YANGON UNIVERSITY OF ECONOMICS

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CREDIT RISK MANAGEMENT PRACTICES OF MYANMAR ECONOMIC BANK (MEB)

(CASE STUDY ON UNSECURED LOAN FOR MSMEs)

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CREDIT RISK MANAGEMENT PRACTICES OF

MYANMAR ECONOMIC BANK (MEB)

(CASE STUDY ON UNSECURED LOAN FOR MSMEs)

A thesis submitted as a partial fulfillment towards the requirements for the degree of Master of Banking and Finance (MBF)

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ABSTRACT

This study focused on MSMEs unsecured loan of MEB. The objectives of this study is to examine the credit risk management practices of micro, small and medium enterprises (MSMEs) unsecured loan in MEB and to analyze credit risk management practices of MSMEs unsecured loan. The secondary data are based on 2017 to 2019 financial year- reports of MEB. For the analysis on data, 15 branches are randomly selected out of the 33 total branches in Yangon as 50% branches selected and experienced managerial level bankers 50 person from this 15 banks are interviewed. Structured questions are used to interview them to collect the data about credit risk management practices of unsecured loan to MSMEs. In thesis, where mainly based on descriptive statistics method to analyze primary data. Credit management practices of MEB are measured by three processes which are approval process, portfolio process and recovery process. Bank management practices generally agree to the Central Bank of Myanmar (CBM) guidelines and related laws. Bank has good appraisal techniques such as personal interview, five Cs of credit, survey teams, hierarchy responsible in credit line and credit guarantee insurance in approval process. Credit management to portfolio process has well management practices but there is incomplete information system to get update information of borrower and business. Therefore bank should apply advance technology information system for borrowers' information. Bank recovery process shows quality management to control NPL. Bank should try to reach more volume of loan amount in operation and to get more profits for bank.

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CHAPTER (I)
INTRODUCTION

Most of the countries especially in developing nations micro, small and medium enterprises (MSMEs) are basic requirement to promote for the development of national economy. Myanmar government reforms the role of industrial development then MSMEs became the essential process of upgrading from agriculture to industrial economy. Enterprise suffers in financial support of capital requirement to start business and then, there has difficult to generate in cash for enterprise operation but enterprise required collateral for bank loan. To fulfill financing problems of MSMEs, the availability of credit in term as no collateral (unsecured loan) for MSMEs became interested loan type in recent years.

Today Myanmar banking sector including both of government owned banks and private banks is under control and supervision of Central Bank of Myanmar (CBM) and Ministry of Planning and Finance. All banks in Myanmar need to apply instructions, rules and regulations of CBM and Ministry of Planning, Finance and Industry. CBM permitted banks to extend loans such as no collateral that can call unsecured loan at a maximum lending rate of 16% to MSMEs sector. Therefore in currently Myanmar banking sector, local banks offer unsecured loans to enterprises in market. Myanmar Economic Bank (MEB) tries to implement the economic policy changed. As a state owned bank, MEB now extends unsecured loans to MSMEs. Therefore MEB now offers loan services both in collateral or no collateral to business. Loan management practices are mainly focused to bank profits and losses. Loan management practices are different to secured and unsecured loans. Responsible persons have to manage more seriously in practices of unsecured loans. To promote country business sector, there also needs unsecured loans for supporting as capital requirement of initial business.

Secured loan contains property to sell if the borrower cannot repay loan to the lender. Unsecured loan is only bases on borrower credit worthiness, reputation, estimated earning power of borrower and there has no other specific assets to pledge as collateral for lender. (Source: Peter S. Rose, 2013)

Sources, access and consumption of unsecured loans are important factors as these factors lead to improvement of individual income, health & education status of nation. After the financial crisis in 2008, unsecured loans relieved some of financial burden (Motlanalo, 2016). Generally, if the management practices on unsecured loans are effective it can be many benefits for customers and banks. Therefore MEB loan management practices that are balanced in losses and high interest return of MSMEs unsecured loans are being interested to study.

1.1 Rationale of Study

The Government of Myanmar reforms to reduce poverty and to increase economic growth in nation. MSMEs play as important role for country economic growth and production development. When MSMEs develop in nation, there can be convenience in job creation, income development and upgrading living standard in country. There has financing problem in MSMEs sector. They cannot get any financial supports without collateral to promote their business activities and productivity. Therefore, CBM permitted banks to serve unsecured loan (no collateral) to MSMEs to fulfill the need for their financing problems. The low quality unsecured loans can cause a crisis in bank. According to the nature of unsecured loan, there has challenge to banking.

Loan management practices are critical part of bank growth and loss. Loans may be either secured or unsecured. Bank needs to operate unsecured loan in safe and sound manner practices more seriously than secured loans. MEB thoroughly manages unsecured loan practices of approval process, examining portfolio process and monitoring recovery process. Whether MEB can apply credit management practices of unsecured loan in growth and sustain, it is being interested to study. Balance approach to revenues and losses of unsecured loan and credit management practices which can cover credit risks of bank that are also mainly focused on this study.

1.2 Objectives of the Study

The objectives of the study are as followings:

1. To identify the credit risk management practices of MEB-MSMEs unsecured loan.
2. To analyze the credit risk management practices of MSMEs unsecured loan.

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1.3 Scope and Method of the Study

In this thesis, credit risk management practices of MEB only MSMEs unsecured loans between (2017 to 2019 financial years) are studied. Therefore bank credit risk management practices beyond this period also cannot be covered. Descriptive Statistics method together with data analysis of Survey method mainly used in this study. Primary data and secondary data used in this study. For primary data, there are 33 branches in Yangon division among them 15 branches are selected by using simple random sampling method and then, 50 managerial level bankers are selected from this 15 selected branches to answer structured questions which used to identify the data information about managerial level bankers consideration for credit risks management practices of MSMEs unsecured loan. Personal interview method also used to interview selected bankers. Secondary data obtained from yearly reports of MEB, relevant books, references related thesis papers, other internet websites.

1.4 Organization of the Study

This study is included five chapters. Chapter (I) explains introduction that is including background information to research topic and presents rationale of study, objectives, scope and method of study. Chapter (II) describes literature review as importance of credit risk management, credit risk management practices, general features of MSMEs, techniques to credit risk management practices in banking, Chapter (III) include background of MEB, organization structure, services provided in MEB and credit risk management practices of unsecured loan. Chapter (IV) contains analysis of credit risk management practices of MSMEs unsecured loan and Chapter (V) describes findings and suggestion.

CHAPTER (II)

LITERATURE REVIEW

This chapter provides a review of literature review to importance of credit risk management, credit management practices of unsecured loan, general features of MSMEs then techniques of credit risk management in banking.

Risks can be defined as benefits that are containing uncertainty exploitation. In banking industry, sometime profits are getting from risks taking. Major types of risk that are faced in day to day bank performance are credit risk, liquidity risk, interest rate risk, operational risk, cyber security risk, exchange rate risk and capital risk.

Credit risk in simple, credit risk is defined nonpayment loans by borrowers. The principal source of bank revenue is the interest on loans and investments. Loans are usually the riskiest of bank assets .So effective management of credit risk is essential in banking

2.1 Importance of Credit Risk Management

Bank financial services & banking system are containing risks and uncertain condition. One of the important risks that can affect bank financial crisis is credit risk. Greuning and Bratanovic (2009) define credit risk that a debtor or issuer of a financial investment that become default repayment to principal and other interest which are related cash flows according to the term defined as a credit agreement. Credit risk is related to critical part of bank balance sheet. Cash flow problem and liquidity risk occurr if bank cannot control credit risk.

Most commercial banks in developing countries have challenge of credit risk management. Sound practices in credit risk management process must be operated to establish good relationship between bank and customer. Credit risk management is more complex today. The goal of credit risk management practices is to maximize interest return by controlling loan within a certain period. It is a technique for risk adjusted in loans that is building a portfolio according to the rank of risks (low and height) and so more specific management to height risks so that quality process can be recovered to loan default. If credit risk management applies any mistakes that affect negative results on bank finance.

To recover this negative financial result, bank needs to generate assets to cash in liquid and controls assets not to occur cash shortage in operation. Any rumors occur in banking within delay cash transactions and reputation risk also occurs to banking market soon. Then, bank crisis is near in consequently. Therefore credit risk management is important. If quality processes are managed by credit committee, return profits are getting maximize in lending among services in banking (Turgut Tursoy, 2018,)

Credit committee must be clarified regulations of lending and loan policies, specification of lending authority, responsibility, operating procedures and problem supervision to monitor loan portfolio. Branches must follow credit risk management processes that are managed by credit committee and report serious case or information or any problem in lending operation as combining into HO and Bank performance. Bank managers should be awarded or punished according to their management on loan performances in banking. As credit risk management practices are importance in banking, bank needs to control its credit condition more closely as daily monitoring than other management related in other banking services. Bank should assign only experience bankers to credit processes and must support advance trainings, seminars to upgrade the ability of bank's employees in operation. Bank must use quality information system to loans and hierarchy responsible should be had in credit line of institution (Source: Zin Mar Lwin: 2015,MBF 1 st batch)

2.2 Credit Management Practices of Unsecured Loan

Credit management practices are performed as the process of granting credit, setting the term, monitoring and recovering this credit when it is due and ensuring credit policy compliance related functions. The goals of bank are to improve revenues and to reduce financial risks across the process of credit line. Credit assessment process to business, credit monitoring process to reduce risk on loan portfolio and credit recover process to nonperformance loan are the critical processes in credit line.

2.2.1 Approval Process of Management

Credit approval is a process that lender assessment practices to borrower over a period to decide the length of credit, credit worthiness, checking credit reference of business, trends in business for loan. A credit term of period is the time period within which credit is given. The length of credit is influenced by collateral value, the unsecured loans, size of the account and market competition (Braverman, and Guasch, 2009).

Bagachwa (2009) in his study established that having agreed to the terms of credit with a repayment duration which is clear to all concerned. Lender has responsibility to ensure that customer keeps promises to repayment that has been accepted and customer knows outcome of late payment for new term.

The credit approval process starts when manager identifies a possible loan potential customer with some important documents that are used to evaluate loan request. This is inclusive of listings of accounts receivable, current personal and business financial statements, two years of tax return for the borrower and business and other documents that are needed for approval of loan request (Duffie & Singleton, 2013).

Migiri (2012) in his study presented that there is an industry research section which contains information on what the trends in industry are, how the company compares to other companies in their industry and what the outlook is. This business trends, loan terms proposed, the company past data and other assumptions are supported to bank. If bank can manage approval process with the best practices, bank can provide portfolio and recovery process.

2.2.2 Loan Portfolio Process of Management

Credit risk management to loan portfolio process is the process by which manages risk profile of future portfolios, controls the challenges of loan repayment, supports institutional governance for unsecured loan and protects the risks of loan portfolio operation environment. The bank environment of operation is often evolving and challenging which further shapes the risk profile of future portfolios. This is compounded by the necessity to service different types of clients with diverse needs (Migiri, 2012).

Williams (2004) defined credit risk on unsecured loans as the risk of losing contractually obligated cash flows promised by a corporation, financial institution, government due to default on the debt obligation. Defaults are associated with credit event such a bankruptcy or reorganization, although delinquency in payment also considered a credit event if there is not a formal bankruptcy.

The overall portfolio risk profile remains good if bank can make large part of risk management framework effectively including proactive measures to negative impacts of credit environment. Nayar (2013) in his study presented that the concentration on loan risk portfolio factors include the credit policy of bank and the lack of cost effective hedging possibilities in current market environment. Nayar (2013) indicated that several noteworthy developments in the bank loan portfolio operating environment that will have implication for the future portfolio profile. Mpiira (2013) presented that effective risk on unsecured loans management is the process of managing bank's activities which create credit risk on unsecured loans exposures, in a manner that significantly reduces such activities will occur negative on bank's earnings and capital. Muruana (2007) in his study presented that annual portfolio review and assessment of loan portfolios and pay special attention to the resiliency and capacity to absorb further shock. Loan portfolio process is essential and vital role for credit management practices of bank financial stability and activities improvement of loan portfolio environment.

2.2.3 Loan Recovery Process of Management

The loan recovery process is a process of collection practices to loan amount due. This process contains monitoring challenges of default as bad loans and legal process & actions. The normally recovery depends on the purpose, time and condition business running process. Loan amount is recovered on installment basis. The manager can fix an installment period on the basis of nature of their business as noted by (Howorth, 2003).

Musafiri (2009) stated that recoveries may come from several sources such as the borrower's voluntary payment of some or all of principal or interest payment due, foreclosure and sale of the borrower's assets pledged as loan collateral or garnishment of the borrower' wages, salary or bank assets.

Gaitho (2010) stated that in particular a monitoring system is needed that highlights repayment problem clearly and quickly so that loan officer and their supervisors can do something before it gets out of hand. Kimuyu and Omiti (2010) indicated that against this backdrop, special institutional mechanism to address recovery problem through judicial steps and early settlement. This initiative needs informative and transparent to all concerned.

The recovery rate bases on an estimation of loss. The estimation of loss should consider economic condition and potential probability of default. Loan security is important security of bank's finance. Bank must establish strategic objectives for loan recovery management and the recovery process by loan administration to unsecured is needed more specific controlling.

2.3 General Features of MSMEs

Micro, Small and Medium enterprises are one of the ways to reduce in poverty such as job creation, social and political stabilization to developing country. As different countries have different economic structures, the definition of MSMEs also varied among countries but there have general common features as followings:

(a) Family Domination - In business, manager and his family manage the fund of their own business.

(b) Management Centralization- all decisions are individual deciding in accordance with ownership property in capital of business.

(c) Internal growth- there has problem in internal growth because management that requires to be effective on the internal growth of business.

(d) Rudimentary information system-internal and external information systems of their own business are closely connected to the owner's personality.

(e) Financing problems - the size of the SMEs mainly influence the finance of these firms. The size constitutes a fundamental criterion generally connected with the economic power of the business. Therefore, there has financing problem to expand their business productivity with its negotiation capacity.

(f) Conservation of the property right - they prefer internal financing than external financing thus holding a greater part of the profit. If necessary they prefer bond financing to capital to maintain property and to avoid including other partners at decision making processes. (Source: Naimy,V.Y Research Journal,Vol 3,no 1, P 29)

MSMEs have certain criteria to define micro, small and medium enterprises and they are varied such as capital, asset value, sales volume, output capacity, number of employees and managerial characteristics. These criteria parameters are varied in different countries. The following table (2.1) reflects the parameters used in certain countries.

Table 2.1 Criteria Parameters to Define SMEs in ASEAN

Country	**Selected Criteria**
Indonesia	Number of employees, Fixed assets, Sales
Malaysia	Number of employees, Sales
Philippines	Number of employees, Sales
Singapore	Number of employees, Fixed assets
Vietnam	Number of employees ,Capital
Thailand	Number of employees, Capital, Fixed assets
Brunei	Number of employees
Laos	Number of employees, Fixed asset
Cambodia	Number of employees
Myanmar	Number of employees, Capital, Production capacity

Source: Tulus Tambunan, 2008 Development of SMEs in ASEAN with Reference to Indonesia and Thailand

Criterias of SMEs in ASEAN are presented such as number of employees using in enterprise, fixed assets of enterprise, sale volume, capital investment and production capacity (Tulus Tambunan, 2008). Among ASEAN member countries have most common measure in number of employees to distinguish enterprises as micro, small and medium. Other considerable criteria parameters to determine SMEs, they are also varied widely between member countries. Malaysia and Philippines have same criteria such as number of employees and sales. Brunei and Cambodia only use number of employees in measure. Singapore and Laos have same criteria such as number of employees and fixed assets. Indonesia criteria parameters to define SMEs are number of employees, fixed assets and sales. Vietnam's parameters for SMEs are number of employees and capital. Thailand criteria parameters are number of employees, capital and fixed assets. Myanmar criteria parameters for MSMEs are number of employees, capital and production capacity to turnover respectively.

2.4 Techniques of Credit Risk Management in Banking

Bank uses suitable techniques to lending processes to offer quality loan and to accomplish the best practices in credit risk management for recovering to default. Then, banks mostly used techniques for credit risk management in general are such as Credit Bureau, Credit Rating Agency, Credit Scoring method, Five Cs of Credit and Provision for Credit Loss (PCL).

(a) Credit Bureau - A credit bureau is an agency, collects and researches individual's credit information and sells this credit reports to creditors to support their loan decision correctly. Credit bureaus are not responsible for credit decisions and they are only doing in collect information of borrower credit history. Credit reports and credit scores which are provided by credit bureau can support to assess credit worthiness, the ability of loan payment and interest rate to apply credit. Most of the countries use credit bureau service in their credit management system. Credit bureau has been supposed accurate, update & relevant information to creditors (Benzinga, 2019 Credit Bureau and what they do with your credit).

(b)Credit Rating Agency-A credit rating is evaluation of the credit worthiness of a debtor especially a business or a government. This evaluation is made by a credit rating agency and calculates on financial history, current assets and liabilities. Credit rating agency uses rating methods in business analysis, financial analysis, management evaluation and fundamental analysis. A poor credit rating indicates high risk in defaulting to loan and that shows to high interest rate. The big three credit rating agencies in the world are Standard & poor's (S&P) and Moody's based in US and Fitch Group based in New York City and London (Equifax Australia, Credit Rating to Business and Enterprise).

(c)Five Cs of Credit - the Five Cs of credit method is also well known method to be a quality loan and these five Cs are Character, Capacity, Capital, Collateral and Condition. Character - evaluate the credit history of client to assess habits of customer to credit, Capacity - debt of client to income ratio to assess repayment capacity, Capital - the amount of money that business owned to assess liquidity in business, Collateral - assets or insurance that can be a background security for loan default and Condition - current condition in business that related to the purpose of loan and apply amount for business. This method is important and useful one to know habits of client and applied business situation. Bank uses the Five Cs of Credit in evaluation of credit worthiness (Credit Risk Analysis by Ciby Joseph 2006).

(d)Credit Scoring Method - Bank uses credit scoring method to assess credit quality of applied loan. Variety of evaluate factors are used in scoring method to evaluate potential risk in credit. The high score marks show that this business is qualify business and under the level of basic marks show uncertain condition. (Peter S.Rose, 2013).The five factors mostly known as FICO SCORE in credit scoring method are calculated in payment history to credit 35%, credit utilization to available credit (total using debts) 30%, length of credit history 15%, credit mix or different types of credit 10% and new credit 10%. By using credit scoring method,credit decisions can be approved quickly,bank can get in confidence as quality loan,this policy save time and money to bank and client both (Free Credit Report, 2017).

(e) Provision for Credit Loss - it is an estimation of potential losses amount as a non-cash expenses in bank for bad debt and other credit likely to default. Minimum provision amount is required to make provision as loss in profit and loss account according to the law for financial institutions. This default fund or provision as loss will be stated on assets side of balance sheet with a negative sign. Loan provision to expected loss is critical method to financial system and credit risk management system. Moreover there has opportunity cost between lending and provision and so bank should not be less or more in expected future losses. Bank uses this method in lending policy as a method of estimation outstanding repayment in credit. (Risk Management by JAMES CHEN, 2019) Table (2.2) explains specific provision for credit losses.

Table 2.2 Specific Provision for Credit Losses

Class	Provision (%)
On time loans	0
loans overdue for 30 days	5
loans overdue between 31-60	10
loans overdue between61-90	25
loans overdue between91-180	50
loans overdue between 181-365	75
overdue for above 365	100

Source: Risk Management by JAMES CHEN, 2019

When lender can get principal and interest of loan on time, these loan can call on time loan and these provision for credit loss is 0.If loan is overdue repayment 30 days, 5% loan amount needs to show as credit loss provision. When loan is overdue repayment between 31to 60 days, 10% loan amount needs to show as credit loss provision. When loan is overdue repayment between 61to 90 days, 25% loan amount needs to show as credit loss provision. If loan payment is overdue between 91-180 days, 50% loan amount needs to show as credit loss provision. If loan payment is overdue between181-365 days, 75% loan amount needs to show as credit loss provision. If loan is overdue 365 days, 100% loan amount needs to show as credit loss provision. By doing regularly provision of credit loss, bank can get resistance of financial problem in operation (JAMES CHEN, 2019).

CHAPTER (III)

BACKGROUND STUDY ON CREDIT RISK MANAGEMENT IN MEB

In this chapter contains background of Myanmar Economic Bank. Chapter presents about organization structure of MEB, services provided by MEB, MSMEs unsecured loan in MEB and credit risk management practices to unsecured Loan.

3.1 Background of Myanmar Economic Bank

Myanmar there has four state owned banks. Myanmar Economic Bank (MEB) is one of state owned bank in country. It was established on 2 April 1976 according to the Bank Act of 1975. MEB became large branch network in country. In 1988, Myanmar reformed financial sector to market oriented economy. In 1990 years, new banking laws such as the Central Bank of Myanmar Law, the Financial Institution of Myanmar Law emerged. According to the Financial Institution of Myanmar Law 1990, MEB was reestablished as a large state owned commercial bank in country. In 2006 MEB Head Office opened in Naypyitaw which transferred from Yangon. In 2008, Naypyitaw MEB bank opened and bank operations are servicing to public. Public trust MEB banking and MEB has biggest deposit in banking market. MEB has vision, mission and policy to undertake in daily banking.

Vision of MEB bank is “Our organization undertakes the role of country budgeting and financing to the public in the form of financial services with banking systems and regulations”. Mission of MEB bank is “Serve country people in banking services to achieve and save in deposit system as capital money for development of national economy to lend the necessary of capital to economic sector sustaining, uplift of the quality of financial services, keep the people reliability and uplift foreign trade banking and together with foreign bank for international banking services, and support with the saving deposit for decreased inflection”. Policy of MEB bank is “To harmonize services, state fund account services, commercial banking and development policy loan services, To upgrade banking services with modern technology, To enhance financial services among public”. MEB is well organized organization in banking and provided banking services to citizen around country in the purpose of citizen convenience to banking.

3.2 Organization Structure of MEB

As a state owned bank, MEB is under guideline of the Ministry of Planning, Finance and Industry. MEB has three Executive Committees. They are Board of Directors, Executive Committee and Credit Committee. The Board of Directors are appointed by Ministry. Managing Director is chief executive officer of bank and chairperson of BOD. The Executive Committee decides extraordinarily cases in banking and administration. MD is also chairman of the Executive Committee. Credit Committee provides credit policy of MEB. Loan proposals are inspected by Credit Committee. For General MEB network contains 7 Head Office Departments, 14 State & Divisional Banking Offices, 330 bank branches throughout the whole country.

3.3 Services Provided in MEB

MEB serves various financial services to private sector and state sector in banking throughout the whole country.

3.3.1 General Services in MEB

As a state own commercial bank maintains government State Fund Account, E pension payment for government retired servants, commercial banking services included saving deposit (single, joint A or B, public, minor), time deposit, saving certificate, fixed deposit (3 month,6 month,9 month 12 month), current account, foreign currency services, border trade services, issuing letter of credit, online phone bill, ATM, remittance internal & external (Thai, Malaysia), mobile payment, performance guarantee, safe custody, locker, special collection, payment order, clearing service and various loan services to private and organization.

MEB is agent of the Central Bank of Myanmar and so MEB all branches across the country except Naypyitaw, Yangon, Madalay are control Currency Chest transactions. MEB serves various services according to guidelines of Central Bank. MEB promotes services by using new technology and by promoting efficiency of staff through training courses. This study will mainly focus on credit risk management practices of MSMEs unsecured loan among loan services of MEB because unsecured (no collateral) loan service is high risky service more than other services.

3.3.2 Loan Services in MEB

(a) Loans to Private Sector

(a) Commercial Loan-short term loan that must repay in one year and interest rate is 13% per year, midterm loan that must pay between 3 to 5 years and interest rate is 12.5% per year, long term loan is called project loan that must repay between 5 to 10 years and interest rate is 12.25%.To support productivity of MSMEs, MEB support MSMEs loan.

(b) MSMEs loan - midterm loan 3 to5 years. This loan contains two types- secured and unsecured loan. Secured loan is 9% interest rate per year and unsecured (no collateral) loan is 9% to 12% interest rate per year. Unsecured loan is not fixed interest and if there has more risk in credit, the more interest can be charged. These MSMEs unsecured loan services started in 2017- 2018 financial years.

(c)JICA Two step loan started in 2018 (Japan International Cooperation Agency lend local banks then this money would provide loans to MSMEs) and MEB interest rates are 8.5% to MSMEs JICA secured loan and 13% basic rate to unsecured.

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(b) Loans to Other Organization

(a**)**Interbank lending (other bank loan)means that MEB issued loans to local banks such as SMIDB, CHDB, foreign bank OCBC, UOB, Mizuho. The interest rate and maturity time depend on the agreement contract between two banks**.**

(b) Bilateral means that MEB provides loan to fulfill minimum reserve requirement of other bank current account at CBM as minimum reserve rule and its interest rate is depending on agreement contract of two banks.

(c) MADB Loan means that MEB provides seasonal loans to MADB (Myanmar Agriculture and Development Bank) bank since 1995 and interest rate is 5% per year and middle term loan is (4%) rate.

(d)Housing Loan means that offers to government employee for their personal housing. This loan does not offer new loans and now arrive repayment period time.

(e)Loan to government (other**)** MEB support loans to state economic enterprises and interest rate is 4% per year.

Among various loans to private sector, there have two types in unsecured loans to MSMEs (i) MEB MSMEs unsecured loans and (ii) JICA MSMEs unsecured loans. Now MEB MSMEs unsecured loans are passed one year and ten months therefore loans are arrived in payback time period and high risk in credit as no collateral how credit risk management practices performed in operation to reach profit that is being interested in this study. Table (3.1) explains all loan services progress in MEB.

Table 3.1 Loan Progress of MEB (Kyats in Billion)

Type of Loans	2016-2017	2017-2018	2018-2019
Commercial	649.191	761.817	875.108
MSMEs		0.868	12.875
JICA			6.950
Other Bank loan	67.500	39.625	
Bilateral		25.000	100.451
MADB(Short term)	1024.019	1143.214	807.203
MADB (Medium term)			6.448
Housing loan	0.775	0.720	0.652
Others	250.030	240.000	240.000
Total	1991.515	2211.244	2049.687

Source: MEB financial year reports 2016 to 2019

Loan services contain eight parts and improved yearly. In 2018, financial was largest total loans amount than other years. MADB loan was highest amount in yearly (807.203 billion) in 2019 and it was decrease in this year. Commercial loan was increased yearly and (875.108 in billion) in 2019 and that showed over 100 billion increased in this loan than last year 2018. Commercial loan was second highest amount in loan services. MSMEs loans and bilateral loans also improved significantly. The lowest loan amount was housing loan and (0.652) billion in this year. Therefore progress in deposit was decreased in 2019 and progress in loans also decreased in 2019 than last year 2018.

3.4 MSMEs Unsecured Loan in MEB

MEB supports unsecured loan to support MSMEs sector as CBM guidelines. MSMEs there has criteria to classify small or medium enterprise as Small and Medium Enterprises Development Law 2015 and MSMEs unsecured loan in Myanmar banking also has a apply system to reduce credit risk of bank.

3.4.1 Criteria of MSMEs in Myanmar

There are certain criteria parameters to define three types of enterprises in Myanmar. They are micro, small and medium enterprises according to Small and Medium Enterprises Development Law (2015).

(a) Myanmar Small Enterprises

Small Enterprises criteria are presented in table (3.2). They are specification of the Small and Medium Enterprises Development Law (2015).

Table 3.2 Myanmar Small Enterprises

Small Enterprise	Employees	Capital(million)	Turnover(million)
Manufacturing	Up to 50	Up to 500	-
Labor intensive	Up to 300	Up to 500	-
Wholesales	Up to 30	-	Up to 100
Retail	Up to 30	-	Up to 50
Services	Up to 30	-	Up to 100
Others	Up to 30	-	Up to 50

Source: Small and Medium Enterprises Development Law 2015

The above table shows criteria of Myanmar Small Enterprise for classification in MSMEs as employee, capital and turnover in economy.

(A) Myanmar small enterprises among various businesses, there have criteria in employees, capital and turnover to define small enterprises in Law as followings:

(a) The enterprise operates manufacturing business employees shall not exceed 50 maximum as permanent or capital investment shall not exceed 500 million kyats,

(b) The enterprise, labor intensive or mainly operates piecework business, employees shall not exceed 300 maximum as permanent or capital investment shall not exceed 500 million kyats,

(c) The enterprise, wholesale business, employees shall not exceed 30 maximum as permanent or annual income of the previous year shall not exceed 100 million kyats,

(d) The enterprise, retail business, employees shall not exceed 30 maximum as permanent or annual income of the previous year shall not exceed 50 million kyats,

(e) The enterprise, service business, employees must have 30 maximum as permanent or annual income of the previous year shall not exceed 100 million kyats, and

(f) The enterprise, any other business other than in the above, employees shall not exceed maximum 30 as permanent or annual income of the previous year shall not exceed 50 million kyats.

(b) Myanmar Medium Enterprises

Medium Enterprises criteria presented in table (3.3) which is specification of the Small and Medium Enterprises Development Law (2015).

Table 3.3 Myanmar Medium Enterprises

Medium	**Employees**	**Capital(million)**	**Turnover(million)**
Manufacturing	51 to 300	500 up to 1000	-
Labor intensive	301 to 600	500 up to 1000	-
Wholesales	31 to 60	-	100 up to 300
Retail	31 to 60	-	50 up to 100
Services	51 to 100	-	100 up to 200
Others	31 to 60	-	50 up to 100

Source: Small and Medium Enterprises Development Law 2015

(B) Myanmar Medium Enterprises, there have criteria for classification in MSMEs such as employees, turnover in economy and capital where the value of the land is not included in this capital investment. The criteria for classification in Law are as followings:

(a) The enterprise, manufacturing business, employees are maximum 300 as permanent or capital investment is maximum 500 million kyats to 1,000 million kyats,

(b) The enterprise, labor intensive piecework business, employees are maximum 600 as permanent or capital investment is maximum 500 million to 1000 million kyats,

(c) The enterprise, wholesale business, employees shall not exceed 60 as permanent or annual income of the previous year is maximum 100 million to 300 million kyats,

(d) The enterprise, retail business, employees shall not exceed 60 as permanent or annual income of the previous year is maximum 50 million to 100 million kyats,

(e) The enterprise, service business, employees shall not exceed 100 as permanent or annual income of previous year is maximum 100 million kyats to 200 million kyats and

(f) The enterprise other business of employees shall not exceed 60 as permanent or annual income of the previous year is maximum 50 million kyats to 100 million kyats showing in above table.

(C) Myanmar Micro Enterprises

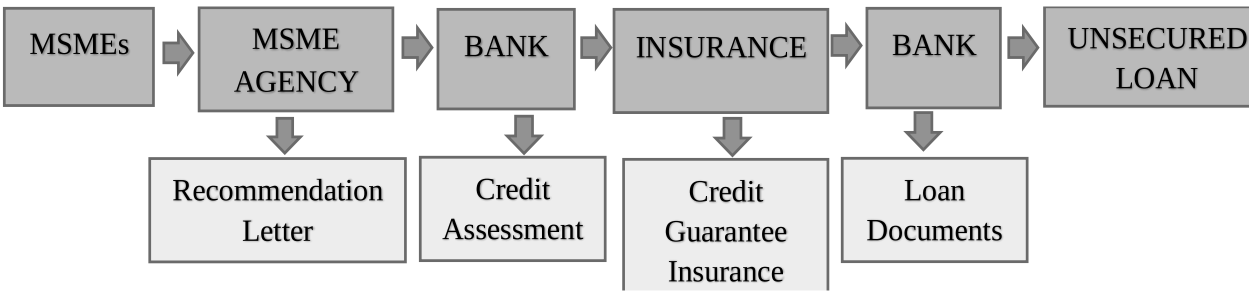
Micro Enterprise means very small enterprise that employs a small number of employees, operates with least capital and provides small sales in goods to their local areas. In 2018, Myanmar government added Micro Enterprises to change in calling from SMEs to MSMEs (micro, small and medium enterprises) then promote MSMEs sector throughout country to reach economic growth in this sector. For financial supporting in MSMEs, government permitted free collateral loan or unsecured loan to this sector. Credit accessibility of MSMEs unsecured loan, Credit risk management practices and impact to risky loans in MEB that are identified in this study.

3.4.2 MSMEs Unsecured Loan System in Myanmar

As a still developing country, Myanmar MSMEs are facing in financial problem in their productivity and they are lacked in collateral background for bank loan assistant. In 2018, The Central Bank of Myanmar (CBM) permitted banks to extend loans as no collateral that can call unsecured loan at a maximum lending rate of 16% for MSMEs enterprises to solve this financing problem in MSMEs and then CBM permitted a new Credit Insurance System to state-owned Myanmar Insurance and this system can serve Credit Guarantee Insurance (CGI) that protects bank- risk in lending of uncertain condition.

This insurance can be viewed as collateral to protect bank risk management in unsecured loan process which provided MSMEs financial requirement. There has been shown advantages respectively among system cooperators by using this Credit Insurance Theory. Insurance can get premium charges yearly as a percent of loan amount. Bank can transfer default risk partly if insurance guarantee is safety. Enterprise also can get loan support to business although it did not own collateral to pledge. This is being involving a system linking among MSMEs Agency, Insurance Company or Myanmar Insurance, Bank and enterprises as following figure.

Figure 2.1 Credit Insurance System



Source: Myanmar Insurance, CGI Seminar 17.11.17

A scheme of Credit Guarantee Insurance (CGI) - Enterprise can apply unsecured loan to bank with MSME recommendation letter of MSMEs Agency. Bank can apply CGI to Myanmar Insurance after loan's assessment. Insurance conducts investigation to enterprise and informs bank if CGI approved. Enterprise pays premium charges to Myanmar Insurance when insurance issues CGI. Bank provides unsecured loan and takes CGI as like as collateral. If enterprise unable to settle in loan, bank can claim to insurance for loan repayment. Insurance has responsible to payback 60 % of loan on behalf of enterprise. This CGI can be recovered risk of unsecured loan default for bank and bank -fund only needs 40% amount of actual loan to show as default event. The following table (3.4) explains premium charges of CGI.

Table 3.4 CGI Premium Charges for Lack of Collateral Enterprises

Type	Premium
CGI	3% of loan amount(first year)
	2.5% of loan amount(second year)
	2% of loan amount (third year)

Source: Myanmar Insurance, CGI Seminar 17.11.17

As above table shows premium charges which are different in each year. First year in unsecured loan, premium charges are taken 3% of loan amount. For second year, 2.5% of loan amount can be collected and 2% of loan amount for third year collection in CGI service which is provided by Myanmar Insurance.

3.4.3 Specification for Loan Application

The productivity of Myanmar products is lower than other Asian Countries. To promote Myanmar business sector, the development of MSMEs enterprises related in vital role. MSMEs have problem in finance for their business activity and productivity because they are lack of collateral for bank loan in business started. MEB started unsecured loan (no collateral) for MSMEs according to CBM guidelines in Myanmar.

(a)Criteria for Borrowers

Myanmar citizen who is the holder of SME recommendation letter and SME member card (permitted by Head office of Directorate of Industrial Supervision and Inspection), owner of business which is compliance to 2015 Myanmar SME Development Law can apply unsecured loan of MEB. Maximum loan limit amount is 20 million in kyats. The documents require for borrower are SME member card, recommendation letter, license, photos of business, taxes, financial reports that can show cash-flow of business, letter writing (the purpose of borrowing and future plans of business).

The borrower must be a customer of MEB and must be an owner of operated MSMEs enterprises by Law then must has complete documents above and must complete 'Five Cs of Credit' (character of customer, capacity of repay debt, capital in business, conditions of business now and future, and collateral or credit insurance). If the borrower completes in these criteria, borrower can apply MSMEs unsecured loan. Bank manager decides that borrower can apply or cannot complete in criteria by using personal interview method to borrower and his documents and then, inspection to his business by loan survey team.

(b) Principles for Borrowers

Credit consumer, also must obey bank credit principles that designed by credit committee. Loan customers must sign in acknowledgement in the presence of manager. The principles for loan customers in acknowledgement are as following.

(1) To show a correct statement in capital and financial indicators, To show the annual reports of profit and loss of business,

(2) To settle bank loan immediately if bank finds out the misusing in other businesses, these are not related in applying business for bank loan,

(3) To use correct related documents (machines, automobiles, buildings) which are intended to buy by bank loan that are being expressed in loan application,

(4) To avoid reselling, rendering, mortgaging to machines, automobiles and buildings which are bought or built by bank loan and well knowing that bank takes actions in legally if business breached this principles,

(5) To abstain bank loan in other cases such as lending to others, payback to other loans by other banks or people, and

(6) To accept occasional bank's checking to business by Head Office, Division and Branch Loan Team. To avoid the facts in business that can damage to natural and social environment in surrounding.

Above principles can cause right using in firm expanding and bank takes legal actions and recalls the loan repayment as soon as bank found that any misusing or others that can cause loan default(MEB Notification,2019).

3.5 Credit Risk Management Practices of MSMEs Unsecured Loan

Credit risk is mainly vital role in profit and loss for bank. Banks manage credit risk management thoroughly and applied systems can be different among banks due to different perspectives to credit. MEB is controlled credit examine processes, monitor processes by continuously reviewed actions to become quality in credit. Bank Credit Committee and branches are combing together for destination of profit. Bank practices to MSMEs unsecured loans are managed to step by step operation in hierarchy delegation and recommendation to each loan as free collateral and high risk condition.

3.5.1 Approval Process Practices to Unsecured Loan

Examining processes by bank to applied loan, firstly bank manager decides that borrower can apply or cannot complete in criteria related documents and Five Cs of Credit by using personal interview method to borrower and inspection to business. If borrower perfects in criteria, examining processes can be started to applied loan. Bank examining is checking to factors by using credit scoring method such as quality of business, financial cash flow of business and the purposes of borrowed loan. Bank manager and loan officer goes to business to analyze these score factors like that field study in business.

(a)Quality of Business

This includes (1) history of business that means owner profile, business experience, source of capital in business started, years of this business, history of business changing and liquidation, (2) ability of owner, (3) products and technology that contains main products, prices, market condition, extraordinary cases, (4) machines in business that describes capability of machines, buying dates, new machines in current and source of working capital, (5) geography in business that shows rivals in surrounding, different factors in business and road that communicated to market, and (6) customer relation that includes main target customers, years in relation and volume of customers.

(b)Financial Cash Flow of Business

During field study, bank manager examine**s** financial cash flow of business to know development and success of business, future potential condition and stability according to the documents such as balance sheet, trading profit and loss account, selling cash book, buying cash book, vouchers and taxes. In addition, bank manager must examine future approximate profit & loss and cash flows, financial ratios, rate of return and time period of getting-back for investment.

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(c)The Purpose of Borrowed Loan

Bank manager examines the purpose of borrowed loan for business that is really suitable and essential to borrowing. For the amount of loan that owner wants to use in working capital, manager and loan officer check what is needed in working capital to invest this amount such as capital need to buy raw materials or to pay salary or to invest capital more as debt of business did not get in time or to fulfill loss of business. Manager certainly investigates that this amount of loan is really suitable and essential to invest in business. For the amount of loan that owner wants to use in fixed capital, manager and loan officer check what is needed in fixed capital to invest this amount such as capital need to extend business or to build industry or to buy new machines or to exchange old machines in to news or to support more in automobile. Manager actually observes that this amount need to invest real and loan applied is suitable to invest in business. Manager evaluates in factors of scoring sheet according to his site seeing.

(d)Banking Processes in Operation

Manager and loan officer prepare loan-case file together documents, in the forms of investigation result to business and scoring sheet to business. Bank reports this loan case file to bank divisional MSMEs loan agency together bank manager recommendation. Bank divisional loan agency reviews this loan case file documents and scoring sheet, then divisional agency goes field-study to business again. If divisional MSMEs loan agency recommends this loan applied, agency will report this loan case to Credit Committee of Head Office. Credit Committee decides suitable loan amount limit, repayment time and suitable interest rate during 9% to 14% according to recommendations of bank and divisional team's total marks in scoring sheets of business and related other documents.

(e) Credit Guarantee Insurance (CGI)

Bank informs customer when Head Office permitted this loan. Customer applies Credit Guarantee Insurance at bank. Bank applies (CGI) to state owned Myanmar insurance. CGI is a kind of insurance to reduce lender risk for unsecured loan. Myanmar insurance makes field research to business to accept CGI of this loan, customer must be charged insurance premium per yearly from customer current account during loan limit in years. Myanmar insurance gives CGI certificate to bank and Myanmar insurance gives 60% of loan amount if loan is default in repayment. While bank gets CGI Certificate, as secure as collateral then bank and customer sign loan agreement contracts and customer can withdraw loan amount (MEB Notification, 2018). The volume of MSMEs unsecured loan in MEB is shown in following table (3.5).

Table 3.5 MEB-MSMEs Unsecured Loan 2019 MAY (in million)

Division	Number	Amount	State	Number	Amount
Yangon	40	524	Kachin	6	77
Mandalay	36	732	Kayar	-	-
Magway	15	290	Kayin	-	-
Sagaing	14	229	Chin	-	-
Ayeyar	7	57	Mon	29	485
Bago	9	137	Yakhie	15	214
Tanintharyi	5	68	Shan	6	107
Naypyitaw	3	55			
Total	129	2092		56	883

Source: MEB's financial year reports 2017 to 2019

By the above table data, this year 2019 reach to the 185 unsecured loans. MEB lends total 2976 million to MEB - MSMEs unsecured loans and 185 enterprises which can get unsecured loan. This service is improving yearly. Yangon had the largest volume in divisions and Mandalay was second largest volume than others. The states in Myanmar such as Kayar, Kayin, Chin are still in least develop to MSMEs sector. Mon and Yakhine states can only borrow unsecured loans well. Among enterprises, small enterprises only can borrow unsecured loan and Micro and Medium still cannot apply to this loans.

3.5.2 Portfolio Process Practices to Unsecured Loan

(a)Portfolio Risk Profile

Portfolio management means diversification risks and controlling risk management practices use in different as risk situation. MEB credit risk management practices to unsecured loan are based on Five Cs of Credit, Credit Scoring Model to examine low risk and high risk investment. The basic points of credit scoring system are related to finance in business, market economy, leadership in working time, income of business and other motivation factors to identify good business. This credit score factors for predicting credit quality have advantages for decision making of suitable loan amount, repayment time and interest rate to each credit. The higher score customer can get maximum loan limit. If business got scores in below level, credit is likely to be denied by bank. Credit risk management is already based on discriminant models to various credit scores for each credit applicant. The factors for predicting credit quality in scoring sheet as examining are as followings:

(1) Objective of business

(2) Added financial plan,

(3) Income & profit from investment,

(4) Management skill of owner or manager,

(5) Reputation of business,

(6) Clear in money laundry,

(7) Continual administration,

(8) Other business in surrounding,

(9) Taxes condition,

(10) Aid for regional development,

(11) Implementation in opportunities of jobs ,

(12) Aid for basic human need,

(13) Analyze in machines of business,

(14) Analyze in market and business situation,

(15) Surrounding and natural environment keeping,

(16) Action on financial statements, and

(17) Relation action to bank and other service.

Bank is faced with default risk of unsecured loan which is serious threat to bank and profit. Credit risk on unsecured loan portfolio is determining loan quality of repayment. Bank team and divisional loan team are well organized by experience bankers, who can access creditworthiness of business by using credit scoring method and the team gave grade A (8 or 9 marks) while business is strongly completed with above score factors. The business gets grade B (6 or7 marks) when business condition is being neither uncompleted nor strong complete situation. The business is given grade C (lower than 5 marks) when some factors were uncompleted condition. Examples of scoring method for reputation of business factor: score factor is regarded as grade A for famous business in town, grade B for famous business in quarters, and grade C for still in start business. According to site seeing by teams, the teams calculate total marks of score factors. Their recommendation on loan's amount, time limit, interest rate become differently due to the different total marks which are reported to Credit Committee. Mostly grade C in total marks that lower than basic marks are rejected to apply loan. This practice in credit risk management is saving time and charges for banking management then bank can decide low or high risk investment easily. Overall portfolio risk profile remains good due to bank risk assessment to proactive measures to negative environment(MEB Instruction No 161,164, 2017)

(b) Institutional Governance by Credit Committee

In Myanmar economic bank, Credit Committee plays an important role to manage loan portfolio, credit policy and credit principles. Managing Director is chairman of Credit Committee and other members are General Managers. All permissions of credit are permitted by Credit Committee. It is responsible committee to review and update credit policies, rules, instructions in balancing market and economy. Committee has responsibilities that bank credit policies are in line with banking laws, Central Bank guidelines and country related rules and regulations.

The responsibilities of Credit Committee are as followings:

(1) Credit Committee ensures that managing loan portfolio and controlling credit risks in safe and sound manner techniques,

(2) Credit Committee ensures that instructions of legal actions to loan losses are covered in related laws,

(3) Credit Committee ensures that there has quality credit management in banking system, and

(4) Credit Committee ensures that the permissions of all loans for their loan amount, time limit and interest rates are suitable decisions. The committee meets at least 4 times in a month to decide and review loan proposals, loan policies and situation of credit in banks. If any different cases or high risk occurs, there has credit committee emergency meeting and instructions to banks are managed continuously by committee. For high risk in credit, collateral free loan (unsecured loan), credit committee gives clearly process guidelines to branches in applying, examining, monitoring credit processes and uses discriminate model which is different approval loan amount, time limit and interest rate due to their different marks in assessment to control loan portfolio management. Credit Committee controls monthly NPL statements of branches to control guideline process of credit risk.

(C) Operating Environment Capacity

Bankers in operation are also risk controller of loan portfolio so that they need capacity and ability improvement then continuous review actions to loan portfolio practices.

Training & seminars by credit committee are often trained to employees to be quality process in providing assessment of loan portfolio. Bank operating environment is implication to bank future portfolio and employees are recognized as organizational assets. Employees attend training courses to improve in the capacity for human resources. Bank controls training practices to suppose complete courses, well trainer teachers, supplied equipment in trains therefore employees can get knowledge and experiences within a short train period for new services. HO and Divisional Office draw and train trainings for human resources on the purpose of reducing risk in internal portfolio area of operation.

The lending officer must undertake annual review of financial statements of loans and must inspect business as field study in every 6 month, sudden checks to know business condition to control loan portfolio management as continuous review action to bank loans and find out risks to cover default. Bank manager must negotiate delay payment borrower and must find out delay factor by site seeing to business and must check monthly repayment action. Bank manager and loan officer in operating must review risk exposure of unsecured loan portfolio in bank and must report credit committee in time as soon as possible about loan portfolio and risk exposure in month.

3.5.3 Recovery Process Practices to Unsecured Loan

MEB supports credit management in each loan by doing quality field- study of bank team and divisional loan agency to business then, team recommendation letter shows loan recommend amount of authorized persons that is reported to HO. When loan amount is permitted to business, bank monitors business to operate loan as (50%) working capital in business and next (50%) to fixed capital.

(a)Monitoring Practices to Business

Bank loan supervise team controls and monitors this loan using in business to use in real according to the business objectives of loan applied. Bank analyzes continuously implementation of business plans by each loan, business situation in market and the ability of loan settlement in principal and interests. Bank reports observation of risks in business to Head Office in time. Credit Policy of Head Office also manages for each risky loan and so that result can recover from default. The principles of Head Office that must be operated in bank loan supervision to business and borrower are as following:

(1) To collect truly quarter interests and principal from borrower,
(2) To make field study in every 6 months and sudden checked to business,
(3) To watch and control business with MSMEs monthly reconciliation, and
(4) To manage enterprise loan in accordance with HO Orders, Principles, and instructions.

Bank loan officer calculates Provision for Credit Losses (PCL) which bases on absence of each loan settlement interest and principal. Bank loan officer calculates monthly percentage of Non-Performing Loan (NPL) that is a loan in default or close to default then bank makes provision for credit losses. Loan customer must pay quarterly interests and principal to bank regularly according to absence of customer, provision percentage of loan standards different in NPL statement that is bank monthly report to HO. MEB manages seriously to watch loans monitoring and legal actions to substandard loans, doubtful loans and loss loans.

(b)NPL Classification to Control Bad Debt

MEB uses NPL classification method to control recovery process in operation. Some borrowers cannot repay debt at due date and loan over 31 to 60 days past due as usual risk management procedure makes provisions 5% to watch loan. Substandard loan can be classified 61 to 90 days past due and bank makes provision to 25% in losses. If borrower cannot repay 91 to 180 days past due, bank makes provision to 50% in loan amount for credit losses. Sometime, there has loss loan in credit when borrower's repayment over 180 days past due then bank makes 100% of loan amount as provision for credit losses (MEB Instruction No 393,2018).

Bank makes monthly various specific provisions of loan amounts as NPL classification standard in loan to have resistance in credit losses. General provision for bad debt is also made by doing provision 2% of total loan in every financial year. NPL percentage calculation method for monthly report is combination of doubtful loan and loss loan is divided by total loan. Standard Criteria to NPL % is 10%.If bank can control NPL % as 10% or below, there can know that these bank credit management practices are in good process. The more result in good return that the bank has the less NPL % is calculated in operation. Credit Committee examines monthly branches NPL statement and their performance to NPL result. Bank can be punished or awarded by Credit Committee according to their NPL statement monthly result. Table (3.6) explains credit condition to MSMEs unsecured loan.

Table 3.6 Credit Condition to MSMEs Unsecured Loan

Financial year	Enterprise	Principal (ks)	Profit (ks)	NPL %
2017-2018	Small	180000000	18900000	—
2018	Small	1373500000	144220000	—
2018-2019	Small	1422500000	149360000	—
total		2976000000	312480000	—

Source: financial year's reports 2017 to 2019 MEB

According to MEB data table 3.3, SMEs unsecured loan started in 2017 to 2018 financial year and this service can support to get high profit yearly. Banks can collect interest and principal perfectly and there is no NPL % yearly. HO Credit Committee can handle risk and profit in balance condition. Initial service year, 2017-2018 bank can lend (180 million) and all interests can collect (18.9 million) as profits. At 2018, this service was increased in principal to (1373.5 million) and so bank got more profit till (144.220 million). In 2019, principal increased to (1422.5 million) and bank can get profits (149.360). Now, bank can get profits (312.480 million) from this service. Small Enterprise only can join unsecured loan because micro enterprises are incomplete criteria of unsecured loan and medium enterprises join to collateral loan. Above data shows that bank credit risk management practices are being quality processes to control NPL. All loans are repaying their principal and related interest in due time therefore all loans are on time loans. Bank does not need to make specific provision for MSMEs unsecured loans although bank makes general provision 2% on total loans.

(b)Practices to Legal Processes

Bank loan is mostly monitored by bank if borrower and business has any financial problem or if delay repayment is occurred more than suitable period for bank. NPL classification is main factor in legal processes and loan monitoring requirement. MEB HO issued instructions clearly for the branches to apply in legal action. As a first step, manager issues formal notice letter of demand: (it is a warning letter to make payment principal and interest regularly to bank) to all doubtful loans as NPL standard as per the Central Bank guidelines. If a borrower did not respond this notice letter during 30 days, bank prepares next step as lawyer notice of demand. This is the last notice letter before taking legal action. If borrower did not respond lawyer notice letter also during 30 days, bank must start legal action processes in time in a case of suit for money degree and auction sales to property of borrower then suit against the guarantors. Bank must report HO monthly in NPL condition and legal actions to these NPL. HO organizes branches NPL situation to undertake as main controller to loan monitoring in legal actions to NPL (MEB Instruction No. 393, 2018).

CHAPTER (IV)

Analysis on Credit Risk Management Practices of MSMEs Unsecured Loan in MEB

This chapter presents analysis on credit risk management practices of MSMEs unsecured loan in MEB by using data collection with statistics method to questionnaires' answers and described mean value results to analyze their managerial level consideration on the practices of credit risk management to unsecured loan.

4.1 Research Methodology

In this study, descriptive statistics method to data analysis and simple random sampling method, personal interview to questionnaires are used as methods of study. Structured questions are also used as section A for profile of respondents and section B for bank credit risk management practices questions of approval process and section C for bank credit risk management practices questions of portfolio process and section D for questions of recovery process. There are 50 managerial questionnaires from 15 banks who had selected as simple random sampling from the population of 33 banks in Yangon division. It took two weeks to get the data for survey by personal interview to random selected questionnaires. After collecting the require data, analyzed these data by using SPSS software of version 22.

4-2 Profile of Respondent

There is 50 persons experienced bankers, who actively participated to answer the questions they are from managerial level of the branches of Myanmar Economic Bank in Yangon. The demographic characteristics of respondents which are described such as gender, age, education, experiences in banking and position in bank that are firstly examined.

(a) Gender of Respondents

Table (4.1) shows the gender of respondents who are interviewed as questionnaires in survey to banks.

Table (4.1) Gender of Respondents

Gender	Number of Respondents	Percentage
Male	20	40
Female	30	60
Total	50	100

Source: Survey data 2019

As above table data, 40 % of gender respondents were male and 60% of respondents were female in random sample. Therefore, bank had more number of female bankers than the number of male in operation managerial level.

(b) Age Group of Respondents

The age groups of respondents divided into three parts and less than 35 years contained 22%.For the 36 to 50 years age group represented 76% largest amount of respondents but there only had 2% to 51 years above age group. So bank mostly 36 to 50 years age group employees in operation. In table (4.2) explains age group of respondents.

Table (4.2) Age Group of Respondents

Age	Frequency	Percentage
Less than 35	11	22
36 to 50	38	76
51 years above	1	2
Total	50	100

\

Source: Survey data 2019

(c) Education Level of Respondents

All respondent bankers were graduate level in education so there had 100 % to valid graduate. Bank operation officers were rare master in graduate level.

(d) Experience in Bank

There had three groups to experience level such as less than 10 years, 10 to 15 years and above 15 years. According to survey data, bankers in operation experiences for 10 to 15 years were 38%. Above 15 years experiences were 40% and the less % in less than 10 years were 22%.So bank can operate banking services with experience bankers and employee turnover also can reduce in operation. In table (4.3) explains experience in bank of respondents.

Table (4.3) Experience in Bank of Respondents

Experiences	**Frequency**	**Percentage**
Less than 10 years	11	22
10 to 15 years	19	38
15 years above	20	40
Total	50	100

Source: Survey data 2019

(e) Position in Bank

Bankers are managerial level bankers of operation and their positions were both in assistant manager and manager. According to survey data, assistant managers contained 64% and managers contained 36% respectively. So bank operation position included twice in assistant manager position than managers. In table (4.4) explains banking position of respondents.

Table (4.4) Banking position of Respondents

Position	**Frequency**	**Percentage**
Assistant Manager	32	64
Manager	18	36
Total	50	100

Source: Survey data 2019

4.3 Analysis on Credit Risk Management Practices of MSMES

This study intends to identify credit risk management practices of unsecured loan with data analysis to know that MEB can control high risk of unsecured as profits to bank. There contained three main parts as approval, portfolio and recovery management practices.

4.3.1 Credit Risk Management Practices in Approval Process of MSMES Unsecured Loan

In this survey, structure questions used to identify bank credit approval process of unsecured loan. Table (4.5) explains the personal interview results of questions in survey data collection.

Table (4.5) Credit Risk Management Practices in Approval Process

No	Practices	Mean	SD
1	Personal interview to borrower gets business Information	3.8	1.088
2	Five Cs of Credit method examines quality loan or risk loan	3.9	1.111
3	Survey team practices examine credit worthiness of business	3.78	0,616
4	Team recommendation supports credit approval right decision	3.84	0.766
5	Credit approval process is hierarchy responsible process to reduce risk.	3.84	0.454
6	Credit Guarantee Insurance of bank reduces 60% of default as secure as collateral.	3.94	1.132
7	Appraisal techniques for risk management in unsecured are very supported to reduce risk.	4.16	0,766
	Overall Mean Score	3.89	

Source: Survey data 2019

According to table (4.5), the loan approval process in credit risk management practices of MEB unsecured loan obtained high level of overall average mean (3.89). It indicates that the approval process is performed to the some extent for preventing credit risk of unsecured loan.

It is found that bank has approval process practices which are making personal interview to borrower to get business information, examining business as quality loan or risky loan by five Cs of credit method, examining credit worthiness by survey teams and supporting right approval decision to credit committee by team recommendation reports. There has hierarchy responsibility in credit approval process and bank uses credit guarantee insurance for unsecured loan to reduce loan default. Bank uses appraisal techniques to reduce credit risk of unsecured loan.

It is found that personal interview method gets a mean value of (3.8), five Cs of credit method gets a mean value of (3.9), survey team practice gets a mean value of (3.78) and the practices of team's recommendation and hierarchy responsibility get same mean value of (3.84).The practices of credit guarantee insurance and appraisal techniques get (3.94) and (4.16) respectively. Therefore all approval practices get high mean values and show that respondent bankers mostly replied that above approval practices of credit risk management are strongly supported to unsecured loan to reduce credit risk.

4.3.2 Credit Risk Management Practices in Portfolio Process of MSMEs Unsecured Loan

In this survey, structure questions used to identify bank credit risk management practices in portfolio process of unsecured loan. Table (4.6) explains the personal interview results of questions in survey data collection.

Table (4.6) Credit Risk Management Practices in Portfolio Process

No	Practices	Mean	SD
1	Credit score method practices assess credit that low or high investment to reduce credit risk	4.42	0.499
2	Bank uses good information system to get right information of borrower.	3.04	0.925
3	Bank applies Credit Bureau report.	1.64	0.525
4	Bank applies Credit rating agency report	2.02	1
5	Bank gets update information of business.	2.14	1.030
6	Credit committee mainly controls credit risk and well organized experience bankers.	4.16	0.766
7	Credit Committee practices support clearly instructions, orders to operation.	4.16	0.766
8	Credit Committee practices guide to obtain profit in unsecured loan.	3.92	1.047
9	Credit Committee practices support to reduce credit risk	4	1.088
10	Training uses complete courses, experience teachers and supply equipment.	3.94	1.132
11	Training practices supports credit operation quality.	4.18	0.774
12	Training practices support to improve human resources of employees	3.96	1.142
13	Training practices have cost and time effectives to operation.	4	1.088
	Overall Mean Score	3.5	

Source: Survey Data 2019

Table 4.6 explains about credit risk management practices in portfolio process**.** The loan portfolio process in credit risk management practices of MEB unsecured loan obtained medium level of overall average mean (3.5). It indicates that the portfolio process practices are performed in normal condition to preventing credit risk of unsecured loan.

It is found that bank has portfolio process practices which are using credit score method to assess low or high risk credit, collecting information for borrower and business to reduce credit risk, institutional governance practices as credit committee to guide credit policy in credit operation and trainings to employees as operational environment capacity improvement.

It is found that credit score method practices get a mean value of (4.42).Information system gets a mean value of (3.04).Credit bureau reports and credit rating agency report get mean value as (1.64), (2.02) respectively and update information question only gets a mean value of (2.14).Credit Committee practices get high mean value in all questions that are (4.16) same mean values to organize experienced bankers and support clearly instructions & orders, (3.92) mean value to guide in obtaining profits and (4) to support in reducing credit risk . All training practices questions also got high mean value that are (3.94) to complete courses and experienced teachers, (4.18) mean value to support credit operation quality, (3.96) mean value to human resources of employees and mean value (4) to cost and time effective to operation respectively.

Therefore, according to mean value results in data the practices of credit score method, credit committee and supporting training have good results because mostly respondents agree to the questions of practices that show that bank applies good governance and employees' improvement to reduce risk. Bank is still in normal condition of information system and then power conditions to credit bureau reports for information of customer history, credit agency report for information of credit worthiness and update information practices to reduce risk.

4.3.3 Credit Risk Management Practices in Recovery Process of MSMES Unsecured Loan

In this survey, structure questions were used to know bank credit management practices in recovery process of unsecured loan. Table (4.7) explains the personal interview results of questions in survey.

Table (4.7) Credit Risk Management Practices in Recovery Process

No	Practices	Mean	SD
1	Field study in 6 month, sudden checks reduce credit risk	3.96	1.106
2	Legal actions are taking on any cases that caused risks of loan default.	4.18	0.825
3	Bank knows business condition within field study.	4	1.088
4	Bank controls loan in right using for business as loans purpose by monitoring.	4.18	0.596
5	Manager negotiates delay payment borrowers and inspection to business.	4	1.030
6	Bank finds out delay factors by inspection to business.	3.96	0.638
7	Bank collects interest and principal due to monitoring practices.	4.04	0,781
8	NPL classification method controls NPL% to reduce credit risk.	4.22	0.648
9	Credit risk management practices support recovery process.	3.98	0.141
	Overall Mean Score	3.89	

Source: Survey data 2019

Table 4.7 explains about credit risk management practices in recovery proces**s.** The loan recovery process in credit risk management practices of MEB unsecured loan obtained high result level of overall average mean (3.89). It indicates that the recovery process practices are performed in quality condition to preventing credit risk of unsecured loan.

It is found that bank has recovery process practices which are inspection to business as monitoring by doing field study in every 6 month and sudden checks, legal action to any cases that can cause default, negotiating delay payment and inspection to delay business and using NPL classification method.

According to data analyze result, field study in 6 month and sudden check that get a mean value of (3.96), legal action to any case that gets a mean value of (4.18), bank knows business condition within field study that gets a mean value of (4), right using for business as purpose of loans by making monitoring to business that gets a mean value of (4.18), manager negotiates delay payment and inspection to business that gets a mean value of (4), bank find out delay factors that get a mean value of (3.96),monitoring practice support to collect interest and principal that gets a mean value of (4.04), NPL classification method controls NPL % that gets a mean value of (4.22) and credit risk management practices supports recovery process that gets a mean value of (3.98) respectively.

Therefore it is found that all questions to bank recovery processes are getting high mean values that describe bankers agree bank management practices which are quality process to recovery and that strongly support credit risk management. Bank has ability in management to control unsecured loan for recovery process.

CHAPTER (V)

CONCLUSIONS

This chapter presents the findings based on analysis data results of credit risk management practices of approval process, portfolio process and recovery process to MSMEs unsecured loan.

5.1 Findings

The credit risk management practices of approval processes in unsecured loan provide personal interview to borrower to get business information. This result data implies that bankers consider personal interview practices which have quality process to business information. Bank has good practices in personal interview to borrower in approval process.

Bank applies Five Cs of Credit method to examine quality loan or risk loan and this data result explains that respondent bankers consider this method that examines quality loan or risky loan. Bank has good practices in Five Cs of Credit method in approval process.

Bank applies survey team to examine credit worthiness of business and this data result explains that bankers accepted survey teams are well organized and experienced teams to examine credit worthiness in approval process. Bank team recommendation supports credit approval for right decision and this data result explains that team recommendation supports right decision to loan approval. Bank has good practice of team recommendation in approval process.

Bank credit approval process has hierarchy responsible process and this data result explains that bankers respond there has hierarchy responsible practices to loan approval in credit line of bank. Bank applies Credit Guarantee Insurance which reduce 60% of default as secure as collateral and data result shows that bankers trust CGI practices, it also secures to loan approval.

Bank practices of appraisal techniques in unsecured support to reduce risk and this data result shows that bankers agree techniques in approval that reduce credit risk of bank. Bank has good appraisal techniques such as personal interview, five Cs of credit, survey teams, hierarchy responsible in credit line and credit guarantee insurance in approval process.

In credit risk management practices to portfolio process, bank applies credit score method which practices assess credit risk and this data result means that bankers respond credit scoring model, it supports to know high or low risk investment in assessment and therefore bank gets high interest rate to high risk.

Bank uses good information system to get right information of borrower and this data result explains that information system, it is little weak in process to know right information. Credit Bureau report's data result explains that bank cannot apply credit bureau report as outsider technician to know credit history. Credit rating agency report' data result explains that bank cannot apply credit rating agency report as outsider technician to know credit worthiness. Bank gets update information and this data result explains that bankers agree bank information system it cannot apply advance technology to know update information of borrower and his business. Therefore it is found that bank weak position to information process.

Bank credit committee mainly controls credit risk and well organized experience bankers and this data result explains that bankers agree with committee is strong organization for bank. Bank' credit committee practices support instructions and orders to credit operation and this data result gets high mean value that explains committee members are well known knowledge in loan management. Credit Committee practices control credit risks and handle to profit that data result also shows that committee guides credit policy very well to unsecured loan. Credit Committee practices support to reduce credit risk and this data result explains mostly bankers respond that they agree to question that committee can control unsecured loan portfolio. Therefore bank credit committee practices strongly support to reduce risk in portfolio process.

Bank has training which uses complete courses, experience teachers, supply equipment and this data result explains that bankers agree training practices which have good practices in internal environment. Training practices support credit operation quality and that data result explains loan portfolio environment of banking activity where uses training practices to reduce risk. Training practices support to improve human resources of employees and this data result means that bankers believe training practices that support human resources to reduce operational risks in bank operation. Training practices have cost and time effectives to operation and data result explains that mostly respondent bankers agree that training is effective. Therefore, it is found that bank well manages portfolio process practices to reduce credit risk but there is incomplete information system to get update information of business and there is necessity of credit bureau report, credit rating report as outsider technician reports to business.

In credit risk management practices to recovery proces**s,** the practices of field study in 6 month, sudden checks reduce credit risk and this data result explains that bankers respond field study practices to business it supports loan recovery process to reduce risk. Bank takes legal action to any case of default and data result shows that bankers agree legal action. Bank knows business condition within field study and this data result shows that bankers agree with field study to business that knows business condition. Therefore it is found that bank uses management practices of inspection, monitoring and legal action in effectively.

Bank controls right using as loan's purpose by monitoring and this data result explains that bankers agree bank monitoring practices that recover loan default in recovery process. Manager negotiates delay payment borrower and inspection to business, this data result shows that bankers agree with negotiating practices to delay payment and site seeing in operation for recovery process. Bank found out delay factors by inspection practice and this data result means that bank practices to inspection delay payment in business support recovery. Bank gets interest and principal due to monitoring practices and this data result explains that bank monitoring practices can support perfectly collected loan repayment in recovery process.

Bank uses NPL classification method which controls NPL% that question gets high mean value and it shows that NPL classification method practices control bank NPL % in recovery. Bank applied credit risk management practices support recovery that question gets high mean value that explains most of bankers agreed bank practices of credit management it supports recovery process to reduce credit risk. Therefore analysis on collection to survey data results by descriptive statistics found that bank can control credit risk by using quality management practices and there are necessary advance information practices to reduce risk.

5.2 Suggestions

Bank has credit risk management practices of approval process which applied methods are personal interview to borrower,5Cs of credit method, Survey teams , Credit Guarantee Insurance (CGI).Interview method although can get information of business, some customers do not know related documents of business which need to show in personal interview so that related document of business information should more support to borrower.5Cs of method although can examine quality loan or risk loan there can still incomplete for borrower history and bank should use more specific information system to know borrower history of debt and update information of borrower.

Survey team and team recommendation practices reduce credit risk but there can have correction and fraudulence case so that team leaders must be honest to bank. Credit approval process has hierarchy responsible process to loan approval that can cause risk reducing but sometime there needs employees' resources as ability of good performance to task their responsibility. Credit Guarantee Insurance (CGI) service is as secure as collateral but premium charges must charge to insurance yearly and it is important to charge for insurance premium every year as long as loan period.

Bank has credit risk management practices of bank portfolio process which applied methods are credit scoring method, credit committee' guidelines, resources of employees'. Bank cannot apply information system to know update information of business. Information system still need advance technology. Bank applies score factors to evaluate credit worthiness and bank knows low or high risk investment but business documents must be sure in financial statements of income , profit and loss ,buying and selling vouchers because there can have financial fault results.

Credit Committee mainly controls credit policy and maintains profit condition so bank reduces risk and controls portfolio management but committee should be ever alert current market situation and national economy to MSMEs sector that can effect to unsecured loan. Training practices for employees human resources although have good practices, there needs attending of right employees who are really needed to attend training.

Bank has Credit risk management practices of bank recovery process .Bank monitors business by field study in every 6 month, sudden check, negotiation delay payment, NPL classification and legal action process. Bank field study knows business condition it controls right using as loan purposes and collects interest and principal. Bank finds out delay factors by negotiation delay payment customer. Bank controls NPL by using NPL classification method .Although bank credit risk practices to recovery processes are getting good results and profit, there needs to consider other situation of economic and political stability of nation.

5.3 Need for Other Study

High proportion of country' economy is operated by MSMEs. Currently in Myanmar, government is supporting MSMEs to promote MSMEs economic sector now. The stability of economic sector is also important factor to credit service. Information on the government regulation and policy, political issues, current market condition are also influenced bank credit policy. Now, although MEB manages unsecured loan by well credit risk management practices in quality credit process, there may need more added management practices in future credit policy to unsecured loan as economic circumstance and situation may be different on time.

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Questions

Credit Risk Management Practices of MEB (Case Study in MSMEs Unsecured Loan)

<u>Section (A) Analysis on Socio-Demographic Factors of Respondent Banker</u>

Please Tick '✓' in the box that best describes you

Q. Gender of Respondent

☐ Male

☐ Female

Q. Age of Banker

☐ Less than 35

☐36 to 50

☐51 years above

Q Education level of banker

☐Height School

☐Graduate

☐Post Graduate

Q Banking Experiences

☐Less than 10 years

☐10 years to 15 years

☐15 years above

Q Position in Bank

☐Assistant Manager

☐Manager

Please tick '✓'in the box that best describe your opinion 1. strongly disagree 2.disagree 3.cannot decide 4. agree 5.strongly agree

Section (B) Analysis on MSMEs Unsecured Loan Service in MEB according to Credit Risk Management Practices of Approval Process

No	Practices	Answer
1	Bank personal interview method to borrower gets business information.	1 2 3 4 5
2	Bank applies Five Cs of Credit method to examine quality loan or risk loan.	1 2 3 4 5
3	Bank survey team practices examine credit worthiness of business.	1 2 3 4 5
4	Bank teams' recommendations support credit approval to become right decision.	1 2 3 4 5
5	Bank credit approval process has hierarchy responsible practices.	1 2 3 4 5
6	Bank uses Credit Guarantee Insurance to reduce 60% of default as secure as collateral.	1 2 3 4 5
7	Bank's practices of appraisal techniques in unsecured are supported to reduce risk.	1 2 3 4 5

Please tick '✓'in the box that best describe your opinion 1. strongly disagree 2.disagree 3.cannot decide 4. agree 5.strongly agree

Section (C) Analysis on MSMEs Unsecured Loan Service in MEB according to Credit Risk Management Practices of Portfolio Process

No	Practices	Answer
1	Bank applies credit score method practices to assess low or high investment to reduce credit risk	1 2 3 4 5
2	Bank practices use good information system to get right information of borrower	1 2 3 4 5
3	Bank uses credit bureau report to know credit history	1 2 3 4 5
4	Bank uses credit rating agency report to know credit worthiness	1 2 3 4 5
5	Bank gets update information of borrower	1 2 3 4 5
6	Bank credit committee mainly control credit risk and well organized experienced bankers	1 2 3 4 5
7	Bank credit committee practices supports clearly instructions, orders to operation	1 2 3 4 5
8	Bank credit committee practices guide to obtain profit in unsecured loan	1 2 3 4 5
9	Credit Committee practices support to reduce credit risk	1 2 3 4 5
10	Bank applies training practices to use complete courses, experience teacher and supply equipment	1 2 3 4 5
11	Training practices support credit operation quality	1 2 3 4 5
12	Training practices support to improve human resources of employees in internal operation.	1 2 3 4 5
13	Training practices have cost and time effectives to operation	1 2 3 4 5

Please tick '✓'in the box that best describe your opinion 1. strongly disagree 2.disagree 3.cannot decide 4. agree 5.strongly agree

Section (D) Analysis on MSMEs Unsecured Loan Service in MEB according to Credit Risk Management Practices of Recovery Process

No	Practices	Answer				
1	Bank monitoring practices field study in 6 month, sudden checks reduce credit risk.	1	2	3	4	5
2	Bank takes Legal action to any cases that caused risks of loan defaults.	1	2	3	4	5
3	Bank knows business condition within field study	1	2	3	4	5
4	Bank controls loans in right using for business as loans purpose by monitoring	1	2	3	4	5
5	Manager negotiates delay payment borrower and inspection to business	1	2	3	4	5
6	Bank found out delay factors by inspection to business.	1	2	3	4	5
7	Bank collects interest and principal due to monitoring practices.	1	2	3	4	5
8	Bank applies NPL classification method that controls NPL% to reduce credit risk	1	2	3	4	5
9	Bank' credit risk management practices support recovery process.	1	2	3	4	5

STATISTICS

FREQUENCY TABLE

Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	20	40	40	40
Female	30	60	60	100
Total	50	100	100	

AGE

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 35	11	22	22	22
36 to 50	38	76	76	98
51 years above	1	2	2	100
Total	50	100	100	

Banking Experiences

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 10 yr	11	22	22	22
10 to 15years	19	38	38	60
15 years above	20	40	40	100
Total	50	100	100	

FREQUENCY TABLE

Position in Bank

	Frequency	Percent	Valid Percent	Cumulative Percent
Assistant Manager	32	64	64	64
Manager	18	36	36	100
Total	50	100	100	

Descriptive Statistics

Practices of Credit Risk Management (Approval)

	Number	Minimum	Maximum	Mean	Std: Deviation
Practice 1	50	1	5	3.80	1.088
Practice 2	50	2	5	3.9	1.111
Practice 3	50	3	5	3.78	o.616
Practice 4	50	3	5	3.84	0.766
Practice 5	50	4	5	3.84	0.454
Practice 6	50	2	5	3.94	1.132
Practice 7	50	3	5	4.16	0.766
Valid N (listwise)	50				

Descriptive Statistics

Practices of Credit Risk Management (Portfolio)

	Number	Minimum	Maximum	Mean	Std: Deviation
Practice 1	50	4	5	4.42	0.499
Practice 2	50	1	4	3.04	0.925
Practice 3	50	1	3	1.64	0.525
Practice 4	50	1	5	2.02	1
Practice 5	50	1	5	2.14	1.030
Practice 6	50	3	5	4.16	0.766
Practice 7	50	3	5	4.16	0.766
Practice 8	50	1	5	3.92	1.047
Practice 9	50	2	5	4	1.088
Practice 10	50	2	5	3.94	1.132
Practice 11	50	3	5	4.18	0.774
Practice 12	50	2	5	3.96	1.142
Practice 13	50	2	5	4	1.088
Valid N (listwise)					

Descriptive Statistics

Practices of Credit Risk Management (Recovery)

	Number	Minimum	Maximum	Mean	Std: Deviation
Practice 1	50	2	5	3.96	1.106
Practice 2	50	2	5	4.18	0.825
Practice 3	50	2	5	4	1.088
Practice 4	50	2	5	4.18	0.596
Practice 5	50	2	5	4	1.030
Practice 6	50	3	5	3.96	0.638
Practice 7	50	3	5	4.04	0.781
Practice 8	50	2	5	4.22	0.648
Practice 9 Valid N (listwise)	50	3	4	3.98	0.141