

Ex-Ante Evaluation

Southeast Asia Division 4

Southeast Asia and Pacific Department

Japan International Cooperation Agency (JICA)

1. Basic Information

Country: The Republic of the Union of Myanmar (Myanmar)

Project: Project for the Development of Finance for Small and Medium-sized Enterprises (Phase 3)

L/A signing date: November 4, 2020

2. Background and necessity of the project

(1) Current state and issues of Myanmar's SME promotion and financial sector and the positioning of the project

SMEs represent the backbone of Myanmar's economy, comprising 99% of registered businesses and approximately 80% of total employment. Despite this, many SMEs are having difficulty in borrowing from financial institutions because of high interest rates, short repayment periods, and strict real estate collateral requirements. The government of Myanmar set out job creation and private sector-led growth as one of its goals in the Myanmar Sustainable Development Plan published in August 2018 and has specifically supported job creation through the development of SMEs as well as expanded access to financial services.

On the other hand, as the spread of COVID-19 has slowed down the global economy since January 2020, SMEs with limited funds have been particularly hit harder. Some SMEs in the garment, tourism, and agricultural produce export sectors have been forced to suspend operations or dismiss employees due to reduced demand or cash flow problems.

As economic measures to tackle the COVID-19 pandemic, the Myanmar government established a fund worth MMK 100 billion (approximately JPY7.6 billion) in March 2020 to provide support to businesses that have been affected the hardest by the financial impacts of COVID-19, and identified SMEs as the fund's priority sector for support. On April 27, the Myanmar government announced its COVID-19 Economic Relief Plan in which its fund expansion policy is described.

The provision of medium- to long-term loans to SMEs was promoted in the Project for the Development of Finance for Small and Medium-sized Enterprises (with the loan agreement signed in June 2015) and the Project for the Development of Finance for Small and Medium-sized Enterprises (Phase 2) (with the loan agreement signed in

March 2018), both of which are ODA loans. In Phase 2, loans with eased collateral conditions that used financial guarantee insurance were provided, in addition to loans with conventional real estate collateral requirements. SMEs are identified by the Myanmar government as the priority sector that needs support in mitigating the financial impacts of COVID-19. Phase 3 should be implemented as soon as possible to enable the support provided by the Myanmar government to continue without interruption.

(2) Japan's and JICA's cooperation policy for SMEs and the financial sector and the positioning of the Project

One of the priority areas in the Japan's Economic Cooperation Policy for Myanmar established in April 2012 is "assistance for capacity building and institutional development to sustain the economy and society." The Project is in line with "urban manufacturing accumulation and industrial development" and "cooperation for the improvement of the financial sector" which form part of nine sectors covered by the Japan-Myanmar Cooperation Program announced in November 2016. The Project provides financial intermediation to SMEs, which account for a majority of Myanmar's industry, and is beneficial to the development of Myanmar's financial and industrial sectors. The Project is expected to contribute to the achievement of SDG Goal 8 (Decent work and economic growth) and SDG Goal 10 (Reduced inequality).

(3) Other donors' activities

The World Bank implements the Financial Sector Development Project (USD100 million, approved by the Board of Directors in December 2016), which provides support to Myanmar Economic Bank (MEB), the Project implementing body, in improving its organizational competency such as corporate governance and risk management. Kreditanstalt für Wiederaufbau, the German government-owned development bank, provides funds for SME financing to the Co-operative Bank, one of the Participating Financial Institutions (PFIs) in the Project for the Development of Finance for Small and Medium-sized Enterprises (ODA loan), and Myanmar Apex Bank.

3. Project overview

(1) Project objective

The objective of the Project is to improve the financial intermediation for, and to maintain and increase the production and investments of, the SMEs, by providing medium- to long-term funds under eased collateral conditions to the SMEs through PFIs and strengthening the capacity of PFIs, thereby contributing to mitigation of the economic impacts of COVID-19 and to inclusive development of Myanmar's industry and economy as well as employment stability and generation.

(2) Project site/Target area

Nationwide

(3) Project components

A) Two-step loans for the development of SMEs: Provision of medium- to long-term loans to SMEs. Loans taken to provide working capital only may be permitted for an initial period (for a year or so) for the purpose of mitigating and stabilizing the financial impacts of COVID-19.

B) Consulting services: Support for implementation, monitoring, and evaluation; strengthening financing infrastructure of the Executing Agency and PFIs (improving assessment (including cash flow analysis) capabilities and risk management capabilities, and in particular improving assessment capabilities of regional branches); support for the use of financial guarantee insurance; support for PR activities, etc.

(4) Total project cost

JPY15.776 billion (of which JPY15 billion is a yen loan)

(5) Project implementation schedule

The Project will be carried out for a total of 38 months from November 2020 to December 2023 and will be completed when the provision of the two-step loans is completed in December 2023.

(6) Project implementation framework

- 1) Borrower: The Government of the Republic of the Union of Myanmar
- 2) Guarantor: None
- 3) Executing Agency: Myanma Economic Bank (MEB)
- 4) Operation and Maintenance Agency: MEB is responsible for operating and managing the Project. MEB is a state-owned bank under the jurisdiction of the Ministry of Planning, Finance and Industry. The Ministry of Planning, Finance and Industry and MEB will allocate the national budget to administrative costs and other expenses needed for the Project.

(7) Cooperation and sharing of roles with other projects and donors

1) Japan's Assistance activities

The operating guidelines for two-step loans in the Projects for the Development of Finance for Small and Medium-sized Enterprises (Phase 1 and Phase 2) (ODA projects) will be used for the Project. In the Project for Promoting Investment for Enhancing Industrial Competitiveness (technical cooperation project; 2019 to 2024), a program that matches local companies and foreign companies will be launched to support the development of suppliers. In the Project of Myanmar-Japan Center for Human

Resources Development (Phase 2) (technical cooperation project; 2018 to 2023), support is provided to the strengthening of the organizational structure of the Myanmar-Japan Center for Human Resources Development, which offers business courses aimed at the management level with a focus on middle management and provides business information and networking opportunities. The Project will be carried out in collaboration with these technical cooperation projects.

2) Other donors' aid activities

None

(8) Environmental and social considerations, cross-cutting issues, and gender category

1) Environmental and social considerations

1. Category: F1

2. Reason for choosing this category: Sub-projects for the Project cannot be identified before JICA's approval for financing according to the JICA Guidelines for Environmental and Social Considerations (published in April 2010) (“JICA Environmental Guidelines”) and sub-projects may have impacts on the environment.

3. Other/Monitoring: In the Project, PFIs and the Executing Agency will categorize each project based on Myanmar's national laws and JICA Environmental Guidelines and implement necessary measures for the relevant categories. There will be no category A projects among the sub-projects.

2) Cross-cutting issues: No SMEs will be denied loans because of the owner's disabilities.

3) Gender category: ■GI (S) (Gender Informed (Significant))

<Reason for choosing this category> To promote lending to SMEs owned by women in the Project, PR activities will be carried out and the funding allocation mechanism that encourages PFIs to provide financing to such SMEs will be examined. Therefore, the Project is classified as Gender Informed (Significant).

(9) Other important issues:

None

4. Project outcomes

(1) Quantitative outcomes

1) Outcomes (operational/effectiveness indicators)

Indicator	Baseline (Before providing sub-loans)	Target (2025) (2 years after project completion)
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Sales turnover of the benefited SMEs	Data collected upon the application of Sub-Loans	Maintain / Increase from the baseline
Profits of the benefited SMEs	Same as above	Same as above
Number of employees of the benefited SMEs	Same as above	Same as above
Amount of capital investment of the benefited SMEs	Same as above	Increase from the baseline
Total outstanding long-term loans by the PFIs to SMEs	Data collected upon the accreditation of PFIs	Same as above
Total outstanding loans by the PFIs to SMEs under eased conditions	Same as above	Same as above
Number of loans approved and disbursed by the PFIs to SMEs	Same as above	Same as above
Ratio of non-performing loans of PFIs under the Project	N/A	Below the average ratio of non-performing loans of PFIs upon the accreditation

(2) Qualitative outcomes

Improvement of SME financing through the enhancement of PFIs' capacity (new financing methods; improvement of assessment and risk management capabilities, etc.); the mitigation and stabilization of the financial impacts of COVID-19; and Myanmar's healthy industrial and economic development and job maintenance and creation

(3) Internal rate of return

The internal rate of return is not calculated due to the inability to identify sub-projects.

5. Preconditions and external factors

(1) Preconditions

None

(2) External factors

The Project could be affected by financial regulatory changes which may be made by the Central Bank of Myanmar.

6. Lessons learned from similar past projects and application to the Project

In the ex-project evaluation of the “ASEAN-Japan Development Fund, Industrial and Support Services Expansion Program” which was an ODA loan for the Republic of the Philippines (evaluation year FY1999), training provided to PFI staff was recognized for its contribution to the technical improvement of PFI financing to SMEs and in particular project financing. We have learned that providing technical support to implementing

bodies and relevant organizations is effective in the prompt and seamless provision of two-step loans.

In Phase 2 of the Project, loans with eased collateral conditions were provided and achievements have been made (i.e. loans of approximately JPY1.2 billion with the same conditions have been provided as of May 2020). Such loans will continue to be provided in the Project. In view of what we have learned as described above, we will make efforts to improve financial intermediaries' assessment and risk management capabilities in the Project to further promote loans with eased collateral conditions through consulting services.

7. Evaluation results

The development of SMEs is the Myanmar government's high priority and SMEs are identified as the priority sector that needs support to mitigate the financial impacts of COVID-19. Therefore, the Project is in line with the Myanmar government's development issues and policies as well as Japan's cooperation policy. Furthermore, the Project provides financial intermediation to SMEs, which account for a majority of Myanmar's industry, and is beneficial to the development of Myanmar's financial and industrial sectors. The Project is also expected to contribute to the achievement of SDG Goal 8 (Decent work and economic growth) and SDG Goal 10 (Reduced inequality). For these reasons, there is a great need to support the implementation of the Project.

8. Plan for future evaluation

(1) Indicators used in future evaluation

As indicated in Section 4.

(2) Future evaluation schedule

Ex-post evaluation to be carried out two years after project completion.