to expand, and it is also a need for more funds to pay workers. As a result, the government budget deficit may be more happened, and it can be a complicated issue either state government or union government to implement to achieve and develop original target.

For running One Stop Service Center, the decision of the assigned of employee according to their rank and skill will become important for providing services. There is also the problem to decide if the staff does not have the criterial skills because they are not qualified, staff. That's why decentralization could lead more harmful instead of helpful. The millers who

did not pay fee regularly, when they pay the regular fee due to home service, their profit may become reduced, and it is also an indirect drawback of decentralization. Even though there are some of the hard impacts of decentralization, because the true advantage is more than bad. Decentralization is the optimal policy for the supply chain.

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