

Ex-Ante Evaluation (for Japanese ODA Loan)

1. Project name

Country: Republic of the Union of Myanmar (Myanmar)

Project name: Project for the Development of Finance for Small and Medium-sized Enterprises (Phase 2)

L/A signing date: March 29, 2018

Approved funds: 14,949,000,000 JPY

Borrower: The Government of the Republic of the Union of Myanmar

2. Project background and necessity

(1) Current state of and issues in the development of the Myanmar SME promotion and financial sectors, and the role of this project

There are approximately 44,000 private manufacturing companies in Myanmar, and these companies hold the key to pushing forward industrialization. Out of these companies, around 40,000 are SMEs. Combined with companies outside the manufacturing sector, it is claimed that there is a total of around 120,000 SMEs in Myanmar. In the Myanmar government's "Investment Policy" published in December 2016, the encouragement of investment in SME promotion and the cultivation of SMEs is characterized as a priority issue, and the economic activity of SMEs is on the rise. This entails an associated increase in needs for financing from financial institutions, but most SMEs face difficulties borrowing from banks and other such institutions due to the short-term nature of most of the lending offered and strict requirements of real-estate collateral. As a result, most SMEs launch their businesses or projects using personal or family funds.

In the Project for the Development of Finance for Small and Medium-sized Enterprises (loan agreement signed in June 2015), the Myanmar Economic Bank (MEB) was assigned to resolve these problems with financing for such SMEs by providing two-step loans via Participating Financial Institutions (PFIs) serving as intermediaries, thereby promoting medium- to long-term financing for SMEs. In this project, reflecting the vigorous demand for funding among SMEs, funds were steadily supplied to 269 SMEs via 6 PFIs by June 2017. The financial institutions set strict collateral requirements such that funds were only provided for companies that were able to offer real-estate as collateral. However, due to the complicated and confusing nature of the real estate registration system and the shortage of property to offer as collateral, many Myanmar SMEs were unable to provide collateral, and there is great demand for financing with more relaxed collateral requirements. In March 2017, the Central Bank of Myanmar issued its "Credit Risk Management Policy," whereby the central bank does not set strict collateral requirements, and financial institutions are to set their own credit risk management guidelines and make individual determinations on

loan-related matters. Due to this, it is expected that financial institutions will implement new financing methods.

(2) Development policy on SMEs and the financial sector in Myanmar, and the role of this project

Myanmar's new administration, inaugurated in April 2016, released its "Economic Policy" in July 2016. In this policy, the government established the "achievement of financial stability through a finance system that can support the sustainable development of households, farmers, and businesses" as one of its priority policy issues, marking the establishment of a funding supply for companies as an ongoing important issue within the country.

Project for the Development of Finance for Small and Medium-sized Enterprises (Phase 2) (hereinafter "this project") aims to provide two-step loans to promote medium- to long-term lending with relaxed collateral requirements, thereby promoting the expansion and diversification of financing by PFIs. This is described as a priority policy area in official Myanmar government policy, which aims to promote and encourage SMEs. Additionally, due to the high interest of Japanese companies in Myanmar, the cultivation and expansion of SMEs in support industries (e.g. component and parts-supply industries) is expected to stimulate investment in Myanmar by Japanese companies.

(3) Japan and JICA's aid policies and achievements regarding SMEs and the financial sector

The Japanese policy on economic cooperation with Myanmar, formulated April 2012, includes "support for the building of systems and improvement of the capabilities of personnel underlying and sustaining the economy and society" as an area of priority. Additionally, in the Japan-Myanmar Cooperation Program announced in November 2016, "cooperation for the improvement of the financial sector" is featured as one of the nine pillars of the program. This project is in accordance with these policies.

In the past, JICA has provided medium- to long-term financing towards lending to SMEs via the Project for the Development of Finance for Small and Medium-sized Enterprises (loan agreement signed in June 2015). In terms of SME promotion, the Project for Strengthening of Industrial Promotion Functions (technical cooperation project; 2016-2018) provides support for work to improve the capabilities of staff at Myanmar's Ministry of Industry, which is responsible for designing policy pertaining to SME promotion.

(4) Other aid organizations

The World Bank is conducting the Financial Sector Development Project (\$100 million USD; approved by the Board of Directors in December 2016), which provides support to MEB—the implementing body for this project—with corporate governance reforms, risk management, and other aspects aimed at improving organizational competency.

Additionally, the German government-owned development bank KfW (Kreditanstalt für Wiederaufbau) is providing support to improve the financing capabilities of the Co-operative Bank, one of the PFIs involved in the Project for the Development of Finance for Small and Medium-sized Enterprises.

(5) Necessity of this project

As per the above, this project is in line with the Myanmar government's development issues and development policies, as well as the Japanese government's aid policies. By serving as a financial intermediary for SMEs, which constitute the majority of Myanmar's industry, this project serves to contribute to the development of finances and industry in Myanmar. This project can be considered as contributing to SDGs Goal 8 (promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all) as well as SDGs Goal 10 (reducing inequality within and among countries), making it highly necessary for JICA to provide support for this project's implementation.

3. Project overview

(1) Objective

The objective of this project is to provide financing to small and medium-sized enterprises (SMEs) through intermediary financial institutions and support capacity-building at intermediary financial institutions, thereby strengthening SME financing by financial intermediaries and expanding production and investment by SMEs, which will contribute to industrial development and job creation in Myanmar.

(2) Project site / Target area name

All of Myanmar

(3) Project overview

- A) Two-step loans for the promotion of SMEs: The supply of medium- to long-term financing for SMEs. MEB selects PFIs via public offering (selected approximately 3 months after the loan agreement is signed). The loan interest rate faced by the end-user is +0.5% the minimum deposit interest rate (8.5% as of July 2017). Two loan categories are established: financing with relaxed collateral requirements (1.5 billion JPY; aim to use financial guarantee insurance, etc.), and financing for companies that have done business or have plans to do business with Japanese companies (3.0 billion JPY; aim for local SMEs to expand or begin new business dealings with Japanese companies).
- B) Consulting services: Support with PR activities; support with implementation, monitoring, and evaluation; strengthening of the financing infrastructure of the

implementing body and PFIs (introduction of new financing methods; improvement of examination and risk management capabilities; etc.); consideration of the use of financial guarantee insurance; etc.

(4) Total project costs

15,772,000,000 JPY (of which 14,949,000,000 JPY is for yen loan)

(5) Project implementation schedule

Scheduled for March 2018 through October 2021 (total of 44 months). The project will be concluded once the two-step loans are concluded in October 2021.

(6) Project implementation framework

- 1) Borrower: The Government of the Republic of the Union of Myanmar
- 2) Guarantor: None
- 3) Project-implementing body: Myanma Economic Bank
- 4) Operation / Administration / Maintenance / Management: MEB is responsible for project management and administration. MEB is a nationally owned bank under the umbrella of the Ministry of Planning and Finance, which is responsible for compiling the budget. Ministry of Planning and Finance and MEB will prepare the national budget for administrative costs and other expenses necessary for the implementation of this project.

(7) Environmental and social considerations / poverty reduction / social development

1) Environmental and social considerations

1. Category: FI
2. Basis for categorization: As per the JICA Guidelines for Environmental and Social Considerations (published April 2010; hereinafter "JICA Environmental Guidelines"), no sub projects for this project can be identified prior to JICA's agreement to provide financing, and because it is assumed that such sub projects would have an impact on the environment.
3. Other: The project is designed to provide financing to financial intermediaries. Sub-projects can not be specified prior to JICA's approval for financing, and they may have environmental impacts under the guidelines for Environmental and Social Consideration (April, 2010).

2) Promotion of poverty reduction: None

- 3) Social development promotion (gender perspectives, AIDS and infectious disease countermeasures, participatory development, consideration for the disabled, etc.): For the Project for the Development of Finance for Small and Medium-sized Enterprises, an international yen loan project and the predecessor to this project, the history of

lending by gender was studied, and local partner organizations are encouraged to consider gender even in making lending decisions in this project. Therefore, this project is categorized as a “gender activity integration project.”

(8) Collaborations with other schemes, other donors, etc.

In the course of the Project for the Development of Finance for Small and Medium-sized Enterprises, an international yen loan project, JICA supported drafting Operating Guidelines for the execution of two-step loans, and it will be used in this project. The Project for Strengthening of Industrial Promotion Functions (technical cooperation project; 2016-2018) provides support for work to improve the capabilities of staff at Myanmar’s Ministry of Industry, which is responsible for designing policy pertaining to SME promotion. The Project of Myanmar-Japan Center for Human Resources Development (technical cooperation project; 2013-2018) supports the strengthening of the organizational infrastructure of the Myanmar-Japan Center for Human Resources Development, which provides business courses for management-level personnel and especially middle managers, in addition to providing business information and networking opportunities. In the course of active implementation, this project will actively examine collaborating with technical cooperation projects by recommending courses at the Myanmar-Japan Center for Human Resources Development and providing information on high-quality SMEs, with an aim to improve SME management capabilities.

4. Project outcomes

(1) Quantitative outcomes

1) Outcomes (Operational / effectiveness indicators)

Indicator name	Reference numbers (prior to sub-loan issuance)	Target numbers (2023) [2 years after project completion]
Sales turnover of the benefited SMEs (million MMK)	Data collected upon the application of Sub-Loans	Increase from the baseline figure
Profit of the benefited SMEs (million MMK)	Same as above	Same as above
Amount of capital investment of the benefited SMEs (million MMK)	Same as above	Same as above
Total medium- and long-term loan*1 outstanding of the PFIs to SMEs (million MMK)	Data collected upon the accreditation	Same as above

Total loan outstanding for loans under eased conditions of the PFIs to SMEs (million MMK)	Data collected upon the accreditation	Same as above
Number of approval and disbursement of loan by the PFIs to SMEs	Same as above	Same as above
Ratio of non-performing loans of PFIs (%)	Same as above	Not Increase from the baseline figure

*Loans with using capital from the revolving fund are not included in the indicators.

(2) Qualitative outcomes

Improvement of SME financing through the strengthened capacity and capabilities (new financing methods; improvement of examination and risk management capabilities; etc.) of PFIs and similar; development of Myanmar's industry and economy; employment creation

(3) Internal rate of return

Unable to calculate because sub projects are not identified.

5. External conditions / risk controls

This project is conducted under lending terms and conditions (interest rates, collateral, etc.) set by the Central Bank of Myanmar, and there is a risk that project implementation may be hindered by regulatory changes made by the CBM. Therefore, MEB is required to stay constantly aware of the latest state of CBM regulations and to report via project progress report any regulatory changes that may impact the framework of this project.

6. Lessons from similar past projects and how those are applied to this project

(1) Lessons from similar projects

In the post-project evaluation results of the "ASEAN-Japan Development Fund, Industrial and Support Services Expansion Program" for the Republic of the Philippines (evaluation year FY1999), training provided to PFI staff was judged to have contributed to technical improvements in the PFIs' financing of SMEs, especially regarding project financing. The lesson from this project was that technical support for implementing bodies and related organizations is an effective way of helping to achieve streamlined, smooth management of development lending through the banking system.

(2) Application of that lesson to this project

Based on this lesson, this project aims to use consulting services to improve the examination and risk management capabilities of PFIs.

7. Future evaluation plans

(1) Indicators to be used in future evaluations

Sales turnover of the benefited SMEs

Profit of the benefited SMEs

Amount of capital investment of the benefited SMEs

Total medium- and long-term loan*1 outstanding of the PFIs to SMEs

Total loan outstanding for loans under eased conditions of the PFIs to SMEs

Number of approval and disbursement of loan by the PFIs to SMEs

Ratio of non-performing loans of PFIs

(2) Timing of future evaluations

Two years after project completion