

**The Republic of the Union of Myanmar
Implementation Facilitation for
Development of Finance for
Small and Medium-sized Enterprises
(Phase 2)**

Project Completion Report

November 2018

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

Japan Economic Research Institute Inc.

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Abbreviations

CBM	Central Bank of Myanmar
CGI	Credit Guarantee Insurance
ESMS	Environmental and Social Management System
FY	Fiscal Year
GOJ	Government of Japan
GOM	Government of Myanmar
JICA	Japan International Cooperation Agency
JPY	Japanese Yen
L/A	Loan Agreement
MBA	Myanmar Banks Association
MEB	Myanma Economic Bank
MI	Myanma Insurance
MMK	Myanmar Kyat (currency)
MOC	Ministry of Commerce
MOPF	Ministry of Planning and Finance
MOI	Ministry of Industry
(U)OAG	(Union) Office of Auditor General
OJT	On the Job Training
PCR	Project Completion Report
PFI	Participating Financial Institution
PMU	Project Management Unit
PR	Public Relations
PSR	Project Status Report
SME	Small and Medium-sized Enterprise
SMIDB	Small & Medium Industrial Development Bank
SOE	Statement of Expenditure
TSL	Two-Step Loan
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry
WC	Working Committee

1. Project Overview

1.1 Background of the Project

According to MOI, in Myanmar, 99.4% of the registered companies is SME, and 87.2% of the manufacturing companies is SME, therefore the role of SME is big in the national economy.

Depending on this situation GOM places SME development policy which encourages SME investment as the important issue in 'Investment Policy' announced in December of 2016. Thus, SME economic activities have been expanding. The funding needs from SMEs to financial institutions are also expanding. However, SME has difficulties to get medium/long term loans from financial institutions. The reasons are i) almost loans from financial institutions are short-term loans whose loan period is under one year as working capital, ii) real estate collateral is always needed and the average loan to value is from 30% to 50%, and iii) to begin with, many SMEs which don't have real estate collateral can't get loan.

In such circumstances SME-TSL Phase 1 L/A was contracted in June 2015 as the amount of 5,033 million JPY. The loan was disbursed through MEB to 6 PFIs for encouraging SME capital investment. Depending on strong loan needs of SMEs, 269 SMEs got loans until June 2017. However, owing to the strict collateral conditions, the only SMEs that have real estate as collateral could receive the loan. Therefore SMEs that have difficulties to provide real estate collateral still have strong demand for TSL for relaxing of collateral conditions.

Depending on 'the guideline for credit risk management' by CBM in March 2017, CBM judges credit risk management not strict collateral conditions but each financial institution's risk management policy. Such guideline gives expectation of new loan schemes to be introduced.

Under such situation JICA prepared SME-TSL Phase 2 (the loan amount is 14,949 million JPY) to improve intermediation functions for SME financing in Myanmar and to expand production/investment of SMEs by providing medium/long term loans by PFIs and to support capacity development of MEB. This L/A was contracted on March 29th, 2018.

1.2 Outline of the Project

This project is to support to establish the implementation scheme smoothly by dispatching a team of experts to MEB, the implementing agency of the TSL project, before starting of the continuous consulting services hired under SME-TSL Phase 2 (scheduled after November, 2018). Main tasks are as follows.

- (a) Supporting for facilitating and managing WC, whose members are PMU, MOPF, MOI, MOC, MEB etc., for implementing the project
- (b) Supporting for revising of the Operating Guidelines for implementation and management of SME-TSL Phase 1 to meet SME-TSL Phase 2 scheme (including revising various forms)
- (c) Capacity building for MEB directors and officers regarding the implementation under the Operating Guidelines through seminars and workshops
- (d) Supporting for developing capacity of credit appraisal for sub-loans of PFIs

As the first disbursement was planned in July 2018 in the shortest (the real disbursement was in September), the preparation for implementing organization, the establishment of fund flows and the revision of the Operating Guidelines should be finished until the first disbursement.

1.3 Objectives of the Project

The specific tasks include assistance to MEB with drafting of the Operating Guidelines and building TSL project implementing organization for implementation and facilitation of TSL 'Development of Finance for Small and Medium-sized Enterprises (Phase 2)', and support to strengthen the capacity of credit appraisal of PFIs' officials for sub-loans .

2. Basic policies for project implementation

2.1 Realizing stable implementation of the project by making good use of our achievement and experience

We have tried to implement this project not only by making good use of its present consulting services' achievement, experience and network for SME-TSL Phase 1 but by keeping consistency, continuity and stability under good relationship with MEB and other TSL-related organizations.

2.2 Help foster the sense of project ownership by GOM

We have tried to help the member institutions of WC and MEB, including but not limited to PMU, foster the awareness that the owner of the TSL project is GOM, not JICA.

WC consists of MOPF, MOI, MOC, CBM, and MEB, representative of PFI, initially SMIDB and at present MBA, and business associations such as UMFCCI. It sets operating policies of the TSL project based on the SME supporting policies by GOM, and monitors PMU and PFIs on how they implement TSL.

2.3 Accumulate expertise in assisting MEB with their institutional ability

As for the establishment of internal institutions for the TSL project at MEB, we have tried to provide assistance to promote the understanding, among directors and officers in charge, of the purposes of the TSL project through mutual cooperative activities with us.

Especially we support PMU to deliver the quarterly and yearly reports and to implement various procedures under the Operating Guidelines.

2.4 Understanding of risk management methods of Japanese financial institutions and penetrating them to PFIs

After grasping each PFI's present condition, we support to introduce some useful credit risk management methods concretely. Depending on each PFI's feedback activities which use and analyze information for the decision making of lending money, we can advise how PFI can step up its risk management stage.

There are four stages in the risk management.

Stage 1: Gathering proper corporate information including financial and non-financial data.

Stage 2: Analyzing financial ratios of each customer

Stage 3: Making up database of gathered data and analyzed data

Stage 4: Developing the internal scoring and/or credit risk scoring

Additionally we advise PFIs what types of methods are needed for each PFI to complete credit risk management.

2.5 Clear the difference between Agricultural TSL (Agriculture and Rural Development Two-Step Loan: ARD-TSL) and SME-TSL

At present in Myanmar there are two kinds of TSL schemes. One is the agricultural TSL managed by

MADB and the other is SME-TSL managed by MEB. We should make clear demarcation of each loan scheme, because the one preferential loan scheme should be used for one customer. We are going to make the demarcation not to give confusion for the customers and financial institutions.

Demarcation of ARD-TSL and SME-TSL

	SME-TSL	ARD-TSL
Target	SMEs whose definition is according to SME Development Law (with legal company registration or official business license including SME card except farmers category)	Farmers (including MADB customers and SME card holders whose category includes farming)
Collateral	Depending on PFI’s decision, not limited to immovable asset (land and building)	Farmland (Form 7) , guarantors, deposit, etc.
PFI(s)	Selected commercial banks which have an SME lending policy.	Myanma Agriculture Development Bank (MADB)

2.6 Realizing proper management for the preferential loan framework (‘loans for SMEs for relaxing of collateral conditions’ and ‘loans for SMEs who have the transaction with Japanese companies’)

In the SME-TSL Phase 2 new loan schemes are introduced. They are ‘loans for SMEs for relaxing of collateral conditions’ and ‘loans for SMEs who have the transaction with Japanese companies’. The purposes of these loan schemes are i) to slough off the loan attitude just focusing on collaterals, and ii) to encourage SMEs in Myanmar by Japanese companies and expand benefit for them.

Regarding ‘loans for SMEs for relaxing of collateral conditions’, proper credit risk evaluation and loan conditions which complement credit risk such as CGI should be considered when this scheme starts.

Regarding ‘loans for SMEs who have the transaction with Japanese companies’, we need objective evaluation indexes such as transaction history, business stability with Japanese companies, and weight of transaction with Japanese companies and so on.

The loan conditions and the basis for selection of SMEs for these new loan schemes should be decided clearly before starting Phase 2.

Demarcation of (A) Ordinary Loan and (B) Loans for Transactions with Japanese Companies

	SMEs who have/will have business transaction experience with Japanese companies	SMEs who has no business transaction experience with Japanese companies
Purchasing fixed asset from Japanese companies by TSL	(B)	(B)
Purchasing fixed asset from local dealers or foreign dealers except Japanese companies by TSL (e.g. Myanmar, India, Thailand, etc.)	(B)*	(A)

*If the SME can submit evidence document(s) of past or future transaction with Japanese companies at the time of TSL application.

3. The Results of the Project

3.1 Project flow chart

The project operations were done effectively and efficiently according to the chart shown below.

Operation Schedule

Year/Month		2018															
		1	2	3	4	5	6	7	8	9	10	11	12				
Preparation in Japan	1	Review and analysis of existing document															
	2	Drawing up "Work Plan"															
	3	Creating questionnaires		Work Plan													
	4	Presentation of the work plan for JICA H.Q.															
1st field work	5	Discussion with JICA Yangon office															
	6	Presentation and discussion of the work plan with government officers in Myanmar															
	7	Revision of TSL Operating Guidelines and assistance on building TSL implementation system (1)															
		a) Assistance on revising TSL Operating Guidelines including various formats															
		b) Newly building of the preferential loan scheme for relaxing of collateral conditions															
		c) Newly building the preferential loan scheme for SMEs who have the transaction with Japanese companies															
		d) Preparation for MEB to participate in PFIs (how to create the fire wall between PMU and the loaning sections etc.)															
	8	Assistance on promoting of implementing SME-TSL Phase 2 (1)															
		a) Identification of the roles and the functions of MEB and Working Committee															
		b) Identification of the status of organization and responsibilities of PMU at MEB															
		c) Preparation for the selection of PFIs and the conclusion of Participation Agreement between MEB and PFIs															
	d) Assistance on the creation of operational flows for medium and long term loans																
	e) Assistance on the budget request for next fiscal year in GOM																
	f) Assistance on continuous auditing under SOE method by OAG																
9	Developing a New Financial Product (1): Consideration and assistance of the use of CGI in the Phase 2 framework																
10	Report to JICA on 1st visit to Myanmar																
11	Preparation for 2nd field work in Myanmar																

Operation Schedule

Action		Year/Month		2018											
		1	2	3	4	5	6	7	8	9	10	11	12		
2nd field work	12	Revision of TSL Operating Guidelines and assistance on building TSL implementation system (2)													
		a) Completion of the Operating Guidelines (English and Burmese version) and authorization at WC													
	13	Assistance on promoting of implementing SME-TSL Phase 2 (2)													
		a) Confirmation of the conclusion of Participation Agreement between MEB and PFIs													
		b) Explanation of Operating Guidelines for PFIs (practical use, explanation of revised parts)													
		c) Assistance on implementation of promotion activities (1)													
	14	Assistance on improving project management abilities for MEB staffs													
		a) Conduct OJT through revising the Operating Guidelines													
		b) Conduct seminars and workshops on the application of TSL													
		c) Assistance on creation of documents by PMU to be submitted to JICA													
	15	Developing a New Financial Product (2):Acquisition of lessons learned													
	16	Assistance on improvement of credit appraisal of sub- loans for PFIs' officers (1):													
	17	Report to JICA on 2nd visit to Myanmar													
	18	Preparation for 3rd field work in Myanmar													
3rd field work	19	Assistance on promoting of implementing SME-TSL Phase 2 (3): Assistance on implementation of first disburse of sub-loans, Assistance on implementation of promotion activities (2)													
	20	Assistance on improvement of credit appraisal of sub- loans for PFIs' officers (2)													
		a) Conduct seminars and workshops on the application of the Operating Guidelines for PFIs													
		b) Assistance on strengthening of capacity of credit appraisal for medium and long term loans (2)													
		c) Consideration of cooperation with JICA projects implementing in Myanmar													
	21	Report to JICA on 3rd visit to Myanmar													
	22	Drawing up the Final Report on this support program													

Legend: Operation in Myanmar Operation in Japan Report

3.2 The 1st field work (From March 6 to March 29, 2018)

3.2.1 Presentation and Discussion about Inception Report/Work Plan

We had meeting with JICA Myanmar office, MOPF, MOI, MOC, CBM and MEB to explain the work plan and also had meeting with Phase 1 PFIs, MBA, UMFCCI and MI. After discussion we prepared to revise the Operating Guidelines of SME-TSL Phase 2.

3.2.2 Revision of TSL Operating Guidelines and Assistance on Building TSL Implementation System (1)

- a) Assistance on revising TSL Operating Guidelines including various formats.
- b) Newly building of the preferential loan scheme for relaxing of collateral conditions
- c) Newly building the preferential loan scheme for SMEs who have the transaction with Japanese companies

Revised Operating Guidelines were submitted to MEB including the procedures and the loan conditions of new loan schemes ('loans for SMEs for relaxing of collateral conditions' and 'loans for SMEs who have the transaction with Japanese companies'), criteria and procedures for PFI selections and monitoring procedures including reporting for each SME customers' situations after the loan. However, the detailed loan conditions of both of the preferential loan schemes were not decided at that moment.

- d) Support MEB (both PMU and future PFI) to participate in TSL as PFI (how to create the fire wall between PMU and the loaning sections etc.)

From the viewpoint of SME-TSL implementation system, we supported MEB, which was expecting to become a PFI, by building fire- wall to get rid of information distortion between PMU and PFI at MEB.

3.2.3 Assistance on Promoting of Implementing SME-TSL Phase 2 (1)

- a) Identification of the roles and the functions of MEB and WC

Basically the role and function of WC was the same as Phase 1. We visited WC members and confirmed the implementation structure to encourage SME-TSL including the role of MEB which would have two functions (PMU and PFI).

- b) Identification of the status of organization and responsibilities of PMU at MEB

We made up PMU the sustainable organization so as to manage SME-TSL smoothly because the amount of loan of Phase 2 was increased three times as much as that of Phase 1.

- c) Preparation for the selection of PFIs and the conclusion of Participation Agreement between MEB and PFIs

Adding on the present (Phase 1) PFI selection criteria we discussed what kind of criteria was needed. We provided additional criteria for Phase 2 PFI selection, nationwide branch network of PFI for example, into the Operating Guidelines.

- d) Assistance on the creation of operational flows for medium and long term loans

In the revised Operating Guidelines, additional operational flows regarding new loan schemes were

introduced and explained in detail.

e) Assistance on the budget request for next fiscal year in GOM¹

In this budget year (from April to September in 2018) 3 billion JPY ODA Loan were included in the national budget. For the next fiscal year (from October in 2018 to September in 2019) we recommended not to disburse whole remaining amount in one budget year but to disburse partial amount, 8 billion JPY, and for the second coming next fiscal year (from October in 2019 to September in 2020) to disburse 3.5 billion JPY²

f) Assistance on continuous auditing under SOE method by OAG

Continuous auditing by UOAG was confirmed. Also, we would assist PMU to record Project Operating Accounts and Revolving Fund Accounts.

3.2.4 Developing a New Financial Product (1)

a) Consideration and assistance of the use of CGI in the Phase 2 framework

b) Assistance of the use of CGI

After discussion with related organizations and government officials, we arranged the financial product packaging with SME-TSL and CGI, and the assistance policy of the use of CGI was written in the Operating Guidelines. We expect to encourage SMEs which don't have enough collateral to get SME-TSL by using this scheme.

3.3 The 2nd field work (From June 4 to August 29, 2018: The first half: from June 4 to June 29; and the latter half: from July 17 to August 29)

3.3.1 Revision of TSL Operating Guidelines and Assistance on Building TSL Implementation System (2)

a) Completion of the Operating Guidelines (English and Burmese version) and authorization at WC

We completed the Operating Guidelines and they were authorized at WC held on August 2 in Nay Pyi Taw.

3.3.2 Assistance on Promoting of Implementing SME-TSL Phase 2 (2)

a) Confirmation of the conclusion of Participation Agreement between MEB and PFIs

Participation Agreements between MEB and 7 PFIs were concluded on September 6th in Nay Pyi Taw.

b) Explanation of Operating Guidelines for PFIs (practical use, explanation of revised parts)

We had the seminar for selected PFI officers on August 13th at Summit Park View Hotel in Yangon.

7 PFIs and PMU attended the seminar.

c) Assistance on implementation of promotion activities (1)

The seminar for SME Center staffs of MOI was held on August 10th and for MJC on August 23rd. We visited UMFCCI and JCCM to explain the outline of SME-TSL scheme, and ask them to disseminate

¹ The disbursement amount and schedule are now discussing. Please see appendix 7 for the reference.

² Consultant team suggested PMU to disburse 8 billion JPY in two times: 4 billion for 6 months (from April to September, 2019) and another 4 billion for another 6 months (from October 2019 to March 2020).

the information for member companies.

3.3.3 Assistance on Improving Project Management Abilities for MEB Staff

a) Conduct OJT through revising the Operating Guidelines

We had the meeting with PMU several times and discussed the revision points of Operating Guidelines for Phase 2.

b) Conduct seminars and workshops on the application of TSL

We had the seminar for PMU staffs on August 1st at the head office of MEB in Nay Pyi Taw.

c) Assistance on creation of documents by PMU to be submitted to JICA

- i) Project Status Report (PSR): Quarterly
- ii) On-going Sub-project Summary report: Quarterly

As for the reports below required annually by JICA, assist PMU to record and to put in order the required information collected up to this point.

- iii) Statements of Designated, Project Operating and Revolving Fund Accounts
- iv) Current Repayment and Overdue Status Report
- v) Annual Review of the Executing Agency and PFIs (audited annual report)
- vi) Annual Environmental and Social Performance Report

At the PFI seminar held on August 13th, we explained the contents and timing of the reports.

3.3.4 Developing a New Financial Product (2)

a) Acquisition of lessons learned

By getting information about the experience to use CGI from Mr. Izumi of SMBC we improved the procedures when SME used CGI for SME-TSL Phase 2. For example, the term of CGI can be changed flexibly depending on the loan term by MI³. At the seminars for MOI and PFIs he explained the present conditions of usage of CGI. However some PFIs explained that SMEs took time more than expected to get SME cards and the recommendation letter to apply for CGI.

3.3.5 Assistance on Improvement of Credit Appraisal of Sub-Loans for PFIs' Officers (1)

a) Assistance on strengthening of capacity of credit appraisal for medium and long term loans (1)

We had interviews with PFIs how to implement credit scoring and credit appraisal and grasped the basic credit appraisal skill of each PFI. We provided the template of credit scoring/rating and explained it to PFIs and had hands-on training for PFIs upon request.

³ Although until now CGI is provided for just one year, TSL users can extend the term of condition depending on the loan maturity.

3.4 The 3rd field work (From September 18 to November 20 2018: The first half: from September 18 to October 13, the latter half: November 5 to November 20)

3.4.1 Assistance on Promoting of Implementing SME-TSL Phase 2 (3)

a) Assistance on implementation of first disburse of sub-loans

We supported PMU to check the application forms submitted by PFIs for Phase 2 sub-loans.

The total budget of 40.9 billion MMK (= 3 billion JPY) as the first batch disbursement was divided into 7 PFIs (@5.8 billion MMK) and 8,280 million MMK (20.2% of total budget) have already approved as sub-loans for SMEs as of November 19th,2018.

Progress of the First Batch as of November 19th, 2018

PFI	Number of sub-loans (including relaxation of collateral conditions)	Loan amount (million MMK)	Region and the number of sub-loans (relaxing of collateral conditions)
AYA	26 *(1)	5,270	Mandalay 9, Ayeyarwady 8, Rakhine 2, Bago 2, Mon 1, Sagaing 1, Kachin 1, Kayin 1, Yangon(1)
KBZ	2	200	Yangon 1, Magwe 1
MCB	2	650	Yangon 2
CB	8 *(1)	1,005	Yangon 4(1), Mandalay 1, Kayah 1, Shan 2
MEB	2	490	Mandalay 1, Bago 1
UAB	5 (2)	665	Yangon 4(2), Mandalay 1
Total	45 (4)	8,280	

*Using CGI

b) Assistance on implementation of promotion activities (2)

SME-TSL encouraged PFIs to conduct promotional activities especially for rural areas by using each PFI's own network. We provided an SME-TSL leaflet to be distributed by PFIs and SME Center. PFIs had some seminars in rural areas to promote SME-TSL.

We attended JETRO food business promotion seminar held at UMFCCI on November 12th and explained SME-TSL scheme and how to apply it for SMEs who managed food business. SME-TSL leaflet was also provided to the participants. The number of the participants was about 60.

3.4.2 Assistance on Improvement of Credit Appraisal of Sub-Loans for PFIs' Officers (2)

a) Conduct seminars and workshops on the application of the Operating Guidelines for PFIs

We visited each PFI and had training for PFI staff to understand how to operate TSL and how to write the reporting formats.

On November 10th we had a one-day seminar in Nay Pyi Taw for branch officers from all states and regions of MEB to explain how to manage TSL procedures. The number of participants was about 70.

b) Assistance on strengthening of capacity of credit appraisal for medium and long term loans (2)

By using prototype data-template PFI officers learned standard method of credit appraisal/credit scoring. After that we had hands-on training for each PFI to improve credit appraisal/credit scoring capacity especially for new PFIs.

c) Consideration of cooperation with JICA projects implementing in Myanmar

Some implementing projects by JICA which encourage SME promotion, SME organizational functions and SME employees' capacity building, can be cooperated with SME-TSL. Participants (SME owners) of seminars organized by JICA could understand the scheme of TSL and were encouraged to apply and use TSL.

Promotional and Support activities Consultants Conducted or Participated during the Implementation and Facilitation Period in 2018

	Event	Target	Topics
June	Credit Scoring Seminar	Member bank officers from Myanmar Banks Association	Credit scoring and risk management
	MEB Seminar	PMU members	Conflict of interest Credit scoring and risk management
July	SME-TSL Explanatory Meeting	JETRO Myanmar UMFCCI Members	SME-TSL outline
August	Seminar for SME Center Staff	SME Center Staff from Ministry of Industry	SME-TSL outline SME-TSL administrative procedure
	Orientation Seminar for Phase 2 PFIs	Bank officers from 7 PFIs for Phase 2 and PMU members	SME-TSL outline SME-TSL administrative procedure
	MJC Seminar	Former and present students of Myanmar Japan Center (SME owners)	SME-TSL outline
August – November	Workshop for PFI loan officers	Loan officers and branch office staff at each PFI (upon request)	Credit scoring and risk management SME-TSL administrative procedure
November	JETRO Seminar for Food Processing Industry (“Measure for Secure for Food Safety”)	SMEs managing food processing business	SME-TSL outline

3.5. Future issues and countermeasures

3.5.1 Encouraging to use CGI

CGI is a useful tool for SMEs who do not have enough collateral to apply for TSL. However, there are some procedures to apply for CGI. SMEs have to get SME card from SME center under MOI, and after that, they ask SME center to issue the recommendation letter. These procedures need some more time than expected, sometimes for several months. After completion of these procedures, PFIs give a loan to the SME. From above, to make TSL application process faster and smoother, total application process time for CGI should be shortened.

Another issue is that PFIs do not understand well about the procedure of CGI application. It is necessary for PFIs to understand CGI procedures deeply not only for PFIs themselves but also for SME customers.

Countermeasures:

Through discussion with MOI we have been trying to shorten the procedures time in SME centers to get SME cards and the recommendation letter for CGI. Also in WC we are going to discuss this matter. MOI replied that MOI had transferred the authority of issuing recommendation letter from Director General to head of Regional Directorate. The processing time for issuing recommendation letter would be faster than before. Also, PMU set the application period of 1st disbursement for 4 month in case PFI can receive the application from an SME customer who would like to apply for SME-TSL with CGI.

For PFIs, in order to have better understanding of CGI procedure among PFIs, we are planning to have a half day CGI seminar lectured by MI staff. In the seminar, we expect them to make the problems clear.

3.5.2 Needs for various kinds of promotional activities

In this project we held some seminars for SME owners, PFI staff members, and SME center officers. We prepared the leaflet of SME-TSL and distributed it through PFIs, JICA, JETRO and MOI.

Each PFI also implemented its promotion for TSL by using its own branch network, Facebook, web-site and so on. However, the activities are not enough especially for SMEs located in rural area.

Countermeasures:

Some seminars were held in Yangon during this implementation facilitation period. Before starting 2nd batch of Phase 2, when the Consulting Services for Phase 2 starts, we are going to hold seminars in some regional hub cities by support from UMFCCI and local SME centers. Also, the consulting team is thinking of having TSL seminars for PFI branch staff both in the major cities such as Yangon, Nay Pyi Taw, and Mandalay, but also other major cities in States/Regions.

3.6 Manning Schedule

M = Operation in Myanmar / J = Japan

	Assigned Area	Name	Organization	FY2017			FY2018												Man-Month					
				1	2	3	4	5	6	7	8	9	10	11	12	FY2017		FY2018		Total				
				M	J	M	J	M	J	M	J	M	J	M	J	M	J	M	J	M	J			
Field Work (Operation in Myanmar)	Team Leader / TSL Operational Management Support	Toshiyuki KATAGIRI	JERI			26			26	32									0.87		1.93		2.80	
	Credit Appraisal Capacity Development Support for PFIs 1	Takayuki URADE	JERI			15			19		23								0.50		1.40		1.90	
	Credit Appraisal Capacity Development Support for PFIs 2	Hirofumi AZETA	JERI			19			12					26					0.63		1.27		1.90	
	Assistance of Operating Guidelines / TSL Operational Management	Miyuki SATO	JERI			26					32					16			0.87		1.60		2.47	
				Sub Total												2.87		6.20		9.07				
Home Work (Operation in Japan)	Team Leader / TSL Operational Management Support	Toshiyuki KATAGIRI	JERI	1	1		1	1							1				0.10		0.15		0.25	
	Credit Appraisal Capacity Development Support for PFIs 1	Takayuki URADE	JERI		2				1						1				0.10		0.10		0.20	
	Credit Appraisal Capacity Development Support for PFIs 2	Hirofumi AZETA	JERI			1							2		1				0.05		0.15		0.20	
	Assistance of Operating Guidelines / TSL Operational Management	Miyuki SATO	JERI				1		1	1	1								0.00		0.20		0.20	
				Sub Total												0.25		0.60		0.85				
Report Submission				Work Plan			Operation Report for 1st-3rd Field Work								Project Completion Report									
				Total												3.12		6.80		9.92				

Field Work (Operation in Myanmar / M)

Home Work (Operation in Japan / J)

Appendix

1. Presentation Materials for Seminars and Meetings
2. FAQs for PFIs
3. Selection Result of PFIs for Phase 2
4. SME-TSL Phase 2 Promotion Leaflet
5. Disbursement Schedule Plan of SME-TSL Phase 2
6. Second Batch Allocation Rule
7. Recommendation Letters from Consultant Team

Appendix 1: Presentation Materials for Seminars and Meetings

1. Credit Scoring Seminar for Myanmar Banks Association (June 7, 2018)
2. MEB-PMU Seminar (June 19, 2018)
3. SME-TSL Explanatory Meetings with JETRO and UMFCCI (July, 2018)
4. SME-TSL Seminar for SME Center Staff under Ministry of Industry (August 10, 2018)
5. SME-TSL Seminar for Phase 2 PFIs (August 13, 2018)
6. SME-TSL Seminar for Branch Officers at MEB (November 10, 2018)
7. JETRO Seminar for Food-Processing Industry at UMFCCI (November 12, 2018)

Credit Scoring/Rating in Banking Business: Japanese Experiences & Its Application to Myanmar

Hajime Matsuura, MD
Credit Pricing Corporation

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• 1

Company Profile – *What is CPC doing?*

- Credit Pricing Corporation (CPC) is an independent consulting firm established in Japan in 2001.
- CPC is specialized in:
 - Development of financial risk management models and systems for financial institutions, general trading companies and non-banks in Japan
 - Valuation of various financial assets, including debts, equities and structured products including CDOs, CLOs, CMBS and RMBS
 - Delivery of produced data such as estimated credit ratings of all listed and most of unlisted Japanese companies and their probability-of-defaults together with historical track records
- CPC has a quest for expanding its service to investors in foreign countries.

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• 2

Today's Agenda

- Internal Rating System(**IRS**) & Credit Scoring Model (**CSM**) as key concepts for credit scoring/rating.
- History of implementation of internal rating system in Japanese banking business.
- How can Myanmar banks prepare effective IRS?

• 3

IRS: Definition

IRS = whole process of credit risk assessment by categorizing borrowers from the viewpoint of credit risk

Classification of Debtor	Risk Profile	Rank	Equivalent in external ratings
Normal	Blue-chips without concern on the credit risks for now	1	AAA, AA and A
	Following large companies capable of capital market financing	2	Upper range of BBB
		3	Lower range of BBB
	Large companies with some problems & SMEs without any problems	4	BB
		5	
Doubtful	Companies with concerns of default, due to tangible problems such as making losses	6	B
		7	
Substandard Claims	Relieved in the borrowing conditions	8	CCC or below, default
Potentially Bankrupt	Having difficulty in reconstruction of business and highly likely to go bankrupt in the future	9	
Effectively Bankrupt	Effectively bankrupt even before legal bankruptcy	10	
Bankrupt	Legally bankrupt	11	

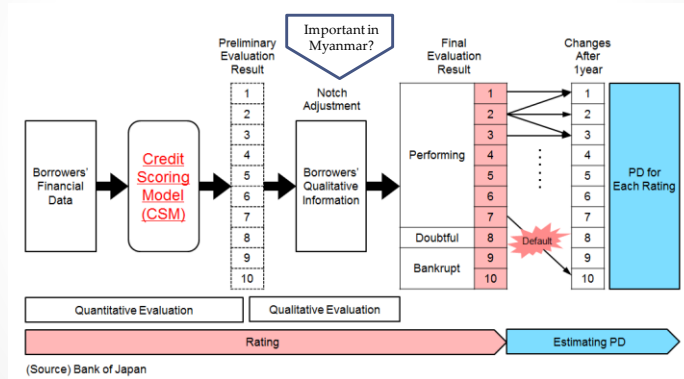
“Saimusha-kubun”
defined by FSA

typical internal rating of commercial bank

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IRS: Typical Process

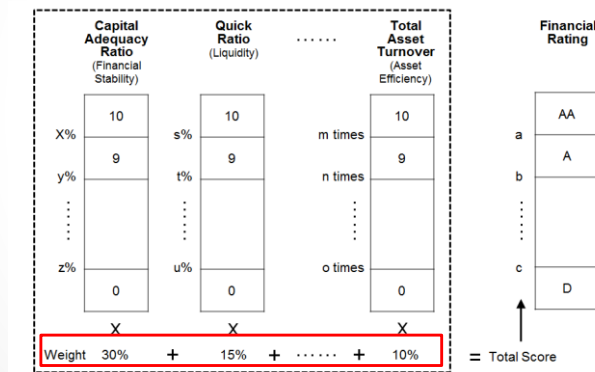
Both quantitative & qualitative information should be considered.
But flexibility is also important.



Ordinary determination process of internal rating system.
Important point is localization considering actual data availability.
It is possible to build CSM by using characteristics information.

Credit Scoring Model (CSM)

CSM = Algorithm to quantitatively calculate the amount of credit risk



Basic structure of credit scoring model. Translation of quantitative information into credit risk score.
If we have enough data, we can estimate optimal weights among variables statistically.

IRS: Purposes (1)

Decision making efficiency for credit examination

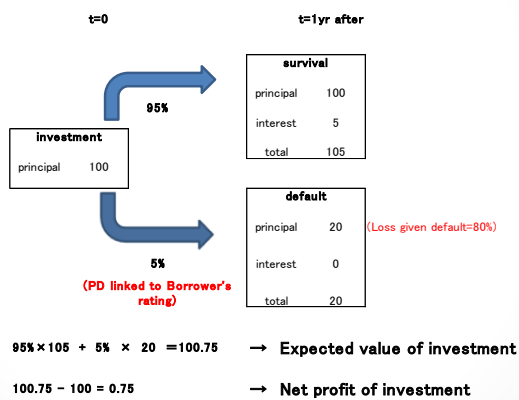
- Standardization of way of thinking within your bank
- Materialization of empirical knowledge about credit examination
- Paving a way to statistical analysis of in-house data

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IRS: Purposes (2)

Pricing appropriate loan rates



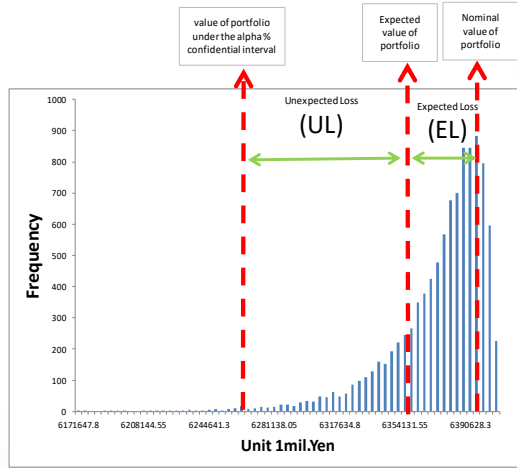
Principle of loan pricing. It is important to secure appropriate profit net of loss derived from credit risk.

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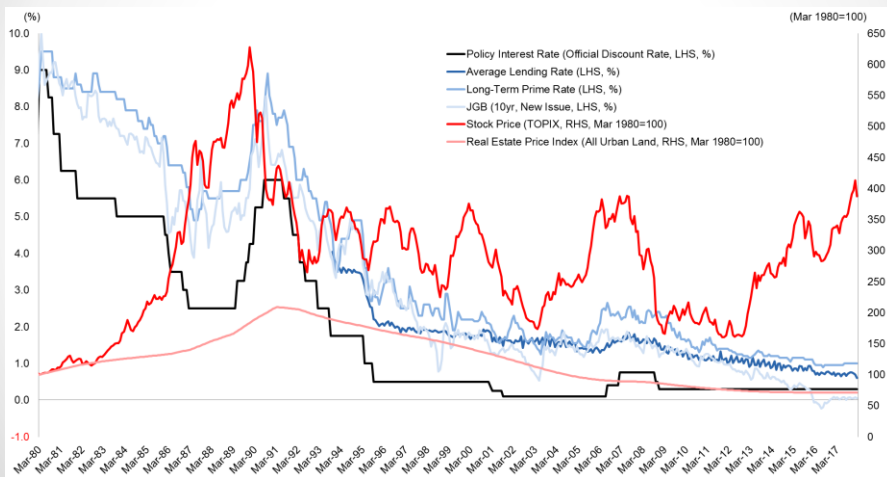
IRS: Purposes (3)

Quantification of loan portfolio risk.
Calculation of Value at Risk .



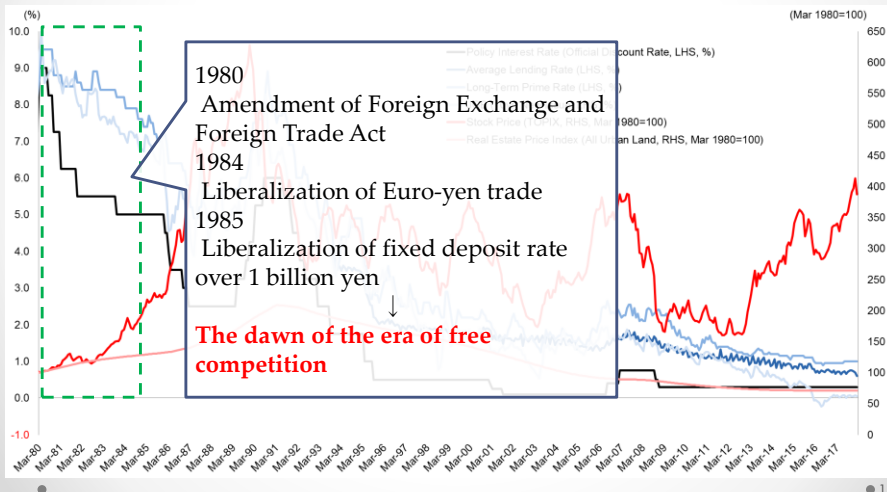
Example of Value at Risk calculation at virtual loan portfolio . Its nominal amount is about 6 trillion Yen.

History of Financial Economy in Japan (1980-)



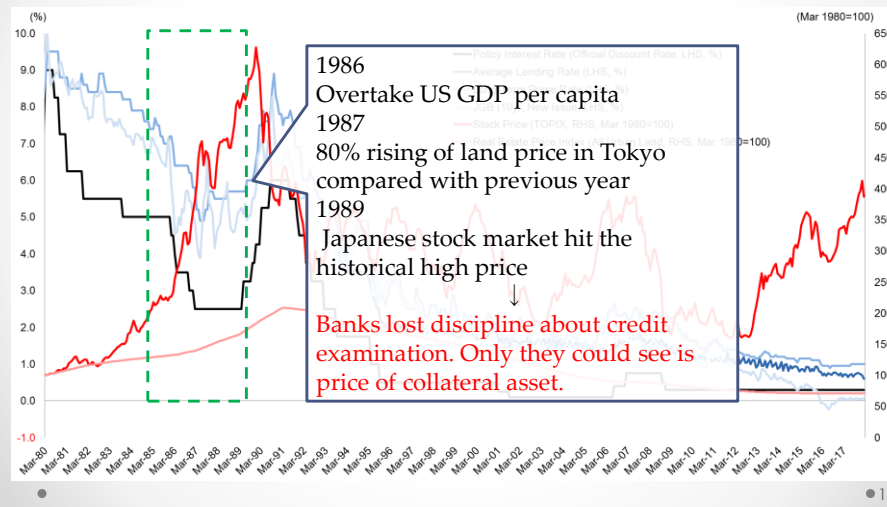
History of Financial Economy in Japan (Early 1980s)

Financial liberalization: Destruction of 'convo system' in financial industry



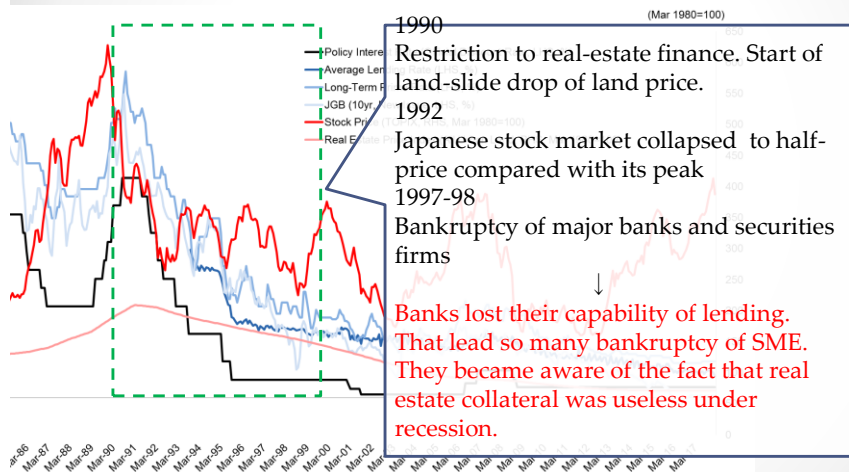
History of Financial Economy in Japan (Late 1980s)

Run-up of bubble economy: Euphoria of asset prices



History of Financial Economy in Japan (1990s)

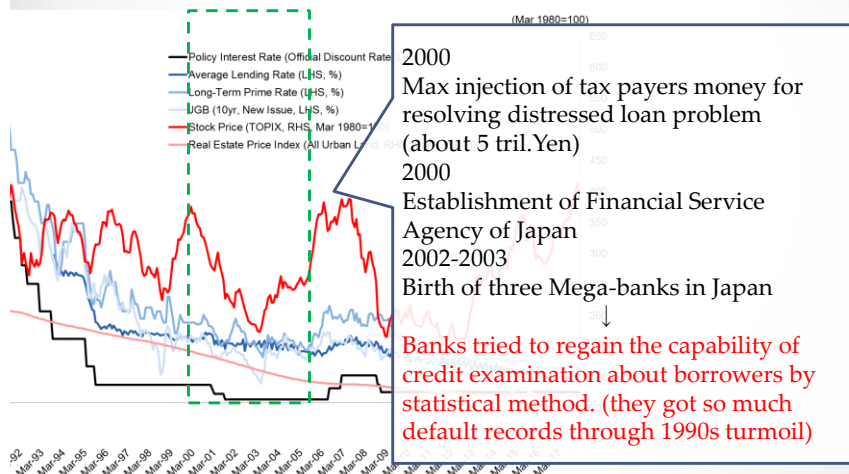
Crush of bubble: Malfunction of Japanese financial system



● 13

History of Financial Economy in Japan (Early 2000s)

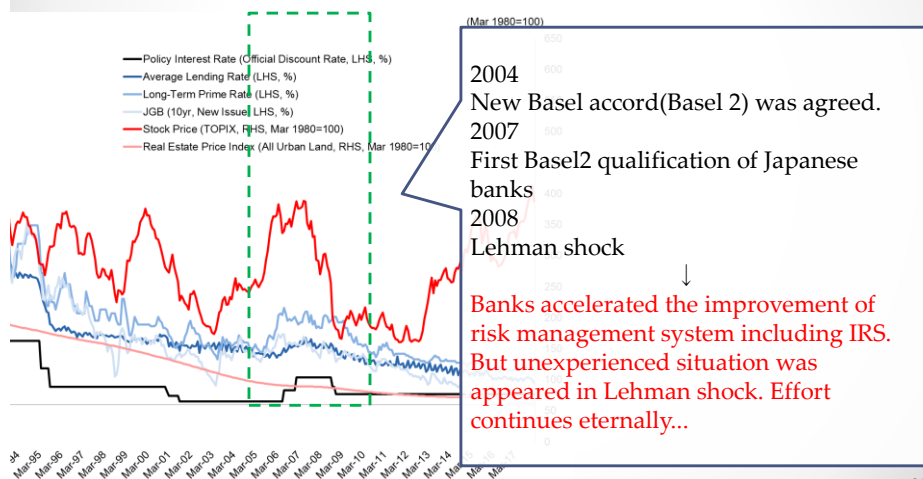
Dawn of 'evidence-driven' decision making, based on statistical methodology



● 14

History of Financial Economy in Japan (Late 2000s)

Basel 2: Establishment of standard through the adoption of regulations



How Can Myanmar Banks Prepare IRS?

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Realistic roadmap under the current condition in Myanmar.

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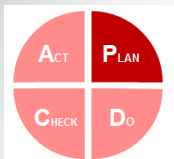
Assumptions

Current Myanmar conditions we recognize

- System infrastructure is developing for accumulating data including default history.
- Statistically estimated CSM is not common practice.
- Parameters for credit risk management such as PD are not estimated periodically in general.

Let's think solutions about these problems
By proceeding PDCA process.
PDCA is a method to solve a problem consist of 4
actions, plan, do, check, action.

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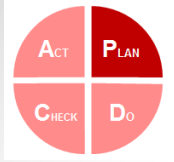


Designing Database(1)

Items of data collection which have strong correlation
to default of borrowers

- Financial statement
- Characteristics of business structure including capability of board members
- Historical track record of deposit
- Reputation from stakeholders

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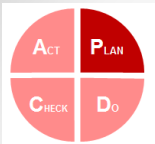
Designing Database(2)

Example: Scoring model
using characteristic factors
at a Japanese regional bank

Layer1	Layers2	Factor	Weight
Human resources	President	Capability of president	7%
Human resources	President	Health condition of president	5%
Human resources	Board member / employee	Capability of board members / Existence of subsequent leader	10%
Business resources	Fundamental capability	Relation to sale destination	5%
Business resources	Fundamental capability	Quality control of products	8%
Monetary resources	External support	Support of parent company	6%
Monetary resources	Funding capability	Relation to line banks	12%
Monetary resources	Funding capability	President's personal asset	19%
Monetary resources	Planning capability	Well-considered financial planning	15%
Monetary resources	Planning capability	Accuracy of earnings forecast	13%

Factors are selected statistically and Their weights are optimized to maximize discriminatory power between defaulted borrowers and non-defaulted at actual in-house data.

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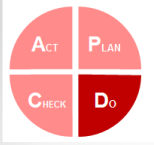


Defining Credit Events

Bankruptcy, delinquency, rescheduling of payments

- Most important data of credit risk management
- Systematic recognition of default event as well as checking human eyes
- Consensus with the supervisor

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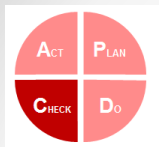
Building Crude IRS & Designing Its Operation

First step of PDCA cycle

- Team-up of in-house credit examination professionals.
- Build-up of basic IRS consistent with ongoing credit examination practice.
- The most important target on this step is that start of data accumulation process.

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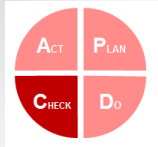
Data Cleansing

Consistency of input rule, handling of missing data, etc.

- Validation of quality of accumulated data after the first PDCA cycle.
- Centralization and standardization of data-input process.
- Investigation of the reason why missing-value input occurs.

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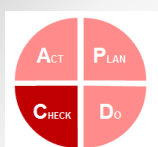
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Validating IRS

Point is discrimination capability of default

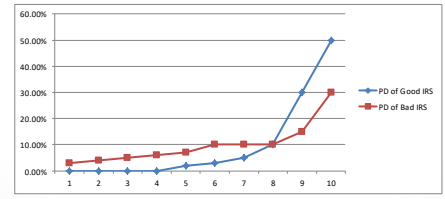
- Does IRS overweigh useless factors from the viewpoint of default discrimination?
- Is there any additional factor to contribute to the development of IRS accuracy?
- Did IRS properly evaluate defaulted borrowers as bad?



Validating IRS

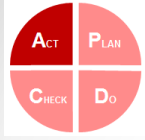
Good IRS locates defaulted borrowers at lower ratings .

【Good IRS】				【Bad IRS】			
Rating	Number of borrows	Number of default occurred during 1 year after rating determination	PD	Rating	Number of borrows	Number of default occurred during 1 year after rating determination	PD
1	100	0	0.00%	1	100	3	3.00%
2	100	0	0.00%	2	100	4	4.00%
3	100	0	0.00%	3	100	5	5.00%
4	100	0	0.00%	4	100	6	6.00%
5	100	2	2.00%	5	100	7	7.00%
6	100	3	3.00%	6	100	10	10.00%
7	100	5	5.00%	7	100	10	10.00%
8	100	10	10.00%	8	100	10	10.00%
9	100	30	30.00%	9	100	15	15.00%
10	100	50	50.00%	10	100	30	30.00%
Total	1000	100	10.00%	Total	1000	100	10.00%



Distribution of PD on two IRSs. Good IRS can forecast the occurrence of default by evaluate borrowers which will default after determination of rating as lower-rated borrowers.

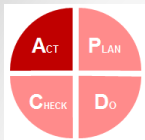
Good IRS provides a bank good loan portfolio.



Improving IRS

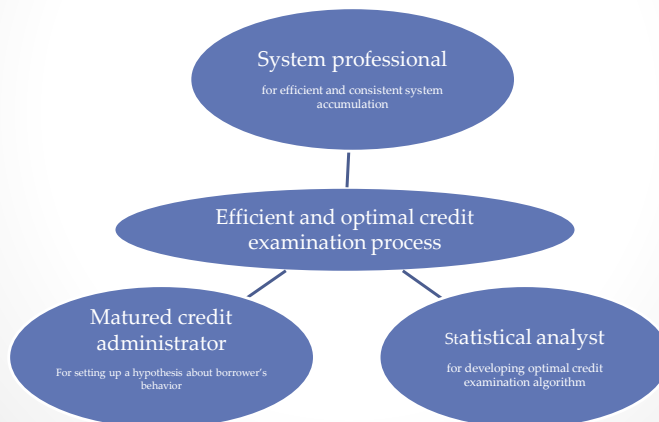
Study of using statistical method

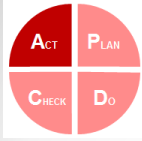
- When we reach to this step, we have accumulated data consists of in-house track records including default.
- That makes possible the estimation of statistical credit scoring model that reflect the default condition in actual loan portfolio.
- In this situation, the staff who have mathematical background must be needed to develop the CSM .



Let's Put It Practice

Ideal team-up
for improving IRS process





How about your current condition?

Function	Independent Div/Debt?	# of Staff Members	Details
IT			<ul style="list-style-type: none"> * Consistent input rules? (Y/N) * Double check input data? (Y/N) * Regular updates? (Y/N) * Operation Manual? (Y/N)
Credit Admin.			<ul style="list-style-type: none"> * Policies / Rules / Criteria? (Y/N) * Standardized decision process? (Y/N) * Authority of determination? (Y/N)
Stats			<ul style="list-style-type: none"> * Intention to hire dedicated mathematician? (Y/N) * Need for modeling? (Y/N) * Enough size of data? (Y/N)

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Thank you for your attention!

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Website : <http://www.credit-pricing.com/e/index.html>

Contact : hajime_matsuura@credit-pricing.com

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Credit Scoring/Rating: Prototype

June 7, 2018



Contents

Introduction

Customer Evaluation (CE)

Repayment Capacity Evaluation (RCE)

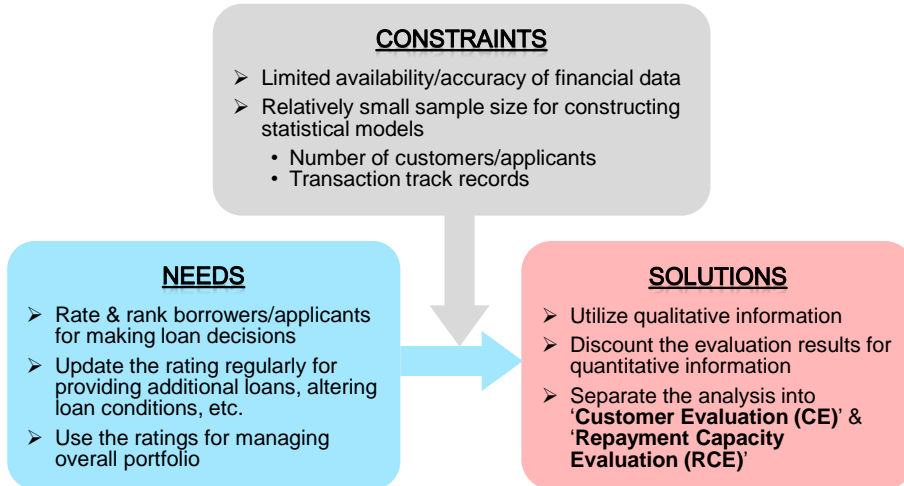
Overall Evaluation (OE)

Schedules Ahead



Introduction: Why, What & How?

Needs, constraints & possible solutions



Why Two Separate Evaluations?

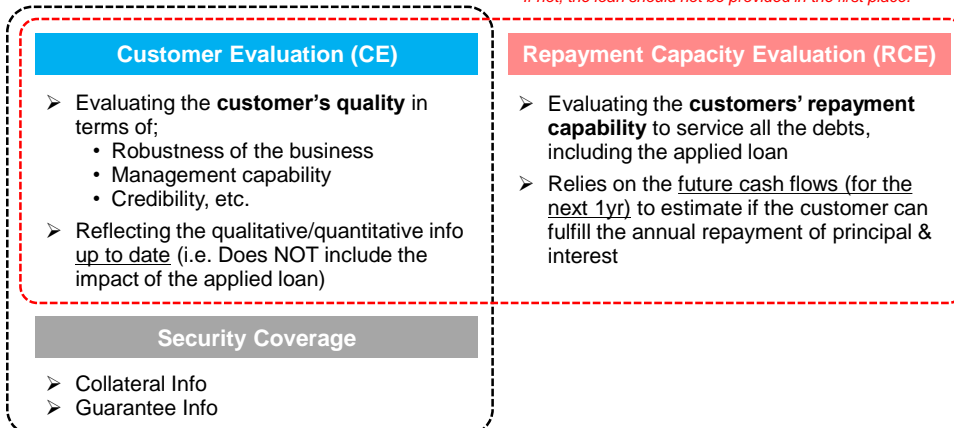
Rationale & specific uses of CE & RCE

2) For Specifying Loan Conditions

- To see if the loan is recoverable even in the worst case.
- The loan conditions should reflect LGD (Loss Given Default)

1) For Making Loan Decisions

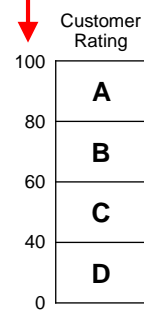
- To see if the loan is recoverable through the regular cash flows generated by the customer/applicant.
- If not, the loan should not be provided in the first place.



Customer Evaluation (CE)

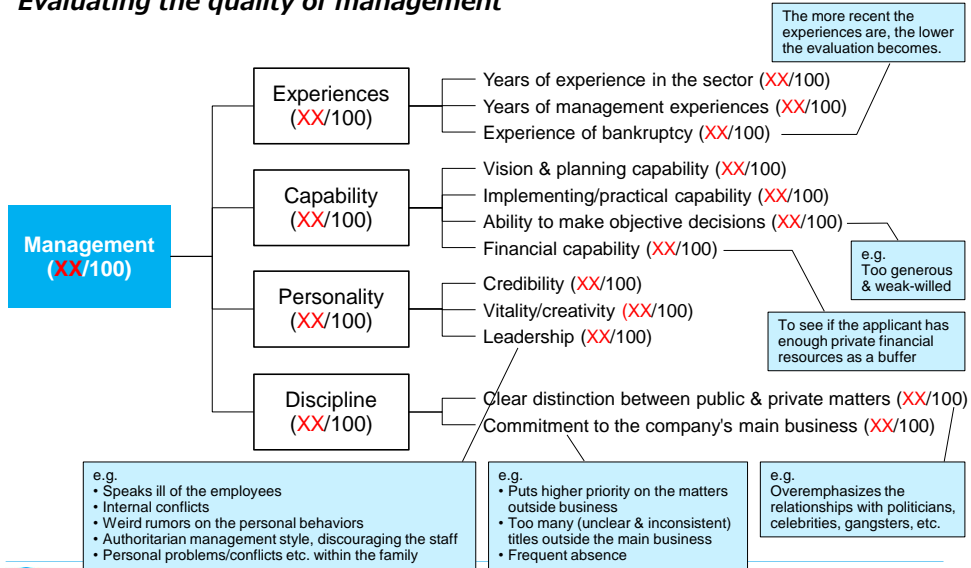
Customer Evaluation (CE): Framework

Category (Weight, %)	Criteria	Raw Score (1-10)	% Discount (for Financials)	Weight (%)	Adjusted Score
Management (XX)	Experiences (XX)	Years of experience in the sector	n.a.	0.0	0.0
		Years of management experiences	n.a.	0.0	0.0
		Experience of bankruptcy	n.a.	0.0	0.0
	Capability (XX)	Vision & planning capability	n.a.	0.0	0.0
		Implementing/practical capability	n.a.	0.0	0.0
		Ability to make objective decisions	n.a.	0.0	0.0
	Personality (XX)	Financial capability	n.a.	0.0	0.0
		Credibility	n.a.	0.0	0.0
		Vitality/creativity	n.a.	0.0	0.0
	Discipline (XX)	Leadership	n.a.	0.0	0.0
Clear distinction between public & private matters		n.a.	0.0	0.0	
Commitment to the company's main business		n.a.	0.0	0.0	
Internal Operations (XX)	Quality of facility management	n.a.	0.0	0.0	
	Efficiency/transparency in organization & internal management	n.a.	0.0	0.0	
	Quality of HR development/management	n.a.	0.0	0.0	
Employees (XX)	Quality of accounting	n.a.	0.0	0.0	
	Turnover	n.a.	0.0	0.0	
	Relationship with the management	n.a.	0.0	0.0	
Products/Services (XX)	Efficiency & quality	n.a.	0.0	0.0	
	Market environment	n.a.	0.0	0.0	
	Positioning in the sector (size of the pie)	n.a.	0.0	0.0	
Business Operations (XX)	Stable & well-diversified product/service portfolio with robust core business	n.a.	0.0	0.0	
	Quality of inventory management	n.a.	0.0	0.0	
	Quality of sales	n.a.	0.0	0.0	
	Quality of capital expenditures	n.a.	0.0	0.0	
	Quality of CoGS & other expenses	n.a.	0.0	0.0	
	Quality of the customer base	n.a.	0.0	0.0	
	Quality of public relations activities	n.a.	0.0	0.0	
Quality of business strategies	n.a.	0.0	0.0		
Financials (XX)	Profitability (XX)	Operating Profit Margin	n.a.	0.0	0.0
		ROA	n.a.	0.0	0.0
	Efficiency (XX)	ROE	n.a.	0.0	0.0
		Account Receivables Turnover Period	n.a.	0.0	0.0
		Inventory Turnover Period	n.a.	0.0	0.0
	Stability (XX)	Working Capital Required	n.a.	0.0	0.0
		Current Ratio	n.a.	0.0	0.0
		Gearing Ratio	n.a.	0.0	0.0
	Growth (XX)	Capital Adequacy Ratio	n.a.	0.0	0.0
		Fixed Assets to Long-Term Capital Ratio	n.a.	0.0	0.0
Years of Debt Redemption		n.a.	0.0	0.0	
Financing Activities (XX)	Interest Coverage Ratio	n.a.	0.0	0.0	
	Revenue/Profit Trend	n.a.	0.0	0.0	
	Quality of borrowings	n.a.	0.0	0.0	
Overall Score (100)	Quality of receivables	n.a.	0.0	0.0	
	Quality of other liabilities	n.a.	0.0	0.0	
					0.0



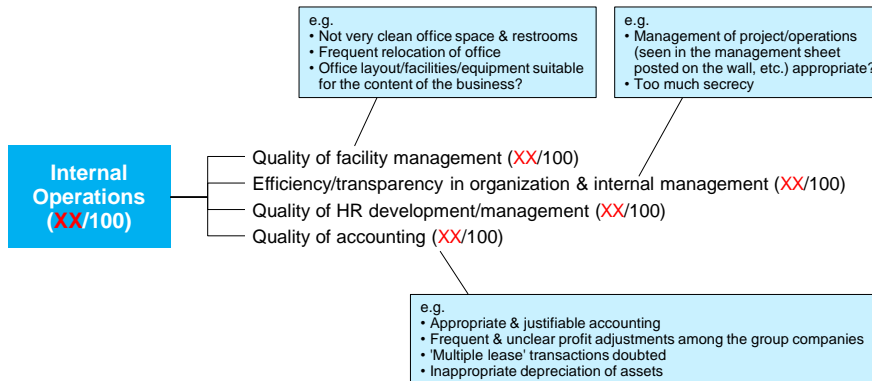
Customer Evaluation (CE): Management

Evaluating the quality of management



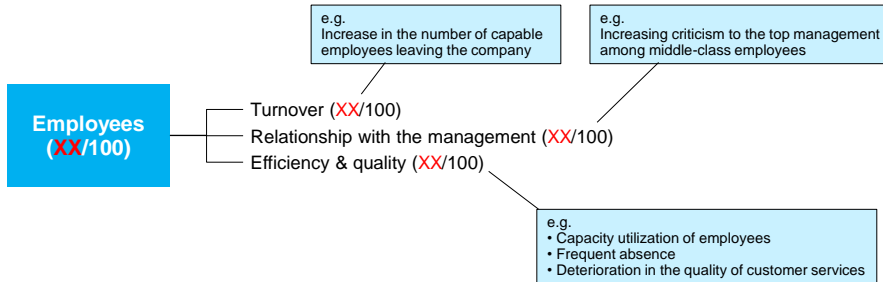
Customer Evaluation (CE): Internal Operations

Evaluating the efficiency, accuracy & transparency of internal operations



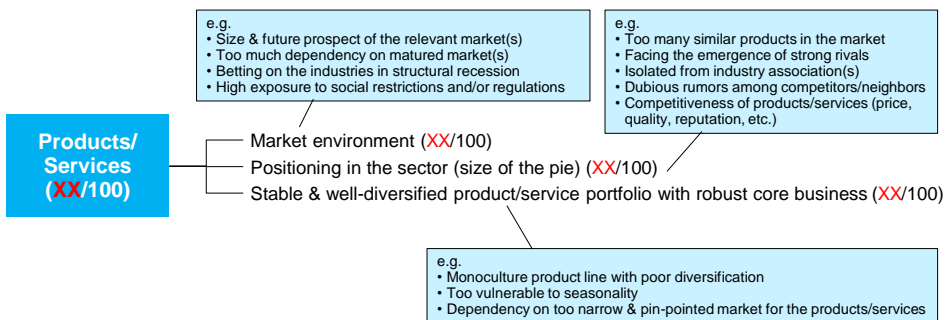
Customer Evaluation (CE): Employees

Evaluating the commitment, efficiency & quality of the staff



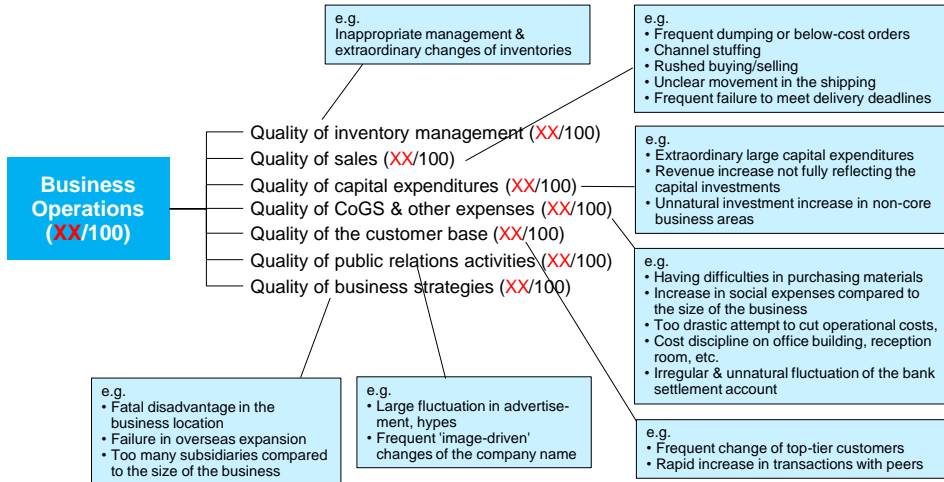
Customer Evaluation (CE): Products/Services

Evaluating the competitiveness & sustainability of products/services



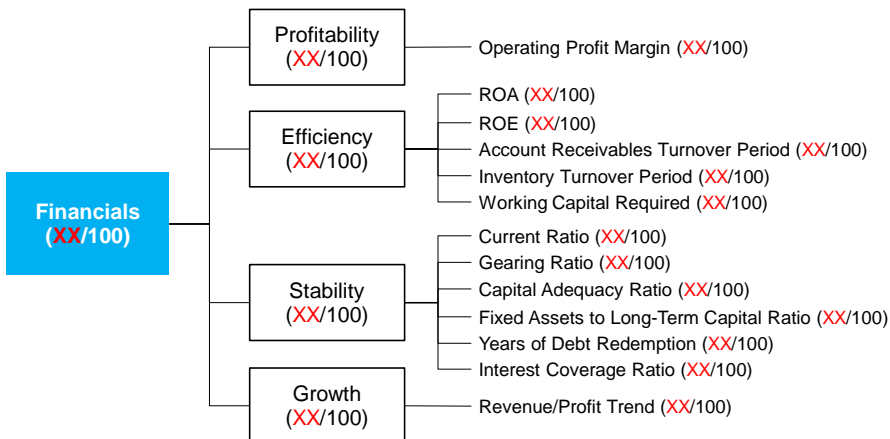
Customer Evaluation (CE): Business Operations

Evaluating the quality of the business operations



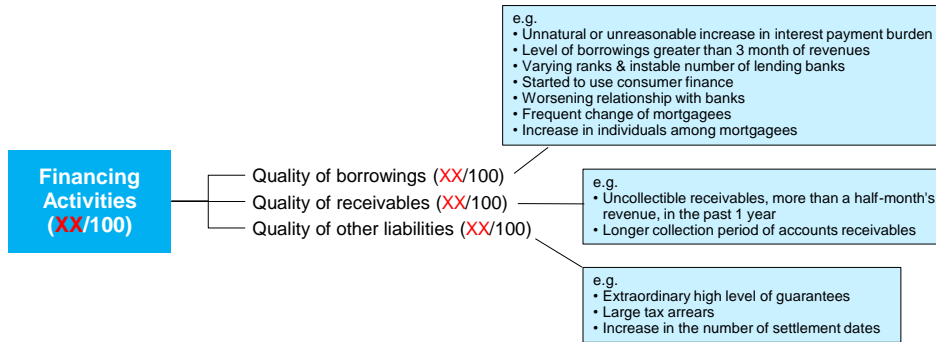
Customer Evaluation (CE): Financials

Evaluating the profitability, efficiency, stability & growth through financial data (to be discounted depending on the accuracy)



Customer Evaluation (CE): Financing Activities

Evaluating the healthiness & reliability of financing sources



Repayment Capacity Evaluation (RCE)

Repayment Capacity Evaluation (RCE): Framework

Estimating the customer's repayment capability for the next 1 year

(Unit: MMK)

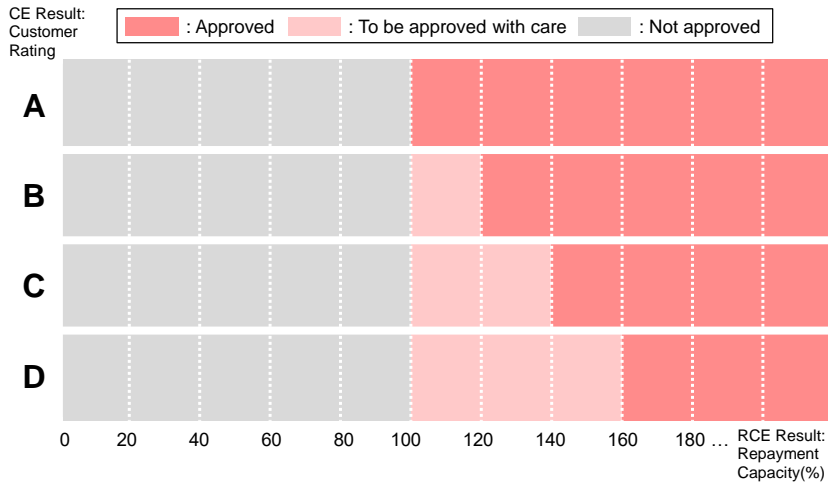
Fund Uses (for the next 1 year)			Fund Sources (for the next 1 year)	
Business Operations (B)	800,000		Operational revenues	1,000,000
Operational costs	800,000			1,000,000
Financing	305,000		Applied loan proceed	505,000
Principal repayment for existing loans (C)	100,000		Interest earned	5,000
Principal repayment for the applied loan (D)	100,000			
Interest payment for existing loans (E)	13,000			
Interest payment for the applied loan (F)	8,000			
Savings (surplus)	84,000			
Other Activities (G)	600,000		Other incomes	200,000
Capex	500,000			200,000
Other expenses	100,000			
Total	1,705,000		Total (A)	1,705,000
Fund available for the loan payment (principal & interest) = (A) - ((B)+(G)) = (H)				305,000
Loan repayment capability = (H) / ((C)+(D)+(E)+(F)) (%)				138.0%

Coverage of the loan payments
(including both principal & interests
for existing & applied loans) by the
fund available for the next 1 year

Overall Evaluation (OE)

Overall Evaluation (OE): Framework

Combining the results of CE & RCE to reach loan decisions



Schedules Ahead

What to be done along the timeline for TSL-Phase 2

Timeline	PFI with existing Credit Rating Framework (CRF)		PFI w/o any CRF
	No need for revision	In need for revision	
Now ~ T- 4 (months)	Review the prototype & examine the possibility of reflecting the missing info onto the existing CRF		Review the prototype & design a new CRF
By early Aug 2018	Selection of PFIs to be completed		
End-Sep 2018	Disbursement #1		
~ T- 3		Revision to CRF completed	β-version of CRF ready
~ T- 2		Revision applied to the existing data	Existing data entered in CRF & the version finalized
~ T- 1	Data for new applicants entered & analyzed in CRF		
T	Disbursement #2		
T ~	Adjustments/modifications made on CRF		

For further questions/clarifications, please feel free to contact:

Takayuki URADE

JICA Consulting Team

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Mobile(Myanmar): 94-4961-1771

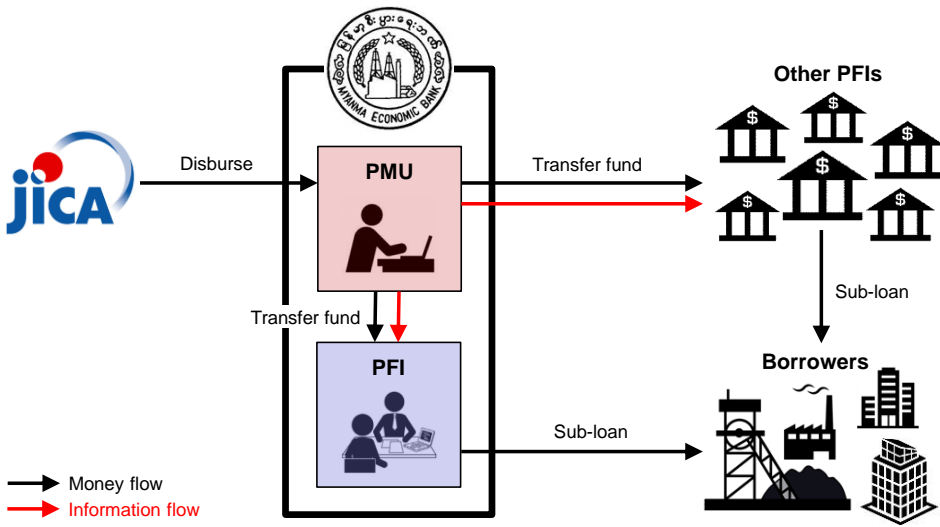
Avoiding the Conflict of Interests Between the Functions of PMU & PFI

June 2018



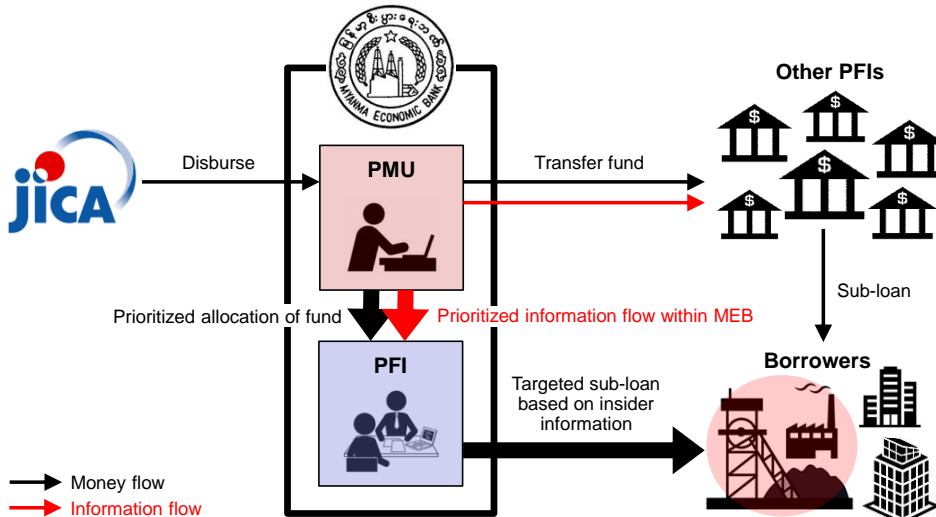
Overview: What, Why & How?

Without firewall...



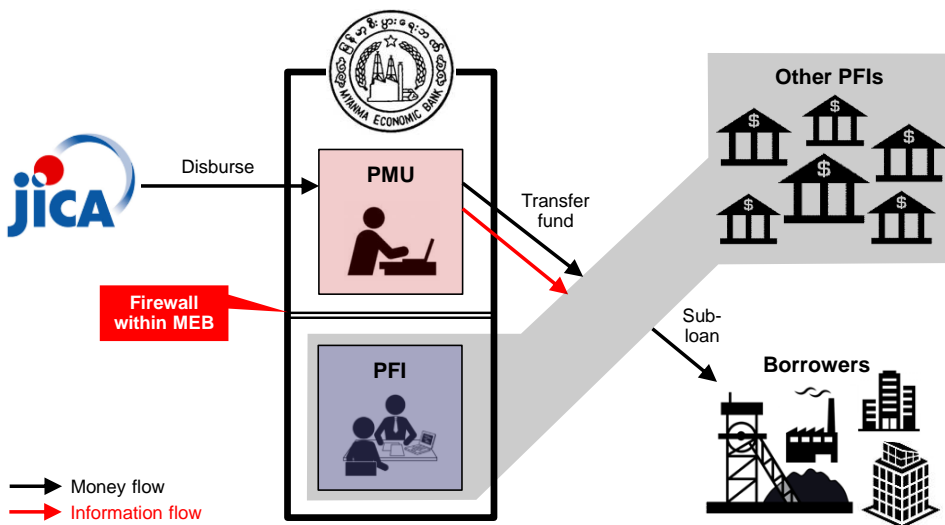
Overview: What, Why & How?

And what happens...



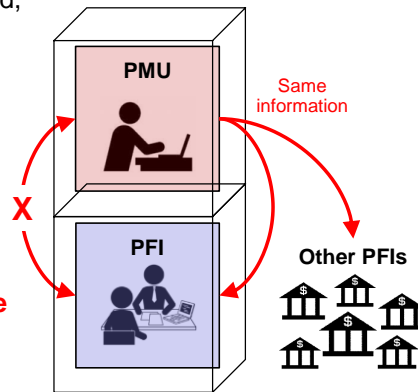
Overview: What, Why & How?

Clear distinction through the firewall between the functions of PMU & PFI



What To Do?

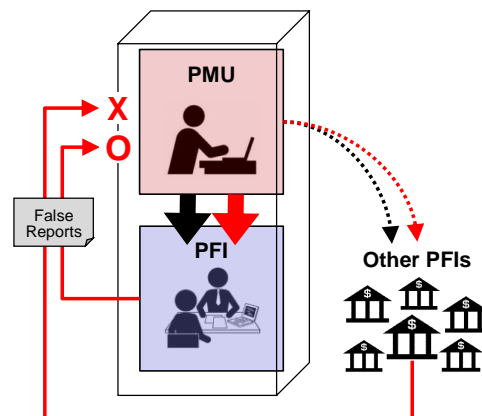
- The functions of **Executing Agency/PMU** & those of **PFI** have to be clearly separated, especially in the case of same legal entity performing both.
- In case 2 functions are performed by 1 entity, they should be **physically isolated from each other** through:
 1. Avoiding any overlap of the **staff members**
 2. Physically separating the **office space**
 3. Limiting the **information flow** to the same level as those between PMU & other PFIs



Why Necessary?

To avoid potential conflict of interests between the functions of PMU & PFI. Otherwise, PMU technically can;

- Prioritize the **fund allocation** to a particular PFI over others
- Provide PFI with an advantage of an exclusive **access to the information** held by PMU
- **Pretermite the inaccurate/false reports** by PFI regarding the fund usage, causing the potential deterioration of loan assets



How To Do Them?

1. Avoiding overlap of staff members

- Prohibiting **double assignments**
- Prohibiting **direct relocations** between the relevant departments/divisions



2. Physically separating the office spaces

- Through building a **wall** or assigning **different floors**
- Limiting the access to the spaces through **security card** or **ID/password**

3. Limiting information flows to the same level as those between PMU & other PFIs

- Keep & regularly check the **communication logs** (emails, voices, etc.) between the relevant departments/divisions
- To be checked by an independent **internal audit** personnel/department/division within the bank or an **outside auditor**
- Also **other PFIs** shall be able to allege the violation of above rules.

For further questions/clarifications, please feel free to contact:

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Credit Scoring/Rating: Basics & Introduction of the Prototype

June 19, 2018



Contents

1. Introduction: Why We Need Credit Scoring/Rating?
2. Prototype Credit Scoring/Rating Framework
 - Customer Evaluation (CE)
 - Repayment Capacity Evaluation (RCE)
 - Overall Evaluation (OE)
 - Schedules Ahead



1. Introduction: Why We Need Credit Scoring/Rating?

Definitions

Credit rating (through scoring) for the bank's internal use } **Internal Rating System (IRS)**
= Categorizing borrowers by assessing their credit risks

Purposes

- Streamlining the decision making for credit examination process through;
1. Standardizing the way of thinking within the bank
 2. Materializing empirical knowledge about credit examination
 3. Paving a way to statistical analysis utilizing in-house data

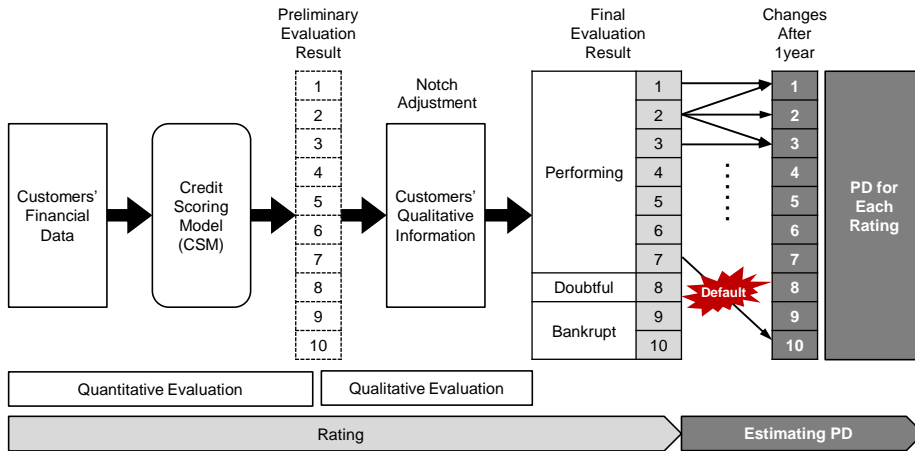
Typical Internal Rating Structure for Commercial Banks

Classification of Debtor	Risk Profile	Rank	Equivalent in external ratings
Normal	Blue-chips without concern on the credit risks for now	1	AAA, AA and A
	Following large companies capable of capital market financing	2	Upper range of BBB
		3	Lower range of BBB
	Large companies with some problems & SMEs without any problems	4	BB
		5	
Doubtful	Companies with concerns of default, due to tangible problems such as making losses	6	B
		7	
Substandard Claims	Relieved in the borrowing conditions	8	CCC or below, default
Potentially Bankrupt	Having difficulty in reconstruction of business and highly likely to go bankrupt in the future	9	
Effectively Bankrupt	Effectively bankrupt even before legal bankruptcy	10	
Bankrupt	Legally bankrupt	11	

Source: Credit Pricing Corporation (CPC)

IRS: Typical Process

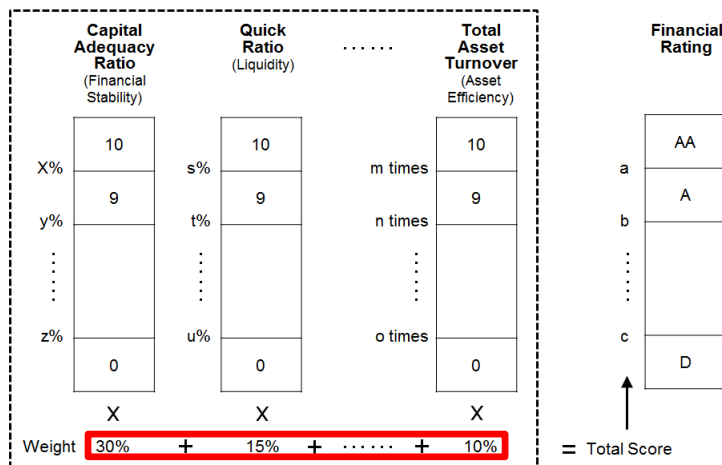
Both **quantitative** & **qualitative** information should be considered, while **'flexibility'** is also important.



Source: Bank of Japan

Credit Scoring Model (CSM)

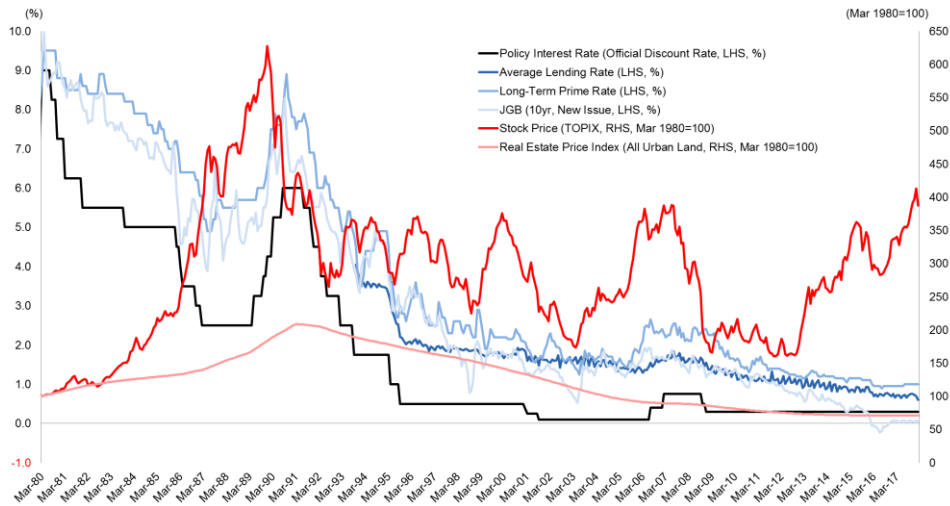
CSM = Algorithm to calculate & quantify the amount of credit risk



Source: Credit Pricing Corporation (CPC)

History of Financial Economy in Japan (1980-Present)

IRS developed in early 2000s to deal with deregulations (e.g. interest rate liberalization) & resulting competitions in the banking sector



How to Construct IRS: An Example

Scoring model using qualitative factors by a Japanese regional bank

- Factors have been selected statistically.
- Their weights are optimized to maximize discriminatory power between 'default' & 'non-default' borrowers through actual in-house data.

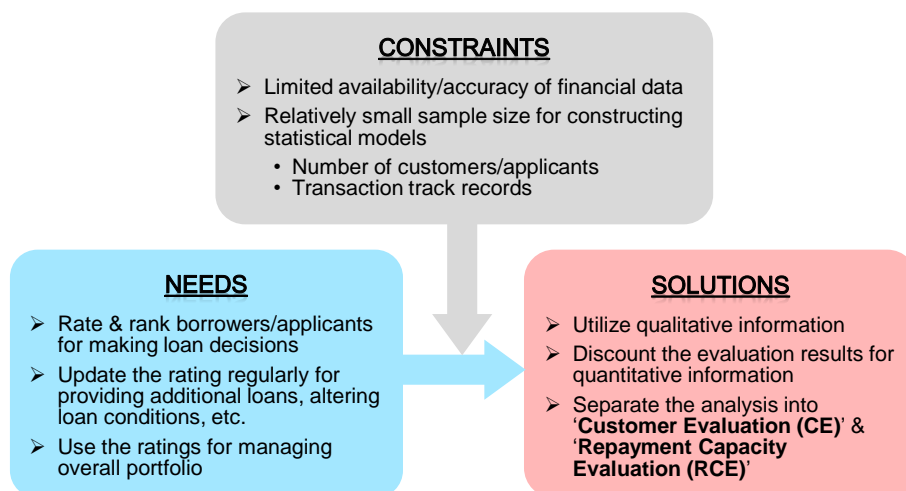
Layer1	Layers2	Factor	Weight
Human resources	President	Capability of president	7%
Human resources	President	Health condition of president	5%
Human resources	Board member / employee	Capability of board members / Existence of subsequent leader	10%
Business resources	Fundamental capability	Relation to sale destination	5%
Business resources	Fundamental capability	Quality control of products	8%
Monetary resources	External support	Support of parent company	8%
Monetary resources	Funding capability	Relation to line banks	12%
Monetary resources	Funding capability	President's personal asset	19%
Monetary resources	Planning capability	Well-considered financial planning	15%
Monetary resources	Planning capability	Accuracy of earnings forecast	13%

Source: Credit Pricing Corporation (CPC)

2. Prototype Credit Scoring/Rating Framework

Why, What & How in Myanmar Context?

Needs, constraints & possible solutions



Why Two Separate Evaluations?: CE & RCE

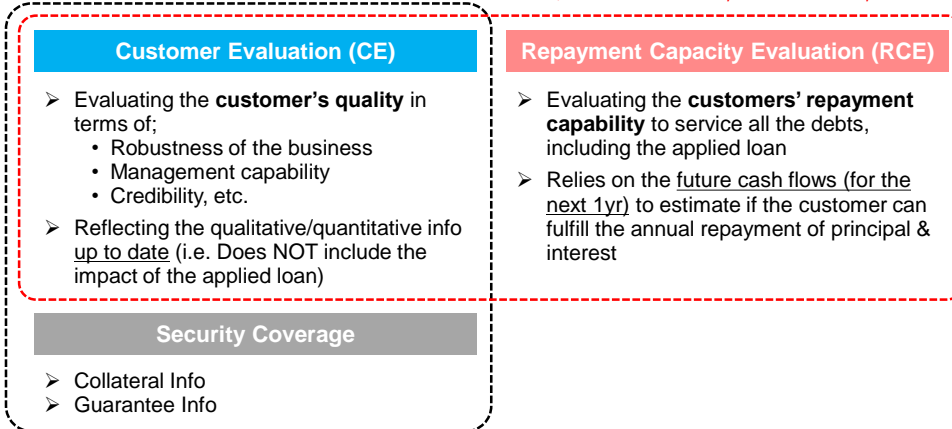
Rationale & specific uses of CE & RCE

2) For Specifying Loan Conditions

- To see if the loan is recoverable even in the worst case.
- The loan conditions should reflect LGD (Loss Given Default)

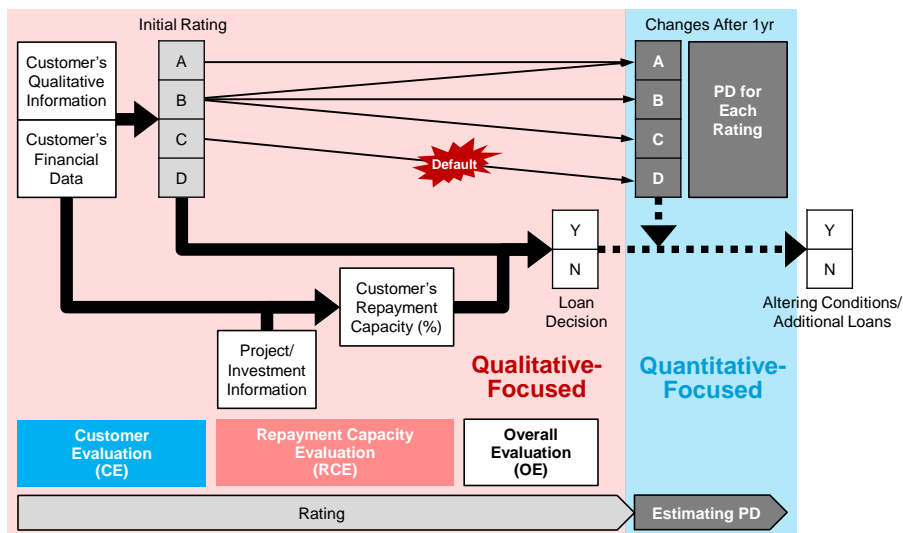
1) For Making Loan Decisions

- To see if the loan is recoverable through the regular cash flows generated by the customer/applicant.
- If not, the loan should not be provided in the first place.



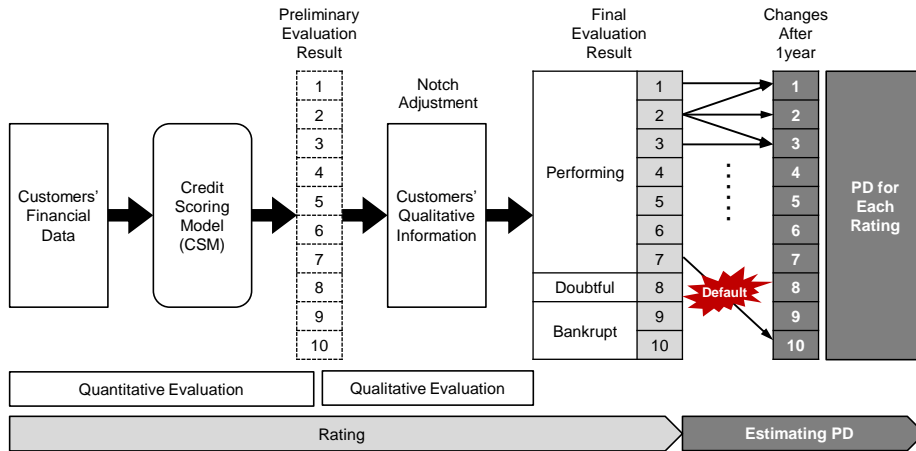
Credit Scoring/Rating: Proposed Process in Myanmar

Can be started focusing on **qualitative** info & developed into **quantitative**...



IRS: Typical Process (Revisited)

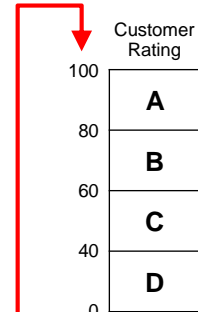
Assumes the **combination of qualitative & quantitative analyses** from the very beginning...



Source: Bank of Japan

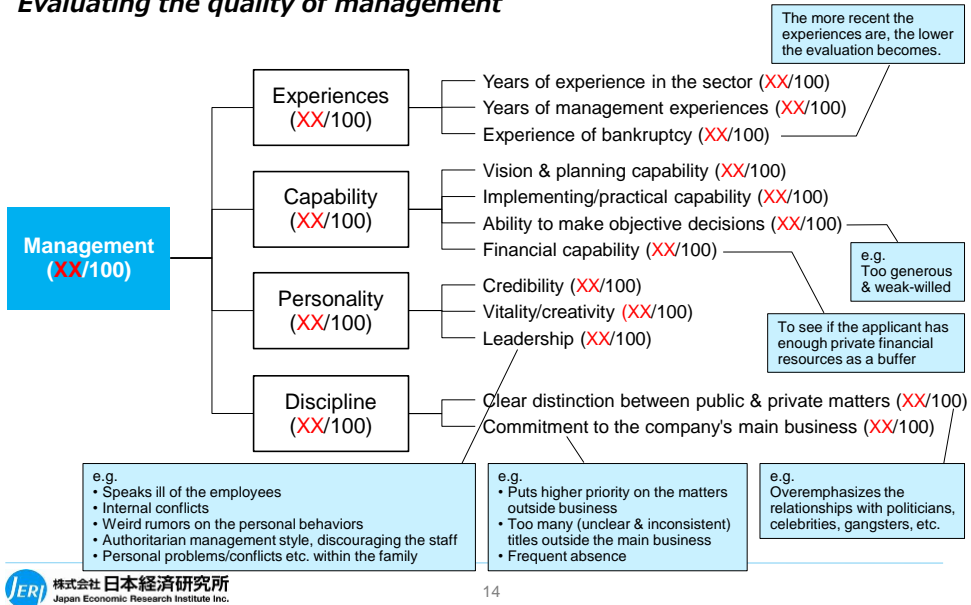
Customer Evaluation (CE): Framework

Category (Weight, %)	Criteria	Raw Score (1-10)	% Discount (for Financials)	Weight (%)	Adjusted Score
Management (XX)	Experiences (XX)	Years of experience in the sector	n.a.		0.0
		Years of management experiences	n.a.		0.0
		Experience of bankruptcy	n.a.		0.0
	Capability (XX)	Vision & planning capability	n.a.		0.0
		Implementing/practical capability	n.a.		0.0
		Ability to make objective decisions	n.a.		0.0
	Personality (XX)	Financial capability	n.a.		0.0
		Credibility	n.a.		0.0
		Vitality/creativity	n.a.		0.0
	Discipline (XX)	Leadership	n.a.		0.0
Clear distinction between public & private matters		n.a.		0.0	
Commitment to the company's main business		n.a.		0.0	
Internal Operations (XX)	Quality of facility management	n.a.		0.0	
	Efficiency/transparency in organization & internal management	n.a.		0.0	
	Quality of HR development/management	n.a.		0.0	
Employees (XX)	Quality of accounting	n.a.		0.0	
	Turnover	n.a.		0.0	
	Relationship with the management	n.a.		0.0	
Products/Services (XX)	Efficiency & quality	n.a.		0.0	
	Market sinerment	n.a.		0.0	
	Positioning in the sector (size of the pie)	n.a.		0.0	
Business Operations (XX)	Stable & well-diversified product/service portfolio with robust core business	n.a.		0.0	
	Quality of inventory management	n.a.		0.0	
	Quality of sales	n.a.		0.0	
	Quality of capital expenditures	n.a.		0.0	
	Quality of CoGS & other expenses	n.a.		0.0	
	Quality of the customer base	n.a.		0.0	
Financials (XX)	Quality of public relations activities	n.a.		0.0	
	Quality of business strategies	n.a.		0.0	
	Profitability (XX)	Operating Profit Margin	n.a.		0.0
		RDA	n.a.		0.0
	Efficiency (XX)	ROE	n.a.		0.0
		Account Receivables Turnover Period	n.a.		0.0
Inventory Turnover Period		n.a.		0.0	
Stability (XX)	Working Capital Required	n.a.		0.0	
	Current Ratio	n.a.		0.0	
	Gearing Ratio	n.a.		0.0	
Growth (XX)	Capital Adequacy Ratio	n.a.		0.0	
	Fixed Assets to Long-Term Capital Ratio	n.a.		0.0	
	Years of Debt Redemption	n.a.		0.0	
	Interest Coverage Ratio	n.a.		0.0	
Financing Activities (XX)	Revenue/Profit Trend	n.a.		0.0	
	Quality of borrowings	n.a.		0.0	
	Quality of receivables	n.a.		0.0	
Overall Score (100)	Quality of other liabilities	n.a.		0.0	



Customer Evaluation (CE): Management

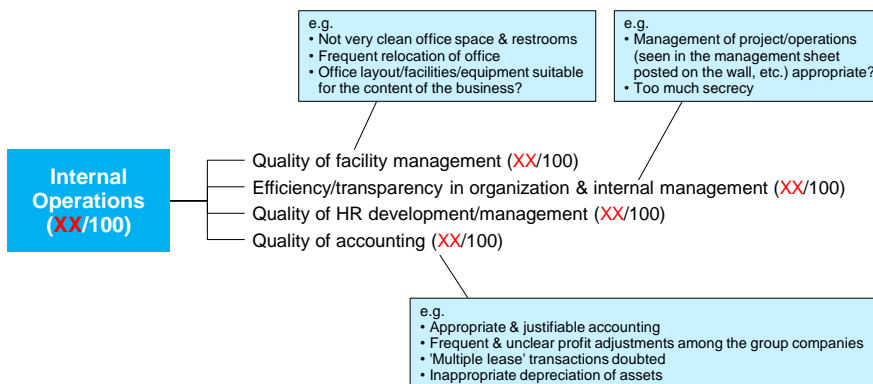
Evaluating the quality of management



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Customer Evaluation (CE): Internal Operations

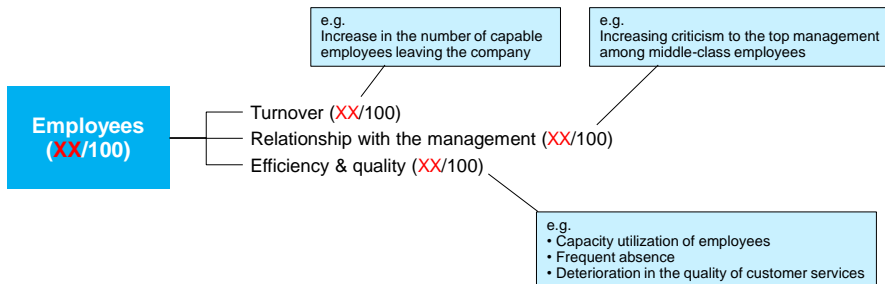
Evaluating the efficiency, accuracy & transparency of internal operations



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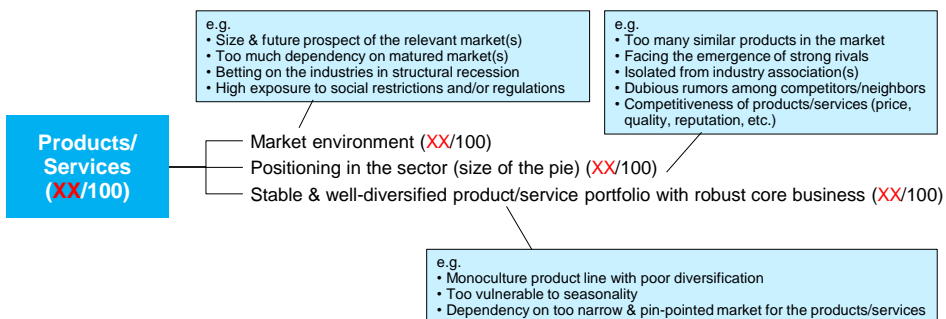
Customer Evaluation (CE): Employees

Evaluating the commitment, efficiency & quality of the staff



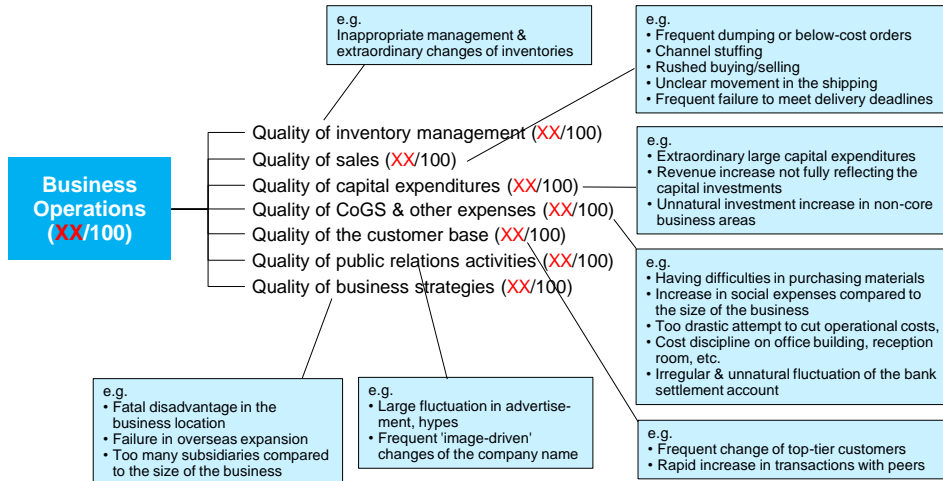
Customer Evaluation (CE): Products/Services

Evaluating the competitiveness & sustainability of products/services



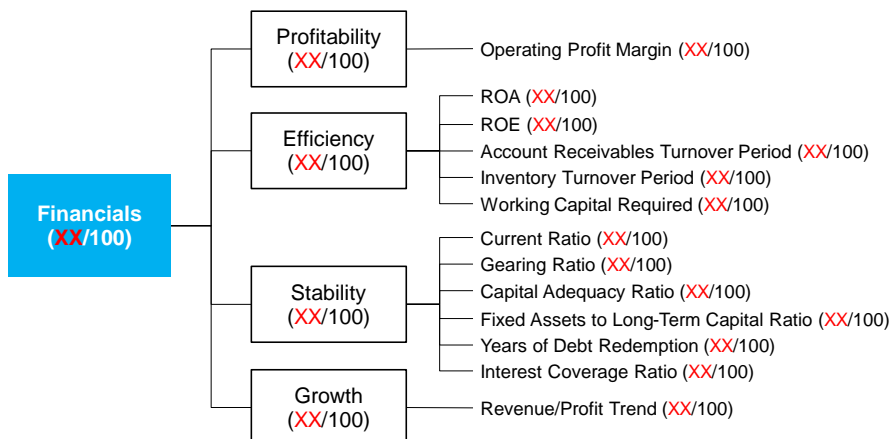
Customer Evaluation (CE): Business Operations

Evaluating the quality of the business operations



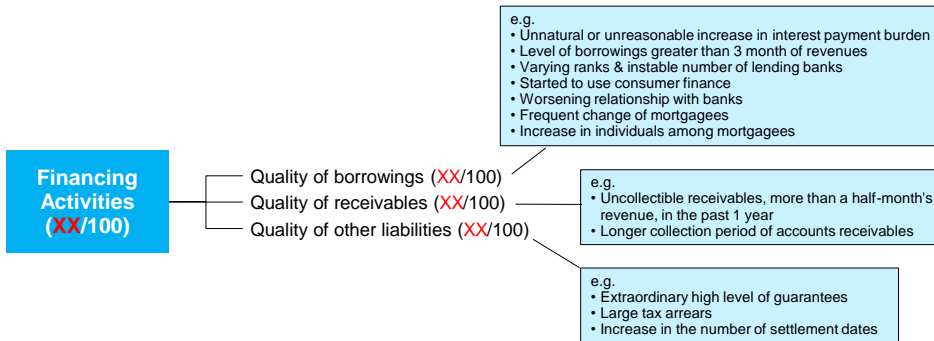
Customer Evaluation (CE): Financials

Evaluating the profitability, efficiency, stability & growth through financial data (to be discounted depending on the accuracy)



Customer Evaluation (CE): Financing Activities

Evaluating the healthiness & reliability of financing sources



Repayment Capacity Evaluation (RCE): Framework

Estimating the customer's repayment capability for the next 1 year

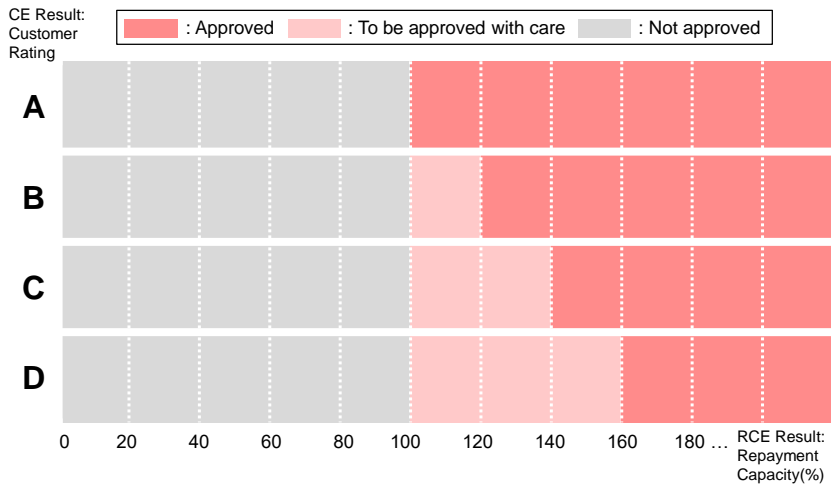
(Unit: MMK)

Fund Uses (for the next 1 year)			Fund Sources (for the next 1 year)	
Business Operations (B)	800,000		Operational revenues	1,000,000
Operational costs	800,000			1,000,000
Financing	305,000		Applied loan proceed	505,000
Principal repayment for existing loans (C)	100,000		Interest earned	5,000
Principal repayment for the applied loan (D)	100,000			
Interest payment for existing loans (E)	13,000			
Interest payment for the applied loan (F)	8,000			
Savings (surplus)	84,000			
Other Activities (G)	600,000		Other incomes	200,000
Capex	500,000			200,000
Other expenses	100,000			
Total	1,705,000		Total (A)	1,705,000
Fund available for the loan payment (principal & interest) = (A) - ((B)+(G)) = (H)				305,000
Loan repayment capability = (H) / ((C)+(D)+(E)+(F)); (%)				138.0%

Coverage of the loan payments (including both principal & interests for existing & applied loans) by the fund available for the next 1 year

Overall Evaluation (OE): Framework

Combining the results of CE & RCE to reach loan decisions



Schedules Ahead

What to be done along the timeline for TSL-Phase 2

Timeline	PFI with existing Credit Rating Framework (CRF)		PFI w/o any CRF
	No need for revision	In need for revision	
Now ~ T-4 (months)	Review the prototype & examine the possibility of reflecting the missing info onto the existing CRF		Review the prototype & design a new CRF
By early Aug 2018	Selection of PFIs to be completed		
End-Sep 2018	Disbursement #1		
~ T-3		Revision to CRF completed	β-version of CRF ready
~ T-2		Revision applied to the existing data	Existing data entered in CRF & the version finalized
~ T-1	Data for new applicants entered & analyzed in CRF		
T	Disbursement #2		
T ~		Adjustments/modifications made on CRF	



For further questions/clarifications, please feel free to contact:

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ORIENTATION OF THE PROJECT

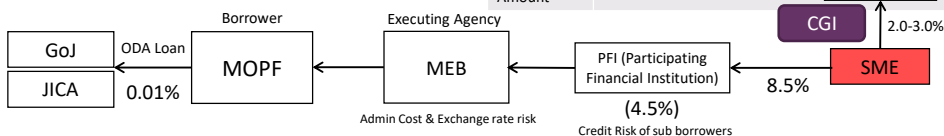


Consulting Team of Project for the Development of Finance for SMEs (Phase 2)

July 2018

Outline of SME-TSL Project (Phase 2)

1. Purpose	<ul style="list-style-type: none"> Encouraging capital investment of SMEs ⇒ Implementing to support SME's capital investment through providing medium and long-term loans 	9. Size of Sub-Loans	500 mil Kyat (Maximum)
2. Eligible End-Borrowers	<ul style="list-style-type: none"> Small and Medium-sized enterprises (Meeting the definitions of SME Development Law) 	10. Collateral	The requirement of collateral for each Sub-Loan will be determined by PFIs in compliance with the rules and regulations prevailing in Myanmar.
3. Organization	Executing Agency : MEB (Myanma Economic Bank) Borrower : MOPF	11. Eligible Investment	<ul style="list-style-type: none"> Fixed Assets: (Such as machinery, equipment, factory buildings including related civil works, services and training etc.) Initial Working Capital (<u>associated with a fixed asset investment</u>) ※The portion of initial working capital cannot exceed 20% of Sub-Loan principal <p>Preferential Loan Schemes: Two types of special loan schemes will be introduced in SME-TSL Project (Phase 2). "Loans for SMEs for relaxing of collateral conditions" "Loans for SMEs who have the transaction with Japanese companies" The detailed conditions have not been decided yet.</p>
4. Participating Financial Institutions	Phase 1 PFIs: SMIDB, KBZ, CB, APEX, AVA, MCB Phase 2 PFI candidates shall be screened by the accreditation criteria and obtain approval from Working Committee.	12. ODA Loan Amount	14,949 million Japanese Yen
5. Schedule	Disbursement of Two-Step Loan for End-users (Sub-Loan): October 2018		
6. Geographical Location	All regions in Myanmar		
7. Maturity	More than one year to maximum five years		
8. Interest Rate	8.5% (minimum interest rate of deposit+0.5%)		



Target End-borrowers

- ✧ Duly registered under **Myanmar Companies Act** and/or **other official registration** (e.g. YCDC license, SME Card, etc.)
- ✧ SME defined in **SME Development Law 2015**
- ✧ **Excluded sectors:** Farmers (including SME Card categorization for farmers), Real estate, Finance & insurance, Precious metal dealing, Bars & pubs, Amusement & entertainment (except for tourism), Weapons & ammunition, Any other sector harmful to the social stability.

2

SME is Defined by Industry Types

Definition	No.	Category	Number of Employees (full-time, permanent)	OR	Capital Investment (Kyats)	Turnover of previous year (Kyats)
Small Enterprise	(1)	Manufacturing business	Up to 50	OR	Up to 500 million	
	(2)	Labour intensive or mainly works for piecework business	Up to 300		Up to 500 million	
	(3)	Wholesale business	Up to 30			Up to 100 million
	(4)	Retail business	Up to 30			Up to 50 million
	(5)	Service business	Up to 30			Up to 100 million
	(6)	Except from above business	Up to 30			Up to 50 million
Medium Enterprise	(1)	Manufacturing business	More than 50, up to 300	OR	More than 500 million, up to 1,000 million	
	(2)	Labour intensive or mainly works for piecework business	More than 300, up to 600		More than 500 million, up to 1,000 million	
	(3)	Wholesale business	More than 30, up to 60			More than 100 million, up to 300 million
	(4)	Retail business	More than 30, up to 60			More than 50 million, up to 100 million
	(5)	Service business	More than 30, up to 100			More than 100 million, up to 200 million
	(6)	Except from above business	More than 30, up to 60			More than 50 million, up to 100 million

(Note) Capital investment doesn't include the value of land. (Total asset - land)
 (Source) SME Development Law (Law No.23, 9 April 2015) Chapter 1 Article 2 (A), (B).

3

Types of Sub-Loans

Type	Conditions	Interest Rate
Ordinary Loan	Same as regular loan conditions at each PFI	Minimum deposit rate +0.5% → 8.5%
Special Allotment (1): Loans for Relaxation of Collateral Conditions <small>*10% of total ODA loan amount</small>	Collateral coverage is less than 100%	Ordinary Loan interest + risk premium (+CGI fee if necessary) → 8.5% - 13.0%**
Special Allotment (2): Loans for Transactions with Japanese Companies <small>*20% of total ODA loan amount</small>	SMEs which have/ will have business transaction experience with Japanese companies	Same as Ordinary Loan

**Interest rate varies depending on the collateral coverage (%) and credit scoring results.

4

Terms & Conditions of Sub-Loan

1. Ordinary Loan

Currency	Myanmar Kyats (MMK)
Size	MMK 500 million at maximum for each borrower
Interest Rate	Minimum deposit rate + 0.5% per annum
Maturity	More than 1 year and up to 5 years from the date of the final disbursement
Collateral	It is based on each PFI's own guidelines. But PFI is advised to accept a wide variety of collaterals including inventory, machinery, receivables, or other movable and immovable assets.
Repayment Schedule	The principal repayment and interest payment are subject to each sub-loan agreement.

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Terms & Conditions of Sub-Loan

2. Special Allotment (1): Loan for Relaxation of Collateral Conditions

Currency	Myanmar Kyats (MMK)
Size	MMK 500 million at maximum for each borrower
Interest Rate	Minimum deposit rate + 0.5% + risk premium per annum
Maturity	More than 1 year and up to 5 years from the date of the final disbursement
Collateral	Loan conditions shall be determined depending on the collateral coverage and use of CGI, as well as the result of the credit scoring adopted by each PFI
Repayment Schedule	The principal repayment and interest payment are subject to each sub-loan agreement.

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Interest Rate of Relaxation of Collateral Conditions

No CGI

Coverage by	Collateral	$C \geq 100\%$	$40\% \leq C < 100\%$	$0\% < C < 40\%$	0%
	CGI	-	-	-	-
	Total	$C \geq 100\%$	$40\% \leq C < 100\%$	$0\% < C < 40\%$	0%
Credit Rating	High	8.5%	9.0%	10.0%	13.0%
	Medium	8.5%	9.5%	10.5%	-
	Low	8.5%	10.0%	11.0%	-

It is necessary for PFI to get the approval from CBM before lending decision.

With CGI*

Coverage by	Collateral	$C \geq 100\%$	$40\% \leq C < 100\%$	$0\% < C < 40\%$	0%
	CGI	-	60%	60%	60%
	Total	$C \geq 100\%$	$100\% \leq C + CGI$	$60\% \leq C + CGI < 100\%$	60%
Credit Rating	High	8.5%	8.5%	9.0%	9.5%
			(+2.0% = 10.5%)	(+2.0% = 11.0%)	(+2.5% = 12.0%)
	Medium	8.5%	9.0%	9.5%	10.0%
			(+2.0% = 11.0%)	(+2.0% = 11.5%)	(+2.5% = 12.5%)
	Low	8.5%	9.5%	10.0%	10.5%
			(+2.0% = 11.5%)	(+2.0% = 12.0%)	(+2.5% = 13.0%)
		← Regular Scheme →	←	Special Scheme	→
		Fully secured by collateral(s) even without CGI.	Fully secured through collateral(s) & CGI.	Collateral(s) and CGI are used, but not fully secured.	No collateral and only CGI is used.

* Additionally, the End-Borrower has to pay CGI fee to Myanma Insurance (MI)

** () is CGI fee paid by the End-Borrower. CGI fee is the average of three years.

7

Terms & Conditions of Sub-Loan

3. Special Allotment (2): Loan for Transactions with Japanese Companies

Currency	Myanmar Kyats (MMK)
Size	MMK 500 million at maximum for each borrower
Interest Rate	Minimum deposit rate + 0.5%
Maturity	More than 1 year up to 5 years from the date of the final disbursement
Collateral	Same as Ordinary Loans
Repayment Schedule	The principal repayment and interest payment are subject to each sub-loan agreement.
Definition of "Japanese companies"	1) Member companies of Japan Chamber of Commerce and Industry, Myanmar (JCCIM) 2) Subsidiary companies whose equity are more than 20% of Japanese companies whose headquarters are located in Japan

8

WORKSHOP FOR SME Center ORIENTATION OF THE PROJECT



Consulting Team of
Project for the Development of Finance for SMEs
(Phase 2)

August 2018

Purpose of this Workshop

To Understand the JICA SME Two-Step Loan (TSL) Project better so as to feel confident to explain SMEs.

WHAT IS THE JICA PROJECT FOR SME FINANCE DEVELOPMENT?

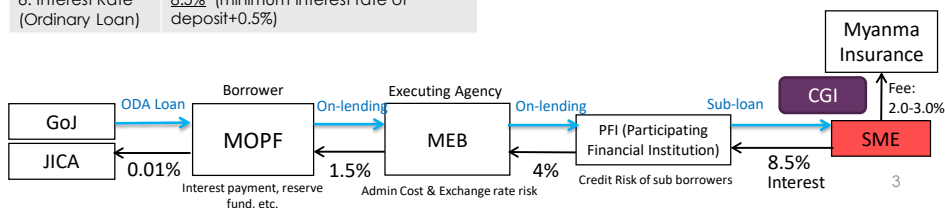
OUTLINE OF THE PROJECT



2

Outline of SME-TSL Project (Phase 2)

1. Purpose	Encouraging capital investment of SMEs → Implementing to support SME's <u>capital investment</u> through providing medium and long-term loans	9. Size of Sub-Loans	500 mil Kyat (Maximum)
2. Eligible End-Borrowers	Small and Medium-sized enterprises (Meeting the definitions of SME Development Law)	10. Collateral	The requirement of collateral for each Sub-Loan will be determined by PFIs in compliance with the rules and regulations prevailing in Myanmar.
3. Organization	Executing Agency : MEB (Myanma Economic Bank)	11. Eligible Investment	<ul style="list-style-type: none"> • <u>Fixed Assets</u>: (Such as machinery, equipment, factory buildings including related civil works, services and training etc. excluding land acquisition) • <u>Initial Working Capital (associated with the fixed asset investment)</u> * Not exceeding 20% of Sub-Loan principal
4. Participating Financial Institutions (PFIs)	7 banks: AYA, CB, FPB, KBZ, MCB, MEB, UAB	12. ODA Loan Amount	JPY 14,949 million
5. Schedule	1 st Batch Disbursement of Two-Step Loan for End-users (Sub-Loan): September 2018		
6. Geographical Location	All regions in Myanmar		
7. Maturity	More than one year up to five years		
8. Interest Rate (Ordinary Loan)	8.5% (minimum interest rate of deposit+0.5%)		



3

Definition of SME

No.	Category (Industry Type)	Number of Employees*1	Capital Investment *2 (Kyats)	Turnover of previous year (Kyats)
(1)	Manufacturing business	Up to 300	Up to 1,000 million	
(2)	Labor intensive or mainly works for piecework business	Up to 600	Up to 1,000 million	
(3)	Wholesale business	Up to 60		Up to 300 million
(4)	Retail business	Up to 60		Up to 100 million
(5)	Service business	Up to 100		Up to 200 million
(6)	Except from above business	Up to 60		Up to 100 million

*1 Employees should be permanent (full-time) employees, not including part-time or seasonal workers.

*2 Capital Investment doesn't include the value of land.

(Source) SME Development Law (2015) Chapter 1 Article 2

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Excluded Sectors



- ✧ Farmers (including SME Card categorization of "other business")
- ✧ Real estate
- ✧ Finance & insurance
- ✧ Precious metal dealing (selling gold and gems etc.)
- ✧ Bars & pubs
- ✧ Amusement & entertainment (except for tourism)
- ✧ Weapons & ammunition
- ✧ Any other sector harmful to the social stability

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Eligible Investments

✧ **Fixed assets:** Machinery, Equipment, Factory buildings (excluding purchase of land or land-use-right).
 * Purchase of land/land-use-right and tax payments are not eligible.

✧ **Initial working capital associated with the fixed asset investment:** Raw materials, Diesel for machine etc.
 → The initial working capital portion cannot exceed 20% of sub-loan principal.



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Ineligible Investments

✧ “Category A” projects and sensitive sectors, characteristics, and areas mentioned on “**JICA Guidelines for Environmental and Social Considerations**” [April 2010]

Category A	The project is likely to have significant adverse impacts on the environment and society.
-------------------	---

Sensitive Sectors, Characteristics, and Areas

Category	Examples
Sectors (with large-scale projects)	Mining including natural gas and oil development, power plants including hydropower and geothermal, dams, reservoirs, power transmission and distribution lines, roads, railways, bridges, airports, ports and harbors, etc.
Characteristics	Large-scale (1)involuntary resettlement, (2)groundwater pumping, (3)land reclamation, land development, and land clearing, (4)logging
Areas	Nationally-designated protected areas

Source: JICA Guidelines for Environmental and Social Considerations (April 2010)
https://www.jica.go.jp/english/our_work/social_environmental/guideline/index.html

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Phase 2: Policy Priority Lending

- ✧ **Better financial access by relaxing collateral conditions**
→ Use of special allotment for SMEs which do not have enough collateral.
- ✧ **Promote business linkage with Japanese companies**
→ Use of special allotment for SMEs which have/ will have business transaction with Japanese companies.
- ✧ **Finance in rural areas**
→ Selection of PFIs according to the wide branch network coverage

8

Types of Sub-Loans

Type	Feature	End-User Interest Rate
Ordinary Loan	Low interest rate, med- to long term loan maturity	Minimum saving deposit rate +0.5% → 8.5%
Special Allotment (1) Loans for Relaxation of Collateral Conditions	Collateral coverage is less than 100%	Ordinary Loan interest + risk premium (+CGI fee if necessary) → 8.5% - 13.0%*
Special Allotment (2) Loans for Transactions with Japanese Companies	SMEs which have/ will have business transaction experience with Japanese companies	Same as Ordinary Loan

*Interest rate varies depending on the collateral coverage (%) and credit scoring results.

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Terms & Conditions of Sub-Loan

1. Ordinary Loan

Currency	Myanmar Kyats (MMK)
Size	MMK 500 million at maximum for each borrower
Interest Rate	Minimum saving deposit rate + 0.5% per annum
Maturity	More than 1 year and up to 5 years from the date of the final disbursement
Collateral	It is based on each PFI's own guidelines. PFI can accept a wide variety of collaterals, not limited to real estate, including inventory, machinery, receivables, or other movable and immovable assets.
Repayment Schedule	The principal repayment and interest payment are subject to each sub-loan agreement.

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Terms & Conditions of Sub-Loan

2. Special Allotment (1): Loan for Relaxation of Collateral Conditions

Currency	Same as Ordinary Loan (MMK)
Size	Same as Ordinary Loan (Up to 500 million MMK)
Interest Rate	Minimum deposit rate + 0.5% + <u>risk premium</u> per annum
Maturity	Same as Ordinary Loan (1+ year Up to 5 years)
Collateral	Loan conditions shall be determined depending on the collateral coverage and use of CGI, as well as the result of the credit scoring adopted by each PFI
Repayment Schedule	Same as Ordinary Loan (Subject to each sub-loan agreement)

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Terms & Conditions of Sub-Loan

3. Special Allotment (2): Loan for Transactions with Japanese Companies

Currency	Same as Ordinary Loan (MMK)
Size	Same as Ordinary Loan (Up to 500 million MMK)
Interest Rate	Same as Ordinary Loan (min. deposit rate+0.5%)
Maturity	Same as Ordinary Loan (1+ year Up to 5 years)
Collateral	Same as Ordinary Loan (Depending on PFIs)
Repayment Schedule	Same as Ordinary Loan (Subject to each sub-loan agreement)
Definition of "Japanese companies"	1) Member companies of Japan Chamber of Commerce and Industry, Myanmar (JCCIM) (http://jccim.org/about-jccm/member-list/) 2) Japanese subsidiary companies of which more than 20% of shares are owned by the companies/ individuals that have national origin in Japan

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Sub-Loan Interest Rates

Interest rate varies depending on the % of collateral coverage and the result of credit rating by each bank.

Ordinary Loan & Loan for Transaction with Japanese Companies

Collateral (≥ 100%) 8.5%

Special Allotment: Relaxation of Collateral Conditions

No CGI	Collateral (0-99%)	Credit Rating	9% - 13%
			+ Risk Premium
With CGI	Collateral (0-99%)	Credit Rating	10.5% - 13%
			+ Risk Premium + CGI Fee (2% - 3%)

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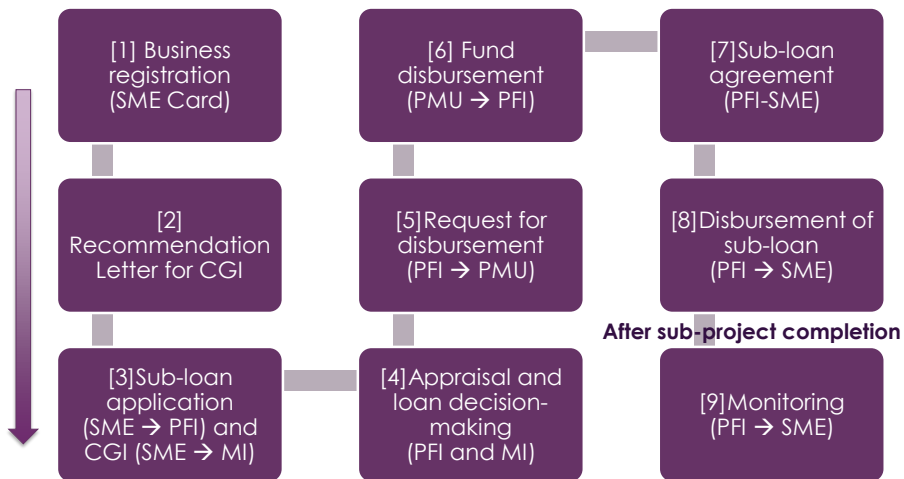
How to proceed SME-TSL?

OPERATIONAL FLOW



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Sub-loan Disbursement Procedure



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Sub-loan Disbursement Procedure

[1] Business Registration (either one of the following):

- ✧ Company registration under **Myanmar Companies Act**
- ✧ **Business license/permission** from regional government (YCDC etc.) or ministries (MOI, MOC etc.)
- ✧ **SME Card** from SME Center

[2] Recommendation Letter for CGI: If SME would like to use CGI for SME-TSL, SME requires to ask for a recommendation letter from regional director of MOI via SME Center after receiving SME Card.

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Sub-loan Disbursement Procedure

[3] Sub-loan application: SME goes to one of the PFIs to apply for a sub-loan. SME fills in the form and attach the required documents with a support from PFI. SME also applies for CGI to Myanma Insurance (MI) if it would like to use CGI for SME-TSL .

[4] Appraisal and loan decision-making: PFI is responsible for conducting the SME's credit appraisal as well as examining social & environmental impacts associated with the sub-loan project in accordance with JICA Guidelines for Environmental and Social Considerations.

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Sub-loan Disbursement Procedure

[5] Request for disbursement (PFI → PMU): PFI submits application forms with attachments and summary reports to PMU.

[6] Fund disbursement (PMU → PFI): PMU accepts the applications from PFIs twice a month and PMU sends notice on the compliance to PFI within not exceeding 10 business days from the receipt of complete applications.

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Sub-loan Disbursement Procedure

[7] Sub-loan agreement (PFI – SME): PFI and SME signs sub-loan agreement with conditions of SME-TSL after the notification of compliance (approval) from PMU.

[8] Disbursement of sub-loan (PFI → SME) : PFI disburses loan to SME after receiving the fund from PMU AND signing the sub-loan agreement between the PFI and SME (including the completion of CGI procedure).

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Sub-loan Disbursement Procedure

[9] Monitoring (PFI → SME):

- ✧ The purpose of monitoring is to check if the sub-loan is actually used as planned.
- ✧ When SME used the total loan amount by purchasing machines etc., SME informs PFI of the sub-project completion by submitting evidence documents. SME has to prepare copies of receipts/ invoices of the capital investment.
- ✧ PFI also conducts site visits to the SME.

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Thank you very much for your attention!

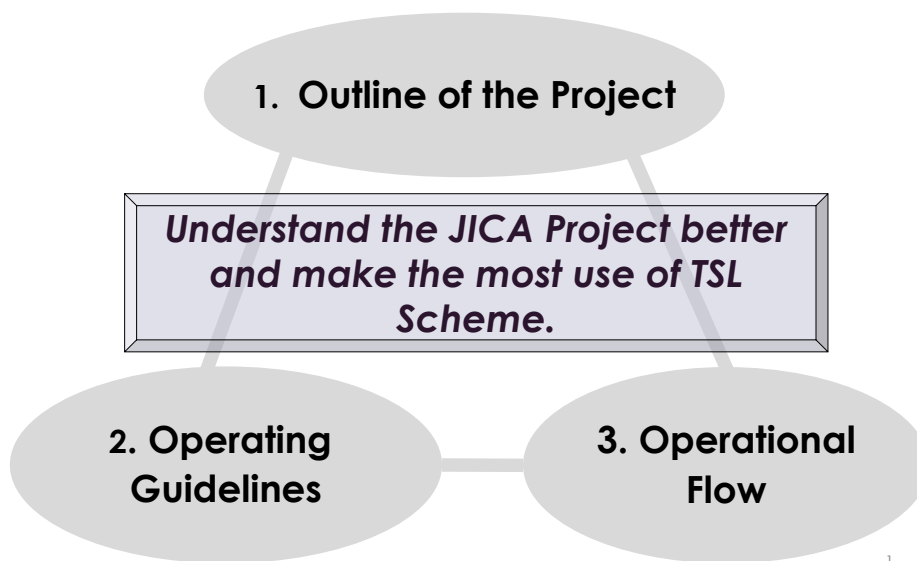
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WORKSHOP FOR PFI ORIENTATION OF THE PROJECT



Consulting Team of
Project for the Development of Finance for SMEs
(Phase 2)
August 2018

Contents



WHAT IS THE JICA PROJECT FOR SME FINANCE DEVELOPMENT?

OUTLINE OF THE PROJECT



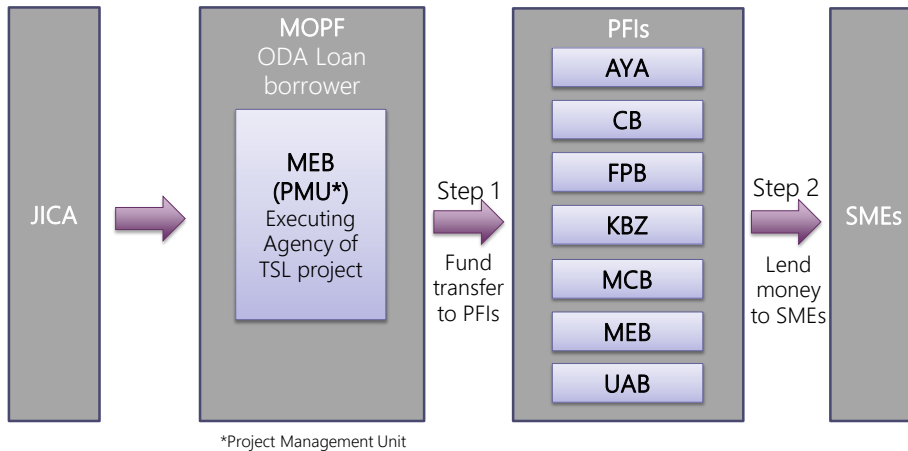
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Objective

- ✧ **SME sector development** by improving the financial intermediation function for SMEs and increasing the SMEs' production and investments
- ✧ **Strengthening the capacity of Participating Financial Institutions (PFIs)** by having experience of the medium- and long-term loan provision
- ✧ Ultimately contributing to **the development of industry and economy** as well as **job creation**

3

“Two-Step Loan(TSL)”Scheme



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Features of TSL

- ❖ **Mid-to long-term financing:** More than 1 year up to 5 years
- ❖ **Low interest rates:** Minimum saving deposit rate (CBM reference rate) + 0.5% per annum (including other relevant charges)
→ 8.5% (ordinary loan, as of August 2018)
- ❖ **Focus on SMEs' capital investments:** Eligible investments are fixed assets (e.g. machinery, equipment, factory buildings, etc.)

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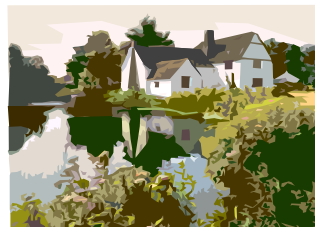
Phase 2: Policy Priority Lending

- ✧ **Better financial Access by relaxing collateral conditions** → Use of special allotment for “Loans for relaxing of collateral conditions”
- ✧ **Promote business linkage with Japanese companies** → Use of special allotment for “Loans for transactions with Japanese companies”
- ✧ **Finance in rural areas** → Selection of PFIs according to the wide branch network coverage

6

HOW TO IMPLEMENT THE LOAN SCHEME?

OPERATING GUIDELINES



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Target End-borrowers

- ✧ Duly registered under **Myanmar Companies Act** or **other relevant official registration** (e.g. YCDC license, SME Card, etc.)
- ✧ SME defined in **SME Development Law 2015**
- ✧ **Excluded sectors:** Farmers (including SME Card holder farmers); Real estate, Finance & insurance; Precious metal dealing; Bars & pubs; Amusement & entertainment (except for tourism); Weapons & ammunition; and Any other sector harmful to the social stability.

8

SME is Defined by Industry Types

No.	Category (Industry Type)	Number of Employees*1	Capital Investment *2 (Kyats)	Turnover of previous year (Kyats)
(1)	Manufacturing business	Up to 300	Up to 1,000 million	
(2)	Labor intensive or mainly works for piecework business	Up to 600	Up to 1,000 million	
(3)	Wholesale business	Up to 60		Up to 300 million
(4)	Retail business	Up to 60		Up to 100 million
(5)	Service business	Up to 100		Up to 200 million
(6)	Except from above business	Up to 60		Up to 100 million

*1 Employees should be permanent (full-time) employees, not including part-time or seasonal workers.

*2 Capital Investment doesn't include the value of land.

(Source) SME Development Law (2015) Chapter 1 Article 2

9

Eligible Investments

- ✧ **Fixed assets:** Machinery, Equipment, Factory buildings (excluding purchase of land or land-use-right).
* Purchase of land/land-use-right and tax payments are not eligible.
- ✧ **Initial working capital associated with the fixed asset investment**
→ The initial working capital portion cannot exceed 20% of sub-loan principal.
- ✧ Excluded by “Category A” projects including “sensitive sectors, characteristics, and areas” from **“JICA Guidelines for Environmental and Social Considerations” [April 2010]**
(https://www.jica.go.jp/english/our_work/social_environmental/guideline/index.html)

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Environmental & Social Category

Four categories according to the extent of environmental and social impacts, taking into account an outline of project, scale, site condition, etc.

Category	Description
Category A (Not eligible)	The project is likely to have significant adverse impacts on the environment and society.
Category B (Needs ECC*)	Potential adverse impacts on the environment and society are less than those of Category A projects.
Category C (Eligible)	Projects that are likely to have minimal or little adverse impact on the environment and society.
Category F1 (Out of scope)	Projects satisfied ALL of the following requirements: 1) JICA's funding of projects is provided to financial intermediary or executing agency; 2) The sub-projects are specified only after JICA's approval of the funding; 3) the sub-projects are expected to have a potential impact on the environment.

*ECC = Environmental Clearance Certificate

Source: JICA Guidelines for Environmental and Social Considerations (April 2010)

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Sensitive Sectors, Characteristics and Areas

Sensitive sectors, characteristics, and areas are shown on **Annex II** in **Operating Guidelines**.

Category	Examples
Sectors (with large-scale projects)	Mining including natural gas and oil development; power plants including hydropower and geothermal; dams; reservoirs; power transmission and distribution lines; roads; railways; bridges; airports; ports and harbors; etc.
Characteristics	Large-scale (1)involuntary resettlement, (2)groundwater pumping, (3)land reclamation, land development, and land clearing, (4)logging
Areas	Nationally-designated protected areas

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Requirement for PFIs' ESMS

- ✧ By the start of TSL program, PFI is required to establish an internal **Environmental and Social Management System (ESMS)**, which includes:
 - 1) Environmental policy; 2) Organization & staff for ESMS;
 - 3) Annual budget for ESMS; and 4) Monitoring & reporting system.

- ✧ PFI will be interviewed by PMU/Consultant Team at the beginning of the project (cf. "**Checklist for ESMS**").

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Types of Sub-Loans

Type	Conditions	End-User Interest Rate
Ordinary Loan	Loan decision is depending on each PFI's own guidelines	Minimum saving deposit rate +0.5% → 8.5%
Special Allotment (1) Loans for Relaxation of Collateral Conditions	Collateral coverage is less than 100%	Ordinary Loan interest + risk premium (+CGI fee if necessary) → 8.5% - 13.0%*
Special Allotment (2) Loans for Transactions with Japanese Companies	SMEs which have/ will have business transaction experience with Japanese companies	Same as Ordinary Loan

*Interest rate varies depending on the collateral coverage (%) and credit scoring results.

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Terms & Conditions of Sub-Loan

1. Ordinary Loan

Currency	Myanmar Kyats (MMK)
Size	MMK 500 million at maximum for each borrower
Interest Rate	Minimum saving deposit rate + 0.5% per annum
Maturity	More than 1 year and up to 5 years from the date of the final disbursement
Collateral	It is based on each PFI's own guidelines. But PFI is advised to accept a wide variety of collaterals including inventory, machinery, receivables, or other movable and immovable assets.
Repayment Schedule	The principal repayment and interest payment are subject to each sub-loan agreement.

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Terms & Conditions of Sub-Loan

2. Special Allotment (1): Loan for Relaxation of Collateral Conditions

Currency	Same as Ordinary Loan (MMK)
Size	Same as Ordinary Loan (Up to 500 million MMK)
Interest Rate	Minimum deposit rate + 0.5% + <u>risk premium</u> per annum
Maturity	Same as Ordinary Loan (1+ year Up to 5 years)
Collateral	Loan conditions shall be determined depending on the collateral coverage and use of CGI, as well as the result of the credit scoring adopted by each PFI
Repayment Schedule	Same as Ordinary Loan (Subject to each sub-loan agreement)

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Interest Rate of Relaxation of Collateral Conditions

No CGI

Coverage by	Collateral	$C \geq 100\%$	$40\% \leq C < 100\%$	$0\% < C < 40\%$	0%
	CGI	-	-	-	-
Total		$C \geq 100\%$	$40\% \leq C < 100\%$	$0\% < C < 40\%$	0%
Credit Rating	High	8.5%	9.0%	10.0%	13.0%
	Medium	8.5%	9.5%	10.5%	-
	Low	8.5%	10.0%	11.0%	-

It is necessary for PFI to get the approval from CBM before lending decision.

With CGI*

Coverage by	Collateral	$C \geq 100\%$	$40\% \leq C < 100\%$	$0\% < C < 40\%$	0%
	CGI	-	60%	60%	60%
Total		$C \geq 100\%$	$100\% \leq C + CGI$	$60\% \leq C + CGI < 100\%$	60%
Credit Rating	High	8.5%	9.0%	9.0%	9.5%
			(+2.0% = 10.5%)	(+2.0% = 11.0%)	(+2.5% = 12.0%)
	Medium	8.5%	9.0%	9.5%	10.0%
			(+2.0% = 11.0%)	(+2.0% = 11.5%)	(+2.5% = 12.5%)
	Low	8.5%	9.5%	10.0%	10.5%
			(+2.0% = 11.5%)	(+2.0% = 12.0%)	(+2.5% = 13.0%)

← Regular Scheme →

Fully secured by collateral(s) even without CGI.

←

Fully secured through collateral(s) & CGI.

Special Scheme

Collateral(s) and CGI are used, but not fully secured.

→

No collateral and only CGI is used.

* Additionally, the End-Borrower has to pay CGI fee to Myanmar Insurance (MI)

** () is CGI fee paid by the End-Borrower. CGI fee is the average of three years.

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Terms & Conditions of Sub-Loan

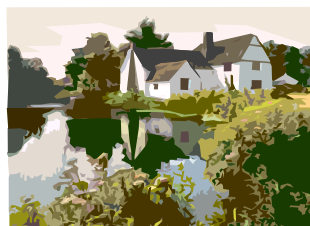
3. Special Allotment (2): Loan for Transactions with Japanese Companies

Currency	Same as Ordinary Loan (MMK)
Size	Same as Ordinary Loan (Up to 500 million MMK)
Interest Rate	Same as Ordinary Loan (min. deposit rate+0.5%)
Maturity	Same as Ordinary Loan (1+ year Up to 5 years)
Collateral	Same as Ordinary Loan (Depending on PFIs)
Repayment Schedule	Same as Ordinary Loan (Subject to each sub-loan agreement)
Definition of "Japanese companies"	<ol style="list-style-type: none"> 1) Member companies of Japan Chamber of Commerce and Industry, Myanmar (JCCIM) (http://jccim.org/about-jccm/member-list/) 2) Japanese subsidiary companies of which more than 20% of shares are owned by the companies/ individuals that have national origin in Japan

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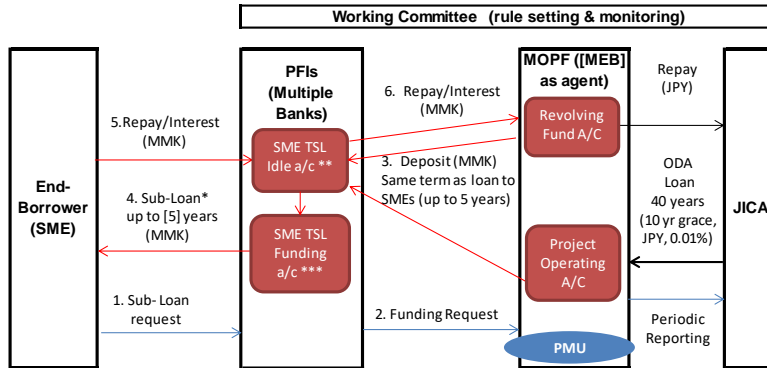
How to proceed SME-TSL?

OPERATIONAL FLOW



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Overall Flow of Fund



- * Lending interest rate is defined as [minimum saving deposit rate plus 0.5%]
- ** Deposit rate while idled is the minimum saving deposit rate, reference from CBM rate.
- *** Deposit rate after SME loan disbursement (TSL Funding Rate) is the TSL Base Lending Rate less the TSL Interest Margin, which is [90%] of the Prevailing Gross Interest Margin, a difference between the Maximum Lending Rate and the Minimum Deposit Rate.

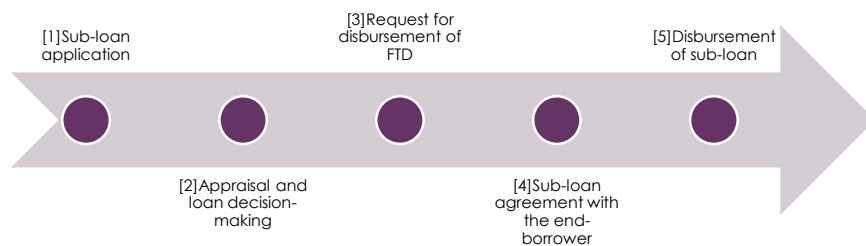
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Terms and Conditions of Fund Transfer by Deposit (FTD)

Currency	Myanmar Kyats (MMK)
Fund Size	Same as sub-loan
Interest Rate	<ul style="list-style-type: none"> • When the fund is not lent to end-borrowers, the fund is kept at SME TSL Idle Account with the <u>minimum saving deposit rate</u> (CBM reference rate). • When the fund is lent to end-borrowers, the fund is kept at SME TSL Funding Account with the interest rate obtained from the formula below: $\text{SME TSL Funding Account deposit rate} = [\text{Ordinary Sub-Loan interest}] - [\text{market interest margin}^* \times 90\%]$ $^*[\text{maximum lending rate}] - [\text{minimum saving deposit rate}]$
Maturity & Repayment Schedule	Corresponds to sub-loan. PFI shall return the fund to PMU on the principal repayment date following the date that end-borrower repays to PFI. PFI pays interest quarterly in the month of March, June, September, and December.

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Overall Procedure of Sub-loan Disbursement



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Overall Procedure of Sub-loan Disbursement

[1] Sub-loan application: PFI receives a TSL application form from sub-borrower attached with the required documents.

**At the time of application, PFI needs to give well explanation to SME to provide data and documents before, during, and after the sub-project: receipt/invoice for the evidence of the investment; data such as sales turnover, profit from the business, etc.*

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Overall Procedure of Sub-loan Disbursement

[2] Appraisal and Loan decision-making: PFI is responsible for conducting the SME's credit appraisal as well as examining social & environmental impacts associated with the sub-loan project in accordance with JICA Guidelines.



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Overall Procedure of Sub-loan Disbursement

[3] Request for disbursement of FTD (Fund Transfer by Deposit): Submit application forms and summary reports to PMU.

**In order to check with the PFIs' applications, PMU shall accept them twice a month. PMU's notice on its verification shall be issued within not exceeding 10 business days from the receipt of complete applications.*

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Overall Procedure of Sub-loan Disbursement

[4] Sub-loan agreement with the end-borrower: PFI's own format and the agreement should include end-borrower's 5 obligations in the agreement.

- 1) Use of funds (capital investment);
- 2) Submission of evidence documents;
- 3) Submission of Financial Statements every year;
- 4) Acceptance of site visits by PFI/PMU/JICA; and
- 5) Compliance with environmental & social considerations

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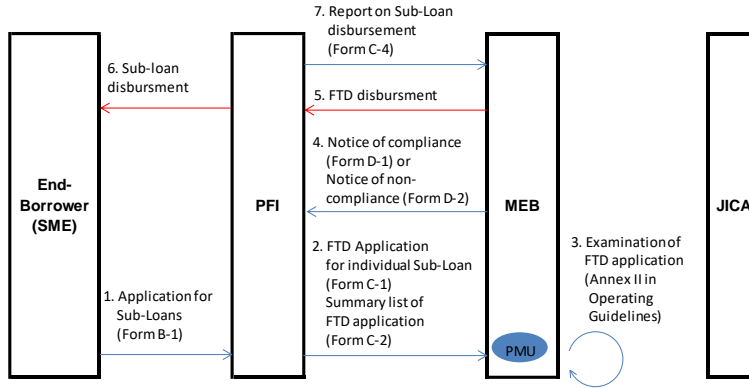
Overall Procedure of Sub-loan Disbursement

[5] Disbursement of sub-loan : PFI disburses loan to the end-borrower after receiving FTD from PMU AND signing the sub-loan agreement between the PFI and the end-borrower.



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Flow of Documents and Fund of Sub-loan Disbursement



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After the Sub-loan Disbursement to the End-borrower...

Loan Repayment	Monitoring	Reporting to PMU
<ul style="list-style-type: none"> • Sub-loan principal repayment • Sub-loan interest payment • FTD principal and interest payment 	<ul style="list-style-type: none"> • Monitoring Sub-project 	<ul style="list-style-type: none"> • Quarterly • Annually • Project completion • After the project

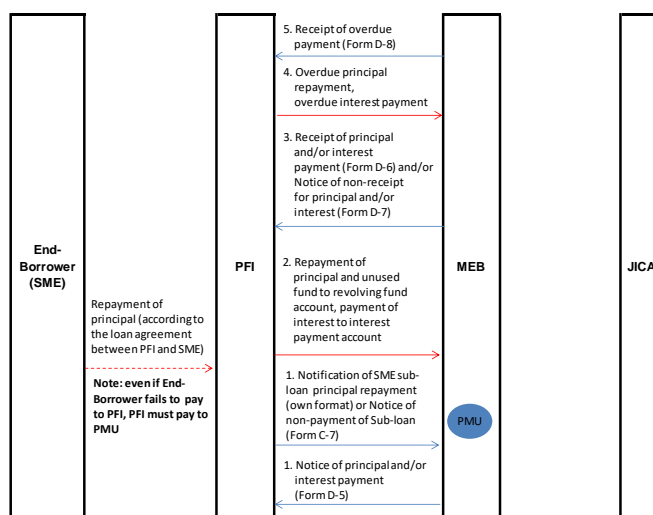
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Loan Repayment

- ✧ **Sub-loan Principal and Interest Payment (SME→PFI):**
 The end-borrower repays principal and pays interest according to the sub-loan agreement between PFI and the end-borrower.
- ✧ **FTD Principal Repayment (PFI→PMU):** Repayment schedule is same as sub-loan principal repayment. PMU accepts FTD repayment monthly thus PFI can repay principal within the month when PFI receives principal from the end-borrower.
**If PFI finds any difficulties of its sub-loans failing to make payment on due date, PFI notifies PMU of overdue payment of sub-loan. Even if the SME does not repay, PFI must repay to PMU on due date.*
- ✧ **FTD Interest Payment (PFI→PMU):** PMU requests PFI to pay interest quarterly.

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Loan Repayment 1 (Principal & Interest)



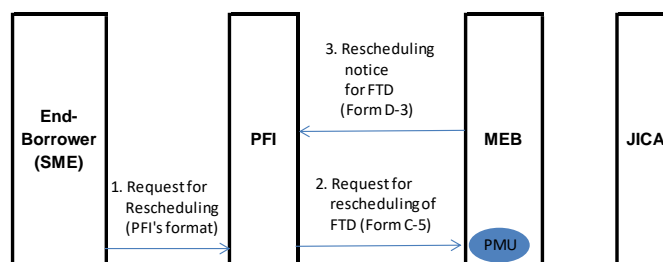
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Loan Repayment

- ✧ **Reschedule of Sub-loan:** Only in case SME's business does not go well. PFI submits PMU a request for reschedule of FTD repayment.
- ✧ **Prepayment of Sub-loan:** To avoid unnecessary prepayment, PFI needs to confirm with SME that the SME is applying for medium or long-term loan. Also, PFI needs to check if the applied total sub-loan amount is really suitable for medium or long-term loan.

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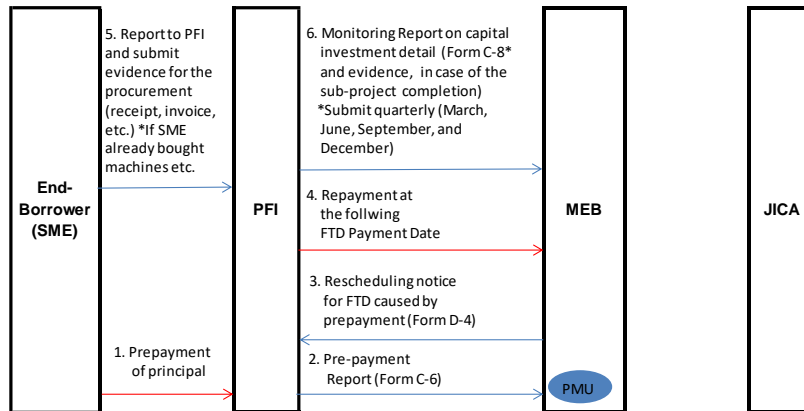
Loan Repayment 2 (Reschedule of Sub-loan)



If the SME and PFI agrees to reschedule the payment, PFI requests PMU for rescheduling of FTD.

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Loan Repayment 3 (Prepayment of Sub-loan)



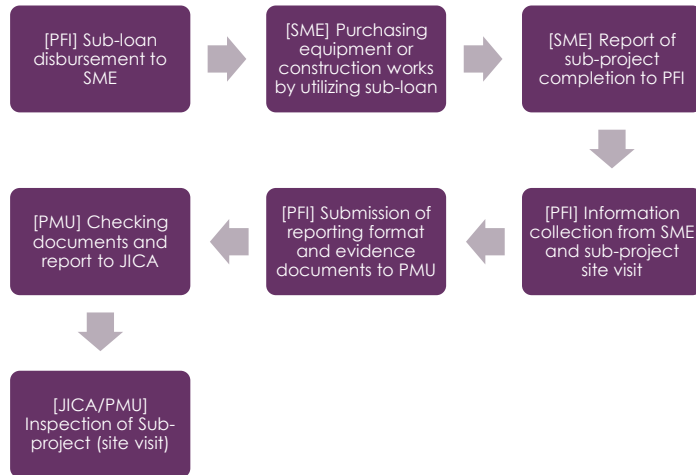
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Continuous & Timely Monitoring of Sub-project

- ✧ In general, medium- and long-term lending to SMEs is more risky compared to 1-year lending.
- ✧ In order to manage the hidden credit risks continuously, **monitoring** is significantly important.
- ✧ Monitoring Method: On-site visit, Interview, Update the customer's file by receiving necessary data from SME customers.

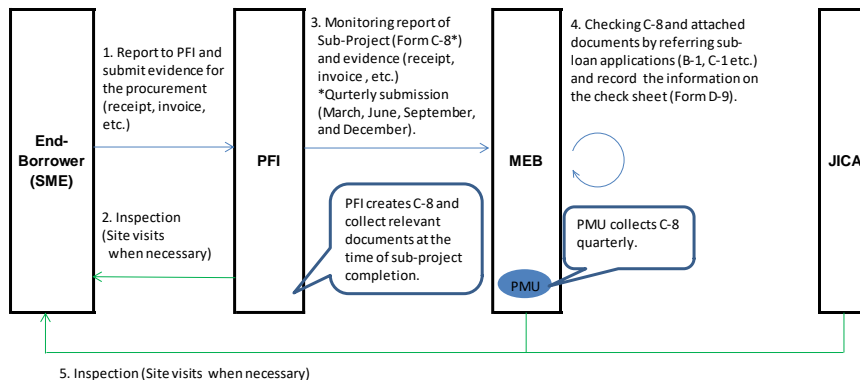
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Monitoring Sub-project: After the Sub-loan Disbursement



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Monitoring Sub-project: After the Sub-project Completion



PFI submits Form C-8 to PMU when SME completed the sub-project AND PFI collects all of the evidence regarding the sub-loan.

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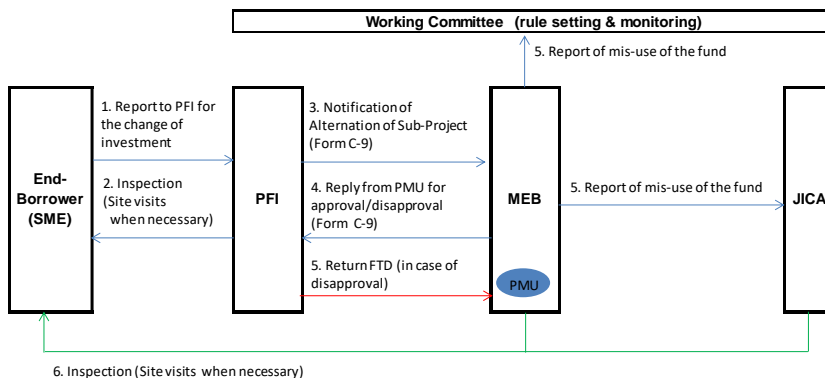
Changing Investment of Sub-project

Basically, changing investment from the plan is NOT allowed, but as long as the end-borrower's business is consistent and the use of fund is within the eligibility, it may be admitted.

Examples of Changing Investment

	Plan	Actual	Action to be taken
○	Five trucks for transportation of goods	Two trucks and parking lot with roof	Submission of notification (PFI → PMU)
×	Bottling machine for juice as a beverage company	Hotel (new business)	Return of fund (The business sector is totally different.)
×	Factory construction	Purchasing materials and paying staff salary	Return of fund (The fund is used for working capital only.)

Monitoring Sub-project: Changing Investment



Impact Assessment of TSL

- ✧ PFIs are required to collect and accumulate each end-borrower's data and PFI's data necessary for PMU/JICA's impact assessment of TSL.
- ✧ PMU collects the data periodically from PFI and report to JICA at least until three years after the project completion.

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Project Indicator for Impact Assessment

Indicators	Baseline	Target [2023]
Sales turnover of the benefited SMEs (mil. MMK)	Data of last fiscal year collected upon application of Sub-loans	Increase from the baseline
Profit of benefited SMEs (mil. MMK)		
Amount of capital investment of the benefited SMEs (mil. MMK)		
Total medium/long-term loan outstanding of the PFIs to SMEs (mil. MMK)	Data collected upon the accreditation of PFI	
Total loan outstanding for loans under eased conditions of the PFIs to SMEs (mil. MMK)		
Number of approval & disbursement of loan by PFIs to SMEs		
NPL ratio of PFIs (%)		
		NOT increase from the baseline <small>41</small>

Reporting (PFI → PMU)

(1) Quarterly: PFI Report on On-going Sub-project Summary

(2) Annually:

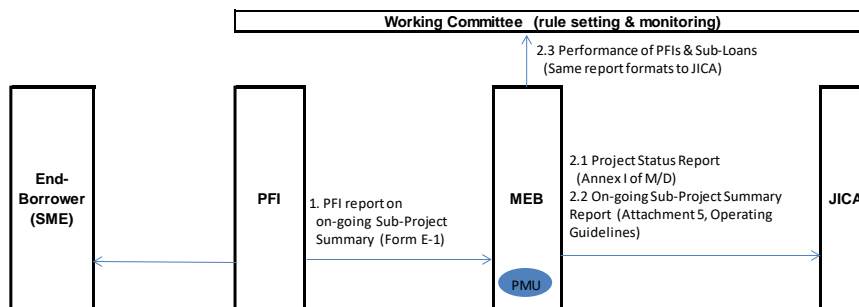
- 1) Report on Current Repayment and Overdue Status;
- 2) Outline of an Annual Environment and Social Performance Report;
- 3) Report on Monitoring Indicators;
- 4) Annual Report (including Financial Statements)

(3) At the time of project completion and after the project:

Necessary reports, data, and information requested from JICA or PMU etc.

42

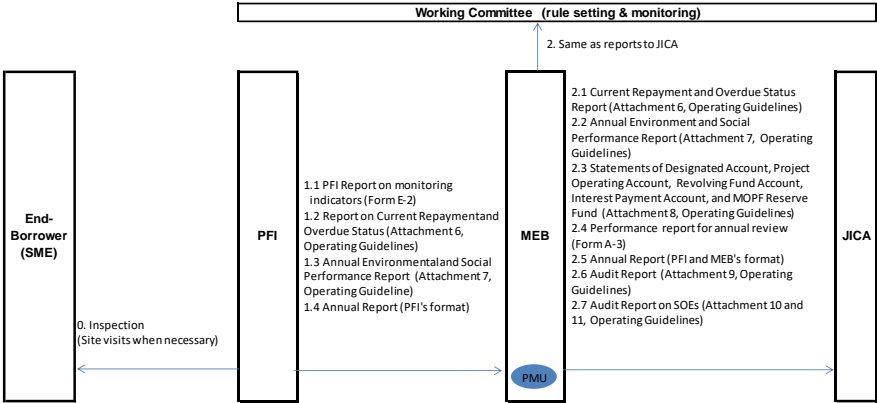
Reporting: Quarterly



Also, PFIs are supposed to cooperate with consultants to input and update the sub-loan database.

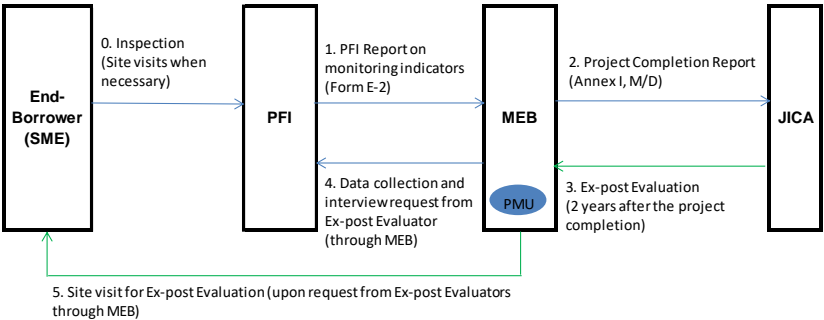
43

Reporting: Annually



44

Reporting: Project Completion & After the Project



PFI will submit report, data, and information to PMU at least until 3 years after the project completion.

45



For any further questions, please feel free to contact:

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Outline of Credit Guarantee Insurance (CGI)

LEAD THE VALUE

10th August 2018

Mr. Kenichi Izumi

Senior Vice President

Sumitomo Mitsui Banking Corporation (SMBC)

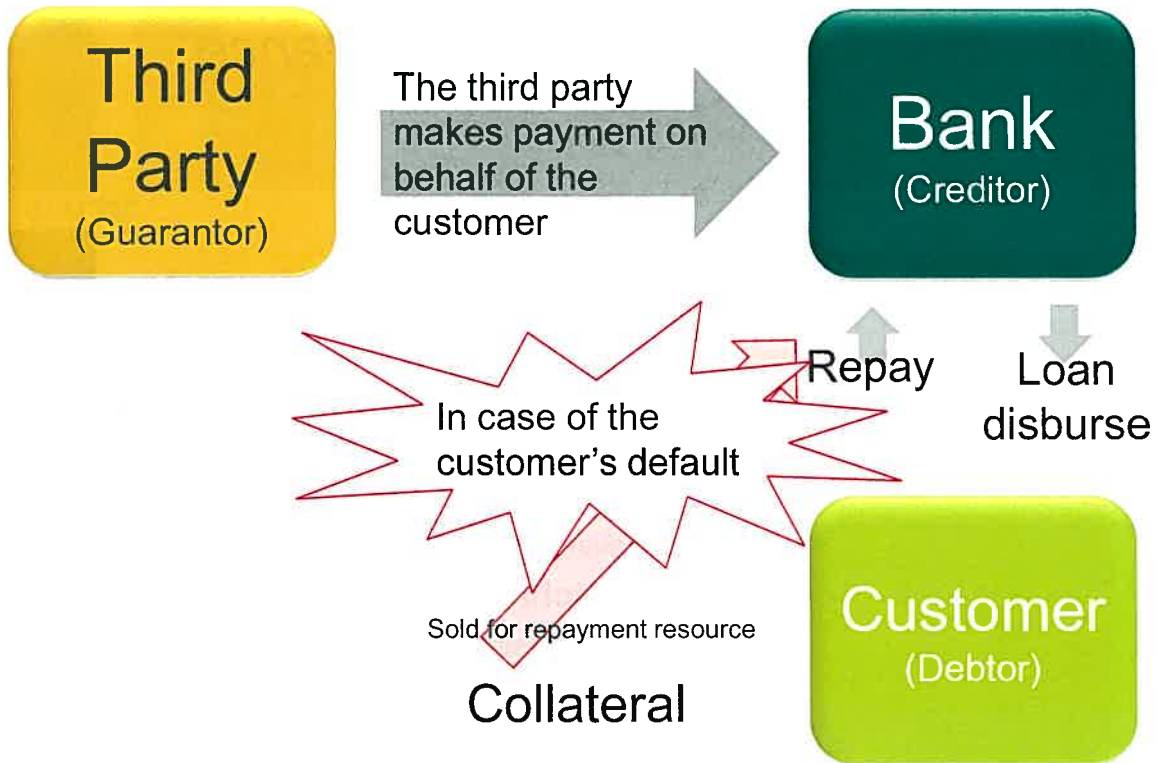
Advisor of Myanmar Insurance

Advisor of Myanmar Economic Bank

© Copyright Sumitomo Mitsui Banking Corporation

What is Credit Guarantee Insurance

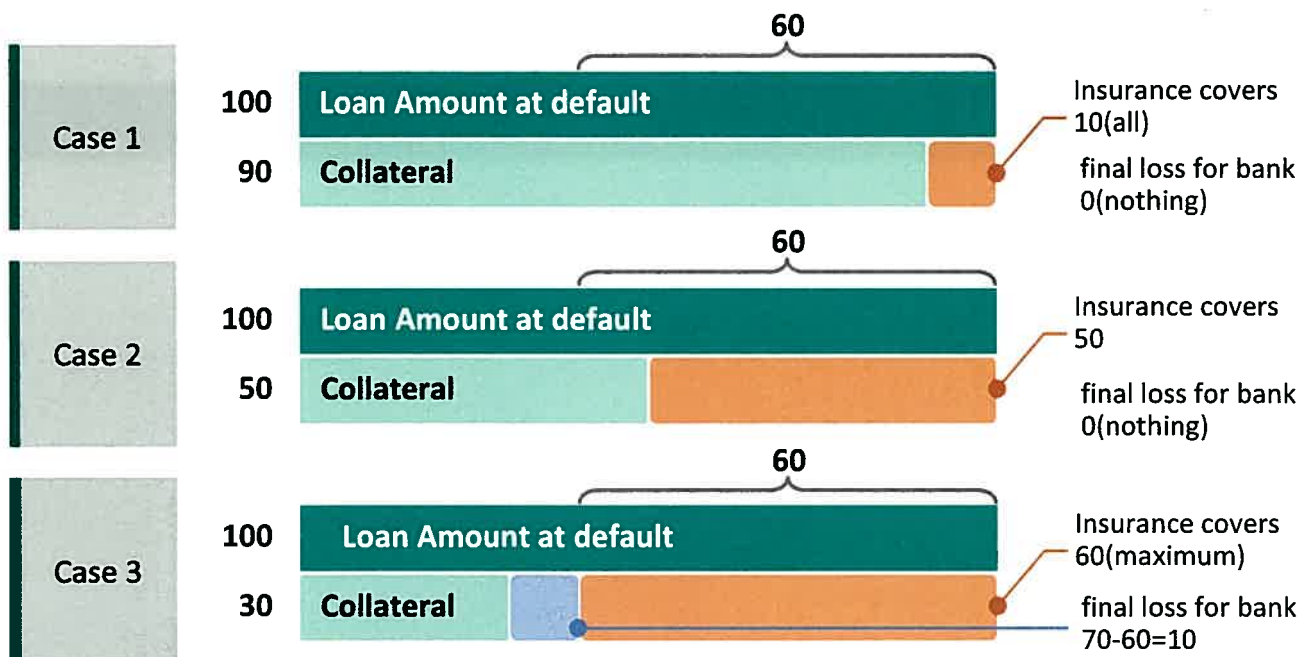
1. Credit Guarantee System



2

2. Credit Guarantee Insurance compensation calculation

Myanma Insurance compensates 60% of the loan amount **at the customer's default**. Compensation should be reduced according to the coverage ratio of collateral.



3

■ 3. CGI Calculation Practice (1)

【At the Beginning】 Loan amount 100 • Value of Collateral 160



【At the Default】 Loan amount 100 • Value of Collateral 90



Bank can cover all of the loan amount by disposal of collateral and CGI. There is no damage in the bank side.

■ 3. CGI Calculation Practice (2)

【At the Beginning】 Loan amount 100 • Value of Collateral 160



【At the Default】 Loan amount 100 • Value of Collateral 40



Bank can cover all of the loan amount by disposal of collateral and CGI. There is no damage in the bank side.

■ 3. CGI Calculation Practice (4)

【At the Beginning】 Loan amount 100•No collateral

Loan 100

【At the Default 】 Loan amount 100•No collateral

Loan 100

loss
40

CGI
60

Bank can cover 60 by CGI, however, result in final loss of 40.

■ 3. CGI Calculation Practice (5)

【At the Beginning】 Loan amount 100•No collateral

Loan 100

【At the Default 】 Loan amount 80•No collateral

Loan 80

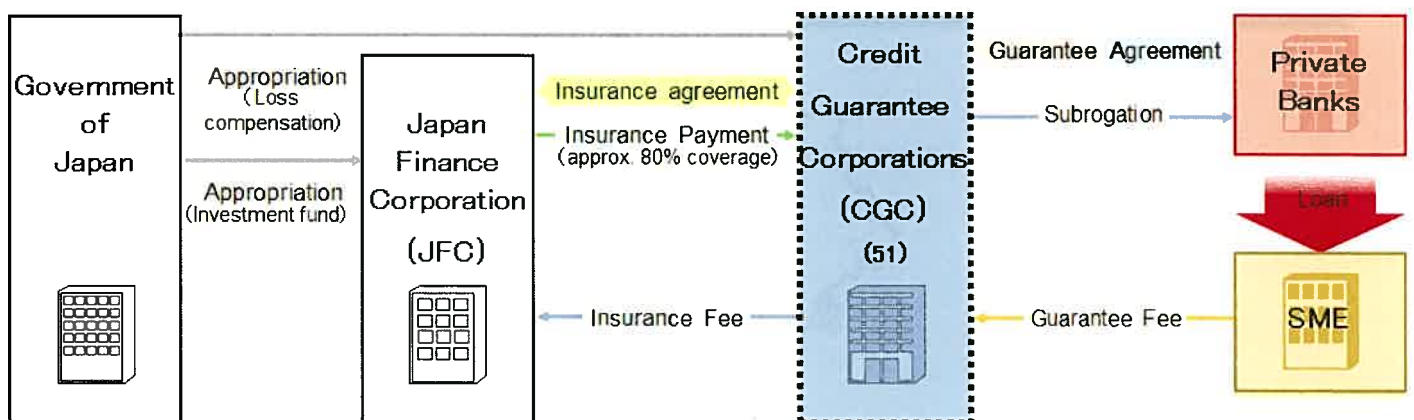
Credit Guarantee System in South East Asia



8

4. Japanese CGC

The prototype of Guarantee System was established in 1927.

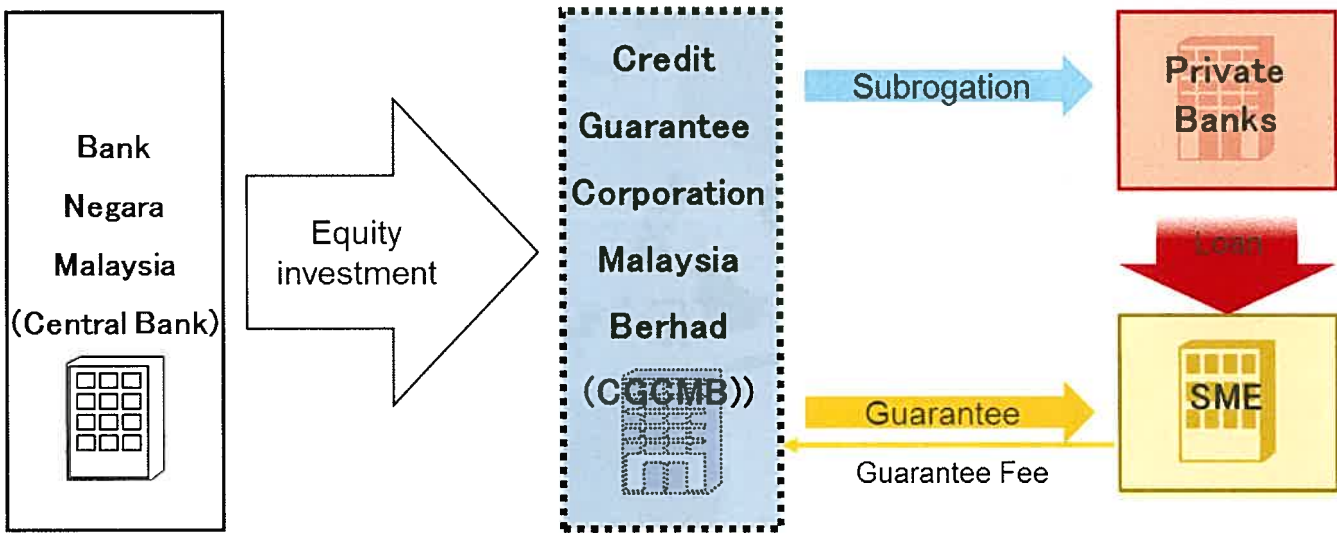


CGC :guarantee an SMEs credit for the private banks
 JFC :Fund support for CGCs' sustainable operation

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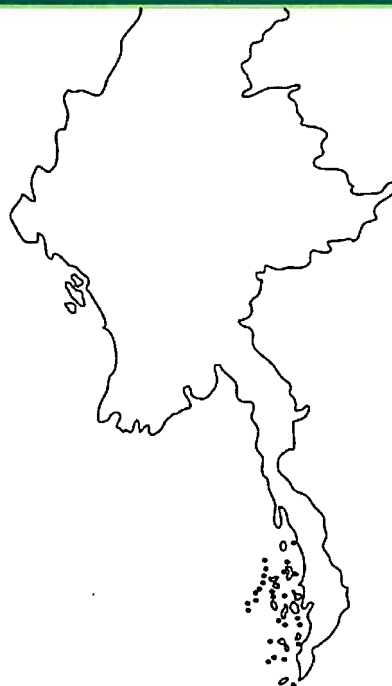
5. Malaysian CGC

The prototype of Guarantee System was established in 1972.



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Credit Guarantee System in Myanmar

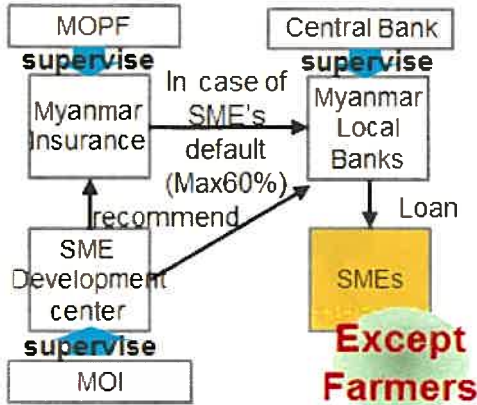


11

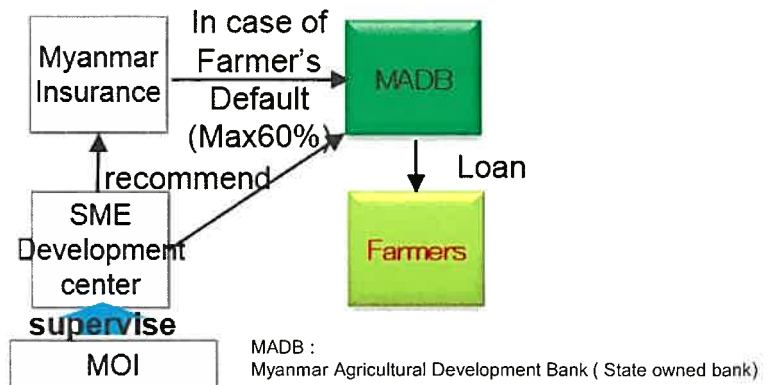
6. Credit Guarantee System in Myanmar

- ❑ The prototype of Guarantee System was established in 2014.
- ❑ Myanmar Insurance, which is a state owned Insurance institution, provides Credit Guarantee Insurance called "CGI".

(1) Not for Farmers



(2) For Farmers



Point

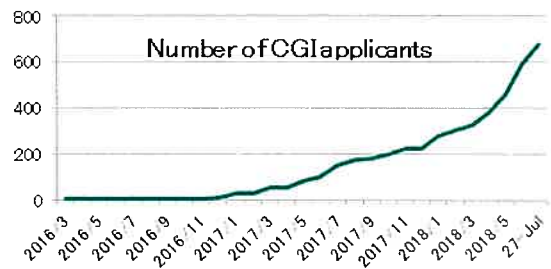
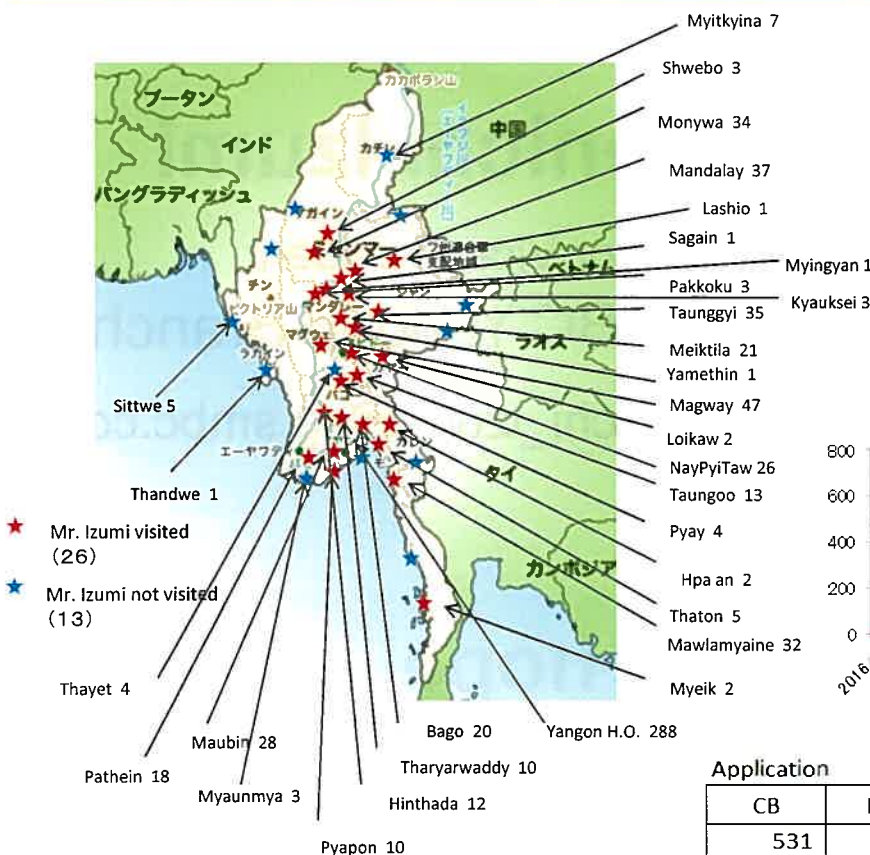
- ✓ SME membership card is issued by Ministry of Industry.
- ✓ Ministry of Industry (MOI) has the top responsibility for the SME development.

This process is the very first step for apply



12

7. Progress in Credit Guarantee Insurance (CGI)



As of 27th July 2018

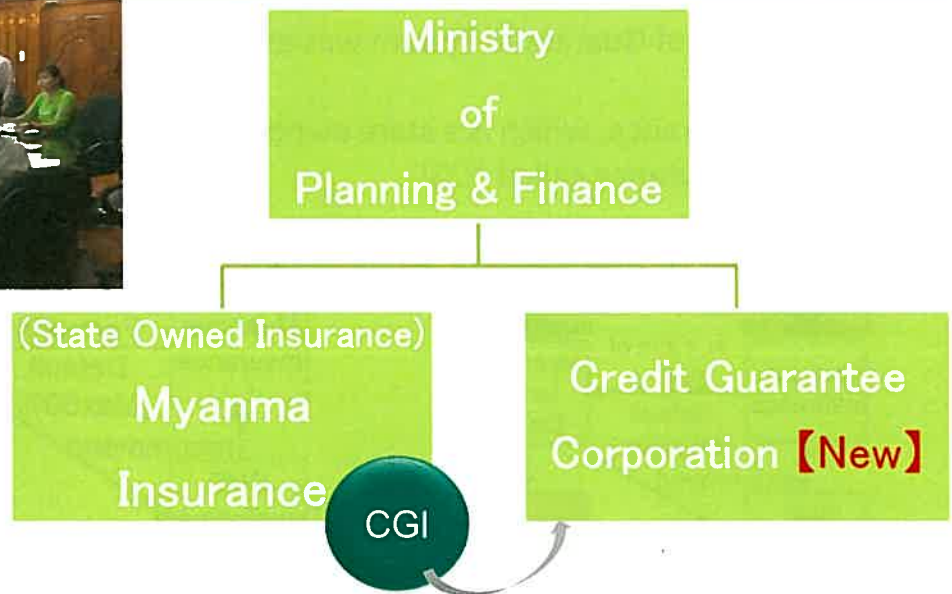
Application

CB	KBZ	SMIDB	MEB	MADB	Total
531	4	41	98	5	679

8. On going Project ~ Credit Guarantee Corporation Law ~



CGC Law establishment
Committee @Myanma Insurance



- Credit Guarantee System is running by Myanma Insurance.
- Current system is running as one of the insurance products in Myanma Insurance. (called "CGI")
- New organization will be established and CGI function will be transferred.
- Credit Guarantee Corporation Law Establishment Committee was just organized in Dec. 2017.

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Thank you very much for your attention !!



Kenichi Izumi

Senior Vice President

SMBC Yangon Branch

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I sincerely hope
ASEAN development.

How to make Credit Scoring for SMEs

November 10, 2018



Japan Economic Research Institute Inc.

Contents

1. Introduction: Why Credit Scoring Matters for SMEs?
2. How to Make Credit Scoring
 - (1) Non-Financial Scoring
 - (2) Financial Scoring
 - (3) Repayment Capacity Evaluation
3. Conclusion and the Way Forward

1. Introduction: Why Credit Scoring Matters for SMEs?

Why Credit Scoring? : Key Benefits

- Reduce costs and time for making a loan
- Make more loans to SMEs
- Control risk more effectively and efficiently
- Remove human bias from lending decision
- Focus on assessing questionable loans

Working with Limited / Unreliable Data

- SME's financial data is not very reliable
Particularly, debit/equity side of B/S
 - Current Liability
 - Fixed Liability
 - Capital Adequacy Ratio
- Therefore, repayment capacity is difficult to be assessed properly if only rely on the submitted data



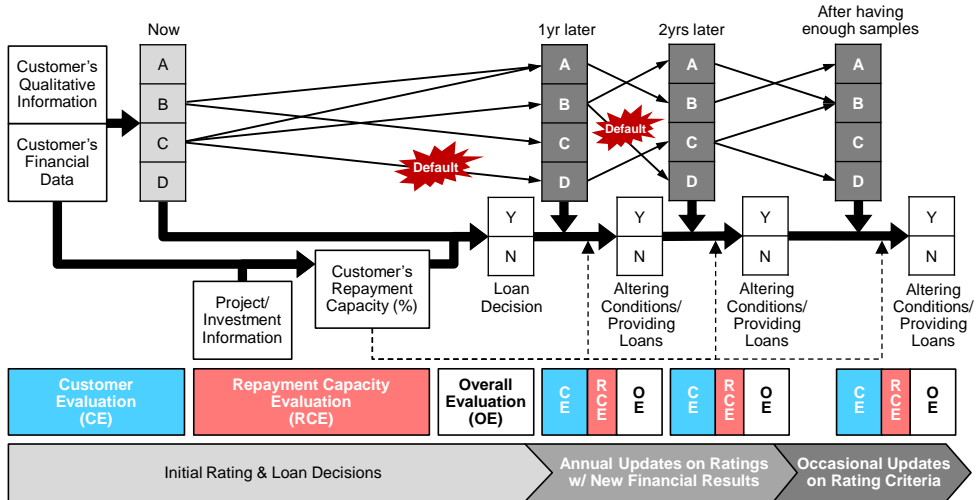
Need to reconstruct financial data by the bank

How Credit Scoring Works?

- Scoring models assume the future will be like the past.
 - Based on historic data when available
 - Based on organizational experience in all cases
- Scoring models should include the same set of key financial and non-financial risk factors that banks analyze subjectively
- Assign points for the different risk characteristics – the point total for any given client is its “score”.
- When the bank makes loan decision, both Credit Scoring and Repayment Capacity shall be taken into consideration.

Credit Scoring/Rating: Proposed Process in MEB

Focusing on *qualitative* info, at least until having enough sample size...



2. How to Make Credit Scoring

Why Two Separate Evaluations?: CE & RCE

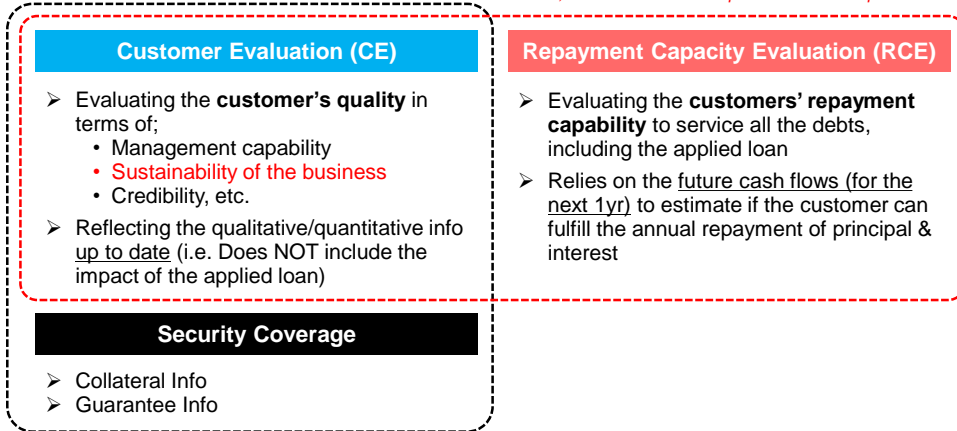
Rationale & specific uses of CE & RCE

2) For Specifying Loan Conditions

- To see if the loan is recoverable even in the worst case.
- The loan conditions should reflect LGD (Loss Given Default)

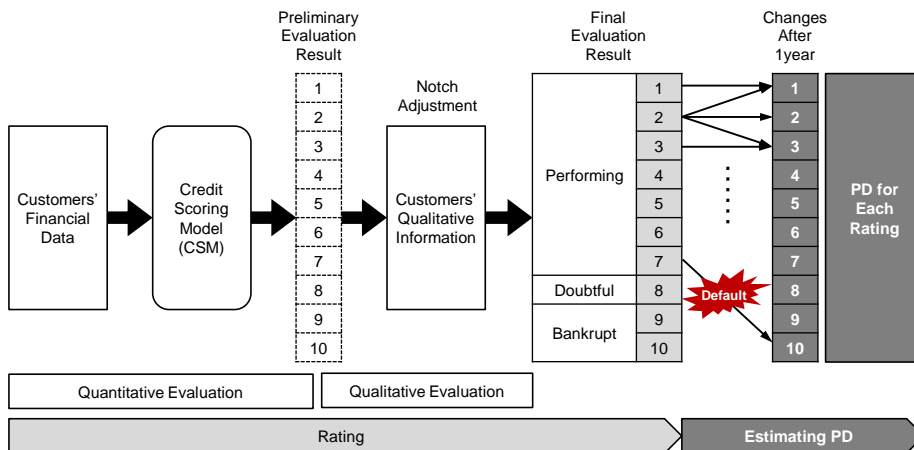
1) For Making Loan Decisions

- To see if the loan is recoverable through the regular cash flows generated by the customer/applicant.
- If not, the loan should not be provided in the first place.



How Credit Scoring Works?

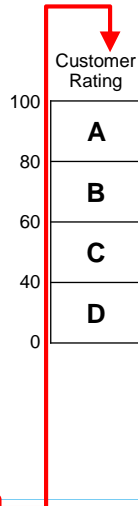
Both **quantitative** & **qualitative** information should be considered, while **'flexibility'** is also important.



Source: Bank of Japan

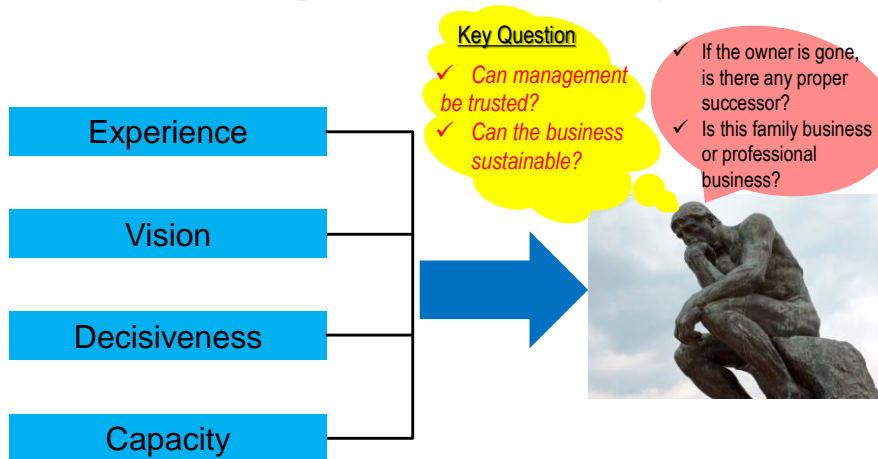
Customer Evaluation (CE): Framework

Category	Indicator	Scale	Weight	Score	Weighted Score
Years of experience in the sector (with bankruptcy)	10+ Years	10	4.0	4.0	
	5-10 Years	10	4.0	4.0	
Years of management experience (with bankruptcy)	10+ Years	10	4.0	4.0	
	5-10 Years	10	4.0	4.0	
Vision	Clear & realistic	10	4.0	4.0	
	Vague or unrealistic	10	4.0	4.0	
Decisiveness	Very decisive	10	4.0	4.0	
	Indecisive	10	4.0	4.0	
Management/operational capability	Very capable	10	4.0	4.0	
	Not capable	10	4.0	4.0	
Internal Operations	Efficient & transparent	10	10.0	10.0	
	Inefficient & opaque	10	10.0	10.0	
Employees	High turnover	10	5.0	5.0	
	Low turnover	10	5.0	5.0	
Efficiency & quality	High efficiency & quality	10	5.0	5.0	
	Low efficiency & quality	10	5.0	5.0	
Market prospect	High prospect	10	7.0	7.0	
	Low prospect	10	7.0	7.0	
Products/Services	Positioning in the market	10	7.0	7.0	
	Product quality	10	6.0	6.0	
Business Operations	Quality of sales/customer issues	10	5.0	5.0	
	Quality of CAPEX	10	5.0	5.0	
Transaction History	Continuous transaction period without defaults	10	10.0	10.0	
	Profitability	10	10.0	10.0	
Financials	Revenue/profit trend	10	5.0	5.0	
	Growth	10	5.0	5.0	



Customer Evaluation (CE): Management (1)

Assessment of Management is the most critical part of CE



Customer Evaluation (CE): Management (2)

Experience	Management	(e.g.) 10: 15yrs < Y 8: 10 < Y ≤ 15yrs 6: 5 < Y ≤ 10yrs 4: 3 < Y ≤ 5yrs 2: 0 < Y ≤ 3yrs 0: No experiences at all
	Business	
Vision	0 ----- 5 ----- 10 None~Poor~Medium~Good~Excellent	(e.g.) 10: Has a well-informed long-term vision which is very much realistic & feasible 7: Has a vision but tend to be rather short-sighted 3: Has a vision which tends to be delusive 0: No vision at all
Decisiveness	0 ----- 5 ----- 10 None~Poor~Medium~Good~Excellent	(e.g.) 10: Very much decisive & capable of making well-informed decisions 7: Takes time to make decisions for reflecting advices from the staff 3: Makes quick decisions but tend to lack necessary information 0: Cannot make decisions at all & confuses the staff all the time
Management/ administrative capacity	0 ----- 5 ----- 10 None~Poor~Medium~Good~Excellent	(e.g.) 10: Very much capable based on the in-depth knowledge of the actual business operations 7: Capable, but tend to rely on the staff & does not care the details very much 3: Has a passion to control the operations but does not work due to the lack of knowledge 0: No capability at all

CE: Internal Operation and Employment

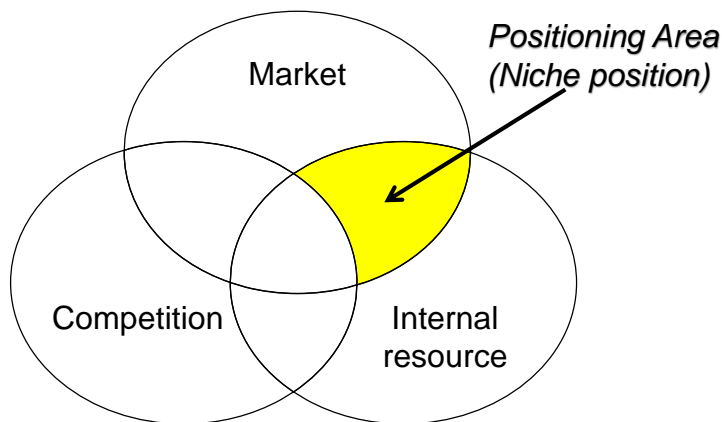
Internal Operation	Efficiency/trans- parency of organizational management	0 ----- 5 ----- 10 None-Poor-Medium-Good-Excellent	(e.g.) 10: Very efficient & transparent with appropriate incentives & every staff member fully aware of his/her role 7: Efficient to some extent but functional division is sometimes blur & confusing 3: Ineligible efficiency losses due to the unclear control either from inside or outside the organization 0: Not efficient at all with no job descriptions & clear functional division
Employ- ment	Turnover	(Compared to the sector average...) 0 ----- 5 ----- 10 Very High- High- Medium- Low- Very Low	(e.g.) 10: Very low turnover (No turnover for key staff) 7: Low turnover (Only a few turnover for key staff) 5: Medium turnover (Average turnover in the industry) 3: High turnover (Higher than average turnover) 0: Very high turnover (Many key staff left)
	Efficiency & Quality	0 ----- 5 ----- 10 Very Low- Low- Medium-High-Very High	(e.g.) 10: Very high skills which are fully mobilized 7: High skills available but not fully utilized 3: Skills are not very high, which requires more experiences 0: No skills at all, severely damaging the business operations

CE: Products/Services

Market Prospects	0 ----- 5 ----- 10 Very bad-Bad- Medium-Good- Excellent	(e.g.) 10: High potential with expected high growth going forward 7: Matured market with positive but slowing growth 3: Matured market which may shrink going forward 0: Dying market with no potential at all
Positioning in the market (competitive advantage)	0----- -5 -----10 Very Low- Low- Medium-High-Very High	(e.g.) 10: Has a dominant share which can be maintained going forward 7: In a competitive market with a good prospect of winning 5: In a competitive market where the share may or may not increase 3: In a red ocean market with high risk of losing 0: Exiting from the market & going nowhere
Stable & well-diversified product/service portfolio with robust core business	0 ----- 5 ----- 10 Not ~~~~ To some ~~~~ Very at all extent much so	(e.g.) 10: Well diversified with robust core business(es) 5: Rely on a single business which is robust/ Well diversified but the core businesses are not robust enough 3: Diversified but the core segments tend to be replaced frequently 0: Rely on a single business which is highly volatile

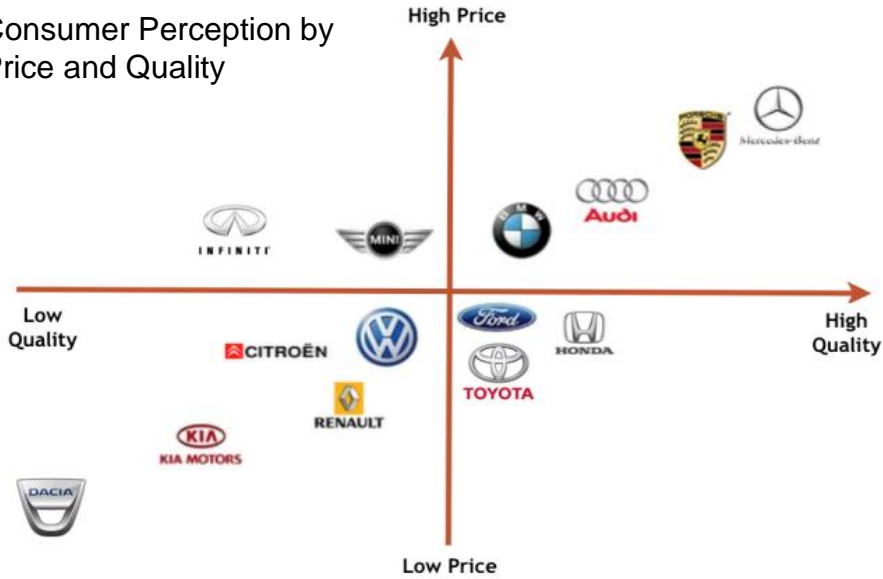
CE: Products/Services

Positioning is the key for competitive advantage
Without proper positioning, SMEs cannot survive



CE: Products/Services: Positioning Map (sample)

Consumer Perception by Price and Quality



CE: Business Operation and Transaction History

Business Operations	Quality of sales/ customer base	0 -----5 -----10 Very ~Bad ~Medium ~Good ~Very Bad Good	(e.g.) 10: Very much robust & well-diversified good quality customers 7: Rely heavily on limited number of robust & good quality customers 3: Rely heavily on limited number of changeable customers 0: No identifiable customer base
	Quality of CAPEX (appropriateness of investment plan)	0 -----5 -----10 Very ~Bad ~Medium ~Good ~Very Bad Good	(e.g.) 10: Well targeted & contributes to the increase in revenues/profits 7: Targeted & contributes to the increase in revenues/profits to some extent 5: Targeted but too large (or small) compared to the expected contribution 0: Unclear target & no contribution to revenues/profits
Transaction History	Continuous transaction period without defaults		(e.g.) 10: No defaults for the past 5yrs+ 8: No defaults for the past 3-5yrs 6: No defaults for the past 1-3yrs 4: No defaults for the past 0-1yr 2: Brand new customer 0: Unpaid default amount remaining

CE: Business Operation and Transaction History

Financials	Profitability	Net Profit Margin	(e.g.) 10: 10% < Net Profit Margin 5: 5% < Net Profit Margin ≤ 10% 3: 0% < Net Profit Margin ≤ 5% 0: Net Profit Margin ≤ 0%
		Sustainability in Profitability	(e.g.) 10: The profit margin is showing increasing trend. 7: The profit margin is stable or showing small fluctuations. 3: The profit margin is showing big fluctuations. 0: The profit margin is decreasing.
	Growth	Revenue/ Profit Trend	(e.g.) Revenue/Profit 10: + / + (Growing revenue & profit) 6: - or = / + (No revenue growth but profit is growing) 5: = / = (No significant variation in revenue & profit) 3: + / - or (Growing revenue but no profit growth) 0: - / - or = (Shrinking revenue & profit) = / - (No revenue growth & shrinking profit)

Repayment Capacity Evaluation (RCE): Framework

Estimating the customer's repayment capability for the next 1 year

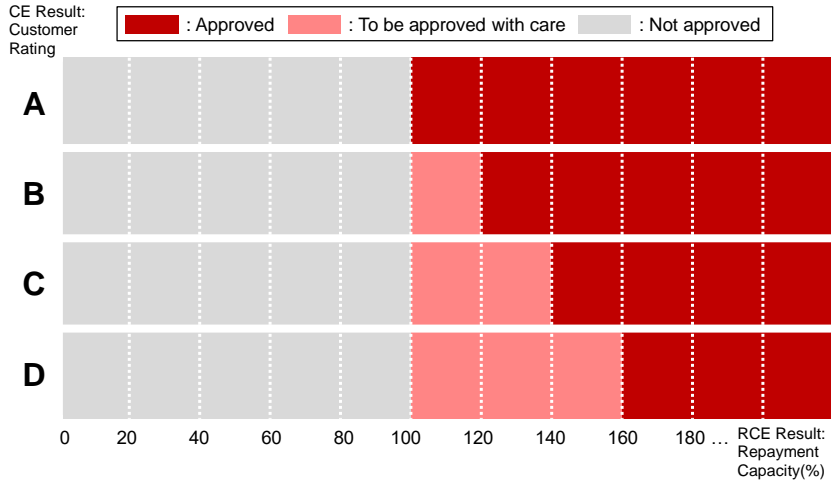
(Unit: MMK)

Fund Uses (for the next 1 year)			Fund Sources (for the next 1 year)	
Business Operations	(B)	800,000		1,000,000
Operational costs		800,000	Operational revenues	1,000,000
Financing		305,000		505,000
Principal repayment for existing loans	(C)	100,000	Applied loan proceed	500,000
Principal repayment for the applied loan	(D)	100,000	Interest earned	5,000
Interest payment for existing loans	(E)	13,000		
Interest payment for the applied loan	(F)	8,000		
Savings (surplus)		84,000		
Other Activities	(G)	600,000		200,000
Capex		500,000	Other incomes	200,000
Other expenses		100,000		
Total		1,705,000	Total	(A) 1,705,000
Fund available for the loan payment (principal & interest) = (A) - {(B)+(G)} = (H)				305,000
Loan repayment capability = (H) / {(C)+(D)+(E)+(F)} (%)				138.0%

Coverage of the loan payments (including both principal & interests for existing & applied loans) by the fund available for the next 1 year

Overall Evaluation (OE): Framework

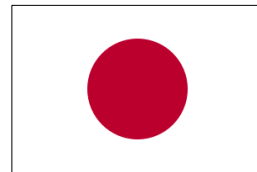
Combining the results of CE & RCE to reach loan decisions



3. Conclusion and the Way Forward

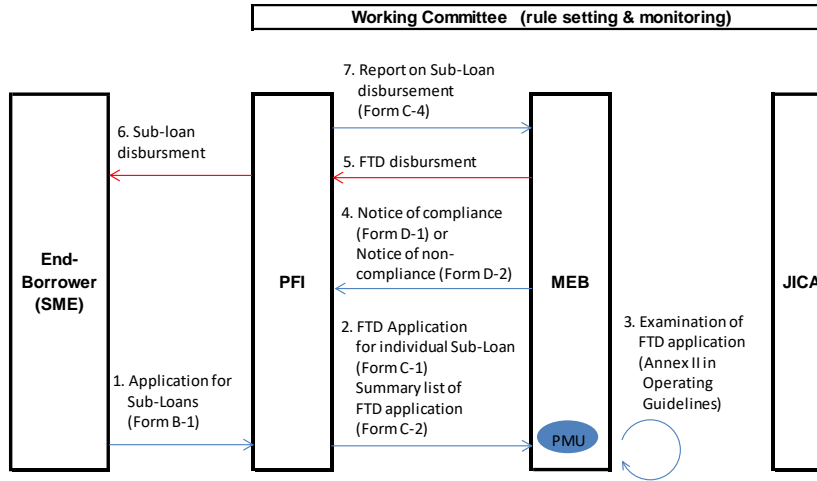
Conclusion and the Way Forward

- Credit scoring works if the future will be similar trend as the past
- Do not entirely rely on financial data of SME customers and try to reconstruct “right” financial statement
- Loan officers should foster “the sense” to assess the strength/opportunity and weakness/risk of SME customers
- The positioning strategy of the SME customers is critical
- Look for meaningful patterns (causal relationship) of increasing/decreasing credit risk



Thank you!
Chezue tin ba dae!

Application Process



1

What do SMEs have to prepare ?

1. **Copy of certificate of his/her business:** Duly registered under **Myanmar Companies Act** (company registration) and/or **other official registration** (e.g. YCDC license, SME Card, etc.)
2. **Application Forms** (PFIs will support SME to fill in Form B-1)
3. **Cost estimation or Invoice of the target capital investment** (machines, building, warehouse, factory etc.)

*After completion of the sub-project, SMEs have to submit receipts of capital investment to PFI as evidenced documents.
4. **Other documents PFIs ask for**

2

Who can apply for SME TSL?

SME definition

	No. of employees*1	Capital Investment**2 (mil Kyat)	Sales turn-over (mil Kyat)
Manufacturing	Up to 300	Up to 1,000	-
Labor Intensive	Up to 600	Up to 1,000	-
Wholesale	Up to 60	-	Up to 300
Retail	Up to 60	-	Up to 100
Service	Up to 100	-	Up to 200
Others	Up to 60	-	Up to 100

(Source) SME Development Law (Law No.23, 9 April 2015)

*1: No. of employees includes only permanent employees, excluding part-time, contracted, seasonal, and provisional employees.

*2: Capital Investment means fixed asset (building, factory, car, machinery, etc).

3

Environmental Category and Ineligible Investment etc.

Category	Description
Category A (Not eligible)	The project is likely to have significant adverse impacts on the environment and society.
Category B (Needs EIA)	Potential adverse impacts on the environment and society are less than those of Category A projects.
Category C (Eligible)	Projects that are likely to have minimal or little adverse impact on the environment and society.

Category	Examples
Sectors (with large-scale projects)	Mining including natural gas and oil development; power plants including hydropower and geothermal; dams; reservoirs; power transmission and distribution lines; roads; railways; bridges; airports; ports and harbors; etc.
Characteristics	Large-scale (1)involuntary resettlement, (2)groundwater pumping, (3)land reclamation, land development, and land clearing, (4)logging
Areas	Nationally-designated protected areas (e.g. national park) ⁴

Objective and merits of SME Two-Step Loan (SME TSL)

Objective

To encourage SME's **capital investment**

e.g. buying a machine, building a factory, upgrading rice mill, expand a restaurant, etc.

→ Loan portion of capital investment (investment on fixed asset) should be **80% - 100% of total loan amount.**



5

Types of loans

Type	Conditions
Ordinary Loan	<ul style="list-style-type: none"> ◆ Loans for SMEs
Special Allotment (1) Loans for Relaxation of Collateral Conditions	<ul style="list-style-type: none"> ◆ Loans for SMEs, who don't have enough collateral. ◆ Applicable with or without CGI. ◆ Interest rate varies depending on collateral coverage.
Special Allotment (2) Loans for Transactions with Japanese Companies	<ul style="list-style-type: none"> ◆ Loans for SMEs, who have (will have) transactions with Japanese Companies. ◆ SMEs who are planning to purchase capital investment from Japanese Companies. ◆ Documents certifying transactions with Japanese companies are necessary to apply for "Special Allotment (2)".

6



How to apply JICA SME Two-Step Loan

November 2018

JICA SME-TSL Consultant Team



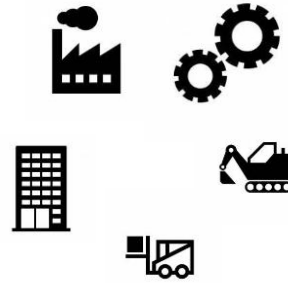
Outline of this presentation

1. Objective and merits of SME Two-Step Loan (SME TSL)
2. Who can apply for SME TSL?
3. Types of SME TSL
4. Conditions of SME TSL
5. Application flow of SME TSL (in case of using CGI)
6. To whom do SMEs apply for SME TSL?
7. What do SMEs have to prepare ?

1. Objective and merits of SME Two-Step Loan (SME TSL)

Objective

To encourage SME's capital investment,
e.g. buying a machine, building a factory,
upgrading rice mill, expand a restaurant, etc.



Merits

1. Low interest rate: minimum 8.5%
2. Long term loan: maximum 5 years
(Not roll-over of annual borrowing, but throughout 5 years)

3

2. Who can apply for SME TSL? (1)

SME definition

	No. of employees*1	Capital Investment**2 (mil Kyat)	Turn-over (mil Kyat)
Manufacturing	Up to 300	Up to 1,000	-
Labor Intensive	Up to 600	Up to 1,000	-
Wholesale	Up to 60	-	Up to 300
Retail	Up to 60	-	Up to 100
Service	Up to 100	-	Up to 200
Others	Up to 60	-	Up to 100

(Source) SME Development Law (Law No.23, 9 April 2015)

*1: No. of employees includes only permanent employees, excluding part-time, contracted, seasonal, and provisional employees.

*2: Capital Investment means fixed asset (building, factory, car, machinery, etc).

4

2. Who can apply for SME TSL? (2)

Excluded Sector

1. Real estate
2. Finance and Insurance
3. Precious metal dealing
4. Bars and Pubs
5. Amusement, Entertainment (except for Tourism)
6. Weapons and Ammunition
7. Farmers *1 *1: Farmers who are eligible for borrowing from Myanmar Agricultural Development Bank
8. Environmental and social harmful projects

5

3. Types of loans

Type	Conditions
Ordinary Loan	◆ Loans for SMEs
Special Allotment (1) Loans for Relaxation of Collateral Conditions	<ul style="list-style-type: none"> ◆ Loans for SMEs, who don't have enough collateral. ◆ Applicable with or without CGI. ◆ Interest rate varies depending on collateral coverage.
Special Allotment (2) Loans for Transactions with Japanese Companies	<ul style="list-style-type: none"> ◆ Loans for SMEs, who have (will have) transactions with Japanese Companies. ◆ SMEs who are planning to purchase capital investment from Japanese Companies. ◆ Documents certifying transactions with Japanese companies are necessary to apply for "Special Allotment (2)".

6

4. Conditions of SME TSL (1)

◆ Ordinary Loans

Conditions	Description
Size	Up to 500 million kyats
Maturity	More than 1 year and up to 5 years
Interest rate	8.5%.
Usage	<p><u>Capital investment</u>; e.g. buying a machine, building a factory, upgrading rice mill, expand a restaurant, etc.</p> <p><u>Working capital</u> is also permitted, but it is limited to <u>up to 20%</u> of loan amount.</p>

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4. Conditions of SME TSL (2)

◆ Special Allotment (1): Loans for Relaxation of Collateral Conditions

Conditions	Description
Size	Up to 500 million kyats
Maturity	More than 1 year and up to 5 years
Interest rate	<p>Minimum 8.5% (The higher collateral coverage, the lower interest rate)</p> <ul style="list-style-type: none"> ➤ without CGI: 8.5% - 13% ➤ with CGI: 10.5% - 13% (including CGI fees)
Usage	<p><u>Capital investment</u>; e.g. buying a machine, building a factory, upgrading rice mill, expand a restaurant, etc.</p> <p><u>Working capital</u> is also permitted, but it is limited to <u>up to 20%</u> of loan amount.</p>

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4. Conditions of SME TSL (3)

◆ Special Allotment (2): Loans for Transactions with Japanese Companies

Conditions	Description
Size	Up to 500 million kyats
Maturity	More than 1 year and up to 5 years
Interest rate	8.5%.
Usage	<u>Capital Investment or Capital investment purchased from Japanese companies;</u> e.g. buying a machine, building a factory, upgrading rice mill, expand a restaurant, etc. <u>Working capital</u> is also permitted, but it is limited to <u>up to 20%</u> of loan amount.

Definition of "Japanese companies":

- 1) Member companies of Japan Chamber of Commerce and Industry, Myanmar (JCCIM)
- 2) Subsidiary companies whose equity are more than 20% of Japanese companies whose headquarters are located in Japan

- Documents certifying transactions with Japanese companies are necessary.
- Other conditions are the same as ordinary loans.

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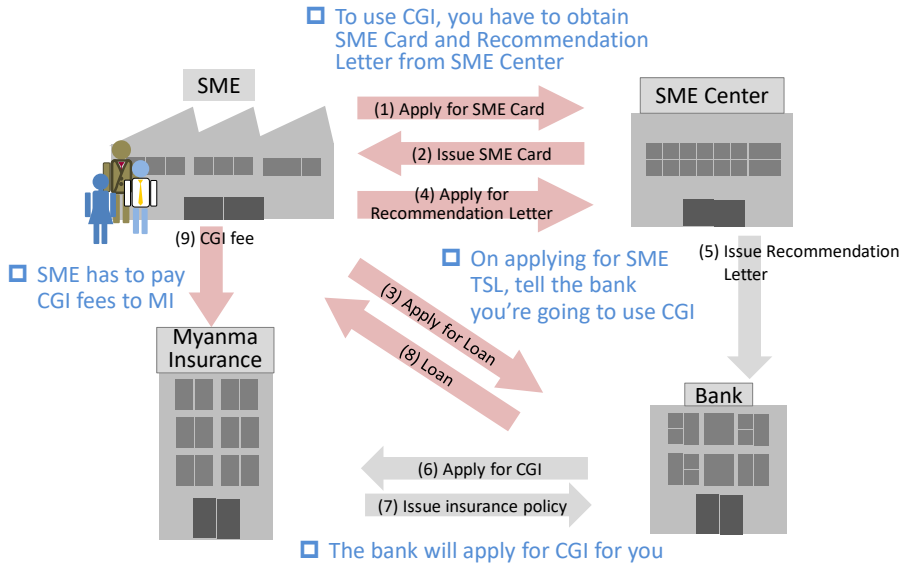
4. Conditions of SME TSL

◆ Special Allotment (2): Conditions of Transactions with Japanese Companies

	SMEs who have/ will have transaction* with Japanese Companies	SMEs who has never had transaction with Japanese Companies
	*evidenced documents (copy of invoice/ receipt or contract from Japanese Companies) are necessary to apply .	
Purchasing capital investment from Japanese Companies (for example, buying machines*) *not limited to made in Japan but limited to purchasing from Japanese Companies	Applicable	Applicable Evidenced documents (copy of invoice/ acknowledgement of order from Japanese Companies) are necessary to apply.
Purchasing capital investment (not limited: for example buying machines made in India from Myanmar dealer)	Applicable	Not applicable

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5. Application flow of SME TSL (in case of using CGI)



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6. To whom do SMEs apply for TSL?

SMEs can apply for TSL to the following 7 Participating Financial Institutes (PFIs);

1. AYA Bank
2. CB Bank
3. First Private Bank
4. KBZ Bank
5. Myanmar Economic Bank
6. Myanmar Citizens bank
7. United Amara Bank



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7. What do SMEs have to prepare ?

1. **Copy of certificate of your business:** Duly registered under **Myanmar Companies Act** and/or **other official registration** (e.g. YCDC license, SME Card, etc.)

2. **Application Forms** (PFIs will provide you)

3. **Invoices of the target capital investment** (machines, building, warehouse, factory etc.)

(After completion of the project SMEs have to submit receipts of capital investment to PFI as evidenced document.)

4. **Other documents** PFIs ask for

Appendix 2: FAQs for PFIs

FAQs for PFIs

No.	Category	Questions	Answers
1	Eligibility	Why does TSL focus only on capital investment loan?	TSL scheme is a policy-based finance for SMEs' capital investment. The Japanese government recognizes that commercial banks can provide short-term financing for working capital, which is not a role of government. Therefore, working capital financing is not covered historically by TSL scheme.
2	Eligibility	Is the SME eligible as an end-borrower if the company is registered under the YCDC not the Myanmar Companies Act?	Yes. SMEs either of which registered under Myanmar Company Act or business registration/permission/license from regional division office/ concerned ministries.
3	Eligibility	Is the company licensed from the relevant ministries eligible for TSL sub-loan borrower? (eg. Hotel license from Ministry of Hotel and Tourism)	Yes, the company is eligible because it has a business license from relevant ministries.
4	Eligibility	How do I know if the end-borrower is eligible or not?	Below are the points to make a judgement: 1) Is the company registered under The Myanmar Companies Act or business permission/license from relevant ministries/ regional division office? OR, does the SME have SME Card? 2) Is the company classified as an SME according to the definition in SME Development Law? 3) What is the company's registered business type? What kind of business is the company actually doing? 4) Does the company need the loan for "fixed assets", not for working capital? 5) Will the company's sub-project negatively affect to the environment or society?
5	Eligibility	Should SME Card holders attach the copy of SME card to the application form?	Yes, they should attach the copy of SME Card to the application form to show the official registration. It easily identifies this company is a SME. Also when they use CGI, it is necessary for them to attach the copy of SME card to the application form.
6	Eligibility	An SME will construct a building for room rental services to foreigners. Is this end-borrower or sub-project eligible?	If the SME is registered as "real estate" company, it is one of excluded sector under TSL. If so, the SME is not eligible for TSL.
7	Eligibility	The nature of the business is Software company, service provider. The purpose of the loan is for expansion of business. According to business nature, the assets are intangible. (software infrastructure) So, how should we proceed for the eligibility of TSL?	"Fixed assets" is decided into two: (1) tangible assets (e.g. building, machinery, etc.) and (2) intangible assets (e.g. copyright, trademark, patent). "Software" is categorized normally as intangible fixed assets. Also in this case, if the purchased assets are intangible fixed assets on the company's balance sheet, the investment project is eligible.
8	Eligibility	1) The company is private forestry development-oriented company. Is it eligible company? The purpose of using sub-loan is to build a factory in this forest for grinding the unnecessary parts of the teak tree. 2) And he wants to build hotel and car park in other place. Is it ok for him to apply TSL?	1) If the company is <u>not</u> a large-scale of forestry (i.e. sensitive sector) and its logging is <u>not</u> over 100 ha of forests, it would be eligible for a factory to grind the unnecessary parts of the teak tree. However, PFI should be careful to take an environmental impact assessment of this sub-loan project during the credit appraisal period. JICA and PMU may ask SME to submit Environmental Clearance Certificate (ECC) if the sub-project is "sensitive sector, characteristics, or area" on "JICA Guidelines of Environmental and Social Conditions" (https://www.jica.go.jp/english/our_work/social_environmental/guideline/index.html) 2) Building the hotel and car park is not eligible if he applies for TSL loan for his manufacturing business (to build a factory). Hotel and car park is different purpose of loan usage.
9	Eligibility	How do I know if the company is SME or not?	According to "SME Development Law (2015)", SME is basically defined by the number of full-time permanent employee depending on the industry type. Also, you may need to check either the capital investment (total asset minus land value) or previous sales turnover depending on the industry.
10	Eligibility	An SME would like to apply two TSL cases (500 Million per case) to build a big factory. Is it eligible for him to apply two TSL cases with one company?	No. One company (SME) can apply only one TSL sub-loan.
11	Eligibility	Can SME divide the maximum loan amount (500 million Kyats) into two to allocate for two projects?	No. The maximum amount (500 Million Kyats) is for one sub-project. You cannot divide the amount for multiple sub-projects.

FAQs for PFIs

No.	Category	Questions	Answers
12	Eligibility	Is Public Company Limited eligible to apply for TSL program?	There may be some SMEs that are established as "public company". However, a public SME is likely to be a listed company at the stock exchange, which means the SME will be able to get the finance directly from the stock market. In theory, policy-based SME loan programs including TSL should target only SMEs that can't get the finance directly from the stock market.
13	Eligibility	Is a JV company (joint with foreign company) eligible for this loan program?	Basically, this program is to support local companies in Myanmar so it would be better to prioritize local companies.
14	Eligibility	Is foreign company (e.g. Japanese, Singaporean etc.) eligible if the company matches the definition on SME Development Law?	If the company matches the definition on SME Development Law, it is eligible. However, in the view of policy lending, it might be better to prioritize the Myanmar local companies first.
15	Eligibility	One SME already received JICA SME TSL and the SME would like to apply again for other investment. Can the company apply for JICA SME TSL again? How about applying at other PFI?	One SME can apply for JICA SME TSL for only one time for the purpose of giving equal opportunity to other SMEs. Even if one SME apply again at other PFI, MEB will decline the application.
16	Eligibility	One SME owner runs a restaurant and borrowed JICA SME TSL for his restaurant business in the past (Phase 1). He also runs a hotel and he would like to apply for the TSL again for his hotel business. Can he use the TSL?	No, it is not allowed. Even if the business type is different, one SME owner can borrow only one time. In this case, the owner utilized the TSL for his restaurant business so he cannot use the TSL again for his hotel business.
17	Eligibility	One SME owner runs a restaurant business and she would like to start a hotel business as her new business. Can she apply for TSL for her new hotel business?	If the owner has not applied for TSL for his restaurant business, she can apply TSL for her hotel business. When she applies, please inform her to provide necessary permission or recommendation documents for her hotel business. And also please explain her that she will not be able to apply for loan for her existing restaurant business after she receives a loan for her hotel business. (One SME owner has one chance to apply for TSL.)
18	Eligibility	Is IT service company available to apply for JICA SME TSL? How about telecommunication company?	IT service provider and telecommunication company can apply for JICA SME TSL as long as their company size matches the definition on SME Development Law. (IT service provider and telecommunication company may be categorized as "service business".)
19	Eligibility	One transportation company would like to buy trucks for their business. Can the company apply for JICA SME TSL?	Since the purchasing cars to provide transportation service can be regarded as investment, the company can apply for JICA SME TSL as long as their company size matches the SME definition. Transportation company can be categorized as "service business".
20	Eligibility	One person would like to apply for JICA SME TSL in order to purchase farming machines (combine harvesters etc.) for his farming business. He has a relationship with one of the PFIs and no relationship with MADB (Myanmar Agricultural Development Bank). Can he apply?	If he has a business permission from regional government (YCDC for example) or relevant ministries, he can apply. However, if he does not have any business license, he cannot even if he has a relationship with one of the PFIs.
21	Eligibility	A farmer has SME card and he would like to apply for SME-TSL to buy farming machine. Can he apply?	No. Even if the farmer has SME Card, he should be a target user of ARD-TSL (Agriculture and Rural Development TSL). Please advise him to ask Myanmar Agriculture Development Bank (MADB) for detail of ARD-TSL. If the applicant has SME Card categorized with "Other Business", please ask the applicant what kind of business he is doing in order to check if the applicant is a farmer or not.
22	Eligibility	Should the certificate of MJC (Myanmar Japan Center) be attached to the application form?	Yes. If the SME has a certificate from MJC, please attach the copy of certificate. PMU expects PFIs to be considered such SME owners' experience for TSL decision making.
23	Eligibility	The applicant SME is a subsidiary/group company of a big company. Can the company apply for JICA SME TSL?	It depends on the % of shareholding and/or % of management coming from the big company. In basic idea, if you think the big company have a certain amount of share and the CEO of the SME comes from the big company, the SME cannot apply for JICA SME TSL because the SME is regarded as a part of the company.
24	Usage of Loans	Is re-financing (borrowing TSL fund to repay other types of loans) allowed under TSL scheme?	No. It is not allowed to finance the past capital investments that were previously financed by other types of loans. This is because TSL aims to increase the production and investments of SMEs in Myanmar.
25	Usage of Loans	Is it acceptable to make 1-year maturity loan and 1 year later consider about the roll-over?	No. In a sub-loan contract between PFI and SME, the loan maturity is required to exceed 1 year under TSL scheme.

FAQs for PFIs

No.	Category	Questions	Answers
26	Usage of Loans	The purpose of using the sub-loan is to build a hotel and car park. Is it eligible?	If the SME's business, "hotel and car park", is not a real estate business, it would be eligible. (The hotel business itself is an eligible sector: tourism.)
27	Usage of Loans	A construction SME has a project to build such as schools, staff houses, and hospitals for the government. Is this sub-project eligible?	No. In this case, normally the constructor will not have the ownership of buildings by transferring it to the government. This is not recognized as capital investment of the end-borrowers, while the company's real financial requirement is working capital.
28	Usage of Loans	Is it allowed to make loans only for working capital by using TSL?	No, it is not allowed. In principle, TSL target is fixed asset investment. However, it is allowed to make loans for working capital supplementary together with capital investment loans. In such a case, the working capital portion cannot exceed 20% of total sub-loan principal.
29	Usage of Loans	A retailer of agricultural machines wants to borrow the loan for purchasing agricultural machines for selling. Is this eligible investment for TSL?	No. 'The eligible investments are "fixed assets", which is defined generally as assets that will not be exchanged into cash within a year. In this case, agricultural machines are recognized as "inventories" which are "current assets". If a retailer builds a retailing shop or purchase such shop's equipment (service counter, copy machine, air conditioning facilities, etc.), it could be eligible for TSL.
30	Usage of Loans	Can SME use loans by both TSL and PFI's own loan at the same time?	Yes. If the TSL's maximum loan amount of MMK500 million is not enough for the total amount of sub-project, PFI can provide additional loans to the SME by using its own capital. Also, PFI can make loans for working capital requirement by using PFI's own capital together with TSL for capital investment.
31	Usage of Loans	Is SME-TSL used for Hire Purchase ?	No, hire purchase is not eligible for SME-TSL.
32	FTD	If there is a time gap between disbursement from MEB to PFI and that from PFI to SME, do we have to pay interest for idle account (normal deposit rate)?	Yes, the interest payment of idle account will occur if the disbursement is not made on the same day of the FTD disbursement from MEB.
33	FTD	How do I know how much the fund is left?	MEB will inform each PFI the total available fund size when MEB announces the funding request. (Announcement will be made twice a month as long as the fund remains.)
34	Interest Rate	Bank supposes to ask service charges on Loan Assessment Fees (such as: fees of assessment on land and building value) Is this type of fees included in the lump sum payment of interest? Or is it excluded and Bank can ask it as their additional service fees?	Operating Guideline says interest rate includes other relevant charges (e.g. service charge, commitment charge, etc.)". This means any other relevant charges should not be permitted, even though it is called as fees of Assessment on Land and Building Value.
35	Prepayment	One SME owner asked the PFI to make a prepayment because he would like to save interest payment. Can the PFI deny the prepayment request from the customer?	If your customer asks you to make a prepayment for loan, you need to accept your customer's request. Please check 6.12 on Operating Guidelines for detail. However, before accepting his/her request, it is recommended that PFI checks if there is any problem with the customer when they prepay the loan based on the customer's cashflow. If his cashflow is safe enough, you can accept the prepayment. At the time of TSL request, especially in case that SME would like to borrow TSL with a small amount, please explain your SME customers very well if this is a long-term loan which means the SME is supposed to pay interest and repay principal for a long time. for 5 years at most.

Appendix 3: Selection Result of PFIs for Phase 2

1. Overall Evaluation Result
2. Detail Evaluation Result

PFI Selection Evaluation Result

Evaluation Period: June 13 – 20, 2018

Full Score: 60pts.

	Bank Name	Total	% of Total Score	Evaluation Result
1	Myanmar Citizens Bank (MCB)	42	70%	PFI
2	KBZ	41	68%	Recommended
3	MEB	41	68%	PFI
4	CB	40	67%	PFI
5	AYA	37	62%	Recommended
6	First Private Bank (FPB)	36	60%	PFI
7	United Amara Bank (UAB)	31	52%	Recommended
8	Yangon City Bank	30	50%	Rejected
9	Global Treasure Bank (GTB)	29	48%	Rejected
10	SMIDB	27	45%	Rejected
11	Myanma Apex Bank (MAB)	26	43%	Rejected
12	NPT Sibin Bank	25	42%	Rejected
13	Asia Green Development Bank (AGD)	24	40%	Rejected
14	Ayeyarwaddy Farmers Development Bank	21	35%	Rejected
15	Asia Yangon Bank	20	33%	Rejected

Evaluation Result																			Evaluation period: 13 - 20 June, 2018				
Bank Name	Banking license Full Score: (1)	Est. Year 5 (2)	SME lending 2 (3)	Paid-up capital 5 (4-a)	CAR 5 (4-b)	ROA 5 (5)	NPL 5 (6)	Disclosure 1 (7-a)	Corp. governance 1 (7-b)	Risk mgmt 1 (7-c)	# of staff 4 (8-a)	Branch network 10 (8-b)	SME loan dept. 3 (8-c)	SME-TSL Team 3 (8-d)	# of PCs equipped 5 (8-e)	Focal Point(s) 1 (8-f)	ESMS 2 (9)	Other info. 2 (10)	Total 60	% of Total Score	Evaluation Result	Comments	
Phase 1 PFIs	AYA	Confirmed	2010 (8 years)	Confirmed	120 mil.	5.17%	0.57%	11.23%	Confirmed	Confirmed	Confirmed	8,372	234 branches 14 regions	10 staff 0.1%	5 staff	1493pcs/HO 5193pcs for branches	Confirmed	Confirmed	Phase 1	37	62%	Recommended	NPL ratio exceeds 10% (11.23%) Score is above minimum requirement (36pts., 60%)
	CB	Confirmed	1992 (26 years)	Confirmed	62.1 bil.	5.15%	0.93%	4.83%	Confirmed	Confirmed	Confirmed	8,300	207 branches 15 regions	48 staff 0.57%	48 staff	4,150pcs in total	Confirmed	Confirmed	Phase 1	40	67%	PFI	
	KBZ	Confirmed	1994 (24 years)	Confirmed	200 bil.	10.91%	1.21%	4.51%	Under development	Under development	Confirmed	19,097	511 branches 15 regions	58 staff 0.3%	5 staff	4 pcs/Team?	Confirmed	Confirmed	Phase 1	41	68%	Recommended	Could not obtain NPL ratio as of March 2018: No statements as of 2018 can be submitted because these are not finished auditing. Score is above minimum requirement (36pts., 60%)
	Myanma Apex Bank (MAB)	Confirmed	2010 (8 years)	Confirmed	42.2 bil.	8.02	0.13%	4.74%	Not submitted	Confirmed	Confirmed	3,500	94 branches 14 regions	15 staff 0.43%	5 staff	Not mentioned	Confirmed	Confirmed	Phase 1	26	43%	Rejected	Not profitable for 2 consecutive years (deficit in FY2016) The score is updated just for reference (original score was less than 10 pts.) after the resubmission of documents after the deadline.
	Myanmar Citizens Bank (MCB)	Confirmed	1992 (26 years)	Confirmed	52 bil.	25.60%	3.20%	4.08%	YSX listed company	Confirmed	Confirmed	752	26 branches 9 regions	41 staff 5.45%	10 staff	15pcs/dept.	Confirmed	Confirmed	Phase 1	42	70%	PFI	Fully submitted the documents and well-organized
	SMIDB	Confirmed	1996.01 (23 years)	Confirmed	31.7 bil.	24.47%	1.70%	22%	Not submitted	Confirmed	Confirmed	502	19 branches 9 regions	19 staff 3.78%	5 staff	60 pcs/HO 15 pcs/branch (345 in total)	Confirmed	Confirmed	Phase 1	27	45%	Rejected	NPL ratio exceeds 10% (22%)
	Global Treasure Bank (GTB)	Confirmed	1996 (22 years)	Not submitted	52.2 bil.	18.97%	1.37%	35.31%	On the website	Not submitted	Copy of CBM submission ?	3,437	149 branches 13 regions	36 staff 1.04%	None	1,500 pcs in total	Confirmed	Confirmed	Phase 1 PFI but no operational experience	29	48%	Rejected	NPL ratio exceeds 10% (35.31%). The score is updated because just for reference (original score was 28) after the resubmission of documents after the deadline.
New Applicants	MEB	Confirmed	1976 (42 years)	Confirmed	44.5 bil.	22.86%	1.10%	4.84%	Confirmed	Confirmed in AR	Confirmed	8,587	335 branches 15 regions	16 staff 0.2%	6 staff	4 pcs/HO	Confirmed	Confirmed	Well-organized documents	41	68%	PFI	Fully submitted the documents and well-organized
	Ayeyarwaddy Farmers Development Bank (A Bank)	Confirmed	2015.11 (2.4 years)	Confirmed	20 billion	12.64%	Deficit for 2 years	3.76%	Not submitted	Not submitted	Confirmed	349 staff	7 branches 2 regions	21 staff 6.01%	10 staff	170pcs/HO?	Confirmed	Confirmed	New	21	35%	Rejected	Banking experience is less than 3 years (since Nov 2015 --> 2 years and 5 months) No profit (deficit) for 2 consecutive years.
	Asia Green Development Bank (AGD)	Confirmed	2010 (8 years)	Confirmed	30.1 bil.	17.22%	0.18%	13.80%	Annual Report	Not submitted	Confirmed	2,504	72 branches 13 regions	Not selected yet	Not selected yet	437 pcs/HO 965 pcs/branch	Confirmed	Confirmed	New	24	40%	Rejected	NPL exceeds 10% (13.8%)
	Asia Yangon Bank	Not confirmed (old license)	2011 (7 years)	Confirmed	5 billion	65.54	0.50%	10.38%	On-going	Not submitted	Confirmed	116 staff	13 branches 5 regions	7 staff 6.03%	Not assigned	4pcs/HO?	Confirmed	Confirmed	New	20	33%	Rejected	Paid-up capital is less than 20 billion Kyats (5 billion Kyats) Attached banking license is not valid (expired) NPL ratio exceeds 10% (10.38%)
	First Private Bank (FPB)	Confirmed	1992 (26 years)	Confirmed	24.7 bil.	23.90%	3.21%	3.43%	YSX listed company	Confirmed by website	Confirmed	636	34 branches 11 regions	51 staff 8%	11	3pcs/HO 1pc/branch	Confirmed	Confirmed	New	36	60%	PFI	YSX listed company and long-term banking experience
	NPT Sibin Bank	Confirmed	2013 (5 years)	Confirmed	20 billion	29.61%	1.30%	8.25%	Not submitted	Not submitted	Confirmed	215	6 branches NPT only	12 staff 5.6%	8 staff	44 pcs/HO	Confirmed	Not completed	New	25	42%	Rejected	Score is lower than the minimum requirement (36pts., 60%) Network coverage is limited (NPT only)
	United Amara Bank (UAB)	Confirmed	2010 (8 years)	Confirmed	44 billion	6.13%	0.13%	4.67%	Confirmed	Confirmed	Confirmed	2,300	76 branches 8 regions	24 staff 1.04%	12 staff	E-mail and pcs are provided individually	Confirmed	Confirmed	Well-organized documents	31	52%	Recommended	Fully submitted the documents and well-organized
Yangon City Bank	Confirmed	1993 (25 years)	Confirmed	20 billion	65.09%	3.49%	3.78%	Not provided (on going)	Confirmed	Confirmed	170	5 branches Yangon only	5 staff 2.94%	None	4 pcs/HO	Confirmed	Confirmed	New	30	50%	Rejected	Score is lower than the minimum requirement (36pts., 60%) Network coverage is limited: No other branch networks except Yangon.	

Appendix 4: SME-TSL Phase 2 Promotion Leaflet

Special “low interest” and “long term” loan for SME



JICA SME Two-Step Loan



We encourage SME’s capital investment, e.g. buying a machine, building a factory, upgrading rice mill, expand a restaurant, etc.

Low Interest
Minimum 8.5%

Long Term loan
Maximum 5 years^{*1}

Loan Amount
up to 500 mil Kyat^{*2}

Special Allotment1
Loan for Smaller Collateral^{*3}

Special Allotment2
Transaction with Japanese Company^{*4}

*1: Not roll-over of annual borrowing, but throughout 5 years.

*2: Total loan amount is 15 billion Yen (about 190 billion Kyat) for this offering.

*3: SMEs who do not have enough collateral can apply.

*4: SMEs who have any transaction with Japanese companies can apply. (past/future transaction will be applicable)

Please contact to the following 7 banks.

(Please don't apply through multiple banks.)



When?

Sooner contact to the banks is better.

Who?

All SMEs can apply^{*3}

*3: Except for ineligible sectors and projects. Please check FAQ No.5 for detail.

What's SME?

Please contact banks or SME Centers for detail.



JICA SME Two Step Loan: FAQ and sample borrowers



FAQ

Usage of TSL

Q1: What item can SME buy using TSL?

A1: The usage is mainly limited to Capital investment, e.g. buying a machine, building a factory, upgrading rice mill, expanding a restaurant, etc.

Working capital is also permitted, but it is limited to up to 20% of loan amount.

Collateral

Q2: Do the banks need collateral from SMEs?

A2: It is a decision of each bank. But usually the banks need collateral. If SME doesn't have enough collateral, SME can utilize the Credit Guaranty Insurance service which Myanmar Insurance supplies. Please contact to Myanmar Insurance and the banks for detail.

Application

Q3: Which bank is good for SME to apply?

A3: All participating banks are good. SME can choose a bank.

Q4: Can SME apply TSL through multiple banks?

A4: No. SME has to choose one bank to apply. If SME applies through multiple bank, the applications will not be considered.

Screening and Eligibility

Q5: What are ineligible sectors and projects?

A5: Real estate, Finance and Insurance, Precious metal dealing, Bars and Pubs, Amusement (except for Tourism), Weapons and Ammunition, Farmers, environmental and social harmful projects.

Q6: What is a farmer?

A6: "Farmer" means a person who own farm land. Non-farmer can apply for SME TSL to invest in rice mill, oil mill, food processing, or agri-related items.

Q7: Who chooses a end-borrower from Two Step Loan (TSL) applications?

A7: At first the each bank chooses an applicant to TSL in terms of credibility of SME. Next, Myanmar Economic Bank (MEB) checks the applicant from the banks in terms of eligibility.

Q8: Why MEB checks the application eligibility?

A8: MEB is in charge of administrating TSL project.

Q9: I have already invested a factory last year. Can I refinance existing borrowing in order to decrease interest rate?

A9: No. Refinance is not eligible.

Next Offering Schedule

Q10: When do you start next offering?

A10: We plan to offer early next year or early next fiscal year.

JICA Supports

Q11: How much is total fund amount of JICA SME TSL?

A11: JICA provides loan of 15 billion JPY (about 190 billion Kyat) to Myanmar gov't for SME TSL.

Special Allotment

Q12: Is there any difference in conditions in "Special Allotment" for smaller collateral?

A12: Interest rate varies depending on the collateral coverage but it may be higher than the minimum interest rate. Interest rate is 8.5% ~ 13.0%. When the borrower uses CGI, additionally he/she has to pay CGI fee to Myanmar Insurance. Other conditions (size, maturity, usage) are the same as the ordinary one.

Q13: Do I have to submit additional documents in applying for special allotment with Japanese company?

A13: Documents certifying transaction such as purchase order are necessary.

A sample borrower

Nyein Chan Thu Trading Co. Ltd.

Establishment year: 2009

No. of employee: 64

Business type: Construction material manufacturing

The company started his business as trading of iron scrap and steel items used in construction. It has invested factory and machines to expand its business model to manufacturing.



In order to produce new items, e.g. concrete reinforcement mesh in an above picture, the company enlarged a factory and bought additional used machines utilizing TSL.

Appendix 6: Second Batch Allocation Rule

(To be approved by Working Committee)

SME-TSL Phase 2 Second Batch Allocation Plan

26th September, 2018

JICA SME-TSL Consultant Team

1. Basic point of view

The total amount of the ODA Loan of SME-TSL Phase 2 is JPY 14,949,000,000 including two preferential loan schemes. From the amount, tentatively JPY 1,500,000,000 is allocated for ‘Loans for SMEs for relaxing of collateral conditions’ and JPY 3,000,000,000 is allocated for ‘Loans for SMEs who have the transaction with Japanese companies’

The first batch of the ODA loan (JPY 3,000,000,000 in total) is disbursed from JICA to MEB by the end of September, 2018. For the fund allocation to PFIs on the first batch, the fund is equally disbursed to each PFI from MEB. On the second batch, the fund is to be allocated to each PFI depending on the result of the first batch use of fund. The more PFI uses the fund for policy priority lending* on the first batch, the more such PFI will have a chance to get the fund.

* Policy Priority Lending:

- (1) Better financial access by relaxing collateral conditions
- (2) Promote business linkage with Japanese companies
- (3) Regions which didn’t get loan from Phase 1 and regions which are not well-developed (hereafter “special regions”)

Viewpoints of Policy Priority Lending:

Strategic Policy of TSL	Scheme or Conditions of TSL
Expand sub-loans to SMEs who don’t have enough collateral	‘Loans for SMEs for relaxing of collateral conditions’ (including using CGI)
Strengthen the relationship with Japanese companies to contribute to increase productivity and improve quality for SMEs	‘Loans for SMEs who have the transaction with Japanese companies’
Increase sub-loans for SMEs in regions who have difficulties to access financial services	Implementation of sub-loans for SMEs who are located in special regions

2. Procedures

STEP 1: Calculate and accumulate the points by each policy: the number of implemented sub-loans of two new loan schemes established in Phase 2 (‘Loans for SMEs for relaxing of collateral conditions’ and ‘Loans for SMEs who have the transaction with Japanese companies’) and the provision of loans to SMEs in special regions (regional allocation points: please see the table “Regional Allocation Points” on page 2). After completion of disbursing all sub-loans (at the end of December in 2018), the performance result of policy priority lending of each PFI comes out by the calculation.

STEP 2: From the result of STEP 1, rank PFI in each of three policy frames. According to the ranking of each policy¹, give points to top three PFIs; the first place PFI gets 3 points, the second gets 2 points and the third gets 1 point.

STEP 3: Sum up the points and rank PFIs from first to third place. The second batch fund allocation is depending on the result of PFI's total point according to STEP 2.

Regional Allocation Points² :

States and Regions	Points
Chin, Kayah, Mon, Kachin, Rakhine, Sagaing, Thanintharyi, Kayin	3
Ayeyarwady, Bago, Shan, Magwe, Nay Pyi Taw	2
Yangon, Mandalay	1

Example:

STEP 1)

The number of sub-loans of '**Loans for SMEs for relaxing of collateral conditions**'

	A bank	B bank	C bank	D bank	E bank
Number of sub-loans	10	6	8	2	3

The number of '**Loans for SMEs who have the transaction with Japanese companies**'

	A bank	B bank	C bank	D bank	E bank
Number of sub-loans	4	7	2	1	6

Total regional allocation points

	A bank	B bank	C bank	D bank	E bank
Total Points	20	8	12	16	6

¹ 1) The number of sub-loans of 'Loans for SMEs for relaxing of collateral conditions', 2) the number of 'Loans for SMEs who have the transaction with Japanese companies' and 3) regional allocation points

² Regarding regional allocation points, each sub-loan gets 1, 2, or 3 points according to the sub-loan location regardless of the types of loan schemes, ordinary or special loan schemes.

STEP 2)

Points for top three PFIs in each item from the result of step 1:

Ranking of each policy	First	Second	Third	Fourth
Use of 'Loans for SMEs for relaxing of collateral conditions'	A bank 3	C bank 2	B bank 1	E bank 0
Use of 'Loans for SMEs who have the transaction with Japanese companies'	B bank 3	E bank 2	A bank 1	C bank 0
Loan to special regions (Regional Allocation Points)	A bank 3	D bank 2	C bank 1	B bank 0

STEP 3)

The total points from STEP 2 and the ranking of each PFI

The Ranking	First	Second	Third	Fourth
PFI	A bank	B bank	C bank	D bank & E bank
Total Points	7 (=3+3+1)	4 (=3+1)	3 (=2+1)	2

<Other Conditions>

- If the total number of sub-loans for 'Loans for SMEs for relaxing of collateral conditions' and 'Loans for SMEs who have the transaction with Japanese companies' are the same among multiple banks, the ranking is decided depending on the total amount of sub-loans.
- If the regional allocation points are the same among multiple banks, the ranking is decided depending on the number of sub-loans for "3 points areas" (higher prioritized areas: Chin, Kayah, Mon, Kachin, Rakhine, Sagaing, Thanintharyi, Kayin) firstly and '2 points areas' secondly. If the ranking cannot be decided above rules, it is decided depending on the total sub-loan amount for '3 points areas' firstly and '2 points areas' secondly.
- If the number of sub-loan is only one by 1 PFI in one policy priority frame, this PFI gets 3 points, and other 6 PFIs get zero.
If PFI cannot be ranked as multiple banks are in the same ranking in each item, the average point of each frame (total 6 points: $6 = 3+2+1$) is allocated for each PFI³.
- The final ranking is decided by the total points of STEP 2. If the total points are the same,

³ Example 1: Two PFIs in the first place and the second is one PFI, the first place PFI gets 2.5 points each and the second gets 1 point.

Example 2: The first place is one PFI and two PFIs are in the second, the first place PFI gets 3 points and the second gets 1.5 points each.

Example 3: Two PFIs are in the first place and other two PFIs are in the second place, the first gets 2.5 points each and the second gets 0.5 point each.

PFI who had higher score in ‘Loans for SMEs for relaxing of collateral conditions’ gets higher rank. If it the rank cannot be set above criteria, the final result depends on the ranking of ‘Loans for SMEs who have the transaction with Japanese companies’. And still not decided, the final result depends on the ranking of total regional allocation points.

3. Allocation of Second batch

Top three PFIs can get additional amount at the second batch fund allocation.

The first place PFI: Basic allocation + 1/2 of total additional amount

The second place PFI: Basic allocation +1/3 of total additional amount

The third place PFI: Basic allocation +1/6 of total additional amount

Calculation:

The amount of total disbursement: X

Basic allocation: $X/9$ (9=7 PFIs + 2)

Total additional amount: $2X/9$ ($2X/9=X-7X/9$)

Additional allocation for first place PFI : $2X/9 \times 1/2$

Additional allocation for second place PFI : $2X/9 \times 1/3$

Additional allocation for third place PFI : $2X/9 \times 1/6$

Example:

If the total amount of second batch is MMK9 billion, each PFI gets MMK1billion as a basic allocation. Total additional allocation is MMK2 billion. And top three PFIs get additional amount: the first place PFI gets MMK1bn, the second gets MMK666 million and the third gets MMK 333 million.

Allocation of second batch (million MMK)

	First place PFI	Second place PFI	Third place PFI	Other PFIs
Basic Allocation	1,000	1,000	1,000	1,000
Additional Allocation	1,000	666	333	0
Total Allocation	2,000	1,666	1,333	1,000

Appendix 7: Recommendation Letters from Consultant Team

1. PFI Selection Result
2. Comment and Recommendation from 1st Batch Disbursement
3. Disbursement Plan

1. PFI Selection Result



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July 16th, 2018

Mr. Yin Zaw Myo
Managing Director, Myanma Economic Bank
No. 26, Thiri Kyaw Swar Street, Nay Pyi Taw
The Republic of the Union of Myanmar

Re: Recommendation for selection of PFIs for SME-TSL Phase 2

Dear Mr. Yin Zaw Myo,

It is our great pleasure to implement The Republic of the Union of Myanmar Implementation Facilitation for Development of Finance for Small and Medium-sized Enterprises (Phase 2) (SME-TSL Phase 2) as the consultant hired by JICA.

Based on the invitation letters for selection of PFIs of SME-TSL Phase 2 dated on May 11, 2018, the Consultant Team has supported to implement the selection procedures since June 13th, 2018. Total fifteen applicants from twenty six banks submitted the application forms and documents.

In accordance with PFI selection criteria from Operating Guidelines, PMU and Consultant Team checked the documents of fifteen applicants and evaluated the accreditation of PFI. The evaluation sheets are attached with this letter.

Additionally the Consultant Team had interviews with each applicant whose score is more than 51% to confirm the implementation and management ability of SME-TSL.

The summary of the results are shown on the next page.

Evaluation Result

Minimum requirement: 36 pts. (60%)

Evaluation period: 13 - 20 June, 2018

Bank Name	Total	% of Total Score	Evaluation Result	Comments
1 Myanmar Citizens Bank (MCB)	42	70%	PFI	Fully submitted the documents and well-organized
2 KBZ	41	68%	Recommended	Could not obtain NPL ratio as of March 2018: No statements as of 2018 can be submitted because these are not finished auditing. Score is above minimum requirement (36pts., 60%)
3 MEB	41	68%	PFI	Fully submitted the documents and well-organized
4 CB	40	67%	PFI	
5 AYA	37	62%	Recommended	NPL ratio exceeds 10% (11.23%) Score is above minimum requirement (36pts., 60%)
6 First Private Bank (FPB)	36	60%	PFI	YSX listed company and long-term banking experience
7 United Amara Bank (UAB)	31	52%	Recommended	Fully submitted the documents and well-organized
8 Yangon City Bank	30	50%	Rejected	Score is lower than the minimum requirement (36pts., 60%) Network coverage is limited: No other branch networks except Yangon.
9 Global Treasure Bank (GTB)	29	48%	Rejected	NPL ratio exceeds 10% (35.31%). The score is updated because just for reference (original score was 28) after the resubmission of documents after the deadline.
10 SMIDB	27	45%	Rejected	NPL ratio exceeds 10% (22%)
11 Myanma Apex Bank (MAB)	26	43%	Rejected	Not profitable for 2 consecutive years (deficit in FY2016) The score is updated just for reference (original score was less than 10 pts.) after the resubmission of documents after the deadline.
12 NPT Sibin Bank	25	42%	Rejected	Score is lower than the minimum requirement (36pts., 60%) Network coverage is limited (NPT only)
13 Asia Green Development Bank (AGD)	24	40%	Rejected	NPL exceeds 10% (13.8%)
14 Ayeyarwaddy Farmers Development Bank (A Bank)	21	35%	Rejected	Banking experience is less than 3 years (since Nov 2015 --> 2 years and 5 months) No profit (deficit) for 2 consecutive years.
15 Asia Yangon Bank	20	33%	Rejected	Paid-up capital is less than 20 billion Kyats (5 billion Kyats) Attached banking license is not valid (expired) NPL ratio exceeds 10% (10.38%)

The applicant which gets more than 60% of total score (60 points) should be selected as a PFI. According to the criteria, four PFIs (MCB, MEB, CB and First Private Bank) can be selected.

However, some additional conditions should be considered.

1. The number of PFIs should be the same or more than that of Phase 1 because total ODA loan amount of Phase 2 is three times as big as that of Phase 1. However, from the viewpoint of workload of sustainable



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ODA loan operation for PMU, the number of PFIs should not be more than seven.

2. PFI's operational ability to manage TSL is very important to implement SME loans smoothly. From the experience of Phase 1, PFIs have to train branch staffs to disseminate information and procedure for customer SMEs. TSL management skills or abilities of the team in each bank should be taken into account to select Phase 2 PFIs.
3. In Phase 2, PFIs should pay much attention to rural SMEs who have difficulties to access financial services. PFI's branch network and nationwide coverage should be considered. From this viewpoint, the Consultant Team would recommend that banks whose banking activities and services are just focused on one specific region (for example, Yangon or Nay Pyi Taw) should not be selected as Phase 2 PFI.

The Consultant Team had interviews with selective banks to confirm the implementation ability to manage TSL internally and externally. The Consultant Team also pays attention to PFIs which encourage rural SMEs that have difficulties to access financial services.

From these points of view, the Consultant Team additionally recommends KBZ bank, AYA bank and UAB for Phase 2 PFIs.

The reasons of selecting above banks are as follows.

KBZ bank is the only bank that did not submit the information of CAR ratio and NPL ratio at the end of March 2018. Therefore the total score of KBZ is tentative. However, even the figures of these ratio are worse than those of at the end of March 2017, total score is expected to be more than 60%. And the experience of TSL management of Phase 1 was excellent. Furthermore, branch network is nationwide and the number of customers are biggest in Myanmar banking sector. The number of SME borrowers is 9,381, which is 87% of total borrowers, and the amount of loan is 4.3 trillion MMK, which is 23% of the total loan of KBZ bank.

AYA bank's NPL ratio at the end of March 2018 was more than 10% (11.23%). The selection criteria of Operating Guidelines does not allow NPL ratio more than 10%. However, the total score is more than 60% and they have experience from Phase 1 PFI. Furthermore, their branch network is also nationwide. The Consultant Team expects AYA Bank to continue to contribute Phase 2 project.

The total score of UAB was under 60% (52%) but the 7th highest score among 15 applicants. From the documentation analysis and the interview, this bank seems to have high management ability for TSL operation. Branch network is also nationwide. The Consultant Team recognized that UAB has already introduced borrowers' credit rating system which will contribute to SME-TSL implementation.

Therefore, the Consultant Team recommends total seven banks (MCB, MEB, CB, FPB, KBZ, AYA, UAB) to be selected as Phase 2 PFIs.

Regarding rejected banks, which did not get more than 60% scores, the Consultant Team adds some comments for each rejected reasons except total scores.



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Yangon City Bank : Branch network coverage is limited to one location, just in Yangon.

Global Treasure Bank : NPL ratio, which is 35.31%, is the worst among 15 applicants. Some required documents were not provided and there was difficulty to communicate with e-mail.

SMIDB : NPL ratio, which is 22%, is the second worst among 15 applicants. From the analysis of audited financial statements (FY2016 and FY2015), all the figures of total assets, loan amount and deposit amount were decreased from the previous year. It might say that SMIDB's financial condition is not stable.

MAB : Not profitable for two consecutive years (deficit in FY2015). Operating Guidelines 4.1. requests PFIs to have audited records which show profitable operation for 2 consecutive years.

NPT Sibin Bank : Branch network coverage is limited to one location, just in Nay Pyi Taw.

AGD Bank : NPL ratio exceeds 10% (13.8%).

A Bank : Banking experience is less than three years. Deficit in FY2017.

Asia Yangon Bank : Paid-up capital is less than 20 billion MMK (5 billion MMK). Submitted copy of banking licence was not valid (expired). NPL ratio exceeds 10% (10.38%).

We appreciate if you take these into consideration for the selection of PFIs for SME-TSL Phase 2.

Yours sincerely,

Toshiyuki KATAGIRI

Team Leader, SME-TSL Consulting Team

CC: U Khin Maung Nyunt, Deputy General Manager, Loans & Supervision Department

2. Comment and Recommendation from 1st Batch Disbursement



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Toshiyuki Katagiri
Chief Consultant, International Department
Japan Economic Research Institute Inc.
1-9-2 Otemachi, Chiyoda-ku,
Tokyo, 100-0004, Japan

8 November, 2018

Mr. Tin Moe Thein
Deputy General Manager of Loan and Supervision Department and
Director of PMU,
Myanma Economic Bank
No. 26, Thiri Kyawswar Street, Nay Pyi Taw
The Republic of the Union of Myanmar

Re: Recommendation from the Consultants about JICA SME-TSL Phase 2 1st Batch Disbursement

Dear Mr. Tin Moe Thein,

Thank you very much for your understandings and kind cooperation on JICA SME Two Step Loan Project.

Since 1st batch disbursement started in September, about 15% of the total fund was disbursed to SMEs as of 29 October 2018 and it seems a little slower than Phase 1 disbursement.

The consultant had interviewed both PMU and PFIs and found that some PFIs are asking SMEs to get SME card to apply for loans even if the applicant has other types of business permission. To issue SME Card, it takes time and some SMEs abandoned to apply for TSL because they could not wait for issuing SME Card. This seems one of the issues which bring slow disbursement.

According to Operating Guidelines, Chapter 2.1, the eligible applicant is duly registered under “The Myanmar Companies Act”, registered under DISI, Ministry of Industry, or official business permission from relevant agencies. To apply for the TSL, SME Card is not the mandatory as long as the applicant SME has either company registration or business license from ministries or other relevant agencies (YCDC, etc.). The only case SME needs to provide SME Card is in case of applying for CGI (Credit Guarantee Insurance).



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From above situation, I would like to recommend PMU to advise all PFIs to accept diversified evidence, not limited to SME Card, but other types of registration or license such as company registration, ministry license etc. SME Card is not the only evidence for the applicants' eligibility. However, please be noted if the applicant SME applies for CGI, SME Card will be a mandatory.

I hope this recommendation will be of help for PMU and PFIs for smoother disbursement for 1st batch.

Yours sincerely,

Toshiyuki Katagiri

Team Leader of SME-TSL Consultant Team,

Chief Consultant, International Department

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3. Disbursement Plan



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November 15th, 2018

Mr. Tin Moe Thein
Deputy General Manager, Loans & Supervision Department,
Myanma Economic Bank
No. 26, Thiri Kyaw Swar Street, Nay Pyi Taw
The Republic of the Union of Myanmar

Re: Recommendation for the plan of the fund disbursement of Phase 2

Dear Mr. Tin Moe Thein,

It is our great pleasure to implement The Republic of the Union of Myanmar Implementation Facilitation for Development of Finance for Small and Medium-sized Enterprises (Phase 2) (SME-TSL Phase 2) as the consultant hired by JICA.

In order to use the fund effectively and efficiently, JICA SME-TSL consultant team would like to recommend the following disbursement plan.

- i) The first batch sub-loans disbursement term will extend two months until the end of February in 2019 (validated period: 6 months).
- ii) The second batch disbursement from JICA will be 4 billion Japanese Yen (JPY) in April 2019 and the fund is expected to be used until the end of September 2019 (validated period: 6 months).
- iii) The third batch disbursement from JICA will be 4 billion JPY continuously provided in October 2019 and the fund is expected to be used until the end of March 2020 (validated period: 6 months).
- iv) The fourth batch disbursement from JICA will be 3.5 billion JPY continuously provided in April 2020 and the fund should be used until the end of September 2020 (validated period: 6 months).

< Extension of the term of sub-loan disbursement of the first batch until the end of February in 2019 >

The progress of the first batch was not fast. One reason is that new PFIs have not yet accustomed to the procedures of TSL. The other reason is that it took time for SMEs who would like to apply for TSL with CGI more than they had expected to get SME cards and the recommendation letter for CGI.



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The first batch disbursement of sub-loans is expected to be completed by the end of December. However, it may be difficult to complete in the month considering the present progress. Therefore we recommend two months extension of sub-loan disbursement should be better, from until the end of December to until the end of February next year. At the end of January, if some PFIs have difficulty finishing the disbursement of the allocated fund to SMEs within the first batch period, we are going to reallocate the remaining fund to other PFIs depending on the demand. By doing so, we expect all the fund at the first batch will be disbursed to SMEs by the end of February. We are trying to encourage PFIs to make progress of the sub-loans disbursement

In parallel to this procedure, we are also going to implement the promotion and the training for both banking staffs and SMEs. As soon as the first batch sub-loans disbursement is completed, we will evaluate the performance result of the first batch in each PFI and decide the amount of the second batch allocation to PFIs. After these procedures we would like to start the second batch from April, 2019.

<Appropriate timing and the proper amount of disbursement>

From the viewpoint of the first batch progress, disbursing 8 billion JPY in one time is too much to spend in a short period of time.

As explained above, the first batch sub-loans disbursement is expected to be completed at the end of February, and we are going to analyze the performance of the first batch and implement intensive promotional and training activities.

As it is better for SMEs to provide the second batch sub-loans without interval, the consultant team recommends making 4 billion JPY (half of 8 billion JPY) disbursements from JICA by April and would start receiving application forms from PFIs in April 2019.

This 4 billion JPY will be used for sub-loans by the end of September (the end of this fiscal year). PFIs and SMEs have 6 months as validated period to use this fund.

As the third batch, another 4 billion JPY should be disbursed in October. This fund will also be used for 6 months (until the end of March in 2020).

The remaining fund, which is 3.5 billion JPY, should be disbursed from JICA in April, 2020. We can provide the fund to SMEs continuously from April 2020 to September 2020 (6 months), until the end of this fiscal year.

We propose PMU to give PFIs a chance to use each batch fund for 6 months.



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Disbursement Schedule of SME-TSL Phase 2

Activity	2018				2019												2020											
	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
TSL Administration / Disbursement / Appraisal & Monitoring / Marketing, Promotion / Capacity Building																												
a) Overall management of TSL program																												
b) Disbursement from JICA to MEB*																												
c) Sub-Loan disbursement from PFI to SME																												
d) Appraisal and Monitoring																												
e) Marketing & Promotion																												
Amount of Disbursement from JICA to MEB*	* 3 bn Japanese Yen				* 4 bn JPY						* 4 bn JPY						* 3.5 bn											

<Promotion of understanding TSL procedures for both PFIs and SMEs>

The Consultant team continuously encourages and trains new PFIs. It will take some more time to improve the capability of banking staff.

SMEs also may need to understand more about TSL procedures.

Therefore promotional seminars for both banking staff and SMEs should be held before disbursement of the second batch.

Each PFI has been conducting promotional activities to their SME customers but since it had just started in the middle of this year, promotion for SMEs from PFIs is not thoroughly penetrated.

We are going to implement the promotional activities as soon as the Phase 2 consulting service starts.

We think it is necessary to encourage SMEs to make use of TSL by conducting more promotional activities especially in rural areas.

We appreciate if you take these opinions into consideration for the disbursement of SME-TSL Phase 2.

Yours sincerely,

Toshiyuki KATAGIRI

Team Leader, SME-TSL Consulting Team