



# Project Concept Paper

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Project Number: 50173-003  
September 2018

## Proposed Loan Myanmar: Enhancing Financial Access through Public Credit Guarantee Scheme Project

## CURRENCY EQUIVALENTS

(as of 20 September 2018)

Currency unit	–	Kyat/s (MMK)
MMK1.00	–	0.00064
\$1.00	–	MMK 1,555.00

## ABBREVIATIONS

ADB	–	Asian Development Bank
CBM	–	Central Bank of Myanmar
CGC	–	credit guarantee corporation
CGS	–	credit guarantee scheme
MFI	–	microfinance institution
MSME	–	micro-small-and medium enterprise
PFI	–	participating financial institutions
PSOD	–	Private Sector Operations Department
SME	–	small and medium-sized enterprise

## NOTE

In this report, "\$" refers to United States dollars.

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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 50173-003</b>	
<b>Project Name</b>	Enhancing Financial Access through Public Credit Guarantee Scheme Project	<b>Department /Division</b>	SERD/SEPF
<b>Country Borrower</b>	Republic of the Union of Myanmar Government of the Republic of the Union of Myanmar	<b>Executing Agency</b>	Ministry of Planning and Finance
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Finance</b>	Inclusive finance		20.00
	Small and medium enterprise finance and leasing		40.00
		<b>Total</b>	<b>60.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD) Partnerships (PAR)	Institutional development Public financial governance Implementation Private Sector	Effective gender mainstreaming (EGM)	✓
Private sector development (PSD)	Promotion of private sector investment		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG5, SDG8, SDG10		
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	<b>Environment: FI Involuntary Resettlement: FI Indigenous Peoples: FI</b>		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>60.00</b>	
Sovereign Project (Concessional Loan): Ordinary capital resources		60.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>3.00</b>	
Government		3.00	
<b>Total</b>		<b>63.00</b>	



# PROBLEM TREE

**EFFECT**

**Low inclusive growth**

Low private sector investment in MSMEs sector

Limited job creation

**CORE PROBLEM**

**Limited access to finance for micro-small-and-medium enterprises (MSMEs)**

**CAUSES**

**High real cost of credit**

**Limited capacity of both the public and private sector**

**Limited financial literacy**

**Weak financial sector serving only large corporates**

**Inadequate support to MSME credit markets**

Outdated banking regulations & weak supervision

Nascent capital markets with small nonbank sector dominated by state-owned entities

Ineffective Credit Guarantee Scheme:

- Incomplete legal and regulatory framework
- Weak corporate governance and risk management
- Weak operational framework

Limited credit underwriting and risk assessment capability

MSMEs, especially women-owned businesses, lack financial knowledge

Undercapitalized banking sector and weak banking operations (large overdraft, over-reliance on real estate as collateral)

Lack of financial infrastructure (credit bureau, business and collateral registries)

Inadequate financial resources to support MSMEs

Limited data on the business sector, especially MSME

Limited government capacity to implement financial literacy strategy

Microfinance institutions lacks access to local currency funding to support microbusinesses & farmers

Weak application and enforcement of accounting and auditing standards

Paper-based business process, limited adoption of technology

Presence of administratively controlled interest rates

Lack of competition

Limited capacity to prepare financial statements and business plans

Weak state-owned commercial banks conducting quasi-fiscal functions

Supported by ADB and development partners  
 Supported under the project either directly or indirectly

Supported by other development partners





## I. THE PROJECT

### A. Rationale

1. The Government of the Republic of the Union of Myanmar has requested the Asian Development Bank (ADB) to support its efforts to increase access to finance. The proposed project will establish a financially sustainable public credit guarantee scheme to benefit micro-small-and-medium enterprises (MSMEs). The project is aligned with the government's Economic Policy of the Union of Myanmar and is included in the draft Country Operation Business Plan 2018–2020 as a firm deliverable in 2019.<sup>1</sup>

2. **High poverty and inequality.** Myanmar's recent reintegration into the global economy has led to impressive private-sector-led growth.<sup>2</sup> However, Myanmar remains one of the world's poorest countries, with per capita gross domestic product (GDP) of \$1,275 in 2016. Moreover, the growth momentum has slowed down, and past performance has not translated into inclusive growth. Annual employment growth was only 1.1% in 2016, compared to an average 4.6% in East Asia and the Pacific. Income inequality has increased and varies substantially across different regions.<sup>3</sup> On average, one in four Myanmar citizens is living in poverty and poverty incidence is twice as high in rural areas where 70% of the population resides.<sup>4</sup>

3. **Access to finance is a key constraint to private sector development.** Myanmar is one of the hardest places to do business, currently ranked 170 out of 190 countries in the World Bank Doing Business survey. The private sector is facing many challenges including the lack of an enabling business environment and limited access to inputs. Among these constraints, access to finance stands out as the number one constraint.<sup>5</sup> According to the World Economic Forum, Myanmar is ranked 138<sup>th</sup> out of 140 countries for availability of financial services. Despite ample domestic liquidity, banks do not provide sufficient credit intermediation. Bank credit represents only 37% of GDP compared to 64% in the Philippines and 170% in Thailand.<sup>6</sup> Only 7% of firms are using banks to finance investment, compared to the East Asia and Pacific average of 20%. More strikingly, 94% of fixed asset investments are financed internally using personal resources, compared to the East Asia and Pacific average of 78%.<sup>7</sup>

4. **Access to finance for MSMEs is challenging.** MSMEs represent over 98% of the registered business entities and account for up to 95% of total employment in Myanmar. They are, however, severely credit-starved. The low loan-to-deposit ratio (55%) indicates that banks do not lack local currency funding but struggle to lend to good quality MSMEs due to their inability to evaluate and mitigate credit risk. Collateral requirements, which many MSMEs cannot meet, focus almost exclusively on real estate. The presence of interest rate caps and floors deters banks from applying appropriate market-based pricing and risk management standards, which serves to ration credit to only large corporates with real estate as collateral. To strengthen system-wide asset quality and capitalization, the Central Bank of Myanmar (CBM) has recently introduced several reforms, including Basel 1 capital standards, and regulations to recognize nonperforming loans consistent with international standards. The resulting increased capital requirements and expected higher loan losses will further reduce banks' lending appetite. Microfinance institutions (MFIs) – the main credit providers to micro-businesses - lack local currency funding to lend to

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<sup>1</sup> Government of Myanmar. 2016. *Economic Policy of Union of Myanmar*. Nay Pyi Taw.

<sup>2</sup> The average GDP growth rate of 8.2% during 2012–2017 was the highest in the Association of Southeast Asia Nations. The private sector accounts for over 90% of the economic growth seen during this period.

<sup>3</sup> World Bank. 2014. *Myanmar. Ending poverty and boosting shared prosperity in a time of transition*. Washington, DC.

<sup>4</sup> ADB. 2014. *Framework of Inclusive Growth Indicators 2014*. Manila.

<sup>5</sup> World Bank. 2015. *Investment Climate Assessment*. Washington, DC.

<sup>6</sup> ADB. 2017. *Key Indicators for Asia and the Pacific*. Manila.

<sup>7</sup> World Bank. 2016. *Enterprise Survey*. Washington, DC.

customers as only a few can mobilize savings. In addition to the collateral requirements, women-owned MSMEs (approximately 25% of all MSMEs), face even more constraints due to banks' lack of gender-inclusive business propositions. Without inclusive access to finance, MSMEs struggle to do business, invest and create jobs – further slowing economic growth and exacerbating income inequality.

5. **Binding Constraints.** There are three key binding constraints to MSME financing: (i) inadequate support to MSME credit markets, (ii) limited capacity of both the public and private sector to underwrite credit, and (iii) low levels of financial literacy among MSMEs.

6. **Inadequate support to MSME credit markets.** To address inefficiency in MSME credit markets, public interventions such as low-cost credit lines or credit guarantee schemes (CGS) are often adopted. However, in Myanmar, such interventions are inadequate and unsustainable. For example, the government's subsidized loans to SMEs have benefited less than 1% of registered SMEs since 2012. Moreover, most of the low-cost financing is provided through grants or concessional loans which have not leveraged banks' excess local currency funding. Studies suggest that CGS represents a more market-friendly type of intervention, and provides countercyclical financing to SMEs during a downward economic cycle.<sup>8</sup> The guaranteed portion of banks' loans carry a lower risk-weight compared to direct loans, which frees up capital for more lending. Many regional countries have successfully implemented CGS. For example, since its establishment in 1972, the Malaysian Credit Guarantee Corporation has provided over 400,000 guarantees for a cumulative \$15 billion to SMEs.<sup>9</sup> Recognizing the potential impact of CGS, in 2014, Myanma Insurance (MI) – a state-owned insurance company – began offering credit guarantees as a product to SMEs. The uptake, however, has been modest, with only around 300 SMEs currently benefiting from the scheme. Market consultations revealed that the current setup exhibits several deficiencies, including the lack of an enabling legal framework and insufficient operational capacity.<sup>10</sup> Understanding these shortfalls, the government is currently working on the Credit Guarantee Corporation (CGC) law to establish a separate legal entity specializing in credit guarantee. Upon the passage of the law and the establishment of the CGC, all assets and liabilities, rights or duties regarding MI's credit guarantee insurance will be transferred to the CGC.

7. **Weak capacity of both the public and private sector to underwrite credit.** MI lacks experience in operating a financially sustainable CGS, including the ability to conduct credit assessment and underwrite guarantee products. In addition, the lack of a credit bureau and reliable data on the formal business sector precludes the conduct of due diligence on potential MSME clients. As a result, commercial banks have long relied on collateral for overdraft financing and are not accustomed to utilizing more sophisticated credit assessment and risk management tools. Business processes such as accounting, financial management and planning are bureaucratic, paper-based and labor-intensive, with limited adoption of technology. Many MSMEs do not have proper financial statements and business plans, and many still operate informally.

8. **Low levels of financial literacy among MSMEs.** A history of financial distress has given rise to a general distrust of the banking sector and financial products and services, even when they are available. For example, a survey revealed that 30% of consumers report not knowing how insurance works and 43% believe that the product is only for the rich.<sup>11</sup> In the case of the current CGS, few MSMEs are aware of the scheme, and do not know how to apply. MSMEs urgently need capacity development to meet the basic credit underwriting requirements. Women

<sup>8</sup> World Bank. 2010. *A Review of Credit Guarantee Schemes in the Middle East and North Africa Region*. DC.

<sup>9</sup> For regional experience in CGC, see: ADB-OECD Study on Enhancing Financial Accessibility for SMEs. Chapter 2.3: Sustainable Credit Guarantee Schemes for SMEs.

<sup>10</sup> See Appendix A for Preliminary Due Diligence of Myanma Insurance and the current CGI scheme.

<sup>11</sup> UNCDF. 2013. *Finscope Myanmar 2013*.

entrepreneurs, while more financially responsible, are often disadvantaged due to the lack of financial literacy. These demand side factors need to be addressed to ensure the impact of any public interventions in the MSME credit markets.

9. **Government's Strategy.** The proposed project is consistent with the Myanmar Sustainable Development Plan 2018–2030 (MSDP) Pillar 2, Goal 3 which aims to support private-sector-led growth by promoting SME development and finance.<sup>12</sup> The Private Sector Development Framework and Action Plan identified five pillars of private sector development including access to finance.<sup>13</sup> The Small and Medium Enterprise Development Policy 2015 envisions the creation of regionally competitive SMEs.<sup>14</sup> Finally, the National Financial Literacy Strategy (NFLS) 2017–2020 has listed financial literacy for MSMEs as urgent workstreams.<sup>15</sup>

10. **ADB's Support for Financial and Private Sector Development.** ADB's engagement in Myanmar's private-sector-led growth agenda started in 2012 with the Support for Myanmar's Reforms for Inclusive Growth Program which established the independence of the CBM and modernized the macroeconomic management framework.<sup>16</sup> ADB technical assistance (TA) has focused on creating a more conducive business environment which provides the necessary preconditions for the proposed project.<sup>17,18</sup> For example, ADB supported the preparation of the government's Private Sector Development Framework and Action Plan, the modernization of the Myanmar Companies Law, and the launch of an online corporate registry, all of which will facilitate business incorporation, strengthen corporate governance, and enhance transparency. ADB's support to modernize the Insolvency Law, develop capacity and strengthen enforcement of commercial contracts will enhance certainty for banks when lending to MSMEs. ADB has also played a significant role in supporting the development of the microfinance sector, including the revision of the Microfinance Business Law and capacity development to the financial regulators.

11. **Donor Coordination.** A well-coordinated delineation of responsibilities among donors supports ADB's efforts to establish a financially sustainable CGS. To strengthen the central bank and economic governance, the IMF is helping CBM adopt a more market-based approach to banking supervision to eventually liberalize interest rates in an orderly fashion. The World Bank is assisting the government to prepare the Financial Institutions Law and supporting regulations, and to restructure state-owned commercial banks. In addition, the International Finance Corporation-supported credit bureau has been established and will enable financial institutions to strengthen credit assessment. Finally, a number of bilateral donors including the Gesellschaft für Internationale Zusammenarbeit, the Japan's International Cooperation Agency and the United States Agency for International Development are providing direct support to partner banks to enhance credit underwriting and risk management standards. These efforts include the placement of resident advisors at partner banks to develop cashflow lending practices and offer advisory services to SME customers.<sup>19</sup>

<sup>12</sup> Government of Myanmar. 2018. *Myanmar Sustainable Development Plan (2018–2030)*. Nay Pyi Taw.

<sup>13</sup> ADB. 2016. *Myanmar: Private Sector Development Framework and Action Plan*. Yangon.

<sup>14</sup> Government of Myanmar. 2015. *Small and Medium Enterprise Development Policy 2015*. Nay Pyi Taw.

<sup>15</sup> Government of Myanmar. 2017. *National Financial Literacy Strategy 2017–2020*. Nay Pyi Taw.

<sup>16</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to the Republic of the Union of Myanmar for Support for Myanmar's Reforms for Inclusive Growth Program*. Manila.

<sup>17</sup> World Bank. 2015. *Principles for Public Credit Guarantee Schemes for SMEs*. Washington, DC.

<sup>18</sup> ADB. 2013. *Technical Assistance to the Republic of the Union of Myanmar for Support for Strengthening Public Debt Management*. Manila; ADB. 2014. *Technical Assistance to the Republic of the Union of Myanmar: Strengthening Institutions for a Better Investment Climate*. Manila; ADB. 2016. *Technical Assistance to the Republic of the Union of Myanmar for Strengthening Law, Regulation, and the Legal Climate*. Manila; ADB. 2017. *Technical Assistance to the Republic of the Union of Myanmar for Support for Strengthening Business Climate*. Manila.

<sup>19</sup> See Appendix B for Donor Coordination matrix.

## B. Proposed Solutions

12. The proposed project supports MSME financing through a CGS. The project will be aligned with the following impact: Inclusive private-sector-led growth in line with a market economy system enabled (Economic Policy of the Union of Myanmar). The outputs will result in the following outcome: business access to financial services increased. There are three outputs:

13. **Output 1: The CGS capitalized and made operational.** The project will provide a \$60 million loan to the government, of which \$57 million which will be on-lent to MI in kyat equivalent, to provide credit guarantees to SMEs.<sup>20</sup> Segregated bank accounts (an expense account, a draw-down deposit account and an investment account) will be created to ring-fence the \$57 million which will be transferred to the new CGC as capital once established. The CGS will be fully funded and excess cash will be invested in domestic government bonds to generate returns and to complement the government's efforts to build the Treasury bond market. The CGS will enter into risk sharing arrangements with qualified partner financial institutions (PFIs) using a transparent evaluation process.<sup>21</sup> The CGS will adopt a combination of portfolio and individual loan guarantees subject to the performance of PFIs. PFIs will make kyat-denominated loans to SMEs which will pay guarantee fees as a percentage of the guaranteed amount. The fee will be adjusted to encourage SMEs to adopt best practices such as registering in the corporate registry and the credit bureau. Preliminary design specifications contemplate a 50% guarantee coverage on a pari-passu basis for an annual fee of 2% of the guaranteed amount up to 5 years. Upon documenting a default, MI will provide a quick pay-out on the principal, excluding interest and after adjustment for collateral, if any.<sup>22</sup> The maximum leverage ratio of CGS will be set out in the regulations but will not exceed five times during the project implementation period.

14. To pilot the One-ADB approach between SERD and PSOD, \$2 million of the \$57 million capital of CGS will be earmarked to support the entry of PSOD's regional microfinance program into Myanmar.<sup>23</sup> The CGS will provide a first loss guarantee of 10% of qualifying loans made by PFIs to MFIs. ADB's PSOD will then take up 50% of the remaining default risk of the loans. PSOD will evaluate, select PFIs and approve MFIs based on pre-established guidelines. This pilot component is expected to: (i) provide additional comfort to banks for lending to MFIs; (ii) introduce international best practices in safeguards and consumer protection procedures; and (iii) provide direct support to the PFIs to strengthen their underwriting standards.

15. **Output 2: Capacity of the CGS and PFIs improved.** The remaining \$3 million of the \$60 million loan will be earmarked for capacity development and project implementation (Output 2 and 3). The operation, governance and risk management capacity of the CGS will be enhanced.<sup>24</sup> A project steering committee chaired by the Ministry of Planning and Finance (MOPF) will monitor the project and ensure coordination. A project implementing unit will be established to support project implementation. Standardized application and underwriting guidelines will be designed, and a monitoring process and credit manual will be developed. A risk rating system will be deployed to ensure accurate, transparent and consistent internal credit ratings. Training on credit analysis, risk assessment and investment management will be provided to the CGS. PFIs will be trained to onboard new MSMEs and manage risks in compliance with

<sup>20</sup> See Appendix C for the Flow of Fund Diagram.

<sup>21</sup> See Appendix D for the proposed PFI evaluation. The final criteria will be developed at later stage.

<sup>22</sup> See Appendix E for the scenario analysis of CGS.

<sup>23</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Guarantee and Unfunded Risk Participation Products for Additional Financing Microfinance Risk Participation and Guarantee Program (Regional)*. Manila.

<sup>24</sup> See Appendix F for the proposed CGS organizational structure and draft CGC law for the governance structure.

financial regulations. Finally, support will be provided to PFIs to adopt the most bankable and scalable financial technology solutions targeting MSMEs, especially women-owned MSMEs.<sup>25</sup>

16. **Output 3: Financial literacy of MSMEs increased.** The project will support a gender-sensitive marketing campaign on the new CGS, including the benefits of the scheme, the application process, selection criteria and targeted beneficiaries. The project will also develop financial education material for MSMEs, including accounting, financial planning and management and consumer protection. The project will partner with the banks and financial technology firms to incentivize MSME clients to adopt standardized enterprise resource planning software for business process management. Finally, the project will partner with business associations, including the women business and young entrepreneur associations, to develop training programs specifically tailored to MSMEs on basic financial products and services.

17. **Innovation and Value Addition.** The proposed project will offer innovative solutions to support MSME financing by (i) establishing the first government-owned financially sustainable CGS to support MSME financing, (ii) facilitating the adoption of financial technology to enhance access to finance, and (iii) utilizing a partnership between SERD and PSOD to implement PSOD's unfunded microfinance risk participation and guarantee program in Myanmar.

### C. Proposed Financing Plans and Modality

18. The project is estimated to cost \$63 million (Table1). The proceeds of the financial intermediation loan will be used to capitalize the CGC, build the capacity of CGC and PFIs, and increase financial literacy of MSMEs. ADB prohibits certain investment activities.<sup>26</sup>

**Table 1: Indicative Financing Plan**

Source	Amount \$ million)	Share of Total (%)
Asian Development Bank	60.0	95.2
Ordinary capital resources (Concessional loan)	60.0	95.2
Government <sup>a</sup>	3.0	4.8
<b>Total</b>	<b>63.0</b>	<b>100.0</b>

<sup>a</sup> Government support is in the form of office space, staff, office accommodation and other in-kind contributions.  
Source: Asian Development Bank.

### D. Implementation Arrangements

**Table 2: Indicative Implementation Arrangements**

Aspects	Arrangements
Indicative implementation period	September 2019 –September 2024
Indicative completion date & loan closing date	September 2024 & March 2025
Management	
(i) Executing agency	Ministry of Planning and Finance
(ii) Key implementing agencies	Myanma Insurance

Source: Asian Development Bank.

## II. PROJECT PREPARATION AND READINESS

19. Existing TA projects will be used to conduct project preparation and implementation.<sup>27</sup>

<sup>25</sup> Defined as MSMEs with 100% or majority ownership by women.

<sup>26</sup> ADB. 2009. *Policy Paper: Safeguard Policy Statement*. Manila.

<sup>27</sup> ADB. 2017. *Technical Assistance to the Republic of the Union of Myanmar for Support for Strengthening Business Climate*. Manila; and ADB. 2014. *Technical Assistance to the Republic of the Union of Myanmar: Strengthening Institutions for a Better Investment Climate*. Manila.

### III. DELIBERATIVE AND DECISION-MAKING ITEMS

#### A. Risk Categorization

20. Following the staff instruction on business processes for sovereign operations, the project is categorized as low risk. During project implementation, ADB will make considerable efforts to ensure that the project incorporates conflict-sensitive principles and a focus on inclusivity.

#### B. Project Procurement Classification

21. The project does not require procurement classification as a majority of the loan proceeds will be used to capitalize the CGS (Appendix 2).

#### C. Scope of Due Diligence

Due Diligence Outputs	Undertaken by
Development coordination	Staff
Economic analysis	Staff and TA grant
Financial management assessment, financial evaluation, and financial analysis	Staff and TA grant
Gender analysis, collection of baseline data and gender action plan	Staff and TA grant
Safeguard screening and categorization results	Staff
Initial poverty and social analysis	Staff
Integrity due diligence and/or AML/CFT checklist(s)	Staff and TA grant
Project administration manual	Staff
Risk assessment and management plan	Staff
Safeguard documents on environment, involuntary resettlement, and/or indigenous peoples	Staff
Banking sector assessment	Staff
Summary poverty reduction and social strategy	Staff

AML = anti-money-laundering, CFT = combating financing of terrorism, TA = technical assistance.

Source: Asian Development Bank.

#### D. Processing Schedule and Sector Group's Participation

**Table 3: Processing Schedule by Milestone**

Milestones	Expected Completion Date
1. Fact-Finding	1–5 October 2018
2. Staff Review Meeting	23 November 2018
3. Loan negotiations	12 April 2019
4. Board Consideration	25 June 2019
5. Loan Signing	31 July 2019

Source: Asian Development Bank.

#### E. Key Processing Issues and Mitigation Measures

22. The legal and governance structures of the CGC are included in a draft CGC law. While the establishment of the CGC does not necessarily require a new law, such a law will provide a stronger legal footing for the new entity.<sup>28</sup> However, enactment of the law could be delayed, which might affect the project timeline. Project processing will proceed in parallel with preparation of the law, which is currently supported by ADB TA. ADB will adjust the project design to meet the government's needs while ensuring timely project delivery. Finally, ADB will need to confirm the amount of capitalization needed, based on demand from the private sector and the utilization of funds, as well as the final risk-sharing arrangement and pricing.

<sup>28</sup> Existing corporate laws support the incorporation of a government-owned corporation without the need for a separate law. A company constitution will be needed and can be prepared in a short period of time. However, a separate law will provide strong legal footing and much clarity in terms of tax treatments, reporting and mandate, funding and shareholding of the new entity. ADB has explained the pros and cons of both approaches to the government.

## PRELIMINARY DESIGN AND MONITORING FRAMEWORK

<b>Impact the Project is Aligned with:</b> Inclusive private sector led growth in line with a market economy system enabled (Myanmar Sustainable Development Plan 2018-2030) <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<b>Outcome</b> Business access to financial services increased	By 2026: a. At least \$150 million equivalent of new loans from PFIs to SMEs will be made.(data disaggregated by sex, location and sector of SMEs will be tracked) (2018 Baseline: 0)  b. At least \$15 million equivalent of new loans to MFIs will be made, of which at least 50% of the end customers are women (2018 Baseline: 0)	a. MI, MOI and MOPF reports  b. MI and MOPF reports	Political and institutional changes could affect sustainability of reform initiatives and deteriorate the business conditions
<b>Output</b> 1. The CGS capitalized and made operational           2. Capacity of CGS and PFIs improved	By 2024: 1a. The Credit Guarantee Corporate Law submitted to the Parliament for approval (2018 Baseline: Not Submitted)  1b. \$57 million equivalent of funding channeled to CGC as seed capital (2018 Baseline: NA)  1c. At least 25% of CGC investment portfolio invested in government Treasury bonds with tenors of between 2 to 5 years (2018 Baseline: 0)  2a. The organization, governance structure, approval process, risk rating system, monitoring process and credit manual developed and	1a. News coverage, MOPF reports, website  1b. Project monitoring reports and CGC and MOPF reports  1c.CGC and MOPF reports  2a. MOPF website	The legal process of the Credit Guarantee Corporation Law lagging behind the ADB project processing schedule.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
3. Financial literacy among MSMEs increased	<p>published on MOPF website (2018 Baseline: NA)</p> <p>2b. At least one digital financial product targeting women-owned MSMEs developed (2018 Baseline: NA)</p> <p>3a. Financial education material for MSMEs, with dedicated sections for women-owned MSMEs developed and published (2018 Baseline: NA)</p> <p>3b. A gender-sensitive marketing campaign on the new CGC scheme rolled out nationwide (2018 Baseline: NA)</p> <p>3c. At least x female entrepreneurs received training on financial literacy (2018 Baseline: NA)</p>	<p>2b. Project Implementation reports and PFI's reports</p> <p>3a. MOPF website</p> <p>3b. MOPF website, TV advertisement</p> <p>3c. Women Entrepreneur Association reports</p>	
<p><b>Key Activities with Milestones</b></p> <p><b>1. The CGS capitalized and made operational</b></p> <p>1.1 Place an international advisor on a three-year term contract at CGS to introduce international best practices, support the operation of the fund and provide capacity development to CGS staff by 2019.</p> <p>1.2 The government injects full \$57 million kyat-denominated capital into the CGC by end of 2024.</p> <p>1.3 The government establishes the CGC by 2020.</p> <p>1.4 The CGC guarantees SME loans by 2020.</p> <p>1.5 The CGC invests in government bonds by 2020.</p> <p><b>2. Capacity of CGS and PFIs improved</b></p> <p>2.1 Develop organization and governance structure by end 2019.</p> <p>2.2 Recruit additional staff for CGS by 2020.</p> <p>2.3 Develop risk rating system, monitoring system, collateral valuation, approval process by 2020.</p> <p>2.4 Train PFIs on credit assessment and risk management by 2023.</p> <p>2.5 Support PFIs to develop digital financial products by 2024.</p> <p><b>3. Financial literacy of SMEs increased</b></p> <p>3.1 Develop a marketing campaign on the new CGS by 2020.</p> <p>3.2 Develop training and outreach material for MSMEs by end 2021.</p> <p>3.3 Train business association members on financial reporting by end 2021.</p>			
<p><b>Inputs</b></p> <p>ADB: \$60,000,000 (Concessional Ordinary Capital Resources)</p>			



Government: \$3 million in-kind contributions
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<b>Assumptions for Partner Financing</b>
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Not applicable.
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ADB = Asian Development Bank, CGC = Credit Guarantee Corporation, CGS = Credit Guarantee Scheme, MFI = microfinance institution, MOI = Ministry of Industry, MOPF = Ministry of Planning and Finance, MSME = micro, small-and-medium enterprise, NA = not applicable, SME = small-and-medium enterprise.

<sup>a</sup> Government of Myanmar. 2018. *Myanmar Sustainable Development Plan (2018–2030)*. Nay Pyi Taw.

Source: Asian Development Bank.

## **PROJECT PROCUREMENT CLASSIFICATION**

1. The project does not involve high-value procurement of goods and services, hence does not require Procurement Classification. The majority of the loan proceeds (\$57 million out of \$60 million) will be used to capitalize the Credit Guarantee Scheme (currently under Myanmar Insurance, and will be transferred over to the new entity once set up). \$3 million of the loan proceeds will be used for project implementation and capacity development. There is no physical construction work under the project. Small-value consulting packages will be funded and will include small-value purchases of computer equipment. Procurement arrangements will be conducted in accordance with ADB's Procurement Guidelines (2015, as amended from time to time).

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Republic of the Union of Myanmar	Project Title:	Enhancing Financial Access through Public Credit Guarantee Scheme Project
Lending/Financing Modality:	Financial Intermediation Loan	Department/Division:	SEPF/SERD

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Myanmar Sustainable Development Plan (MSDP) has three pillars, five goals, 28 strategies and 238 action plans; all aligned with the 12 Point Economic Policy of the Union of Myanmar. The proposed project is consistent with the second pillar and the third goal of the MSDP and supports private-sector-led growth.<sup>a</sup> The Asian Development Bank's (ADB) Country Partnership Strategy 2017–2021 supports the MSDP and has identified three priority themes to accelerate the transformation process and support inclusive growth, including private sector development.<sup>b</sup> The proposed project is included in the draft Country Operations Business Plan 2018–2020, for \$60 million to be financed from ADB's Concessional Ordinary Capital Resources.

#### B. Targeting Classification

General Intervention  Individual or Household (TI-H)  Geographic (TI-G)  Non-Income MDGs (TI-M1, M2, etc.)

The proposed project is classified as general intervention. The project aims to increase financial access for micro-small-and-medium enterprises' (MSMEs) through a sovereign credit guarantee facility. The project will have three components designed to provide comprehensive support to expand the operation of the current Credit Guarantee Scheme (CGS) operated by Myanma Insurance. The three components are: (i) initial capitalization for the CGS; (ii) capacity development to the CGS and partner banks; and (iii) financial literacy to MSMEs. The project aims to increase MSMEs' access to formal banking credit to expand investment and employment in the economy. This will contribute to inclusive economic growth and the overall poverty reduction at the national level.

#### C. Poverty and Social Analysis

**1. Key issues and potential beneficiaries.** Myanmar's economic performance has been improving quickly, albeit from a low base. Annual gross domestic product (GDP) growth averaged 8.2% in 2012–2017. However, recent growth has not been inclusive as two-thirds of growth was concentrated in Myanmar's central regions, especially in the urban areas. Poverty incidence remains high as one in four Myanmar citizens are still living under the poverty line (\$1.25 a day); poverty incidence is estimated to be twice as high in rural areas.<sup>c</sup> In addition, Myanmar currently ranks 148<sup>th</sup> out of 188 countries on Human Development Index, significantly below its Southeast Asian neighbors. Myanmar's ranking is similar in terms of other development indicators including finance, health and education services. Despite being the growth engine of the economy, the private sector, especially MSME sector, is facing many challenges when conducting business. These challenges include the lack of an enabling business environment and the lack of business inputs. Among these challenges, access to finance remains the number one obstacle. Without inclusive access to financial services, MSMEs struggle to conduct business, invest and generate jobs. The proposed project will help MSMEs improve their access to formal financial services. The direct beneficiaries are MSMEs and indirect beneficiaries are poor individuals and households who are employed by these MSMEs.

**2. Impact channels and expected systemic changes.** Empirical data from several developing countries illustrates that poverty reduction is associated with a country's economic performance and job creation, in which the private sector plays a crucial role.<sup>d</sup> Empirical evidence also suggests a strong causal linkage between access to finance and national economic growth.<sup>e</sup> In addition, inclusive access to finance helps equalize opportunities and reduce income inequalities. The proposed project will provide comprehensive support to the current CGS to expand and improve its operations. The capital injection into the scheme will ensure that more affordable bank loans will be made to SMEs which will generate more investment and employment. The capacity development component of the project will ensure the financial sustainability of the scheme while preventing moral hazards. The financial literacy component of the project will ensure a stronger demand side for better and more efficient usage of limited financial resources. The three components together will support better and greater business access to finance which will support stronger and more inclusive economic growth and faster poverty reduction.

**3. Focus of (and resources allocated in) the PPTA or due diligence.** Due diligence will be conducted to identify the challenges, weaknesses, risks and priorities in MSME and finance sector in Myanmar. Funding from existing knowledge technical assistance projects will be used for due diligence.<sup>f</sup>

### II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? Myanmar has made important strides for women over the last decade, as demonstrated by increased female labor

force participation rates, non-agricultural wage employment, access to credit, literacy rates, primary and secondary education, and maternal mortality ratio. Myanmar currently ranks 80th out of 188 countries in the 2015 Gender Inequality Index (GII) (HDI rank 145). The Global Gender Gap Report by the World Economic Forum positions the country similarly at 83 out of 144 countries.

UNCDF estimates that 39% of the population are excluded from both formal and informal finance and, according to Finscope, the gender gap is at 4% points with 29% of females accessing finance through either formal banks or non-banks compared to 33% of males. The gender gap between men and women in formal financial product usage stands at 12% points (20% of women vs. 32% of men accessing formal finance). Women are also more likely to use informal products compared with men (5% points). However, slightly more women than men have an account at a financial institution (women 25.7% and men 25.5%).

Women own approximately 25% of all MSMEs in Myanmar – mostly in services, manufacturing of textiles and footwear. Women-owned enterprises constitute 27.3% of small and medium firms, based on the percentage of firms with female participation in ownership and 18.7% based on the percentage of firms with a majority female ownership. Women business owners are unable to meet bank requirements to secure loans as banks require >200% collateral coverage using real estate. Until recently the farmland registration process had space for only one name, which was generally allotted to the head of the household -76% of all households are headed by men.<sup>9</sup> The law provides for equal rights to inheritance and property (Married Women’s Property Act), yet women are still being denied the right to inherit from the estate of their husbands or family, and many may not be aware of their right to joint title over family land and property. In addition, the Central Bank requires that married individuals get permission from their spouses to borrow money formally against collateral. Currently, there are no laws that prohibit discrimination by creditors on the basis of gender in accessing credit. Within business organizations, such as the Myanmar Chamber of Commerce, women account for 9% of executive committee members. A large proportion of working women in Myanmar remain concentrated in the informal sector as “own account” workers (sales of goods such as agricultural products or provision of services such as tailoring, petty retail trading). The collection of sex disaggregated data related to women entrepreneurs and barriers to do business remains weak. This prevents policymakers from having critical information to drive gender equality reforms. Some of the potential gender measures recommended in the initial gender analysis related to the project include: (i) at least x% of women members appointed in the project steering committee and project management unit; (ii) at least one digital financial product targeting women and/or women-owned MSMEs developed by a PFI; and (iii) a gender sensitive marketing campaign on the new reformed CGC developed and rolled out nationwide.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women’s access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes  No Please explain.

The proposed program will support Myanmar’s gender issues in several ways. It is expected that women will be involved in decision making structures that will provide guidance to the project. PFIs will gain greater understanding on how to work with female clients and provide gender responsive services. Sex disaggregated data will be collected and monitored on the number of loans being accessed by women-owned MSMEs. Finally, women entrepreneurs themselves will be made aware of the new reformed CGC and how to access it, and their capacity will be strengthened.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes  No Please explain

4. Indicate the intended gender mainstreaming category:

GEN (gender equity theme)  EGM (effective gender mainstreaming)  
 SGE (some gender elements)  NGE (no gender elements)

**III. PARTICIPATION AND EMPOWERMENT**

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The Ministry of Planning and Finance (MOPF) will be the executing agency. Myanmar Insurance within MOPF will be the implementing agency. The main stakeholders are the government officials, commercial banks, MFIs, and the business sector. All stakeholders will be consulted throughout the project design phase. The project preparatory team will also conduct visits to potential partner commercial banks, and MFIs in various regions to gain a better understanding of the operating environment and business challenges. Development partners including the World Bank, the International Monetary Fund, the Japan International Cooperation Agency, the United States Agency of International Development, and the United Nations Capital Development Fund will be consulted to ensure harmonized coordination of development efforts.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

<p>The project will improve the business environment by supporting greater business access to finance. Greater business access to financial services will promote business creation, activities, investment and innovation. These will both directly and indirectly support the poor, vulnerable and excluded groups.</p> <p>3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?  <input checked="" type="checkbox"/> Information generation and sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<b>IV. SOCIAL SAFEGUARDS</b>
<b>A. Involuntary Resettlement Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI
<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The Project will not include any civil works or involuntary land acquisition.</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?  <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix  <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<b>B. Indigenous Peoples Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities?  <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?  <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix  <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
<p>1. What other social issues and risks should be considered in the project design? None.  <input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment  <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability  <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability  <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? None.</p>
<b>VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?  <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis and participation plan during the PPTA or due diligence?  Building on extensive analysis carried out by the project team, the project will support poverty, social, and gender analysis linked to proposed interventions, and includes resources for consultations with development partners, civil society organizations, business associations and government partners.</p>

<sup>a</sup> Government of Myanmar. 2018. *Myanmar Sustainable Development Plan – Working Draft*. Nay Pyi Taw; Government of Myanmar. 2016. *Economic Policy of Union of Myanmar*. Nay Pyi Taw.

<sup>b</sup> ADB. 2015. *Country Partnership Strategy: Myanmar: 2017–2021*. Manila.

<sup>c</sup> Government of Myanmar. 2011. *Integrated Household Living Conditions Survey in Myanmar 2009–2010*. Nay Pyi Taw.

<sup>d</sup> Gerster Consulting. 2005. *Private Sector Development in the Context of Poverty Reduction Strategy Papers*.

<sup>e</sup> World Bank. 2008. *Finance for All?: Policies and Pitfalls in Expanding Access*. Washington, DC.

<sup>f</sup> ADB. 2017. *Technical Assistance to the Republic of the Union of Myanmar for Support for Strengthening Business Climate*. Manila; ADB. 2014. *Technical Assistance to the Republic of the Union of Myanmar: Strengthening Institutions for a Better Investment Climate*. Manila.

<sup>g</sup> UNCDF (2017).