

The Republic of the Union of Myanmar

**Preparatory Survey
on
Two-Step Loan Project for
Small and Medium Enterprises
Development in the Republic of the
Union of Myanmar**

Final Report

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Executive Summary

A large part of private business entities in Myanmar are considered to be small-and-medium enterprises (“SMEs”), and SME development is essential for the economic growth of the country. While the government of Myanmar (“GOM”) had already started a series of measures to support SMEs, such as on-going efforts on enactment of the SME Law, problems remain on SMEs’ access to finance.

Responding to the financial crisis occurred in 2003, the Central Bank of Myanmar (“CBM”) introduced very strict and less user friendly banking regulations, such as prohibition of loans exceeding 1 year and requirement of immovable collateral. On top of it, there are problems with banking practices that require complex and inconvenient procedures. As a result, total assets held by banks at the end of Year 2010 were very small at 10% of GDP, which was one third of levels in Laos and Cambodia and one twentieth of that in Thailand. As a part of economic liberalization since 2011, relaxation of banking regulation had been started and CBM modified a collateral requirement to accommodate export crops or gold. Major privately owned banks have started expansion of their branch networks as they see the current economic growth as a chance to grow their businesses. While both deposits and bank loans are increasing, the growth in loans is lagging behind the growth in deposits.

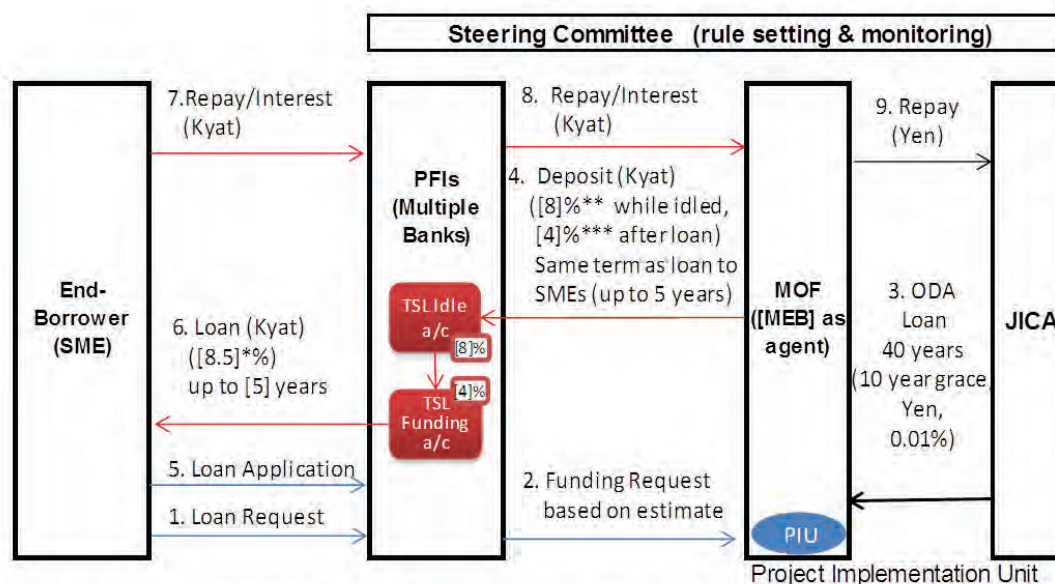
To find out the reason for the slower growth in bank loans, the consultant team carried out a survey on 102 SMEs and interviewed 42 to understand their business profiles, banking relationships, future business expansion and financing needs. The slower growth in bank loans is not because of the lack of demand as 72% of surveyed SMEs showed interest in borrowing from banks for business expansion. On the other hand, only 36% of surveyed SMEs were actually borrowing from banks. The reason that many SMEs do not borrow from banks are summarized below.

- i. Current lending interest rate of banks, 13% per year, is considered by SME owners to be too expensive because they think that their return on assets is lower than that;
- ii. Maximum lending term of 1 year is too short for capital investment and makes SME owners and managers nervous about refinancing risk; and
- iii. Banks’ collateral valuation is considered to be too low for SME owners and managers;
- iv. Banks’ procedures are too complicated and time consuming

On the other hand, while there are several SME owners who maintain that banks should lend unsecured loans, there are problems with SME's business practices as well. The most notable problem is non-transparent business ownership and the lack of proper financial statements. Many SME owners are aiming to hide their wealth from outsiders, especially GOM, by not incorporating their businesses into legal entities, and to hide earnings from tax collection authorities by not creating formal financial statements.

While many of issues above will require a combination of measures and a lengthy process to be resolved, the high lending interest rate and short tenor of commercial loans can be tackled by a policy-based lending program. The consultant team proposes the two-step-loan ("TSL") scheme for SME development utilizing JICA's Yen Loan, under which GOM borrows Japanese yen and converts to Myanmar kyat, depositing the funds at participating financial institutions ("PFIs") through its agent, the Myanmar Economic Bank ("MEB"), and PFIs use the funds to extend long term and low interest loans to SMEs. PFIs take on the credit risk of end-borrowers, while GOM takes a foreign exchange fluctuation risk between Japanese yen and Myanmar kyat, as well as the credit risk of PFIs. Also, the project is administered and monitored by a steering committee consisting of representatives from relevant ministries, MEB, representatives of PFIs and industry associations.

TSL for SME promotion: Implementation Scheme



* Lending interest rate is defined as [minimum deposit rate plus 0.5%]

** Deposit rate while idled is the minimum deposit rate

*** Deposit rate after SME loan disbursement (TSL Funding Rate) is the lending rate to SME less prevailing gross interest margin, which is a difference between the maximum lending rate and the minimum deposit rate as published by the Central Bank of Myanmar.

The consultant team proposes the lending interest rate of 0.5% plus the minimum deposit rate, which responds to SME owners' request for low-interest loans but is not so excessively low as to disturb the financial market in Myanmar. As for the cost of funds from GOM to PFIs, the consultant team proposes a level which secures PFIs 90% of the prevailing gross interest margin from their commercial loans, in order to compensate for the cost of marketing to SMEs and taking the credit risk of end-borrowers. While the decision on the collateral requirement is left to PFIs as they take credit risk of end-borrowers, TSL program should encourage the use of non-traditional collateral other than real estate, such as movable assets, by setting PFI selection criteria that prioritize banks that accept them. The loan tenor is to be negotiated between PFIs and end-borrowers, but the project should encourage longer tenor loan by giving priorities in fund distribution rules to the longer tenor loans.

The consultant team had multiple discussions on the proposed scheme above with GOM, CBM and PFI candidates and emphasized the importance of transparency and simplicity of implementing rules. In order to minimize government intervention in private transactions, the proposed TSL scheme excludes any direct government involvement in individual SME loans.

Also, the proposed scheme clearly defines the beneficiary of government support as SMEs and incorporates rules to avoid providing excessive profit to PFIs. PFIs are required to pay the market deposit rate if the fund provided by GOM is idled and to give back the funds repaid from end-borrowers in the following month.

At the same time, the consultant team proposes the introduction of environmental and social considerations in loan screening, which is not yet practiced in Myanmar. Specifically, TSL should exclude from the recipient of funds any project that is required by Ministry of Environmental Conservation and Forestry to carry out initial environment examination or environmental impact assessment.

The report also introduces several SMEs that resemble the profiles of model businesses to be supported by TSL.

The ultimate goal of the proposed TSL is to improve SME's access to finance, by not only providing the low interest and long term loans but also contributing to capacity development of local banks in terms of loan screening and other skills.

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Abbreviations

ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
ASEAN	Association of Southeast Asian Nations
B/S	balance sheet
CB	Co-operative Bank ¹
CBM	Central Bank of Myanmar
CMP	Cutting, Making and Packing
DD	due diligence
DICA	Directorate of Investment and Company Administration
DISI	Directorate of Industrial Supervision and Inspection
DIY	Do It Yourself
ECL	Environmental Conservation Law
EIA	Environmental Impact Assessment
ESC	Environmental and Social Considerations
ESC	Environmental and Social Considerations
ESMS	Environmental and Social Management System
FAO	Food and Agriculture Organization
FDA	Food and Drug Administration
FSV	forced sale value
FY	fiscal year
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOM	Government of Myanmar
ID	identification
IDA	International Development Association
IEE	Initial Environmental Examination
IFC	International Finance Corporation
IZ	Industrial Zone
JETRO	Japan External Trade Organization
KBZ	Kanbawza
L/A	Loan Agreement
L/C	Letter of Credit
M/D	Minutes of Discussion

¹ Co-operative Bank is usually and officially referred to as CB Bank, although the word “Bank” overlaps.

MADB	Myanmar Agricultural Development Bank
MBA	Myanmar Banks Association
MCB	Myanmar Citizens Bank
MD	Managing Director
MEA	Myanmar Engineers Association
MEB	Myanma Economic Bank
MFI	Microfinance Institute
MFTB	Myanmar Foreign Trade Bank
MIA	Myanmar Industries Association
MICB	Myanma Investment and Commercial Bank
MIGA	Multilateral Investment Guarantee Agency
MLFDB	Myanmar Livestock and Fisheries Development Bank
MNPED	Ministry of National Planning and Economic Development
MOC	Ministry of Commerce
MOECAF	Ministry of Environmental Conservation and Forestry
MOF	Ministry of Finance
MOH	Ministry of Health
MOI	Ministry of Industry
MPD	Main Points Discussed
MSEC	Myanmar Securities Exchange Centre
MTEA	Myanmar Textiles Entrepreneurs Association
MUFG	Mitsubishi UFJ Financial Group
NHL	National Health Laboratory
NPL	Non-Performing Loan
ODA	Official Development Assistance
OTC	over-the-counter
P/L	profit and loss statement
P/M	Project Memorandum
P/R	Progress Report
PCR	Project Completion Report
PFI	Participating Financial Institution
PIU	Project Implementation Unit
PR	Public Relations
PSR	Project Status Report
ROA	Return on Assets
ROE	Return on Equity

SEC	Securities and Exchange Commission
SMBC	Sumitomo Mitsui Banking Corporation
SME	Small and Medium Enterprise
SME Law	Small and Medium Enterprises Development Law
SMI	Small and Medium Industries
SMIDB	Small and Medium Industrial Development Bank
SWIFT	Society for Worldwide Interbank Financial Telecommunication
Sub-loan	Loan from PFI to end borrowers
Sub-project	Capital investment project to be supported by TSL
TA	technical assistance
TSL	Two-Step-Loan
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry
UNEP	United Nations Environmental Programme
YCDC	Yangon City Development Committee

Background of this survey

Modernization of the financial sector and development of Small and Medium Enterprises (SME) are top priority areas for the Government of Myanmar (GOM) as the country heads towards full membership in the ASEAN Economic Community. For the stabilization and strengthening of financial sector, GOM has started modernization of financial rules and regulations and preparations for opening a securities exchange. At the same time, GOM established the SME Development Center in April 2012 to help SMEs gain access to banks and established the Central Committee and Working Committee for Development of Small and Medium Enterprises in January 2013, chaired by the President Thein Sein, as well as the SME Development Implementation Committee, chaired by Vice President U Nyan Tun. The committees have been drafting the Small and Medium Enterprises Development Law (SME Law).

It has been pointed out that banks are not supplying enough long-term loans for the capital investment need of SMEs due to various obstacles. The first is that the current lending interest is considered to be too high by many SME owners. While GOM ordered SMIDB to offer 8.5% low interest loan to SMEs, the total budget was limited and not sustainable as it forces SMIDB to incur losses. Secondly, the Central Bank of Myanmar (CBM), a bank regulator, currently prohibits banks from extending long-term loans. Thirdly, some SMEs do not have sufficient real estate assets to be offered to banks as collateral. Lastly, SMEs are not familiar with and try to avoid complex document requirements and procedures. As a result, SMEs tend to borrow from informal sources, including relatives and friends, at very high interest rates of 4 to 5% per month for short term requirements and with profit sharing arrangement for long term requirements.

On the other hand, there are various problems on the side of SMEs as borrowers, including comingling of personal and company's assets, and inadequate financial management without preparation of financial statements. In order to increase formal financing to SMEs, improvements in managerial practice will have to be considered.

Objective of this survey

The survey aims at surveying SMEs' potential needs for long-term financing and examining the effectiveness of a Two-Step-Loan program utilizing JICA's ODA loans, as well as designing an implementation scheme and identifying model SMEs to be supported. At the same time, we plan to explore medium-term measures to improve SMEs' access to finance.

1 Financial regulations and SMEs in Myanmar

1.1 Current situation of financial regulation

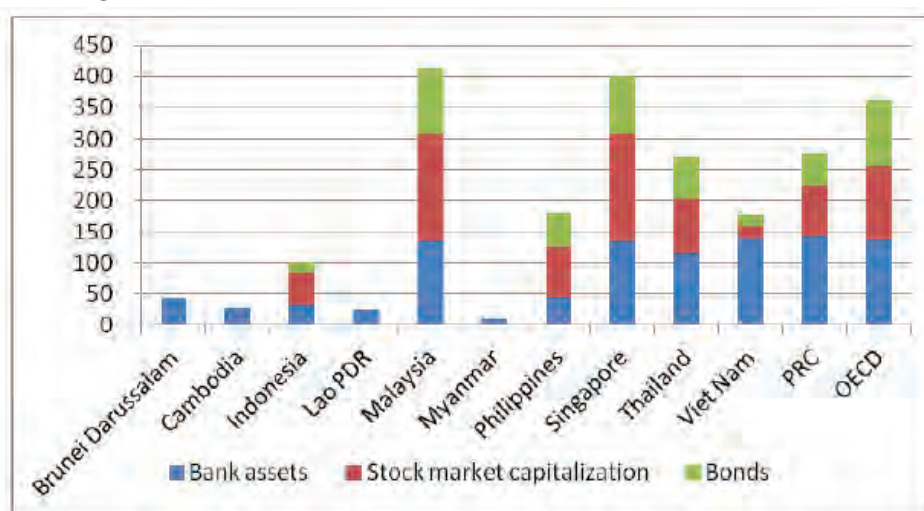
The Government of Myanmar (GOM) recognized the importance of financial markets for the economic development of the country and various kinds of financial regulations have already started to be modernized. The Foreign Exchange Law was revised in 2012, and The Central Banking Law was revised in July 2013. The Securities Exchange Law was set up in the same month as well. The Central Banking Law gives an independent role to The Central Bank of Myanmar (CBM), which had been subordinated to the Ministry of Finance (MOF), which also changed its name from Ministry of Finance and Revenue. The Securities Exchange Law is intended to establish the base of security exchange transaction rules in order to provide long term investment capital, an essential element for the economic growth, to Myanmar companies and give chances to investors. The Securities and Exchange Commission (SEC) is planned to be established in 2013 and a stock market is also planned to be established in 2015 when ASEAN market integration completes.

1.2 The situation of the banking sector of Myanmar today

The banking sector of Myanmar has been severely restricted by various kinds of regulations. In 2005, just after the banking crisis, MOF, the Banks Supervision Committee and CBM issued an instruction which prohibited banks from making loans without sufficient 'strong' collateral ('strong' collateral means immovable collateral, according to an inquiry to the CBM Yangon office), and banks were required not to lend medium-term or long-term loan and not to lend more than 20% of the combination of paid-up capital and special monetary fund (Please refer CBM instruction No1/2005: Attachment 1-1) to a single party. This instruction was intended to keep financial stability, fearing bank runs and bankruptcies like those which happened in 2003. As a result of these regulations, banks cannot lend their funds without immovable collateral, or for more than one year except for some policy loans such as the term loan of MADB. Consequently, Myanmar banks have not offered sufficient financial services for their clients. Borrowers must prepare many kinds of certificates and papers in order to make the lending application form, and provide immovable collateral, normally 30 to 50% of the forced sale value (FSV). Depositors must wait for a long time to just withdraw their deposits and pay charges when they use ATMs, most of which act as no more than cash dispensers. In other words, the banking sector does not need to recognize itself as a service sector providing services to its clients.

Due to less borrower friendly banking regulations and practices as mentioned above, the banking sector is playing only a limited role in economic development in Myanmar. A report issued by the Asian Development Bank Institute (ADBI) points out that the total financial assets of Myanmar, in terms of ratio to GDP, are by far the lowest in the ASEAN economies² According to an ADBI working paper, the ratio of bank assets to GDP in Myanmar was 10% in 2010, while those for the second lowest, Lao PDR, was 27% and the third largest, Cambodia, was 28%. Compared to Thailand or Malaysia, size relative to GDP is less than one tenth.

Fig. 1-1 Total Financial Assets in ASEAN Economies, 2010 (% of GDP)



Notes: bank assets (claims on the domestic real nonfinancial sector by deposit money banks) come from IMF/IFS, lines 22, a-d; stock market capitalization is from the World Bank database; bonds (sum of local currency and foreign currency bonds) are from ADB's Asian Bond Online database.

Sources: IMF, International Financial Statistics database, www.imf.org; World Bank, database, <http://data.worldbank.org>; and ADB, Asian Bond Online, <http://asianbondsonline.adb.org/index.php>

².<http://www.adbi.org/working-paper/2013/03/28/5577.deepening.asean.financial.markets/>

1.3 Problem with financial regulation and resolutions

(1) Restriction on the length of loans (one-year rule)

In order to provide enough capital to SMEs in Myanmar, it is absolutely necessary to modernize these banking regulations. Needless to say, SMEs need longer term capital to make investments for their business expansion. The regulation on the maximum length of lending should be abolished, although this regulation has just been partially liberalized on 2 August 2013 by the CBM instruction No1, and banks are allowed to make long term loans compatible with its own long term deposits. (Please refer to attachments 1-2 to 1-8).

(2) Collateral requirement

Secondly the expansion of range of collateral should be fulfilled. The CBM has started liberalizing conditions for collateral to include gold (75%FSV; 2011/9/8), deposits (80%FSV; 2011/12/27), jewelry, government bonds, and crops for export (60%FSV; 2012/1/25), however, most Myanmar banks have not yet started accepting these kinds of non-traditional collateral due to the lack of incentives because valuation of non-traditional collateral is very time-consuming and physical maintenance is cumbersome in comparison with traditional collateral such as immovable assets. As a result, SMEs without properties cannot borrow from banks (See details in 2.1). Discussion concerning the establishment of a credit insurance system to guarantee SMEs' loans to the banks has just started between MOF, CBM and other relevant agencies and it will take some time before such a system can be launched. Reliance on immovable collateral hinders banks' capabilities to evaluate business profitability. Today all the banks do not carefully examine business plans or profitability of their SME clients, because they solely rely on such collateral for recovery of principal and interest as long as they maintain conservative lending limits up to 30% to 50% of FSV.

(3) Regulation on interest rate

Finally, competition among banks has been limited by these regulations. Interest rates have been deregulated partially under the Central Banking Law (please refer to CBM instruction No11: Attachment 1-1) in 2011. Under this deregulated rule, the banks are allowed to set their lending rate between 10% to 13%, and their deposit rate between 8% to 10%. However, a few bank increase their deposit rate, such as Small & Medium Industrial Development

Bank (SMIDB) who's saving account rate is 8.5%, while Kanbawza (KBZ) Bank which has biggest branch network sets the rate at 8.0%.

Table 1-1 Interest rate on fixed deposit

	Saving account	3-months fixed deposit	6-months fixed deposit	9-months fixed deposit	12-months fixed deposit
SMIDB	8.50%	8.75%	9.00%	9.25%	9.50%
KBZ	8.00%	8.25%	8.50%	8.75%	9.00%
MEB	8.00%	8.25%	8.50%	8.75%	not in service

Source: Created by the consultant team

As for lending rates, there are no differences between banks, and some banks request that borrowers pay a 1% extra service charge for annual roll over. In order to promote changes to these situations, some more steps towards deregulation are needed. However, deregulation steps should be considered very carefully and only carried out step by step. In the short term, the one-year rule for bank lending should be abolished. Practically all banks allow borrowers to roll over their lending upon maturity. If banks are allowed to enter into long-term loan agreement, it will reduce the work-load of both banks and borrowers because a tremendous volume of documents is required for roll-over procedure. If this regulation is abolished, the banks can allocate these human resources to other areas and borrowers can use the bank loans for much longer term investments, which can increase productivity.

Hopefully the banking regulation should be modified so that banks can use their discretion to conduct business at their own risk. In the final stage, financial regulations should shift to supervision of the banks. For this purpose, capacity building of the banks is needed (See details in 5.2.)

1.4 The SME promotion policies of GOM and the situation of SMEs today

1.4.1 The SME promotion policies

Historically, GOM had not taken any industrial policies for SMEs until President Thein Sein's administration because the Ministry of Industry (MOI) had many state owned enterprises (SOEs) and production of industrial goods through SOEs was a mission of MOI in the past. Even after abolishing Burmese Way to Socialism in 1988, GOM had changed neither the governmental organizations nor their missions from those for

socialism to capitalism and, therefore, no systemic approach to promote private sectors had been taken. However, after privatization of SOEs and initiation of market based reform by President Thein Sein, GOM had finally entered into the phase of industrial policy making. President Thein Sein's administration had already acknowledged that it is essential to develop SMEs for economic growth.

GOM established the SME Development Center in April 2012 to promote financial inclusion for SMEs as well as to provide various training courses to increase SMEs' management capacity. In January 2013, GOM formed the Central Committee and Working Committee for Development of Small and Medium Enterprises chaired by the President Thein Sein as well as the SME Development Implementation Committee chaired by Vice President Nyan Tun. The committees supervise working groups in charge of drafting the Small and Medium Enterprises Development Law.

The enactment process of SME Law is not disclosed and, while being said to be approved by Parliament in early 2014 by many relevant officials and business people, no detailed schedule or target date has been made available. As of May 2013, the fifth draft included the aims of SME development, formation of acting bodies and their duties, participation of business association, SME registration, formation of fund management boards, and responsibilities of other relevant ministries. It also describes the utilization of foreign aid within a framework of promoting SME finance, but its organizational and procedural details are unclear. Financial assistance is necessary to ensure that the new policy can be effectively implemented for development of SMEs.

It also includes the new definition of SME. While the existing definition of Industry Law covers only small and medium industries (SMI) under the supervision of MOI, the new definition is designed to cover various sectors including service, trading and tourism (hotel and restaurant) under MOC, Ministry of Hotel and Tourism or some other ministries. Details of definition of each sector are modified to fit better to the current economic situation as shown on the next page. The proposed TSL program is to adopt the new definition to define eligibility for borrowers as described in section 4.1.2.

Table 1-2 Existing definition of SME (Industry Law revised in 1990)

	Small	Medium
Power (horse power)	3-25	25-50
Employment (number)	10-50	50-100
Capital investment (mil kyat)	<1	1-5
Annual production (mil kyat)	<2.5	2.5-5.0

Source: SME Development Center website (http://www.smedevelopmentcenter.gov.mm/?q=en/def_sme)

Table 1-3 New definition of SME (Discussed in the Parliament)

(1) Manufacturing, Mining and Construction

	Small	Medium
Employment (number)	<50	51-300
Capital investment (mil kyat)	<500	500-1,000

(2) Labor intensive manufacturing or CMP

	Small	Medium
Employment (number)	<300	301-600
Capital investment (mil kyat)	<500	500-1,000

(3) Wholesale

	Small	Medium
Employment (number)	<30	31-60
Capital investment (mil kyat)	<100	101-300

(4) Retail

	Small	Medium
Employment (number)	<30	31-60
Capital investment (mil kyat)	<50	51-100

(5) Service

	Small	Medium
Employment (number)	<50	51-100
Capital investment (mil kyat)	<100	101-200

(6) Other enterprise

	Small	Medium
Employment (number)	<30	31-60
Capital investment (mil kyat)	<50	51-100

Source: SME Development Center website (http://www.smedevelopmentcenter.gov.mm/?q=en/def_sme) and interview with SME Development Center as of October 2013

The Central Department of Small and Medium Enterprises Development in Yangon, also known as the SME development center, it is expected to play a role as a bridge between SMEs and banks for improving financial inclusion for SMEs. In addition, President Thein Sein ordered MEB and SMIDB to establish an SME Loan Program, in which MEB lends 5 billion kyat to SMIDB at 8.25%, and SMIDB lends it to the SMEs which need funds for their businesses at 8.5%, much lower than the normal bank lending rate (13%). More than 300 SMEs applied to this program, and SME development center selected 157 SMEs and transmitted these applications to SMIDB.

Finally SMIDB lent 5 billion kyat to 25 SMEs. GOM increased the size of the fund to 30 billion kyat, and another 5 billion kyat has been disbursed to another 37 SMEs in Myanmar.

While recipient SMEs enjoyed the low-interest rate loan, there are some problems in this program. Firstly, the 30 billion kyat of this program will not be enough for the needs of SMEs all over the country. 10 billion kyat of the first and second disbursement was delivered to only 62 SMEs, however, the number is just a fraction of the 127,000 SMEs in Myanmar based on the estimation by the President's Office. Secondly, as MEB does not use government funds but uses its own funds for this program, the program becomes loss-making business for MEB as well, because the 8.25% lending rate of this program is too low compared with its funding rate (deposit rate is 8%). SMIDB also suffers from low profit margin (0.25%) and the additional burden of providing its own 12.5 billion kyat government bonds to MEB as collateral for this SME Loan Program. As a result of low profit margins to both SMIDB and MEB and collateral requirement for SMIDB, the disbursement schedule for the remaining 20 billion kyat has not been planned. Since this SME Loan Program is a policy loan for SMEs, budgetary support from GOM should be applied. Otherwise, the program is not sustainable from the economic view point. For further discussion on the SME Loan Program, please see section 2.4.

Registration and accounting systems of SMEs should also be modernized. At this moment, many SMEs have not formally registered with the Directorate of Investment and Company Administration (DICA) of the Ministry of National Planning and Economic Development (MNPED), and only 40,000 SMEs have registered with the Directorate of Industrial Supervision and Inspection (DISI) of MOI, despite the President's Office estimating that there are 127,000 SMEs in the country. It is generally believed that a large number of SMEs in Myanmar exist informally. As a result, it is very difficult to statistically estimate the total demand for funds to satisfy SMEs' needs.

In addition, most SMEs do not prepare financial statements. Even if they do make financial statements, some SMEs do not separate company accounts from owners' individual accounts as a common practice, because the owners provide their properties for the production or other business activities and for collateral in many cases. In order for banks to analyze the financial standing of the borrowing entity, financial statements correctly reflecting assets, liabilities and revenues legally belonging to the borrower are needed. For this purpose, assets and liability of SMEs must be clearly segregated from owners' personal ones. The consultant team believes that there are several reasons for

commingling of personal and business assets. First, a properly functioning tax collection system had not been established and business owners cannot enjoy any tax benefit for incorporating their business assets into a legal entity, where depreciation costs can be tax deductible. Secondly, there has traditionally been a deep-rooted fear for nationalization for any assets registered under the company's name. When the Burmese way to socialism started, all business assets were confiscated while some of privately owned ones were exempted. Several business people mentioned that they intentionally register key business assets under multiple family members name to make it difficult for GOM to identify them. A number of SMEs had the factory land, buildings and machinery owned by different family members. For these reasons, encouragement of incorporating businesses is likely to take a long time and must be preceded with the establishment of the tax collection system, which can provide incentives and disincentives for business owners.

1.4.2 Other donors

German foreign aid agency GIZ, and Friedrich Naumann Foundation of Germany have already established their offices in the SME development center in Yangon, and started their operations. GIZ have 3 programs, Tot (training of trainers) program from September 2013 through June 2016, the two-year technical assistance program for banks, which includes assistance to the regulatory bodies such as CBM, and a financial reporting system for the development of SMEs. According to the meeting with GIZ, 7 banks applied to this program, and 3 banks were selected.

GIZ's Myanmar projects in progress

- (1) Private Sector Development (33 months, budget EUR 4.5 mil)
- (2) Financial Sector Development (36 months, budget EUR 4.6mil)

The budget of this program has been increased from EUR 3 mil. based upon G to G negotiation in July 2013.

- (3) Technical and Vocational Education and Training (36 months, budget EUR 5 mil)

On the other hand, the German government and GIZ have no intention to assist GOM on credit guarantee system or micro finance program, as they consider that there are many other areas with higher priority and fear that such programs may result in fiscal losses.

Another German foreign aid agency, KfW, started operation recently and hired a consultant, Ipc, to research on the landscape for potential technical and financial assistance to the private banks, responding to the progress of Paris Club negotiation.

KfW is in the process of due diligence for 3 candidate banks, SMIDB, CB and Myanmar APEX Bank, based upon Ipc's survey.

Friedrich Naumann Foundation which is a German private foundation, sponsored the SME development center to hold 7 seminars on business skills in Industrial Zone between July and October 2013.

International Finance Cooperation is also in discussion with several local banks for potential technical and financial assistance. The details of the assistance are not yet finalized, but should include the counter guarantee for letters of credit ("L/C") issued by certain local banks³. International Finance Corporation is also working with CBM on the establishment of credit bureau for effective financial information sharing among banks.

³ Myanmar companies have to make advance payments when they import products or materials because banks in exporters' countries do not accept an L/C issued by Myanmar banks. IFC is guaranteeing obligations of many such banks in emerging markets to enable local businesses to import without expending cash in advance.

2 Current funding conditions of SMEs

This section examines the current funding practices of SMEs and the obstacles they face in accessing bank loans. It is based on a literature search, review of loan applications submitted to SMIDB, interviews to banks and SME owners and a survey on 102 SMEs selected from “Top 100 SME in Myanmar” published by SME development Center of MOI and introduced by industry associations and Japanese companies in Myanmar.

2.1 General observations

To understand the financing practices of SMEs, the consultant team started with a literature search and analysis of loan applications submitted to SME development center and SMIDB. Then, the team interviewed SME owners and managers to gain first-hand knowledge on their financing practices and way of thinking. Through the field survey, the team found out the following.

- SMEs do not borrow much from outside. Their business activities are funded by their own funds such as family savings and internal cash flow.
- Still, there is a large demand for SME loans with lower interest rate.
- Hurdles for bank borrowing are high for SMEs due to the need for complex procedures, requirement of immovable collateral and the disclosures of financial information.
- Proper financial reporting practice is very rare among SMEs due to the fear of taxation and other kind of government interventions, the ultimate form of which is nationalization. For this reason, informal lenders are considered more easily accessible and convenient finance sources for short-term working capital needs.
- Very strict banking regulations have been imposed since the 2003 banking crisis, but CBM had started gradually relaxing the collateral restrictions. .

Aung Kyaw of Yangon Institute of Economics published a report on this subject in 2008⁴ and pointed out that 30 companies out of 167 in Yangon and Mandalay had access to bank loans. It suggested that the bank loans were generally difficult because of (i) complex bank procedures and (ii) tight collateral requirements. It also pointed out that loans for only one year term were not suitable for capital investments. The consultant team believes that this observation is still true and it will be necessary to look in detail

⁴ Financing Small and Medium Enterprises in Myanmar , IDE Discussion paper No. 148, 2008

to find out the current situation.

This assessment coincided with our review of SME loan applications and interviews with SME owners/managers as quite a few balance sheets of SMEs did not show any borrowing from outside, not even any account payable or other trade debt. While those balance sheets are not accurate and reliable, the consultant team still believes that successful SMEs had gradually accumulated wealth through their internal cash flows. Also, these interviews confirmed that the amount of borrowing of SMEs is considered to be small. One SME owner mentioned that he was still not confident in making a large investment with bank loan because of fear for the 2015 election and ASEAN market integration.

However, judging from the fact that the current SME Loan Program had attracted over 300 applications in only several months without much advertisement, the consultant team believes that there is a large demand for SME loans with lower interest rate. According to the SME development center, the aggregate loan amount requested by 152 applicants for the SME Loan Program was over 50 billion kyat.

From the banks' perspective, SMEs are considered a main customer segment for lending. Despite difficulties for obtaining bank loans, senior managers of all the banks mentioned that SMEs occupy a large portion of their banks' loan portfolio. During the interview with MEB, the largest state-owned bank, senior managers mentioned that about 90% of their loans are for SMEs, with the remaining 10% is for privately owned conglomerates. Interviews with other banks also revealed that 80% to 90% of their clients are SMEs, although specific statistics are not available. This means that SMEs are not avoided by banks, but the condition or volume of bank lending is not meeting the potential needs of SMEs due to various issues including high interest rate and extensive requirements for documents, disclosures and immovable collateral.

It should be noted, however, that it is not considered possible to realize SME owners' expectations for low-interest and unsecured bank borrowing in the near future. While many SMEs complain that bank lending is too little and too expensive, the consultant team considers that their expectations for unsecured and low-cost funding is partially based on their illusions about banking practice in other countries. One SME owner was surprised when the consultant team mentioned that unsecured lending to SMEs was limited even in Japan and immovable assets were commonly required by banks. Multiple SME owners mentioned that bank lending rate should be lower than 5% because borrowing rate in Singapore or Japan are much lower. Such expectations are coming from false expectation created by fragmented information and the lack of

understanding about the banking business and macroeconomics such as the relationship between interest rate and inflation. Therefore, it is important to distinguish the issues that can be addressed by a single measure, such as the proposed TSL program, and the issues that must be addressed by a combination of measures, such as banking regulation and taxation, and over a long period of time.

2.2 Obstacles for SMEs' access to bank loans

2.2.1 High interest rate

Interest rate is the most frequently heard complaints by SME owners. While the current 13% lending rate is not considered high when considering the inflation and the economic growth rate of Myanmar and in comparison with other ASEAN countries, many SME owners mentioned that it is too high when compared to the profit margin of their businesses and the risk of volatility in economical and political situation in Myanmar. Our survey on SME owners revealed that average net profit margin perceived by SME owners was less than 12% (see 2.3 (2)).

2.2.2 Prohibition of extending loans exceeding one year

As mentioned in 1.3 (1), banks are generally prohibited from extending loans exceeding one year. Many SME owners that the consultant team interviewed mentioned that they wanted to take on bank loans to replace machinery or purchase machinery but worry about the refinance risk under the one-year rule. The survey on 102 SMEs also revealed that the extension of loan term is the second largest demand from the respondents, while lower interest is the top.

2.2.3 Complex bank procedures and disclosure requirements

Extensive document and disclosure requirements are the primary reasons that many borrowers opt to choose informal lenders for short term funding needs, according to a senior manager at one commercial bank. Borrowing from informal lenders is very simple in that borrowers are required to provide gold as collateral and no detailed disclosure or documentation is required. While the interest rate is high, the financial burdens from informal borrowings are acceptable if the funding need is only for two or three months. They are, however, unusable for long term investments.

SMIDB, an implementing bank of the current SME Loan Program, kindly provided assistance to the survey by disclosing detailed information about their loan procedures and introducing some of their clients.

The standard documents required for bank loan applications are as follows.

- i. Submission of loan application and the following documents
- ii. Multiple letters of undertakings or promissory notes
- iii. Resident registrations, family member lists and related documents
- iv. Tax payment certificates for the last 3 years (income tax, trading tax)
- v. DICA and DISI registrations
- vi. Information about the collateral, such as certificate of ownership
- vii. Financial statements for the last 3 years (1 year for SME Loan Program)
- viii. Pictures of factories and collateral properties

While the extensive documentation requirements above are one of the reasons that many SME owners avoid bank loans, there is no measure to resolve this problem as these documents are necessary for banks to confirm the credibility of the borrower. It is true that some borrowers, such as food processing industry businesses, have to submit many licenses and permits from multiple ministries, states/provinces and municipalities but it is not the problem with the banks but with the administrative systems. To some extent, this hurdle can be lowered by streamlining the application documents and processes to make it easier for loan applicants. Technical assistance may be appreciated on this point as well.

While the burden of collecting various certificates for registrations and licenses is high, even bigger problem for SMEs when applying to bank loan is considered to be the preparation of financial statements. Many of SMEs do not create financial statements because business owners in Myanmar do not like to disclose their financial information, wishing to avoid taxation and avoidance having long-lasting fears of confiscation by the government. For such reasons, many of the business owners intentionally created many legal entities for a single line of business, registering the properties under multiple family members' names and employing nominal shareholders for registering purposes. As a result, very few of the assets employed for business are owned by a single legal entity and it is not possible to create a financial statement that truly represent the assets and liability of such. In short, most SMEs are run as individually or family owned businesses and not formally incorporated as legal entities.

When applying for a bank loan, many SMEs create "imaginary" financial statements from a series of transactions, assets owned and liability owed by various entities and family members. This requires some time and incurs costs, including the auditors' fee. The fact that many SME loan borrowers submitted the financial statements for only one year suggests that the applicants created the financial statements for the first time. Some borrowers attached revenue-and-expenditure statement for only one year and no

balance sheet, as it was allowed in the current SME Loan Program.

Such financial statements do not correctly show the true operational records or the state of assets and liabilities of the companies. Since many of the SMEs are not incorporated as legal entities, many of financial statements are not based on an actual record of assets or incomes, but based on the perception of the business owners. Based on the sample review of loan applications, the consultant team had discovered the following features.

- Most of the assets are personally owned by the owner, not by the company, but such assets are included in the company's balance sheet.
- Salaries for owners' family members are not included in expenses.
- Depreciation of machinery and/or valuation of collateral are not properly practiced
- No tax offices or bank's credit officers seemed to have examine the financial statements carefully

In the interviews with some SMEs, the consultant team discovered the existence of a bank loan that was not reported on the balance sheet. When the consultant team reviewed several loan application forms for both SME loans and commercial loans at SMIDB, most of the applicants reported no bank borrowings on their balance sheets. However, when the consultant team actually visited some borrowers, they actually had outstanding debt with other banks, or even with SMIDB. This means that SME borrowers, intentionally or unintentionally, did not report the bank borrowing on their balance sheets and SMIDB's credit officers did not point it out during their credit analysis, even when the applicant was the bank's existing client.

The fact that the bank's credit officers did not review the financial statement is a reflection of distrust in the applicants' financial reporting and the banks' credit culture which focuses on collateral values. The lack of bank officers' credit analysis skill was also evident as many of them could not answer simple questions regarding financial statements attached to the loan applications.

2.2.4 Collateral requirement

SMEs also complain about the requirement of immovable collateral and very conservative loan-to-value ratio against collateral. CBM does not impose any specific regulation to the banks on the upper limit for collateral value, however, banks themselves are very cautious about raising loan-to-collateral value ratio and keeping it relatively low, usually 30% of forced sale value, or F.S.V., due to less developed and non-transparent real estate market. Some banks like Myanmar Citizens Bank (MCB)

use loan-to-collateral value ratio as a method for evaluating creditworthiness of each borrower, and raise it from 30% for the first borrowing to 40% for the second, 50% for the third. Under the practically regulated interest rate without competition, the banks in Myanmar do not want to change interest rates according to the borrower's creditworthiness; so the loan-to-collateral value ratio is the only way for the banks to reflect their risk assessments in their lending practice.

In addition, there are many complaints about partial ownership of apartments, which has not been permissible as immovable collateral. Partial ownership of apartment is becoming a substantial subject for hire purchase schemes, which will be mentioned in 3.2.3.

As mentioned in the previous section, banks cannot rely on financial statements for credit analysis. While some banks, such as KBZ and Yoma Bank, are now beginning to train their employees for cash flow based credit analysis, dependence on collateral will continue for the time being. Therefore, the consultant team believes that more practical approach to expand SME lending is to increase the types of collateral and raise the loan to collateral value ratio.

There are new types of movable and other collateral recently approved by CBM, as described in 1.2. The following are banks' responses to major movable collateral and implications for SMEs. The consultant team believes that this move by CBM should improve SMEs' access to finance by giving them choices of assets to provide to banks as collateral.

(1) Gold

Gold is commonly used as collateral by informal lenders in Myanmar. While CBM has just formally approved gold as collateral on 8th September 2011 by CBM instruction No22 (please refer to Attachment 1-2), banks are applying a more strict valuation method than informal lenders based upon market price. One private bank manager mentioned that only certified gold bars shall be acceptable, as banks do not have the capability to judge whether these gold accessories and jewelry are imitation or not.

For practical concerns, gold is not considered useful as collateral for long term borrowing, either. Gold is a highly liquid asset, but does not yield any return as long while it is kept in the bank as collateral. Therefore, if SMEs have gold and need long-term funding for capital investments, it is expected that they would simply sell the gold and use those funds instead of paying high interest rates for the loan by offering the gold as collateral.

(2) Export crops

Inventory financing had been widely used by banks until CBM prohibited it after the 2003 banking crisis. In 2012, CBM approved export crops as collateral for bank loans (please refer to CBM instruction No25, Attachment 1-3).

The consultant team succeeded in interviewing MCB and its clients who are utilizing a “pledge loan”, with beans for export as collateral.

MCB evaluate the collateral based on the market price. As for the beans, MCB appraised it at 80% of market price and lend up to 60% of the collateral value set by the CBM instruction, namely up to 48% of market value can be borrowed. When accepting beans as collateral, MCB receives the key for the warehouse and seal the doors in order to secure collateral in hands.

The client, a bean exporter, is benefitting from the pledge loan because it can purchase 50% more beans. The problem is that the loan has to be repaid when the collateral is pulled out from warehouse in order to load for export, even if the payment from the importer comes several months later. The client also hopes that MCB will start lending against a bill of lading or letter of credit from the importers' bank.

One rice miller mentioned that he hopes to use his rice inventory for the domestic market as collateral in future. Rice inventory was used as collateral for banks until 1962 before the start of the Burmese Way to Socialism. The MCB manager mentioned that it may become possible to consider rice inventory as collateral once CBM approves.

2.3 Demand for funds by SMEs

To understand the funding needs of SMEs, the consultant team examined the applications to SME Loan Program of SMIDB, reviewed the survey result by a local subcontractor and interviewed 42 SMEs. Interviewee SMEs were selected based on their investment needs from attendances of seminars held on August 23, and September 19 at The Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) and introduced by banks and trading companies.

(1) Applications for SME Loan Program

For the SME loans that SMIDB started in December 2012, a total of 157 applications were submitted to the SME development center with a total loan request of 52 billion kyat. Out of 157 applicants, 62 companies received loans for 10.0 billion kyat in total. The average loan amount was 161 mil kyat.

In many cases, the loan amounts that borrowers obtained were much smaller than they

had requested because the collateral valuation by SMIDB came out much smaller than applicants considered.

According to the applicants for SME loans, SMEs need funding for business expansion and for both capital investments and additional working capital. Manufacturing companies generally need working capital to buy raw materials and to pay salaries, and they would need capital investment, especially if their machinery and equipment are old or have insufficient capacity.

(2) Survey of 102 SMEs and interviews with 42 SMEs

(a) Survey of 102 SMEs

The consultant team, in collaboration with a local subcontractor, Thura Swiss, visited 102 SMEs to examine their funding needs. Some of them were chosen from “Top 100 SME in Myanmar⁵” issued by Ministry of Industry, and others were introduced by certified accountants. The local subcontractor had physically visited sample SMEs with questionnaires because our initial trial revealed that many SME owners are not familiar with banking practices and terminology. The consultant team considered that a proper answer cannot be obtained through written survey or telephone inquiry.

Table 2-1 Sector breakdown of sample SMEs

	Number	%
Manufacturing	60	58.80%
Services	17	16.70%
Agriculture	12	11.80%
Fishery	3	2.90%
Transportation	3	2.90%
Mining	2	2.00%
Wholesale Trade	2	2.00%
Forestry	1	1.00%
Livestock	1	1.00%
Total	102	100.00%

Manufacturing includes food processing (edible oil, dry fruits, tea, and jam), engines, pumps, plastic bottles, textile, footwear, and furniture.

⁵ Source: <http://www.smedevelopmentcenter.gov.mm/>

The sample companies are very different in size. As the chart below shows, the smallest company's total assets and annual turnover is less than 1 million kyat while the largest's exceeds 10 billion kyat. This largest company, a sugar and paper bag manufacturing factory, still qualifies as SME under the definition of draft SME Law, as the number of employees is less than 300.

Fig. 2-1 Total assets of sample SMEs (96 respondents)

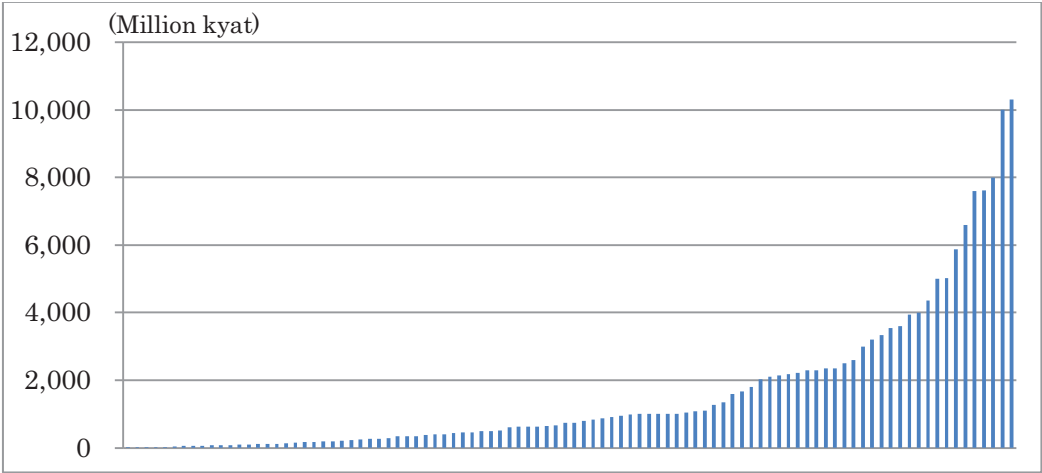
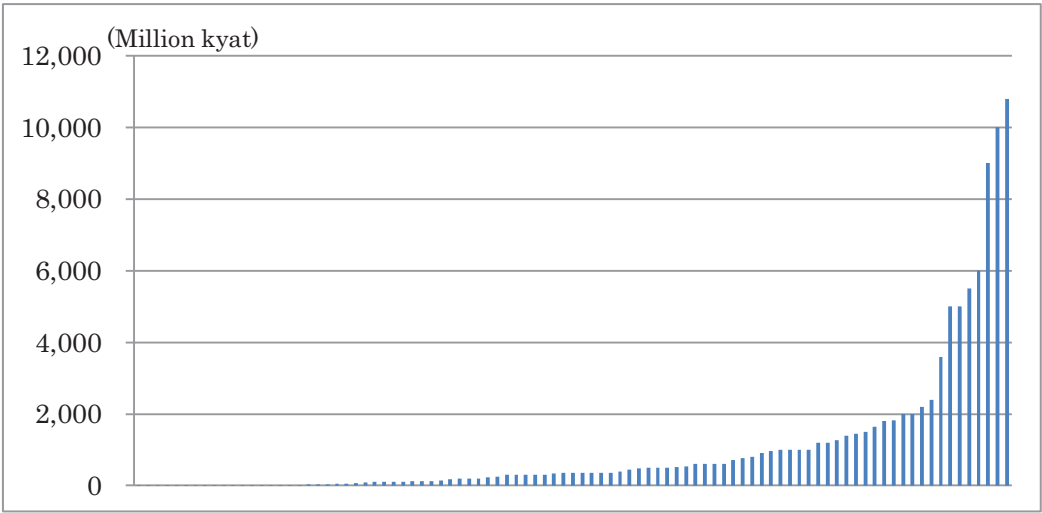
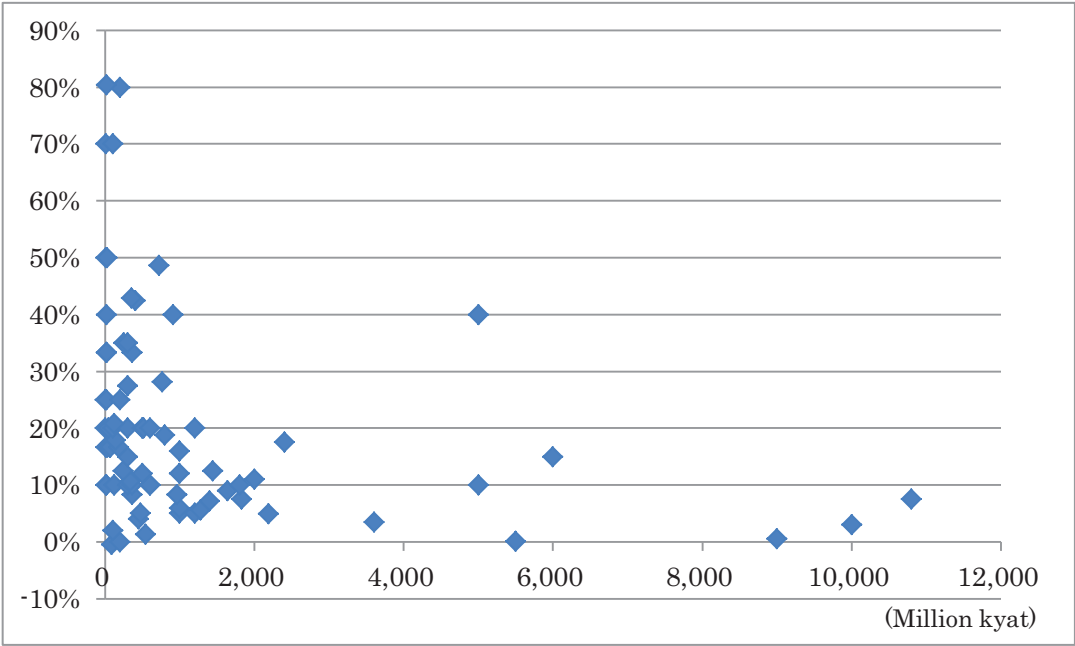


Fig. 2-2 Annual turnover of sample SMEs (93 respondents)



Profitability of the respondents varies but 59 of 86 SME owners considered their profit margin to be equal to or less than 20%, and 39 replied that their profit margin is equal to or less than the current commercial lending rate of 13%. The chart below shows the distribution of profitability based on annual turnover and there is no correlation between the size and the profitability. However, it should be noted that this profitability figure is based on the perception of SMEs and not based on properly recorded financial statements.

Fig. 2-3 Distribution of net profit margin based on annual turnover (86 respondents)



As for the number of employees, 86 out of 96 respondents replied that they had equal to or less than 100, while only 5 replied over 200. 3 respondents replied that they had over 300 employees but they can be regarded as an SME if their paid-up capital is less than 100 million kyat.

Fig. 2-4 Number of employees at sample SMEs (96 respondents)

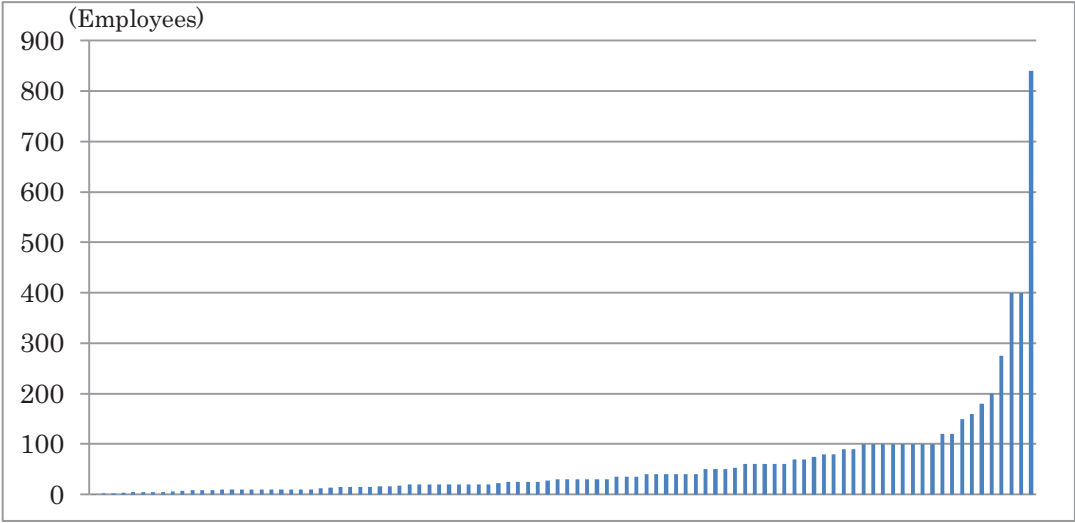


Table 2-2 Size & Profitability of sample SMEs

(million kyat)	All samples	Manufacturing
Total assets (93 responses, manufacturing 53)	Mean 1,618 Median 745	Mean 1,322 Median 620
Turnover (86 responses, manufacturing 49)	Mean 1,054 Median 360	Mean 970 Median 355
Profits (96 responses, manufacturing 57)	Mean 125 (11.6% of turnover) Median 55 (15.2% of turnover)	Mean 93 (9.6% of turnover) Median 48 (13.5% of turnover)
Return on assets (“ROA”) (82 responded to both profits and assets, manufacturing 47)	Mean 22.7% Median 5.3%	Mean 24.6% Median 6.8%
Number of employees (96 responses, manufacturing 57)	Mean 61 employees Median 30 employees	Mean 76 employees Median 30 employees

The turnovers and profitability of manufacturing SMEs are slightly smaller than total samples, while the number of employees is larger. This would suggest the labor intensive nature of manufacturing SMEs. The asset size of manufacturing SMEs is slightly smaller but not very significantly.

While many SME owners mention that they do not borrow from banks because the current 13% interest rate is higher than their profit margin, the survey above also exhibits that the median profit margin of manufacturing sector is 13.5%, meaning that about half of surveyed small and medium sized manufacturers earn less than the banks’ interest rate. ROA, which can be obtained by dividing annual profit by the total assets, turns out to be even lower than the net profit margin, with a median figure of only 6.8% for manufacturing SMEs. While the figure is based on SME owners’ perception and not based on properly prepared financial statements, only a small portion of profitable SMEs can enhance the return on shareholders’ equity by borrowing from banks. If ROA figures above represent the true perception of the business owners, the current bank lending rate of 13% is considered too high. If the interest rate is higher than ROA, the return on shareholder equity (“ROE”) will be squeezed by an interest payment higher than the return on borrowed funds⁶. Out of 46 manufacturing companies, only 16

⁶ If ROA is 10% and all the business assets are purchased by owners’ own fund, ROE is the same as ROA at 10%. If the owner borrows 50% of the required funds from banks at 8%, ROE is enhanced by

showed ROA higher than 13%, while 22 showed ROA higher than 8%. Therefore, if TSL provides lower interest loans, the pool of candidate borrowers shall be expanded.

Use of bank loans by sample SMEs

We asked SME owners as to their usage of bank loans and obtained the following result.

Table 2-3 Use of bank loans

	All SMEs	Manufacturing
Number of SMEs with outstanding bank loans (101 responses, manufacturing 57)	36.3%	28.3%
Size of existing loans (37 responses, manufacturing 17)	Mean 175 Median 150	Mean 181 Median 200

As can be seen from the table above, 36.2% of 101 respondents replied that they had existing bank loans. The consultant team broke down 101 respondents based on the size of total assets and found that upper middle sized SMEs have a higher ratio of usage of bank loans. On the other hand, only 5 out of 20 SMEs are using bank loans.

Table 2-4 Utilization of bank loans by SMEs based on the asset size

	# of SMEs	Total Assets (million kyat)		Employees		Existing Bank Loan (million kyat)		
		Mean	Median	Mean	Median	# of SMEs	Mean	Median
Group 1	20	78	80	18	13	2	6	6
Group 2	20	331	340	16	15	5	113	50
Group 3	21	834	848	45	40	14	139	110
Group 4	20	2,057	2,160	82	90	11	242	200
Group 5	20	5,919	5,013	145	75	5	260	300

Funding needs and availability of immovable collateral

Then, we analyzed the companies' funding needs and intention of borrowing bank loans. As depicted in the table below, 71.6% of all SMEs answered they would like to borrow bank loans (for both working capital and capital investment), while the proportion of SMEs which actually have outstanding bank loans is 36.2%. This suggests that almost

2% (10%-8%), and becomes 12%. However, if the owner does the same with borrowing cost of 13%, ROE is reduced to 7% (10%-13%).

half SMEs that wish to do not have bank loans.

Table 2-5 Future funding needs

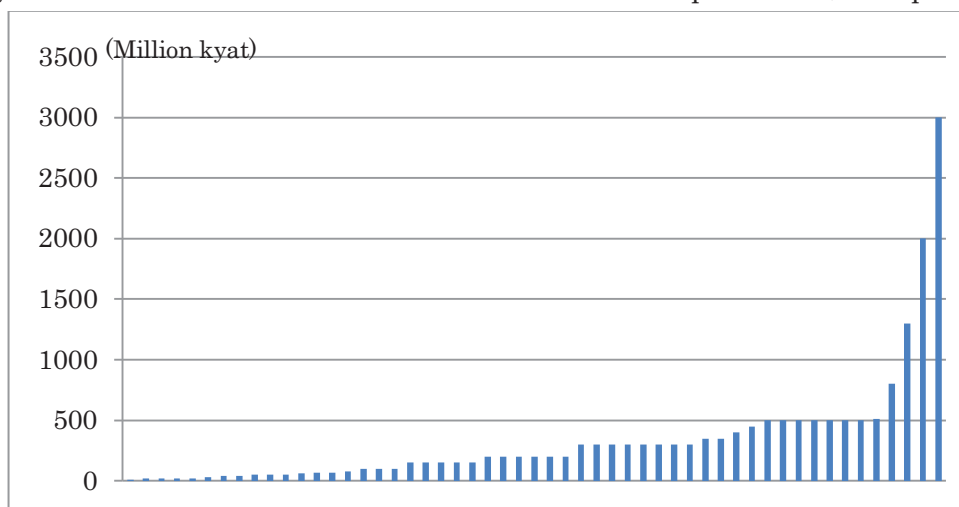
Million kyat	All samples	Manufacturing
Demand for bank loans		
➤ Percentage of SMEs that are in need of banks loans	71.6%	73.3%
➤ Funding needs (73 responses, manufacturing 44)	Mean 551 Median 300	Mean 626 Median 318
Demand for bank loans (capital investment)		
➤ Percentage of SMEs that are in need of banks loans for capital investment	61.8%	65.0%
➤ Funding needs (63 responses, manufacturing 39)	Mean 395 Median 250	Mean 469 Median 300
Demand for bank loan (to purchase machinery and equipment)		
➤ Need banks loans to purchase machinery	52.0%	56.7%
➤ Funding needs (53 responses, manufacturing 34)	Mean 252 Median 100	Mean 271 Median 100

Out of 71.6% of all surveyed SMEs, 61.8% wish to have bank loans for capital investment, including machinery and equipment. For example, food processing companies mentioned that they would like to purchase packaging machines, refrigerators, or dryers to make dry fruits. Other companies answered that they wish to purchase vehicles. The consultant team observed that most of the machinery in surveyed SMEs is outdated, and they wish to upgrade the machines in order to compete with imported products.

The table above does not show much difference in the financing needs between manufacturing sector and others. The financing needs of manufacturing SMEs are bigger than those of all SMEs, but the difference is not significant. This might suggest that other industries including agriculture and services also have needs for replacing existing machinery and equipment.

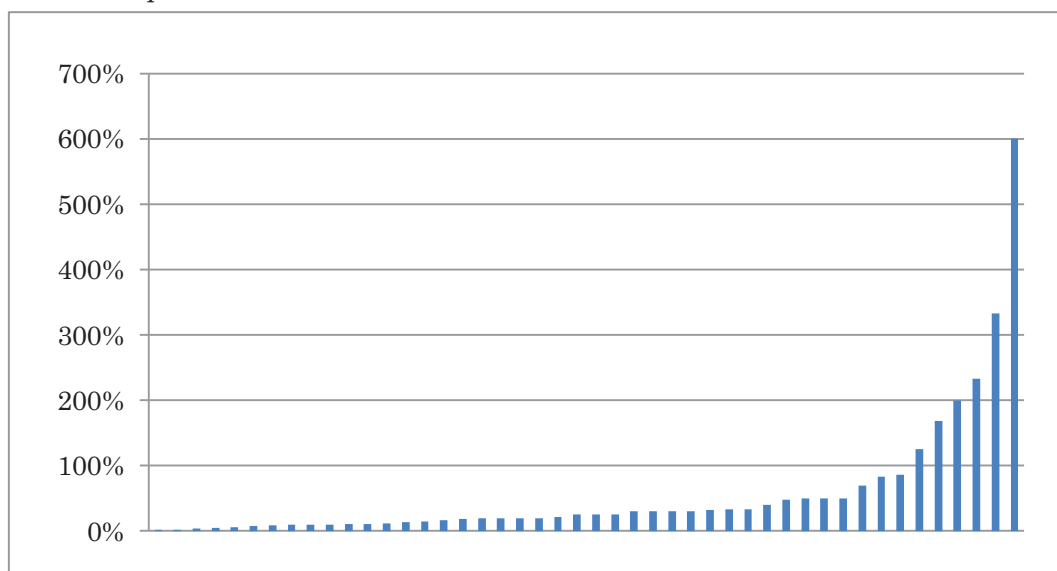
The amounts of bank loan desired by SME owners are as follows.

Fig. 2-5 Desired loan amount for new investment at sample SMEs (53 respondents)



While many SMEs are considering the use of bank loans, there is the issue of immovable collateral requirements. The survey asked SME owners the value of land that they can provide to banks and obtained answers from 83 respondents, out of which 46 has the intention of applying for bank loans. As can be seen from the chart below, 40 SME owners think that their land value is bigger than the planned borrowing amount, and 32 respondents, 70% of 46 in the sample, consider that the value of their land is more than three times the planned borrowing amount. Therefore, it is considered that there are SMEs who have immovable assets for collateral and ready to borrow if the interest rate is considered reasonable.

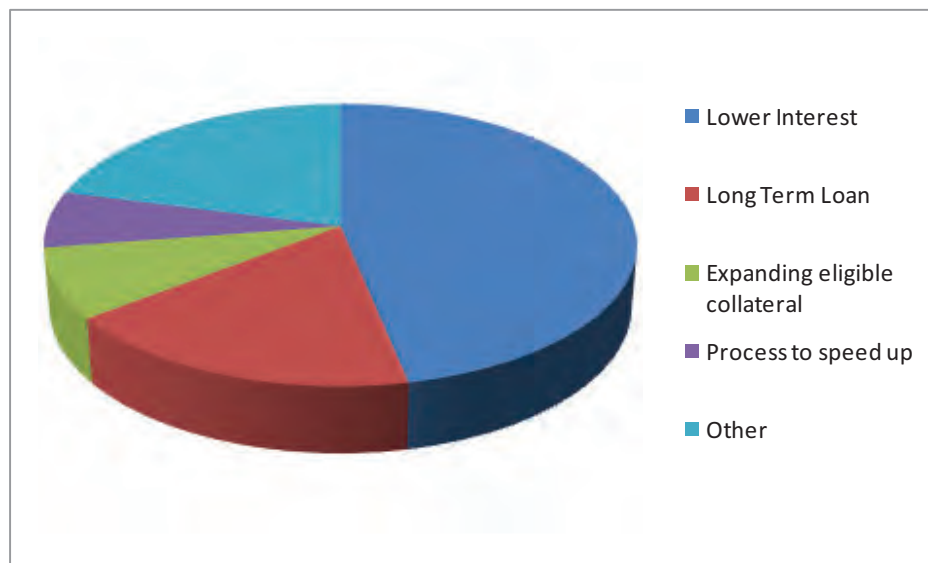
Fig. 2-6 Ratio of planned bank borrowing amount to perceived value land owned by SMEs (46 respondents)



Desired improvement in bank loans and banking services

Lastly, the survey asked SME owners about improvements that SMEs seek in banks or bank loans. As the following chart shows, 46.8% of all requests were for lower loan interest rates, followed by the loan term.

Fig. 2-7 Improvements that SMEs expect from banks



Source: Created by the consultant team based on survey on 102 SMEs

(b) Interviews with 42 SMEs by the consultant team

The consultant team also had interviews with 42 SMEs with funding needs for capital investment, in order to gain a deeper understanding of their funding needs and to identify model SMEs to be supported by this project. The 42 SMEs were selected from participants of the seminar organized at UMFCCI on August 23 and September 19, 2013, and from respondents to the survey on 102 SMEs, as well as companies introduced by financial institutions and trading firms. Detailed descriptions of model SMEs are included in section 4.3.

Because the loans under the TSL program are supposed to be provided for capital investments by SMEs, the 42 SMEs were mainly selected from the manufacturing sector, which is expected to have larger demands for capital investments than service or trading sectors. The sector breakdown of the 42 companies is as follows:

Table 2-6 Sector breakdown of 42 companies

Manufacturing	66.7%
Services	14.3%
Wholesale Trade	4.8%
Agriculture	2.4%
Livestock	2.4%
Retail Trade	2.4%
Others	7.1%
Total	100.0%

The main questions asked by the consultant team are as follows:

- Overview of the business
- Current funding conditions
- Demand for lower interest loans
- Demands for capital investment loans

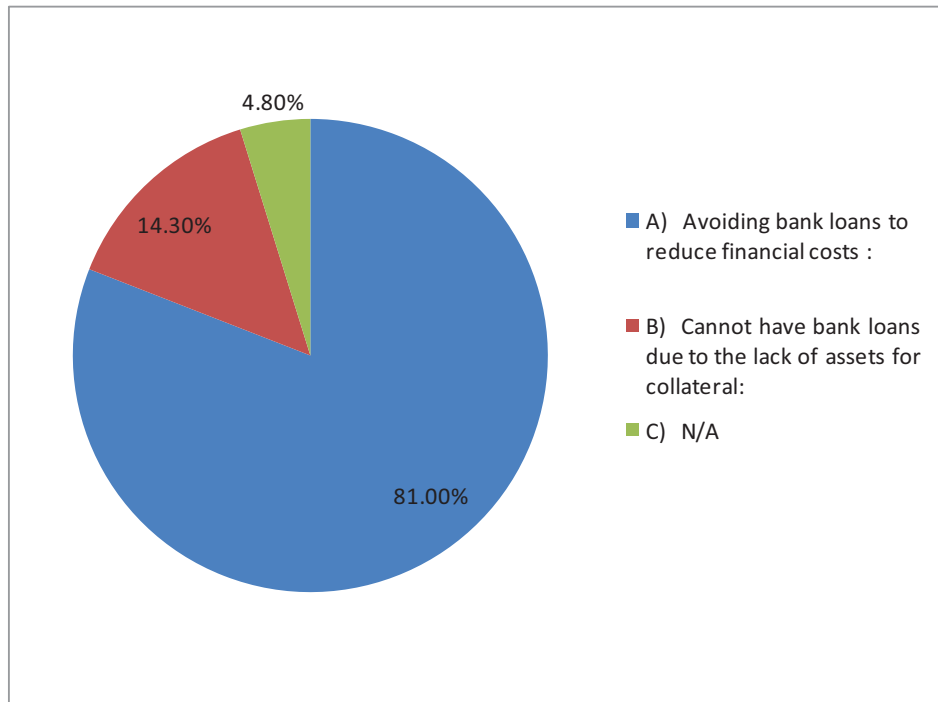
Findings from the interviews with 42 SMEs can be summarized as follows.

Current funding conditions

40.5% companies out of 42 interviewee SMEs answered that they have outstanding bank loans, while 50.0% answered that they do not (the remaining 9.5% did not give clear answers).

The reason why 50.0% of interviewee SMEs do not have bank loans is largely due to the high cost, followed by the lack of assets for collateral.

Fig. 2-8 Main reason why SMEs do not have bank loans

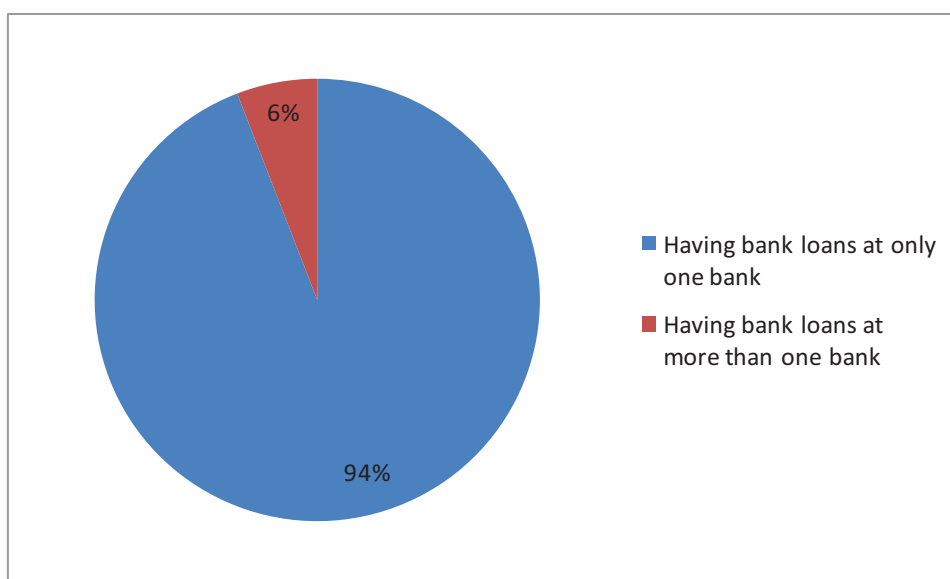


Those SMEs which answered “avoiding bank loans to reduce financial costs”, hereinafter referred to as “Group A”, use their own funds for operations and capital investments. Such “own funds” are basically funds from internal cash generation, but are sometimes provided by their relatives or family members. The relatives and family members receive part of the profits as dividends, instead of receiving fixed interests. None of the SMEs in Group A were borrowing from informal lenders. Some SMEs in Group A have shown an interest for lower interest loans to be provided by the TSL program (to be explained later in this section).

Some of the SMEs which answered “not being able to have bank loans due to the lack of assets for collateral”, hereinafter referred to as “Group B”, rely on financing by informal lenders, as well as fixed interest rate borrowing from relatives and friends. Interest rates of such informal loans vary from 2% to 6% per month. SMEs that have sufficient profits can have access to lower interest rate (2% per month), while others have no choice but to access funds at high interest rates (5-6%).

Almost all SMEs that have outstanding bank loans answered that they have bank loans at only one bank, although they have bank accounts at multiple banks. Only one interviewee SME (6%) answered that it has outstanding loans at more than one bank.

Fig. 2-9 Number of banks which interviewee SMEs have outstanding loans



This would be due to the collateral practice in Myanmar. When a bank takes collateral from a borrower, the bank keeps the certificate of the real estate until the loan is repaid. Therefore, it is not easy for a SME to apply for additional loans at other banks, especially if they have outstanding loans and if they do not have many assets.

Due to this collateral practice in Myanmar, it is recommended that the number of PFIs should be expanded so that more SMEs can apply for additional loans under TSL program to banks from which they have existing borrowing.

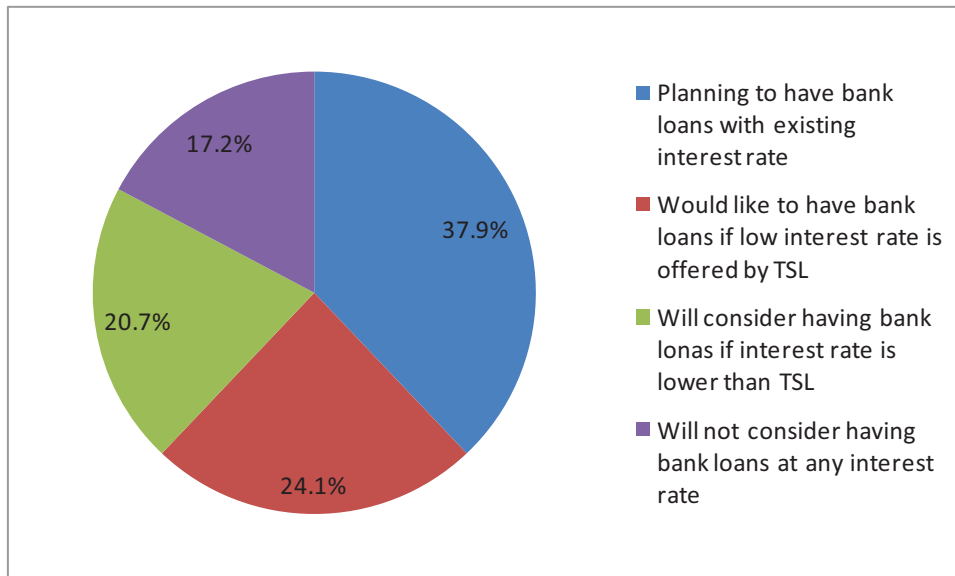
Demand for lower interest loans

The consultant team asked SMEs in Group A, those currently do not borrow from banks, whether they are interested in lower interest loans. The answers were divided into four groups, as depicted in the figure above. 37.9% of SMEs answered that they are planning to have bank loans at the existing interest rate (13%) but they wish to have lower interest rate.

More importantly, 24.1% of interviewees answered that they would like to have bank loans if the loan interest rate is 8.5% as offered by the TSL program. All SMEs in this group have no outstanding bank loans, avoiding bank loans to reduce financial expenses.

Nevertheless, 20.7% of interviewees believe that the interest rate to be offered by the TSL program is still too high. Typically, they answered that they will be interested in having bank loans if the interest rates are around 4-5%.

Fig. 2-10 Reactions of SMEs to lower interest loans



17.2% of interviewees answered that they would not have bank loans at any interest rate. The reasons why they are not interested in bank loans are:

- They do not have any demands for external financing, because they are not planning capital investments in the near future, and they have sufficient cash for working capital, and/or
- They avoid the bank charges for loan contracts, and also avoid complicated loan application processes

Demands for capital investment loans

Almost all SMEs which wish to have bank loans in the future are planning capital investments to expand their production or to increase the quality of the products. The consultant team observed that many SMEs have been using their equipment for 20 -30 years.



Fig. 2-11 Examples of outdated equipment of interviewee SMEs

The consultant team also observed that most interviewee SMEs do not always have a clear distinction between capital investments (e.g. purchasing machinery and equipment) and working capital (e.g. purchasing materials for productions), although they understood the difference after the consultant team explained.

Bank officers might not have clear understanding on the difference either, because the banks in Myanmar usually do not examine the loan purpose during the appraisal process.

Because the loans under the TSL program are for the capital investments of SMEs, bank officers, who receive the loan applications, should be instructed on the difference between capital investment and working capital in order to avoid any confusions in the application process. This point shall be covered by the training sessions provided by the PIU.

Others

The consultant team observed that around 50% of interviewee SMEs had audited financial statements. However, only one interviewee SME mentioned that they use financial statements for their business management. Some SMEs seem to have prepared audited financial statements, only because they were required by banks upon applying for loans.

When the consultant team reviewed several financial statements of the interviewee SMEs, the team observed that the financial statements do not fully cover their business. A typical example is that fixed assets and inventories which are owned by business owners do not appear on their balance sheet. In this case, it is not possible for bank officers to carry out loan appraisals based on the financial status but banks still accepted them and granted loans, as long as the borrowers provide sufficient collateral.

2.4 Government supports on the financing of SMEs

In general, government support for financing of SMEs includes (i) funding support to financial institutions that provide low-interest loans, (ii) provision of interest subsidies to SMEs, (iii) credit guarantees by governmental organizations, and (iv) direct lending by policy-based financial institutions. GOM started its “SME Loan Program” in late 2012, which was intended to be a category (i) type measure but it is limited in size, vague in policy objective and economically unsustainable. As for the interest rate subsidy, bank managers mentioned that there has not been any program in the past and no discussion has been initiated. Credit guarantee programs and establishment of policy-based financial institutions are being discussed by some people in the banking

industry and certain government officials, but no concrete step seemed to have been taken.

SME loans by SMIDB

As mentioned in 1.4, SMIDB started providing “SME loans” in 2012 by the order of GOM. The interest rate is set at 8.5%, which is significantly lower than the commercial lending rate of 13%. Also, the SME loan is exempted from SBM’s one-year rule and can be borrowed for up to three years. Except for the maximum lending limit and the need to visit the SME Development Center in Yangon to be interviewed and also to receive on-site inspection on the existence of the business, all other requirements are the same as for commercial loans. The comparison between commercial loans and SME loans is as follows.

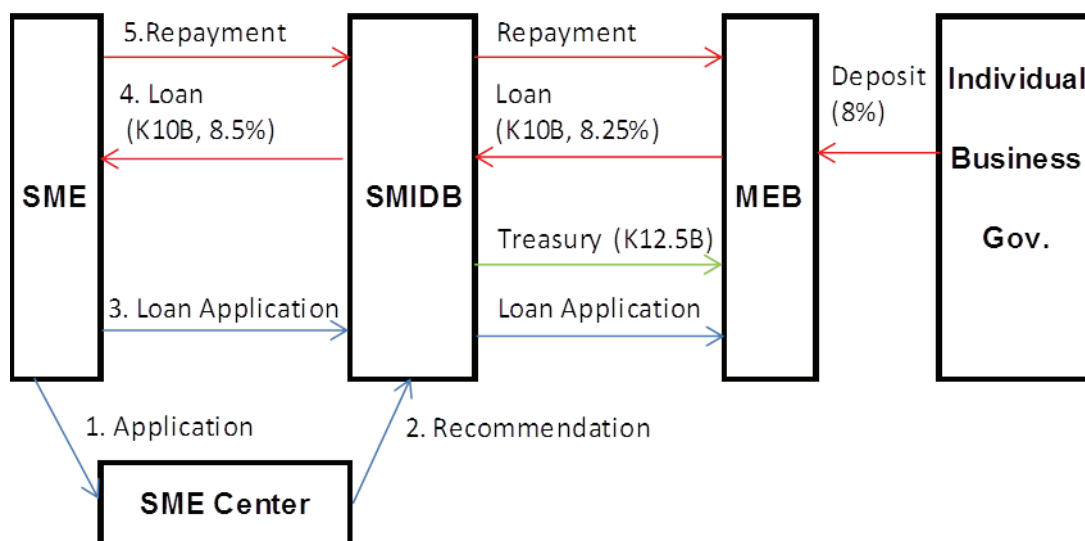
Table 2-7 Comparison between commercial loans and SME loan

	Commercial loans	SME loan by SMIDB
Interest Rate	13.0%	8.5%
Lending limit/recipient	None (single lending limit by regulation = 20% of capital)	500 million kyat
Maximum Term	1 year	3 years
Funding support	None Minimum deposit rate 8%	GOM ordered MEB to lend to SMIDB at 8.25% (Loan/deposit < 80% apply) (Collateral required)
Fund size	Loan balance of all banks as of 2012.3 was 3.1 trillion kyat, (Annual increase in 2011-2012 was 1.2 trillion kyat)	Currently 10 billion kyat (Limit is 30 billion kyat)
Eligibility criteria	Not applicable	None
Additional procedure		Recommendation by SME Development Center
Bank selection rule		Not clear
Participating bank		SMIDB
Use of funds	No restriction	
Collateral	Based on banking regulation and bank's policy	

As mentioned in section 1.4, this program attracted a lot of SMEs and the 10 billion kyat of loans had already been disbursed. However, due to the fatal issue with the implementation structure, the remaining 20 billion kyat has not been planned for deployment and the acceptance of new loan applications has been stopped. The consultant team considers that biggest problem is the lack of economic incentives for SMIDB, a government related but privately owned commercial bank, to implement this project.

As mentioned at the beginning of this section, a low-interest loan program through commercial banks must provide the commercial banks with adequate compensation for their work. Under the SME Loan Program, SMIDB processes loan application and takes the credit risk of borrowers in the same way as commercial loans, while the gross interest margin SMIDB obtains is only 0.25%, which is only 5% of that for commercial loans. This loss-making arrangement for SMIDB results from the funding scheme designed by GOM as follows.

Fig. 2-12 Process and fund flows for existing SME loan



Source: Created by consultant team

Instead of disbursing necessary funds from the government budget, GOM ordered MEB to loan the fund to SMIDB at 8.25% interest rate. This interest rate is more expensive than the deposit rate, the normal funding cost for SMIDB. At the same time, SMIDB is required to provide collateral to MEB because CBM did not allow exceptional treatment under its collateral requirement regulations. For MEB, lending at 8.25% is a loss making business as well. While MEB is wholly owned by the government, it is a

regulated deposit taking agency and loss making business poses risks to the depositors.

For these reasons, the consultant team considers that neither SMIDB nor MEB has an incentive to continue with this project. At this point, the timing to restart new lending is not known.

The consultant team believes that there are several other shortfalls in this program. First, there is no clear eligibility criterion for the borrower and big companies could borrow this low interest loan. The consultant team identified one case of SME loan disbursed to the company which is currently registered as a big company and does not fit to the definition of SME at the draft SME Law.

Secondly, since the use of fund is not restricted to the new investment, many of borrowers used this low interest loan to refinance their existing commercial loans. If no new investment is encouraged by this loan, its effect on economic development will be limited.

Lastly, the selection of implementing agency, SMIDB, is not clear. While SMIDB has a strong tie with the MOI, it is a privately owned commercial bank with no special legal status. Some of SME owners complain that a single window in low interest loan provision gave unfair advantage to existing SMIDB clients and people who have ties with senior management of SMIDB.

3 Status and issues in banking sector

In this chapter, the status and issues in the banking sector, especially for candidate PFIs of the TSL program is discussed.

3.1 Framework and governance

In Myanmar, there are 24 banks, 4 of which are state owned banks and the other 20 banks are private ones. Some private banks have a relation with the government, e.g. shareholding, appointment of board member(s) and so on.

For example, MOI is not a direct shareholder of SMIDB but has strong influence on important managerial issues. MOI officials mentioned during the interview that MOI neither supervises nor instructs SMIDB, but admitted that important matters are still being discussed between the chairman of SMIDB and the Union Minister of Industry. The Union Minister of Industry had been the chairman of SMIDB for 17 years since its establishment until being replaced by Dr. U Than Tun, who had been serving as a director of SMIDB for 14 years.

Co-operative Bank (CB Bank) is neither invested in by the Ministry of Co-Operatives nor involved in a business alliance with the Ministry of Co-Operatives but is still connected, according to MUFG which has a business alliance with CB Bank. Historically, CB was established by merger of 3 banks which were invested in by individual members of cooperatives under the jurisdiction of the Ministry of Co-Operatives. There is no member of the Ministry of Co-Operatives on the board of CB. The main business of CB is no longer for cooperatives but normal commercial banking business. The relation between CB and the Ministry of Co-Operatives is just historical background in establishment.

30% of equity of Myanmar Citizens Bank (MCB) is owned by MOC and 5 directors are dispatched from MOC. However, MCB is a public company and its equities are traded publicly on the OTC market in the Myanmar Securities Exchange Centre (MSEC).

Such private banks related to the government sometimes have to bear a burden because of their “relation” with government. For example, SMIDB is the implementing agency of “SME loan”, which forces SMIDB to lend with extremely thin 0.25% interest margins. CB established a microfinance institution (MFI) named Myanmar Small Loan Enterprise upon request of the Ministry of Co-Operatives.

Table 3-1 All Banks in Myanmar

State-owned Bank (4)
Myanmar Agricultural Development Bank (MADB)
Myanma Economic Bank (MEB)
Myanmar Foreign Trade Bank (MFTB)
Myanma Investment and Commercial Bank (MICB)
Private Bank (20)
Asia Green Development Bank
Asia Yangon Bank
Ayeyarwady Bank
Co-operative Bank (CB Bank)
First Private Bank
Innwa Bank
Kanbawza (KBZ) Bank
Myanmar Apex Bank
Myanmar Citizens Bank (MCB)
Global Treasure Bank
Myanmar Oriental Bank
Myawaddy Bank
Nay Pyi Taw Development Bank
Rural Development Bank
Small & Medium Industrial Development Bank (SMIDB)
Tun Foundation Bank
United Amara Bank
Yadanarbon Bank
Yangon City Bank
Yoma Bank

Note: Myanmar Livestock and Fisheries Development Bank changed its name to “Global Treasure Bank” in May 2013.

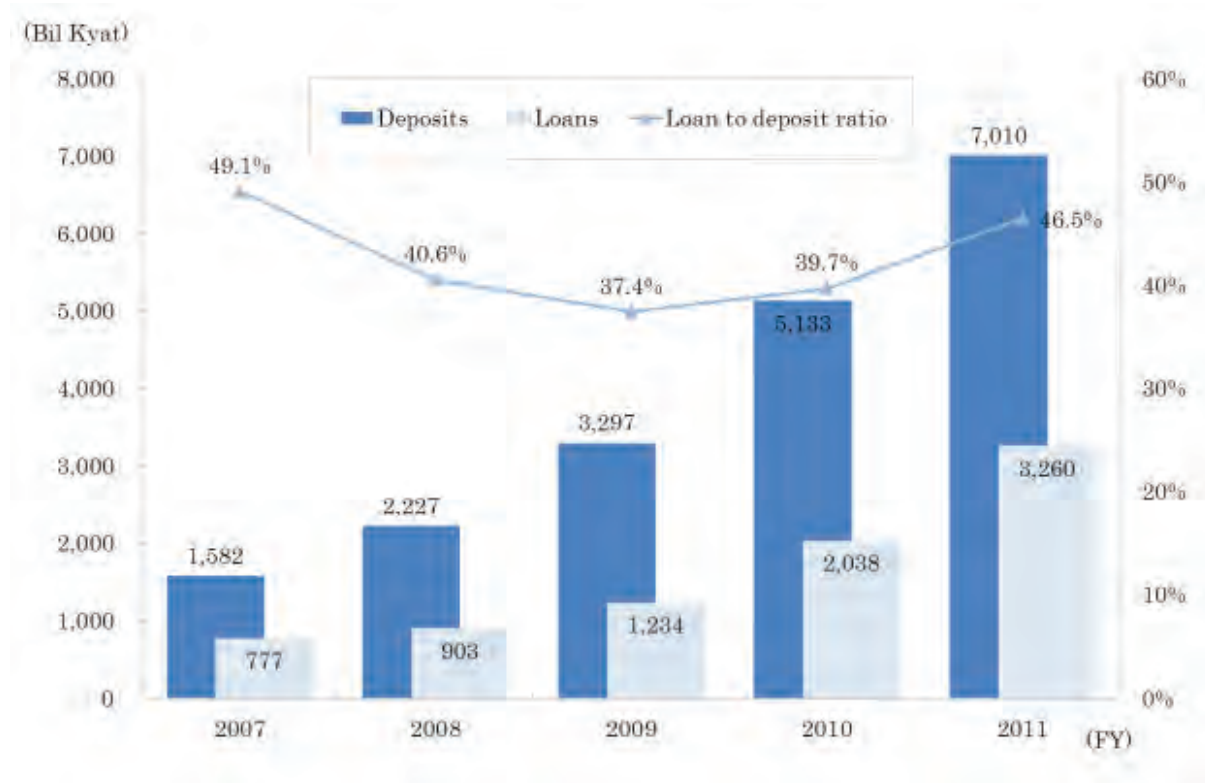
Source: JICA’ Study on the Growth-Enterprises Development in Myanmar, July 2013, and Eleven Media Group, “Eleven Newspaper”, 29 July 2013

3.2 Assets

3.2.1 Outline of loan

As shown in fig 3-1, both deposit and loan amounts of all banks have strongly increased for several years, with average annual growth rate of 33% from FY2007 to FY2011.

Fig. 3-1 Loan to deposit ratio of total amounts of all banks



Source: JICA Study on the Growth-Enterprise Development in Myanmar, July 2013

While the 2012 statistics are not available, all the banks that the consultant interviewed mentioned that their assets size is growing rapidly. However, increase in deposits has been stronger than in loans since FY 2012 and it resulted in severe competition for banks to find borrowers. Some banks said that they had difficulty in finding good companies for lending, while their deposits were increasing more strongly than their loans. For example the loan to deposit ratio of SMIDB declined rapidly from 75% (FY2011) to 50% (FY2012) and that of CB Bank also declined from 68% to 50%.

The consultant team considers the reason of this increase in deposits is that people in Myanmar increased their trust in the banking system, and savings which had been out of banking system came back, which encourages some banks to enlarge their business, e.g. by focusing on loans to SMEs and introducing hire purchase.

3.2.2 Loan to SMEs

The breakdown of a bank's loan portfolio has not been disclosed by many banks. Especially regarding to the loans to SMEs, many banks do not categorize their portfolio based on the size of their clients. However, since most of businesses in Myanmar are SMEs and there are not so many mortgage loans to individuals, many banks mention that majority of their loans are considered to be for SMEs. For example, senior managers of MEB mentioned that about 90% of its loan portfolio was to SMEs. Also, most of SMIDB's loan portfolio is considered to be for SMEs. In case of MCB, which disclosed the loan portfolio to the consultant team, the very small average loan amount to each borrower suggests that the majority of their borrowers are SMEs.

Yoma bank focuses strategically on finance for SMEs because it has just restarted⁷ the loan business in April 2013 and it tries to explore new customers. While its loans outstanding are only 20bil kyat for less than 20 SMEs, it advertises itself as "SME's bank".

3.2.3 Hire purchase

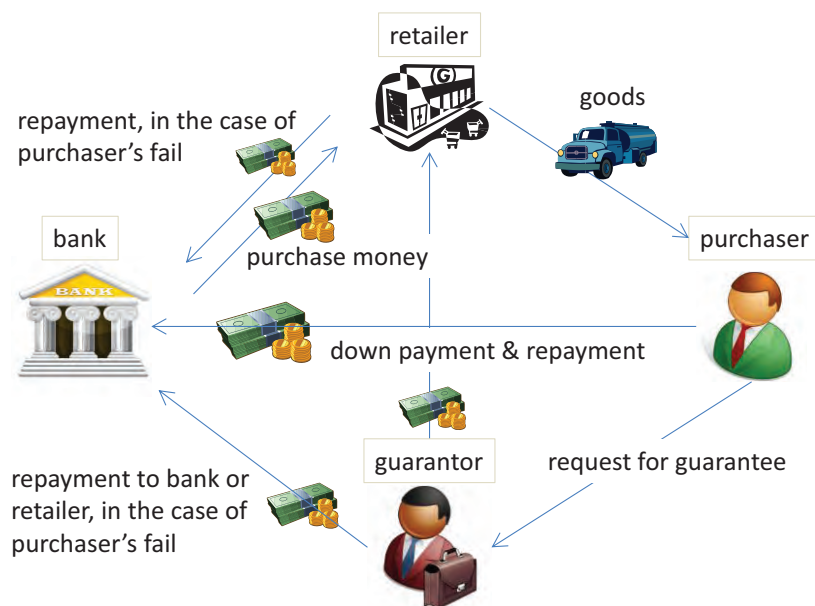
Hire purchase is a contract among a purchaser, a retailer and a bank as shown figure 3-2, and was admitted by CBM on 21 October 2011. (Please refer to CBM instruction No23, Attachment 1-8). Purchaser must pay 20 to 50% of the price for good(s) as down payment, and the bank pays the rest of the payment to the retailer based upon a contract. The bank keeps ownership of the good(s) until the contract is completed. The purchaser must repay the bank with interest, while the retailer has an obligation to pay the bank the remaining balance if the purchaser fails to pay. After repayment by the retailer on behalf of the purchaser, the bank transfers the ownership of the good(s) to the retailer.

The standard documents required for hire purchase applications are as follows.

- ✓ Submission of hire purchase application and the following documents
- ✓ Agreement between retailer and bank
- ✓ Lease agreement
- ✓ Ownership right transfer agreement to bank
- ✓ Applicant's agreement
- ✓ Guarantor's agreement
- ✓ Bank's agreement

⁷ Yoma bank had been limited to specific bank services by CBM because of a breach of the Financial Institutions Law (1990) in the 2003 financial crisis.

Fig. 3-2 Hire purchase scheme



Source: Created by the consultant team

As shown above in Fig. 3-2, hire purchase looks very similar to a bank loan based upon movable collateral but is completely different from a bank loan in two points. Firstly, the ownership must be kept by the bank, for example, “the ownership board” of the automobile must be registered under the retailer’s name and the “owner book” is physically kept by bank, while the automobile (collateral) is used by the borrower. Secondly, the bank relies more on the creditworthiness of the retailer rather than the purchaser. Unlike the bank loan where the purchaser is a borrower, bank does not have to analyze the creditworthiness of the purchaser as long as the retailer guarantees the purchaser’s obligations. Rather, creditworthiness of the retailer is more important from the bank’s viewpoint. Therefore, banks usually sign a contract in advance with retailers who want to use hire purchase. From the retailer’s viewpoint, hire purchase is a strong sales tool for its customers. Since retailers know the exact resale price of good(s), they can take a bigger risk than banks.

Hire purchase is a good finance tool not only for banks but also for retailers and purchasers; however, use of hire purchase is relatively limited. SMIDB has offered hire purchase only for automobile purchases, and had only 12 users in 2012. KBZ offers a wider variety of goods, such as apartments, gold, cellular phones, machines and machinery. Applicable machinery includes not only construction and agricultural equipment but also medical equipment. However, total outstanding balance of hire purchase is small even for KBZ with less than 3% of its total loan balance as of March 31, 2013 (Please refer to KBZ’s B/S in section 4.2.1.(2)).

There are several reasons for the hire purchase not being a major product for banks. The biggest one is hesitation of retailers in taking the risk of collateral, because machines or movable assets like gold, jewelry are not registered by the authorities. Unlike automobiles, the ownership is only recorded in a contract between the retailer, bank and the purchaser. If the collateral were illegally sold to an innocent third party, there is no perfection or protection against acquisition. Therefore, retailers request purchasers to get one or two guarantors in order to prevent such a situation. However, the hire purchase can be a very strong sales tool. Once retailers recognize the usefulness of hire purchase, the consultant team believes the number of retailers which introduce hire purchase as a sales tool will definitely increase.

Historically, Myanmar Oriental Lease Company, subsidiary of Myanmar Oriental Bank, was the only provider of this service. However, CBM started issuing permission to some banks in October 2011⁸. After that, the number of banks and the volumes of hire purchase have increased steadily. In the case of MCB, MCB started this service in 2013 soon after being permitted by CBM. Most of MCB's outstanding balance for hire purchase, 4.6 billion kyat, is to farmers, while more than 90% of such for KBZ are for automobiles and apartments.

The consultant team believes that hire purchase can be a very good finance tool for SMEs and farmers who do not have immovable properties to be provided to banks as collateral

According to MCB, KBZ, and SMIDB, the interest rate applied for hire purchase is 13% although they advertise it as low interest rate, such as 9% for the first year, and 5% for the succeeding years. The advertised low interest rate is calculated by dividing the interest amount by the price of the good(s) including down payment, while the actual interest rate is calculated by multiplying the outstanding balance by 13% for MCB. In the KBZ case, the interest rate should be applied not to the remaining balance but to the initial balance.

Average down payment is 20-50% which differs according to the creditworthiness of retailers and price volatility of the good(s). The term is usually 2-3 years. Automobiles and real estate have been main purposes of hire purchase, however, agriculture, construction or medical machines have been increasing for KBZ.

⁸ Myanmar Times, November 7-13, 2011

3.2.4 Other loan products

MCB provides “pledge loan” as mentioned in 2.2.2, which collateralizes crops for export and was permitted by CBM on 25 January 2012 (please refer CBM instruction No25, Attachment 1-3). In order to control collateral, traders entrust the key of warehouses to MCB. The maximum term of pledge loan is 6 months, but many of the transactions are for 3 months.

No housing loan service is currently provided, except through hire purchase, although “condominium loan” is now under discussion in the government. The housing loans included in MEB’s balance sheet are one-time loans supplied only to government and military personnel in the 1990s for the construction of their housing and to be repaid by their retirement bonus.

3.2.5 Non- performing loan

According to CBM, definition of Non-performing loan (NPL) is 6-12 months in arrears for substandard and 24 months for NPL. Excluding state owned banks, all banks must keep their NPL ratio under 10%. According to one bank, if NPL ratio is over 10%, CBM requires these banks to submit to improvement plan.

NPL ratio is usually good index to check the ability of credit examination. However, NPL ratio in some banks differs from each other even the definition of NPL. For example, MEB’s definition is 6 months and its NPL ratio is 1.68%.

3.2.6 General provision for loan losses

According to CBM, all banks excluding state owned banks should book 2% of the loan outstanding at the end of fiscal year as general provision for loan losses. Hearing from a bank, this regulation for provision is reasonable and does not disturb any banking business.

3.3 Funding

Most of banks depend on deposit as main funding source. JICA's “Study on the Growth-Enterprise Development in Myanmar” showed that deposit to total asset ratio of all banks was 83% in FY2011. As mentioned at section 1.3, some banks provide fixed deposits. However, at the current moment, fixed deposits account for a low proportion of total deposit value. The case of KBZ Bank is shown below as an example.

Table 3-2 Fixed Deposit Proportion of Total Deposit Amount

Account Type	Saving Account & 1 Month Fixed Deposit	Fixed Deposit (3-12 Months Fixed Deposit)	Current Account (no interest)	Total
KBZ Bank	86.5%	3.3 %	10.2%	100%

According to CBM, banks must keep the loan to deposit ratio under 70-80% by regulation, but the ratio differs from bank to bank. As a result of this regulation, banks have to increase their deposits in order to expand their loan businesses. As mentioned at 3.2.1, banks said that deposits increased more rapidly than loan. It is considered that banking service improvements such as increases in ATMs should provide a boost for their deposits growth. At this moment, this regulation is not considered a barrier for the loan growth because there are only 2 of 4 banks with loan to deposit ratios being higher than 60%, as described in 4.2.1.

3.4 Loan Screening Scheme (Decision-Making Process), Term Structure of Interest Rate, and Collateral/Credit Standard

Loans provided by commercial banks are limited to the short term of 1 year at the interest rate of 13% plus commission fee of 1% and in practice required immovable property as collateral. SMIDB is exempted from some of those conditions by the government for the execution of SME loans with the interest rate of 8.5%. Recently private banks started offering hire purchase service of specific consumer goods as well as industrial machinery.

3.4.1 Loan Screening Scheme (Decision-Making Process)

(1) MEB

Loan applications can be submitted to any MEB branch but all applications are screened by the credit committee of Head Office. Screened applications are to be examined by different decision making bodies according to amount of loan applied for as follows:

Table 3-3 Decision making body by loan amount

Loan Amount (Million kyat)	Decision Making Body
<20	Branch Manager
20-50	Loan Dept. of Head Office
50<	Loan Committee at Ministerial Level

All applications must include report on revenue and expenditure, but it does not have to be audited. Loan applications for 50 million kyat or bigger require attachment of audited financial statements with a balance sheet. The screening process includes collateral appraisal, business license verification, on-site review, and checking tax records for the past 3 years. The average period for the process is 3 weeks after receipt of all required documents.

Regarding the decision making bodies, MICB has the same organizations as a state owned bank. Loan portfolios of MEB and MICB include middle/long term loans due to previous regulation or policy on state owned banks.

(2) KBZ Bank

Decision making body differs according to the amount of loan applied for as follows:

Table 3-4 Decision making body by loan amount

Loan Amount (Million kyat)	Decision Making Body
<30-100	Branch Manager (*)
other than those above	Board of directors

(*) Upper limit of loan amount depends on size of the branch.

Concrete process for screening is the following four steps:

- i) Branch Manager: checks submitted documents and business model. It takes 2 days after receiving documents from an applicant. Branch managers can make a decision about lending for loan amounts under 30-100mil kyat.
- ii) Head Office: checks financial statements, property registration and company registration by head office staff and lawyer. Lawyer's check takes at least 2 days.
- iii) Appraisal: executes real estate due diligence. Appraisal decides the upper limit of loan amount by estimating the real estate price.
- iv) Board of directors: checks final review. As loan application increases, frequency of BOD increases; accordingly, BOD is held everyday

(3) SMIDB (for SME loan)

SMIDB conducts SME Loan screening in close cooperation with SME development center of MOI. All applications for SME Loans are to be submitted to SME development center for the initial screening of loan application and valid business license, owner

interview and on-site inspection of the existence of business. Then, the center issues a recommendation letter, called “Credit Guarantee letter”, to SMIDB. Average period for the initial screening process is less than 1 week.

All applications must include a report on revenue and expenditure and income tax record for past 3 years, as well as collateral information. Audited financial statements and business plan are required for loan applications for 20 million kyat or greater. However, a sample review of SME loan applications revealed that some applicants submitted financial statements for only 1 year and others did not submit any balance sheet.

Within 30 days after receipt of recommendation letter from the SME development center, SMIDB makes loan decision after screening financial status and collateral. If applying for a small amount, it takes less than 15 days. Screening reports are submitted to the Board of Directors by the Managing Director for final approval.

(4) MCB

Decision making body differs according to amount of loan applied for as follows:

Table 3-5 Decision making body by loan amount

Loan Amount (Million kyat)	Decision Making Body
<100	Loan Committee at Director Level
100<	Board of directors

Concrete process for screening is the following four steps:

- i) Documentary examination: Tax payment, license, purpose of loan, repayment plan and business environment, e.g. competitors, procurement and market status, are checked.
- ii) Onsite examination: Interview to managements.
- iii) Loan Committee at directors’ level: Held anytime a loan application is received.
- iv) Board of directors: Held twice a month.

It takes around 2 weeks from i) to iv). Although MD has a right of final permission for lending, MD takes counsel with DG of Department of Trade Promotion in MOC, if MD worries about final permission. The department has a role of supervision and policy planning of MCB, while it does not dispatch any board members to MCB.

3.4.2 Interest rate regulation and practice

The interest rates set by local banks are the same at 13% per year for loan and 8% per year for deposit, while CBM regulations only set the maximum lending and the minimum deposit rate at 13% and 8% respectively. The CBM regulation on interest rates (instruction No 11 on 27th December 2011) stipulates:

- i. CBM sets 10% as Central Bank interest rate
- ii. The lowest interest rate applicable for saving deposit, saving account and fixed deposit is not to be set less than 2% below the Central Bank rate (10%-2%= 8%)
- iii. The highest interest rate collectible from loans and overdrafts is not to be set more than 3% above the Central Bank rate (10%+3%=13%)
- iv. This instruction goes into effect as from 1st January, 2012
- v. Banks may make changes to interest rates within the determined framework mentioned in paragraph
- vi. It is instructed that banks get permission from the Central Bank and make changes only upon receipt of the permission (CBM instruction No 11, Attachment 1-1).

Through this instruction, CBM has allowed local banks to set their own lending rate within a range of 10 to 13% and deposit rates within a range of 8 to 10%. However, no bank has started lending below 13% and only few banks like KBZ changed the deposit rate from 8% as shown in Table 1-1.

Based upon special permission of CBM, there are some exceptional “policy based” lending rates such as MEB loans at 4% to MADB and 8.25% to SMIDB as well as SME loans by SMIDB at 8.5% to SMEs. There are other policy based lending programs carried out by private banks, such as the loan for livestock and fishery firms at 12%.

3.4.3 Collateral/Credit Standard

Immovable property is the dominant collateral in commercial banking sector in Myanmar. The subject of appraisal is limited to land and buildings in practice. The loan amount is capped at 30-50% of the forced sale value appraised by the bank.

Recently CBM relaxed its collateral policy and approved a wider variety of collateral, e.g. gold, jewelry, crops for export, government bonds and deposits⁹. Although CBM has

⁹ Based on the following instructions from CBM: instruction No. 22, 8 September 2011 (attachment 1-2), instruction No. 25, 25 January 2012 (attachment 1-3), instruction No.

relaxed the collateral policy, the consultant team confirmed that only a few private banks had started accepting such non-traditional collateral as of August 2013.

MCB is one of the few banks. MCB accepts export crop stored in warehouse as collateral for Pledge Loan. In this case the warehouse is to be locked and the key is kept by MCB.

3.5 Credit Control System (application screening entity, employees ability for credit analysis, monitoring)

3.5.1 Screening method of loan application

Loan screening officers also check for the business licenses, recommendations from the municipality, resident registration and other documents. While financial statements are provided by some of the loan applicants, they are not examined thoroughly as bank officers consider that they do not correctly represent the financial standing of the applicants.

3.5.2 Ability of Employees on Credit Control and Monitoring

Capacity developing for employees in charge of credit control and monitoring system is among the urgent issues in the process of sector modernization. Some private banks such as SMIDB, KBZ and CB started training employees in cooperation with foreign donors or partner foreign banks.

SMIDB has 13 employees in its Loan department and provides internal training course of basic and intermediate level to strengthen screening ability. SMIDB needs technical assistance in monitoring and risk management in order to let borrowers ensure the original purpose of the loan.

KBZ, CB and SMIDB are also in the process of receiving technical assistance from foreign donors, such as GIZ.

3.6 Business Plan to Increase SME Loans

Most banks remarked that SMEs are important clients because most of companies in Myanmar are actually SMEs. However, from the view point of effective banking business, having large borrowers is desirable in general.

27, 8 June 2012 (attachment 1-4) and instruction No. 24, 27 December 2011 (attachment 1-4).

The following 4 banks have noticeable business plans to approach SMEs as potential borrowers.

(1) SMIDB

SMIDB has been traditionally expected to have a role of SME support, because of its close relation with MOI, c.f. section 3.1, although it is not state owned bank. The management has been enthusiastic about promoting SME policy. SMIDB has a track record as an implementing agency of SME loan as well.

(2) KBZ Bank

KBZ Bank, which is the largest private bank, seeks to expand its customer base in order to increase loan amounts further by increasing branches in rural area to improve its outreach. In addition, it has a clear corporate strategy to expand the target segment, e.g. small companies and farmers.

(3) Yoma Bank

Yoma Bank has a strategy to specialize in specific borrowers, i.e. SMEs, because it resumed lending business in just 2012 and it falls behind in approaching customers. It has launched an “SME Banking Department” to focus on SME finance in 2013.

(4) Myanmar Citizens Bank

MCB has traditionally been supporting small and medium rice millers and agricultural traders. During our interview, the Managing Director mentioned that MCB is planning to establish a lending unit specifically designated to SMEs.

(5) CB Bank

CB Bank, which is the second largest private bank, has been serving SMEs since its establishment and the majority of its clients have been SMEs. The management is aware of the importance of promoting SME finance and has willingness to increase loans to SMEs.

3.7 Local banks receiving assistance from other donors and international financial institutions

Various donors and international financial institutions are offering technical and/or financial assistance to local banks. Major assistance is as follows:

3.7.1 Banks receiving assistance from foreign donors

(1) SMIDB

SMIDB submitted a proposal to GIZ program for technical assistance and was selected as one of three recipients. The program will begin on March 2014.

Also, another German Aid Agency, KfW is in negotiation with SMIDB on technical assistance and the provision of credit line.

As for Industrial Bank of Korea, no details are considered yet.

(2) CB Bank

According to KfW, it is in talks with OCB Bank for possible technical assistance.

(3) KBZ Bank

KBZ Bank submitted the proposal for possible technical assistance to GIZ.

(4) Yoma Bank

Yoma Bank, which restarted lending operation in 2013 after a decade of intermission, has brought in Mr. Hal G Boshier, a former regional representative of MIGA in Hong Kong, as CEO, and advertises itself as an “SME Bank”. Yoma Bank is in negotiation with both GIZ and IFC for possible technical assistance. Yoma Bank submitted the proposal to GIZ in August. IFC is considering provision of technical assistance and a partial guarantee program for export L/C issued by Yoma Bank.

(5) Myanmar Oriental Bank

Myanmar Oriental Bank and IFC agreed on the basic framework of support agreement. IFC is considering provision of technical assistance and a partial guarantee program for export L/C issued by Myanmar Oriental Bank.

(6) Myanmar APEX Bank

Myanmar APEX Bank is in discussion with KfW for potential technical assistance and credit line. Myanmar APEX Bank has a strategy of growing in the country side and is a great fit for KfW's focus on rural development.

(7) First Private Bank

IFC is in discussion with First Private Bank for similar assistance to that for Yoma Bank and Myanmar Oriental Bank.

3.7.2 Banks receiving assistance from International Financial Institutions

(1) CB Bank

According to Bank of Tokyo-Mitsubishi UFJ (BTMU) Yangon office, BTMU is providing training on FX operation, interbank trading of cash and foreign currencies, cash management and IT systems.

(2) KBZ Bank

Based on the cooperation agreement, Sumitomo Mitsui Banking Corporation (SMBC) Singapore received 13 employees of KBZ for training as well as dispatched employee of SMBC Singapore as a trainer. Technical assistance includes Treasury, FX, SWIFT machine operation etc. SMBC submitted proposal to KBZ in regard to business improvement after broad assessment on business flow. SMBC has no specific medium- or long-term plan on technical assistance due to unstable business environment in the country but will update current TA to fit to the changing needs of KBZ.

4 Implementation of TSL Program for SME Development

As mentioned in previous chapters, SME owners/managers consider that there are a lot of obstacles for their access to formal bank borrowings. They include;

- i. Many SME owners/managers consider the current interest rate to be too high;
- ii. Banks are not allowed to extend long-term loans for capital investments;
- iii. Complex procedures and requirements for various certificates, recommendation letters and financial statements.
- iv. Collateral requirements are too high because immovable assets are required and banks' valuation is lower than SME owners expect; and
- v. Many SME owners do not incorporate their businesses into legal entity

Among the issues above, iii, iv and v are difficult to tackle by any single policy measure and takes a long period of time to overcome. The complex procedures are required by banks not only for compliance with the regulation but also for the purpose of verification of borrowers' identity and creditworthiness.

Immovable assets are the most common type of collateral employed by banks globally because of their ease of maintenance and perfection and will continue to be the dominant form of credit enhancement in Myanmar for a foreseeable future. Low collateral valuation is due to the underdeveloped and non-transparent real estate market in Myanmar, which will also take years to gradually improve.

For most SMEs, the most difficult task of documentation is considered to be the preparation of proper financial statements by the borrowers, since most SMEs are individually owned by the owner and its family members and not incorporated as a legal entity. If the primary assets and liabilities are not formally belonged to the borrowing entity, it is not possible to prepare financial statements that truly represent the financial standing of the borrower. Since formalization of business can be achieved only through a series of economic incentives, most notably tax benefits, and disincentives such as additional tax and criminal punishments, coordinated actions of various branches of GOM are required. Formalization of individually owned businesses involves the issue of SME owners' distrust of GOM, non-functioning tax collection authorities and business cultures. This issue will also have to be resolved by regaining trust in governmental system, and by establishing incentives and disincentives for formalization of businesses.

On the other hand, problems i and ii are typical obstacles that can be overcome by policy-based lending programs. GOM had already started addressing this issue by

ordering MEB and SMIDB to provide low-interest and medium-term loan but it has various problems as described in section 2.4 and the system is currently not functioning. The consultant team would like to propose a Two-Step-Loan (“TSL”) program for SME development by utilizing ODA loan from JICA, which has a clear target, and is sustainable and fair for all the relevant parties. Also, it can be implemented without resolving the issue of financial reporting and disclosure by SMEs because the project does not require fundamental change in banks’ existing loan screening practices and collateral requirement, while encouraging them to improve them.

While the improvement in financial reporting by SMEs should desirably be carried out in tandem with the proposed TSL program, it takes years to persuade SME owners to properly disclose their wealth and earnings. For the sake of time, the consulting team considers that TSL program should go ahead and provide low cost funds to SMEs with business expansion plans. As Myanmar banks do not currently rely on financial statements for their lending decisions, TSL program can be implemented if the borrowing SMEs can provide collateral to banks.

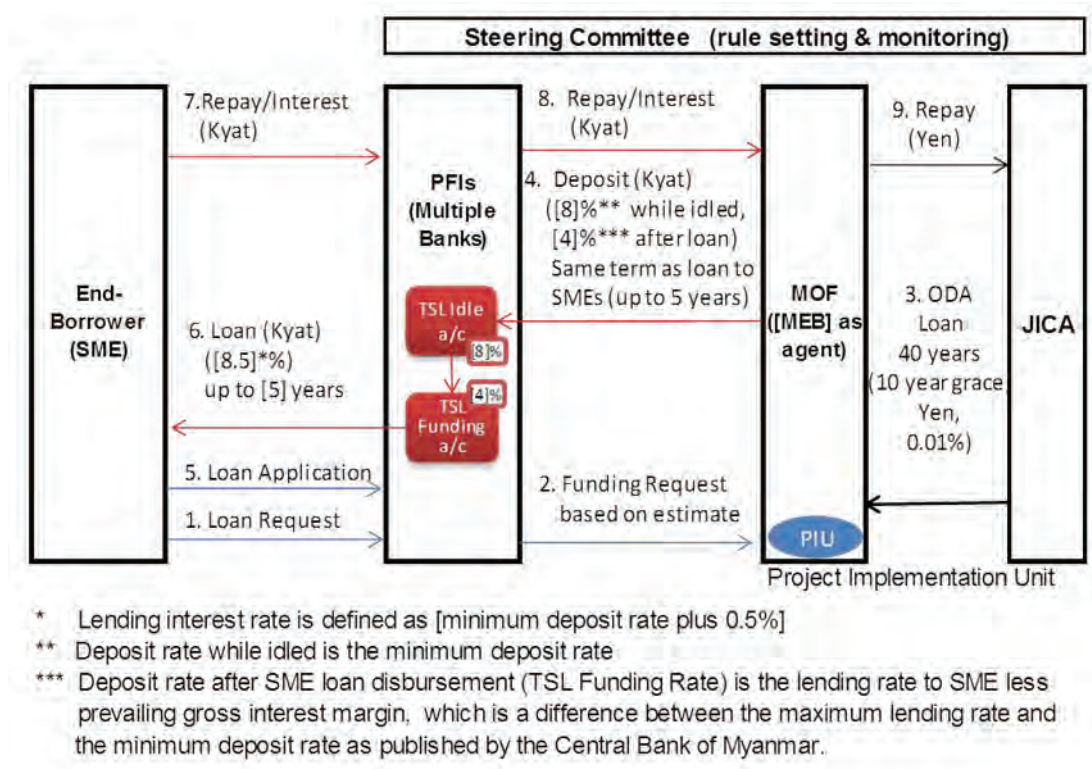
Please be noted that the final implementation scheme shall be decided based on the discussion between GOM and the government of Japan and the final form may become substantially different from the one proposed in this report.

4.1 Basic framework for TSL implementation scheme

The proposed program is the first TSL program between Myanmar and Japan. Since there is no precedent, the consultant team believes that policy and procedures should be simple and transparent so that all the relevant parties, GOM (& administrative agent), Participating Financial Institutions (“PFIs”) and SMEs, can easily understand the lending scheme, selection rules for participating financial institutions, on-lending conditions, fund administration and environmental and social considerations.

The consultant team had multiple discussions with relevant government offices, candidate banks for PFIs and SMEs to understand the current rules and practices. Also, the consultant team examined several examples of TSL for SME development in other countries. As a result, the consultant team came up with the implementation scheme as below.

Fig. 4-1 TSL for SME promotion; Implementation Scheme



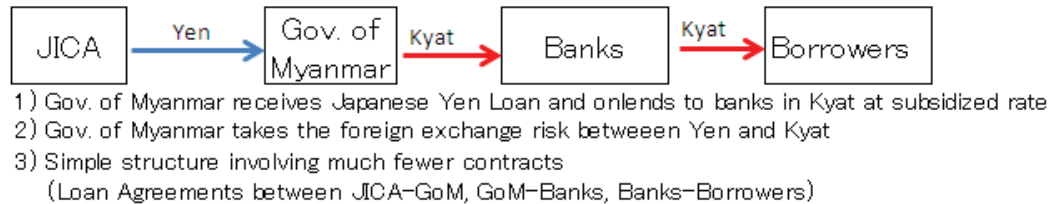
The rationale behind the scheme and the detailed discussion on each component of the project are discussed in this section.

4.1.1 Basic framework; on-lending through GOM, or lending directly to banks with GOM guarantee

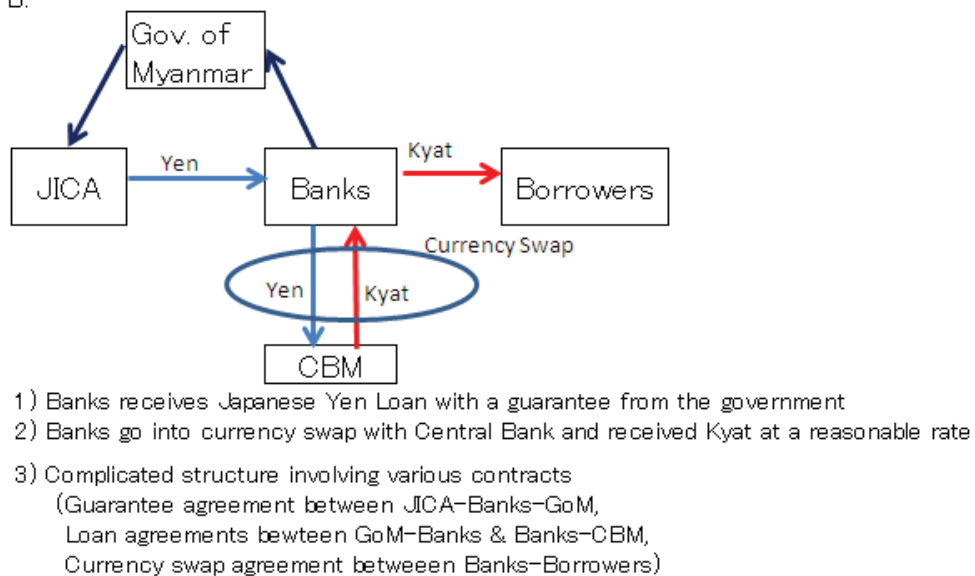
There are two ways to implement TSL programs. One is on-lending through the government as described in Fund flow A below, and the other is a direct lending to banks with GOM guarantee, as described in Fund flow B below.

Fig. 4-2 Fund flow comparison for implementing TSL program

Fund flow A:



Fund flow B:




The role of GOM is greater in Fund flow A than in Fund flow B because GOM bears the risk of currency fluctuations between Myanmar kyat and Japanese yen and the burden of fund administration on top of taking the credit risk of participating banks. However, the consultant team believes that Fund flow A is considered the only feasible option for Myanmar because Fund flow B poses serious currency fluctuation risk to the bank. Fund flow B should be adopted only when there is an effective tool to hedge banks from currency fluctuation risk but there is no long-term currency swap available to enable it in Myanmar.

In any country, “net open position of the foreign currency” by a deposit taking institution is strictly restricted by the bank regulators and the same is considered to be applied in Myanmar in near future.

Table 4-1 Example of currency fluctuation risk for Fund flow B

-Risk of borrowing in yen and lending in kyat-

Kyat Loans 100	Yen Debt (JPY 8) 80	1 year later 	Kyat Loans 100	Yen Debt (JPY 8) 88
	Equity 20			Equity 12
Year 0			Year 1	
JPY 1 = MYK 10			JPY 1 = MYK 11	
No profit or loss			Loss of 8 kyat for Bank A	

In order to prevent banks from risking their depositors' fund to the fluctuation of foreign exchange rate, International Monetary Fund (IMF) requires banks to report on net open positions of foreign currency as a part of "Core Set for deposit takers".

- **Deposit-Takers: Core Set, I12** Net open position in foreign exchange to capital
The net open position in foreign exchange should be calculated based on the recommendation of the BCBS. Capital should be total regulatory capital or Tier 1 capital as net open position in foreign exchange is a supervisory concept. This FSI is an indicator of sensitivity to market risk, which is intended to show deposit takers' exposure to exchange rate risk compared with capital. It measures the mismatch of foreign currency asset and liability positions to assess the vulnerability to exchange rate movements.
(Quoted from IMF website¹⁰)

Also, many of ASEAN countries suffered from Asian Financial Crisis in late 1990s adopted and maintain the regulations that require banks to limit their "net open position of foreign exchange" to within 20% of capital. Such countries included Malaysia (liberalized in 2007), Thailand and Indonesia.

The importance of controlling the net open position of foreign exchange has already been recognized by many of banks in Myanmar. For example, the web site of Myanmar Citizens Bank stipulates that "The Bank explicitly prohibits it from taking direct currency exchange exposures by requiring liabilities in any one currency (after swap

¹⁰<http://fsi.imf.org/misc/FSI%20Concepts%20and%20Definitions.pdf#search='Basel+net+open+position'>

activities) to be matched with assets in the same currency.”

The implementation scheme proposed by the consultant team is based on the Fund flow A and assumes that the Ministry of Finance to be the borrower of the ODA Loan.

4.1.2 Sub-project screening criteria

TSL program aims to support GOM implementing its SME development policies and, therefore, eligibility criteria for borrower should be defined in line with on the target of GOM. At the same time, the fund should be used in the most efficient way for the economic development of Myanmar and eligibility of targeted investment projects should be clearly defined. Based on the considerations above, the consultant team proposes the following.

(1) Definition of SME; based on the new SME Law

As described in section 1.4.1, GOM is in the process of enacting the new SME Law. The new law is to include the revised definition of SMEs to be supported, which fits better to the current situation of Myanmar Economy. Therefore, the eligibility for the TSL project should adopt this definition.

(2) Use of funds; capital investment

As for the use of funds, the benefit of low interest loans is bigger for the long-term loans for capital investments, such as renovation or expansion of processing or production facilities.

While the demand for working capital is high, most working capital borrowing can be repaid within a short trading cycle and the cost of borrowing can be absorbed in the selling price of goods. However, the working capital needs accompanied by the expansion of processing/production facilities can be included to some extent.

(3) Excluded business sectors

The primary target for the TSL project is the manufacturing sector but trade or service sectors that require capital investments will also be eligible for the TSL Project scheme. However, some business sectors listed below are defined as “non-eligible” for financing under the TSL scheme on the basis of the objectives of the TSL Project:

- Agricultural sector to be supported by Myanmar Agricultural Development Bank;
- Real estate;
- Finance, insurance;
- Precious metal dealing;

- Bars and pubs;
- Amusement, entertainment; (except for tourism)
- Weapons, ammunition; or
- Anything harmful to the social stability (to be judged by the Steering Committee)

(4) The maximum lending limit to a single borrower

The maximum lending limit is necessary to ensure that the benefit shall be distributed to many SMEs and avoid the program being utilized by big businesses. The consultant team would like to propose the maximum lending limit for each end-borrower to be set at [500] million kyat. This maximum lending is obtained based on average lending amount to SMEs by PFIs and through the survey on the funding needs of SMEs.

According to the financial statement of Kanbawza Bank, the average size of loan outstanding for industrial/manufacturing sector was 665 million kyat as of March 31, 2013. Since this figure includes the loan for large corporations, the consultant team considers that the average loan balance for SMEs is considered to be smaller. Also, based on the survey on SMEs, the average funding needs for capital investment was about 400 million kyat. (Please see 2.3 (3).

This limit happens to be the same as the maximum lending limit set for the existing SME loan provided by SMIDB.

(5) Compliance with environmental and social safeguard rules

The Sub-project must comply with the relevant environmental and social safeguard policies, as described in section 4.1.7.

4.1.3 Lending interest rate and funding method/cost to PFIs

(1) Lending interest to End-borrowers

During the interview to SMEs, many voiced strong demand for very low interest loans. However, the consultant team believes that the TSL program must avoid market distortion caused by providing excessive amount of funds at excessively low interest rates.

One threshold of such “excessively low” interest is considered to be the minimum deposit rate that banks in Myanmar are required to pay to any depositors. If the project set the lending interest rate lower than the minimum deposit rate, those businesses that have sufficient cash would want to borrow because they can earn interest margin by simply depositing the fund at the bank.

Based on the discussion above and various dialogues with potential PFIs, the consultant team came up with the proposed lending rate as follows.

TSL Lending Interest rate = the minimum deposit rate plus [0.5]%.

Based on the current minimum deposit rate of 8%, the lending rate would be [8.5]%, if the project is implemented in October 2013. This happens to be the same lending rate as the existing SME loan provided by SMIDB.

TSL lending rate is a floating rate adjustable monthly. In other words, even for multi-year loans, the interest rate is changed when the CBM changes the minimum deposit rate. TSL lending rate is changed from the month following the announcement by CBM on the rate change.

If CBM abolishes the minimum deposit rate regulation in future, the consultant team proposes to apply the average deposit rate paid by all the banks in lieu of it.

(2) Method of funding to PFIs

The funding for Sub-loans is provided by the Ministry of Finance to PFIs through PIU. MOF can either lend or deposit the fund at PFIs but the consultant team proposes that MOF deposit the fund at PFIs for two reasons; one is to comply with loan-to-deposit regulation and the other is the ease of procedure.

A bank in Myanmar may not extend loans totaling more than 80% of its deposit balance. In other words, banks can use only the funds from deposit for the loan. Even if a PFI borrows from MOF, it cannot extend a new loan if its outstanding debt is already standing at 80% of the deposit. For a description of loan-to-deposit ratio regulation, please see the section 1.2.

Another reason is the ease of procedure. Bank deposit is based on a standard agreement and any legal entity or individual can open an account easily. On the other hand, lending is based on a bilateral agreement and a lender and a borrower will have to agree on terms and conditions of a custom-made contract.

Lastly, lending to PFIs through MEB may require PFIs to provide collateral to MEB due to the collateral requirement by CBM. Obtaining clarification and possible special treatment should pose additional burden for PFIs and PIU.

(3) Cost of funding to PFIs

The funding cost to participating banks must be sufficiently low to enable banks to earn appropriate interest margin. In other words, the cost to participating banks should be decided based on the final lending rate less appropriate margins.

Based on the discussion above and various dialogues with potential PFIs, the consultant team came up with the proposed TSL Funding Rate to PFIs as below.

TSL Funding Rate = TSL Lending Rate – TSL Interest Margin

TSL Interest Margin = [90]% of Market Gross Interest Margin

Market Gross Interest Margin = (maximum lending rate) - (minimum deposit rate)

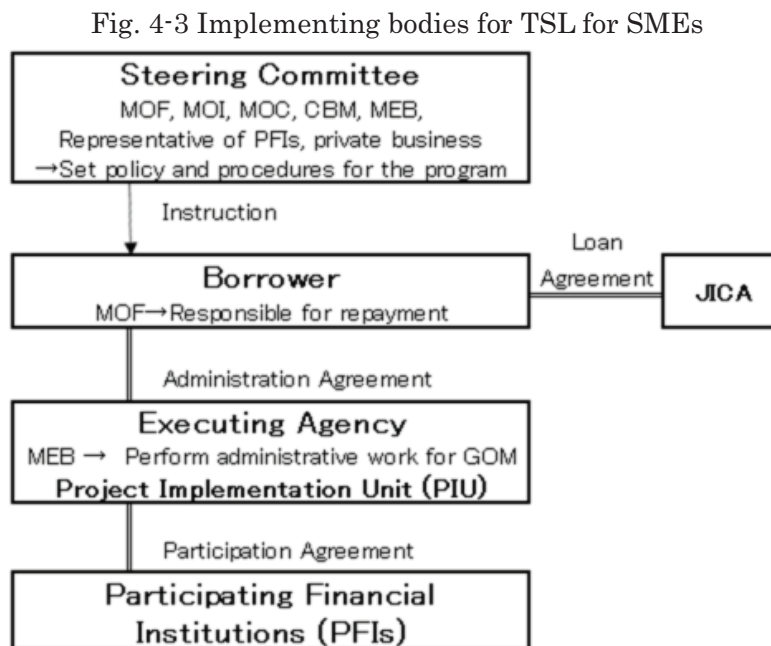
Based on the current maximum lending rate of 13% and the current minimum deposit rate of 8%, the Market Gross Interest Margin is 5% and the TSL Interest Margin is calculated to be 4.5%. If we subtract 4.5% from TSL Lending Rate based on the current minimum deposit rate, we obtain 4% for TSL Funding Rate if the project is implemented today.

TSL Funding Rate is a floating rate adjustable monthly. In other words, even for multi-year loan, the funding rate is changed when the CBM changes the maximum lending rate and/or minimum deposit rate. TSL Funding Rate is changed from the month following the announcement by CBM on the rate change.

If CBM abolishes the maximum lending rate regulation in future, the consultant team proposes to apply the average lending rate charged by all the banks in lieu of it.

4.1.4 Organizational arrangement

TSL for SMEs shall be implemented by the following bodies.



(1) Steering Committee

The Steering Committee is the governing body of the project which will be responsible for rule making and supervision of the project in light of the SME development policy of the GOM and the Project Memorandum signed between GOM and JICA.

The primary function of the Steering Committee shall be;

- i. Policy formulation for the project;
- ii. Review, consider and approve major policy changes;
- iii. Supervise the project implementation;
- iv. Accreditation and disqualification of PFIs; and
- v. Any other issues necessary for the implementation of the project.

For better coordination of the TSL Project with the policy framework of SME development in Myanmar, the Steering Committee is formed by representatives from ministries responsible for SME development, PFIs and private business associations.

The proposed members of the Steering Committee are as follows:

Chairman: Representative of Ministry of Finance (Borrower)

Secretariat: Project Implementation Unit (PIU) to be established at MEB

Members:

Representative from Myanma Economic Bank (Executing Agency),

Representative from Ministry of Industry

Representative from Ministry of Commerce

Representative from Central Bank of Myanmar

Representative from Participating Financial Institutions (PFIs)

Representative from private business associations (such as UMFCCI and Myanmar Industrial Association)

Any other organization or individual who are considered by the Steering Committee

Observer: JICA

The Ministry of Industry is playing the central role in SME development policies in Myanmar and a member of the SME Finance Working Group. The Central Bank of Myanmar is also a member of the SME Finance Working Group and is responsible for banking supervision. The Ministry of Commerce is also active in SME developments in trading, rice/oil milling and agricultural products trading sectors.

Table 4-2 Inter-ministerial working committees for SME development

Name	Leader	Member Ministries					Other Members
Startup working group	Industry	Construction	Electricity	Energy	Agriculture	Health	Minister from Divisions/States, <u>UMFCCI</u> , Myanmar Industries Association (MIA)
Policy making group for SMEs finance	Finance	MNPD	CBM,	Industry			MEB, CB Bank, SMIDB, Myanmar Insurance, UMFCCI, MBA, MIA
Policy making group for market penetration	Commerce	Industry	Cooperative	ICT	Science		<u>UMFCCI, MIA</u> Associations of respective export products
Acquisition of information and research group	ICT	Science	Industry	Agriculture	Commerce	Information	Myanmar Computer Federation
Human resources development group	Science	Industry	Education	Commerce	Cooperative	Health	Specialists, <u>UMFCCI, MIA, MEA, MTEA</u>
Organization of SME Laws making (existing)	Na	Na					Na
Cluster development group	Industry	Cooperative	Commerce	Education	Science		Specialists
Monitoring and evaluation group	Industry	Cooperative	Commerce	Education	MNPD	Science	Specialists
Standards making and implementation group	Science	Industry	Construction	Power			Specialists, <u>UMFCCI, MIA, MEA</u>

MIA: Myanmar Industries Association MBA: Myanmar Bank Association MEA: Myanmar Engineers Association

MTEA: Myanmar Textiles Entrepreneurs Association

The Steering Committee will convene at least once every quarter, but can be held on an ad-hoc basis if any issue arises to be discussed immediately.

(2) Borrower; Ministry of Finance

The MOF will play the role of the Borrower on behalf of GOM and bear the responsibility of receiving and repaying Japanese ODA loans from and to JICA, the credit risk of PFIs, and the foreign exchange risk between Japanese yen, the borrowing currency, and Myanmar kyat, the operating currency.

(3) Executing agency; Myanma Economic Bank

Myanma Economic Bank (MEB) will act as an Executing Agency responsible for the administration of the TSL Project based on the policy and procedures set by the Steering Committee.

The Administration Agreement shall be concluded between the Borrower, MOF, and the Executing Agency, MEB, prior to the effectuation of the Loan Agreement. The Administration Agreement officially authorizes MEB as the Executing Agency and stipulates the responsibility of MEB as an administrative agent for GOM, and the remuneration to be paid to MEB.

MEB shall receive an adequate administration fee from MOF for the administrative work it performs. The consultant team proposes that such fee be paid out of the interest rate that Executing Agency receives from PFIs on behalf of MOF.

The Project Implementation Unit (PIU) will be formed within MEB to administer the project and multiple consultants shall be hired by MEB with the funds from ODA loan to assist PIU. For detailed discussion on PIU, please refer to the next section.

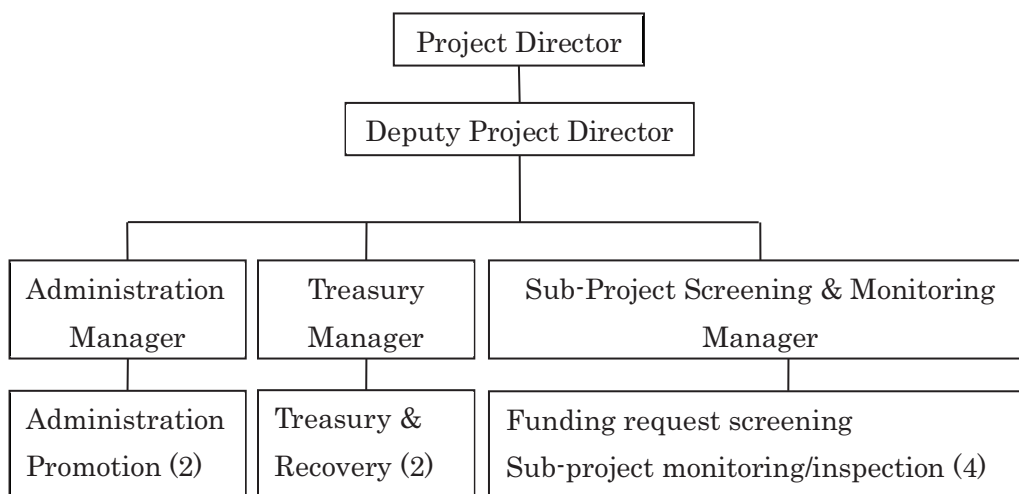
MEB is a bank wholly owned by MOF and currently serving as an administrative agent for GOM and CBM. When the consultant team discussed a funding scheme with GOM and PFI candidates, many mentioned that MEB would be the most suitable candidate for the administrative agent for GOM for the TSL program.

While Managing Director of MEB, Mrs. Yin Yin Mya, concurred that MEB is in the best position to perform as an administrative agent, she also mentioned that MEB is currently overwhelmed by various governmental tasks such as distribution of funds to government offices all around the country and pension payments to 500,000 retirees. Therefore, hiring of outside consultant is considered essential for setting up PIU and administration of the project.

- (4) Project Implementation Unit (PIU); MEB's department responsible for the project management

For the implementation of the TSL Project, the Project Implementation Unit (PIU) will be established at MEB with a Project Director, full-time Project Managers and the adequate number of staff members who will specifically handle relevant tasks related to the TSL Project. PIU is assisted by the consultants hired by the proceeds of ODA loan.

Fig. 4-4 Proposed structure for PIU



*Project Director can be part-time while deputy project director and below should be full-time.

The Project Director shall be primarily responsible for the TSL Project implementation, and shall mobilize any department of MEB necessary for the smooth implementation of the TSL Project through appropriate authority. The Deputy Project Director is to assist the Project Director and perform the task of the Project Director in his absence.

Under the Project Director and Deputy Project Director, three groups will be formed to perform the tasks below.

Administration Section

- General administration of the project including the support for other sections of the PIU and the Consultants
- Conducting the accreditation of PFIs, including annual review, and concluding an Participation Agreement with PFIs
- Serving as a secretariat of the Steering Committee
- Coordination with PFIs and business associations for PR activities.
- General administration concerning the external audit and full cooperation

concerning the Statement of Expenditures

- Coordination with other departments of MEB for general affairs

Treasury Section

- Due maintenance of the Project Operating Account and the Revolving Fund Account established for the TSL Project with MEB, including disbursement of funds from such accounts to PFIs and distribution of the funds received from PFI to Revolving Fund Account, Administration Fee Account and MOF's Revenue Account
- Maintenance of SME TSL Idle and Disbursed Accounts at PFIs, including the debit and credit instructions
- Request for initial disbursement and replenishment to JICA,
- Preparation of statements of the Project Accounts
- Coordinate with MOF on interest payment and principal repayment to JICA, including the fund transfer from MOF Revenue Account and Revolving Fund Account to the account to be opened by MOF at the Agent Bank
- Full cooperation to external audit of the Project Operating Account and the Revolving Fund Account

Sub-project screening and monitoring section

- Eligibility screening of Sub-project included in the funding request from PFIs
- Monitoring of Sub-project concerning disbursement, interest payment, principal repayment and the compliance with the environmental and social protection, based on the report from PFIs
- Inquiry to PFIs on any Sub-project should PIU consider it necessary
- Interview and/or on-site inspection of any End-borrower and/or Sub-project should PIU consider it necessary
- Preparation of Current Repayment and Overdue Status Report
- Production of quarterly Progress Reports (P/R), including On-going Sub-project Summary Report, and Project Completion Report (PCR),

On top of the staff members above, PIU is to be assisted by a group of international consultants and two national consultants. The primary functions of consultants shall include the correspondence with JICA, including quarterly report and annual audit, and initial establishment of operational infrastructures such as operating manuals, IT database and so on. Tentative TOR for consultants includes the following.

- (a) Assist EA with the preparation of operation manuals, reporting formats and IT database required for the implementation of the project.

- (b) Provide training and advices to EA and PFIs for the preparation of the project implementation.
- (c) Assist EA with the review of the funding request submitted from PFIs
- (d) Assist EA with the funding request to JICA
- (e) Assist EA with the fund transfer to and from PFIs
- (f) Assist EA with the preparation of reports to Counterpart Steering Committee and JICA

The proposed TOR of the consultants is attached as [Appendix 5].

(5) Participating Financial Institutions: PFIs

For the first year, the consultant team proposes that the following five banks be the PFIs for TSL for SME development.

- i. Myanma Economic Bank (MEB)
- ii. Kanbawza Bank (KBZ Bank)
- iii. Cooperative Bank (CB Bank)
- iv. Small and Medium Industrial Development Bank (SMIDB)
- v. Myanmar Citizens Bank (MCB)

As for the selection criteria for participating banks, please refer to the section 4.1.6.

MEB's activity as a PFI shall be strictly separated from PIU and PIU shall treat MEB's lending department in the same way as other PFIs.

While all five banks had expressed their interest in performing the task of PFIs during the interview by the consultant team, they will have to be formally accredited by the Steering Committee, after it was formed.

Each accredited PFI shall conclude a comprehensive Participation Agreement with PIU, which is a basic agreement to be applied to all the activities of the project. The Participation Agreement provide for what is required to PFI, inter alia:

- i. Terms and Conditions of the SME TSL Deposit Accounts and the Sub-loans;
- ii. Eligibility Criteria for End-Borrowers and Sub-projects;
- iii. Procedures for credit and debit of SME TSL Deposit Account; and
- iv. Monitoring and Reporting Requirements to PIU.

The Participation Agreement shall also include, but not limited to, the following obligations of PFI:

- i. To comply with all the rules and regulations applicable to banks and financial institutions in Myanmar;

- ii. To comply with the accreditation criteria at all times unless the PFI is at the remedial stage and is so allowed by CBM;
- iii. To comply with all the terms and conditions of sub-loans as specified above as well as in the Operating Guidelines prepared by PIU and approved by the Steering Committee;
- iv. To supervise and monitor the implementation of Sub-projects by end-borrowers to assure that the purpose of the TSL Project shall be accomplished;
- v. To implement the TSL Project and conduct its operations and affairs, in accordance with sound administrative, financial, economic and managerial standards, and to provide, promptly as needed, the funds, facilities, services and other resources required for such purpose;
- vi. To disclose or submit all information required by PIU, including, but not limited to, audited financial statements and reports required by PIU for the implementation and monitoring of the TSL Project;
- vii. To allow PIU suspending, terminating or withdrawing SME TSL Deposit Account when violations are observed;
- viii. To enable PIU, GOM or JICA to inspect the PFI or any Sub-projects and review any relevant records and documents maintained by the PFI, if PIU, GOM or JICA so requests; and
- ix. To cooperate with PIU to promote public relations of the TSL Project.

4.1.5 Operation Flow; from initial loan request to repayment of ODA loan

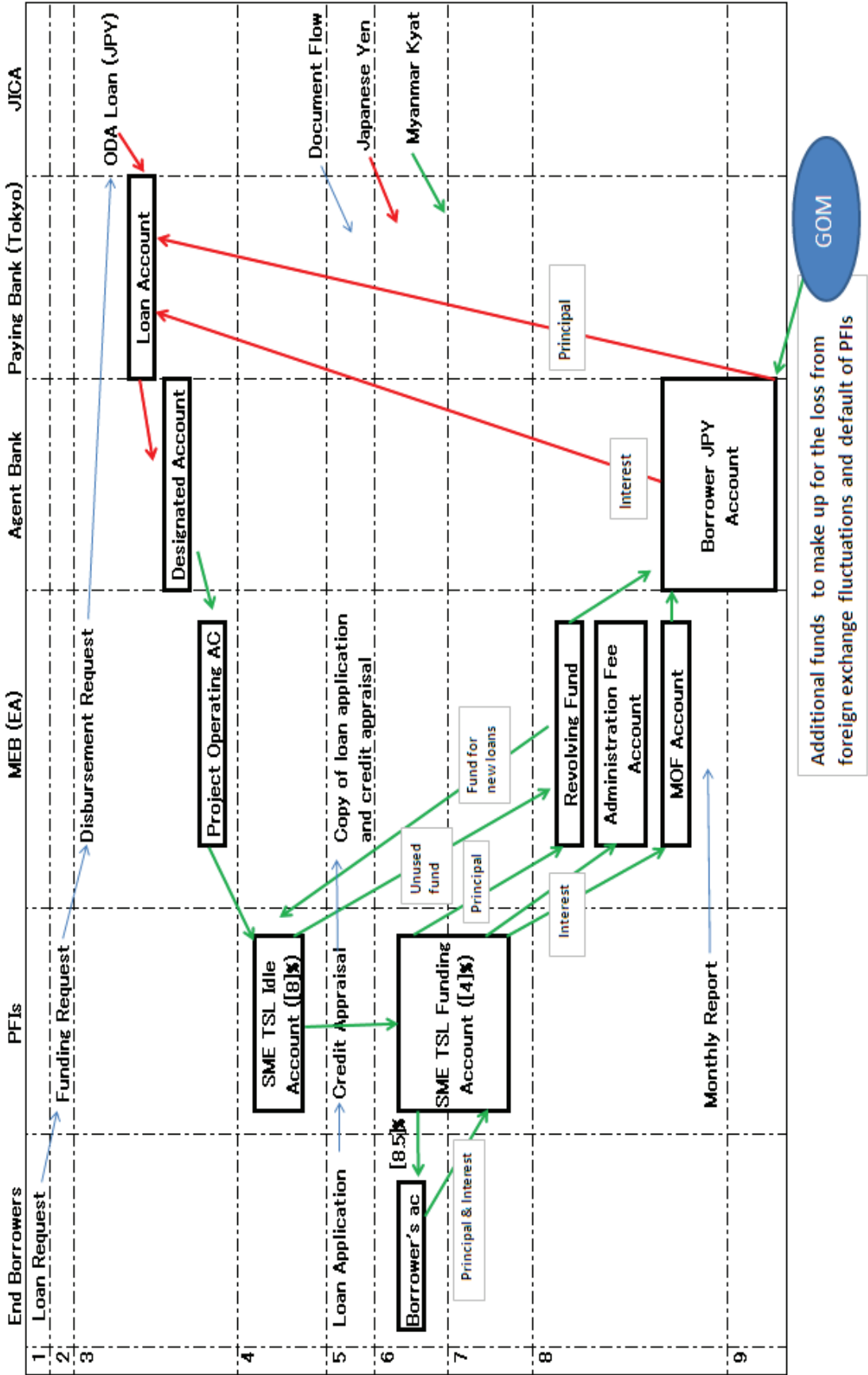
The table and chart below summarizes major steps of the TSL program implementations.

Table 4-3 Summary of major steps of TSL program implementations

	Task/Actor	Document/fund	Required task
(1)	Loan request /End-borrower (SMEs)	Investment plans Collateral information	Apply to banks for investment loans (Banks advertise to SMEs)
(2)	Funding request to PIU/ PFIs	Funding request form with supporting docs	Calculate the expected loan amount to be disbursed within the next [2] months
(3)	Request for ODA Loan disbursement/PIU	Disbursement request to JICA	Calculate the necessary amount based on (2)
(4)	Distribution of funds to PFIs/PIU	Deposit the fund to each participating banks	Deposit the funds to SME TSL deposit account at PFIs based on the fund allocation rules
(5)	Loan Applications /End-borrowers	All the documents required by banks	Preparation of documents Other requirements
(6)	Loan Disbursement /PFIs	Disburse the loan	Check eligibility and credit analysis / Disburse funds to the borrower/ Transfer the fund from 8% account to [4]% account
(7)	Debt Service /End Borrower	Interest payment and principal repayment	Pay as agreed
(8)	Repayment to PIU /PFIs	Repayment report Interest payment report Interest & Repayment	Calculate the funds to be transferred to PIU Transfer the funds
(9)	Interest payment Principal repayment to JICA /PIU ¹¹	Interest payment and Principal repayment of ODA loan in JPY	Repay based on the schedule stipulated in Loan Agreement with JICA

¹¹ PIU is responsible for the procedures for interest payment and repayment MOF is responsible for securing the funding.

Fig. 4-5 Flow of primary documents and funds for Two Step Loan for SME promotion in Myanmar



Detailed description of each task is as follows.

(1) Loan request

In order to fulfill the purpose of delivering the low-cost long-term funds to SMEs, the project first needs to receive the request for loans. While the information required for requesting loans may vary from one bank to another, the following shall be required by most banks.

Information required when requesting a bank loan

- i. Outline of business (financial statements, brochures, etc.)
- ii. Proof of valid business registration and licenses
- iii. Investment plan (machinery to be purchased, related works, costs, etc.)
- iv. Proof of meeting eligibility criteria of TSL (number of employees and amount of invested capital being less than the figures set by the New SME Law)
- v. Description of collateral (type, location, owner, value, etc.)

In order to urge many SMEs to apply for the TSL, PIU should carry out a promotion program which will be discussed in section 4.1.10. PIU should also collaborate with PFIs to urge them to actively market the TSL program to SMEs through their offices.

Upon receipt of loan requests from SMEs, PFIs must verify that the applicant meets eligibility criteria of the TSL program including;

- i. The applicant business is majority owned by the private sector,
- ii. The applicant business is within the eligible business sector ,
- iii. The number of employees or the amount of paid-up capital is below the threshold level stipulated by the draft of new SME Law,
- iv. The primary purpose of the borrowing is for the capital investment,
- v. Loan term is longer than [1] year and up to [5] years, and
- vi. The applicant business or the proposed project is not to be classified as Category A under JICA environmental guidelines and not required to carry out Environmental Impact Assessment (EIA) or Initial Environmental Examination (IEE) based on the category currently considered by the Ministry of Environmental Conservation and Forestry (MOECAP).

(2) Funding request to PIU based on loan disbursement estimate

PFIs are required to submit funding request to PIU monthly, based on the estimated amount of loans to be disbursed to End-borrowers within the next 2

months. The deadline for such submission in each month shall be fixed and announced by PIU in advance.

The funding request must be attached with the list of prospective borrowers and proposed Sub-projects with descriptions that are in compliance with the eligibility criteria and terms and conditions of the TSL Project, include but not limited to the following;

- i. Eligibility as being SME,
- ii. Eligible business sector,
- iii. Eligible investment activity,
- iv. Size of Sub-loan within the maximum lending limit,
- v. Repayment terms,
- vi. Financing structure, and
- vii. Social and environmental consideration.

Based on the criteria above and the information provided by PFIs, PIU shall verify at least the following against the eligibility criteria and the terms and conditions of Sub-loan , that are to be stipulated in the Operating Guidelines;

- i. Eligibility of the End-borrower,
- ii. Eligibility of the Sub-project,
- iii. Purpose and usage of funds, and
- iv. Terms and conditions of the Sub-loan

Upon confirming the eligibility requirements and the terms and conditions of Sub-loan, PIU shall notify the PFI the result of its examination. The period for issuing such notice should not exceed 10 business days from the date of receiving the PFI's funding request.

Should the aggregate amount of funding request from all PFIs exceed the undisbursed ODA loan balance or available funds at Revolving Fund Account, PIU shall decide the amount to be distributed to each PFI based on the following procedures.

- i. Distribute the funds to Sub-loans with longer tenors
- ii. For the funding request for Sub-loans with the same tenors, each PFI shall receive pro-rata share of the remaining ODA loan disbursement based on the approved amount, to be calculated by the formula below.

The fund distributed to each PFI when there is insufficient fund
= $\{(\text{PFI's approved amount}) \div (\text{All PFIs' approved amount})\}$
multiplied by (available funds)

(3) Disbursement request to JICA

MOF will establish a “Loan Account” at the Paying Bank in Japan to receive the ODA Loan from JICA. MOF will also establish a “Designated account” at the Agent Bank in Myanmar to which the yen fund credited to Loan Account shall be transferred. MOF will then convert yen funds to Myanmar kyat through the Agent Bank and transfer the funds in Myanmar kyat to a “Project Operating Account” to be opened at MEB by PIU.

For requesting the initial disbursement under the Project, PIU shall submit the Request for Initial Disbursement with the following information;

- i. Amount of funding request from each PFIs,
- ii. List of prospective borrowers with the descriptions of their businesses, investment plan and applied loan amount, and
- iii. Status of compliance with eligibility criteria for each prospective borrowers

JICA shall, upon receipt of the request for disbursement in the prescribed format, instruct its agent bank to make initial disbursement of the Loan in the amount not exceeding one billion Japanese yen as stipulated in the Loan Agreement.

For requesting the replenishment of funds at Project Operating Account, PIU shall submit the Request for Replenishment as stipulated in the Loan Agreement. Replenishment of the account shall be made by JICA upon receipt of the request for replenishment accompanied by the following documents;

- i. Statement of Expenditure, and
- ii. Supporting documents such as the copies of the receipts issued by the PFI and by the End- borrower evidencing each payment and its usage.

(4) Transfer the funds to PFIs

All the disbursement to PFIs shall be made from Project Operating Account until the completion of the ODA loan disbursement. For the later stage of the project after the disbursement of ODA loan is completed, PIU shall utilize the funds accumulated in the Revolving Fund Account, to which principal repaid from the PFIs is to be credited.

PFI will establish two deposit accounts, “SME TSL Idle Account” with the minimum deposit rate set by the CBM and “SME TSL Disbursed Account” with TSL Funding Rate.

When disbursing to PFIs, PIU transfer the fund from either the Project Operating Account or the Revolving Fund Account to the SME TSL Idle Accounts.

(5) Submission of Loan Applications by SME to PFI

After the receipt of funds from PIU by PFI, the End-borrower is to submit formal loan application documents to PFI for their approval.

Required documents differ from one PFI to another but typically include:

- i. Loan application form specified by PFI,
- ii. Certification of eligibility for TSL loan,
- iii. Certificate of valid company registration,
- iv. Certificate of valid business licenses,
- v. Financial statements,
- vi. Detailed collateral information,
- vii. Undertaking letter/promissory note,
- viii. Agreement to PFIs terms and conditions,
- ix. Recommendation letter issued by the township/village, and
- x. Resident registration of the owner’s family

Also, it is expected that PFI interviews the owner or the managing director of the applicant and visit their factories and collateral properties for inspection.

Since the PFI shall assume all credit risks associated with extension of Sub-loans under the TSL Project, the PFI examines and approves the Sub-loan in accordance with their internal procedure, standard and quality of credits in the same way as the PFI’s normal lending practice. Also, the requirement of collateral rests upon the determination to be made by the PFI in accordance with the PFI’s own policy and guidelines and in compliance with the rules and regulations prevailing in Myanmar. However, PFIs are encouraged to accept movable and non-traditional collateral, such as export crops and machinery.

At the same time, PFIs are to examine the loan application and other documents in light the eligibility criteria established by the Project.

(6) Loan disbursement to End-borrowers

After obtaining loan approval, the PFI signs the sub-loan agreement with the

End-borrower and disburse the loan based on the terms and conditions compliant with policy and procedures of the project.

After the disbursement of the TSL loan to SME, the PFI transfers the same amount of funds from SME TSL Idle Account to SME TSL Funding Account.

At the same time, PFIs have to submit the copy of loan application documents to PIU. Based on the documents submitted by PFIs, PIU need to carry out audit of the End-borrowers regarding their eligibility criteria and environmental requirements of the project.

(7) Interest payment and principal repayment from End-borrower to PFI

The End-borrower pays interest and repays principal as stipulated in the sub-loan agreement between the End-borrower and the PFI.

Upon request by the End-borrower, the PFI may accept prepayment of Sub-loan, provided that the request for prepayment is genuine wish of the End-borrower and not the one coerced by the PFI. The prepayment to be made by the End-borrower shall be appropriated to the installments of principal in the inverse order starting from the last one. The PFI notifies PIU for the prepayment in the monthly report to be submitted to PIU in the following months.

(8) Monthly reporting, interest payment and principal repayment from PFI to PIU

Irrespective of the payment schedules established by PFI for Sub-loan, payment of principal and interest to PIU is to be made monthly. The PFI is obliged to make payment of principal and interest by the date specified by PIU irrespective of actual collection of principal and receipt of interest from End-borrowers.

Together with the payment of principal and interest, the PFI is required to submit to PIU a monthly report containing the following information;

- i. List of End-borrowers and outstanding loan balance as of the reporting date;
- ii. Amount of principal repayment received during the month;

PIU shall develop its own database to manage the repayment schedule of Sub loans. Based on the database, PIU shall verify if the monthly repayment amount from each PFI matches that of the original sub-loan schedule stipulated in the sub-loan agreements. PIU should also utilize IT system to forecast future repayment schedule.

Out of the proceeds collected from PFIs, PIU shall credit the principal portion of the proceeds to the Revolving Fund Account whereas the interest portion is split into two parts, out of which certain percentage, such as 25%, shall be credited to MEB's Administration Fee Account and the rest to MOF Revenue Account.

(9) Interest payment and principal repayment of ODA loan from MOF to JICA

The schedule for interest payment and principal repayment for ODA loan is independent from the fund flow between PFIs and PIU. Therefore, PIU must plan carefully to accumulate sufficient funds before the scheduled interest payment and principal repayment dates as stipulated in the Loan Agreement.

Interest payment is to be made from MOF Revenue Account. Before the interest payment date, PIU shall transfer the kyat equivalent of interest amount to the Agent Bank, convert to Japanese yen and credit a Japanese yen account established at the Agent Bank for the interest payment of the ODA loan.

Principal repayment is to be made from Revolving Fund Account. PIU shall transfer the kyat equivalent of principal repayment to the Agent Bank, convert to Japanese yen and credit a Japanese yen account established at the Agent Bank for the repayment of the ODA loan.

PIU shall inform PFIs in advance of the repayment schedule to JICA and the available fund amounts accordingly in future. Funds to be used for repayment are to be debited from Revolving Fund Account and credited to a yen account to be established at the Agent Bank after being converted to Japanese yen.

In case the amount of Myanmar kyat at Revolving Fund Account is not sufficient to repay to JICA, due to any reason including the default of PFIs and depreciation of Myanmar kyat against Japanese yen, GOM shall be responsible for making up the shortfall from the budget of GOM.

4.1.6 Selection criteria for participating banks

Selection criteria for participating banks should include financial standing, governance, assets size and branch networks, credit screening capabilities and willingness to expand SME lending. Due to the difficulty in assessing the true financial standing of Myanmar banks, the consultant team believes that the selection criteria should be based on the following;

- Governance (independence from a government and a particular business group and neutrality in loan screening process)

- Asset size and branch networks (to reach out to many SMEs countrywide)
- Credit screening capabilities (acceptance of non-traditional collateral and development of credit analysis skills)
- SME Focus (track record in and willingness to expand SME loans)

However, the elements above are not fully disclosed. The analysis below is based on the public information and interview to PFI candidates.

(1) Financial standing

As for the financial standing of the banks, official statistics and interviews to banks indicate that asset quality of Myanmar banks is high with average NPL ratio of 1.64% for private banks¹² and 1.68% for MEB¹³. It is true that banks have been maintaining very conservative lending practices, under which real estate collateral is always required and loan to forced sale value (F.S.V) ratio is kept at less than 40%. However, it should also be mentioned that due to poor financial reporting practices at most of the borrowers and the lack of transparent real estate market make it very difficult to assess the true quality of loan assets. Therefore, it is considered difficult to prioritize banks based on financial health.

(2) Governance

As for the governance of the banks, the independence of management is highly questionable for many of the banks in Myanmar. The banks are often forced by the government to carry out loss-making programs without any compensation. Examples of such include current SME Loan Program and MEB's lending to MADB.

Current SME Loan Program was initiated by the President Thein Sein but no budget has been assigned by the government. MEB was ordered to lend the fund to MEB at 8.25% interest rate to Small and Medium Industrial Development Bank ("SMIDB") and SMIDB was ordered to lend to SMEs at 8.5% interest rate. For MEB, lending to SMIDB at 8.25% causes an opportunity loss because market lending rate is 13%. For SMIDB, lending to SME at 8.5% is a loss making business because 0.25% interest margin cannot cover even the operating costs of loan screening and collateral appraisal.

MEB's lending to Myanmar Agricultural Development Bank ("MADB") is another example of loss-making lending ordered by the government. MEB is ordered to lend to

¹² JICA Study on the Growth-Enterprise Development in Myanmar, July 2013

¹³ Interview to Managing Director on August 16, 2013

MADB at 4% interest rate while the deposit rate is 8%.

The Union Auditor General's Office published a report in July 2013 which revealed that MEB has been operating at a loss for over 20 years due to such policy-based low interest rate lending, according to a major local newspaper¹⁴. The interference in the banks' operation is not limited to state-owned banks, but also privately-owned banks such as SMIDB.

In order to protect depositors and people's trust in banking system, the Union Auditor General's Office recommends that the banks should operate on commercial basis and the policy-based lending should be moved to the newly established of policy-lending institutions¹⁵. However, it is expected that the establishment of policy-based institutions should take a long time.

For private banks, there are criticisms over their independence from the related companies. While there is no statistics available, many people that the consultant team interviewed mentioned that private bank owners also own many other businesses and are using their banks to procure funds for their own. Some banks, such as Yoma Bank, are making internal limits for related company lending but it is considered that such practice has not yet to be common in Myanmar.

On the other hand, it is considered that banks with international alliances are benefitting from technical assistance on governance issues from their partners. Because international banks require appropriate and transparent governance structures for partner banks, international alliances provide a certain assurance on the governance issues. On this point, KBZ Bank with alliance with SMBC and others, CB Bank with alliance with MUFG, and Yoma Bank with potential assistance from GIZ and IFC are considered to be favorable candidates.

Lastly, Myanmar Citizens Bank ("MCB") is the only bank whose share is traded over-the-counter at Myanmar Securities Exchange Centre and is actively disclosing its activities in English on its Website. Therefore, MCB is considered more active than other privately owned banks in terms of disclosure and governance.

¹⁴<http://elevenmyanmar.com/business/2752-myanmar-economic-bank-has-been-losing-money-for-two-decades-audit-report>

¹⁵<http://elevenmyanmar.com/business/2752-myanmar-economic-bank-has-been-losing-money-for-two-decades-audit-report>

(3) Asset size and branch networks

In order to provide funding for as many SMEs as possible and to reach out to SMEs in the country side, it is better to have a bank with a large balance sheet and an extensive branch networks as PFI.

Total assets of Myanmar banking sector was 8,352 billion kyat as of March 2012 and 4,273 billion kyat of which belonged to private banks, according to an annual report of the CBM 2011-12. The assets of private banks are concentrated on top 3 banks, KBZ Bank, Myawaddy Bank, and CB Bank. Their combined share in loans outstanding as of March 2012 was about 70%. While Myanmar Livestock and Fisheries Development Bank (“MLFDB”), recently renamed as Global Treasure Bank, is ranked as 4th, a large portion of its loan portfolio is for livestock and fisheries sectors.

Table 4-4 Market share of ten largest private banks

Bank	Total Assets		Paid-up Capital		Total Deposit		Total Loan	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
KBZ	1,774,444.86	38.29	61,025.00	22.39	1,580,206.11	40.17	1,026,401.39	39.04
MWD	732,786.29	15.81	48,077.50	17.64	610,981.83	15.53	469,684.46	17.87
CB	563,134.99	12.15	28,126.34	10.32	480,615.68	12.22	325,926.16	12.40
MLFDB	397,370.22	8.58	26,079.50	9.57	296,455.00	7.54	243,049.20	9.24
MAB	275,867.19	5.95	25,000.00	9.17	214,257.07	5.45	162,777.01	6.19
INNWA	245,094.28	5.29	19,135.00	7.02	215,229.33	5.47	91,335.72	3.47
AGDB	209,720.27	4.53	24,138.10	8.86	177,139.84	4.50	102,205.21	3.89
AYWB	197,655.56	4.27	24,000.00	8.80	165,651.34	4.21	111,188.96	4.23
SIBIN	119,322.76	2.58	2,000.00	0.73	110,209.28	2.80	34,626.76	1.32
MIDB	118,341.40	2.55	15,000.00	5.50	82,605.17	2.10	61,834.79	2.35
Total	4,633,737.82	100.00	272,581.44	100	3,933,350.65	100	2,629,029.66	100
Total Industry	5,126,387.51	90.39	340,362.23	80.09	4,273,480.81	92.04	2,879,801.50	91.29

Note: MLFDB changed its name to “Global Treasure Bank” in May 2013.

Source: Quoted from Central Bank of Myanmar Annual Report 2011-2012

When a business person chooses the bank, the size of the bank matters because one property can be used as collateral for only one bank. In other words, if a company provides its main factory to borrow from Bank A, the borrowing ability of the company is restricted by the single-borrower lending limit of Bank A, which is 20% of the bank’s capital.

As for the branch network, two state-owned banks, MEB and MADB, have the most extensive branch networks as they are tasked to provide financial access to rural areas. As for the private banks, KBZ Bank has the largest number (109) of branches.

Table 4-5 The number of bank branch offices

Ownership	Name	Branches
State Owned	Myanmar Economic Bank	312
	Myanmar Agricultural Development Bank	222
	Myanmar Investment and Commercial Bank	2
Private	Kanbawza Bank	109
	Global Treasure Bank	60
	Yoma Bank	50
	Cooperative Bank	43
	Ayeyarwady Bank	37
	Innwa Bank	33
	Asia Green Development Bank	28
	Myawaddy Bank	27
	First Private Bank	21
	Myanmar Apex Bank	24
	Myanmar Oriental Bank	20
	United Amara Bank	16
	Tun Foundation Bank	14
	Small and Medium Industrial Development Bank	11
	Myanmar Citizens Bank	9
	Asia Yangon Bank	5
	Yadanabon Bank	2
	Yangon City Bank	2
	Rural Development Bank	2
	Nay Pyi Taw Sibin Bank	1

Source: Create by the consultant team from ThuraSwissNews20130801& Public Information

(4) Credit screening capabilities

Interviews with several banks revealed that their lending decisions are based almost entirely on the valuation of collateral. While some banks, such as Yoma Bank, had started cash flow based credit analysis training, viability of business is still the secondary element in credit appraisal process. In this sense, it is difficult to differentiate banks in terms of credit screening schemes or capabilities.

The consultant team believes that one possible way to evaluate banks' credit screening capability is to check if they are accepting immovable or other non-traditional collateral or exploring to do it in near future. While the efforts to modernize the accounting and financial reporting practice of SMEs and train bank officers on credit analysis is important process, it is not realistic to consider that unsecured lending can be started soon. Therefore, the consultant team believes that more realistic approach to improve SME's access to finance is to widen the varieties of collateral accepted by banks and increase the loan-to-value ratio.

There are varying responses among the banks to the relaxation of collateral requirements initiated by the CBM since late 2011, as described in section 1.2. While all the interviewed banks were aware of the liberalization of collateral requirements, only a few private banks, such as Yoma Bank and KBZ Bank, mentioned that they had already started accepting gold or other non-traditional collateral or drafting internal policies for appraising them. MCB mentioned that they had already started taking export crops as collateral. However, many other banks responded that they have not started taking any action to expand the collateral variations.

Since there is a strong demand from SMEs to use various kinds of assets including their gold or inventories as collateral for borrowing, banks should actively explore the ways to broaden the options for their clients. Therefore, banks' efforts on expanding the collateral base is considered to be an important element to judge banks' loan screening ability.

The consultant team believes that cash-flow based lending is a long term goal for banks in Myanmar, it cannot be achieved within several years. For the time being, that the lack of important business practices, such as fair disclosure and well-functioning administrative and judicial systems would make it very difficult for banks to lend unsecured loans even if the collateral requirement is lifted by CBM. The following will have to be overcome to make unsecured lending in Myanmar possible.

a) Business assets are not properly separated from the owners private assets

The survey of loan applications revealed that many of the business assets, including the factory land and buildings are registered under the owner's individual name. Also, it is not clear that the movable assets, including inventories, are properly purchased and stored in the company name.

It is necessary that the borrowing entity holds sufficient unencumbered assets to cover liability if banks are to provide unsecured loans. This is the reason that banks in the developed world require the borrowers to maintain certain assets amounts and limit them to offer their assets to other creditors as collateral, which is called "negative pledge covenant". However, if the business owners' private assets and the company's assets are not properly separated, banks cannot monitor the asset coverage over the company's liabilities. Therefore, banks have no choice but to require the business owners to allocate a certain assets exclusively for banks as collateral.

b) Financial statements are not properly created and audited

The survey of loan applications also revealed that the financial statements are not properly created and audited. In many cases, factory lands and buildings are included in the company's balance sheet while the registered owner of such properties is a managing director as individual. Also, in many cases, salaries for owner's families are not recorded as expenditure and depreciation of machinery was not recorded, either.

Also, the consultant team noticed that even such financial statements with apparent and important flaws were attached with auditors' letters. The consultant team believes that auditors' ability and a professional code of conduct will have to be improved significantly.

Since financial statements are not trust worthy, analysis based on such cannot provide meaningful result for banks' lending decisions.

c) The lack of system to investigate business and personal wealth

In a developed world, business and personal wealth are required to be reported to tax authorities. If one tries to hide their wealth, tax collection authorities have rights to investigate. Banks in developed world can rely on tax payment information to understand the wealth of their borrowers because they rely on tax authorities ability to finding out the hidden wealth. However, such system is not well established in Myanmar and it is very difficult to understand the true financial standing of their borrower. This is another reason that Myanmar banks can not lend unsecured.

d) The lack of judicial system to smoothly foreclose on bankrupt business and its owner. In order to promote unsecured lending, a smoothly functioning judicial system must be established to enable banks to collect their repayments from assets of the company and/or its owners. However, there is no such system has been established in Myanmar.

(5) Track record and willingness to expand SME lending

According to U San Thein, a senior advisor for SMIDB, “More than 99.4 percent of local business is classed as SMEs”¹⁶. U Kyaw Lynn, Executive Vice Chairman & CEO of CB told that among 1,567 loan customers, 1,070 are SMEs based upon current definition and this figure will definitely increase with new definition which is under discussion at parliament. Also, state-owned MEB mentioned that about 90% of its loan portfolio is for SMEs, with the remaining 10% for large conglomerates.

Since most of the businesses in Myanmar are SMEs as shown above, all the banks, except for MADB specializing in lending to farmers, have experience in SME lending. However, not all banks are actively promoting themselves as SME banks and specifically mention SME as strategic client segments.

SMIDB calls itself as the only bank specializing in SME lending in Myanmar, because it has a strong tie with the Ministry of Industry, the main government office for SME development.

Apart from SMIDB, Yoma Bank advertises itself for “SME and International Banking”. Yoma Bank was established in 1993 and currently has 50 branches in 30 cities throughout the country but had been restricted from deposit taking and lending after the Myanmar banking crisis in 2003.¹⁷ Full banking license was recovered in August 2012 and lending activity had just been started since April 2013. Therefore, while Yoma Bank is trying to focus on SME banking, its track record has not yet been established.

The head of SME banking at Yoma Bank mentioned that Yoma Bank is trying to achieve a high level of banking service by training loan officers on credit analysis and valuation of movable collateral, such as gold or inventories. She also mentioned that Yoma Bank is cautiously expanding from very small lending operation with less than 20 clients because the priority at this moment is to build up capacity of its employees and establish proper policy and procedures. Yoma Bank is trying to learn advanced banking practice by bringing in Mr. Hal G. Bosher, a former Senior Underwriter based in Hong

¹⁶ <http://www.mmtimes.com/index.php/business/6427-experts-urge-more-sme-help.html>

¹⁷ Research Report on FMI, Thura Swiss, June 13, 2013

Kong for the Multilateral Investment Guarantee Agency (MIGA) and Myanmar returnees experienced in banking. The head of SME banking herself is also a Myanmar citizen with working experience in middle market lending at an Australian bank.

(6) Conclusion

As mentioned above, it is difficult to screen Myanmar banks based on credit standing due to limited disclosure and non-transparent real estate markets. Therefore based on the following criteria, the consultant team chose five potential candidates for TSL participating financial institutions (PFIs).

- Governance (independence from a particular business group and neutrality in loan screening process)
- Asset size and branch networks
- Credit screening capabilities (acceptance of variety of collateral based on clients requests and developing business analysis skills)
- SME Focus (track record in and willingness to expand SME loans)
- Experience in policy lending

On these points, the consultant team had identified the following 6 banks as potential candidates for the following reasons.

Table 4-6 Potential candidates for TSL participating banks

Name	Reason
Myanmar Economic Bank (MEB)	<ul style="list-style-type: none"> ● Involved in current SME Loan Program ● The largest branch network ● Agent bank for government fund management
Small & Medium Enterprise Development Bank (SMIDB)	<ul style="list-style-type: none"> ● Involved in current SME Loan Program ● SME Focus
Kanbawza (KBZ) Bank	<ul style="list-style-type: none"> ● The largest private bank ● Extensive alliance with international banks ● Flexible collateral acceptance
CB Bank	<ul style="list-style-type: none"> ● The third largest private bank ● Extensive alliance with international banks
Myanmar Citizens Bank	<ul style="list-style-type: none"> ● The only bank whose share is traded at Myanmar Securities Exchange Center and advanced in corporate governance ● Flexible collateral acceptance ● Some managers experienced IDA and ADB loans as Ministry of Commerce officials ● Recommended by the Ministry of Commerce

Table 4-7 Scorecard for major banks as candidates for TSL participating bank

	MEB	SMIDB	KBZ	CB	MYD	YOMA	MCB
Governance			B	B			A
Asset size	A+		A+	A	A		
Branches	A+		A	A	A	A	
Credit Analysis			A				A
SME Focus		A	B			B	B
Experience in Policy Loan	A+	A+					A
Total	A	A	A	A			A

A+: Very Good A: Good B: Possibly good

Myawaddy Bank, the second largest private bank, was not included due to the lack of disclosures. Yoma Bank was not included as its lending operation is still in preparatory stage.

On practical consideration, it is advised that the new TSL scheme should start with pilot phase with SMIDB, which is currently engaging in policy based SME loans, as the only PFI. Since this is the first TSL for Myanmar, PIU and the relevant government offices should have a chance to familiarize themselves with the procedures before they start dealing with multiple banks.

4.1.7 Environmental and social considerations (ESC)

4.1.7.1 Selection criteria and procedure for Sub-projects

(1) Basic purpose from ESC aspects

Basic policy of ESC in this TSL project is to assure an environmental and social management scheme that should enable avoidance of significant adverse impacts on natural and social environment in implementation of its Sub-projects.

(2) How to accomplish the purpose in this TSL scheme

a) State of ESC scheme in Myanmar

The basic law on environmental conservation and management, *the Environmental Conservation Law* (ECL) was enacted in 30 March 2012, and enforced from April. It comprehensively prescribes environmental administration in Myanmar and set framework on environmental conservation.

Section 7 of the Law in Chapter IV gives duties and powers to the MOECFA, where in the Law it is defined as the Union Ministry assigned by the Union Government to perform the matters of environment, 'causing to lay down and carry out a system of environmental impact assessment and social impact assessment as to whether or not a project or activity to be undertaken by any Government department, organization or person may cause a significant impact on the environment'. Here, the EIA scheme had legislative grounds to be formulated.

However, the EIA scheme is not established yet. The detailed individual regulations 'Environmental Impact Assessment Procedure', bylaws to the ECL on EIA procedure, are in preparation. The formulation process of the regulation 'EIA Procedure' is mostly at final stage, according to the Environmental Conservation Department of MOECFA, which is charged with the matter under the ECL. The draft documents of the regulations are under cross-sectoral review of other relevant ministries and international organizations including ADB. The inspection process will be completed by the end of 2013. In 2014, the regulations will have final legal check by GOM and supposedly be enforced from the beginning of 2015.

The draft of EIA procedure has an important attachment of tables. It is the tables that list IEE and EIA project types. These lists are important and only concrete tools now available in Myanmar regarding EIA schemes with reasonable grounding in Myanmar's Legal Scheme. These tables should be referred to with respect to ESC (or EIA) procedures in activities in Myanmar.

(3) Criteria for selection

First step for the selection of Sub-projects in this TSL is to exclude projects that are listed in the Table of EIA Required Projects (schedule II). (See Attachment 2-1)

Another step is to exclude projects located in Environmentally, Ecologically and Socio-culturally Sensitive Area that are listed in Table 3 (See Attachment 2-2)

By excluding Table 2 and 3 type projects, which generally fall into Category A type projects, Category A Sub-projects will be excluded.

Further, in this TSL scheme, IEE type projects are arranged to be excluded.

The reasons for such arrangement are; 1) most prospective Sub-projects are supposed to be small scale industry; 2) to further assure all selected Sub-projects will not cause any significant adverse impacts on the environment and society and 3) to fortify the current environmental management and monitoring capacity of Myanmar Government and Executing Agency of this TSL. (See Attachment 2-3)

(4) Selection procedure for Sub-projects

- JICA Screening Format, attachment of JICA ESC Guidelines, will be distributed by Participating financial institutions (PFIs) to SMEs who are considering application to this TSL program.
- SME who is considering the loan application is required to carry out self environmental screening for the project to be applied.
- SME will apply for the loan with screening results attached to the application documents.
- Participating financial institutions (PFIs) will screen the applied Sub-projects and exclude the applied projects that fall into project types of Table 1, 2 and 3 from the loan-candidate projects.
- By this means, it will be assured that any selected Sub-project is likely to have minimal or little adverse impact on the environment and society, which coincides with the Category C type project defined in JICA ESC Guidelines.

4.1.7.2 Compliance with JICA Guidelines for ESC

(1) Category of this TSL project: Category FI

(2) Definition of Category FI

Proposed projects are classified as Category FI if they satisfy all of the following requirements: JICA's funding of projects is provided to a financial intermediary or executing agency; the selection and appraisal of the Sub-projects is substantially undertaken by such an institution only after JICA's approval of the funding, so that the Sub-projects cannot be specified prior to JICA's approval of funding (or project appraisal); and those Sub-projects are expected to have a potential impact on the environment. (p13, JICA ESC Guidelines)

(3) Requirement of JICA ESC Guidelines on Category FI

JICA examines the related financial intermediary or executing agency to see whether appropriate environmental and social considerations as stated in the guidelines are ensured for projects in this category. JICA also examines institutional capacity in order to confirm environmental and social considerations of the financial intermediary or executing agency, and, if necessary, requires that adequate measures be taken to strengthen capacity.

Under TSL projects, the financial intermediary or executing agency is expected to examine the potential positive and negative environmental impacts of Sub-projects and

to take the necessary measures to avoid, minimize, mitigate, or compensate for potential negative impacts, as well as to promote positive impacts if any available.

In principle, JICA undertakes environmental reviews and information disclosure for the Sub-projects prior to their implementation in the same manner as specified for Category A projects, if those Sub-projects are likely to be under the cooperation projects.

JICA discloses the results of environmental reviews on its website after concluding agreement documents. (See p22 of the Guidelines< (4) Category FI projects < 3.2 Loan aid, Grant Aid (excluding projects executed through international organizations) and Technical Cooperation Projects < 3. Procedures of Environmental and Social Considerations)

(4) Definition of Category A, B and C

In JICA ESC Guidelines, individual projects are categorized into either A or B or C.

Category A: Proposed projects are classified as Category A if they are likely to have significant adverse impacts on the environment and society. Projects with complicated or unprecedented impacts that are difficult to assess, or projects with a wide range of impacts or irreversible impacts, are also classified as Category A. These impacts may affect an area broader than the sites or facilities subject to physical construction. Category A, in principle, includes projects in sensitive sectors, projects that have characteristics that are liable to cause adverse environmental impacts, and projects located in or near sensitive areas.

Category B: Proposed projects are classified as Category B if their potential adverse impacts on the environment and society are less adverse than those of Category A projects. Generally, they are site-specific; few if any are irreversible; and in most cases, normal mitigation measures can be designed more readily.

Category C: Proposed projects are classified as Category C if they are likely to have minimal or little adverse impact on the environment and society.

(5) Correspondence between TSL Selection Criteria and JICA Guidelines requirement

In this TSL project, only Category C type projects will be accepted with avoidance of both Category A and Category B type projects, through the employment of the negative list.

First, projects required of EIA or IEE and ones located in Environmentally, Ecologically and Socio-culturally Sensitive Area are excluded from SMEs' application by notifying SMEs of types of non-eligible projects through the provision of Negative lists.

Secondly, PFIs' Sub-project selection processes block any such projects from being approved as Sub-projects in TSL. By doing so, both Category A and B type projects are excluded.

Then, only Category C type projects are allowed in this TSL from the aspect of environmental and social considerations. According to JICA Guidelines, for projects in Category C, environmental review will not be required after categorization (See p22, JICA ESC Guidelines).

In this way, it will be assured for this TSL Sub-projects to be in compliance with the requirements of JICA ESC Guidelines.

4.1.7.3 PFIs' ESC capacity and improvement plan

(1) National background on ESCs and environmental management

In Myanmar, an EIA scheme has not been introduced so far. Internationally typical environmental and social consideration process and tools, such as Environmental screening, IEE, EIA and EMPs, have not been required by national regulations and authority.

National standards including environmental ones have not been formulated yet, too.

Both national EIA scheme and national environmental standards are in the preparation stage as national regulations. Accordingly, the awareness on ESCs and related capacity development can be worded mostly 'absent' in both public and private sectors, rather than 'weak'.

(2) PFIs' capacity for ESCs

PFIs' capacity for ESCs is very limited. PFIs' answers to 'JICA checklist for ESMS' are mostly negative, meaning no existing system.

No PFIs have its individual environmental policies.

No PFIs are executing environmental review process on their credit evaluation.

No PFIs have organizational structures and appropriate technical staff allocated for

ESMS. Also no budget allocated so far.

No PFIs are monitoring or issuing periodical reports on environmental management issues.

For the details of each PFI' answer, please refer to the attachment of this report. (Attachment 2-4 to 2-8)

(3) Improvement plan

There is a huge gap between JICA requirements on ESMS and PFIs current situation. To fill in this gap with any practical solution, the method as stated in the earlier section of 4.1.7 is proposed. It will be difficult for PFIs to have environmental evaluation and monitoring on applied Sub-projects with no official EIA procedure in force.

The consultant team believes that, ensuring the Sub-projects are Category C type at the screening process with a negative list on project types and sizes will be the simplest and viable way for PFIs to secure the purpose of the ESMS, without imposing too heavy a burden on them.

Still, it should be required for PFIs to allocate responsible personnel at senior manager level to the pertinent task with appropriate budget, and to give sustainable and continuous opportunity for relevant staff training.

(4) Feasibility of the scheme and follow-up plan

a) Different business licenses, their updates and inspection

Various kinds of business licenses are required in Myanmar but no environmental permit is in force yet.

- MOI issues a business license for manufacturing industry, processing industry, food industry, etc. It must be renewed every year with onsite inspection. Upon the visit to Sample SMEs, the records of license renewals have been observed on site by the Consultant Team.
- Directorate of Industrial Supervision and Inspection (DISI) of MOI issues a license and makes periodical site inspection once or twice a year for boilers and generators. Those records have also been observed upon the Consultant Team's visit to the sample SMEs.
- City and Township Development Committee, like YCDC, PyayCDC and Ahlone Township Committee, conduct waste water quality monitoring and issue periodical

certificates. Recorded documents have been observed.

- Food and Drug Administration (FDA) or National Health Laboratory (NHL) of MOH are conducting water quality monitoring for food processing annually or biennially.

With site observation of sample SMEs, the consultant team confirmed that business licensing, their updates and onsite inspections are well performed, managed and recorded both by relevant administrations and by the private sector.

Observing these cases, where the existing rules and requirements are well enforced and managed, we may safely expect that the planned ESMS scheme for this TSL project will be managed and implemented by PFIs soundly and properly.

b) Follow-up plan

Relevant formats and guideline documents (Tables for IEE, EIA scheduling, Table for Sensitive Areas, JICA Guidelines and Screening Formats) should be distributed to PFIs with explanatory sessions provided by the PIU.

It will be necessary for PFIs to be given an additional explanatory seminar or workshop on TSL selection criteria from ESMS aspects, especially on relevant Tables and JICA Guidelines, before implementation of the TSL project.

4.1.8 Estimate of the fund demand for the first year.

Most bankers and SME owners mention that the size of the existing SME Loan Program, 30 billion kyat, is far from meeting the demand. However, it is very difficult to estimate the appropriate size of the program if we limit the use of funds to capital investments. Actual disbursement depends on banks' willingness to market to SMEs and to relax collateral requirements.

One way to estimate the demand for SME loans is to apply estimated ratio of loans to SMEs' capital investments to the estimated loan growth amount of participating banks. The estimated ratio of loans to capital investment can be estimated by the proportion of loan balance to the production sector.

We had obtained financial statements from all candidate PFIs. As shown below, the aggregate loan growth for the last fiscal year was 1,075 billion kyat with the growth rate of 63%. However, there is a wide gap among banks in terms of both the growth rate and the growth amount. As you can see from the table below, KBZ Bank is by far the largest in terms of the loan balance and the loan growth amount for fiscal year 2012-13. While MEB's loan growth is high, most of the new loans are for MADB and privatization

of government assets and not for SMEs.

Table 4-8 Estimated loan growth and SME loans (billion kyat)

	Loan as of March 2012	Loan as of March 2013	Loan growth during FY2012-13	Loan growth rate
KBZ Bank	1,026	1,565	539	52%
MEB	259	740	481	185%
CB Bank	326	351	26	8%
SMIDB	62	72	10	16%
MCB	25	44	19	76%
Total	1,698	2,772	1,075	63%
Excluding MEB	1,439	2,032	594	41%

Source: Created by the consultant team from financial statements

KBZ Bank also discloses the loan balance for each industry, which is summarized as the table below.

Table 4-9 Loan balance as of March 31, 2013 for Kanbawza Bank

	# of Loans	Outstanding (billion kyat)	Ratio
Trading	1,136	401	26%
Industrial/Production	468	311	20%
Services	355	231	15%
Construction	94	149	10%
Transportation	161	35	2%
General	1,121	383	25%
Hire Purchase	4,421	53	3%
Total	7,757	1565	100%

Source: Created by the consultant team from financial statements of Kanbawza Bank 2012-13

Since the TSL aims at providing low-cost and long-term financing for capital investments, the primary beneficiary sector is considered to be “Industrial/Production”. If we assume that about half of lending to “Industrial/Production” sector is for capital investment, we obtain 10% of all the loans are for capital investment for production machinery. For reference, 34 manufacturing companies responded to SME survey of 102

SMEs and mentioned that their bank borrowing needs was 469 million kyat on average, with 58% of which was for the purchase of machinery.

Also, KBZ estimate that about 90% of their loan portfolio is for SMEs. Therefore, if we multiply the estimated ratio of the loan for capital investment, 10%, by 90%, we obtain the ratio for capital investment loan for SMEs as 9% of total.

If we multiply the annual loan growth excluding MEB in 2012-13, 594 billion kyat by 9%, we obtain 53 billion kyat, which is equivalent to 5.3 billion yen.

Based on this assumption, we estimated that the demand for funds as 5 billion yen for the first tranche. We should consider the amount and condition for the second tranche based on the result of the first tranche.

4.1.9 Comparison with the current SME Loan Program

The GOM had already started a program to address SMEs' needs for low interest and longer tenor by ordering SMIDB and MEB to implement the SME Loan Program. However the program has the following problems and is currently not issuing any new loans as explained in section 2.4. Such problems are the following:

- i. Lack of economic incentive for commercial banks to expand the program
- ii. Lack of eligibility criteria for end-borrowers (no measure to exclude large corporations);
- iii. Lack of restriction on the use of funds (can be used to refinance existing bank loans); and
- iv. Provided only through SMIDB for undisclosed reason.

JICA's TSL project for SME development offers the same lending interest rate and longer loan tenors to SMEs while addressing the issues above by the following features.

- i. Provide participating financial institutions appropriate incentive to actively participate in the program by providing low cost funding (rationale and formula for funding cost is described in 3.1.9 (2);
- ii. Clear eligibility criteria based on new SME law;
- iii. The use of fund is restricted for the new capital investments; and
- iv. Provided through multiple banks selected through clear criteria.

At the same time, the TSL program encourages participating banks to be flexible and creative in credit analysis to respond to customer needs, such as by accepting movable collateral.

Table 4-10 Comparison of existing SME Loan Program and proposed TSL for SME Development

	Commercial loans	Existing SME loan	JICA TSL for SME Development
Interest Rate	13.0%	8.5%	8.5%
Lending limit/recipient	None (single lending limit by regulation = 20% of banks capital)	500 million kyat	500 million kyat
Maximum Loan Term	1 year	3 years	5 years
Cost of funds	None Deposit interest rate 8%	GOM ordered MEB to lend to SMIDB at 8.25% Collateral required	GOM deposit the fund to participating banks at 4% based on the current interest rate
Use of funds	No restriction	No restriction	Capital investments
Collateral requirement	Based on banking regulation and bank's policy	Based on banking regulation and bank's policy	Based on banking regulation and bank's policy
Fund size		Currently 10 billion kyat (Max 30)	To be decided
Eligibility criteria		None	SMEs to be defined in the new SME Law
Additional procedure		Recommendation by SME Development Center after interview and inspection	Submission of Environmental and Social Consideration checklist
Participating bank screening criteria		Not clear	Governance, Asset size, Branches, Credit Analysis (variety of acceptable collateral), SME Focus, Policy lending experience
Participating bank		SMIDB	Multiple banks

4.1.10 Promotion plan

For the existing SME Loan, the SME development center played an active role in promotion of the program. They prepared brochures of the program as part of their public relations activity and also formed four groups to visit industrial zones throughout the country to make presentations.

However, neither of the two SME loan recipients that the consultant team interviewed knew of the advertisement activities by SME development center. Instead, both of them learned about the program from SMIDB contacts.

For JICA's TSL program, PIU shall be responsible for the advertisement of the project through mass media such as newspaper and television, as well as workshops and seminars to be held at industrial zones and local chamber of commerce. It is also important for PIU to coordinate the promotion efforts of PFIs and incentivize them to actively market the program to eligible SMEs.

The consultant team interviewed two major newspaper publishers. Both confirmed that they would cooperate with TSL program by publishing a related article in the same issue of TSL advertisement if it's placed, because they believe that SME development is of high interest to the public. They insisted that newspaper is fairer advertisement tool than television because there are many people who don't have a TV.

The outline of newspapers that consultant team interviewed is as follows:

Table 4-11 Outline of major newspapers

Name of Publisher	Number of Issues		Market	Note
	Daily	Weekly		
Eleven	95,000	130,000	All region	Most popular newspaper. Has web version in English as well.
Voice	40,000	100,000	All region	Contains more articles of economy and politics.

4.1.11 Measurement of Project Effects

4.1.11.1 Operation and Effect Indicators

In Yen Loan projects, operation and effect indicators normally have their target figures two years after the completion of the project (in this case, two years after the final disbursement). However, no base-year values can be determined due to the nature of a TSL project, in which a number of Sub-projects will be determined after the

commencement of the project.

Operation and effect indicators are set and used to assess the effective utilization of the loan and also to capture the quantitative achievement of project objectives. Under these assumptions, the effectiveness of this TSL project can be measured broadly in two respects.

- (1) To measure if the project is effectively implemented (loan-related indicators)
- (2) To see that the SMEs financed through this project expand their businesses (SME-related indicators)

The indicators expected at this stage are as shown in the table below. The target values are all tentative and need to be determined through further discussions with the government ministries and financial institutions concerned.

Table 4-12 Operation and Effect Indicators

Indicators	Target (two years after project completion)
Number of sub-loans committed and disbursed from the original account (excluding loans from the revolving fund account)	More than 100
Non-performing sub-loan cases under the project (%)	Less than 10%
Non-performing loan amount under the project (%)	Less than 10%
Sales increase by SMEs covered by the project (%)	20%
Profit increase by SMEs covered by the project (%)	10%
Number of new employment created by SMEs covered by the project (% change)	10%
Percentage of long-term (more than a year) credit to the total credit by selected PFIs (%)	30%
Increase of credit to SMEs by selected PFIs (%) (Reference data)	30%
Number of seminars held for PFIs and SMEs under the project (actual number)	TBD (Seminar schedule is to be planned by PIU and agreed by PFIs in the implementation phase)

In addition to these quantitative indicators above, the project is expected to make qualitative contributions on the following points:

- Capacity development of PFIs and SMEs covered under the project
- Whether the SMEs funded by the project expand their existing businesses or start new businesses
- Improvement in access to funding sources by SMEs
- Development of more advanced financing approaches and methods by PFIs (e.g.

skills of credit analysis) to respond to the needs by their present and potential customers

- Diversification of the types of collateral actually taken by banks (Use of non-traditional collateral)

These indicators and data related to the project will be collected through quarterly progress reports submitted by the executing agency of this project.

4.1.12 Technical assistance for the implementation of TSL

The implementation of TSL program involves various ministries, CBM, MEB, PFIs and end-users. As mentioned in section 4.1.4 (4), PIU to be established at MEB will be assisted by outside consultants hired under the ODA loan. At the same time, PFIs will receive training and necessary support from the consultants hired by MEB on the matters concerning the implementation of TSL, as described in section 4.2.2.

As for GOM, there is also a task of supervision, on top of the fund management to be carried out by PIU. Various ministries and CBM serve as members of the steering committee and monitor if TSL program is being carried out in accordance with SME development policies of GOM and with banking regulations. The consultant team believes that no specific technical assistance is necessary for those ministries and CBM to perform supervisory role as each participant is expected to bring in insight from its responsibility in the government.

As for end-users, the loan application procedure shall not be very different from commercial loans and no specific training shall be required.

However, both GOM and end-users, as well as PFIs and other local banks, have many aspects for improvement for SMEs access to formal finance in Myanmar to become comparable to the levels in more advance ASEAN countries. The potential needs for capacity development is discussed in section 5.

4.1.13 Administration of revolving funds and profit/cost to GOM

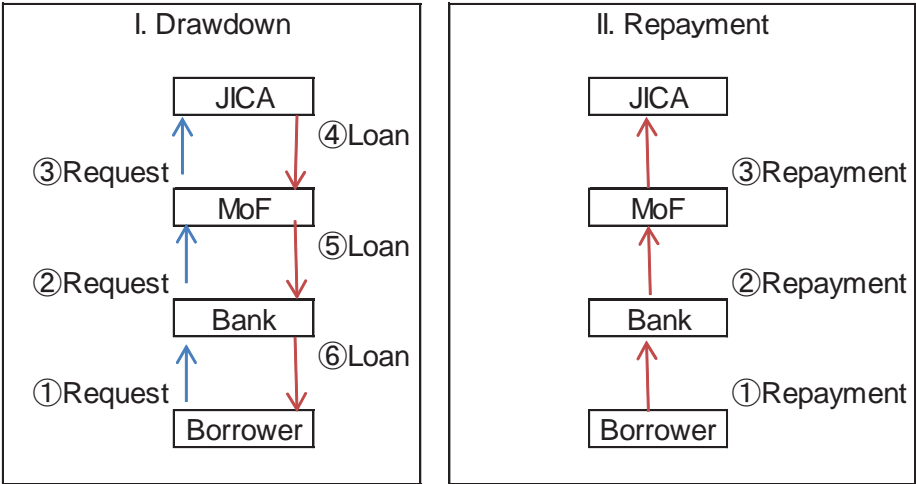
Revolving use of the funding means that the implementing agency is allowed to reuse the funds repaid by PFIs for new loans to SMEs. This ongoing cycle ensure that the fund can remain in operation until the time of scheduled repayment of the ODA loan. Unlike non-revolving TSL, the loan tenor of ODA loan can be different from the tenor of sub-loans to the final borrowers. The proposed TSL scheme employed this revolving fund structure as described in section 4.1.5.

To illustrate the difference between non-revolving and revolving use of funds, we would

like to describe the fund flow and expected outstanding balances of the ODA loan and sub-loans.

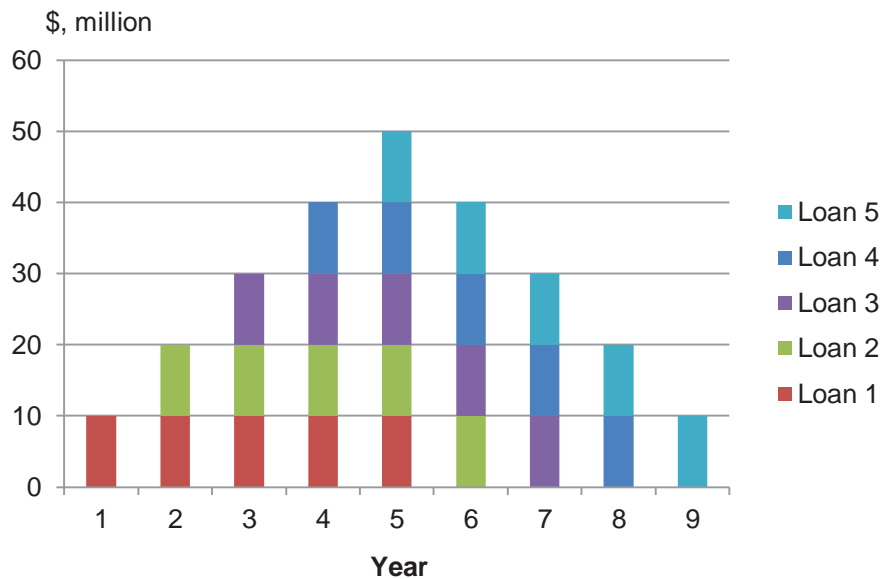
The flow of drawdown requests and funds from non-revolving TSL can be summarized as follows.

Fig. 4-6 Flow of funds under non-revolving TSL



Since the funds repaid by the final borrower shall be returned to JICA for non-revolving TSA, the tenor of JICA's loan shall be approximately the same as the tenor of loans from implementing banks to the end borrower. Assuming that the implementing banks extend loans under the TSL program per year for five years, with a tenor of five years and the aggregate principal of \$10mm per year, outstanding balance of TSL shall be as follows.

Fig. 4-7 Outstanding loan balance of non-revolving TSL



On the other hand, the implementing agency can use the funds repaid by the final borrower for new loans under revolving facility. The flow of drawdown requests and funds under revolving use can be summarized as follows. One-to-one correspondence is required only for the initial drawdown and the implementing agency is allowed to keep the funds even after the repayment of initial loans to the final borrowers. In the payback period, which is the last 30 years of the 40-year ODA loan, fund flows between MOF, Banks and borrowers are not linked to the scheduled repayment to JICA and the implementing agency is allowed to use the available funds for new lending, while MOF must plan and save sufficient funds before scheduled repayment dates.

Fig. 4-8 Flow of funds under revolving TSL

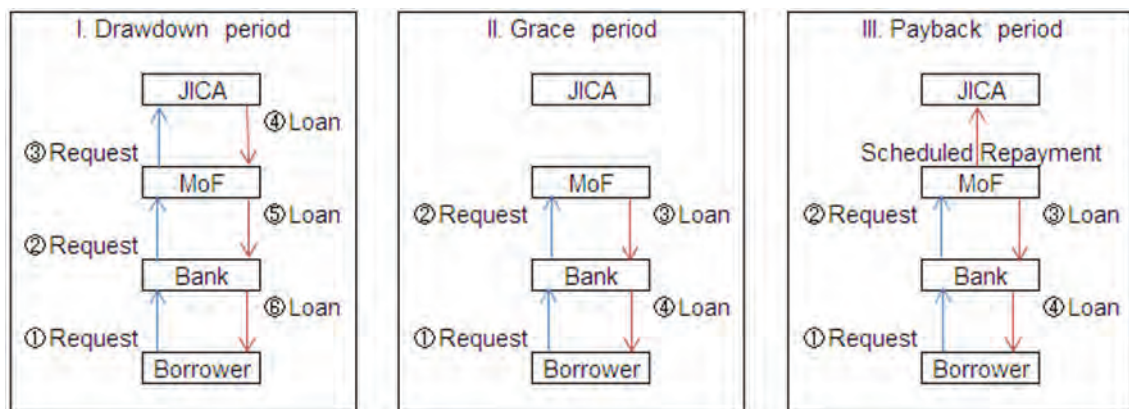
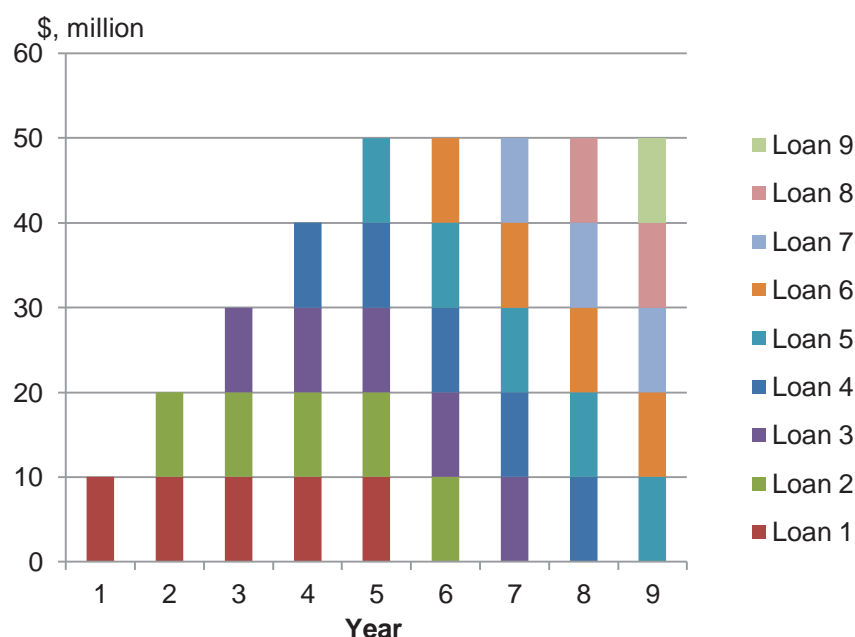


Illustration of how implementing banks maintain the loan balance for a long time can be provided by using the similar example as above. Assuming that the implementing banks extend loans under the TSL program, with a tenor of five years and principal of \$10mm every year, outstanding balance of TSL shall be maintained at \$50mm, as illustrated in the figure below. Implementing banks can make loan 6, 7, 8 and 9 because they are allowed to use the repaid funds from Loan 1, 2, 3 and 4

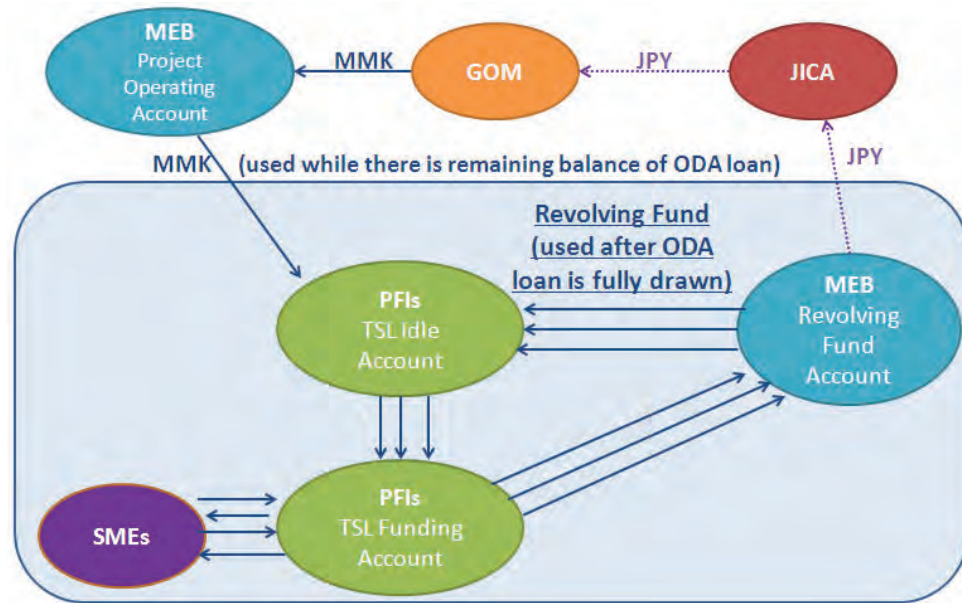
Fig. 4-9 Outstanding loan balance of non-revolving TSL



As mentioned in the previous section, expected loan tenor to the final user shall be up to five years. Therefore, it is imperative to formulate the TSL program as a revolving fund. If not, most of the funds shall have to be repaid within ten years and low-interest benefit of JICA loan cannot be utilized for a long time.

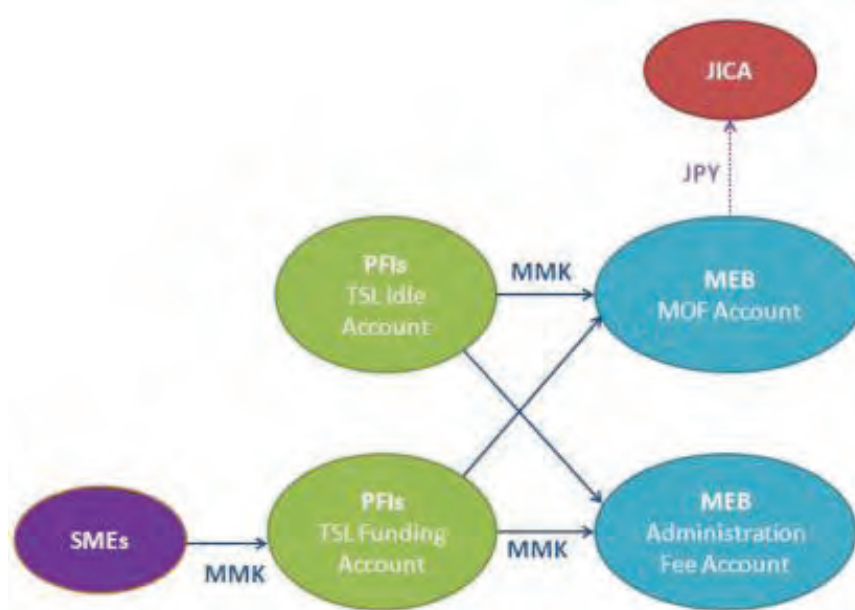
To better illustrate the revolving flow of fund, the chart below indicates the flow of funds between bank accounts under the proposed scheme. Once the fund is deposited to TSL Idle account at PFIs through Project Operating Account at MEB, it shall be kept circulating between MEB, PFIs and end-borrowers until the principal repayment date of the ODA loan. Before the repayment day, kyat fund equivalent to the Japanese yen repayment amount based on the exchange rate of the day shall be debited from the revolving fund account.

Fig. 4-10 Flow of funds (Principal)



As for the interest rate that MEB receives from PFIs, it shall be divided into administration cost to MEB and net interest receipt for GOM. The level of administration fee shall be negotiated between MOF and MEB. Before the interest rate payment day for ODA loan, kyat fund equivalent to the Japanese yen interest payment amount based on the exchange rate of the day shall be debited from the MOF account.

Fig. 4-11 Flow of funds (interest)



The table below exhibits the expected receipt of interest from and expected payment to JICA by GOM.

Table 4-13 Fund to be received and paid by GOM

	Fund received by GOM		Fund paid by GOM
Principal	Repayment by PFIs (kyat amount fixed at the time of draw down from ODA loan) (Default risk of PFI taken by GOM)		Borrowed principal amount in Japanese yen (kyat amount fluctuate based on foreign exchange rate in future)
Interest	When funds are at		Interest amount stipulated in Loan Agreement in Japanese yen (kyat amount fluctuate based on foreign exchange rate in future)
	Revolving Fund AC at MEB	No income	
	Idle AC at PFIs	Minimum deposit rate (currently 8%, subject to change by CBM)	
	Funding AC at PFIs	TSL Funding Rate (currently 4%, subject to change by CBM)	

The fund received by GOM during the implementation period is the principal amount repaid by PFIs and deposit interest rate paid by PFIs. Deposit interest rate changes when CBM changes the minimum deposit rate and/or maximum lending rate. The amount of fund received by GOM become less when CBM lowers interest rate.

Payment obligation of GOM is to be fixed in Japanese yen in the Loan Agreement. However, since the functioning currency of TSL program is kyat, GOM bears the foreign exchange rate fluctuation risk between the time when GOM receives the fund and the time it pays interest or principal to JICA. While it is difficult to estimate the future foreign exchange rate between Myanmar kyat and Japanese yen, high inflation currency loses nominal value to low inflation currency in the long term. If the inflation rate in Myanmar will be higher than that in Japan, kyat based repayment amount shall increase.

4.2 Participating Financial Institutions (PFIs)

4.2.1 Candidate PFIs

The consultant team chose 5 PFIs as follows: SMIDB, KBZ bank, CB Bank, MCB and MEB. The outline of the candidate banks are described in below table, while MEB has not yet submitted the profit and loss statement of MEB in FY2012.

Table 4-14 Selected figures for candidate PFIs

(mil Kyat)															
	MEB			SMIDB			MCB			KBZ			CB		
	2012	2011	Y/Y	2012	2011	Y/Y	2012	2011	Y/Y	2012	2011	Y/Y	2012	2011	Y/Y
General information															
Establishment	1954			1996			1991			1994			1992		
No of branches	310	(as of 2013/9)		12	(as of 2013/3)		11	(as of 2013/8)		122	(as of 2013/9)		62	(as of 2013/10)	
No of employees	8,612	(as of 2013/4)		373	(as of 2013/3)		330	(as of 2013/3)		6,851	(as of 2013/3)		2,381	(as of 2013/3)	
				412	(as of 2013/10)		360	(as of 2013/10)		8,576	(as of 2013/10)		3,400	(as of 2013/10)	
B/S															
Total Assets	4,532,908	2,930,209	55%	181,574	118,420	53%	81,656	40,886	100%	2,508,242	1,774,454	41%	825,922	564,277	46%
Loan	740,445	259,871	185%	72,262	61,834	17%	44,208	24,817	78%	1,564,823	1,026,401	52%	350,882	325,826	8%
Balance w/t CBM	1,560,891	1,480,404	5%	42,432	5,176	720%	8,864	2,943	201%	68,129	22,295	206%	5,499	5,605	-2%
Investments	1,150,010	650,000	77%	54,780	39,900	37%	13,710	6,650	106%	375,000	412,000	-9%	183,880	134,870	36%
Total Deposit	3,126,953	2,520,064	24%	144,128	82,605	74%	55,710	31,898	75%	2,269,685	1,577,926	44%	704,468	480,661	47%
Total Share holder's equity	1,056,675	6,325	16606%	26,561	20,396	30%	20,389	6,360	221%	136,124	91,362	49%	51,424	11,086	364%
Paid-up Capital	420	420	0%	20,502	15,000	37%	17,860	4,782	273%	85,025	61,025	39%	35,646	28,126	27%
P/L															
Interest income	-	117,731	-	13,249	13,610	-3%	5,312	4,079	30%	210,042	157,796	33%	56,386	43,863	29%
Interest paid	-	129,585	-	6,868	7,200	-5%	2,437	2,223	10%	133,519	112,945	18%	43,475	37,094	17%
Net interest income	-	▲ 61,854	-	6,380	6,410	0%	2,874	1,856	55%	76,523	44,851	71%	12,911	6,768	91%
Total income	-	11,532	-	7,618	7,457	2%	3,874	2,317	67%	113,118	68,934	64%	30,600	23,914	28%
Operating cost	-	11,519	-	1,945	2,205	-12%	1,420	875	62%	32,841	32,842	0%	13,488	13,627	-1%
Operating profit	-	12	-	5,674	5,255	8%	2,453	1,518	62%	68,041	36,092	89%	17,111	10,287	66%
Net profit	-	12	-	4,256	3,679	16%	1,804	1,066	69%	51,031	25,264	102%	10,266	7,201	43%
Key numbers for prudence															
Risk-weighted capital adequacy ratio	297%	26%		78%	76%		108%	67%		51%	50%		46%	25%	
Liquidity asset /total liability	79%	74%		66%	51%		52%	37%		31%	37%		40%	50%	
Loan/Deposit ratio	24%	10%		50%	75%		79%	78%		69%	65%		50%	68%	
NPL ratio	1.68%			0.20%			1.60%			0.17%			1.51%		
Key numbers for profit															
ROA (operating profit base)	-	0.0%		3.8%			4.0%			3.2%			2.5%		
Net interest income/total asset	-	-2.1%		4.3%			4.7%			3.6%			1.9%		
Interest paid /interest income	-	110%		52%	53%		46%	54%		64%	72%		77%	85%	
Overhead ratio (Op cost/total income)	-	100%		26%	30%		37%	38%		29%	48%		44%	57%	
Operating cost /total asset	-	0.4%		1.1%	1.9%		1.7%	2.1%		1.3%	1.9%		1.6%	2.4%	
Loan/employee	86			194			134			228			147		

Source: JICA consultant team

(1) Small & Medium Industry Development Bank (SMIDB)

Small & Medium Industry Development Bank (SMIDB) is a private bank established in 1996, by the initiative of the Ministry of Industry (MOI). All shares of SMIDB are owned by private individuals, and the government does not own any shares.

Although the shares of SMIDB are not owned by the government or the ministry, the SMIDB has a close relationship with MOI because until 2012 the Minister of Industry had been the chairman of the bank. The bank also has been carrying out the “SME Loan” program, which was directed by President Thein Sein.

SMIDB maintains that its mission is to provide loans to small and medium industries in Myanmar. It has 12 branches in the country. Besides commercial loans, the bank provides “SME loans”, and hire purchases. The bank is also planning to start providing “condominium loans”. As of March 2013, the number of employees is 373.

Commercial loans are the ordinary loans that SMIDB provides to its customers with 13% interest rate. The loan term is one year with possible roll over for up to 5 years.

SME loans, which were mentioned above, are the loans that SMIDB started providing in December 2012. SMIDB started providing 5.0 million kyat in total in December 2012, and also provided another 5.0 million kyat in July 2013. SMIDB provide loans at 8.5%. The funding for SME loans is borrowed from Myanma Economic Bank, and SMIDB pays 8.25% as interests. SMIDB also provide 125 billion kyat treasury bonds as collateral MEB.

The financial status of SMIDB is as follows:

Table 4-15 Balance sheet (SMIDB, 2010-13)

Balance Sheet	(million Kyat)		
	2010-11	2011-12	2012-13
Current Asset			
Cash in Hand	2,189	3,856	2,414
Balance with Central bank	1,431	5,177	42,433
Account with other banks	1,149	911	2,047
Loan and overdrafts	45,846	61,835	72,263
Advances	1,399	2,089	2,739
Total current assets	52,014	73,868	121,895
Non current asset			
Investment	41,500	39,900	54,780
Fixed asset	2,783	4,541	4,813
Investment in debt security	36	33	8
Total non-current assets	44,319	44,474	59,600
Acceptance, endorsement and guarantee	145	79	79
Total Assets	96,477	118,420	181,574
Paidup capital	10,000	15,000	20,503
Statutory reserve fund	2,007	2,927	3,991
Other reserves (loans)	917	1,237	1,445
reserve for contingencies	131	141	142
adjustment for dividend fund	840	840	451
Retained profit	9	252	30
	13,904	20,396	26,562
Current liabilities			
Deposit	68,476	82,605	144,127
Other liabilities	1,457	4,582	524
Bill payable	134	108	25
Provisions for income tax	1,156	1,577	1,419
borrowing (CBM)	9,250	6,600	5,000
Unclaimed dividend	38	195	254
Provisions for dividend	1,928	2,278	3,585
Total	82,438	97,945	154,934
Acceptance, endorsement and guarantee	145	79	79
Total Capital and liabilities	96,487	118,420	181,574

Table 4-16 Income statement (SMIDB, 2010-13)

Income statement	(million Kyat)		
	2010-11	2011-12	2012-13
Interest income	10,721	13,610	13,249
Interest paid	-6,299	-7,200	-6,868
Total interest income	4,422	6,410	6,380
Other income	605	1,048	1,239
Total income	5,027	7,458	7,619
Administrative expenses	1,190	1,112	1,514
Financial expenses	319	1,091	430
Total operating expenses	1,509	2,202	1,945
Net profit before tax	3,518	5,255	5,674
Profit on sales of fixed assets	354		
Provision for income tax	-1,055	-1,577	-1,419
Net profit after tax	2,462	3,679	4,256
Reserves and retained profits			
Statutory reserve fund	-616	-920	-1,064
General provision (loans)	-213	-320	-218
Provision for contingencies	-5	-10	-1
Net profit	1,628	2,429	2,973

The deposits jumped by 74.5% in 2012-13, a much larger increase from 20% in the last several years. Because of this sudden increase in the deposit, the loan to deposit ratio, which was generally around 75%, dropped to 50% in 2013. The reason for the sudden increase of deposits is not clear. SMIDB does not have specific targets on the loan amounts and deposit amounts in their business plan.

In FY2012-13, the profit did not increase, in spite of the increase in the loan amount. The reason for this is not clear, but this might be because of the SME loans that SMIDB provided loans at 8.5%.

In September 2013, SMIDB was selected as one of the recipient banks of the technical assistance of GIZ. The main subjects that SMIDB requested upon receiving technical assistance are (i) establishment of business strategies, (ii) improvement in the loan appraisal skills (including cash flow based loan appraisals), and (iii) technical support on SMEs. SMIDB is also in discussion with KfW for TA and credit line.

(2) Kanbawza (KBZ) Bank

KBZ bank was established as a private bank in 1994 in Shan state. Its head office was relocated to Yangon in 2000. KBZ bank is a member of the KBZ group, which contains 17 companies, such as Air KBZ and KBZ football club.

KBZ bank has been aggressively expanding its branch networks. As of September 2013, they have 122 branches all over the country. KBZ bank is the largest private bank in terms of branch number, asset size, loan and deposit amount and paid-up capital¹⁸, c.f. the table in 4.1.6. KBZ bank has 8,576 employees, which is almost the same number as that of MEB, the largest state-owned bank.

Judging from interviews to SMEs, KBZ bank has gained a good reputation because of the nationwide branch network and high-quality service, e.g. well-trained polite staff and introduction of new services. As an example of new services, KBZ bank started hire purchase promptly soon after CBM permitted it in October 2011. The outstanding amount of hire purchase is 52 billion kyat, which is equivalent to 3.4% of the total loan amount at the end of FY2012. KBZ bank has increased the number of ATM to 45 as of spring 2013, and started debit card and credit card services aiming at improving customer convenience.

Key numbers for prudence are as follows: risk weighted capital adequacy ratio 51%, liquidity asset to total liability 31%, loan to deposit 69% and NPL ratio 0.17%. Compared to other PFI candidates, liquidity asset to total liability is relatively low, while it is still higher than the regulated limit of 20%.

Key numbers for profit are as follows: ROA, operating profit base, 3.2%, net interest income to total asset 3.6%, overhead ratio 29% and loan per employee 194 million kyat. Compared to other PFI candidates, overhead ratio is relatively low, which shows KBZ bank succeeds in cost control. It may result from economy of scale.

KBZ bank received “Best Corporate Governance in Myanmar for 2013” award conferred by World Finance in April 2013. KBZ bank management emphasizes the successfully governance of its organization with large branch networks.

In May 2012 KBZ bank received technical assistance from SMBC, which aimed at creating support scheme for Japanese companies in Myanmar. SMBC also wished to

¹⁸ CBM, Annual report 2011-2012

establish various kinds of business alliances with KBZ bank in future.

The financial statements and borrower's sector breakdown for loans are shown as follows.

Table 4-17 Balance sheet (KBZ, 2011-13)

Balance Sheet	(million Kyat)	
	2011-12	2012-13
Current Asset		
Cash in Hand	169,716	265,825
Balance with Central bank	22,295	68,129
Balance with other banks	26,620	21,537
Loan and advances	1,026,401	1,564,824
Other assets	80,345	150,045
Total current assets	1,325,377	2,070,359
Non current asset		
Investment	412,000	375,000
Fixed asset	37,068	59,393
Total non-current assets	449,068	434,393
Acceptance, endorsement and guarantee	10	3,491
Total Assets	1,774,455	2,508,243
Paidup capital	61,025	85,025
General reserves	15,534	28,291
Other reserves	14,628	22,628
Reserve for contingencies	173	173
Retained profit	3	7
	91,362	136,124
Current liabilities		
Deposit	1,577,962	2,269,686
Other liabilities	20,066	62,633
Bill payable	13,211	19,298
Provisions for income tax	16,843	17,010
borrowing (CBM)	55,000	0
Total	1,683,083	2,368,628
Acceptance, endorsement and guarantee	10	3,491
Total Capital and liabilities	1,774,455	2,508,243

Table 4-18 Income statement (KBZ, 2011-13)

Income statement	(million Kyat)	
	2011-12	2012-13
Interest income	157,796	210,042
Interest paid	-112,945	-133,519
Net interest income	44,852	76,523
Other income	24,083	36,595
Total income	68,934	113,118
Administrative expenses	31,400	42,506
Depreciation	1,442	2,571
Total operating expenses	32,842	45,077
Net profit before tax	36,092	68,041
Provision for income tax	-10,828	-17,010
Net profit after tax	25,265	51,031
Reserves and retained profits		
Proposed Dividend	-11,949	-30,269
General reserves (25%)	-6,316	-12,758
Reserves for bad and doubtful debts	-7,000	-8,000
Provision for contingencies	0	0
Net profit	-0	4

Table 4-19 Borrower breakdown (KBZ)

Type of Business	No. of Case	(Kyat in Million)	
		Outstanding Amount in Kyat	%
Trading	1,136	400,655	26%
Industrial / Production	468	311,144	20%
Services	366	231,310	15%
Construction	94	149,890	10%
Transportation	161	35,455	2%
General	1,119	383,771	25%
Credit Card	2	4	0%
Hire Purchase	4,421	52,590	3%
TOTAL	7,767	1,564,823	100%

(3) Co-operative Bank (CB)

CB Bank was originally established as a private bank in 1992. The current CB Bank was created out of merger between Co-operative Promoters bank and Co-operative Farmers bank in 2004. At that time, it was reformed from a private company to a public company. According to JICA survey in July 2013, the number of total equity holders was about 4,500 and almost two-thirds of them were cooperatives which are under jurisdiction of Ministry of Cooperative. In this sense, CB Bank is indirectly related with Ministry of Cooperative.

CB Bank is the third biggest private bank after KBZ bank and Myawaddy bank in terms of total asset size as of March 2013¹⁹, c.f. the table in 4.1.6. CB Bank has 62 branches as of October 2013, and it has 1,449 employees, while they are much less than that of KBZ bank.

CB Bank is engaged in advanced new services. For example, CB Bank is the first bank to introduce ATM, debit card and credit card in Myanmar.

Key numbers for prudence are as follows: risk weighted capital adequacy ratio 46%, liquidity asset to total liability 40%, loan to deposit 50% and NPL ratio 1.51%. Compared to other PFI candidates, risk weighted capital adequacy ratio is relatively low, while it is much higher than the lower limit of 10%.

Key numbers for profit are as follows: ROA, operating profit base, 2.5%, net interest income to total asset 1.9%, overhead ratio 44% and loan per employee 147 mil kyat. Compared to other PFI candidates, CB Bank is less profitable because of low level of net interest income against total asset, which may result from low loan-to-deposit ratio, and high overhead ratio. Loan per employee is also relatively low. It might indirectly show that many clients of CB Bank are small companies.

BTMU signed cooperative business agreement with CB Bank in March 2013. BTMU will supply business matching service to Japanese companies tapping into markets in Myanmar through collaboration with CB Bank. BTMU will also supply technical assistance to CB Bank to enhance the sophistication of its banking business.

The financial statements are shown as follows.

¹⁹ CBM, Annual report 2011-2012

Table 4-20 Balance sheet (CB, 2012-13)

Balance Sheet	(million Kyat)	
	2011-12	2012-13
Current Asset		
Cash in Hand	25,847	38,168
Balance with Central bank	5,605	5,500
Balance with other banks	5,128	46,991
Other cash	0	10,570
Loan and advances	287,626	350,882
Bill purchased and discounted	72,798	72,798
Total current assets	397,008	524,910
Non current asset		
Investment	134,870	183,880
Other assets	31,256	116,745
Total non-current assets	166,126	300,625
Acceptance, endorsement and guarantee	1,142	388
Total Assets	564,276	825,923
Paidup capital	28,126	35,646
General reserves	10,290	8,964
Other reserves	741	6,720
Reserve for contingencies	37	63
Retained profit	15	32
	39,212	51,425
Current liabilities		
Deposit	480,661	704,468
Other liabilities	15,293	27,735
Bill payable	968	1,107
borrowing (CBM)	27,000	40,800
Total	523,922	774,110
Acceptance, endorsement and guarantee	1,142	388
Total Capital and liabilities	564,276	825,923

Table 4-21 Income statement (CB, 2012-13)

Income statement	(million Kyat)	
	2011-12	2012-13
Interest income	43,863	56,387
Interest paid	-37,094	-43,476
Net interest income	6,769	12,911
Other income	17,146	17,688
Total income	23,915	30,599
Administrative expenses	12,921	15,982
Depreciation	703	928
Total operating expenses	13,627	16,910
Net profit before tax	10,287	13,689
Provision for income tax	-3,086	-3,422
Net profit after tax	7,201	10,267
Reserves and retained profits		
General reserves	2,900	2,567
Dividend	4,213	6,043
Reserves for bad and doubtful debts	0	1,412
Provision for contingencies	0	26
Others	88	203
Net profit	0	16

(4) Myanmar Citizens Bank (MCB)

MCB was established as a private bank in 1991. It became a public company in 1996 and 70% of its equity is traded publicly on the OTC market of Myanmar Securities Exchange Centre (MSEC): joint venture of MEB and Daiwa Institute of Research. The other 30% of equity is held by the Ministry of Commerce (MOC)²⁰. Department of Trade Promotion in MOC supervises MCB and Director General of the department acts as a chairman of MCB.

MCB is not a large bank. It has just 11 branches (August 2013) and 255 employees (January 2013).

MCB actively supplies hire purchase, of which the outstanding amount was 4.6 billion kyat occupying almost 10% of total loan amount as of June 2013. Almost all of the borrowers of hire purchase are farmers. MCB also supplies pledge loans for export crops, although many of other banks have not started it yet.

MCB achieved rapid growth in FY2012. Total loan amount increased sharply by 78% and deposit also increased by 75%. Key numbers for prudence are as follows: risk weighted capital adequacy ratio 108%, liquidity asset to total liability 52%, loan to deposit 79% and NPL ratio 1.60%. Compared to other PFI candidates, risk weighted capital adequacy ratio is quite high, because it gains abundant paid-up capital through the OTC market. On the other hand, NPL ratio is relatively high, while it is much lower than the upper limit of 10%. Relatively high loan to deposit ratio of 79% is slightly less than the regulated limit of 80%.

Key numbers for profit are as follows: ROA, operating profit base, 4.0%, net interest income to total asset 4.7%, overhead ratio 37% and loan per employee 134 mil kyat. Compared to other PFI candidates, MCB is more profitable in terms of ROA and net interest income to total asset. That probably results from high loan-to-deposit ratio. On the other hand, loans per employee are relatively low. It might indirectly show that many clients of MCB are small companies and small farmers.

The financial statements and borrower's sector breakdown for loans are shown as follows.

²⁰ Hearing from MCB on 20 August 2013

Table 4-22 Balance sheet (MCB, 2011-13)

Balance Sheet	(million Kyat)	
	2011-12	2012-13
Current Asset		
Cash in Hand	2,321	4,153
Balance with Central bank	2,944	8,865
Balance with other banks	725	5,297
Loan and advances	24,817	44,209
Other assets	1,020	4,435
Total current assets	31,828	66,958
Non current asset		
Investment	6,500	11,000
Fixed asset	2,350	2,712
Other assets	197	210
Total non-current assets	9,047	13,922
Acceptance, endorsement and guarantee	12	777
Total Assets	40,887	81,657
Paidup capital	4,783	17,861
Statutory reserve	964	1,415
General reserves	496	884
Reserve for contingencies	2	2
Others	79	180
Retained profit	36	47
	6,360	20,390
Current liabilities		
Deposit	31,899	55,711
Other liabilities	1,234	2,783
Bill payable	42	44
Provisions for income tax	706	986
Provisions for devidened	634	967
Total	34,514	60,490
Acceptance, endorsement and guarantee	12	777
Total Capital and liabilities	40,887	81,657

Table 4-23 Income statement (MCB, 2011-13)

Income statement	(million Kyat)	
	2011-12	2012-13
Interest income	4,079	5,312
Interest paid	-2,223	-2,438
Net interest income	1,857	2,874
Other income	475	1,018
Total income	2,331	3,893
Administrative expenses	701	1,268
Depreciation	95	129
Other expenses	78	96
Total operating expenses	875	1,494
Net profit before tax	1,456	2,399
Provision for income tax	-390	-595
Net profit after tax	1,066	1,805
Reserves and retained profits		
General reserves	-267	-451
Reserves for bad and doubtful debts	-147	-388
Provision for contingencies		
Net profit	653	966

Table 4-24 Borrower's sector breakdown for loan (MCB, 2011-13)

Type of Business	(Kyat in Million)										
	MICRO		SMALL		MEDIUM		LARGE		TOTAL		
	No	0-10	No	10-100	No	100-1,000	No	1,000-	No	amount	%
Industrial	31	220	107	4,598	47	8,115			185	12,933	26%
Transportation	13	73	26	756	3	470			42	1,299	3%
Trading	108	680	242	9,100	56	7,569	1	1,715	407	19,064	38%
General	10	50	15	461	5	2,098			30	2,609	5%
Service	24	150	57	2,085	10	3,950			91	6,185	12%
Construction		1	4	163	5	1,886	1	1,300	10	3,350	7%
Agriculture	3,672	4,321	25	472	1	120			3,698	4,913	10%
Live-stock & Fishery	3	20	4	141					7	161	0%
TOTAL	3,861	5,515	480	17,776	127	24,208	2	3,015	4,470	50,514	100%

(5) Myanma Economic Bank (MEB)

State Commercial Bank, the precursor of MEB, was established as the first state-owned commercial bank in 1954. All state-owned banks were unified into Peoples' Bank of the Union of Burma under “the Burmese Way to Socialism” in 1969. However, because of inefficiency of the mono-bank system, the Peoples' bank was split into 4 banks in 1976, one of which was MEB to supply domestic banking service. According to MEB and MOF, MEB is regarded as one of the departments of MOF, while personnel rotation often occurs between MEB and MOF.

MEB is the largest bank in Myanmar in terms of branch numbers and total assets. MEB has as many as 315 branches as of 2012, and it has around 8,000 employees.

MEB plays a role of implementing agency in many of policy-based finance and national account transaction, such as, lending to MADB with low interest rate, executing agency for the pension payment to end-users and salary payment to public officers. MEB supplied funds to other banks instead of CBM during the bank runs in 2003. At the same time, according to the interview with Daw Yin Yin Mya, Managing Director of MEB, MEB has been requested by the government to make a profit, as a commercial bank.

From the view point of depositor protection, the consultant team considers these two roles of MEB should be separated. According to the figures of FY2011, net interest income was negative but the net income was barely break-even by MOF supports. The role of implementing agency in policy-based finance and national account transaction causes low profitability and putting depositors' funds at risk. Loan amount per employee is much less than the other PFIs candidates. For example, it is one-sixth of that of KBZ bank.

Moreover, MEB pales against other private banks in terms of advanced and convenient service. It has neither started hire purchase nor expanded kinds of collateral they accept despite relaxation of regulations by CBM.

Key numbers for prudence are as follows: risk weighted capital adequacy ratio 297%, liquidity asset to total liability 79%, loan to deposit 24% and NPL ratio 1.68%. Compared to other PFI candidates, MEB is quite prudent in terms of many key numbers except NPL ratio. For example, risk weighted capital adequacy ratio is extremely high, which arises from huge share holders' equity, and might be caused by revaluation profit in the reform of foreign exchange rate in April 2012. Loan to deposit

ratio is only 24%, while others' range is from 50% to 79%, although there is no regulation about loan to deposit ratio for state owned banks.

The financial statements are shown as follows.

Table 4-25 Balance sheet (MEB, 2011-13)

Balance Sheet	(million Kyat)	
	2011-12	2012-13
Current Asset		
Cash in Hand	41,508	1,048,092
Balance with Central bank	1,480,404	1,560,891
Balance with other banks	0	0
Loan and advances	259,871	740,445
Other assets	250,094	9,289
Total current assets	2,031,877	3,358,717
Non current asset		
Investment	650,010	1,150,010
Fixed asset	8,365	8,878
Other assets	69,543	15,297
Total non-current assets	727,918	1,174,185
Acceptance, endorsement and guarantee	170,412	0
Total Assets	2,930,209	4,532,908
Paidup capital	420	420
Statutory reserve	216	3,136
General reserves	0	0
Reserve for contingencies	0	0
Others	5,684	1,053,110
Retained profit	5	8
	6,325	1,056,675
Current liabilities		
Deposit	2,520,064	3,126,953
Other liabilities	249,547	244,137
Bill payable	65,737	105,140
Provisions for income tax	0	0
Provisions for devidened	0	0
Total	2,835,350	3,476,230
Acceptance, endorsement and guarantee	10,210	0
Total Capital and liabilities	2,930,209	4,532,908

Table 4-26 Income statement(MEB, 2011-12)

Income statement	(million Kyat)	
	2011-12	2012-13
Interest income	117,731	n.a.
Interest paid	-179,585	n.a.
Net interest income	-61,854	n.a.
Other income	73,386	n.a.
Total income	11,532	n.a.
Administrative expenses	11,007	n.a.
Depreciation	512	n.a.
Other expenses	0	n.a.
Total operating expenses	11,519	n.a.
Net profit before tax	13	n.a.
Provision for income tax	0	n.a.
Net profit after tax	13	n.a.
Reserves and retained profits		
General reserves	n.a.	n.a.
Reserves for bad and doubtful debts	n.a.	n.a.
Provision for contingencies	n.a.	n.a.
Net profit	13	n.a.

4.2.2 Technical supports for PFIs

Possible technical support for PFIs (participating financial institutions) include both (i) support to facilitate implementation of TSL, and (ii) medium – long term support to enhance the capacity of PFIs. This section discusses the former case, while the latter case is discussed in 5.2.

The TSL loan procedures impose additional tasks to ordinary loan procedures at PFIs. For example, PFIs receive special loan application forms for TSL, carry out screening of SMEs based on the TSL eligible criteria, receive funds from the PIU, and transmit the repayments by borrowers to the PIU. If the PFIs do not fully understand TSL policy and procedures, loan disbursements to SMEs might not be made in a timely manner and violations of TSL policies may occur. Thus technical support to PFIs is to be provided by consultants hired for PIU through training sessions.

The technical support for PFIs is to be provided by the consultants hired by PIU to facilitate the disbursement of TSL are as follows:

- Support PFIs with designing workflows for the TSL loans. TSL workflows should cover all the relevant departments in PFIs including branches and head office.
- Create an operation manual for TSL loans at PFIs based on the workflows.
- Design document formats to be used at PFIs. Such documents would include (a) checklist for the eligibility, (b) checklist to examine the use of funds, (c) reporting format to draw funds from revolving funds and (d) environmental and social safeguard checklist.
- Organize seminars to disseminate the TSL loan procedures. Candidate participants are the officers and managers in charge of TSL loans, and officers in charges of the revolving fund.
- Provide on-the-job trainings on the TSL loan procedures to PFIs, upon necessity.
- Creation of checklists on necessary documents to be submitted by applicants.

4.3 Model SMEs to be supported by TSL

4.3.1 Introduction of model SMEs

This section introduces 7 model SMEs to be supported by proposed TSL loans.

As mentioned above, the survey on 102 SMEs was carried out to examine their demand for bank loans and their use of funds (e.g. working capital or capital investment). Out of 102 SMEs, 73 SMEs (71.6%) wish to have bank loans, and 63 SMEs out of the 73 SMEs then answered that they would like to use the funds for their capital investment to expand their business. However, such SMEs tend to have avoided having bank loans due to high interest expenses.

The consultant team selected several promising SMEs, which strongly wish to have bank loans with lower interest rate to expand their business. The following section will show the outline of such model SMEs.

4.3.1.1 Zwe Pure Peanut oil, Sesame Oil

Business outline

Business lineup	Production of peanut oil and sesame oil
Employees	N.A.
Assets	Pyay factory (Production), Yangon factory (Packing)
Establishment year	2003
Sales (volume)	peanut oil: 40-60 tons, sesame oil: 15-20 tons/month
Sales (kyat)	1400 mil kyat
Profit / Profit ratio	50-100 mil kyat
Sale destination	To wholesalers for domestic sales

Capital investment plan

Facilities to invest in	machinery, e.g. for packaging and anti-oxidizing
Total amount (kyat)	N.A. (packaging machine is 60-70 mil yat)
Purpose	quality improvement
Expected effect	starting to export to Japan and other countries

Finance needs

Preferred bank	N.A.
Amount (kyat)	N.A.
Desired date to borrow	N.A. (it would be within 1-2 years)
Collateral to be supplied	Yangon factory, investment value was 900 mil kyat

Existing loan

Bank	First Private Bank
Amount (kyat)	300 mil kyat
Purpose	N.A.
Collateral	Pyay factory, investment value was 600 mil kyat

Financial Statement and Auditing

Financial Statement	Yes
Auditing	Audited by First Private Bank

(1) Business outline

Managing director started his business, peanut and sesame oil production, 10 years ago in order to add value to agricultural crops which were traded by his parents' company.



Fig. 4-12 Peanut oil and sesame oil

He has two factories. The first factory in Pyay is producing peanut oil and sesame oil and distributing them to north Myanmar. The reason for establishing a factory in Pyay was that Pyay is located in dry area which is desirable for sesame and peanut farming and has an advantage in raw material procurement. The second factory in Yangon was established in 2012 and produces plastic package and packs oil produced in Pyay factory. The products are distributed to the central-southern area of Myanmar.



Fig. 4-13 Oil mill machine in Pyay factory



Fig. 4-14 Packaging machine (left) and stocks (right) in the Yangon factory

Production capacity is 60 tons/month for peanut oil and 21 tons/month for sesame oil on the assumption that the factory works 8-10 hours/day. The factory can increase production without any capital investment, if the factory operates longer.

There are 4 machines for peanut oil and 2 machines for sesame oil. They were imported from Germany 10 years ago and the required investment amount was 30 million kyat per machine at the time.

Sales volume is roughly 40-60 tons/month for peanut oil and 15-20 tons/month for sesame oil. Sales are 120 mil kyat/month, equivalent to about 1400 mil kyat/year, while the profit is 50-100 million kyat/year.

Sales price to wholesalers is 2100 kyat/litre for peanut oil and 2500 kyat/litre for sesame oil, which fluctuate in seasons. Retail price is 2300 kyat/litre and 2700 kyat/litre respectively, which are almost double price of vegetable oil, e.g. palm oil, of which retail price is 1100 kyat/litre. Because of its low price, palm has increased its sales volume recently for poorer consumers despite its bad reputation for health. In 2012, the competition was especially severe, because the price of peanuts and sesame increased

and consumers' attitude focused on price.

Raw materials are 150 tons of peanuts and 100 tons of sesame to produce 60 tons peanut oil and 21 tons sesame oil and are procured from the domestic market through his parents' company, not directly from farmers.

As for marketing activities, the trading company named "Zwe Swan Payae Trading Company" was established by himself and 3 brothers, two years ago. Until then, the trading business was managed individually and the depreciation of machines is not included in the financial statements, because these machines are owned by the MD himself.

(2) Capital investment plan/Finance needs

Managing director is planning to export peanut oil and sesame oil to Asian countries. The target volume is 50 tons peanut oil and 20-25 tons sesame oil at the first stage. He needs a packaging machine, estimated 60-70 mil kyat, and anti-oxidizing equipment to preserve the quality.

Quality tests have been executed at a laboratory in UMFCCI with the technical adviser from JICA²¹ who was stationed there. He will also meet with JETRO by the beginning of October to find a channel for sales in Japan. JETRO is due to arrange meetings with some Japanese trading firms.

Yangon factory, which is considered by the company to worth 900 mil kyat, has not yet collateralized, although Pyay factory was already supplied to First Private Bank as collateral of 300 mil kyat loan.

The company prepared its audited financial statements. He provided them to the consultant team.

(3) Requests regarding TSL scheme

There is no request.

(4) Requests regarding technical assistance from JICA

Technical Assistance program of JICA regarding quality improvement has already been made.

²¹ Strengthen Capacity for Food Analysis Laboratory (February 2011-March 2013)

(5) Banks/companies to introduce this company

The company is one of the attendee at the seminar held on 19th September at UMFCCI, which sent him an invitation letter.

(6) Reason to recommend

This company has clear investment plan and tries to improve quality in order to start exporting to Asian countries supported by JICA and JETRO. The consultant team considers that this company has high affinity with the TA program executed in future, although its finance needs are relatively small compared to other candidates mentioned later.

(7) Possible improvements by TSL

Increase in production capacity and improvement in quality for export purpose through the purchase of new machinery by the proceeds of TSL. The company is not confident in borrowing at 13% per year short term loan but willing at borrow if the lower interest and longer term loans become available.

4.3.1.2 Silvery Pearl Dairy

Business outline

Business lineup	Dairy farm, milk collection center, dairy product production and sales (whole milk, pasteurized milk, yogurt, cheese and butter)
Employees	90 employees
Assets	200 million kyat
Establishment year	1999
Sales (volume)	500kg/day
Sales (kyat)	1,600-1,800 million kyat
Profit / Profit ratio	Approx. 6%
Sale destination	Domestic market (own retail shops, supermarkets, own mobile vending vehicles)

Capital investment plan

Facilities to invest in	398,900USD
Total amount (kyat)	380 million kyat
Purpose	Facility upgrade and renewal various machines
Expected effect	It is expected to expand production capacity as well as improve food safety.

Finance needs

Preferred bank	KBZ
Amount (kyat)	380 million kyat
Desired date to borrow	A.S.A.P
Collateral to be supplied	7 acres of farmland (ownership, 140 million kyat) 2-3 acres of farmland (granted by the government)

Existing loan

Bank	N.A.
Amount (kyat)	N.A.
Purpose	N.A.
Collateral	N.A.
Others	Informally borrowing at the rate of 2% a month, 24% a year from relatives or ex –superiors

Financial Statement and Auditing

Financial Statement	N.A.
Auditing	N.A.(One of owner's family who has working experience in auditor's office in Singapore is supporting the management of the company.

(1) Business outline

Background and Outline:

Silvery Pearl Dairy was established in 1999 in the suburb area of Yangon with 8 pairs of cows (heifers and calves) brought from Meikhtila region, middle Myanmar. Its initial milk production volume was 64kg per day only and today it was expanded to 500kg per day.



Fig. 4-15 Cow Shed



Fig. 4-16 Milk(Whole, Pasteurized) and Yogurt

Production capacity:

The current number of cows is 110. The dairy uses artificial insemination (IA) imported from Germany for improving its reproductive management of dairy cows. Each cow is labeled at its stall with its identification (ID) including birth date, IA history and parent IDs. Also, every cow is given an ear tag. Holstein cows are dominant in the farm for their high milk productivity. The dairy feeds its own cow grass, brewer grain, a compound feed produced by SOE.



Fig. 4-17 Cow ID and AI History (left: ear tag, right: stall label)

Furthermore, the dairy has 68 contract farmers. One or two cows are taken care of by each farmer. The dairy provides daily milking service to cow owners and purchases milk from them. The payment to cow owner farmers is made every 10 days.

The dairy owns a clinic for a visiting veterinarian as well as a mini-laboratory for quality examination of collected milk. Every can of collected milk is examined in the mini-laboratory before receiving in the factory tank. No cows are ever given antibiotics or growth hormones which are commonly used in dairy industry in developed countries.

The dairy produces raw milk, pasteurized milk, yogurt, cheese, and butter. As for milk, raw milk production is 60% while pasteurized one is 40%. Both are non-homogenized. Its yogurt culture is probiotics designed by Christian Hansen of Denmark.



Fig. 4-18 Milk can for collecting work and Mini-Laboratory



Fig. 4-19 Milk tank for collected milk

Sales:

The dairy is largest dairy producer in Yangon. The dairy has two retail shops as well as mobile vending vehicles for sales in several neighboring markets. To secure the place to park the vehicle, it is necessary to leave very early in the morning. Among its six vehicles, three of them are for mobile vending, two of them are for transportation to supermarket such as City Mart, and the other one is for transportation of milk to ice cream factory. Retail sales amount is settled in cash at the time of sales while the one for supermarkets is settled in remittance within a month.

There is a factory owned by MEC in the neighborhood. The factory produce condense milk for military demand and sometimes buys milk from the dairy. It is not a competitor to the dairy for market domain reasons.

The dairy industry is under the supervision of Ministry of livestock, fisheries and rural development. The dairy receives onsite inspection of YCDC once a year.

Issues:

The dairy applied for Halal certificate but its inspectors raised concerns for facility and hygiene and didn't issue the certificate. It requires modernization of facility to fulfill the food hygiene standard for Halal such as to separate the cow shed and milking stall. The dairy installed three portable milkers as a first step towards improving hygiene.

The dairy has 90 employees including drivers. Employees are leaving job mainly because of hard labor in dairy business, such as start milking 3:00am every morning.



Fig. 4-20 Portable Milker, Filling and Packing Machine and Cooler Box for Delivery

(2) Capital investment plan/Finance needs

The owner is fully aware that it is necessary to take certain measures to improve and modernize its dairy production with capital investment and advanced technology, before 2015, when ASEAN market integration completes. He emphasized the importance of introducing closed hygienic processing to the dairy for food safety. In 2011, he had a detailed quotation for future capital investment from dealers in Thailand. The total amount of capital investment was 398,900USD including packing machine (60 million kyat) made in Thailand or Malaysia, and stirrer machine (120 thousand kyat) made in India.

Furthermore, the owner bought 7 acres of farmland for the purpose of organic dairy farming. The land is located in the area within a 40 minute drive. The owner expects 20% premium for the sales price of organic dairy products. He assumes that Myanmar's growing middle class would be more health conscious and the demand for organic products will grow according to the economic developments.

(3) Requests regarding TSL scheme

The owner told the consultant team that JICA's TSL scheme under discussion was very attractive for the lower rate of 8.5% than informal lending at 24%. He said the dairy has no land ownership in downtown area but only rural area due to its business characteristics and that makes difficult to access existing formal bank lending. The owner added that it is understandable that liberalizing bank regulation is quite difficult in short term but he would request JICA to encourage the regulators to do so as well as providing technical assistance so that banks will be able to make loan decision with evaluating the company not only with land appraisal but also its business achievement.

(4) Requests regarding technical assistance from JICA

Technical assistance in dairy production and management is appreciated.

(5) Banks/companies to introduce this company

The dairy was introduced by Daiwa Principal Investments Co. Ltd. The dairy was interested in equity investment by the fund but its business size didn't meet the fund requirements.

(6) Reason to recommend

Even though the dairy is the largest in Yangon or there is no competitor so far, the owner has good understanding of the current situation and is fully aware that its

production facility is old fashioned and needs to be modernized in order to strengthen its production capacity before influx of cheap products from neighbor countries because of ASEAN economic integration in 2015.

Moreover, the owner has provided neighbor farmers with steady ways to earn cash throughout the year by purchasing raw milk. Due to his track record of contribution to the local society, the consultant team assumes that his capital investment will realize not only business growth but also bring further opportunity to serve vulnerable farmers in neighborhood.

(7) Possible improvements by TSL

The owner of the dairy has had a clearly-defined capital investment plan as well as realistic business expansion strategy since 2011. For example, the owner already had a detailed quotation for future capital investment from dealers in Thailand in 2011 and he has realized installing some of the machinery in the quotation by utilizing his own funds or informal lending. The immovable property that Silvery Pearl owns is mainly farm land and not granted by the government yet. If the TSL loan program start providing lower interest loans and the PFI accepts non-traditional collateral, the company would like to utilize a loan for its long-awaited business expansion plan.

Furthermore, the consultant team would expect that his business achievement financed by TSL project would be well-received by local society since the owner has been involved in various charitable activities such as donating milk to local schools, monasteries, local religious events, blood donation center etc.

4.3.1.3 AG7

Business outline

Business lineup	Wire mesh production and sales Rubber plantation.
Employees	116 employees
Assets	865 million kyat (Land for shop and office, land for factory as well as rubber farm of 400 acres etc.)
Establishment year	1987 (Company registration in 2012)
Sales (volume)	-
Sales (kyat)	1,200 million kyat
Profit/Profit ratio	20%
Sale destination	Retail business for domestic market (100 agents in Yangon out of 300 over the country) as well as government, major private contractors

Capital investment plan

Facilities to invest in	Machinery and new factory building
Total amount (kyat)	500 million
Purpose	Replace and modernize metal working machines
Expected effect	Improving efficiency of production process Exploring export opportunity with increasing production volume

Finance needs

Preferred bank	KBZ
Amount (kyat)	500 million
Desired date to borrow	A.S.A.P
Collateral to be supplied	Land in various places in Yangon

Existing loan

Bank	KBZ
Amount (kyat)	150 million kyat
Purpose	Working capital
Collateral	Retail shop building and its land (500 million kyat)
Others	Borrowed in 2010. Purpose of borrowing was not defined then, but has been utilizing the loan for the both wire mesh production and the rubber plantation. Already repaid 50million kyat already and the rest will be in November once succeeding in rubber sales.

Financial Statement and Auditing

Financial Statement	Yes
Auditing	Yes(the consultant team received one of the copies for loan application)

(1) Business outline

The company produces welded and knitted wire mesh. The steel wires are imported from China. The company had been a family business for long time and was registered at Company Registration Office in 2012. The company also runs rubber plantation for domestic sales as well. The company is registered at DICA and holds the necessary operational license from YCDC.

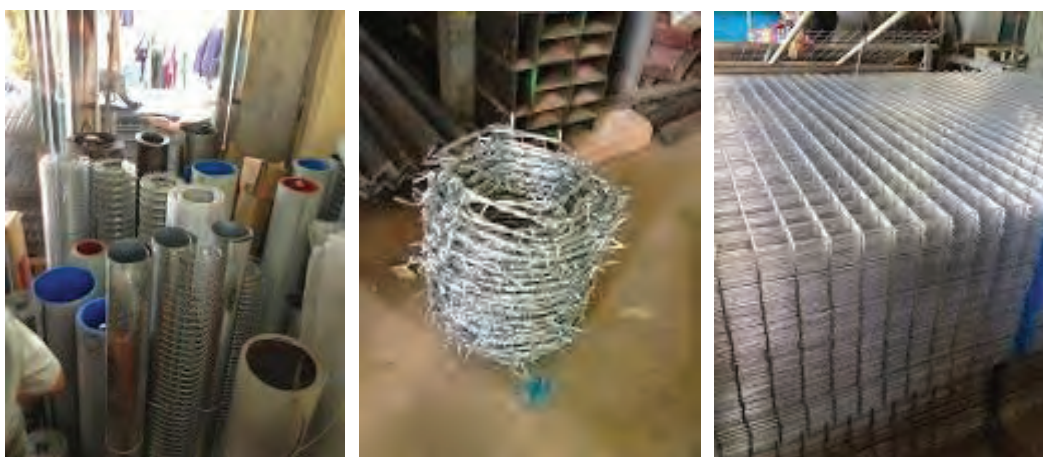


Fig. 4-21 Wire Mesh Products

Production:

The company produces variety of wire mesh products with daily capacity of about 120 sheets. There are 6 types of mesh patterns by welding or knitting steel wire for use of fence, screen door, barbed wire, coated wire etc. These products are mainly made to order and rarely in stock except for rainy season between June to October. Some popular products are in stock from time to time based on forecasts of future market demand by the director in charge of marketing. The company purchases raw materials such as steel wires made in China through an agent by cash or sometimes combination of cash and credit.

The owner purchased the land and factory building using his own funds. There are 22 production machines in the factory. The newest machine was made in 1985 while the oldest was in 1975. Several of the production machines were made in Japan.

The company has two factory buildings on separate sites next to each other in the same industrial zone. Knitted wire meshes and welded wire meshes are separately produced in these buildings.



Fig. 4-22 Factory



Fig. 4-23 Steel Wire

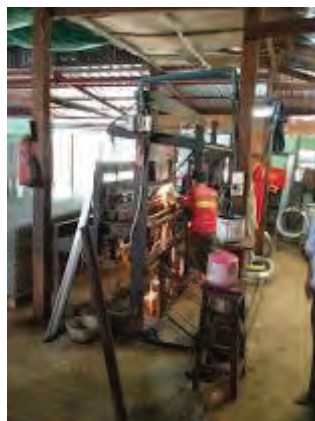


Fig. 4-24 Manual Welding Machine



Fig. 4-25 Wire Straighter



Fig. 4-26 Automatic Welding Machine



Fig. 4-27 Semi-Automatic Welding Machine

Sales:

The price range of wire mesh is between 4,500 and 12,000 kyat per sheet depending on the size and mesh fineness. The payments by customers are received through remittance service by KBZ, CB and Ayeyarwady Bank. Sales volume usually goes down during the rainy season but it holds well in 2013 due to growing demand in the market. The head office has a small retail shop for selling DIY products as well.



Fig. 4-28 Retail Shop

Others (Rubber Plantation Business):

The company planted rubber trees in its own farm 7 years ago in Hlegu Township of Yangon with estimated production period of 25-30 years. The company started rubber sap sales in 2013 only for the domestic market. The business unit has 40 employees to gather rubber sap to sell as raw material. It has its own farms of 150 acre as well as jointly owned farms of 250 acres. It has contract farms of 1,350 acres with 154 workers. It offers various services to these contract farmers i.e., providing necessary fertilizer and lending service at the monthly interest rate of 2%.

(2) Capital investment plan / Finance needs

The company is planning to expand its factory to increase the value added of the rubber products. Currently because the company delivers the rubber to its customers after very simple processing, it cannot make any profits. Therefore, the company is planning to process the rubber sap to half finished products, such as shoe soles, to increase its profitability.

In order to establish a new product line of the rubber products, the company is planning to build a new three stored factory building replacing one of the two factory buildings. In the new building, the company is going to install production facilities for rubber products, while all the wire mesh producing equipment are to be moved to the remaining factory building.

The company is also planning to replace some of the production machines of wire mesh products to increase the competitiveness against cheaper Chinese products. One of the machines that the company is planning to replace is a processing machine of plastic coated chain link wire nettings.

As for rubber plantation business, the company plans to export rubber sap to earn “export dollar” for the purpose of importing steel wire and fertilizer. It desires to purchase farming machines as well for improving productivity and quality of rubber plantation.

(3) Requests regarding TSL scheme

Low interest rate of TSL scheme such as 8.5% is very attractive for the company. If the rubber plantation could be eligible for TSL for agricultural development, the company desires to purchase farming machines.

(4) Requests regarding technical assistance from JICA

The company desires to improve productivity of wire mesh factory as well as rubber plantation. Most directors are interested in attending management seminars/courses to be offered at Japan Center so that they will be able to develop better management structure and business strategy.

The business has not received any technical assistance from any organizations but expects that certain training service may be offered by machine venders at the time of purchases of machines. The company desires to strengthen its production capacity for further growth as well as generating employment opportunity in the country.

(5) Banks/companies to have introduced this company

The company was among respondents of SME interview survey conducted by Thura Swiss.

(6) Reason to recommend this company

The company has achieved sufficient sales and profitability. It would have sufficient cash flow to make repayments on the loans for the planned capital investments.

The company also has sufficient assets for collateral. The company mentioned that the collateral value that a bank notified to the company is 300 million kyat, while the outstanding loan amount is 100 million kyat.

(7) Possible improvements by TSL

The company desires to improve transparency and accountability as well as to expand business. The company is motivated to improve its production capacity to meet the strong and growing demand for wire mesh in the domestic construction sector. The company also believes that its products need to be more competitive against foreign products. The company also aims at generating employment opportunity in the community through its business expansion plans in both business fields. Utilizing the TSL loan program, they will make use of it to improve their productivity.

4.3.1.4 Phoe Wa Food Stuff

Business outline

Business lineup	Food production and sales (flavored dry plum and plum jam)
Employees	100 employees
Assets	2,100 million kyat (Land 1,300, building 200, machinery 100 and inventories 500)
Establishment year	2002
Sales (volume)	N.A.-
Sales (kyat)	1,000 million kyat
Profit / Profit ratio	Approx. 5%
Sale destination	Domestic market and Bangladesh (Receiving business inquiries from companies in Malaysia and Saudi Arabia)

Capital investment plan

Facilities to invest in	Buildings for the second factory (150mil.kyat) and packing machine (4.5million kyat x 40sets)
Total amount (kyat)	350 million kyat
Purpose	Expanding production capacity
Expected effect	Expanding export opportunities as well as production capacity

Finance needs

Preferred bank	-
Amount (kyat)	350 million kyat
Desired date to borrow	A.S.A.P
Collateral to be supplied	Second factory (land 1,200million kyat)

Existing loan

Bank	MICB
Amount (kyat)	350 million kyat
Purpose	Purchase of land for building the second factory
Collateral	First factory/owner's residence(land and building)
Others	Borrowed 150 million kyat in 2012 at 13%. Due to increasing land value, increased loan amount to 350 million kyat.

Financial Statement and Auditing

Financial Statement	N.A.
Auditing	N.A

(1) Business outline

The company produces flavored dried plum and plum jam. At the beginning of her career, the owner of the company was supporting her family business which has been producing dry fruits for 35 years. She became independent by setting up her own company when she got married 13 years ago. The company purchases local plum sun-dried by farmers mainly through local brokers. The process includes washing the dried plum, flavoring or simmering for jam and packing.

The company is registered to DICA and holds necessary operational license of MCDA, while applying for FDA certification is considered as a part of future business plans.



Fig. 4-29 Product Package

Production:

The company owns two factories. The second factory is for the preparatory process and the first factory, the home-cum-factory is for flavoring, packing and shipping. The second factory building is not yet completed but already in operation. The owner desires to complete the ongoing construction of the second factory building to integrate all the processes to a single facility for the purpose of improving operational efficiency.

The company purchases principal raw materials such as plum, salt, sugar, jaggery (palm sugar) and seasonings through local brokers. Package polyethylene film is printed by two vendors in Yangon and one in Mandalay. The payment for raw materials is by cash and the one for package film is on credit.

The company introduced machinery for flavoring process to mix plums and condiments as well as packing process. Currently, every process requires lots of manual labor. Packing process requires the manual labor most. In the packing process, the owner is aware that the sealing process needs to be automated urgently.



Fig. 4-30 Dried Plum



Fig. 4-31 Simmering plum with palm sugar



Fig. 4-32 Flavoring plum with seasonings



Fig. 4-33 Packing process facility (left) and a worker operating manual sealer (right)

Sales:

The products are transported to bus terminals in Mandalay by trucks and handed over to sales agents. The sales payment is received through remittance service by KBZ, YOMA, UAB, MGTB. Among its products, flavored dried plum is inexpensive and targeting mainly to students. Thus its sales volume stays weak during school holiday season from March to May.

As for the other products, plum jam is exported to Bangladesh as well.

The owner has prepared financial statements since its establishment for personal records. Recently these financial statements were submitted to banks for the loan application purpose as well.

(2) Capital investment plan/Finance needs

The company faces a shortage of labor. While the company receives inquiries from overseas, such as Malaysia and Saudi Arabia, it fails to meet these demands because of insufficient labor. The owner believes that capital investment in machinery is essential to expand its production capacity to meet such demand.

The second factory is partially built and requires another 150 million kyat to complete.

The owner desires to purchase 40-50 sets of Chinese packing machines for 4.5 million kyat. (The company currently has a machine for sealing only while the desired machine is able to make tube from sheet, to weld tube to make a pack, and to fill the product to the pack and to seal the pack.) While some manual labor shall be necessary to sort product size to fit to filler of the machine even after the introduction of desired machines, the owner is enthusiastic about reducing the current manual sealing processes which are quite unpopular among employees. The new machine shall improve the packaging speed as well.

The owner considers that the expansion plan should be done step by step, instead of executing it at one time by borrowing from banks, because of the high interest rates.



Fig. 4-34 Second factory



Fig. 4-35 New packing machine

(3) Requests regarding TSL scheme

The owner desires to use TSL loan scheme for its low-interest and long-term nature and is very keen to learn about the loan procedures such as documents requirements.

(4) Requests regarding technical assistance from JICA

The owner desires to improve its product quality especially in terms of safety and sanitation. In 2013, she attended the seminar held by the association for processing food industry in Mandalay, where JETRO experts explain a framework for the operation and expansion of voluntary standards for safe and sanitary food.

(5) Banks/companies to have introduced this company

The company was among respondents of SME interview survey conducted by Thura Swiss.

(6) Reason to recommend

The owner of the company has a clear capital investment plan as well as realistic business expansion strategy. For example, the owner already had a detailed quotation for factory buildings and necessary machinery and an installation plan by utilizing available funding.

(7) Possible improvements by TSL

The consultant team noticed that the bottleneck of business expansion is the high interest rate of the current bank loan. With TSL program, the owner can resume further capital investment in response to market demand.

4.3.1.5 Auto Life

Business outline

Business lineup	Automobile Service (repair and maintenance), import and sale of spare parts
Employees	67 employees
Assets	5,000 million kyat
Establishment year	1987
Sales (volume)	900 cars / month
Sales (kyat)	470 million kyat
Profit / Profit ratio	5-10%
Sale destination	Domestic users

Capital investment plan

Facilities to invest in	New machines, new branches and a new school to train automobile mechanics
Total amount (kyat)	700-1,000 million kyat
Purpose	Expanding branch network and cultivation of human resources
Expected effect	Sales growth and personnel acquisition

Finance needs

Preferred bank	-
Amount (kyat)	320 million kyat
Desired date to borrow	-
Collateral to be supplied	Land of head service center and a branch. It has also some land in the north Dagon IZ and the south Dagon IZ

Existing loan

Bank	-
Amount (kyat)	-
Purpose	-
Collateral	-
Others	-

Financial Statement and Auditing

Financial Statement	N.A.
Auditing	N.A.

(1) Business outline

The company owns and operates automobile service centers which provides repair and maintenance services. It also repairs broken-down cars and cars damaged in accidents to sell them again. The company imports spare parts and car-related goods, e.g. engine oil, A/C filter, car fragrance and car wash goods etc. It provides “one stop” repairing service which includes sheet-metal processing, paint and coating, engine swap or engine maintenance, and parts replacement.

The company repairs about 900 cars per month in two service centers. One is a head center located in north Dagon Industrial Zone (IZ) and the other is a branch center located in north Okkalapa Township.

Most of the cars repaired are Japanese passenger cars with the size less than 3 tons. In order to brush up the skills of employees, 4 employees received technical training supplied by TOYOTA from October 2013 for 4 months.

Four general insurance companies entered into contracts with the company under which the company undertakes repair service as a vendor in traffic accidents involving insured vehicles. This arrangement supplies stable and huge orders to the company.

The strength of the company is as follows: a large number of certified mechanics, low price, provision of guarantee for a certain period after repair, and good track record. While there are many service centers in Yangon, the company recognizes only 5 competitors which provide a comparable level of services.

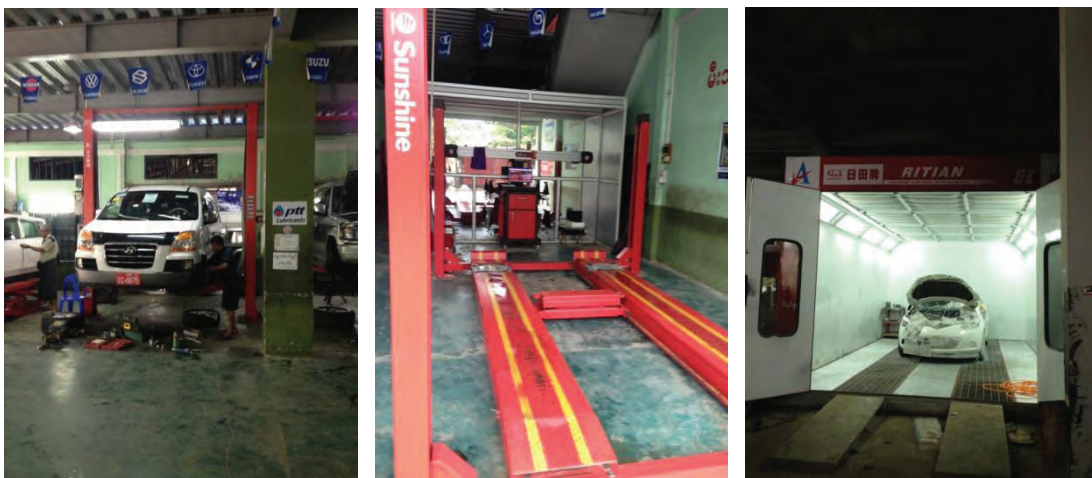


Fig. 4-36 Some equipment; lift (left), alignment measuring equipment (center) and painting equipment (right)



Fig. 4-37 Crushed car to be repaired for resale

The company has two kinds of capital investment plans. One is to establish a technical school to train automobile mechanics and the other is to improve and increase its service capacity, e.g. introduction of new machines and establishment of new branches.

With a Japanese company, “3R Corporation” (Kuki city, Saitama Prefecture), it plans to establish an automobile technical school. 3R Corporation has already been supplying technical assistance to the company, including transfer of new technology and expertise such as hybrid car repair. The school is planned to start with around 40 students in 2 classes, with 250,000 kyat tuition per month, while those of other schools are about 500,000 kyat per month. The course period is one month and the company intends to employ some of highly capable graduates.

In addition, the company plans to make a business alliance with another Japanese company, “Eco-R Co., Ltd” (Ashikaga city, Tochigi Prefecture) for the spare parts import and new machines from Japan, including alignment measuring equipment (10-18 million kyat), failure diagnostics machines (9 million kyat), lifts for repair (2-6 million kyat), small instruments for painting and welding (0.6 million kyat). The company is also planning for expansion of its branch network in Yangon area. New branches would be smaller than the head center and not capable of supplying “one stop” services but located in more convenient places such as a main avenue and residential, business and commercial areas. Two new branches in Yangon area will create jobs for more than 50 employees.

(3) Requests regarding TSL scheme

The owner desires long term and low interest rate loans. However if TSL loan scheme is neither long term nor low interest rate, the company will not use the TSL loan.

(4) Requests regarding technical assistance from JICA

The company has already utilized technical assistance from Japanese companies, e.g. TOYOTA and 3R Corporation, in terms of a technical guidance to automobile mechanists of the company. The company is interested in repair of hybrid cars, which have increased in the Myanmar market.

(5) Banks/companies to introduce this company

The company was among respondents of the SME interview survey conducted by Thura Swiss.

(6) Reason to recommend

The company has an intention to receive further technical assistance, because it has already received some technical assistance from Japanese companies. The plan to establish a technical school for automobile mechanists has a good effect in terms of social development by creating jobs.

(7) Possible improvements by TSL

The company currently has various investment plans that will boost the service level and variety for car users in the country and create jobs. Low-interest and long-term loan from the TSL program would expedite the execution of the expansion plan by making it available a large amount of funds.

4.3.1.6 Myanmar Belle Manufacturing Co., Ltd

Business outline

Business lineup	Vegetable processing for export
Employees	200 staff
Assets	Several land and building assets (no details)
Establishment year	2007-2008 (Myanmar Belle Manufacturing) - Note: Its group company, Myanmar Belle Co. Ltd was established in 1995.
Sales (volume)	N.A.
Sales (kyat)	2 – 3 billion kyat
Profit / Profit ratio	Approximately 10 - 15%
Sale destination	Korea, Japan

Capital investment plan

Facilities to invest	Building of a new factory, machinery to be installed in the factory
Total amount (kyat)	Approximately 1 – 2 billion kyat
Purpose	To build a new factory to produce dried garlic, gingers carrots or potatoes (to be determined)
Expected effect	Expansion of business, increase in the income of contract farmers

Finance needs

Hopeful bank name	N.A.
Amount (kyat)	
Hopeful date to borrow	
Collateral to be supplied	

Existing loan

Bank name	No existing loans
Amount (kyat)	
Purpose	
Collateral	

Financial Statement and Auditing

Financial Statement	N.A.
Auditing	N.A

(1) Business outline

Myanmar Belle Manufacturing Co., Ltd is a food processing company, which purchases cabbage from contract farmers in Shan State, and produce dried cabbage for export. Currently, the dried cabbages are sold to a Korean noodle maker, Samyang Foods. Myanmar Belle Manufacturing is considering exporting to other countries including Japan and Russia.

At Shan State, where agriculture is the most important industry, it has been difficult for farmers to make profits from farming, since the harvests are sold at very low prices in the local markets. Myanmar Belle Manufacturing therefore started making contracts with farmers, buying cabbages at fixed prices, and producing dried cabbage in their factory at Shan State, so that both farmers and the company can make profits. One of the reasons why the company processes cabbage at the factory in Shan State is that they can reduce the volume and weight of cabbage by dehydration and transportation costs to deliver the products to their clients in Yangon.

Currently, the company has contracts with more than 200 farmers. The company provides them with fertilizers, agrochemicals and seeds. The company also provides technical support to farmers to produce high quality cabbages, and carry out temporary monitoring of their production processes to avoid any overuse of fertilizers or agrochemicals. The company has its own test farm to examine the seed quality and to check production costs.



Fig. 4-38 Test farm

After harvest, cabbages were washed, boiled, and dried at the factory. Dried cabbages were packed for shipments after quality checks. Currently, there are 200 workers at the factory, who were mostly hired in Shan State. The company is planning to increase the number of workers to 500 in the near future, and also start round-the-clock production to increase output.



Fig. 4-39 Washing and selection



Fig. 4-40 Boiling process

The owner of Myanmar Belle Manufacturing Co., Ltd owns six other companies under the name of “Myanmar Bell”. Such companies are exporting sea foods and konnyaku, and importing cosmetics and heavy machinery.

(2) Capital investment plan/Finance needs

Myanmar Belle Manufacturing Co., Ltd is planning to establish a new factory to produce dried vegetables including garlic, gingers, carrots and potatoes within 18 months. The company is currently carrying out marketing research before determining which vegetable to choose.

The company has already obtained the land for the new factory (next to the existing factory in Shan State). The necessary capital investment amount is to be determined, but estimated to be about 2 billion kyat. The new factory will be smaller than the existing factory which cost 4 billion kyat.

One of the reasons that the company is planning to build a new factory is that they believe that the farmers can gain more profits once the company starts the processing factory of vegetables other than cabbages. Contract farmers are currently producing garlic, gingers, carrots and potatoes when they do not produce cabbages to avoid replant failures (cabbages can be harvested three times a year, but the contract farmers harvest twice). However, such vegetables cannot generate any profits for farmers, because they are sold at very low prices at markets.

The company is considering that one of the major destinations of such new products would be Japan.

(3) Requests regarding TSL scheme

Myanmar Belle Manufacturing Co., Ltd, which does not have any existing bank loans mentioned that the proposed interest rate 8.5% is rather too high, and 5% or 6% is more

appropriate, considering their profit margins. They also mentioned that the proposed loan term (3 – 5 year) is appropriate.

(4) Requests regarding technical assistance from JICA

Myanmar Belle Manufacturing Co., Ltd suggested that technical support for marketing and business planning are essential for the SMEs in Myanmar.

(5) Banks/companies to introduce this company

Daiwa/Mitsui & Co., Ltd.

(6) Reason to recommend

Myanmar Belle Manufacturing Co., Ltd generates sufficient sales and profits from its operations, and is trying to expand its business through capital investments. Loans to this company can be repaid from its profits. The company also has sufficient fixed assets for collateral.

The company has built a strong marketing and processing network, from which farmers can benefit. The business expansions of Myanmar Belle Manufacturing Co., Ltd will also bring further benefits to farmers.

(7) Possible improvements by TSL

The company has been financing its capital investments mainly by its own funding and loans from relatives, in order to avoid the high loan interest rates of bank loans. As the payback period of the capital investment of the company is 3 years, the company thinks that an appropriate loan period is 3 -5 years. The company has been avoiding having bank loans, because the loan term is limited to be one year. If the company cannot have access to long term loans at reasonable interest rates, the company might lose opportunities to expand its business through making capital investments.

Therefore, loans under the TSL would make it possible for the company to access to long term lower interest rate loans, and thus the capital investment of the company would be encouraged. As the company has sufficient assets for collateral, such loans would make it possible for the company to achieve sustainable growth through capital investments.

4.3.1.7 Aung Zabu Tun Industrial Ltd.

Business outline

Business lineup	Electric panels (power switchboard, outdoor and indoor panel, control panel, etc.) and cable trunking production and sales, technical services such as on-site setup and maintenance of electric panels, etc.
Employees	120 (full-time employees) + some seasonal workers
Assets	Land and building for the factory and office Land and building for the new factory
Establishment year	1997
Sales (volume)	Switchboard: N.A. Cable Trunking: 8 trunkings per day (Working Hours: Monday - Friday and Saturday morning)
Sales (kyat)	1,000 million kyat per year
Profit / Profit ratio	150 million kyat / 15%
Sale destination	Domestic market (Stores and companies in Mandalay and Yangon)

Capital investment plan

Facilities to invest	Purchasing machinery - CNC Machine - Punching machine for trunking
Total amount (kyat)	350 million kyat
Purpose	For steel processing
Expected effect	Automating metal processing for improving work efficiency, production time saving, and stabilization of production quality

Finance needs

Hopeful bank name	N.A.
Amount (kyat)	350 million kyat
Hopeful date to borrow	N.A.
Collateral to be supplied	Land and building for new factory Land and building for existing factory (after repayment of existing loan)

Existing loan

Bank name	KBZ Bank
Amount (kyat)	120 million kyat (interest rate: 13%)

Purpose	To purchase machinery and for working capital
Collateral	Land and building of the existing factory and office

Financial Statement and Auditing

Financial Statement	N.A.
Auditing	N.A

(1) Business outline

Aung Zabu Tun Industrial is producing electric panels such as power switchboards, outdoor panels and control panels. Employees in this company are mostly full-time and most of them are engineers, technicians, and skilled workers, who produce, set up, and maintain those products. The company designs a panel one by one based on orders from customers and sets it up accordingly. The total production time varies depending on size and specification of a panel but the average is approximately 1 month per order in average. When the panel is completed at the factory, engineers visit the site with it and set it up. Aung Zabu Tun Industry also produces cable trunkings and trays. These products are mostly delivered to construction companies in Myanmar.



Fig. 4-41 Switchboard Panel



Fig. 4-42 Cable Trunkings and Trays
(images from the company website²²)

The company has one factory located at North Dagon. Since the size of the factory has no room for expansion, the company purchased land for a new factory at the Industrial Zone in East Dagon, 15 minutes from the main factory by car. The land size of the

²² <http://www.aungzabutun-indltd.com/production.html>

factory in East Dagon is 25 acres (70ft. x 300ft.). Although the factory still needs some more work for full-scale operation, some processes such as producing trunkings and painting panel boxes have already been started in the new location. When the construction of a new factory is completed, most of the panel production process will be moved from the existing location to the new factory, as well as half of the administrative functions.



Fig. 4-43 Factory in North Dagon
(painting, setting, and checking)



Fig. 4-44 Factory in North Dagon
(assembling small parts)

(2) Capital investment plan/Finance needs

Currently, most of the processing works are being carried out manually. The company is planning to install machinery to ensure production quantity. The company needs two types of machinery for processing panels and trunkings.

One is a CNC machine, which is computer-automated and controlled steel machining system for panel boxes. They are planning to purchase AMADA products, Japanese machines, which will cost 300 mil kyat per unit. Since the system of the machine is complicated to operate for the initial phase, they would like to receive technical support from AMADA when they purchase a machine.

Another machine they are planning to purchase is an automated punching machine for trunkings. Punching is very difficult and requires high skill by hand. When they install an automated punching machine, the total time for production can be saved and the amount of production per day will increase dramatically. At present, they are thinking of purchasing a machine from China which will cost 40 million – 50 million kyat per unit.

(3) Requests regarding TSL scheme

N.A. (Aung Zabu Tun commented that the proposed lending rate [deposit rate + 0.5%] and the maturity of loan [3 – 5 years] sounds reasonable.

(4) Requests regarding technical assistance from JICA

Aung Zabu Tun Industrial has not received any technical assistance from international donors. They say if they can take some opportunities from JICA, they would like to take some advice for business development for management as how and where to invest their resources, and also knowledge transfer to improve skills for engineers.

(5) Banks/companies to introduce this company

Thura Swiss

(6) Reason to recommend

Aung Zabu Tun Industrial is in the process of business expansion and they have a funding need to make their plan fully realized. They are now constructing a new factory because the existing factory is too small to do all of the processes in one place. They are planning to purchase machines to speed-up and scale-up their production. Currently they earn profit constantly every year; they earned 150 million kyat which is 15% of total sales revenue in 2012. Also they have enough assets for collateral if they borrow funds through TSL, as their total estimated value of land they have is more than 1 billion kyat.

(7) Possible improvements by TSL

Although Aung Zabu Tun has enough assets for collateral (they own lands valued more than one billion kyat), they have not borrowed from a bank for a capital investment because they have mobilized their own fund sources in order to avoid high interest rate. However, as they need to purchase various machines at one time, they have to find external sources of funds. If the TSL loan program starts providing lower interest loans with longer tenor, they will make use of it to enhance their productivity.

4.3.1.8 SUMME

Business outline

Business lineup	Production of dried fruits, preserved jaggery in syrup, and mango paste
Employees	150 (including seasonal part-time workers)
Assets	Land and building of an office Land and building of a factory Land and building of MD's home
Establishment year	1996
Sales (volume)	N.A.
Sales (kyat)	More than 800 million kyat per year (More than 1 billion kyat according to the questionnaire collected by Thura Swiss)
Profit / Profit ratio	5 million - 10 million kyat per month / 5 - 10% (60 million kyat per year, according to the questionnaire collected by Thura Swiss)
Sale destination	Domestic and international market (Thailand, Bangladesh, India)

Capital investment plan

Facilities to invest	Purchase of fruits dehydrator
Total amount (kyat)	80 million kyat
Purpose	To dehydrate fruits
Expected effect	Upgrading and stabilizing quality of dried fruits, expanding products and sales especially for export

Finance needs

Hopeful bank name	N.A.
Amount (kyat)	80 million kyat
Hopeful date to borrow	N.A.
Collateral to be supplied	Land and building of both new factory and existing factory

Existing loan

Bank name	One of the state-owned banks, and KBZ
Amount (kyat)	330 million kyat (In total of this business and printing company that MD is also managing)
Purpose	Capital investment (to purchase raw materials)
Collateral	Land and building of the office

Financial Statement and Auditing

Financial Statement	N.A.
Auditing	N.A

(1) Business outline

SUMME is a fruit-processing company which produces dried fruits such as mango, star fruits, lemon, papaya, tamarind, preserved jaggery in syrup, and mango paste. Dried fruits products are mostly made through natural sun-drying at the yard of the factory at a village next to Mandalay, and stored in the storage located in the center of the town. About 70% of products are sold in the domestic market and 30% of them to foreign markets. Currently they export dried tamarind to Bangladesh, and preserved jaggery to Thailand. The amount of exports has been increasing year by year.

Ingredients of dried fruits are only fresh fruits, sugar, and salt, with no artificial flavor or color. No chemical preservatives are used on export products.

The packing process is carried out at the factory. SUMME purchases packaging film from printing companies in Yangon and Mandalay.



Fig. 4-45 Natural Sun Dryer



Fig. 4-46 Lemon Preserved under Sunshine



Fig. 4-47 Production (Tamarind)



Fig. 4-48 Packaging

(2) Capital investment plan / Finance needs

SUMME is planning to purchase a dehydrator to increase the production volume of dried fruits especially for export. They had already prepared a room for the new machinery and a generator for it. They hope to have one from either South Korea or Thailand. One from South Korea has trays and rollers which can dry a large amount of fruits in one time, and this machine is also exported to Japan for its high quality. The other machine from Thailand works with solar power. Since its size is adjustable, it is easily set up in any size of the room.

After SUMME introduces one of the machines to the factory and increased the production of dried fruits, they wish to build another factory on the same site (next to the existing factory building).



Fig. 4-49 Production Machine (Tamarind)



Fig. 4-50 Room for New Machine

(3) Requests regarding TSL scheme

N.A. (SUMME commented that the proposed loan maturity [3 to 5 years] and interest rate [deposit rate + 0.5%] sound appropriate. If the TSL loan is disbursed in a short period, SUMME will wait until the loan implementation.)

(4) Requests regarding technical assistance from JICA

N.A.

(5) Banks/companies to introduce this company

DIR

(6) Reason to recommend

According to the interview with SUMME, their total annual sales is more than 800 million kyat and monthly profit is 5 – 10 million kyat per month, which is calculated to be net profit margin of approximately 7.5% – 15%. They have enough profit to take a loan according to their investment plan. SUMME also has enough assets for collateral to access to bank loans for business expansion.

To realize the plan for improving their productivity and quality to export abroad, the company has been preparing very well; they already have a room for new machinery and relevant systems to be required in the factory (electric generator, etc.). They have already started multiple discussions with Japanese trade companies to expand their sales route.

Furthermore, SUMME passed the JETRO exhibition quality test and participated in ASEAN+JAPAN Food Fair in 2012. The company also acquired skills to make low-sugar dried fruit (less than 15% sugar) to export for Japan. Now they are ready to expand their business once they install a new machine.

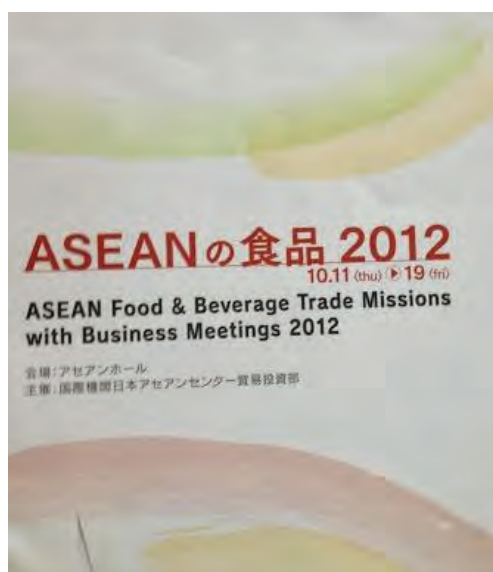


Fig. 4-51 Brochure of ASEAN Food Fair 2012



Fig. 4-52 From the Brochure

(7) Possible improvements by TSL

SUMME have bank loans for working capital such as for purchasing fruits. Since they are not satisfied with the current bank loan for high interest rate, short tenor, and annual roll-over fee payment, they decided not to have additional bank loans at present. However, they recognize that they have funding needs for purchasing machines to expand their business especially for exporting. If the TSL program is implemented, their business will grow through the capital investment by using the loan.

4.3.2 Environmental and social considerations

(1) Auto Life

Business Plan	1. Enhancement of spare-parts-procurement capacity 2. Automobile rehabilitation school 3. Automobile rehabilitation works factory	
Location/ Surroundings	Industrial Zone for 1&2 Residential area for 3	1. No extension of site 2. Land (60x40ft2) secured next to existing factory in industrial zone 3. New site (60X60ft2 x 4-5 locations) in old apartments
Business Licenses	MOI , North Dagon Economic Zone Management Co. and UMFCCI will issue business licenses MOI also put general rule on waste management. Industrial Zone Co. will rule in detail for waste.	
Updates and Inspection	UMFCCI checks sample waste water, especially for acid waste, twice a year.	
	Evaluation of Impact	Reasons of Evaluation
Air Pollution Control	C	Negligible scale For 3 plan, chimney for volatile paint material and organic compound according to MOI rules.
Water Pollution Control	C	Negligible scale No acid liquid waste
Waste Management	C	Oil and Body Parts are recycled through middleman company as valuables/ Plastics are separately treated as domestic waste according to YCDC rule
Others	C	Negligible scale Noise /vibration
Overall Env. management	C	Negligible amount but currently untreated wastewater can be better treated. Old engine oil might contain hazardous substance, so its management can be more strict.

Note: A stands for major impacts, B for minor impacts, and C for negligible impacts.



(a) Spare-parts washing tank



(b) Inside automobile repair workshop



(c) Waste material outside the workshop



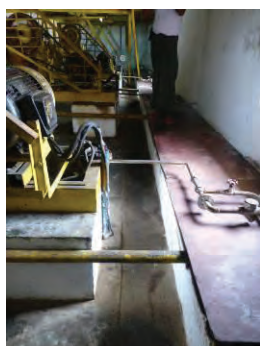
(d) Car wash rack

Fig. 4-53 Automobile repair workshop (a, b, c and d)

(2) Zwe Pure Peanut oil, Sesame Oil Pyay Factory

Business Plan	1. Enhancement of oil mill production 2. Procurement of packaging machine 3. Procurement of machine for anti-oxidation	
Location/ Surroundings	Pyay 2 Industrial Zone	That industrial zone is in rural grass land, not in residential area.
Business Licenses	MOI issue business license, boiler license, generator registration. Food and Drug Administration (FDA) of MOH issue certificate for food sanitation.	
Updates and Inspection	DISI of MOI check business license update and conducts site-inspection annually. DISI also make site-inspection for small boiler. FDA, PCDC and Township make inspection for food security, biyearly, twice annually, several times a year, respectively.	
	Evaluation of Impact	Reasons of Evaluation
Air Pollution Control	C	Negligible scale and in addition dust are well controlled.
Water Pollution Control	C	Negligible scale since no water is used in the food processing , except that in beans itself. In addition, only small amount of waste water was observed as clear water.
Waste Management	C	Peanuts and sesame cake, consisting 55% of beans, after squeeze are sold and recycled for chicken and cow feeder. 5% of sand and soil are mixed with water to be used as nursery fertilizer. Almost all wastes are recycled as valuables.
Others	C	Fuel wood for a small boiler consumes 1200t a year. The amount is not significant at the current level and it is noted that they are taking care to control the amount of its use since they are aware forests are decreasing in the country wide.
Overall Env. management	C	Environmental management practice is a model of good practice.

Note: A stands for major impacts, B for minor impacts, and C for negligible impacts.



(a) Oil extractor



(b) Sesame residue cake



(c) Boiler



(d) Backup diesel



(e) Drainage ditch

Fig. 4-54 Oil mill in Pyay Factory (a, b, c, d, and e)

(3) Myanmar Belle Manufacturing Co., Ltd, Dehydrated cabbages processing & exporting factory

Business Plan	1. Capacity enhancement of existing processing factory for dehydrated vegetable 2. Procurement of agricultural machinery and farm instruments for contract farmers 3. Construction of new food processing factory for potato, ginger and garlic	
Location/ Surroundings	Rural area surrounded by farming land	1. Existing (10acre = about 4ha) 3. Land acquired (2 acre = about 0.8ha)
Business Licenses	MOI issues business license. And DISI of MOI for Boiler and Generator. KCDC for land register. FDA and National Health Laboratory of MOH issue water quality certificate	
Updates and Inspection	MOI annually for business license. DISI for boilers twice a year. NHL for wastewater (effluent) once a year.	

	Evaluation of Impact	Reasons of Evaluation
Air Pollution Control	C	Installed electric precipitator for coal dust. Well controlled.
Water Pollution Control	B-	Small scale factory, but BOD and COD in samples are beyond target level. NHL recommended wastewater treatment in the certificate of analysis.
Waste Management	C	Food waste (9 ton/ day) are recycled as fertilizer. Coal ash are recycled as construction material. Coal type is bituminous.
Others	C	Agro chemicals use are well managed with strictly controlled distribution to farmers.
Overall Env. management	C / B-*	Generally hygienic conditions and wastes and use of chemicals are well controlled. B-, if assume construction of new factory of business plan 3.

Note: A stands for major impacts, B for minor impacts, and C for negligible impacts.



(a) Air duct for food processing



(b) Cleaning room for processing worker



(c) Company policy



(d) Coal



(e)



(f) Factory building

Fig. 4-55 Dehydrated Cabbages Processing Factory in Heho, Shan State (a, b, c, d, e, and f)

(4) AG7

Business Plan	1. Extension of existing factory into 3 stories without site extension. 2. Renovation and upgrade of machines in the reprocessing steel wire factory 3. Procurement of agricultural machine for rubber plantation	
Location/ Surroundings	Industrial Zone (for 1) In rubber plantation area (on 3)	2 existing buildings across road in industrial zones. Rubber plantation have the area of 20 acre, 165 acre in plan.
Business Licenses	MOI issue business license. MOEP issue power supply certificate (E.I.). Min. of Home Affairs and Industrial Zone Management Committee for fire protection measures. MOIA for land record, surface water management and DOF of MOECAP for check distance from protected forests, regarding rubber plantation.	
Updates and Inspection	MOI same as other SME. YCDC and Industrial Zone Management Committee for factory operation and waste management.	
	Evaluation of Impact	Reasons of Evaluation
Air Pollution Control	C	Using only electricity for machine operation. Diesel fuel is used by 300 gallon/month for in-house power generator during power cut.
Water Pollution Control	C / B-	Currently no waste water. Now researching technology and machines for rubber processing facilities on liquid waste of acid.
Waste Management	C	Almost 100 % of iron scrap and plastic waste are recycled through middleman.
Others	C / B-	For rubber plantations, agrochemicals as herbicide are used on trees up to 3 years old.
Overall Env. management	C	Regarding rubber plantation and processing , business plan is under research. Impact evaluation depends on that business plan.

Note: A stands for major impacts, B for minor impacts, and C for negligible impacts.



(a) Front of steel wire factory office



(b) Material for reprocessing



(c) Process of reprocessing



(d) Lubricant oil drum



(e) Inside the factory

Fig. 4-56 Reprocessing steel wire factory (a, b, c, d and e)

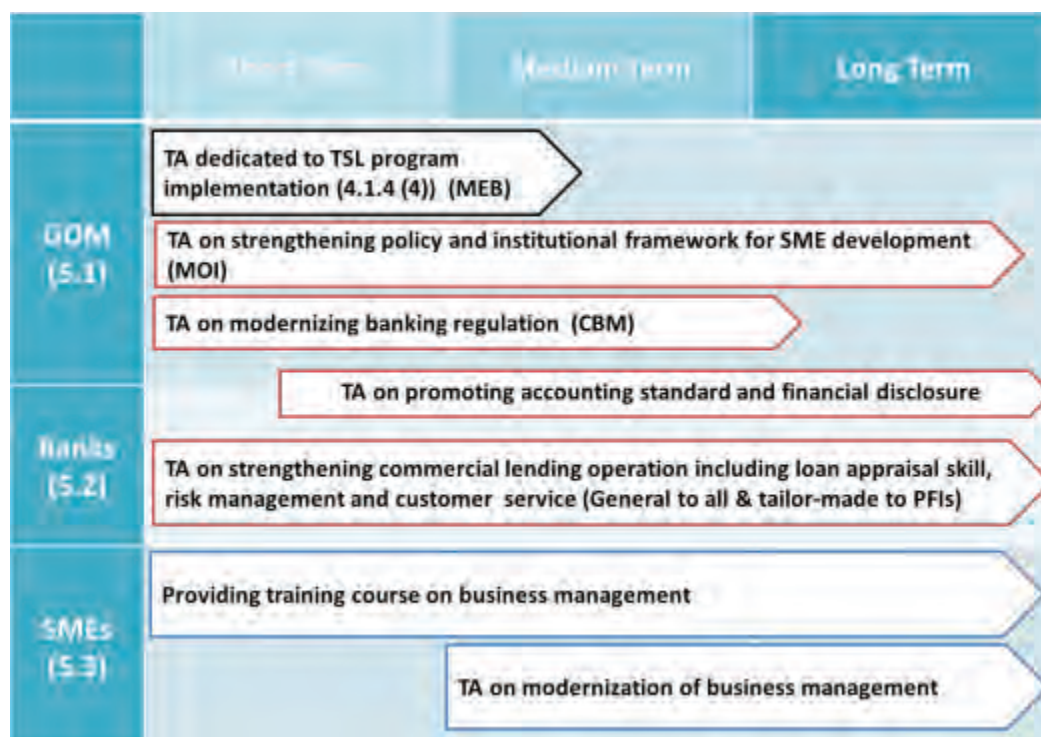
5 Technical assistance for future improvements in SME finance

During the course of the survey, the consultant team identified various issues in GOM, banks and SMEs for improvement in SME's access to finance. We would like to recommend the following for the future technical assistance to GOM (5.1), local banks (5.2) and SMEs (5.3).

- i. Institutional constraints
 - Weak policy and institutional framework for SME development
 - Strict banking regulations from the banking crisis of 2003 are still in force
 - Accounting systems exist but are not widely practiced
- ii. Conservative and less flexible lending practices by banks
 - Immovable property is still predominantly used as collateral in practice
 - Not many banks are aggressively marketing to SMEs
- iii. Lack of knowledge and experience by SMEs on:
 - Formal lending procedure
 - Modern business management

Possible technical assistance by timeline is shown below.

Fig. 5-1 Possible Technical Assistances by Timeline



5.1 Technical assistance for GOM

(1) Strengthening of policy and institutional framework for SME development (MOI)

During the course of the survey, the consultant team had difficulty understanding GOM's various initiatives to support SMEs because there is no unit in charge with a controlling position. Because of the historical reasons of past Myanmar socialist regime, GOM had not applied any kinds of industry policies until 2011 and the organizational framework to plan, coordinate and implement policies to develop SMEs has not yet established. While MOI is considered to be the ministry in charge of SME development policies and the SME development center is an implementing unit, they are understaffed, lacking expertise and do not seem to understand what other ministries are doing on SME development.

The consultant team recommends that technical assistance on organizational framework on SME development should be provided. Japan's experience from SME-related organizations under METI can be a great input to GOM.

(2) Modernization of banking regulations (CBM)

The consultant team had multiple discussions with CBM concerning banking regulations and understood that CBM was aware of the need for overhaul of banking regimes. CBM has been receiving training from IMF and other ASEAN members but should welcome additional help as there are so many areas for improvement.

As mentioned in 1.3., the banking regulations of Myanmar today are aimed at maintenance of financial stability and preventing bank runs and bankruptcies like those that happened in 2003. In order to satisfy the needs of borrowers and depositors while maintaining the stability of banking sector, the Japanese liberalization process for the banking sector will be a good example for reference when making liberalization policy for Myanmar.

(3) Accounting system exists but not widely practiced (Multiple ministries)

Establishing a viable corporate accounting system in conjunction with financial disclosure practice is essential in the process of modernization of financial sector. There are "Myanmar Financial Reporting Standards (MFRSs)", which are the country's own accounting standards, based on International Financial Accounting Standards. The consultant team noticed that MFRSs are rarely used in practice in the country. As mentioned in 2.2.1, most SME owners do not prepare the financial statements that are necessary for loan applications.

The consultant team recommends giving consideration to a TA program to coordinate the efforts of relevant ministries, such as MOF, CBM and MOI, for the promotion of MFRSs to be employed by SMEs.

5.2 Technical assistance for Myanmar banks

Most Myanmar banks the consultant team interviewed have already recognized the need for improvements in many aspects of their operations, especially in credit evaluation skills. Other areas that banks pointed out for potential assistance include governance and service modernizations, strategy setting and system modernization.

There are two ways to provide technical assistance to local banks; provision of training sessions for multiple banks or assignment of experts to a specific bank for a certain period to design and implement tailor-made solutions. The former has the benefit of providing assistance to many financial institutions at the same time, while the impact on banks' capacity developments would be smaller than the latter.

Several banks, including KBZ, CB and SMIDB, had already started receiving tailor-made TA programs provided by foreign donors and their partner banks from abroad, as mentioned in sections 3.5 and 3.7. However, many of such local banks mention that their ongoing TA programs are not exclusive and would welcome any additional assistance. Foreign donors, such as GIZ and IFC, also mentioned that they would welcome JICA's additional assistance to banks that they are assisting.

Therefore, the consultant team recommends two of the possible TA programs. One is the classroom training for credit evaluation for all the banks. The detailed program and implementation plan should be discussed with the Myanmar Banking Association or Central Bank of Myanmar. Also, potential coordination with other donors should be explored.

The second one is an extensive program for PFIs with a view to achieving certain goals, such as enabling them to accept a new type of collateral. Concrete topics should be considered after the start of the TSL program and the issues have been identified for better implementation of the program. Since many of PFI candidates have already been receiving assistance from other donors and international banks, an extensive survey on the status of their programs and discussion with the assistance providers should be conducted before the start of the program.

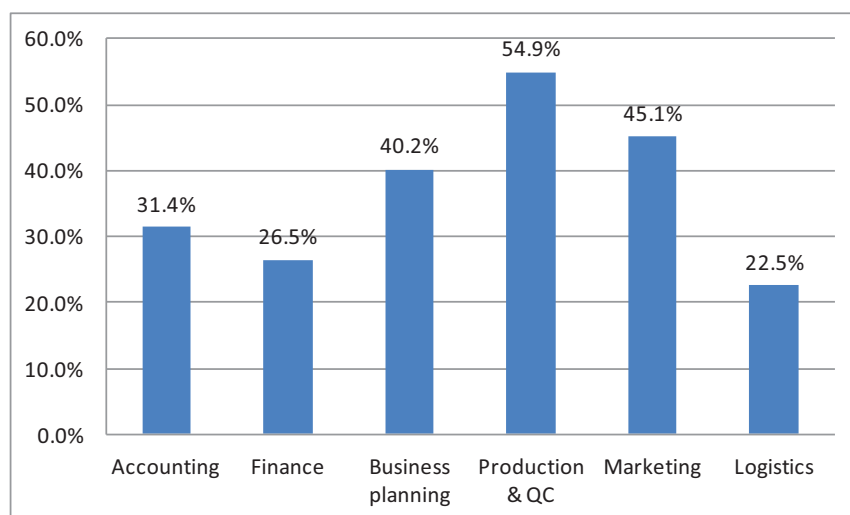
5.3 Technical assistance for SMEs (business management and business plans)

In the long run, it is desirable that banks carry out loan appraisals based on the assessment of business operations and financial status of loan applicants. At the same time, it is essential for SMEs to formally incorporate their privately owned businesses and properly disclose their assets and earnings, as well as prepare written business plans.

Most of the SMEs that the consultant team visited in this survey are individually owned and the personal assets and revenues are not clearly separated from the businesses. In many cases, SME owners do not prepare financial statements and written business plans. Even if financial statements are prepared, they do not reflect the true ownership of assets or liability. Some business owners confessed that they do not know exact amounts of their turnovers and profits. This would suggest that the business managements of most SMEs in Myanmar remain underdeveloped.

Through the survey carried out from August through September 2013, demand for technical assistance by SMEs was identified as shown below.

Fig. 5-2 Demand of SME for technical assistance



Source: JICA consultant team

As depicted in the figure above, many interviewees answered that they wish to receive technical support on accounting (31.4% of all SMEs), finance (26.5%) and business planning (40.2%).

SMEs also seem to face challenges in production and marketing, as more SMEs answered that they wish to have technical support on production and quality control

(54.9%) and marketing (45.1%). One of such examples is Zwe Oil, which has already been receiving technical support by a JICA expert stationed at UMFCCI for the quality control of its products,

Support on the modernization of business management of SMEs would therefore be beneficial for the development of SMEs in Myanmar. Such support for the modernization of business management can be provided through business management seminars, which should be organized at several locations including Yangon, Mandalay, other local cities, and industrial zones. It is recommended that such seminars are organized in the evening or during the weekends, so that more business managers, including managing directors or chief executive officers, of SMEs can participate in them.

Seminars can be either (i) one day session, or (ii) short term courses. One day session can be organized (e.g. for 2 hours) for business owners to explain the importance of the financial management and business plans. (ii) Short term courses can be organized for a few days for several topics including (i) financial management and accounting and (b) business planning.

One of the candidates of seminar providers is SME Development Center. GIZ has provided technical assistance to the Center and has trained and certified trainers. The certified trainers are due to give lectures to SMEs in the seminars which are started in November 2013.

Support on SMEs can be also provided through collaborations with the Myanmar – Japan Center. The Japan Center can be an arranger or a provider of short term business courses, and also longer term business management courses (e.g. for a few months) for SMEs. Possible subjects of such training course are;

- Business strategy
- Marketing
- Operation management
- Financial management
- Human resource management

(end)

Appendix

Appendix 1: Instructions from CBM

(Attachment 1-1)

Unofficial translation

Central Bank of Myanmar

Naypyitaw

Dated: 27th December, 2011

Instruction No. (11/2011)

Subject: Amendment to interest rate over deposit and loan

Reference: The instruction of Central Bank No. (10/2011) dated 27th December 2011

1. In compliance with Myanmar Central Bank Law Section-73, Central Bank of Myanmar sets 10% as Central Bank interest rate as mentioned in the reference.

2. According to the decision made in the meeting (34/2011) of the Union Government of the Republic of Myanmar on 22nd December, 2011, in compliance with Myanmar Central Bank Law Section-61, Subsection (A) and (B), banks' interest rates have been determined as in the following:

(a) the lowest interest rate liable for saving deposit, saving account and fixed deposit is not to be set less than 2% below the Central Bank rate ($10\% - 2\% = 8\%$).

(b) the highest interest rate collectible from loans and overdrafts is not to be set more than 3% above the Central Bank rate ($10\% + 3\% = 13\%$).


3. This instruction goes into effect as from 1st January, 2012.

4. Banks may make changes to interest rates within the determined framework mentioned in paragraph 2. It is instructed that banks get permission from the Central Bank and make changes only upon receipt of the permission.

By order,
(Thein Zaw)
Director

မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်
နေပြည်တော်

သင်္ကေတအမှတ် - ၀၆၇-၂၀၁၂/၂၄ / ၀၆၇-၂၀၁၂/၂၄
စက်မှုနှင့်သစ်တော - ၀၆၇-၂၀၁၂/၂၄
စာတိုက်သေတ္တာအမှတ် - ၁၂၄



သင်္ကေတအမှတ်(၀၆၇)
ရက်စွဲ၊ ၂၀၁၁ ခုနှစ် ဒီဇင်ဘာလ (၂၂) ရက်

ညွှန်ကြားချက်အမှတ် (၁၁/၂၀၁၁)

အကြောင်းအရာ။ အပ်ငွေများအပေါ်ပေးသည့်အတိုးနှုန်းနှင့် ချေးငွေများအပေါ်တောင်းခံနိုင်သည့် အတိုးနှုန်းများ ပြင်ဆင်သတ်မှတ်ခြင်းကိစ္စ

ရည်ညွှန်းချက်။ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်၏(၂၇.၁၂.၂၀၁၁)ရက်စွဲပါညွှန်ကြားချက်အမှတ်(၁၀/၂၀၁၀) ဘ။ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်ဥပဒေပုဒ်မ-၇၃ အရ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်မှ ရည်ညွှန်းပါ ညွှန်ကြားချက်ဖြင့် ဗဟိုဘဏ်၏ အတိုးနှုန်း (Bank Rate) ကို တစ်နှစ်လျှင် (၁၀) ရာခိုင်နှုန်း သတ်မှတ်ထားရှိပါသည်။

၂။ ၂၀၁၁ ခုနှစ် ဒီဇင်ဘာလ (၂၂) ရက်နေ့တွင် ကျင်းပပြုလုပ်သော ပြည်ထောင်စုသမ္မတမြန်မာနိုင်ငံတော်ပြည်ထောင်စုအစိုးရအဖွဲ့ အစည်းအဝေးအမှတ်စဉ် (၃၇/၂၀၁၀)၏ ဆုံးဖြတ်ချက်အရ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ် ဥပဒေပုဒ်မ-၆၁၊ ပုဒ်မခွဲ (က) နှင့် (ခ) တို့နှင့်အညီ ဘဏ်အတိုးနှုန်းများကို အောက်ပါအတိုင်း သတ်မှတ်လိုက်သည်-


(က) ငွေစုသက်အပ်ငွေ၊ ငွေစုလက်မှတ်နှင့် အချိန်စေ့မှပေးရမည့် အပ်ငွေ တို့အပေါ်တွင် ပေးရမည့် အနည်းဆုံးအတိုးနှုန်းကို ဗဟိုဘဏ် အတိုးနှုန်းအောက် (၂) ရာခိုင်နှုန်း (၁၀% - ၂% = ၈%) ထက် မနည်းစေရန်၊

(ခ) ချေးငွေများ စာရင်းပို့ထုတ်ချေးငွေများအပေါ်တွင် တောင်းခံနိုင်သည့် အမြင့်ဆုံးအတိုးနှုန်းကို ဗဟိုဘဏ်အတိုးနှုန်းထက်(၃)ရာခိုင်နှုန်း(၁၀%+၃%=၁၃%)အထက် မကျော်လွန်စေရန်။

၃။ ဤညွှန်ကြားချက်သည် ၂၀၁၂ ခုနှစ် ဇန်နဝါရီလ (၁) ရက်နေ့မှစ၍ အကျိုးသက်ရောက်မှုရှိစေရမည်။

၄။ ဘဏ်များအနေဖြင့် အထက်အပိုင်း (၂) ပါ သတ်မှတ်ချက် သောင်အတွင်း အတိုးနှုန်းများကို ပြင်ဆင်ပြောင်းလဲမှုများပြုလုပ်နိုင်သည်။ ထိုသို့ ပြင်ဆင်ပြောင်းလဲမှုများ ပြုလုပ်ရာတွင် မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်၏ ခွင့်ပြုချက်ရယူရန်နှင့် ခွင့်ပြုချက်ရယူသော ပြင်ဆင်ပြောင်းလဲရန် ညွှန်ကြားပါသည်။

အမိန့်အရ


(သိန်းဇော်)
ညွှန်ကြားရေးမှူး

(Attachment 1-2)

Unofficial translation

Central Bank of Myanmar

Internal Audit and Banking Institutions Supervision Department

Naypyitaw

Dated: 8th September, 2011

Instruction No. (22)

Subject: Conferral of permission to give loans upon acceptance of gold and accessories made of gold as collateral

1. In order to support the economic development of the State, Central Bank of Myanmar has made a rule that allows banks to give out loans to entrepreneurs upon submission of gold and accessories that are made of gold as collateral.

2. Banks are asked to abide by the following procedures:

- (A) Loans are to be made to the person who has a bank account with the bank
- (B) When giving out loans, banks are asked to follow the pawning (collateral) procedures in evaluating the value of gold and accessories made of gold (no gems attached)
- (C) When considering gold bars as collateral, banks are asked to take legal ones only
- (D) In compliance with procedures, banks are asked to store the gold bars in safes in money storerooms after systematically wrapping them
- (E) Loans are to be made up to 75% maximum of the value evaluated by the bank appraiser
- (F) Loans are to be made as ordinary ones or overdraft
- (G) The term of loans is to be set for maximum one year
- (H) Banks may by themselves employ specialists to evaluate gold
- (I) In order to avoid lawsuits, banks are asked to keep legal agreement that permits them to sell the gold when the borrower fails to return the loaned money
- (M) Banks are asked to follow legal procedures when signing loan agreement contracts
- (N) The board of directors of banks is asked to make arrangements that both deter gold speculators from making profits using banks services and hedge against losses
- (O) Banks are asked to send the attached forms to the Central Bank on the last date of every month.

3. Banks are asked to give detailed instructions when necessary.

By order
(Thein Zaw)
Director

To be distributed:

All Banks

Copies to be sent to:

- (1) Chairman, Central Bank of Myanmar
- (2) Vice Chairman, Central Bank of Myanmar
- (3) Vice Chairman, Central Bank of Myanmar (Yangon Branch)
- (4) All Heads of Departments, Central Bank of Myanmar
- (5) Instructions attached

} for information
and awareness



မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်
ဘဏ်တွင်းစာရင်းစစ်နှင့်ဘဏ်လုပ်ငန်းများကြီးကြပ်စစ်ဆေးရေးဌာန
နေပြည်တော်

ခုက်စွဲ၊ ၂၀၁၁ ခုနှစ် စက်တင်ဘာလ ၈ ရက်

ညွှန်ကြားချက်အမှတ် (၂၂)

အကြောင်းအရာ၊ ရွှေနှင့်ရွှေထည်ပစ္စည်းများအား အာမခံရယူ၍ ချေးငွေထုတ်ချေးခွင့်ပြုခြင်း

၁။ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်သည် နိုင်ငံတော်၏ စီးပွားရေးဖွံ့ဖြိုးတိုးတက်မှုကို အထောက်အကူပြုစေရန်အတွက် ဘဏ်များမှ ရွှေနှင့် ရွှေထည်ပစ္စည်းများအား အာမခံရယူ၍ စီးပွားရေးလုပ်ငန်းရှင်များသို့ ချေးငွေထုတ်ချေးခွင့်ပြုလိုက်သည်။

၂။ အဆိုပါချေးငွေထုတ်ချေးရာ၌ အောက်ပါအတိုင်း လိုက်နာဆောင်ရွက်ရန်ဖြစ်ပါသည်။

- (က) ဘဏ်တွင်းစာရင်းဖွင့်လှစ်ထားသူကိုသာ ငွေထုတ်ချေးရန်၊
- (ခ) ချေးငွေထုတ်ချေးရာတွင် ရွှေနှင့်ရွှေထည်ပစ္စည်း (ကျောက်မျက်မပါ) တန်ဖိုးများအား အပေါင် လုပ်ထုံးလုပ်နည်းများနှင့်အညီ ထုတ်ချေးရန်၊
- (ဂ) ရွှေချောင်းများကိုအာမခံအဖြစ်ရယူ၍ ထုတ်ချေးပါက တရားဝင်ရွှေချောင်းများကိုသာ အာမခံအဖြစ် ရယူရန်၊
- (ဃ) အာမခံအဖြစ်ရယူထားသောရွှေများကို လုပ်ထုံးလုပ်နည်းနှင့်အညီ စနစ်ကကျထုပ်ပိုး၍ ငွေသိုလှောင်ခန်းများအတွင်းမီးခံသေတ္တာများဖြင့်သိမ်းဆည်းရန်၊
- (င) ဘဏ်စာဖြတ်တန်ဖိုး၏အများဆုံး (၇၅) ရာခိုင်နှုန်းသာ ထုတ်ချေးရန်၊
- (စ) ချေးငွေ (သို့မဟုတ်) စာရင်းပိုထုတ်ချေးငွေစနစ်ဖြင့်ထုတ်ချေးရန်၊
- (ဆ) ချေးငွေသက်တမ်းအား အများဆုံး (၁) နှစ်ခွင့်ပြုရန်၊
- (ဇ) ရွှေရတနာအား မိမိဘဏ်၏အစီအစဉ်ဖြင့် ကျွမ်းကျင်သူများခန့်ထားရန်၊
- (ဈ) ဇယားဆပ်ရန်ဖွဲ့ကွက်ပါက တရားစွဲဆိုရသည့်အဆင့်သို့ မရောက်အောင် ဘဏ်မှ အပေါင်ထားရှိသော အာမခံပစ္စည်းအားတရားဥပဒေနှင့်အညီ ချောင်းချခွင့်ရရှိရေးအတွက် စာချုပ်ချုပ်ဆိုထားရန်၊
- (ည) ချေးငွေနှင့် သက်ဆိုင်သော စာချုပ်စာတမ်းများ ချုပ်ဆိုရာ၌ ဥပဒေနှင့်အညီ ဆောင်ရွက်ရန်။

- (၈) ရွေးချေးကစားသူများမှ ဘဏ်ကို အသုံးပြု၍ ကိုယ်ကျိုးရှာခြင်း မပြုလုပ်နိုင်ရန်နှင့် ထုတ်ချေးထားသောချေးငွေများ ဆုံးရှုံးမှုမရှိစေရန်အတွက် ဘဏ်ဒါရိုက်တာအဖွဲ့မှ စီစဉ်ဆောင်ရွက်ရန်၊
- (၉) ဘဏ်များမှ လစဉ် လကုန်ချက်တိုင်း နောက်ဆက်တွဲပါဝင်ဖြင့် မြန်မာနိုင်ငံတော် ဗဟိုဘဏ်သို့ ပို့ပေးရန်၊

၃။ ဘဏ်များအနေဖြင့် လိုအပ်ပါက အသေးစိတ်ညွှန်ကြားချက်များ ထပ်ဆင့်ထုတ်ပြန် ဆောင်ရွက်ရန်ဖြစ်ပါသည်။

အမိန့်အရ


(သိန်းတော်)
ညွှန်ကြားရေးမှူး
၈/-

ပြန်ဝေခြင်း

ဘဏ်များအားလုံး

မိတ္တူတို

- ၁) ဥက္ကဋ္ဌ
မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်
- ၂) ဒုတိယဥက္ကဋ္ဌ
မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်
- ၃) ဒုတိယဥက္ကဋ္ဌ
မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်၊ ရန်ကုန်ဘဏ်ခွဲ
- ၄) ဌာနကြီးမှူးများအားလုံး
မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်
- ၅) ညွှန်ကြားချက်စာတွဲ

ထံ သိသာပါရန် တင်ပြအပ်ပါသည်။

(Attachment 1-3)

Unofficial translation

Central Bank of Myanmar

Internal Audit Inspection and Banking Institutions Supervision Department

Naypyitaw

Dated: 25th January, 2012

Instruction No. (25)

Subject: Instructions to be followed by banks in giving loans while holding pawned objects in hand (Pledge)

1. To quicken the speed of the domestic flow of goods and to fulfill the financial needs of business people for raising the amount of export goods and to help banks earn more income, Central Bank of Myanmar instructs banks to give loans to entrepreneurs by taking their machines, goods and crops as collateral (Pledge).

2. Instructions are to be observed as in the following in giving out such loans:

(A) Loans are to be issued only after taking machines, goods and crops in hand in compliance with (Pledge) procedures

(B) Loans are to be issued as ordinary

(C) Amount of a loan is to be decided up to 60% maximum of the value of the appraiser

(D) Loans are to be sufficiently insured at Myanmar's Insurance

(E) Banks are instructed to employ loan inspectors on their own

(F) Based on the lifespan of the machines, goods and crops, the Board of Directors of the bank is to decide on the term of the loan up to the time when they cannot disintegrate in hand.

(G) In order to avoid lawsuits, banks are asked to keep legal agreement that permits them to sell the inventory in hand when the borrower fails to return the loaned money

(H) According to what is mentioned in (G), legal stamps are to be pasted on loan-related agreement contracts

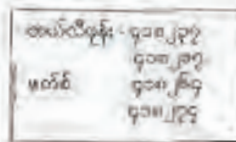
(I) Banks are instructed to submit monthly account balance sheets to the Central Bank using the form attached

3. When necessary, banks are allowed to issue further instructions.

Signature
(Thein Zaw)
Director

To be distributed:
All banks

Copies to:
Chairman, Central Bank of Myanmar
Vice Chairman (Naypyitaw), Central Bank of Myanmar
Vice Chairman (Yangon), Central Bank of Myanmar
Managing Director, Myanmar's Insurance
All heads of departments, Central Bank of Myanmar
Instructions attached



မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်
ဘဏ်တွင်းစာရင်းစစ်နှင့်ဘဏ်လုပ်ငန်းများကြီးကြပ်စစ်ဆေးရေးဌာန
နေပြည်တော်

ရက်စွဲ၊ ၂၀၂၂ ခုနှစ်၊ ဇန်နဝါရီလ ၂၅ ရက်

ညွှန်ကြားချက်အမှတ် (၂၅)

အကြောင်းအရာ၊ ဘဏ်များမှ လက်ရောက်အပေါင် (Pledge) ဖြင့် ချေးငွေထုတ်ချေးရာ၌ လိုက်နာ ဆောင်ရွက်ရန်တိစွ

၁။ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်သည် ပြည်တွင်းကုန်စည်စီးဆင်းမှုလုပ်ငန်းစဉ်နှင့် ပြည်ပလွှဲကုန် တိုးတက်တင်ပို့နိုင်ရေးအတွက် စီးပွားရေးလုပ်ငန်းရှင်များ လိုအပ်မည့်ငွေကြေးကို ပိုမိုမြည့်ဆည်းပေး နိုင်ရန်အတွက်လည်းကောင်း၊ ဘဏ်များမှပင်ငွေတိုးတက်ချိတ်ဆက်လည်းကောင်း၊ စက်ပစ္စည်းများ ကုန်ပစ္စည်းများနှင့် ကောက်ပဲသီးနှံများအား လက်ရောက်အပေါင် (Pledge)ရယူ၍ စီးပွားရေး လုပ်ငန်းရှင်များသို့ ဘဏ်များမှချေးငွေများထုတ်ချေးနိုင်ကြောင်း ညွှန်ကြားပါသည်။

၂။ ဟုဆိုပါချေးငွေထုတ်ချေးရာ၌ လိုက်နာဆောင်ရွက်ရမည့်အချက်များမှာ အောက်ပါအတိုင်း ဖြစ်ပါသည်-

- (က) ချေးငွေထုတ်ချေးရာတွင် စက်ပစ္စည်း၊ ကုန်ပစ္စည်းနှင့် ကောက်ပဲသီးနှံများအား လက်ရောက်အပေါင် (Pledge) လုပ်ထုံးလုပ်နည်းနှင့်အညီ ယင်းပစ္စည်းများကို လက်ရောက်ရယူပြီးမှသာ ထုတ်ချေးရန်၊
- (ခ) ချေးငွေအား စိုးရီးချေးငွေ (Loan) စနစ်ဖြင့် ထုတ်ချေးရန်၊
- (ဂ) အပေါင်ပေးအပ်သောပစ္စည်းများ ရာမြတ်တန်ဖိုး၏အများဆုံး(၆၀)ရာခိုင်နှုန်းအထိသာ ထုတ်ချေးရန်၊
- (ဃ) ချေးငွေပေါ် လုံလောက်သောအာမခံကို မြန်မာ့အာမခံလုပ်ငန်း၌ထားရှိရန်၊
- (င) မိမိဘဏ်အစီအစဉ်ဖြင့် ချေးငွေစစ်ဆေးသူ (Loan Inspector)နှင့် ရာမြတ်ကျွမ်းကျင်သူများကိုခန့်ထားရန်၊
- (စ) ချေးငွေသက်တမ်းသတ်မှတ်ရာတွင် လက်ရောက်အပေါင်ရယူသော စက်ပစ္စည်း၊ ကုန်ပစ္စည်းနှင့် ကောက်ပဲသီးနှံများ၏ပျက်စီးသွားနိုင်သည့်သက်တမ်းတို့အခြေခံ၍ မိမိ လက်ထပ်တွင် ပျက်စီးမှုမဖြစ်နိုင်သည့်ကာလအထိသာ ဘဏ်ခံရှိတ်တာအဖွဲ့မှဆုံးဖြတ် သတ်မှတ်ရန်၊

- (ဆ) ချေးငွေပြန်လည်ပေးဆပ်ရန်ပျက်ကွက်ပါက တရားစွဲဆိုရသည့်အဆင့်သို့မရောက်အောင် ဘဏ်မှ လက်ရောက်အပေါင်ရယူထားရှိသောအာမခံပစ္စည်းများအား တရားဥပဒေနှင့် အညီ ရောင်းချခွင့်ရရှိအောင်စာချုပ်ချုပ်ဆိုထားရန်၊
- (ဇ) အထက်အပိုင်း(ဆ)ပါအတိုင်း ချေးငွေနှင့်သက်ဆိုင်သောစာချုပ်စာတမ်းများ ချုပ်ဆိုရာ၌ ဥပဒေနှင့်အညီတံဆိပ်ခေါင်းကပ်ရန်၊
- (ဈ) ဘဏ်များမှ လစဉ်စာရင်းချုပ်အား မြန်မာနိုင်ငံတော် ဗဟိုဘဏ်သို့ ပူးတွဲပါပုံစံအတိုင်း တင်ပြရန်၊

၃။ သက်မွေးအနေဖြင့် လိုအပ်သောညွှန်ကြားချက်များ ထပ်ဆင့်ထုတ်ပြန်နိုင်သည်။


 (သိန်းဇော်)
 ညွှန်ကြားရေးမှူး

ဖြန့်ဝေခြင်း

ဘဏ်များအားလုံး

မိတ္ထီကို-

ဥက္ကဋ္ဌ၊ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်

ဒုတိယဥက္ကဋ္ဌ(နေပြည်တော်)၊ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်

ဒုတိယဥက္ကဋ္ဌ(ရန်ကုန်)၊ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်

ဦးဆောင်ညွှန်ကြားရေးမှူး၊ မြန်မာ့အာမခံလုပ်ငန်း

ဌာနကြီးမှူးများအားလုံး၊ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်

ညွှန်ကြားချက်စာတွဲ

(Attachment 1-4)

Unofficial translation

Central Bank of Myanmar

Internal Audit Inspection and Banking Institutions Supervision Department

Naypyitaw

Dated: 8th June 2012

Instruction No. (27)

Subject: Giving out loans over government treasury bonds considered as collateral

1. Under Myanmar's Financial Institutions By-law Section-21 Subsection (D), banks are allowed to give out loans upon the receipt of government treasury bonds as collateral as from 15th June, 2012. Banks are instructed to abide by the following procedures:

(A) Loans are to be given out as ordinary ones;

(B) Loans are to be made only after the bonds have been checked and inspected for ownership at the Central Bank, the Myanmar Economic Bank and the Myanmar Buying and Selling Centre of Money-Lending Bonds;

(C) Banks are asked to obtain the letter of proxy from the money borrower to withdraw interest for the bonds. Banks are asked to enter the interest in their temporary account for received money;

(D) Banks are asked to deduct the amount they got from (C) and to make the borrower pay more when the interest the borrower pays to the bank is not sufficient to cover overall interest;

(E) Banks are to proceed only when they get consensus reached in the meetings of the board of directors or executives if the money belongs to a company or an organization;

(F) Banks are asked to give out the loan worth up to 80% of the value of the bonds;

(G) The term of the loans is not to go beyond the validity date (Maturity Date) of the bonds;

(H) The board of directors of banks may decide on the amount of interest that does not go over the limit set by the Central Bank;

(I) In order to avoid lawsuits, banks are asked to keep the legal agreement letter that the borrower will transfer ownership of the bonds to the bank if he fails to return the loaned money;

(M) When calculating Capital Adequacy Ratio, 50% is to be set as the risk weight figure.

2. Banks are asked to give detailed instructions when necessary.

(Thein Zaw)

Director

To be distributed:

All Banks

Copies to be sent to:

Chairman, Central Bank of Myanmar

Vice Chairman (Naypyitaw), Central Bank of Myanmar

Vice Chairman (Yangon), Central Bank of Myanmar

All Heads of Departments, Central Bank of Myanmar

Instructions attached

မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်

ဘဏ်တွင်းစာရင်းစစ်နှင့်ဘဏ်လုပ်ငန်းများကြီးကြပ်စစ်ဆေးရေးဌာန

နေပြည်တော်

အထိမ်းအမှတ် -	၄၁၈၂၃၇
စက်(စ်) -	၄၁၈၂၃၇
	၄၁၈၂၃၇

ရက်စွဲ။ ၂၀၁၂ ခုနှစ်၊ ဇွန်လ ၇ ရက်

ညွှန်ကြားချက်အမှတ် (၂၇)

အကြောင်းအရာ။ အစိုးရငွေတိုက်စာချုပ်များအား အာမခံထား၍ ငွေထုတ်ချေးရန်ကိစ္စ

၁။ မြန်မာနိုင်ငံတော်ငွေရေးကြေးရေးအဖွဲ့အစည်းများဆိုင်ရာ နည်းဥပဒေခုဒ္ဒမ်-၂၁၊ ပုဒ်မခွဲ (ဃ)အရ အစိုးရငွေတိုက်စာချုပ်များအား အာမခံပစ္စည်းအဖြစ်ရယူ၍ ၂၀၅.၆.၂၀၁၂ ရက်နေ့မှ စတင်၍ ချေးငွေထုတ်ချေးခွင့်ပြုလိုက်သည်။ ချေးငွေထုတ်ချေးရာတွင် အောက်ဖော်ပြပါအတိုင်း လိုက်နာဆောင်ရွက်ရန် ညွှန်ကြားပါသည်-

- (က) ချေးငွေအား ချီးမြှင့်ချေးငွေ (Loan) စနစ်ဖြင့် ထုတ်ချေးရန်၊ ...
- (ခ) ငွေချေးသက်သေခံလက်မှတ်များအား မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်၊ မြန်မာ့စီးပွားရေးဘဏ်နှင့် မြန်မာ့ငွေချေးသက်သေခံလက်မှတ်ရောင်းဝယ်ရေးဌာနတို့တွင် စိစစ်ပြီး ပိုင်ဆိုင်မှုကင်းရှင်းမှသာ ချေးငွေထုတ်ချေးရန်၊
- (ဂ) ငွေချေးသက်သေခံလက်မှတ်ပေါ်မှရရှိမည့် အတိုးရငွေအား ထုတ်ယူရန်အတွက် ငွေချေးသူထံမှ တိုက်စားလွယ်လွှဲစာ ရယူထားပြီး၊ အတိုးငွေရရှိပါက ဘဏ်၏ယာယီ ရငွေစာရင်း၌ရေးသွင်းရန်၊
- (ဃ) ငွေချေးသူမှပေးသွင်းရမည့် ချေးငွေပေါ် အတိုးကျသင့်ငွေအား အထက်အပိုဒ်(ဂ) အရရရှိထားသောငွေဖြင့် ချွန်မိရန်နှင့် လုံလောက်မှုမရှိပါက ထပ်မံပေးသွင်းစေရန်၊
- (င) ကုမ္ပဏီနှင့်အဖွဲ့အစည်းပိုင်ငွေများဖြစ်ပါက ကုမ္ပဏီနှင့်အဖွဲ့အစည်းတို့၏ ဒါရိုက်တာ အဖွဲ့နှင့်အမှုဆောင်အဖွဲ့အစည်းအဝေးတို့မှ သဘောတူဆုံးဖြတ်သည့် အစည်းအဝေး ဆုံးဖြတ်ချက်ရယူပြီးမှဆောင်ရွက်ရန်၊
- (စ) ငွေချေးသက်သေခံလက်မှတ်တန်ဖိုး၏ ၈၀% အထိသာအများဆုံးထုတ်ချေးရန်၊
- (ဆ) ထုတ်ချေးမည့်ငွေ၏သက်တမ်းအား အပေါင်ထားမည့်ငွေချေးသက်သေခံလက်မှတ် များ၏သက်တမ်းကုန်ဆုံးမည့်ရက် (Maturity Date)ထက်ကျော်လွန်မှုမရှိစေရန်၊

(Attachment 1-5)

Unofficial translation

Central Bank of Myanmar

Internal Audit Inspection and Banking Institutions Supervision Department

Naypyitaw

Dated: 27th December, 2011

Instruction No. (24)

Subject: Giving out loans upon acceptance of bank deposits as security

1. In compliance with Myanmar's Financial Institutions By-law Section 21, Subsection (A), private banks are instructed to observe the following in giving out loans upon acceptance of bank deposits as security

(A) Banks are to handle only saving deposits, saving certificates and fixed deposits which they deal with at their own banks and not to handle deposits at other banks

(B) Loans are to be issued as ordinary

(C) Fixed deposit accounts that are intended for minors are not to be considered

(D) Banks are instructed to get approval reached in the meeting of the board of directors if the money belongs to a company

(E) The maximum loan amount is to be up to 80% of the deposit balance

2. When necessary, banks are allowed to issue further instructions.

Signature
(Thein Zaw)
Director

To be distributed:
All private banks

Copies to:

Chairman, Central Bank of Myanmar

Vice Chairman, Central Bank of Myanmar

Vice Chairman (Yangon Branch), Central Bank of Myanmar

All heads of departments, Central Bank of Myanmar

} Submitted for awareness

Instructions attached

Original document of Attachment 1-5

<div style="border: 1px solid black; padding: 2px; font-size: 0.8em;">ထက်ကြီးစာရင်း အမှတ် ၂၇၇ ၂၀၁၈-၂၀၁၉ ခုနှစ်</div>	<h2 style="margin: 0;">ပြန်မာနိုင်ငံတော်ဗဟိုဘဏ်</h2> <h3 style="margin: 0;">ဘဏ်တွင်းစာရင်းစစ်နှင့်ဘဏ်လုပ်ငန်းများကြီးကြပ်စစ်ဆေးရေးဌာန</h3> <h4 style="margin: 0;">နေပြည်တော်</h4> <p style="text-align: right; margin: 0;">ရက်စွဲ၊ ၂၀၁၁ ခုနှစ်၊ ဒီဇင်ဘာလ ၁၇ ရက်</p> <h3 style="margin: 0;">ညွှန်ကြားချက်အမှတ် (၂၄)</h3>
<p>အကြောင်းအရာ။ ဘဏ်အပ်ငွေများအား အာမခံအဖြစ်ရယူ၍ ချေးငွေထုတ်ချေးခွင့်ပြုသည့်စံစူ</p> <p>သ၊ ပြန်မာနိုင်ငံတော်ငွေရေးကြေးရေးအဖွဲ့အစည်းများဆိုင်ရာနည်းဥပဒေပုဒ်မ ၂၁၊ ပုဒ်မခွဲ (က) အရ ဗဟိုဘဏ်ဘဏ်များအနေဖြင့် ဘဏ်အပ်ငွေများအား အာမခံအဖြစ်ရယူ၍ ချေးငွေထုတ်ချေးခြင်း စာတွက် အောက်ဖော်ပြပါစာတိုင်း လိုက်နာဆောင်ရွက်ရန် ညွှန်ကြားလိုက်ပါသည်။</p> <ul style="list-style-type: none">(က) မိမိဘဏ်တွင်အပ်ထားသော ငွေစုဘဏ်အပ်ငွေ၊ ငွေစုလက်မှတ်နှင့် စာရင်းသေ အပ်ငွေများမှတစ်ပါး အခြားဘဏ်ရှိအပ်ငွေများကို လက်ခံဆောင်ရွက်ခြင်းမပြုရန်၊(ခ) ချေးငွေအား ရှိုးရိုးချေးငွေ (Loan) စနစ်ဖြင့် ထုတ်ချေးရန်၊(ဂ) အရွယ်မရောက်သေးသူများ (Minor) စာတွက်ဖွင့်လှစ်ထားသော စာရင်းသေအပ်ငွေများ ကိုလက်ခံဆောင်ရွက်ခြင်းမပြုရန်၊(ဃ) ကုမ္ပဏီပိုင်ငွေများဖြစ်ပါက ရင်းကုမ္ပဏီ၏မိမိရိုက်တာအဖွဲ့မှ သဘောတူဆုံးဖြတ်သည့် အစည်းအဝေးမှတ်တမ်းရယူပြီးမှဆောင်ရွက်ရန်၊(င) အများဆုံးခွင့်ပြုနိုင်သည့် ချေးငွေပမာဏကို အပ်ငွေလက်ကုန်၏(၈၀%)အထိသာခွင့်ပြုရန်၊ <p>။ ဘဏ်များအနေဖြင့် လိုအပ်ပါကအသေးစိတ်ညွှန်ကြားချက်များထပ်ဆင့်ထုတ်ပြန်ဆောင်ရွက်ရန် ညွှန်ကြားပါသည်။</p>	

(Attachment 1-6)

Unofficial translation

Central Bank of Myanmar

Internal Audit Inspection and Banking Institutions Supervision Department

Yangon

Dated: 12th January, 1995

Instruction No. (5)

Subject: Capital Adequacy

In compliance with Myanmar's Financial Institutions Law Section 31 (A) and (B), Central Bank of Myanmar has set the design of calculations applicable to each category of receivables as shown in the attached form.

Accordingly, banks are instructed to send monthly calculated accounts concerned, using the attached form, to the Central Bank of Myanmar as of January, 1995.

By order,
Signature
(Myat Kyaw)
Director
Signature

မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်
ဘဏ်စာရင်းစာရင်းစစ် နှင့် ဘဏ်လုပ်ငန်းများကြီးကြပ်စစ်ဆေးရေး ဌာန
ချုပ်ကိုင်သူ

ရက်စွဲ: ၁၉၉၅ ခုနှစ်၊ ဇန်နဝါရီလ (၁၂) ရက်။

အကြောင်း အကျဉ်းချုပ် - (၅)

အကြောင်း အကျဉ်းချုပ် ။ မတည်ငြေငြင်း လုံလောက်မှုရှိရေး ကိစ္စ။

မြန်မာနိုင်ငံတော်ငွေရေးကြေးရေး အဖွဲ့အစည်း များ၌ပင် အစ
ပုဒ်မ ၃၁(က) နှင့် (ခ) ကိုအရ မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်သည် ဂရုစိုက်စွာ
အမျိုးအစား အလိုက်အဆင့် ပြုလုပ်၍ ဖြေဆိုကိုင်စား ဖန်တီး များ နှင့် ဘဏ်ချက်နည်း ဖြစ်
ပုံ ပုံစံပုံစံစွာ မြေပြင်အား သတ်မှတ်ပေးသည့် အား သတ်မှတ်လိုက်ပါသည်။

ထို့ဖြစ်ပါက များသည် ၁၉၉၅ ခုနှစ်၊ ဇန်နဝါရီလမှစ၍ပူးတွဲ
ပုံစံအတိုင်း မြန်မာနိုင်ငံတော်ဗဟိုဘဏ်၏ သတ်မှတ်သည့်စာရင်း များ ဖြစ်လာစေပေး
လိုအပ်ကြပါသည်။

အ ဖိုဒ် အ ရ

(Attachment 1-7)

Unofficial translation
Central Bank of Myanmar
Naypyitaw

Dated: 2nd August, 2013

Instruction No. (2/2013)

Subject: Permission of mid-term and long term loans in addition to short term ones

Reference: (1) Instruction No. (1/2008) dated (30th December 2008) of the Banks Supervision Committee. (2) Ba Kha- 1/300 (3797/2013) dated (12th July 2013) of the Ministry of Finance

Regarding the subject mentioned above, the following amendments, with the permission of the reference (2) of the Ministry of Finance, have been made to the instruction No. (1/2008) in reference (1) of the Banks Supervision Committee of the Ministry of Finance that banks are not allowed to give out long term loans over short term deposits.

(1) Under the 1990 Myanmar Financial Institutions Law Section-25 Sub-section (a), banks are allowed to do borrowing or raising of money. Getting funds from these activities, banks are allowed to give out long term loans based on the term or period of those funds.

(2) Banks are to issue long term loans compatible with the term or period of long term deposits.

(3) Banks are to acquire permission of the Central Bank in issuing long term loans.

Chairman (by proxy)
(Maung Maung, Director General)

To be distributed:

All banks

Copies to:

Minister's Office, Ministry of Finance

Chairman's Office, Central Bank of Myanmar

Vice Chairmans, Central Bank of Myanmar

Director Generals , Central Bank of Myanmar

Managing Director, Myanmar Economic Bank

Managing Director, Myanmar Foreign Trade Bank

Managing Director, Myanmar Investment and Commercial Bank

All heads of departments, Central Bank of Myanmar

Instructions attached

(Attachment 1-8)

Unofficial translation

Central Bank of Myanmar

Internal Audit Inspection and Banking Institutions Supervision Department

Naypyitaw

Dated: 21st October, 2011

Instruction No. (23)

Subject: Execution of Hire Purchase System

1. Central Bank of Myanmar, with the intention of raising the living standards of the people, helping banks earn more income and supporting the country to become more economically developed, hereby permits banks to initiate Hire Purchase System for movable and immovable articles for their customers.
2. The following instructions are to be followed in carrying out Hire Purchase System:
 - (a) The board of the directors of the bank must decide on articles for hire purchasing
 - (b) Hiring fees should not be more than 15% per year
 - (c) The board of the directors of the bank must decide on the forms of the down payment and installment
 - (d) Service charge must not be more than 1% of the value of the hired article
 - (e) Sale commission must be 1% of the value of the hired article
 - (f) If the customer makes an installment later than the 5th of the month, late fees must be collected based on the calculation of the yearly 15 %
 - (g) The bank must sign legal agreements with the customer to be able to legally confiscate the hired article in case he fails to make installment
 - (h) The bank must follow legal procedures in signing contracts related to Hire Purchase System
 - (i) The bank must have hired articles insured sufficiently based on their type
3. All banks are to issue further necessary detailed instructions.

By order
(Thein Zaw)
Director

To be distributed:

All banks

Copies to:

1. Chairman, Central Bank of Myanmar
2. Vice Chairman, Central Bank of Myanmar
3. Vice Chairman (Yangon), Central Bank of Myanmar
4. All heads of departments, Central Bank of Myanmar
5. Instructions attached

Appendix 2: Environmental Assessment Procedures and Checklist for ESMS of PFIs
(Attachment 2-1)

Environmental Impact Assessment (EIA) is required for projects that are judged to have significant adverse environmental impacts. For the following categorized projects, EIA shall be conducted.

Table 2: EIA Required Project (Schedule II)

No.	TYPE OF ACTIVITY	SIZE
I	AGRICULTURE	
	<ol style="list-style-type: none"> 1. [Land development scheme for agricultural production] 2. [Plantations] 3. [Cash Crop farms] 4. [Agricultural programme necessitating the resettlement] 	<ul style="list-style-type: none"> - [an area of 1250 acres (500 ha) or more] - [1250 acres (5000 ha) / annum and above] - [50000 acres (20000 ha) / annum and above] - [100 families or more]
II	ENERGY	
	<ol style="list-style-type: none"> 1. Electricity generating stations: diesel, gas, steam, and combined cycle 2. Hydroelectric generating scheme except mini-hydro and electric current type 3. Geothermal electricity generating stations 4. Other types of electricity generating stations 5. Transmission lines 6. Oil and gas exploitation 	<ul style="list-style-type: none"> - [5 MW and above] - [As determined by EE] - [55 MW and above] - [5 MW and above] - [150 KV and above] - [all projects]
III	FISHERIES	
	<ol style="list-style-type: none"> 1. Shrimp and fish culture 2. Processing Plant 3. Fish meal plant 	<ul style="list-style-type: none"> - [100 Acres and above] - [more than 5 metric ton/ day] - [more than 5 metric ton/ day]
IV	FORESTRY	
	<ol style="list-style-type: none"> 1. [Safari Park construction] 2. [Zoo construction] 3. [Industrial forest concession] 4. [(a) Conversion of hill land to other land use (b) Logging] 5. [Any scheme causing degradation of forest land] 6. [Large Size Wood Based Industries] 7. [Integrated plywood industries] 	<ul style="list-style-type: none"> - [625 acres (250 ha) and above] - [250 acres (100 ha) and above] - [all sizes] - [25 acres (10 ha) and above] - [650 acres (250 ha) and above] - Prohibited - [annual throughput logs over 20.000 hoppus tones] - [all sizes]
V	HEALTH	
	<ol style="list-style-type: none"> 1. Construction of hospitals including general and communicable disease 	<ul style="list-style-type: none"> - [all sizes]
VI	INDUSTRY	

No.	TYPE OF ACTIVITY	SIZE
	<ol style="list-style-type: none"> 1. Metallic mineral to acid industry 2. Chemical Industries <ol style="list-style-type: none"> a) using toxic chemicals in the process b) producing toxic products c) using non-toxic products 3. Petrochemical works 4. Minerals based industry <ol style="list-style-type: none"> a) Cement b) Lime (rotary kiln) c) Lime (vertical kiln) d) Brick and the manufacturing e) Asbestos industries f) Radioactive related industries 5. Iron and Steel industries <ol style="list-style-type: none"> a) Iron ore as raw material b) Scrap iron as raw material c) Ship building 6. Pulp and Paper industries <ol style="list-style-type: none"> a) Iron ore as raw material b) raw material other than wood 7. Construction of Industrial estates 8. Leather and textile industries <ol style="list-style-type: none"> a) Leather training b) Textile industries with dyeing facilities c) Carpet manufacturing 9. Food industries <ol style="list-style-type: none"> a) Abattoirs b) Brewery and distillery works c) Foodstuff preparation works d) Fish and seafood preparation works 10. Hazardous Waste industries <ol style="list-style-type: none"> a) Construction of recovery plan b) Construction of secure landfill facility c) Construction of storage facility d) Construction of wastewater treatment e) Construction of incineration plants 11. Production of Explosives and Munitions 	<ul style="list-style-type: none"> - [all sizes] - [all sizes] - [all sizes] - [10 tons / day and above] - [all size] - [15 tons / hour and above] - [10 tons / day and above] - [50 tons / day and above] - [more than 10 million pieces/year] - [all sizes] - [all sizes] - [100 tons/day and above] - [200 tons/day and above] - 3,000 DWT and above - [50 tons / day and above] - [50 tons / day and above] - [all sizes] - [all sizes over the IEE threshold] - [all sizes over the IEE threshold /year] - [all sizes over the IEE threshold] - [100 animals heads / day and above over 25000 litters /day] - [240 sq. yards (200 sq. meters) and above] - [240 sq. yards (200 sq. meters) and above] - [all sizes] - [all sizes] - [all sizes] - [all sizes] - [all sizes] - [all sizes] - [all sizes]
VII	INFRASTRUCTURE	
	<ol style="list-style-type: none"> 1. Construction of Highways and fly-overs 2. Ports Development 3. Construction of subways 4. Construction of Bridges 5. Construction of Shipyards 6. Construction of Airports 7. Construction of Railways including Construction of new routes 8. Solid waste and sewerage management system <ol style="list-style-type: none"> a) Garbage disposal using incineration b) Garbage disposal using controlled landfill or sanitary landfill system 	<ul style="list-style-type: none"> - [all projects if recommended by IEE] - [all projects if recommended by IEE] - [all projects if recommended by IEE] - [more than 200 feet - [dead weight tonnages greater than 5000 tons] - [airstrips of 8200 feet (2500 meters) or longer] - [All projects if recommended by IEE] - [2000 acres (800 ha) and above] - [2000 acres (800 ha) and above]

No.	TYPE OF ACTIVITY	SIZE
	c) Garbage disposal using open dumping systems d) Municipal sewerage management i) Construction of wastewater treatment facilities in urban areas ii) Construction of sewerage systems 9. Public housing and settlement construction 10. Construction of multi-stories and apartment building 11. Construction of multi-purpose reservoirs a) Construction of medium dams b) Construction of high dams 12. Groundwater development for industrial, agricultural and water supply 13. Water supply schemes	- [32 tons / acre or 80 tons / ha and above] - [125 acres (50 ha) and above] - [Service area 6250 acres (2500 ha) and above] - [more than 500 acres (200 ha)] - [height more than 65 yards (60 meters)] - [height between 50 feet (15 m) to 100 feet (30 m) covering an irrigable area of 100,000 acres or more] - [height of 100 feet (30 m) or more together with hydropower generation or town water supply of any size] - [more than 160,000 cubic feet (4500 cubic meters)] - [for a population of 50000 or more]
VIII	MINING	
	1. All large Scale Mineral Production (Extraction) and Processing Activities	- [12.5 acres (5 ha) and above]
IX	RESORT AND RECRATIONAL DEVELOPMENT	
	1. Hotels 2. Recreational Park 3. Tourism resort area or estate	- [200 rooms or area of 125 acres (50 ha) and above] - [250 acres (100 ha) and above] - [250 acres (100 ha) and above]
X	TRADE	
	1. Trading and shopping centers	- [12.5 acres (5 ha) and above or building area 2.5 acres (10,000 m2) and above]

Source: Environmental Assessment Procedures (Draft)

(Attachment 2-2)

Table 3: Environmentally, Ecologically and Socio-culturally Sensitive Area (Schedule III)

No.	Sensitive Areas
1.	Areas of unique historical, cultural, archaeological, scientific or geographical significance
2.	Wetlands
3.	Ecologically fragile area
4.	National parks, wildlife sanctuaries and protected areas
5.	Wilderness areas containing rare or endangered species of flora or fauna and their habitat
6.	Areas susceptible to natural hazards
7.	Major sources of public drinking water
8.	Areas surrounding lakes and reservoirs
9.	Resort areas and areas closed to oyster fishing and pearl farms areas
10.	Flooded of flood plain on other or other hazardous zones

Note : These areas should not be included in any investment project and reasonable distance should be ensured from the project area.

Source: Environmental Assessment Procedures (Draft)

(Attachment 2-3)

Table 1: IEE Required Project (Schedule I)

No.	TYPE OF ACTIVITY	SIZE
I	AGRICULTURE	
	<ol style="list-style-type: none"> 1. Project using pesticides and industrial chemicals listed as persistent organic pollutants by United Nations Food and Agriculture Organization (FAO) / United Nations Environment Programme (UNEP). 2. Project using industrial chemicals and pesticides listed in Prior Informed Consent procedure of United Nations Food and Agriculture Organization (FAO) / United Nations Environment Programme (UNEP) 3. Projects involving introduction of exotic species including modified organism 4. Small scale irrigation and drainage / reclamation scheme <ol style="list-style-type: none"> a) Small scale irrigation scheme b) Small scale drainage / reclamation scheme 5. Pump Irrigation Project <ol style="list-style-type: none"> a) Underground water b) Surface water (river, creek, lake, etc.) 	<ul style="list-style-type: none"> - [all sizes] - [all sizes] - [all sizes] -[an irrigable area of 100 acres (400 ha) or more with dams under 50 feet (15m) high] - [an area involving of 1000 acres (400 ha) or more] - [all projects over 30 meters depth of wells] - [all sizes]
II	ENERGY	
	<ol style="list-style-type: none"> 1. Electricity generation scheme 2. Hydroelectric power generating scheme 	<ul style="list-style-type: none"> - [more than 2MW and less than 5MW] - All Sizes
III	FORESTRY	
	<ol style="list-style-type: none"> 1. Introduction of the exotic species including genetic modified organism 2. Infrastructural Development of parks including national parks, nature reserves, marine parks, wildlife sanctuaries, biosphere reserves, etc. 3. Medium Size Wood Based Industries 	<ul style="list-style-type: none"> - [any number] - [more than 250 acres (100 ha)] - [annual throughput logs 3000 to 20000 hoppus tones]
IV	INFRASTRUCTURE	
	<ol style="list-style-type: none"> 1. Water supply schemes 2. Housing development scheme 3. River Training Works 4. Municipal solid Waste and municipal 	<ul style="list-style-type: none"> - [for a population of more than 20000 and less than 50000] - More than 250 acres (100 ha) and less than 500 acres (200 ha) - [all projects] - for a population of 10000 or

No.	TYPE OF ACTIVITY	SIZE
	sewerage management system 5. Construction of Bridges 6. port development	more - [more than 50 feet and less than 200 feet] - [all projects]
V	INDUSTRY	
	1. Chemical industries Non-ferrous metal industries (for lead and others) 2. Non-metallic industries a) Cement b) Lime factories (rotary kiln) c) Line factories (vertical kiln) 3. Pulp and Paper industries a) Wood based raw material b) raw material other than wood 4. Leather and textile industries a) Leather tanning b) Textile industries c) Carpet industry 5. Food Industries a) Abattoirs b) Brewery and distillery works which include infusion , boiling an fermentation 6. Pharmaceutical and Soap Factories 7. Cottage industries along the river banks	- [less than 10 tons / day] - Primary smelting capacity - Less Than 10 tons / day - [less Than 10 tons / day] - [less Than 10 tons / day] - [less Than 50 tons / day] - [more than 25 tons and less than 50 tons / day] - [more than 25 tons and less than 50 tons / day] - [more than 5,000 sq feet 500 sq meters and less than 10, 000 sq feet (1000 sq meters) / year] - [all machine made and dyeing projects] - [more than 50 tons and less than 100 animal heads/ day] - [less than 25,000 liters / day] - [all sizes] - [all sizes]
VI	LIVESTOCK AND FISHERIES	
	1. Livestock breeding a) cattle b) buffalo c) sheep and goat d) pig e) fowl f) duck 2. Aquaculture farming a) Shrimp farming b) Fish farming c) crocodile breeding 3. Aquaculture Hatchery a) Shrimp hatchery b) Fish hatchery 4. Proceession plant 5. Fish meal plant 6. Introduction of exotic species	- [all size over 100 heads] - [all size over 50 heads] - [all size over 100 heads] - [all size over 100 heads] - [all size over 500 heads] - [all size over 500 heads] - [20 Acres - 100 Acres] - [50 Acres - 100 Acres] - [all sizes] - [10 million pl / day] - [10 million pl / day] - [less than 5 metric ton / day] - [less than 5 metric ton / day] - [all projects]
VII	MINING	

No.	TYPE OF ACTIVITY	SIZE
	1. All Mineral Production (Extraction) and Processing Activities	- [less than 12.5 acres (5 ha)]
VIII	TOURISM	
	1. Inland River Tourism Development Project	- [all projects]

Source: Environmental Assessment Procedures (Draft)

(Attachment 2-4)

Checklist for Environmental and Social Management System (ESMS) of Financial Intermediary/Executing Agency

PFI Name : SMIDB

Date of Interview: 10/21/2013

Personnel SMIDB: Than Tun (Dr.) Chairman, Small & Medium Industrial Development Bank (SMIDB)

Tin Maung Htay (Mr.) Managing Director

Daw Kyi Tha Maw (Ms.) Deputy General Manager

Consultant Team: Kondo, Azeta, Sato, Takahashi, Sasaka

No.	Questions (English)	Answer	Improvement Plan
1 . Environmental Policy			
(1)	Does the financial intermediary/executing agency have any formal environmental policy or procedures ? If yes, please describe them and provide appropriate documentation. If no, does the financial intermediary/executing agency have any plan to set such policy or procedures?	No Activity on CSR exists, but which does not include environmental management issues currently.	We are ready to follow JICA's guidance and framework.
(2)	Are there any types of projects in which the financial intermediary/executing agency will not take part due to the environmental risks ? (e.g., projects involving handling of hazardous wastes or endangered plants or animals).	No	Ditto.
2 . Procedures for Environmental and Social Considerations			
(3)	Does the financial intermediary/executing agency have any environmental procedures such as screening, categorization and environmental review ? If yes, please describe.	No	Ditto.
(4)	Please describe how you ensure that your subproject companies and their subprojects are operated in compliance with the national laws and regulations and applicable JICA' s requirements.	N.A.	Ditto.

(5)	How are environmental considerations taken into account in the credit review and approval process for project loans or equity investments? (For financial intermediary only)	Not yet	Ditto.
(6)	How are environmental issues taken into account in deciding whether to offer or extend commercial credit, working capital finance, trade finance, payment services and other financial services to a company? (For financial intermediary only)	Not done	Ditto.
3 . Organization and Staff for ESMS			
(7)	Please provide us with the organization chart of the financial intermediary/executing agency ' s Environmental and Social Management System (ESMS) .	No ESMS	Ditto.
(8)	Who is responsible for environmental and social management within the financial intermediary/executing agency? (name/role and title)	No one	Ditto.
(9)	Are there any staff with training for environmental and social considerations in the financial intermediary/executing agency? If so, describe.	No	Appropriate staff will be assigned in the Administration Department, when necessary.
(10)	Are there any technical staff with an engineering/industry background responsible for technical analysis of credit proposals?	No	Ditto.
(11)	What experience , if any, does the financial intermediary/executing agency have of hiring or dealing with environmental consultants ?	No experience	Ditto.
(12)	What was the budget allocated to the ESMS and its implementation during a year? Please provide budget details including staff costs and training as well as any actual costs.	No budget	Ditto.
4 . Monitoring and Reporting			
(13)	Do you receive environmental and social monitoring reports from subproject companies that you finance?	No	Ditto.
(14)	Please describe how you monitor the subproject company and their subprojects' social and environmental performance.	N.A.	Ditto.

(15)	Is there an internal process to report on social and environmental issues to senior management?	No	Ditto.
(16)	Do you prepare any social and environmental reports: - For other multilateral agencies or other stakeholders - E&S reporting in the Annual Report	No	Ditto.
5 . Experience			
(17)	Has the financial intermediary/executing agency signed any national or international agreements or declarations concerning environmental issues?	No	Ditto.
(18)	Has the financial intermediary/executing agency ever received any criticism of its environmental record ? If so, what was the criticism?	No	Ditto.
(19)	Does the financial intermediary/executing agency carry out environmental audits of its properties to analyze health and safety issues, waste disposal, etc.?	No	Ditto.
(20)	Please state any difficulties and/or constraints related to the implementation of the ESMS.	N.A.	Ditto.
6 . Need of Capacity Development and Improvement Plan			
Environmental assessment and ESMS are new subjects for the pertinent organization. Capacity building and training are definitely in need.			

(Attachment 2-5)

Checklist for Environmental and Social Management System (ESMS) of Financial Intermediary/Executing Agency

PFI Name : MCB

Date of Interview: 10/25/2013

Personnel MCB: U Myint Win (Mr) Managing Director, Myanmar Citizens Bank Limited (MCB)

Myo Myint Aung (Mr) Senior General Manager / Hla Win (Mr) Deputy G.M. (IT&Card Dep.)

Me Me Kyaw (Ms) Deputy G.M. (SME Financing Dep.) / Daw Swe Swe Myint (Ms) Deputy G.M.

Consultant Team: Kondo, Azeta, Sato, Takahashi, Sasaka

No.	Questions (English)	Answer	Improvement Plan
1. Environmental Policy			
(1)	Does the financial intermediary/executing agency have any formal environmental policy or procedures ? If yes, please describe them and provide appropriate documentation. If no, does the financial intermediary/executing agency have any plan to set such policy or procedures?	No We do not have independent environmental policy. We are following the directions of CBM.	We are ready to follow the regulatory framework of Myanmar and JICA's guidance.
(2)	Are there any types of projects in which the financial intermediary/executing agency will not take part due to the environmental risks ? (e.g., projects involving handling of hazardous wastes or endangered plants or animals).	No We understand that MOI, DOF of MOECFA, MOH and other related ministries are checking the risks in issuing business licenses. We are checking their validity in credit review.	Ditto.
2. Procedures for Environmental and Social Considerations			
(3)	Does the financial intermediary/executing agency have any environmental procedures such as screening, categorization and environmental review ? If yes, please describe.	No	Ditto.
(4)	Please describe how you ensure that your subproject companies and their subprojects are operated in compliance with the national laws	No By checking business licenses	Ditto.

	and regulations and applicable JICA' s requirements.	from related ministries.	
(5)	How are environmental considerations taken into account in the credit review and approval process for project loans or equity investments? (For financial intermediary only)	No	Ditto.
(6)	How are environmental issues taken into account in deciding whether to offer or extend commercial credit, working capital finance, trade finance, payment services and other financial services to a company? (For financial intermediary only)	No	Ditto.
3 . Organization and Staff for ESMS			
(7)	Please provide us with the organization chart of the financial intermediary/executing agency' s Environmental and Social Management System (ESMS) .	No	Ditto.
(8)	Who is responsible for environmental and social management within the financial intermediary/executing agency? (name/role and title)	No	One of our senior managers will be assigned for the task.
(9)	Are there any staff with training for environmental and social considerations in the financial intermediary/executing agency? If so, describe.	No	Ditto.
(10)	Are there any technical staff with an engineering/industry background responsible for technical analysis of credit proposals?	No	We are recruiting three types of technical staffs, that are with 1)Certificate (high school engineering course), 2)Diploma (3yr college) and 3) Engineering Degree (6 yr higher education).
(11)	What experience , if any, does the financial intermediary/executing agency have of hiring or dealing with environmental consultants ?	No	We are ready to follow JICA's guidance.
(12)	What was the budget allocated to the ESMS and its implementation	No	Ditto.

	during a year? Please provide budget details including staff costs and training as well as any actual costs.		We intend to allocate budget if required in TSL scheme.
4 . Monitoring and Reporting			
(13)	Do you receive environmental and social monitoring reports from subproject companies that you finance?	No	Ditto.
(14)	Please describe how you monitor the subproject company and their subprojects' social and environmental performance.	No	Ditto.
(15)	Is there an internal process to report on social and environmental issues to senior management?	No	Ditto.
(16)	Do you prepare any social and environmental reports: - For other multilateral agencies or other stakeholders - E&S reporting in the Annual Report	No	Ditto.
5 . Experience			
(17)	Has the financial intermediary/executing agency signed any national or international agreements or declarations concerning environmental issues?	No	Ditto.
(18)	Has the financial intermediary/executing agency ever received any criticism of its environmental record ? If so, what was the criticism?	No	Ditto.
(19)	Does the financial intermediary/executing agency carry out environmental audits of its properties to analyze health and safety issues, waste disposal, etc.?	No	Ditto.
(20)	Please state any difficulties and/or constraints related to the implementation of the ESMS.	No	Ditto.
6 . Need of Capacity Development and Improvement Plan			
Any seminar or training workshop on MOECAP IEE/EIA scheduling tables and related JICA Guidelines and tools are necessary for our senior manager in charge and staffs before implementation of the project.			

(Attachment 2-6)

Checklist for Environmental and Social Management System (ESMS) of Financial Intermediary/Executing Agency

PFI Name : KBZ

Date of Interview: 10/21/2013

Personnel KBZ: U Myint Thauang (Mr.) Deputy Managing Director, KBZ Bank
 Than Than Win (Ms.) Deputy General Manager, Loans Department
 Takuya Tsuji (Mr.) Senior General Manager, International Relations Department

Consultant Team: Kondo, Azeta, Sato, Takahashi, Sasaka

No.	Questions (English)	Answer	Improvement Plan
1. Environmental Policy			
(1)	Does the financial intermediary/executing agency have any formal environmental policy or procedures ? If yes, please describe them and provide appropriate documentation. If no, does the financial intermediary/executing agency have any plan to set such policy or procedures?	No	With an initiative of Central Bank of Myanmar (CBM), the commercial banks can take action in that direction.
(2)	Are there any types of projects in which the financial intermediary/executing agency will not take part due to the environmental risks ? (e.g., projects involving handling of hazardous wastes or endangered plants or animals).	No	No concrete idea. Will follow JICA framework. So, JICA team will provide the checklist based on MOECAP's IEE/EIA projects list (draft).
2. Procedures for Environmental and Social Considerations			
(3)	Does the financial intermediary/executing agency have any environmental procedures such as screening, categorization and environmental review ? If yes, please describe.	No	Screening of projects can be conducted with the checklist above (refer to (2)).
(4)	Please describe how you ensure that your subproject companies and their subprojects are operated in compliance with the national laws and regulations and applicable JICA' s requirements.	Documents like tax payment, property registration with township authority, no harmful or adverse	Make sure not to accept in TSL projects with possibly

		criminal record of police are checked but no environmental ones.	environmental and social impacts, through the screening above. If EIA procedure, which is now in preparation by MOECAP, is legislated, the enforcement will be the duty of MOECAP.
(5)	How are environmental considerations taken into account in the credit review and approval process for project loans or equity investments? (For financial intermediary only)	Not yet.	Ditto. (Refer to 2, 3 and 4)
(6)	How are environmental issues taken into account in deciding whether to offer or extend commercial credit, working capital finance, trade finance, payment services and other financial services to a company? (For financial intermediary only)	Private company like airlines co. may be related with this issue through ISO or European Environmental Standard Codes. But banks in Myanmar so far not.	Ditto. (Refer to 2, 3 and 4) DISI of MOI and FDA of MOH and Townships conduct regular monitoring on business permit, water quality analysis, boiler check or food sanitary check to update the certificate once or twice every year respectively. Those documents check by PFIs will help the process.
3. Organization and Staff for ESMS			
(7)	Please provide us with the organization chart of the financial intermediary/executing agency', s Environmental and Social Management System (ESMS) .	No unit charged with ESMS in KBZ head office. But Bright Future, affiliate of KBZ, has a unit coping with CSR issues.	Person charged with the ESMS issue can be assigned in the Chairman Office, if necessary in TSL scheme.
(8)	Who is responsible for environmental and social management within the financial intermediary/executing agency? (name/role and title)	No person in charge of the issue	The matter will be decided by the Board of Directors.
(9)	Are there any staff with training for environmental and social considerations in the financial intermediary/executing agency? If so,	No	Appropriate staff will be trained in relevant workshops

	describe.			or seminars. JICA's help will be appreciated.
(10)	Are there any technical staff with an engineering/industry background responsible for technical analysis of credit proposals?	Have staff with civil engineering background, working for property evaluation, but not for environmental review.		Will be considered in the Board of Directors, if necessary.
(11)	What experience , if any, does the financial intermediary/executing agency have of hiring or dealing with environmental consultants ?	No		JICA's help will be appreciated.
(12)	What was the budget allocated to the ESMS and its implementation during a year? Please provide budget details including staff costs and training as well as any actual costs.	No budget allocated		Currently N.A. with the issue. Directives of environmental policy will be required, which follows CBM's initiative and the decision by the Board of Directors.
4 . Monitoring and Reporting				
(13)	Do you receive environmental and social monitoring reports from subproject companies that you finance?	No		N.A. (The country is not on that stage yet.)
(14)	Please describe how you monitor the subproject company and their subprojects' social and environmental performance.	Not monitoring		Same approach on measures that are stated in (6) above can possibly be taken.
(15)	Is there an internal process to report on social and environmental issues to senior management?	No		It will be established after environmental policy is prepared.
(16)	Do you prepare any social and environmental reports: - For other multilateral agencies or other stakeholders - E&S reporting in the Annual Report	No Not issuing any annual report except the accounting report.		Currently no concrete plan. If annual reporting become common in the society, it can be considered.
5 . Experience				
(17)	Has the financial intermediary/executing agency signed any national	No		Currently N.A.

	or international agreements or declarations concerning environmental issues?		
(18)	Has the financial intermediary/executing agency ever received any criticism of its environmental record? If so, what was the criticism?	Not any on environmental issues.	---
(19)	Does the financial intermediary/executing agency carry out environmental audits of its properties to analyze health and safety issues, waste disposal, etc.?	No	Currently N.A.
(20)	Please state any difficulties and/or constraints related to the implementation of the ESMS.	So far no ESMS existed.	---
6 . Need of Capacity Development and Improvement Plan			
Yes, there are strong needs for strengthening and training management and staff capacity in relation to the issue.			

(Attachment 2-7)

Checklist for Environmental and Social Management System (ESMS) of Financial Intermediary/Executing Agency

PFI Name : CB

Date of Interview: 10/22/2013

Personnel CB: Pe Myint (Mr.) Managing Director, Co-operative Bank Limited. (CB)
 Liew Chee Seng (Mr.) Deputy Managing Director, International Banking Services
 Kenji Okuya (Mr.) Advisor

Consultant Team: Kondo, Azeta, Sato, Takahashi, Sasaka

No.	Questions (English)	Answer	Improvement Plan
1 . Environmental Policy			
(1)	Does the financial intermediary/executing agency have any formal environmental policy or procedures ? If yes, please describe them and provide appropriate documentation. If no, does the financial intermediary/executing agency have any plan to set such policy or procedures?	No	We are ready to follow JICA's guidance and framework.
(2)	Are there any types of projects in which the financial intermediary/executing agency will not take part due to the environmental risks ? (e.g., projects involving handling of hazardous wastes or endangered plants or animals).	No such list in written documents	Ditto.
2 . Procedures for Environmental and Social Considerations			
(3)	Does the financial intermediary/executing agency have any environmental procedures such as screening, categorization and environmental review ? If yes, please describe.	No	Ditto.
(4)	Please describe how you ensure that your subproject companies and their subprojects are operated in compliance with the national laws and regulations and applicable JICA' s requirements.	6 months ago our bank set up the Compliance Department, which should review subprojects' legal compliance.	Ditto.

(5)	How are environmental considerations taken into account in the credit review and approval process for project loans or equity investments? (For financial intermediary only)	They are not done so far.	Ditto.
(6)	How are environmental issues taken into account in deciding whether to offer or extend commercial credit, working capital finance, trade finance, payment services and other financial services to a company? (For financial intermediary only)	They are not done so far.	Ditto.
3. Organization and Staff for ESMS			
(7)	Please provide us with the organization chart of the financial intermediary/executing agency's Environmental and Social Management System (ESMS) .	No ESMS unit in the bank.	Ditto.
(8)	Who is responsible for environmental and social management within the financial intermediary/executing agency? (name/role and title)	No person in charge of the issue.	Ditto.
(9)	Are there any staff with training for environmental and social considerations in the financial intermediary/executing agency? If so, describe.	No (But 10 staffs are working at the Compliance Department)	Appropriate staff will be assigned in the Compliance Department, when necessary.
(10)	Are there any technical staff with an engineering/industry background responsible for technical analysis of credit proposals?	No	Ditto.
(11)	What experience , if any, does the financial intermediary/executing agency have of hiring or dealing with environmental consultants ?	No experience	Ditto.
(12)	What was the budget allocated to the ESMS and its implementation during a year? Please provide budget details including staff costs and training as well as any actual costs.	No budget for the ESMS. But actual costs are covered for the Compliance Department.	Ditto.
4. Monitoring and Reporting			
(13)	Do you receive environmental and social monitoring reports from subproject companies that you finance?	No	Ditto.
(14)	Please describe how you monitor the subproject company and their	Not monitoring	Ditto.

	subprojects' social and environmental performance.		
(15)	Is there an internal process to report on social and environmental issues to senior management?	No	Ditto.
(16)	Do you prepare any social and environmental reports: - For other multilateral agencies or other stakeholders - E&S reporting in the Annual Report	No We are issuing the annual report, but without E&S reporting.	Ditto.
5 . Experience			
(17)	Has the financial intermediary/executing agency signed any national or international agreements or declarations concerning environmental issues?	No	Ditto.
(18)	Has the financial intermediary/executing agency ever received any criticism of its environmental record ? If so, what was the criticism?	No Public complains about daily transactions, but not on environmental issues.	Ditto.
(19)	Does the financial intermediary/executing agency carry out environmental audits of its properties to analyze health and safety issues, waste disposal, etc.?	No	Ditto.
(20)	Please state any difficulties and/or constraints related to the implementation of the ESMS.	So far no ESMS existed.	Ditto.
6 . Need of Capacity Development and Improvement Plan			
Currently we don't see the needs for capacity development in environmental and social management aspects, but do in the international banking system.			

(Attachment 2-8)

Checklist for Environmental and Social Management System (ESMS) of Financial Intermediary/Executing Agency

PFI Name : MEB

Date of Answer to the Questionnaire: 11/01/2013 Contact person: U Win Naing Oo (Mr.)

Date of Interview on the Answer: 11/19/2013

Personnel MEB: U Than Lwin Oo General Manager
 U Hla Mying Aung General Manager
 U Kyaw Kyaw General Manager
 U Thu Ra (Assistant General Manager

Consultant Team: Kondo

No.	Questions (English)	Answer	Improvement Plan
1 . Environmental Policy			
(1)	Does the financial intermediary/executing agency have any formal environmental policy or procedures ? If yes, please describe them and provide appropriate documentation. If no, does the financial intermediary/executing agency have any plan to set such policy or procedures?	No	We will consider to follow the concerned JICA scheme for the project.
(2)	Are there any types of projects in which the financial intermediary/executing agency will not take part due to the environmental risks ? (e.g., projects involving handling of hazardous wastes or endangered plants or animals).	Not yet	Will try to apply the checklist on EIA and IEE which JICA proposes.
2 . Procedures for Environmental and Social Considerations			
(3)	Does the financial intermediary/executing agency have any environmental procedures such as screening, categorization and environmental review ? If yes, please describe.	Not yet	Ditto.
(4)	Please describe how you ensure that your subproject companies and	-	Ditto.

	their subprojects are operated in compliance with the national laws and regulations and applicable JICA' s requirements.			
(5)	How are environmental considerations taken into account in the credit review and approval process for project loans or equity investments? (For financial intermediary only)	-		Ditto.
(6)	How are environmental issues taken into account in deciding whether to offer or extend commercial credit, working capital finance, trade finance, payment services and other financial services to a company? (For financial intermediary only)	-		Ditto.
3 . Organization and Staff for ESMS				
(7)	Please provide us with the organization chart of the financial intermediary/executing agency ' s Environmental and Social Management System (ESMS) .	No ESMS unit in the bank.		Functions of PIU and PFI for the project will be managed by the different units under different GMs in the Bank.
(8)	Who is responsible for environmental and social management within the financial intermediary/executing agency? (name/role and title)	Daw Khin Soe Oo Assistant General Manager Forex Operation Myanma Economic Bank		The GM for PFI unit should be responsible.
(9)	Are there any staff with training for environmental and social considerations in the financial intermediary/executing agency? If so, describe.	Not yet		Staff in the PFI unit should be trained how to apply the checklist on EIA and IEE which JICA proposes.
(10)	Are there any technical staff with an engineering/industry background responsible for technical analysis of credit proposals?	Yes (But it is not a permanent staff. External specialists are hired on temporary contract basis for the purpose.)		Ditto.
(11)	What experience , if any, does the financial intermediary/executing agency have of hiring or dealing with environmental consultants ?	No experience		Ditto.

(12)	What was the budget allocated to the ESMS and its implementation during a year? Please provide budget details including staff costs and training as well as any actual costs.	No		Ditto.
4 . Monitoring and Reporting				
(13)	Do you receive environmental and social monitoring reports from subproject companies that you finance?	No Experience		Ditto.
(14)	Please describe how you monitor the subproject company and their subprojects' social and environmental performance.	-		Ditto.
(15)	Is there an internal process to report on social and environmental issues to senior management?	-		Ditto.
(16)	Do you prepare any social and environmental reports: - For other multilateral agencies or other stakeholders - E&S reporting in the Annual Report	-		Ditto.
5 . Experience				
(17)	Has the financial intermediary/executing agency signed any national or international agreements or declarations concerning environmental issues?	No		Ditto.
(18)	Has the financial intermediary/executing agency ever received any criticism of its environmental record ? If so, what was the criticism?	No		Ditto.
(19)	Does the financial intermediary/executing agency carry out environmental audits of its properties to analyze health and safety issues, waste disposal, etc.?	No		Ditto.
(20)	Please state any difficulties and/or constraints related to the implementation of the ESMS.	-		Ditto.
6 . Need of Capacity Development and Improvement Plan				
Awareness of Environmental and Social Management System (ESMS)				

Appendix 3: SMEs list the consultant team visited
(Attachment 3-1)

No.	Business	Location	Loan Needs A: Yes B: Conditional C: No	Borrowing Capacity A: Yes B: Conditional C: No	Capital Investment A: Defined B: Just planned	Financial Statement A: Handed over B: Disclosed C: Not disclosed	Profitability A: >10% B: 5-10% C: <5%	Candidate for Priority TLS Project	Note
1	Oil Production and Sales	Yangon/Pyay	A	A	A	A	B	AA	Currently utilizing technical assistance of JICA through UNFCCI
2	Contracted Farming and Dry Vegetable Production	Yangon/Heho	A	A	B	C	B	AA	Exporting to Japan. Planning capital investment in farm equipments for 250 contracted farmers
3	Wire Mesh Production and Sales	Yangon	A	A	A	A	A	AA	Top share in wire mesh production in Myanmar. Desires to renew machineries. Running rubber plantation.
4	Automobile Service, Used Car Sales, and Spare Parts Import	Yangon	B	A	A	A	B	AA	Discussing with Japanese companies about cooperation. Participating in TOYOTA training course.
5	Power Switchboard Production and Sales	Yangon	A	A	A	B	A	AA	Desires to buy AMADA machinery made in Japan.
6	Plum Sweets and Jam Production	Mandalay	A	A	A	B	B	AA	Participating in training course offered by JETRO. Has defined business expansion plan. Numerous overseas inquiries
7	Dry Fruits Production	Mandalay	A	A	A	B	B	AA	Participated in ASEAN-JAPAN exhibition. Willing capital investment to meet increasing domestic/overseas demand
8	Dairy Farming, Milk Collecting Center, Dairy Food Production & Sales	Yangon	A	B	A	B	A	AA	Desires to modernize current farm and production facility but needs to clarify its collateral eligibility.
9	Plantation Management and Trading	Yangon	A	A	B	B	A	AA	Desires to buy KOMATSU tractor
10	Fish Cannery and Sales	Yangon	A	A	A	?	A	AA	
11	Sweets Production	Mandalay	A	A	B	?	A	AA	
12	Pipe Production	Yangon	A	A	B	B	A	A	New factory is under construction
13	Rice Miller	Aeyawardi	A	C	B	-	-	A	Cooperating proving test for NEDO on rice husk generator since January 2013
14	Oil Production and Sales	Yangon	A	B	B	B	B	A	
15	Metal Fork Art Production & Sales	Yangon	A	A	B	B	B	A	Desires to open new retail shop but no collateral to offer

No	Business	Location	Loan Needs A: Yes B: Conditional C: No	Capital Investment A: Defined B: just planned	Financial Statement A: Handed over B: Disclosed C: Not disclosed	Profitability A: >10% B: 5-10% C: <5%	Candidate for Priority TLS Project	Note
16	Snack Production and Sales	Yangon	A	A	B	B	A	Desires to install new machines
17	Balm Production and Sales	Yangon	A	A	A	A	A	Home factory and its land are only collateral to offer. Its profit rate is the highest among interviewed SMEs(approx. 30%).
18	Vermicelli Production and Sales	Yangon	A	A	B	A	A	Cyclon Nargis victim. Food safety guidance is urgently required as well as facility upgrade.
19	Plastic items Production	Yangon	A	A	B	A	A	Considering new factory plan.
20	Wooden Furniture Production	Yangon	A	A	B	A	A	Using domestic woods. Competitive with import items. Considering new factory plan. No financial statement.
21	Hotel	Mandalay	A	A	B	A	A	Used to work at YOMA bank. Well successful business. Considering a new hotel next to the existing hotel.
22	Molding of iron	Mandalay	A	A	B	A	A	Rudimentary molding process. Manual molding processes. End products are not industrial item, but just interior.
23	Printing	Mandalay	A	A	B	B	A	Using Japanese printing machine. Considering two new printing machines because of order increase.
24	Cashewnuts Production	Yangon	A	A	C	?	B	Demand from chinese companies is steadily increasing. Seems no need for TSL
25	Garment	Yangon	A	A	C	?	B	Willing finance for the purpose of preparing JV with Hong Kong garment company
26	Mining Pump Production and Sales	Mandalay	B	C	C	A	B	Not interested in business expansion but maintaining as it is
27	Ice Production and Sales	Yangon	B	B	B	A	B	Desires to install new machines and that requires buying new land
28	Frozen&Packed Fish Production and Export	Yangon	A	B	C	C	B	Factory operation has been closed up for three years.
29	Balm Production and Sales	Yangon	A	A	B	A	B	
30	Garment and Plastic	Yangon	A	A	C	B	B	

No	Business	Location	Loan Needs A: Yes B: Conditional C: No	Capital Investment A: Defined B: just planned	Financial Statement A: Handed over B: Disclosed C: Not disclosed	Profitability A: >10% B: 5-10% C: <5%	Candidate for Priority TLS Project	Note
31	Welding and Casting	Yangon	B	A	B	B	C	Operation safety must be prioritized over capital investment
32	Oil Production and Sales, Palm Oil Import&Sales	Yangon	C	-	-	-	C	No loan needs
33	Transformer Production and Installation	Yangon	C	-	-	-	C	No loan needs
34	Construction and Machinery Import	Yangon	B	B	C	A	C	Too large to be SME
35	Construction and Machinery Import	Yangon	A	B	C	A	C	Too large to be SME
36	Transformer Production and Sales	Yangon	A	A	B	A	C	Too large to be SME
37	Rice Miller	Yangon	-	B	-	-	C	Too large to be SME. Installed various SATAKE machines
38	Home Electronics Sales	Yangon	C	-	-	-	C	Too large to be SME
39	Fish Camery and Sales	Yangon	B	B	C	A	C	
40	Noodle Production	Yangon	A	A	C	-	C	
41	Noodle Production and Sales	Yangon	C	-	-	-	-	Too large to be SME
42	Electronics Sales	Yangon	C	-	-	-	-	Too large to be SME
43	Tile, Water Tub, Hinge Sales(whole and retail)	Mandalay	-	-	-	-	-	

Appendix 4: SME Survey: Questionnaire and results of simple tabulation
(Attachment 4-1)

Survey on SME Financing

Company information (ကုမ္ပဏီ အချက်အလက်)		
Company Name (ကုမ္ပဏီ အမည်)		
Contact person (ဆက်သွယ်ရန် လူပုဂ္ဂိုလ်)	Mr./Ms. (ဦး/ဒေါ်)	
	Telephone (ဖုန်း)	
	E-mail (အီးမေးလ်)	

[Description of the company] (ကုမ္ပဏီ အကြောင်းအရာ)		
Location (တည်နေရာ)		
Paid-in capital (ပထွက်ရင်းနှီးငွေ)		
Total Assets (စုစုပေါင်း ရင်းနှီးငွေ)		
(Major assets, its market value and ownership) (အဓိက ရင်းနှီးငွေရှင်၏ကလေးတန်ဖိုးနှင့်ပိုင်ဆိုင်မှု)		
Land (မြေနေရာ)	million Kyats (ကျပ်သန်း)	(Individual/Company) (တစ်ဦးပုဂ္ဂလိက/ကုမ္ပဏီ)
Building (အဆောက်အအုံ)	million Kyats (ကျပ်သန်း)	(Individual/Company) (တစ်ဦးပုဂ္ဂလိက/ကုမ္ပဏီ)
Machinery (စက်ပစ္စည်း)	million Kyats (ကျပ်သန်း)	(Individual/Company) (တစ်ဦးပုဂ္ဂလိက/ကုမ္ပဏီ)
Inventory (ကုန်လက်ကျန်)	million Kyats (ကျပ်သန်း)	(Individual/Company) (တစ်ဦးပုဂ္ဂလိက/ကုမ္ပဏီ)
Is any of your assets offered as collateral to any banks? No/Yes သက်တမ်းရရှိရန် အပေါင်းအသုံးပြုထားသော အရာပစ္စည်းရှိပါသလား? (မရှိ / ရှိ)		
Land/Building (မြေ/အဆောက်အအုံ)	Machinery (စက်ပစ္စည်း)	Inventory (ကုန်လက်ကျန်)
(bank name (ဘဏ်အမည်) _____)	Loan amount (ချေးငွေပမာဏ) K(ကျပ်) _____	mm (သန်း)
Total Sales/Revenue (စုစုပေါင်း အရောင်းဝင်ငွေ) million Kyats (ကျပ်သန်း)		
Net Profit (အသက်သာအမြတ်ငွေ) million Kyats (ကျပ်သန်း)		
Number of workers (အလုပ်သမား အရေအတွက်)		
DISI registration (DISI ပုံစံတင်ပြထားခြင်း) Yes / No		
Ministry of Commerce License (စီးပွား/ကူးသန်း လိုင်စင်ပြုလုပ်ထားခြင်း) Yes / No		

Industry (Choose one) (လုပ်ငန်းအမျိုးအစား)			
Agriculture (ပိုက်ပျိုးရေး)	Livestock (မွေးမြူရေး)	Fishery (ရေငွေကပ်ပစ္စည်း)	Forestry, Mining (သစ်တောနှင့်တွင်းသွက်)
Transportation Rental Services (ပို့ဆောင်ရေး ဝန်ဆောင်မှု)	Wholesale Trade (လက်ကားရောင်းဝယ်ရေး)	Retail Trade (လက်လီရောင်းဝယ်ရေး)	Manufacturing (ထုတ်လုပ်ရေး)
Other (အခြားအမျိုးအစား)		(product) (ထုတ်လုပ်ပစ္စည်းအမျိုးအစား)	

Fund requirement for business expansion for the next 3 years (Required amount and financing source in million kyats)
လက်ရှိ နှစ်တွင် မိမိလုပ်ငန်းတိုးချဲ့လုပ်ကိုင်ခြင်းအတွက် လိုအပ်မည့် ငွေအရင်းနှီး (လိုအပ်သော ငွေပမာဏနှင့် ငွေရယူမည့် အရင်းမြစ်)

Machinery (type and price) (စက်ပစ္စည်းအမျိုးအစားနှင့်ဈေးနှုန်း)	million kyats (ကျပ်သန်း)
Real Estate (type and price) (မြေနေရာအဆောက်အအုံအမျိုးအစားနှင့်ဈေးနှုန်း)	million kyats (ကျပ်သန်း)
Working Capital (amount) (လည်ပတ်ရင်းနှီးငွေ) (ပမာဏ)	million kyats (ကျပ်သန်း)

Financing Plan (လုပ်ငန်းအတွက် လိုအပ်သော ဓငွေအရင်းမြစ်အတွက် လျာထားချက်)

Bank borrowing (Bank name and amount) (ဘဏ်မှ ခေမယူခြင်း)	million kyats (ကျပ်သန်း)
(ခေမယူမည့် ဘဏ်၏အမည်နှင့် ဓငွေပမာဏ) Informal lender (အပြင်မှ ခေမယူခြင်း) (Interest rate? %)(အတိုးနှုန်း)	million kyats (ကျပ်သန်း)
Internal funds (လုပ်ငန်းလည်ပတ်မှုမှ ပြန်ရငွေ)	million kyats (ကျပ်သန်း)
Other sources (အခြားရင်းမြစ်များ)	million kyats (ကျပ်သန်း)

Banking Relationship (ဘဏ်နှင့် ဆက်သွယ်ခြင်း)		(check the transactions) (အသုံးပြုကို အမှန်ဖြစ်ပါ)
Bank Name (ဘဏ်အမည်)	Bank	
	Bank	
	Bank	
Transaction (အသုံးပြု)	<input type="checkbox"/> Deposit (အပ်နှံခြင်း) <input type="checkbox"/> Overdraft (စာရင်းအိုတ်ထဲခြင်း) <input type="checkbox"/> Investment Loan (ရင်းနှီးမြှုပ်နှံမှုအတွက် ခေမငွေ) <input type="checkbox"/> Foreign Exchange (နိုင်ငံခြားငွေလဲလှယ်ခြင်း) <input type="checkbox"/> Remittance (ငွေလွှဲပို့ခြင်း) <input type="checkbox"/> Others (အခြားကိစ္စများအတွက် အသုံးပြုခြင်း)	
Does any of your bank appoint a relationship manager to you? မိမိအသုံးပြုနေသော ဘဏ်မှ မိမိအတွက် သီးသန့်ဆက်သွယ်ရန် ယူနီနေရကတစ်ယောက် ထားရှိပါသလား။ (bank name _____)		
What kind of improvements do you expect for your banks? (ဘဏ်များမှ မိမိ ခေမလုပ်ငန်းအတွက် တိုးတက်မှု)		

If you borrow from banks, please let us know followings?

(ဘဏ်များမှ ခေမယူလိုလျှင်၊ ခေမယူမှုဖြင့် အောက်ပါအချက်များကို ဖြည့်စွက်ပေးပါ။)

Outstanding balance (ခကြွေးကျန်ပမာဏ)	million kyats (ကျပ်သန်း)
Loan agreement date (ခေမယူအတွက် သဘောတူညီမှုရရှိသည့် ခန့်မှန်း)	million kyats (ကျပ်သန်း)
Maturity date (ခေမငွေကာလကုန်ဆုံးရက်)	million kyats (ကျပ်သန်း)
Interest rate (အတိုးနှုန်း)	%
Collateral and bank valuation (အပေါင်အနှံပစ္စည်းနှင့် ဘဏ်၏သတ်မှတ်တန်ဖိုး)	Land & Building (မြေနေရာနှင့် အောက်အိမ်) _____ million Kyats (ကျပ်သန်း) Other (အခြား) _____ million Kyats (ကျပ်သန်း)
Status (အခြေအနေ)	<input type="checkbox"/> current (လက်ရှိ) <input type="checkbox"/> overdue (သက်တမ်းလွန်) <input type="checkbox"/> rescheduled (သက်တမ်းတိုး)
Repayment source (ခေမငွေပြန်ဆပ်ရန် ရင်းမြစ်)	<input type="checkbox"/> operation cash flow (လုပ်ငန်းလည်ပတ်မှု အသားတင်ဝင်ငွေသုံးဖြင့်) <input type="checkbox"/> sale of assets (ပိုင်ဆိုင်မှုများ ခေမငွေဖြင့်) <input type="checkbox"/> borrowing from others (အခြားသူမှ ခေမယူခြင်းဖြင့်) (please specify (အသေးစိတ်) _____)

Are you interested in receiving any of the following training to improve your business management skills and access to finance?
 (မိမိလုပ်ငန်းစီမံခန့်ခွဲမှုအတတ်ပညာနှင့်စာရင်းအင်းဆိုင်ရာအတွက် လေ့ကျင့်သင်ကြားရေးအကူအညီလက်ခံရယူရန် စိတ်ဝင်စားပါသလား။)

- ☐ Accounting (for preparation of better financial statements to gain trust from banks)
 (စာရင်းအင်းပညာ)(ဘဏ်များကိုယုံကြည်မှုကိုရစေခြင်းအတွက် ပိုမိုကောင်းမွန်သော ဘဏ္ဍာရေး စာရင်းရှင်းတမ်းရေးဆွဲရန်)
- ☐ Finance (for cost effective and stable fund procurement planning)
 (စွန့်ကြဲစီမံခန့်ခွဲမှု) (ထိရောက်သော လုပ်ငန်း ကုန်ကျစရိတ် နှင့် ရင်းနှီးငွေ စီမံခန့်ခွဲခြင်း)
- ☐ Business planning (for preparation of business expansion plan to be submitted to banks)
 (လုပ်ငန်းစီမံချက်ရေးဆွဲခြင်း) (ဘဏ်များထံပြုရန်လိုအပ်သော လုပ်ငန်းတိုးချဲ့ခြင်း စီမံကိန်း ပြင်ဆင်မှု)
- ☐ Production & Quality Control (ထုတ်လုပ်မှုနှင့်အရေးအသားထိန်းသိမ်းခြင်း)
- ☐ Marketing (ဈေးကွက်အရောင်းပြင်ဆင်ရေး)
- ☐ Logistics (ကုန်စည်သယ်ယူပို့ဆောင်ရေး စီမံခန့်ခွဲမှု)
- ☐ Others (အခြား) (အသေးစိတ်ဖော်ပြရန်)
 (please specify_____)

(Attachment 4-2)

Total Number of Interviewed SMEs = 102		Number of Respondant (N=)	Average	Answers	
Business Description					
Location	Township	-	-	-	
	State/Province	102	-	Yangon 61.8%(n=63) Mandalay 33.3%(n=34) Irrawady 4.9%(n= 5)	
Paid-in Capital	(in mil. Kyats)	87	133	-	
Total Assets	(in mil. Kyats)	96	1,618	-	
Land	Value(in mil. Kyats)	87	927	-	
	Ownership	102	-	Individual 98.0%(n=100) Company 2.0%(n= 2)	
Building	Value(in mil. Kyats)	87	421	-	
	Ownership	101	-	Individual 98.0%(n=100) Company 2.0%(n= 2) Rented 3.0%(n= 3) N.A. 1.0%(n= 1)	
Machinery	Value(in mil. Kyats)	89	182	-	
	Ownership	101	-	Individual 96.0%(n=97) Company 3.0%(n= 3) N.A. 1.0%(n= 1)	
Inventory	Value(in mil. Kyats)	80	334	-	
	Ownership	100	-	Individual 94.0%(n=94) Company 4.0%(n= 4) N.A. 4.0%(n= 4)	
Is any of your assets offered as collateral to any banks?	Yes/No	101	-	Yes 42.0%(n=42) No 58.0%(n=59)	
	Land/Building	39	-	92.9%	
	Machinery	5	-	11.9%	
	Inventory	0	-	0.0%	
	Bank Loan amount (in mil. Kyats)	39	175	-	
Total Sales/Revenue (Annual)	(in mil. Kyats)	93	1,065	-	
Net Profit (Annual)	(in mil. Kyats)	86	125	-	
Average Profit Rate		-	-	11.7%	
Number of Workers		98	61	-	
DISI registration		101	-	-	
Industry	Agriculture	12	-	13.0%	
	Livestock	1	-	1.1%	
	Fishery	3	-	3.3%	
	Forestry	0	-	0.0%	
	Mining	1	-	1.1%	
	Transportation	3	-	3.3%	
	Rental	0	-	0.0%	
	Services	11	-	12.0%	
	Wholesale Trade	2	-	2.2%	
	Retail Trade	0	-	0.0%	
	Manufacturing	59	-	64.1%	
	Other	0	-	0.0%	
Fund requirement for business expansion for the next 3 years					
USE	Machinery	Value(in mil. Kyats)	54	252	-
		Type of machinery	53	-	-
Real Estate (Factory/Warehouse/Office)	Value(in mil. Kyats)	42	281	-	
	Working Capital	52	307	-	
SOURCE	Bank Loan	Value(in mil. Kyats)	57	338	-
		Name of Bank	50	-	-
	Informal Lender	Value(in mil. Kyats)	3	400	-
		Interest rate/year(%)	2	30	-
	Internal Fund	Value(in mil. Kyats)	36	511	-
	Others	Value(in mil. Kvats)	1	700	-

Banking Relationship				
Bank(s) Name		-	-	-
Type of relationship	Deposit	57	-	55.9%
	Overdraft	4	-	3.9%
	Investment Loan	38	-	37.3%
	Foreign Exchange	5	-	4.9%
	Remittance	52	-	51.0%
	Other	0	-	0.0%
Does any of your bank appoint a relationship manager to you?	Yes/No	1	-	AGD
What kind of improvements do you expect from your banks?(M.A.)	Lower Interest	29	-	28.4%
	Long Term Loan	11	-	10.8%
	Expanding eligible collateral	5	-	4.9%
	Process to speed up	4	-	3.9%
	Don't know	53	-	52.0%
	Other	13	-	12.7%
	Nothing particular	1	-	1.0%
If you borrow from banks, please let us know the following:				
Outstanding balance	(in mil. Kyats)	41	162	40.2%
Loan agreement date		40	-	-
Maturity date		37	-	-
Interest rate %		41	14%	-
Collateral and bank valuation				
Land & building	Value(in mil. Kyats)	30	699	-
Other	Type	0	-	-
	Value(in mil. Kyats)	0	-	-
Status	Current	19	-	46.3%
	Overdue	0	-	0.0%
	Rescheduled	21	-	51.2%
Repayment Source	Operation cash flow	34	-	82.9%
	Sale of assets	3	-	7.3%
	Borrowing from others	1	-	2.4%
Training for improvement of your business and better access to finance				
Training interested	Accounting	32	-	31.4%
	Finance	27	-	26.5%
	Business planning	41	-	40.2%
	Production & QC	56	-	54.9%
	Marketing	46	-	45.1%
	Logistics	23	-	22.5%
	Others (specify)	0	-	-

Terms of Reference of Consulting Services on Two-Step-Loan Project for Small and Medium Enterprises Development (Draft)

Chapter 1. Background

The Government of Myanmar (hereinafter referred to as “GOM”) has received a loan from the Japan International Cooperation Agency (hereinafter referred to as “JICA”) for Two Step Loan (TSL) for Small and Medium Enterprises (SMEs) Development (hereinafter referred to as “the project”). The project aims at SME development through provision of low-interest rate long-term finance for the privately owned SMEs. Through successful implementation of the project, SMEs in Myanmar will gain access to term finances for investments and play stronger role of the engine of employment creation, economic growth and poverty reduction.

The project will provide term finances to SMEs through selected participating financial institutions (PFIs) under the following conditions subject to a review by GOM and JICA every year:

1. Eligible Sectors: capital investments carried out mainly by industrial sectors but service or trade sectors which require capital investments shall also be eligible. However, the following industries are excluded:
 - a. Agriculture to be supported by Myanmar Agricultural Development Bank
 - b. Real estate
 - c. Finance, insurance
 - d. Precious metal dealing
 - e. Bar and pub
 - f. Amusement, entertainment (except for tourism)
 - g. Weapon, ammunition
 - h. Anything harmful to the social stability
2. Eligible Enterprises: private SMEs (i.e. majority private investors owned and fit to the definition of SMEs law)

The project is financed by JICA with other ODA loan amount of Japanese yen five [5] billion. The cost of consulting services is including the loan amount.

Chapter 2. Objectives of Consulting Services

The consulting services shall be provided by an international consulting firm (hereinafter referred to as "the Consultant") in cooperation with national consultants in compliance with Guidelines for the Employment of Consultants under Japanese ODA Loans, April 2012. The objective of the consulting services is to achieve the efficient and proper preparation and implementation of the Project through the following works:

(1) Objectives of the Consulting Services

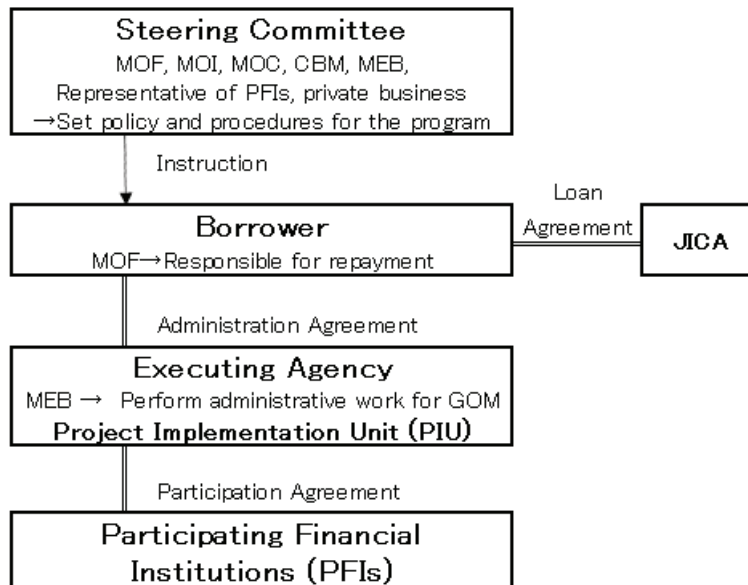
The consultant equipped with expertise in overall project management, banking business, especially domestic term finance, and technical assistance in training and advices to the PFIs, is to provide assistance to the Executing Agency (hereinafter referred to as "EA"), on the following matters;

- (a) Assist EA with the preparation of operation manuals, reporting formats and IT database required for the implementation of the project.
- (b) Provide training and advices to EA and PFIs for the preparation of the project implementation.
- (c) Assist EA with the review of the funding request submitted from PFIs
- (d) Assist EA with the funding request to JICA
- (e) Assist EA with the fund transfer to and from PFIs
- (f) Assist EA with the preparation of reports to Counterpart Steering Committee and JICA

(2) Organization and Implementation

The project will be implemented under the following structure:

Figure 1: Organization Structure in Myanmar Side of JICA TSL for SME



The counterpart steering committee (hereinafter referred to as “CSC”) is the policy making body of the project, composed of the representatives from Ministry of Finance, Ministry of Industry, Ministry of Commerce, Central Bank of Myanmar, Myanmar Economic Bank and representatives of PFIs. Executing Agency will be the Ministry of Finance and it will appoint Myanmar Economic Bank (“MEB”) as an administrative agent. Therefore, MEB will be the Implementing Agency and the Employer of the consulting services.

The Consultants will work for Implementation Agency (PIU), supporting for project management and monitoring.

(3) Number of Consultants and Duration of Work

With 108 – 180 M/M in total for the tasks referred in Chapter 3, the Consultants comprised of the following three types: (a) Four [4] international project supervisor and advisor on reviewing manuals and PFI training with 8 M/M per person, (b) one [1] local project coordinator and supervisor (monitoring and evaluation) with 36 M/M, (c) one [1] local project advisor (TSL administration and appraisal) with 36 M/M.

(4) Implementation Schedule

Implementation schedule of the project and the consulting services are expected as follows: TSL project for SME Development (40 years), Consulting Services (36 months).

(5) Contraction supervision: Myanmar Economic Bank (MEB) will be a contraction supervision of the consulting agreement.

Chapter 3. Scope of Consulting Services

(1) Consulting Work

The Consultant shall do as follows: 1) project management, 2) capacity development of PIU (MEB), 3) promotion activities, 4) monitoring and evaluation, 5) coordination

Detail of the Consulting Work:

- | |
|--|
| <ol style="list-style-type: none">1) Project management: to support PIU in facilitating effective management of the Project and control the funds<ul style="list-style-type: none">- Review operation manuals for PFIs on the usage of the project- Support EA with distributions of funds to and collection of such from participating financial institutions based on outstanding sub-loan amount- Support PIU with production of quarterly progress report (P/R) and project completion report (PCR) with the format of project status report (PSR) in line with the loan agreement (L/A) and project memorandum (P/M)- Support MOF with request for disbursements from JICA- Support PIU with submission to JICA of annual external audit report of the project2) Capacity development of PIU (EA): Take necessary training courses for EA, including providing relevant manuals for TSL loan operation.3) Promotion activities: To help PIU to take effective promotion activities for better understandings on the loan program among SMEs<ul style="list-style-type: none">- Production of a brochure for loan information to SMEs including indicative interest rates of sub loans- Support PIU for (visual) public relation (PR) activity of the project- Prepare a PR plan, including an identification of stakeholders including JICA- Implement the PR activity in close coordination with the CSC, Ministry of Industry and the PFIs4) Monitoring and evaluation: To assist PIU to judge appropriate lending in this program<ul style="list-style-type: none">- Daily monitoring of the project- Review sub-loan applications in line with the eligibility criteria as well as guidelines for environmental and social impact conditions (ESMS: Environmental and Social Management System)5) Coordination: coordination with PIU and PFIs, as well as PIU and EA, etc. |
|--|

(2) Knowledge transfer

The Consultant shall carry out the knowledge transfer as an important aspect in TSL administration work as PIU. The Consultant shall provide the opportunity to the EA officers and staffs to be involved in the working team of the Consultant during the design, contract TSL administration works for their capacity building wherever possible. If requested by EA(PIU), the Consultant shall assist EA and its staff to build their capacity as a part of on the job training under the Project.

Chapter 4. Expected Time Schedule

The total duration of consulting services will be 36 months. The implementation schedule expected is as shown in Table 1.

Table 1: Implementation Schedule Expected

Key Activities	Date	Duration in Months
Tender process including prequalification	1 April 2014 to 31 March 2015	12
Commencement of Consulting Services	1 April 2015	36
End of Consulting Services	31 March 2017	

Chapter5. Staffing (Expertise required)

Four [4] of Professional (A) consultants (international consultants) and Two [2] of Professional (B) consultants (local consultants) will be engaged, 36 month' duration of consulting services, for a total of 32 man-months for Professional (A) and 72 man-months for Professional (B) consultants. Total consulting input is 104 man-months.

(1) Input in months

Table 2: Input in Months

Designation	No.	Total Input in Months (M/M)
Professional (A) consultants (International consultants)		
Team Leader	1	8*
Sub-Leader	1	8*
Project Manager	2	16*
Professional (B) consultants (Local consultants)		
TSL Administration & Appraisal	1	36
Monitoring & Evaluation	1	36

*For first six [6] months: Four [4] consultants stay at EA for two [2] weeks in a month in turn (0.5M/M x 6 months x 4 consultants = 12 M/M in total, 3 M/M per consultant)

*Rest of the term (30 months): Four [4] consultants come to EA every quarter to report JICA and stay for two [2] weeks (0.5M/M x 10 times x 4 consultants = 20M/M in total, 5M/M per consultant)

(2) Qualification of key Team Members

The qualification of key Team Members is shown in Table 3.

Table 3: Qualification of key Team Members

Designation	Qualification
Team Leader	<u>Education:</u> Master degree and higher
Sub-Leader	<u>Experience:</u> • Experience in bank loan operation (lending and monitoring)

Designation	Qualification
	<ul style="list-style-type: none"> • Experience in Japanese ODA loan administration • at least one experience of leading a consultants' team as the Team Leader or the Deputy Team Leader
Project Manager (2)	<u>Education:</u> Bachelor degree and higher <u>Experience:</u> <ul style="list-style-type: none"> • Experience in bank loan operation (lending and monitoring) • Experience in Japanese ODA loan administration
TSL Administration and Appraisal Monitoring & Evaluation	<u>Education:</u> Bachelor degree and higher <u>Experience:</u> <ul style="list-style-type: none"> • Experience in bank loan operation (lending and monitoring) • English-speaking skill is required

Consultant may propose other experts and supporting staffs required to accomplish the tasks outlined in the ToR. It is the Consultant's responsibility to select the optimum team and to propose the professionals which he believes best meets the needs of PIU (EA).

(3) Scope of works for the respective personnel_

Detailed information on the major tasks shall perform is provided as follows:

No	Position	Major Tasks and Duties
A-1	Team Leader/ Project Management	<ol style="list-style-type: none"> 1) Lead the detailed project task of the team. Ensure all deliverables are prepared in accordance with quality and time constraints. 2) Outsource an internationally-reputable audit firm on the project in line with the international accounting standard. 3) Administer and supervise documentation activities for reporting to JICA. 4) Prepare reports in a form agreed by JICA (For detail, please see Chapter 6). 5) Review manuals for PFIs and a brochure for SMEs.
A-2	Sub-Leader / Capacity Development	<ol style="list-style-type: none"> 1) Support Team Leader for time and quality management for the project. 2) Provide training for PIU on administrative operation. 3) Provide training and advices to EA on Japanese ODA loan procedures, as well as environmental and social protection. 4) Provide training and advices to PFIs. 5) Prepare reports in a form agreed by JICA (For detail, please see Chapter 6).
A-3	Project Manager / Promotion Activities	<ol style="list-style-type: none"> 1) Coordinate with local consultants (B-1 and B-2) and EA to liaise information on TSL loan scheme and requirements. 2) Produce a brochure for loan information to SMEs including indicative interest rates of sub loans. 3) Prepare PR plan, including an identification of stakeholders including JICA, and implement the PR activity in close coordination with the CSC, Ministry of Industry (MOI), and PFIs. 4) Implement the PR activity in close coordination with the CSC, Ministry of Industry and PFIs. 5) Prepare reports in a form agreed by JICA (For detail, please see Chapter 6).
A-4	Project Manager/ TSL Administration Support	<ol style="list-style-type: none"> 1) Support B-2 to monitor monthly report from PFIs. 2) Setup support for IT database for disbursement management for EA cooperating with B-1 and B-2. 3) Prepare reports in a form agreed with the Consultant and JICA (For detail, please see Chapter 6).
B-1	TSL Administration & Appraisal	<ol style="list-style-type: none"> 1) Review Sub-loan applications in line with the eligibility criteria as well as guidelines for environmental and social impact consideration. 2) Support EA with distributions of funds to and collection such from PFIs based on outstanding sub-loan amount. 3) Liaise A-2 to share information for issues and recommendations of present PIU operation.

No	Position	Major Tasks and Duties
		4) Prepare reports in a form agreed by JICA (For detail, please see Chapter 6). 5) Coordination with PIU and PFIs.
B-2	Monitoring & Evaluation	1) Support EA for daily monitoring operation. 2) Assist EA with the fund transfer to/from PFIs. 3) Review sub-loan applications in line with the eligibility criteria as well as guidelines for environmental and social impact conditions. 4) Setup IT database system for schedule management for fund disbursement and collection. 5) Assist in document preparation for EA to be submitted to JICA. 6) Prepare reports in a form agreed by JICA (For detail, please see Chapter 6). 7) Coordination with PIU and PFIs.

(4) Difference of Opinion

In the case of a difference of opinion between the Employer and the consultants on any important matters involving professional judgment that might affect the proper evaluation or execution of the project, the Employer (PIU) shall allow the Consultants to submit promptly to PIU a written report and, simultaneously, to submit a copy to JICA. The Employer shall forward the report to JICA with its comments in time to allow JICA to study it and communicate with the Employer before any irreversible steps are taken in the matter. In cases of urgency, the consultants have the right to request PIU and/or JICA that the matter be discussed immediately between PIU and JICA.

Chapter 6. Reporting

Within the scope of consulting services, the Consultant shall prepare and submit reports and documents to (Division/Department in charge in the Executing Agency) as shown in Table #. The Consultant shall provide electronic copy of each of these reports.

Category	Type of Report	Timing	No. of Copies
Project Management	Quarterly Progress Report	Every quarter	10
	Project Completion Report (for submission to JICA)	At the end of Services	10
Capacity Development	Training Report	At appropriate timing in accordance with the Review Report	10
	Training Execution and Evaluation Report	Within 1 month after training	10
	Training Materials for PFIs on the usage of the sub loan	At the end of Services	10
Promotion Activities	PR plan for CSC, MOI, and PFIs	At appropriate timing in accordance with the event or publication	10
	Brochure for SMEs	At appropriate timing in accordance with the event or publication	10
Monitoring and Evaluation	Review Report on Sub-loan Applications	At appropriate timing	10
External Audit	Audit Report (for submission to JICA)	Every year	10

Contents to be included in each report are as follows:

Project Management

- Quarterly Progress Report (P/R): Describe briefly and concisely all activities and progress for the previous quarter, to be submitted at every [3] months, presenting the progress status of the Project. Problems encountered or anticipated will be clearly stated, together with actions to be taken or recommendations on remedial measures for correction. Also indicates the work to be performed during the coming quarter.
- Audit Report: Support EA with submission to JICA of annual external audit report of the project every year.
- Project Completion Report: to be submitted within [3] month after completion of project with the format of project status report (PSR) in line with the loan agreement (L/A) and

project memorandum (P/M).

Capacity Development

- a) Training Report: Conducting trainings and advices to EA on Japanese ODA loan procedures, as well as environmental and social protections, and also for PFIs in the fields of the usage of the project and term loan related issues
- b) Training Execution and Evaluation Report: To present the results of technical evaluation and recommend the qualified applicants.
- c) Operation Manual for PFIs: containing technical procedures for the appropriate operation for the usage of the sub loan from the project.

Promotion Activities

- a) PR plan: Including an identification of stakeholders including JICA, and implement the PR activity in close coordination with the CSC, Ministry of Industry and the PFIs for effective implementation of the project.
- b) Brochure for SMEs: Information for the sub-loan program including indicative interest rates.

Monitoring and Evaluation

- a) Review Report on Sub-loan Activities: In line with the eligibility criteria as well as guidelines for environmental and social impact consideration.

External Audit

- a) Audit Report: On the performance and management of the project.

Chapter 7. Obligations of the Executing Agency

A certain range of arrangements and services will be provided by EA (PIU) to the Consultant for smooth implementation of the Consulting Services. In this context, EA (PIU) will:

(1) Report and data

Providing the Consultant with available documents relevant to the assignment of the Project.

(2) Office space

Provide an office space in the Yangon branches of EA with necessary equipment, furniture and utility (renting office accommodation, hiring local staff and interpreters, purchasing office equipment, and facilities and other logistic arrangements, etc.). However, the Consultant's requirement for office space, including necessary equipment, furniture and utilities, should be clearly stated in the proposal with its rental cost for the case where EA would be unable to provide such facilities;

(3) Cooperation and counterpart staff

Facilitating the Consultant in coordinating with relevant parties of the project and other organizations, government agencies in the context of the project. Appoint counterpart officials, agent and representative as may be necessary for effective implementation of the Consulting Services;

(4) Assistance and exemption

Use its best efforts to ensure that the assistance and exemption, as described in the Standard Request for Proposal issued by JICA, will be provided to the Consultant, in relation to

- work permit and such other documents;
- entry and exit visas, residence permits, exchange permits and such other documents
- clearance through customs;
- instructions and information to officials, agent and representatives of the GOM;
- exemption from any requirement for registration to practice their profession;
- privilege pursuant to the applicable law in Myanmar.

(end)