

Ex-Ante Evaluation

1. Name of the Project

Country: The Republic of the Union of Myanmar

Project: Project for the Development of Finance for Small and Medium-sized Enterprises

Loan Agreement: June 30, 2015

Loan Amount: 5.033 billion yen

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

2. Background and Necessity of the Project

(1) Current State and Issues of the SME Finance Sector in Myanmar and the Priority of the Project

Having pledged to join the ASEAN Economic Community in 2015, Myanmar's government has placed high priority on modernizing its finance sector to meet the standard for ASEAN countries. Myanmar's government also places priority on promoting development of SMEs; to this end, it has organized a Small-Medium Sized Enterprise Committee chaired by the President. Related government agencies and organizations each have sub-committees engaged in providing financing for SMEs, assessing credit ratings, and offering credit assurance. In addition, the government is also working to develop, stabilize, and enhance the finance sector, including relaxing financial restrictions and opening a stock exchange.

SMEs play an important role in Myanmar's economy, accounting for approximately 93% of all companies and 70% of production. In Myanmar, individual government agencies, such as the Ministry of Industry and the Ministry of Commerce, each manage data on companies separately. Since such data is also insufficient, it is difficult to obtain accurate statistics. However, approximately 120,000 SMEs, including non-manufacturing businesses, are said to exist in Myanmar.

Against the backdrop of rapid economic growth, demand for funds among SMEs is increasing in Myanmar. However, since most available bank loans have short periods, in many cases personal funds are used to fund and operate SMEs. In order for SMEs in Myanmar to stabilize and expand their businesses from medium- to long-term perspectives, financial institutions must increase medium- to long-term financing. Thanks to increased deposits, banks are also expanding their funding capacities. However, due partly to the strict regulations on loan terms that until recently were imposed by the Central Bank of Myanmar, the supply of medium- and long-term funds for SMEs is too limited to meet growing demand. Accordingly, there is an urgent need to expand opportunities to procure funds to enable growth of SMEs and to develop financial institutions to finance them.

In view of these circumstances, the Project for the Development of Finance for Small and Medium-sized Enterprises (the current project) aims to promote expansion of financing to SMEs by intermediary financial institutions by providing an ODA loan to Myanmar's government and by supporting the enhancement of intermediary financial institutions' financing capabilities. As such, the current project is consistent with the policy of Myanmar's government, which aims to promote the growth of SMEs.

(2) Japan and JICA's Policy and Operations in the SME Finance Sector and the Priority of the Project

The economic cooperation policy for Myanmar, which was established in April 2012, makes it a priority goal to provide support (including support for promoting democratization) for improving skills of personnel and creating systems necessary for economic and social development. The current project is consistent with this policy.

With a view to cultivating individuals who can play an active part in economic structural reform in Myanmar, JICA has implemented loan aid technical cooperation projects, namely an Economic Reform Support Program in FY2011 and another Economic Reform Support Program in FY2012-2014. JICA also implemented the Myanmar Central Bank Operation ICT System Development Plan (FY2013 to FY2015) as a grant aid cooperation project as well as the Funds/Securities Accounting System Modernization Program (FY2013 to FY2017) as a technical cooperation project, thereby supporting the development of an ICT system for Myanmar's Central Bank. In addition, JICA has been dispatching various experts to Myanmar to enhance skills in securities administration (FY2013 to FY2015) as well as to develop an inter-bank market (FY2013 to FY2015).

(3) Other Donors' Activity

In an effort to improve banks' capabilities to finance SMEs, the German International Cooperation Agency (GIZ) is dispatching advisers to provide advice to three private banks in Myanmar, including the Small and Medium Industrial Development Bank (SMIDB).

The International Monetary Fund (IMF) provides technical cooperation to reform financial institutions and revise legal frameworks; it has been dispatching experts who have worked at the Japan Bank as advisers to Myanmar's Central Bank since July 2012. The World Bank is also working to draft a master plan for Myanmar's finance sector.

(4) Necessity of the Project

Myanmar's government places priority on promoting the development of SMEs. The current project is therefore consistent with Myanmar's policies regarding development issues as well as Japan's and JICA's assistance policies in

high-priority areas. Therefore, it is necessary and highly relevant for JICA to support this project.

3. Project Description

(1) Project Objectives

The objective of the Project is to improve the financial intermediation for, and to increase the production and investments of, the Small and Medium-sized Enterprises (SMEs) in Myanmar, by providing the medium- and long-term funds through the participating financial institutions (PFIs) and strengthening the capacity of PFIs, thereby contributing to inclusive development of the country's industry and economy as well as employment generation.

(2) Project Site/Target Area

All of Myanmar

(3) Project Components

1) Project content

- ① Two-step loans for SME development: Providing medium- to long-term funds to SMEs. The first batch shall be provided at a small scale by using SMIDB as a PFI (6 months). PFIs for the second batch shall be selected through open recruitment (from among applicants approximately six months after signing the loan agreement). The lending rate for end users is the minimum deposit interest rate plus 0.5% (8.5% as of the end of June 2015).
- ② Consulting services: Public relations activity support; project implementation, monitoring, and assessment support; personnel training for the executing agency and intermediary financing institutions; proposals for promotion of SME financing (reviewing the possibility of introducing a personal security and credit guarantee system, etc.) (short-list approach)

2) Coordination with other JICA projects

- ① Loan cooperation experts: Before starting consulting services, ODA loan cooperation experts shall provide support for preparing operational manuals and selecting PFIs for the second batch.
- ② Technical cooperation: Through the SME Center Function Enhancement Project (details to be determined) and the current project, JICA will promote collaboration between SMEs and financial institutions. In order to manage two-step loans effectively and efficiently, JICA will introduce a financing scheme for this project and gather basic information on the SME sector required to promote SME financing proposed in consulting services.

(4) Estimated Project Cost (Loan Amount)

5.347 billion yen (loan amount: 5.033 billion yen)

(5) Schedule

June 2015 to September 2018 (40 months in total). The project will be completed when lending of two-step loans is completed (September 2018).

(6) Project Implementation Structure

- 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 system

Myanma Economic Bank (MEB) is a state-owned bank placed under the jurisdiction of the Ministry of Finance. It has experience as an agent bank in JICA's ODA loan projects and also experience in similar operations, including providing funds for SME loans for policy-based finance by Myanmar's government. Therefore, there are no particular problems with its technical or financial skills.

(7) Environmental and Social Considerations/Poverty Reduction/Social Development

1) Environmental and social considerations

- ① Category: FI
- ② Reason for Categorization: It is difficult to specify sub-projects for the current project based on JICA's Guidelines for Environmental and Social Considerations (issued in April 2010, "JICA Guidelines") before reaching agreement on JICA's financing. Nevertheless, such sub-projects may have impacts on the environment.
- ③ Other: In this project, financial intermediaries and the executing agency will categorize each project based on Myanmar's national laws and the JICA Environmental Guidelines in order to implement necessary measures for the relevant categories. There will be no category A projects among the sub-projects.

2) Promotion of poverty reduction : None

3) Promotion of Social Development : None

(8) Collaboration with Other Donors

- 1) ODA loan cooperation experts: Before starting consulting services, ODA loan cooperation experts shall provide support for preparing operational manuals and selecting PFIs for the second batch.
- 2) Technical cooperation: Through the SME Center Function Enhancement Project and the current project, JICA will promote collaboration between SMEs and financial institutions. In order to manage two-step loans effectively and efficiently, JICA will introduce a financing scheme for this project and gather basic information on the SME sector required to promote SME financing proposed in consulting services (details to be determined).

4. Targeted Outcomes

(1) Quantitative Effects

- 1) Performance indicators (operation and effect indicators)

Indicator	Baseline (Before lending sub-loans)	Target (2020) (Two years after project completion)
Sales of SMEs targeted for financing	Data on the previous year's financial results recorded when providing sub-loans	Increase over the baseline
Profits of SMEs targeted for financing	Same as above	Same as above
Amount of facility investments made by SMEs targeted for financing	Same as above	Same as above
Outstanding balance of long-term loans to SMEs provided by PFIs	Data recorded when certifying PFIs	Increase over the baseline
No. of loans to SMEs approved and executed by PFIs	Data on the previous year's financial results when certifying PFIs	Same as above
PFIs' non-performing loan ratios	Data recorded when certifying PFIs	No increase over the baseline

2) Internal rate of return

Not calculated because sub-projects cannot be specified

(2) Qualitative Effects

Improvement of the capacities of PFIs (enhancement of assessment and risk management skills), healthy development of industries and the economy, and creation of employment opportunities in Myanmar

5. External Factors and Risk Control

The latest information on regulations related to loan conditions (interest rates, security, etc.) by Myanmar's Central Bank must always be gathered in order to check the effects of such regulations on the current project's framework.

6. Lessons Learned from Past Projects

From the ex-post evaluation of the Project for Two-Step Loans through Agriculture and Farming Cooperatives in Thailand, we learned that for continued implementation of a project, it is important to provide support for improving intermediary financial institutions' assessment and risk management skills. Benefiting from this lesson, in this project we will work to improve intermediary financial institutions' assessment and risk management skills through consulting service support.

7. Plan for Future Evaluation

(1) Indicators to Use: Sales of SMEs targeted for financing; profits of SMEs targeted for financing; amount of facility investments made by SMEs targeted for financing; outstanding balance of long-term loans for SMEs provided by PFIs; number of

loans for SMEs approved and executed by PFIs; and PFIs' non-performing loan ratios

(2) Timing of Next Evaluation: Two years after project completion