

YANGON UNIVERSITY OF ECONOMICS
DEPARTMENT OF COMMERCE
MASTER OF BANKING AND FINANCE PROGRAMME

CHALLENGES OF JICA TWO-STEP LOAN PRACTICES FOR SMEs

THIN THIN KHAING
(MBF-4th BATCH - 60)

DECEMBER, 2018

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ABSTRACT

The main objectives of the study are to identify JICA two-step loan practices in PFIs and to analyze challenges of JICA two-step loan practices in SMEs. This research used both primary and secondary data. The primary data collected by interviewing with SMEs owners from six PFIs in Yangon Region. The sample size includes 120 respondents (20% of total 600 SMEs only in six PFIs). Survey was conducted by using structured questionnaires and used descriptive analysis. Based on the results from the analysis of the respondent SMEs business profiles, it is found that majority of SMEs are established as sole proprietorships, partnership firms and followed by private company limited. Regarding the industry sector which SMEs are involved in spread out many different sectors but JICA Two-Step loan can apply only for these sectors that are Manufacturing, labor intensive works, Wholesale, Retail and Services but others sector of SMEs cannot apply JICA To-Step Loan. Services business is highest apply the JICA Two-Step Loan. According to analysis of major challenges for SME financing, it was found that majority of SMEs have many constraints to access finance, collateral, legal documents. The results on analysis of proportion use of JICA Two-Step Loan SME financing in fixed assets and working capital, some borrowers were willing to request to adjust portion (20% on working capital and 80% on fixed assets) for loan amount usage of JICA TSL and which would be more advantaged for SMEs.

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LIST OF ABBREVIATIONS

PFIs	Participating Financial Institutions
SMEs	Small and Medium Enterprise
TSL	Two Step Loan
JICA	Japan International Cooperation Agency
KBZ	Kanbawza Bank
AYA	Ayeyarwady Bank
CB	Co-Operative Bank Ltd
MAB	Myanmar Apex Bank
MCB	Myanmar Citizens Bank
SMIDB	Small and Medium Industrial Development Bank
MEB	Myanmar Economic Bank
MICB	Myanmar Investment and Commercial Bank
CGI	Credit Guarantee Insurance
PMU	Project Management Unit
ESMS	Environmental and social Management System
SMI	Small and Medium Industries
MOI	Ministry Of Industry
MOC	Ministry Of Commerce
CMP	Cutting, Making ,Packaging
BON	Business Opportunity Networking
MIA	Myanmar Industry Association
DISI	Directorate of Industrial Supervision and Inspection
DICA	Directorate of Investment Company Administration

CHAPTER 1

INTRODUCTION

Small and medium enterprises (SMEs) all over the world have been playing a crucial role in supporting the national industrial structure and in promoting economic development. In particular, SMEs provide the necessary foundations for sustained growth and rising income in the less developed and transitional economies. As the credit or financial matters involve several areas of a particular enterprise, SME financing is a topic of significant research interest to academics and an issue of great importance to the policymakers of Myanmar and around the world. Economic as well as technical and social arguments warrant the promotion of SMEs as they create large scale, low-cost employment opportunities, use locally available inputs and technologies, mobilize small and scattered private savings, develop entrepreneurship, and correct the regional imbalance in development that exists in developing countries.

Myanmar government has recognized the importance of SMEs, the pillar of the private sector which accounts for 90 percent of economic output, and has established an SME Development Center under the Ministry of Industry. Part of its mandate is to provide training to SMEs on understanding banking regulations and processes required to obtain bank loans. However, local banks are not supplying enough long-term loans for the capital investment need of SMEs due to various obstacles.

There are four challenges in SMEs sectors that relate to get loan from private banks in Myanmar. The first is that the current lending interest is considered to be too high by many SME owners. Secondly, the Central Bank of Myanmar (CBM), a bank regulator, currently prohibits banks from extending long-term loans till 2016. Thirdly, some SMEs do not have sufficient real estate assets to be offered to banks as collateral. Lastly, SMEs are not familiar with and try to avoid complex document requirements and procedures. (JICA Report 2014)

As a result, SMEs tend to borrow from informal sources, including relatives and friends, at very high interest rates of 4 to 5% per month for short term requirements and with profit sharing arrangement for long term requirements. On the other hand, there are various problems on the side of SMEs as borrowers, including

comingling of personal and company's assets, and inadequate financial management without preparation of financial statements. (MEB Web Page)

The Japanese International Cooperation Agency (JICA) has disbursed a JPY 5,033 million loan to Small and Medium-sized Enterprises (SMEs) through a Two-Step Loan (TSL) scheme. Under the scheme, JICA offers loans to Myanmar government and then the government disburses loans to the banks. The banks will offer loans to the SMEs. The interest rate for SME loans would be 8.5 per cent while commercial loan is 13 per cent. Entrepreneurs who want to take loans need to put their immovable properties up as collateral as well as to have recommendations from their regional (or) state governments.

Participating Financial Institutions - PFIs (six commercial banks) have signed up to Two-Step Loan (TSL) scheme funded by the Japanese government's development assistance arm, which will provide subsidized loans, guaranteed by state-owned Myanmar Insurance, to small and medium-sized companies. These six banks are AYA Bank, Corporative Bank (CB), Myanmar Citizens Bank (MCB), Myanmar Apex Bank (MAB), Kanbawza Bank (KBZ), and Small and Medium Industrial Development Bank (SMIDB). To be eligible for a loan from one of the six banks, business owners must make sure their companies meet standards set out by the SME Development Department under the Ministry of Industry, before registering with that department. (MEB Web Page)

SME Law was passed in 2015 and established a new framework to develop Small and Medium Enterprises in Myanmar. More than 90pc of businesses in Myanmar are classified as SMEs, but only 25pc of these businesses are registered with the ministry. According to the Ministry of Industry of Myanmar, there are more than 120,000 registered SMEs across the country, making up 99 per cent of the country's economy. (SME Development Center Websites)

1.1 Rationale of the Study

SMEs play an important role in Myanmar's economy, accounting for approximately 93% of all companies and 70% of production. In Myanmar, individual government agencies, such as the Ministry of Industry and the Ministry of Commerce, each manage data on companies separately. Since such data is also insufficient, it is

difficult to obtain accurate statistics. However, approximately 120,000 SMEs, including non-manufacturing businesses, are said to exist in Myanmar.

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

Accordingly, there is an urgent need to expand opportunities to procure funds to enable growth of SMEs and to develop financial institutions to finance them. Myanmar's government places priority on promoting the development of SMEs. The current project is therefore consistent with Myanmar's policies regarding development issues as well as Japan's and JICA's assistance policies in high-priority areas. Therefore, it is necessary and highly relevant for JICA to support this project. The lending rate for end users is the minimum deposit interest rate plus 0.5% (8.5% as of the end of June 2015). (JICA Guideline 2017)

In order to increase formal financing to SMEs, improvements in managerial practice will have to be considered. Moreover, the participating financial institutions (PFIs) in this project are facing a number of challenges, issues and difficulties in their operation regarding financial literacy of the clients, scarcity of skilled labor, lack of technology in operations, absent of credit bureau, existing regulation, political and economy of the country. Therefore, this study intends to investigate the challenges of PFIs for the project of Two-Step Loan by JICA for SMEs in Myanmar.

The study analyzed the challenges of SMEs sector by using JICA loan and TSL practices in 6 participating financial institutions which are providing financial intermediation to increase the production and investments of, the Small and Medium-sized Enterprises (SMEs) in Myanmar, thereby contributing to inclusive development of the country's industry and economy as well as employment generation. For evaluating challenges of SMEs, access to finance from formal sources, legal

documents requirement, audit financial requirement, cost of funding on JICA SME TSL, loan organization, assessment and approval process, monitoring procedures for bank loan, constraints to the growth of the company will be included as major factors.

1.2 Objectives of the Study

The main objective of the study is

1. To identify JICA Two-Step Loan (TSL) practices in PFIs.
2. To analyze the challenges of JICA Two-Step Loan practices for SMEs

1.3 Scope and Method of the Study

This study focused on six participating financial institutions (PFIs) which locate in Yangon Region among twenty-four financial institutions in Myanmar. These financial institutions are KBZ Bank, CB Bank, AYA Bank, MCB Bank, MAB Bank and SMID Bank. Total respondents are 120 end-borrowers whom concerned with these six PFIs.

In order to identify and analyze the challenges of JICA Two-Step Loan in End-Borrowers, this research was carried out using descriptive survey design. This study was only based on 120 end-borrowers who are selected to conduct the survey on the challenges of JICA Two Step Loan by using structured questions.

In this study, both primary and secondary data are used. Primary data was collected by distributing structured questions and interviewing with 120 respondents of JICA Two- Step Loans. Data collection period for this research was from Aug to Nov in 2018. The Secondary data were also collected from various published sources such as journals, articles, and reports and mainly used from Two-Step Loan Project for Small and Medium Enterprises Development in the Republic of the Union of Myanmar.

1.4 Organization of the Study

This thesis includes five chapters. Chapter one consists of the introduction that explain rationale of the study, objectives, scope and method and organization of the paper. Chapter two involves theoretical background of Small and Medium Enterprise SMEs and challenges of SMEs in Myanmar. Chapter three describes the background information of JICA Two Step Loan for SMEs in Myanmar. Chapter four includes the analysis the challenges of JICA Two-Step Loans practices in SMEs based on the responses of 120 SME owners in Yangon Regions. Finally, Chapter five mentions the

conclusions and gives a summary of the main findings in relation to challenges of JICA Two-Step Loans and also presents the appropriate suggestions based on the results obtained.

CHAPTER 2

THEORETICAL BACKGROUND

This chapter represent about the existing literature on small and medium enterprises in Myanmar. This chapter includes definition of small and medium enterprises, the role of small and medium enterprises in Myanmar, Myanmar Government Prioritized the development of SMEs, challenges of SME Developments and participating financial institutions (PFIs).

2.1 Definition of Small and Medium Enterprises (SMEs)

Small and medium enterprises (SMEs) are decided by the number of employees and or revenues they have. To be considered a small and medium enterprise, these two determinants must fall under a certain standard held by the respective country. Different countries have varying standards to qualify for this identification. Generally, in the USA and Europe, small companies have less than 50 employees and medium-sized companies have less than 250 employees.

In Bangladesh also Government has duly identified the importance of SMEs in Bangladesh economy and Industrial policy 2010 has been crafted keeping that in mind. Government has created supportive institutional structure and is trying to create a conducive environment for the SMEs to grow. Bangladesh Bank (BB) has long been involved in the process of small business development and BB has stepped up its efforts in SME development. Creation of new department, comprehensive policy formulation and all out efforts are inaction to change the current scenario in the SME sector. Currently BB is operating a number of refinance window supported by multilateral donor (ADB, IDA) as well as from its own sources for the small entrepreneurs. BB has identified that there is a gap in the financial market for the SMEs for medium to long term investment fund for productive investment in technology and other productive resources. (Brief, Central Bank of Bangladesh)

While the existing definition of Industry Law covers only small and medium industries (SMI) under the supervision of MOI, the new definition is designed to cover various sectors including service, trading and tourism (hotel and restaurant) under MOC, Ministry of Hotel and Tourism or some other ministries. Details of definition of each sector are modified to fit better to the current economic situation.

The proposed TSL program is to adopt the new definition to define eligibility for borrowers. New Definition of SME must be specific for each sector according to number of employment and requirement of capital investment are presented in follows Table (2.1).

Table (2.1) Types of Small and Medium Enterprises

Manufacturing, Mining and Construction	Small	Medium
Employment (number)	<50	51-300
Capital Investment (million kyat)	<500	500-1,000
Labor Intensive Manufacturing or CMP	Small	Medium
Employment(number)	<300	301-600
Capital Investment (million kyat)	<500	500-,1000
Wholesale	Small	Medium
Employment (number)	<30	31-60
Capital Investment (million kyat)	<100	101-300
Retail	Small	Medium
Employment (number)	<30	31-60
Capital Investment (million kyat)	<50	51-100
Service	Small	Medium
Employment (number)	<50	51-100
Capital investment (million kyat)	<100	101-200
Other Enterprise	Small	Medium
Employment (number)	<30	31-60
Capital investment (million kyat)	<50	51-100

Source: SME Development Center, Oct-2013.

2.2 Role of Small and Medium Enterprise in Myanmar

SME's or Small and medium-sized enterprises (SMEs) are non-subsiary, independent firms which employ less than a given number of employees. More than

90% of businesses in Myanmar are classified as SMEs, but only 25% of these businesses are registered with the ministry. The most frequent upper limit designating an SME is 250 employees in Myanmar.

Myanmar has a high potential for rapid development given its rich natural resources, abundant labor force and strategic location between the region's two economic giants, China and India. Many lessons can be drawn from the experiences of Myanmar's neighbors, which could help guide its economic transition and achieve strong and inclusive growth. Promoting and sustaining economic growth is in the interest of every nation. Small and medium-sized enterprises (SMEs) are, in many countries, recognized as the backbone of economic growth, contributing significantly to the GDP through job creation and income generation while alleviating poverty (ESCAP, 2012). Promoting the development of SMEs, therefore, should be viewed by governments around the world as an effective mechanism in achieving socioeconomic development. SMEs are an important element in the national economic development for the following reasons: Encouragement and vivid support by the government and SMEs agencies, establishment of SMEs Promotion Committee in Chambers and Associations as well as in Government Agencies, entrepreneurship & Business Capacity Building Trainings for SMEs and Business Opportunity Networking (BON) to develop market potential.

However, SME growth is often constrained by various factors, such as limited access to information and technological know-how, lack of economies of scale, deficiencies in corporate governance and limitations in access to funds. Government interventions have been required to create enabling environments for SME growth. Such interventions include transparent licensing and permit procedures, financial provisions, information gathering and sharing, infrastructure (along trading routes and borders) and efficient customs procedures (ESCAP, 2012).

2.3 The Role of Government for SMEs Development

In Myanmar, SMEs are considered important to the national economy. They create a lot of job opportunities for the population and contribute to employment and income generation, resource utilization, and promotion of investment. Therefore, Myanmar government is making efforts to transform the political, economic and social environment to be in line with global changes, and to promote sustainable

economic growth. This includes promoting small and medium-sized enterprises (SMEs), which play a pivotal role in the economic development of both developing and developed countries. Myanmar has a vision to develop SMEs, based on the policy to create regionally innovative and competitive SMEs across all sectors, to stimulate income generation, and contribute to socio-economic development. SMEs in Myanmar will provide 50-95 percent of employment, and contribute 30-53 percent of the country's GDP.

Myanmar government has given special attention to the development of SMEs, support for existing SMEs to become larger industries, and creating a conducive business environment for SMEs. A new policy to promote the development of SMEs includes tax relief and tax exemptions, since SMEs in Myanmar suffer from arduous tax and monetary policies. They also suffer from lack of access to capital and protection of intellectual property, as well as high interest rates, and lack of close relations with Myanmar banks. However, on 1 August 2017, the State Counselor met with the Chair of 22 Myanmar banks in Nay Pyi Taw, and urged them to cooperate with the government in promoting Myanmar's economic growth. SMEs and businessmen hope that this meeting will benefit SMEs and the business sector. (moi.gov.mm 2017)

2.4 Challenges of SMEs Development

Myanmar's business environment is undergoing a lot of rapid changes. However, SMEs in Myanmar face many challenges during the period of political and economic transition. New trends have to be considered continuously, such as growing demand and customers' expectations on flawless products and services. Moreover, SMEs are facing increasing global competition, the emergence of new technologies and impact on integrated supply chain and production systems among ASEAN member states. In Myanmar, challenges to SMEs are varied and complex, depending on the sector and level of development. Common challenges include financial access, human resource development, R&D in technology, management, and marketing.

The development of SMEs is important for the country's economic development, as they are major contributors to the economy and job creation. However, SMEs are confronted with numerous challenges, including insufficient financial support, electric power supply and credit guarantee. Given that SMEs form

the backbone of the country's economy, economists have called on the government to improve the banking sector, and encourage banks to provide more loans to SMEs at a reasonable interest rate. At the same time, capacity building in areas such as business management, accounting, taxation, marketing management, human resource management, and capital management are in huge demand for SMEs to promote job opportunities and socio-economic development. Thus, the development of SMEs in Myanmar requires a concerted effort by government, banks, and private sector that can provide training, to help SMEs reach their full potential in contributing towards Myanmar's economic development.

Private sector development is an approach to the economic development which leverages the vitality of private companies. The private sector growth serves as a source of economic growth, and is expected to contribute to the expansion of employment opportunities for people and the reduction of poverty. In many developing countries, the support needs for the development of the private sector as a source of wealth creation, have been increasing to achieve sustainable economic growth and reduce poverty. Above all, with the globalization of economy in recent years, trade and investment promotion brings positive effects to companies, such as the expansion of markets and the introduction of new capital and technology, but at the same time, it also has an impact that accelerates a shakeout of uncompetitive industries and companies. Accordingly, it is an important challenge for the private sector development in developing countries to capture opportunities and reduce risks arising from globalization. Under such circumstances, in the field of private sector development, it is also an important challenge to promote small and medium enterprises that are an important component of economy and industry of each country which play an important role in strengthening industrial competitiveness, creating jobs, and reducing poverty. Thus, in supporting the private sector development field, both trade and investment promotion and SME promotion should be implemented in a consistent manner.

In trade and investment promotion and SME promotion, it is important to implement various policies and measures necessary for trade and investment promotion and SME promotion respectively, and at the same time, it is also important to develop business environment as a prerequisite for private companies to conduct business fairly and freely. The former (i.e., various policies and measures necessary

for trade and investment promotion) includes measures to reduce trade and investment obstacles, support measures for trade and investment activities of industries, and measures to increase the linkage between companies and corporate competitiveness. The latter (i.e., developing business environment as a prerequisite for private companies to conduct business fairly and freely) involves political and macroeconomic stability as well as a wide-ranging complex of conditions, including policies, legal systems, infrastructure development, education and human resources development related to the operation of economic society.

2.5 Participating Financial Institutions (PFIs)

The Myanmar government provides only non-financial assistance to business enterprises, due to limitations on the government budget. However, the Financial Support for SMEs policy, the Myanmar Economic Bank (MEB), Myanmar Investment & Commercial Bank (MICB) and Myanmar Industrial Development Bank (MIDB) have provided loans to SMEs since 2004. In addition, the Japan International Cooperation Agency (JICA) will provide a K 15 billion loan through the government to develop SMEs in 2017 at a low interest rate. The loan is granted through the Myanmar Economic Bank (MEB), and SMEs and businessmen who apply for the loan are required to submit their current business situation and future program of their businesses to the SMEs Development Department. Nevertheless, despite the increasing provision of loans, the lack of financial access and high tax rates still restrict the development of SMEs in Myanmar.

The success of the TSL Project depends upon raising awareness among SMEs of the availability of the lending facility for low-interest mid- to long-term loans. PMU shall take a leadership role in developing an effective promotion strategy, including but not limited to; posters, booklet, brochure, video, newspaper advertisement, TV and radio run messages, holding seminars/workshops, etc. PMU, with the assistance of the consultants, plans, prepares and executes the publicity promotion in active utilization of the means and media discussed.

PMU is advised to seek for cooperation with relevant public and private organizations including but not limited to; Ministry of Industry (MOI), Ministry of Commerce (MOC), CGI provider(s), Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), Myanmar Industries Association (MIA), JICA

Myanmar-Japan Center for Human Resources Development, etc. PFIs shall contribute for the TSL Project by utilizing their branch networks. PFIs are recommended to establish or designate a particular unit/person at branch office to provide advisory services to the prospective SMEs borrowers on how they can benefit from the TSL Project.

PFIs are expected to provide assistances including;

- (1) Guidance on the basic terms and conditions of financing under the TSL Project;
- (2) Guidance on the eligibility of End-Borrowers and Sub-Projects; and
- (3) Preparation of Sub-Loan application forms.

PFI is responsible for monitoring End-Borrowers, Sub-Projects and Sub-Loans individually and collectively. PFI shall submit following reports and information to PMU.

- (1) On-going Sub-project Summary, in a form shown in Appendix II, within 15 business days after the end of each quarter
- (2) Report on Current Repayment and Overdue Status, in a form shown in Appendix III, within 15 business days after the end of each year
- (3) Outline of an Annual Environmental and Social Performance Report in a form shown in Appendix IV, within 15 business days after the end of each year
- (4) Performance indicators for the impact assessment as specified in section 9.6.
- (5) PMU is responsible monitoring PFIs and their management of Sub-loans individually and collectively. PMU shall collect information of Sub-Loans/projects by asking PFIs to deliver such.

Working Committee conducts their periodical review based on the report submitted by PMU. For the purpose of monitoring, JICA and/or PMU may initiate inspection of PFIs, End-Borrowers and/or Sub-Projects. The following sites and parties may be visited for such inspection and relevant records and documents may be examined: PFIs, including their branch offices; End-Borrowers' office; Sub-Projects' sites and depending upon cases, JICA may entrust PMU to conduct inspection on its behalf.

PMU and PFIs shall cause necessary arrangement to enable orderly and effective inspection. Also, JICA may initiate inspection of PMU by visiting to PMU offices and interviewing of PMU members. Based on the reports from PFIs, PMU shall carry out survey and/or inspection on environmental and social impact caused by Sub-Projects when it judges it necessary. In case an environmental and social safeguard system is considered not to be functioning adequately, a modification plan shall be made by PMU and approve by Working Committee and JICA. JICA may disclose (a part of) monitoring results and may disclose further information when third parties so request. PMU shall report to JICA, and make PFIs report to PMU, if and whenever the negative impact is observed during the implementation of the Sub-Projects. (Japan Economic Research Institute Inc. Feb-2014)

CHAPTER 3

BACKGROUND INFORMATION OF

JICA TWO STEP LOAN FOR SMEs IN MYANMAR

This chapter represents about the JICA two-step loan for small and medium enterprises in Myanmar. The chapter includes about history of JICA Two Step Loan for SMEs, definition of two-step loan, the vision, mission, objectives and actions of JICA Two Step Loan, the current state and issue of SME financial sector in Myanmar, eligibility and ineligibility criteria of JICA Two Step Loan for SMEs borrowers and challenges of JICA two-step loan for end-borrowers.

3.1 History of JICA Two Step Loan for SMEs

SME Loan by JICA is a loan facility under the two-step fund, provided by Japan International Cooperation Agency (JICA) offered to small and medium business enterprises of Myanmar. This Term Loan facility is offered for the purpose of meeting Working Capital requirements and /or purchasing fixed assets. Six commercial banks have signed up to a two-step loan scheme funded by the Japanese government's development assistance arm, which will provide subsidized loans, guaranteed by state-owned Myanmar Insurance, to small and medium-sized companies.

The Japan International Cooperation Agency will issue a K30 billion loan at 0.01 percent interest to state-owned lender Myanmar Economic Bank, which will on-lend the funds to six commercial banks at 4pc interest. From September, the six banks – AYA Bank, CB Bank, Myanmar Citizens Bank (MCB), Myanmar Oriental Bank, Kanbawza Bank, and Small and Medium Industrial Development Bank (SMIDB) – will begin taking applications for loans from SMEs, provided the companies meet strict criteria. JICA used specific criteria including corporate governance, asset size, number of branches and SME focus in selecting which banks would join the project, MCB said. In February the development agency issued a K4.8 billion loan to SMIDB under similar terms, and in future it will consider granting another loan of K13 billion. To be eligible for a loan from one of the six banks, business owners must make sure their companies meet standards set out by the SME Development Department under the Ministry of Industry, before registering with that department.

Once a company has registered, it can apply – with or without collateral – to one of the six commercial banks for a five-year loan of between K15 million and K500 million. Companies applying without collateral will be eligible for an 11pc annual interest rate, while those with collateral will be expected to pay 8.5pc. Both rates are lower than the standard commercial bank rate of 13pc. MCB said that it will on-lend at 8.5pc, adding that this will provide a 4.5pc margin – the difference between the interest rate the bank pays on the MEB loan and the rate at which it will lend – without MCB having to use its own deposits. This will help the bank maintain its loan-to-deposit ratio and liquidity ratio in line with Central Bank requirements, it added. Japan International Cooperation Agency (JICA) will plan to offer two-step loan of 11.5 billion yen (about Ks151.6 billion) for next fiscal year 2018-2019.

Characteristics of Two Step Loan : Middle to long-term financing is 1 years to 5 years, low interest rates plus minimum deposit rate plus 0.5% per annum (including other relevant charges), focus on SME's capital investment-Eligible investments are fixed assets (e.g. machinery, equipment, factory buildings) , 57.6 billion MMK has been disbursed on September 2016 through 6 PFIs (Participating Financial Institutions) 1) KBZ, 2) MCB, 3) CB, 4) SMIDB, 5) MAB, 6) AYA , Target End-borrowers , Duly registered under Myanmar Companies Act and other official registration and SME defined in SME Development Law 2015.

Under the second two-step loan scheme, the JICA granted a Ks 185 billion (Japanese Yen 14.949 billion) loan to the MEB. Loans will be re-disbursed to SMEs, at an 8.5 per cent interest rate. Banks grant loans to SMEs with the use of own money sources (people's deposits). Until December 2017, the disbursement of loans by private banks amounted to Ks 732.940 billion. It also includes loans disbursed to SMEs under the Credit Guarantee Insurance (CGI) system jointly operated by Myanmar Insurance and private banks. Under the CGI system, three private bank granted loans of Ks 2.653 billion to 226 businesses until January 2018. It is the soft loan as SMEs gets two-step loans at an 8.5 per cent interest rate. Other loans are disbursed with the market price. Especially, banks find it difficult to grant loans based on deposits, at an interest rate lower than the market price. In future, SMEs will have more opportunities to get loans. (Japan Economic Research Institute Inc. Feb 2014)

A two-step mortgage offers a beginning interest rate for an agreed-upon introductory period. The period usually lasts for five to seven years. Often a two-step

loan helps a borrower during the construction of a property. After completion of the structure and when the initial period ends, the interest rate adjusts to reflect prevailing interest rates. A two-step mortgage is an attractive option for borrowers in certain situations. Borrowers who want to enjoy a lower-than-market interest rate and lower monthly payment over the first several years of the loan are the classic consumers for a two-step loan. Other familiar two-step borrowers are homeowners who expect to sell the home before the initial period expires. Also, those buyers who believe that interest rates will fall during the loan's initial rate period would make likely candidates for a two-step loan.

Lenders are attracted to two-step mortgages because they bring in borrowers who might not otherwise qualify for a traditional loan. These borrowers absorb the market risk represented by rising interest rates. Typically, the interest rate at the end of the initial period will be higher than the initial rate. When interest rates are higher at the end of the beginning period, it makes the loan a more profitable deal for the lender. Also, when the borrower chooses not to refinance over the course of the loan, and the rate resets to a higher interest, the lender will receive higher repayments from the loan. Not refinancing is rare since the two-step borrower is very likely to refinance or sell the property to avoid the interest rate hike. (Japan Economic Research Institute Inc. Feb 2014)

3.2 Vision, Mission, Objectives and Action of JICA Two Step Loan

JICA has clearly defined its two step loan objectives which are to be executed and understood by the participating financial institutions (PFI) to achieve its missions, Visions and actions of JICA Two Step Loan.

Vision - Leading the world with trust. JICA, with its partners, will take the lead in forging bonds of trust across the world, aspiring for a free, peaceful and prosperous world where people can hope for a better future and explore their diverse potentials.

Mission - JICA, in accordance with the Development Cooperation Charter, will work on human security and quality growth.

Objectives

The objectives of JICA Two-Step Loan for SMEs sector are as follow.

1. to improve the financial intermediation function for SMEs

2. to increase the production and investments of SMEs in Myanmar.

This objective is to be fulfilled by providing medium/long-term funds through PFIs and by strengthening PFIs' capacity, thereby contributing to inclusive development of the country's industry and economy, as well as creation of employment.

Actions

The actions for JICA Two-step loan for SMEs sector are as follows

1. Commitment: Commit ourselves with pride and passion to achieving our mission and vision.
2. Gemba: Dive into the field ("gemba") and work together with the people.
3. Strategy: Think and act strategically with broad and long-term perspectives
4. Co-creation: Bring together diverse wisdom and resources.
5. Innovation: Innovate to bring about unprecedented impacts.

3.3 Current Situation of implementing Two-Step Loans (TSL) in Myanmar

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

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

Myanmar. However, since most available bank loans have short periods, in many cases personal funds are used to fund and operate SMEs.

In order for SMEs in Myanmar to stabilize and expand their businesses from medium- to long-term perspectives, financial institutions must increase medium- to long-term financing and banks are also expanding their funding capacities. However, due partly to the strict regulations on loan terms that until recently were imposed by the Central Bank of Myanmar, the supply of medium- and long-term funds for SMEs is too limited to meet growing demand. Accordingly, there is an urgent need to expand opportunities to procure funds to enable growth of SMEs and to develop financial institutions to finance them. Myanmar's government places priority on promoting the development of SMEs. The current project is therefore consistent with Myanmar's policies regarding development issues as well as Japan's and JICA's assistance policies in high -priority areas. Therefore, it is necessary and highly relevant for JICA to support this project.

3.4 Eligibility and Ineligibility criteria for End-Borrowers

The eligible borrowers must satisfy the following requirements: Duly registered under The Myanmar Companies Act registered under Directorate of Industrial Supervision and Inspection (DISI), Ministry of Industry; or official permission; for business from relevance agencies. Meeting the definition of SMEs stipulated in SME Development Law. All the regions in Myanmar, there is no condition set on the geographical location of business as long an investment is made within the territory of Myanmar. Eligible investments for JICA Two Step Loan are as follows:

- (1) Fixed assets, such as machinery, equipment, factory buildings including related civil works, services and training. However, purchase of land or land-use-right and, payment of tax and import duty are not eligible for financing.
- (2) Initial Working Capital, which is associated with a fixed asset investment. However, such initial working capital portion cannot exceed 20% of Sub-Loan principal. It is show in the table (3.1).

Table (3.1) Terms and Conditions of Sub-Loans

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

Sources: Myanmar Economic Bank (2016)

According to Table (3.1), each borrower can take loan from PFI at maximum MMK 500 million and interest rate is minimum deposit rate plus additional 0.5% per annum. Maximum loan period is one to five years and must provide immovable property. In Addition, Participating Financial Institution (PFIs) are required to collect and accumulate each end-borrower's data and PFI's data necessary for PMU/JICA's impact assessment of TSL: Sales turnover; Profit; Amount of capital investment. Plus, PFI's total MLT loan outstanding to SMEs; PFI's number of approval and disbursement of SME loans; (6) PFI's NPL ratio and also PFI is required to establish an internal Environmental and social Management System (ESMS), which includes: environmental policy; Organization & staff for ESMS; Annual budget for ESMS; and Monitoring & reporting system.

Ineligible investment activities for environmental and social consideration: No Sub-Loans shall be extended to finance Ineligible Investment Activities and Category Investment activities as stipulated in JICA Guidelines for Environmental and Social Considerations. The following sectors shall be specifically excluded. They are farmers eligible for borrowing from Myanmar Agricultural Development Bank, real estate, finance and insurance, precious metal dealing, bars and pubs, amusement,

entertainment (except for tourism), weapons, ammunition, or any other sector harmful to the social stability to be judged by Working Committee.

3.5 Challenges of Normal SMEs Loans

Duration of Loan Period: Banks are generally prohibited from extending loans exceeding one year. Many SME owners wanted to take on bank loans to replace machinery or purchase machinery but worry about the refinance risk under the one-year rule and higher interest rate for refinancing to repay bank loan.

Complex bank procedures and disclosure requirements: Borrowing from informal lenders is very simple in that borrowers are required to provide gold as collateral and no detailed disclosure or documentation is required. While the interest rate is high, the financial burdens from informal borrowings are acceptable if the funding need is only for two or three months. They are, however, unusable for long term investments. Extensive document and disclosure requirements are the primary reasons for many SME owners.

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

1. Submission of loan application and the following documents
2. Multiple letters of undertakings or promissory notes
3. Resident registrations, family member lists and related documents
4. Tax payment certificates for the last 3 years (income tax, trading tax)
5. DICA and DISI registrations
6. Information about the collateral, such as certificate of ownership
7. Financial statements for the last 3 years (1 year for SME Loan Program)
8. Pictures of factories and collateral properties

Collateral requirement: SMEs also complain about the requirement of immovable collateral and very conservative loan-to-value ratio against collateral. Some banks use loan-to-collateral value ratio as a method for evaluating creditworthiness of each borrower, and raise it from 30% for the first borrowing to 40% for the second, 50% for the third. Under the practically regulated interest rate without competition, the banks in Myanmar do not want to change interest rates according to the borrower's

creditworthiness; so the loan-to-collateral value ratio is the only way for the banks to reflect their risk assessments in their lending practice.

CHAPTER 4

ANALYZE THE CHALLENGES OF JICA TWO-STEP

LOAN PRACTICES IN SMES

This chapter describes the characteristics of End Borrowers of JICA two-step loan from six private banks in Yangon. Section one includes the profile of SMEs of JICA two-step loan. Section Two is the needs of financing for SMEs and Section three is the challenges of JICA TWO-STEP LOAN practices in SMEs.

4.1 Survey Design

This case study is set up to analyze the challenges of JICA Two-Step Loan practices in SMEs. The data for this study were gathered through the use of primary and secondary data sources. The primary data sources for this study are carried out with a structured questionnaire and received 120 SMEs in six participating financial institutions (PFIs) in Yangon Region. The questionnaires were distributed to SMEs owner for first-hand information for processing towards answering the research questions. The questionnaire was divided into three sections. Section A concentrated on profile of JICA two-step loan end borrowers. Section B of the questionnaires concerned with financing needs of SMEs. Section C consists of analysis on challenges of JICA two step loan practices in SMEs.

The types of questions in the questionnaire are opened question, closed question and 5-point Likert scale questions which are aimed to examine the financing practices, to identify financing sources and explore the challenges in finding of JICA two-step loan in SMEs. Those 120 SMEs come from different sectors and hence it gives a wide range of perspective on the financing channels in Myanmar. The secondary data was obtained from reviewing journals, reports and literature relevant to the subject matter of this research. The target population was approximately 600 SMEs in six PFIs in Yangon Region and sample was taken as 120 SMEs (20% of total 600 SMEs only in six PFIs) and distributed the questionnaires among them.

4.2 Background Information of Respondents

The selected JICA two-step loan end borrowers are located in Yangon region. The profile consists of the types of ownership, types of business, registered year as SMEs, number of work force in SMEs and amount of initial investment require.

Types of Ownership

Most of the SME businesses are sole proprietorship, partnership firm, private company limited.

Table (4.1) Type of Ownership

Type of Ownership	No. of Respondent	Percentage
Sole Proprietorship	90	75
Partnership Firm	22	18
Private Company Limited	8	7
Total	120	100

Source: Survey Data (2018)

As the above Table (4.1), most of the SME owners are sole proprietorship that are 75% of total respondents, 18 % represents partnership firm and 7 % represents Private Company Limited.

Types of Business

There is a total of 120 business are operating in small-medium enterprises and only five type of business are only allowed for JICA two-sep loan from participating financial institutions (PFI). They are manufacturing, labor-intensive works, wholesale, retail and services.

Table (4.2) Type of Business

Type of Business	No. of Respondent	Percentage
Manufacturing	25	20
Labor intensive works	6	5
Wholesale	19	15
Retail	30	25
Services	40	35
Total	120	100

Source: Survey Data (2018)

According to Table (4.2), 40 out of 120 SMEs are services business (Private school, Hospital, Hotel, Transportation) represents 35% of the total response rate, 25% represents the retail business, 20% represents manufacturing. The wholesale and labor-intensive works (textile and logistic company etc.) represents 15% and 5% respectively.

Year of Registered

These businesses are established in start of before 2005 to 2015 and they are already registered as small-medium enterprises in SMEs Development Center, Ministry of Industry in Yangon, Myanmar. At least two year registered in SMEs, can apply JICA two – step loan for business expansion.

Table (4.3) Year of Registered as SMEs

Register Year	No. of Respondent	Percentage
Before 2005	24	20
2006-2010	55	46
2011-2015	41	34
Total	120	100

Source: Survey Data (2018)

As table (4.3) above, during 2006-2010, many of the businesses are registered as small-medium enterprises that represents 45.83% of total respondents, 34.12 % of respondents are registered in before 2010 and 20% of respondents are registered in after 2011.

Number of Work Force

According to SME definitions, every small-medium business have at minimum number of workforces' are 30 to 600 according to their types of business.

Table (4.4) Number of Work Force

No. of Work Force	No. of Respondent	Percentage
1 to 30 workers	74	62
31 to 50 workers	30	25
51 to 300 workers	16	13
Total	120	100

Source: Survey Data (2018)

As table (4.4) above, most of the respondents that represent 62% of SME owners have up to 30 workforces, 25% of respondents are employed 31 to 50 workforces and 13% of respondents are employed 51 to 300 workforces.

Amount of Initial Investment

The amount of initial capital invested in their business is between MMK 5 Million to MMK 500 Million. According to the study, most of the small businesses are startup with between MMK 5 Million to 50 Million but medium businesses are startup at least 100 Million to 500 Million.

Table (4.5) Amount of Initial Investment

Amount of Initial Investment (MMK In Million)	No. of Respondent	Percentage
5 -20	30	25
21 -50	45	38
51 – 100	20	16
101 – 200	15	12
201 – 300	5	4
301 – 400	2	2
401 – 500	3	3
Total	120	100

Source: Survey Data (2018)

Obtaining Loan Information for JICA two-step loan

Concerning the information obtained for JICA Two-Step Loan, sample small-medium enterprise owners are required to respond the question JICA Two step loan information are obtained from which sources with five statements namely Newspapers, Pamphlet, Online, Friends/ Relatives and face to face announcement from Bank 'staff. The survey result from analysis states that 27% of respondents received loan information from newspaper. In this survey, 22% of total respondent relied loan information from friends or relatives and face to face announcement from bank's staff. Table (4.6) presented for the following sources for SME owners.

Table (4.6) Information of JICA Two-Step Loan

Sources Of Finance	No. of Respondent	Percentage
Newspaper	32	27
Pamphlet	7	6
Online	29	23
Friends/ Relatives	26	22
Face to face announcement from bank's staff	26	22
Total	120	100

Source: Survey Data (2018)

Source of JICA Two-Step Loan

Respondents are requested to answer the sources of funds they get from for their financing. In this survey, JICA two step loan is currently available financing in participating financial institutions in Myanmar that are KBZ bank, AYA bank, MAB bank, CB bank, MCB Bank and SMIDB Bank in Phase1. The survey states that most of the SME borrowers are applied form firstly KBZ bank and SMIDB Bank that represent 25% of total respondents, secondly CB Bank that represent 23 %, 18% from MCB Bank and AYA and MAB bank are provide lowest percentage to SME borrowers. The details of survey result are shown in Table (4.7).

Table (4.7) Sources of Finance

Sources Of Finance	No. of Respondent	Percentage
KBZ Bank	30	25.00
AYA Bank	8	7.00
MAB Bank	6	5.00
CB Bank	28	23.00
MCB Bank	18	15.00
SMIDB Bank	30	25.00
Total	120	100

Source: Survey Data (2018)

Financing Needs for Business Expansion

Most of the SME owners are financing for business expansion such as mainly to construct the factory or building, purchase of machinery to extend capacity for increasing productivity. Therefore, most of the financing needs are long term (more than 2 years and above).

Table (4.8) Financing for Business Expansion

Term of Loan	No. of Respondent	Percentage
Less than one year	12	10
Between one to three years	67	56
Above three years	41	34
Total	120	100

Source: Survey Data (2018)

In Table (4.8), show that 10 % of the respondents are short term financing needs that is less than one year (the reason is to buy motor vehicle and machinery), 56% of the respondents are medium term financing (between one to three years) that represents the investment in construction of building in long term assets and 34% of the respondents are long term financing.

Financing Needs for Working Capital

The term of financing needs for working capital are short term and long term. Businesses need for working capital period is short term but some of businesses need for working capital for long term.

Table (4.9) Financing Needs for Working Capital

Term of Loan	No. of Respondent	Percentage
Short Term Loan	79	66
Long Term Loan	41	34
Total	120	100

Source: Survey Data (2018)

In table (4.9), the respondents need financing for working capital to purchase of raw materials, paid to suppliers and employees that representing 66% are short term loan period and 34% are presented financing for working capital in long term period. Therefore, most of the SMEs are financing need for working capital for short term period.

4.3 Challenges of JICA Two Step Loan Practices for SMEs

A structured questionnaire is used for data collection. A total of 120 questionnaires were distributed, all questionnaires were filled completely and usable. In this section of this study it is an analysis on the challenges of JICA Two Step Loan practices in SMEs sector. The factors are identified as place of loan information, source of finance, major challenges on JICA Two-Step Loan (TSL) financing, the cost of funding, loan processing and financing and key underwriting requirement. The two factors are included in this analysis such as major challenges on key underwriting requirement and satisfactory level on JICA SME TSL financing.

Challenges on TSL Financing

Most of the SMEs are faced with those difficulties when they get loan from banks. The factors are identified as real estate collateral, legal documents, and cost of funding, audited financial statement and loan processing procedures.

Table (4.10) Challenges on JICA SME TSL Financing

Statement	Mean	Std. Deviation
Not enough real estate collateral	3.88	0.81
Not easy to provide required legal documents for JICA TSL	4.05	0.77
Cost of funding is more than expected which compare to normal SME's loan	2.07	0.75
Faced with issues which SMEs can't provide audited financial statement for JICA TSL	3.84	0.77
Loan Organization, Assessment and Approval process are difficult to finish	3.65	0.80
Overall Mean	3.50	

Source: Survey Data (2018)

According to the Table (4.10), most of the respondents have not easy to provide required legal documents for JICA TSL was ranked with the highest ranking and the mean scores is at 4.05. Most of the respondent could not provide audited financial statement for JICA TSL was ranked with the mean score at 3.84. Most of the SME owners do not have proper audited financial statements that requirements are major challenges for their firms. However, cost of funding that SME faced with JICA TSL are less than their expected which compared to normal SME's loan .From the side of legal documents supporting, SME's have faced with challenges to provide necessary legal documents for TSL purposes with M=2.07. As a result of cost of funding, all JICA two step loan are necessary cost such as lawyers' fees, insurance fees, stamps duty fees that are major challenges for borrowers.

Challenges on Loan Processing Cost

For cost of funding challenges, most of the SMEs are faced with the below difficulties to make cost of funding. Those factors are included as lawyers' fees, appraisers' fees, stamps duties fees, insurance fees, movable fees and immovable fees.

Table (4.11) Challenges on loan processing cost

Statement	Mean	Std. Deviation
Lawyers' fee is not affordable for SMEs	3.46	0.50
Appraisers fees charges is not convenience	3.10	1.02
Stamps Duties fees is rather expensive for SMEs	3.15	0.85
SME don't want to pay insurance fees for getting loan	3.09	0.88
SME think immovable fees is not concerned for getting loan	3.24	0.84
When SME apply loan movable fees is rather expensive	3.13	0.89
Overall Mean	3.19	

Source: Survey Data (2018)

In relates to Table (4.11), SMEs are not affordable to pay lawyers' fees for getting loan from PFIs with mean value 3.46 as highest ranking in challenges on the loan processing cost. However, SMEs are affordable to pay insurance fees for getting loan from PFIs with mean value 3.09 as lowest ranking in challenges among loan processing cost. If PFIs negotiate fees and charges for loan processing cost, the challenges could be better than before.

Challenges on Loan Process

Difficulties on loan processing process of SMEs are faced with the following challenges such as clear messages and information for loan process, long time assessment of credit worthiness, long time loan approval process and undefined additional requirement.

Table (4.12) Challenges on Loan Process

Statement	Mean	Std. Deviation
Bank does not deliver clear messages and information on origination requirement	2.63	0.72
Bank takes too long for assessment of credit worthiness	2.49	0.76
Bank takes too long for approval	2.78	0.66
Bank often ask undefined additional requirement	2.74	0.67
Overall Mean	2.66	

Source: Survey Data (2018)

According to Table (4.12), respondents are faced with time delay when PFIs take times to approve loan process for SMEs with mean value 2.78 as highest ranking among other variables. In the other way, PFIs also requested to provide additional undefined requirements for getting loan with mean value 2.74 as second highest ranking in those variables. As per overall average mean score M=2.66, challenges on loan process are under neutral level and PFIs have to consider to increase banking services and credit procedures to improve loan processing process for SMEs.

Challenges on Key Underwriting Requirement

Regarding the key underwriting requirement, six questions are prepared for survey. Table (4.13) shows the result from the analysis on key underwriting requirement. To analyze challenges JICA TSL practices in SMEs sector, each respondent was asked to rate the key underwriting requirement on a Likers scale ranging from 1(Strongly Disagree) to 5 (Strongly Agree).

Table (4.13) Key Underwriting Requirement

Statement	Mean	Std. Deviation
Physical Collateral is burden for SMEs	2.55	0.70
Legal Document which relates to Business is not convenient for SMEs	3.20	0.98
Audited Financial Statements are not always prepared for SMEs business	2.83	0.80
The experiences in business is one of the difficulty for getting loan	3.38	0.75
Business Plan	3.23	0.69
Overall Mean	3.01	

Source: Survey Data (2018)

In Table (4.13), legal document which relates to business, experiences in business and to have business plan were ranked as most of the respondents answered they faced those above difficulties are major challenges and the mean scores of them are between 3 and 4 while to provide physical collateral and audited financial statements requirement which would not be the major challenges with the lowest ranking (M=2.55 and M=2.83) respectively.

Overall mean score is 3.10 and that are neutral level for key underwriting requirement of all respondents. All of the SME borrowers have business plan and experience in their business but they don't have physical collateral and audited financial statements that are major challenges to get JICA Two Step loan.

Challenge of Proportion to Use in Assets

As per JICA TSL rules, all borrowers for TSL have to purchase 80% portion of loan amount for fixed assets. However, Table (4.14) shows that some borrowers have difficulties to use 80% of loan portion for fixed assets purchasing which relates to civil works and servicing that would support to infrastructure improvement (M=2.1).

As a result from Table (4.14) with mean value 3.99 describes that if JICA adjust loan portion percentage for fixed assets requirement from 80% to less than that, some borrowers are willing to request to JICA and it would be more advantaged for SMEs.

Table (4.14) Challenges on Proportion to Use of Fixed Assets

Statement	Mean	Std. Deviation
Fixed assets portion 80% which relates to infrastructure is appropriated with business types.	2.10	1.16
Granted loan portion 80% for fixed asset is sufficient for business requirement assets.	3.48	0.95
Adjusted in portion for fixed assets (80%) requirement would be more advantaged for SMEs. (For example 80% to 65% portion for fixed assets purchasing).	3.99	0.77
Financing for fixed assets purchasing is more important than financing for working capital.	3.66	0.90
If term of loan for fixed asset is long-term loan, it is more appropriate for SMEs business expansion.	3.14	1.02
Overall Mean	3.27	

Source: Survey Data (2018)

As per JICA TSL rules, all borrowers for TSL have to purchase 20% portion of loan amount for working capital. However, Table (4.15) shows that some

borrowers have difficulties to use 20% of loan portion for working capital investment which could not exceed 20% of sub-loan with mean value 2.18.

Table (4.15) Challenges on Proportion to Use Working Capital

Statement	Mean	Std. Deviation
Working capital portion 20% which relates to JICA guideline is appropriated with business types.	2.18	0.96
Granted loan portion 20% for working capital is sufficient for business requirements.	3.53	0.86
Adjusted in portion for working capital (20%) requirement would be more advantaged for SMEs. (For example 20% to 45% for working capital).	4.03	0.72
Financing for working capital is more important than financing for fixed assets purchasing.	3.71	0.92
If term of loan for working capital is short-term loan, it is more appropriate for SMEs sector.	3.75	1.02
Overall Mean	3.44	

Source: Survey Data (2018)

According to Table (4.15) with mean value 4.03 describes that if JICA adjust loan portion percentage for initial working capital investment from 20% to more than that, some borrowers are willing to request to JICA and it would be more advantaged for SMEs. As per survey interview with borrowers, most of the borrowers need their initial capital more than 20% for further business processes. For the reason that portion for fixed assets is 80% in which purchase of land and building are not allowed to use that 80% portion. If JICA liberalizes some portions, the borrower could purchase land and building that relates for business expansion without avoid the portion fixed assets requirement.

Challenge on PFI's Services and Support

Table (4.16) Challenges on PFI's services and support for JICA TSL

Statement	Mean	Std. Deviation
PFI's always provide and support banking knowledge and clear messages for TSL on time.	3.68	0.77
Due to delay in PFI's banking procedures, JICA TSL is difficult to get from PFI's.	3.67	0.76
JICA TSL could not get on time due to PFI's credit approval process take long time.	3.78	0.75
SMEs could not get TSL from PFI's when PFI requested to provide restricted collateral requirement.	3.79	1.08
As per each PFI's requirement, the frequency of loan repayment period is different which challenges for SMEs. (For example, monthly payment, quarterly payment, etc.)	3.72	0.95
Overall Mean	3.73	

Source: Survey Data (2018)

Table (4.16) shows challenges on PFI's services and support for JICA TSL. This table shows that borrowers could not receive loan from PFI on time due to credit procedures and processes took long time which can be two months to eight months with mean score 3.78 and 3.79 means that borrower could not provide restricted collateral requirement which could lead to challenges for borrowers. According to PFI's standard flow, the frequency of loan repayment period is difference depends on PFI's. According to result in above table, mean value is 3.72 which mean that borrowers have challenges on repayment period. The frequencies of loan repayment periods are monthly, quarterly, semi-annually, etc. Most of the borrowers are willing to pay back based on quarterly basis. Therefore, the frequency of the loan repayment period is one of the major challenges in JICA TSL financing in banking services and support section.

Table (4.17) Summary of Challenges on JICA Two-Step Loan

No	Factors	Mean
1	Challenges on JICA SME TSL Financing	3.50
2	Challenges on Loan Processing Cost	3.19
3	Challenges on Loan Process	2.66
4	Challenges on Key Underwriting Requirement	3.01
5	Challenges on Proportion to Use for Fixed Assets	3.27
6	Challenges on Proportion to Use for Working Capital	3.44
7	Challenges on PFI's Services and Support for JICA TSL	3.73
Overall Mean		3.26

Source: Survey Data (2018)

The above table (4.17) shows challenges on JICA SME TSL financing, loan processing cost, loan processes, key underwriting requirement, proportion to use of fixed assets and use for working capital and PFI's services and support. As per overall mean value from Table (4.17), overall mean score for challenges on PFI's services and support for SMEs are highest ranking with M=3.73 which means that PFI have to improve better services for SMEs and have to provide good support to SMEs for loan processing. However, overall mean value for challenges on loan process and procedures are lowest ranking with M=2.66 which means that PFIs have to consider to increase banking credit procedures and process for SMEs to be more convenient. In regards to the total average mean value M= 3.26 and overall mean score from each challenges, both government and PFIs have to consider all issues and challenges that are faced by SMEs which could help SMEs loan sector development and SMEs development.

CHAPTER 5

CONCLUSION

This chapter is organized by three main sections, findings and discussions, suggestions and recommendation, and need for future study on JICA Two-Step Loan not only in SME financing but also in SMEs sector development in Myanmar.

5.1 Findings

This study has been conducted with the objectives of identifying JICA Two-Step Loan practices in PFIs and exploring the challenges of JICA Two-Step Loan practices in SMEs. To meet these objectives, a survey was conducted in Aug to Nov 2018. Since all SMEs could not be covered in this study, a representative sample of 120 SMEs was drawn by using simple random sampling. Then, the owner or manager or responsible person of SMEs in the sample was requested to answer the questionnaire which is developed for this study. Out of 600 SMEs, only 120 respondents responded to the questionnaire. Thus this study is based on the information taken from a sample 120 SMEs respondents .The questionnaire used in the study includes three section the profile of JICA two-step loan end borrowers, financing need of SMEs, and analysis on the major challenges of JICA two-step loan practices in SMEs.

Based on the results from the analysis of the respondent SMEs business profiles, it is found that majority of SMEs are established as sole proprietorships and partnership firms and followed by private company limited. Regarding to the industry sector which SMEs are involved in spread out five different sectors manufacturing, labor intensive works, wholesale business, retail business and services sector. The largest second and third largest group of SMEs involve in retail business and services sector.

Obviously, majority of companies which registered as SMEs are 20% before 2005 and the second largest group of company registered as SMEs in the years 2011-2015 are 34% of total respondents. The highest percentage of companies which registered as SMEs center is 46 percent in the years 2006-2010. It is obvious that nearly 62 percent of SMEs have approximately 30 workers in their business. Only 13 percent of SMEs have work force from 50-300 workers in their business. The amount

of initial capital invested by major of SMEs is up to MMK 500 million when they started their business .But their current capital is MMK 5-50 million. The largest groups of SMEs are managed by owners and more than one third of SME appoints finance manager for their financial affairs. Most of the person who manages the financial holds bachelor degree.

Based on the analysis of needs of financing, majority of SMEs borrowed short-term and medium-term loan for their business expansion and majority of SMEs borrowed short-term loan for their working capital needs. The loan amount which SMEs borrowed from different sources will be maximum up to MMK 500 million depends on their business size and financial needs. Majority of SMEs apply loan for tenure above three years for their business expansion and almost 66 percent of respondents apply loan for their working capital.

By the results of analysis on sources of financing, it was found that the largest group of SMEs got their loan from KBZ Bank and SMIDB bank, the second largest group got by borrowing from CB Bank. 18 percent of SMEs borrowed money from MCB bank and only a few SME apply loan from AYA and MAB Bank for their business expansion and/or working capital needs.

Findings on Challenges on JICA SME TSL Financing

Mean value for providing legal documents for JICA TSL was 4.05 which means that was not easy for SMEs to get JICA TSL however, cost of funding was cheaper than compare to other companies and FIs.

Findings on Challenges on Loan Processing Cost

Mean value for loan processing cost on lawyers' fees was 3.46 which means that SMEs were not affordable to pay Lawyers' fees to get JICA TSL finance.

Findings on Challenges on Loan Process

Overall mean value for challenges on loan process was 2.66 which mean that challenges on loan process was under neutral level and PFIs have to consider increasing banking services and credit procedures to improve loan processing process for SMEs.

Findings on Challenges on Key Underwriting Requirement

Among mean values from key underwriting requirement, mean value for the experiences in business was one of the difficulties for getting loan was 3.38 which were highest ranking in challenges on key underwriting requirement.

Findings on Challenges on Proportion to Use for Fixed Assets

Mean value for adjusted in portion for fixed assets (80%) requirement would be move advantaged for SMEs was 3.99 which means some borrowers were willing to request to adjust portion for loan amount for JICA and it would be more advantaged for SMEs.

Findings on Challenges on Proportion to Use for Working Capital

Mean value for adjusted in portion for working capital (20%) requirement would be move advantaged for SMEs was 4.03 which means some borrowers were willing to request to adjust portion for loan amount for JICA and it would be more advantaged for SMEs.

Findings on Challenges on PFI's Services and Support

Mean value for PFI's requested to provide restricted collateral requirement was 3.79 that mean borrowers could not provide restricted collateral requirement which could lead to challenges for borrowers.

The major challenges for JICA SME TSL financing requirements is real estate collateral and major challenges for cost of funding is movable fees under insurance fees. The major difficulty on loan processing is bank loan processing approval time which took at least 2 months to at most 8 months and major difficulties on key underwriting requirement is legal document which relates to borrowers.

5.2 Suggestions

For the further improvement of the financing practices, development of adequate reliable finance sources, to reduce and waive limitations on SME financing and to overcome major challenges on JICA SME Two-Step loan in SMEs, all stakeholders need to consider the following suggestions and recommendations. SMEs should be registered at both Directorate of Industrial Supervision and Inspection (DISI) and department of SME development center under Ministry of Industry to apply Two-Step Loan with low interest. The main difficulty to get finance from the

PFI is sufficiently fulfilling the requirements of applying loan such as collaterals and referrals. Therefore, the government also should develop an official credit-rating system in easier way so that financial institutions can have some idea about the reliability of their SMEs clients. Moreover, financial institutions should try to find out the important and necessary information of financial requirements of SMEs. Moreover, JICA should be provide that procedures could be put in place that would permit eligible SMEs to obtain collateral free loans and term loans which is other important problem for SMEs. Sometimes, three to five year period is not enough to repay the loan. SMEs expect to get the longer period of loan based on business plan, experience of business owners and current development of business.

5.3 Needs for future Research

This study signals out majority of SME applied short-term and medium-term loan for their business expansion and all SMEs applied only short-term loan for their working capital needs. They borrowed money from participating financial institution with JICA for their business expansion and/or working capital. Majority of SMEs started their business with personal savings, initial investment borrowed from relatives and inheritance. When SMEs grow their business, they can access finance from external sources. Major challenges for SME to access finance from formal external sources are collateral, legal documents related to business, reliable financial statements, preparation of business plan, cost of funding and the time taken for loan process. Majority of SMEs are not satisfied fees and frequency of principal repayment, restriction on use of JICA Two-Step loan and monitoring from PFIs.

In further studies, it should focus on geographic view not only 120 SMEs in Yangon Region but also other states and regions of Myanmar where SMEs are existing and operating businesses. Future research should also emphasize on all SMEs of JICA Two-Step loan borrowers and include other industries in Myanmar to reflect and represent real situation, financing practices, financing sources, limitations and major challenges of all SMEs in Myanmar. Therefore, JICA, government, PFIs and SMEs should communicate each other and make open discussion and negotiate to overcome all issues, limitations and challenges in SME financing in Myanmar. Thus, next and furthermore studies should be based on the 120 JICA Two-Step Loan SMEs borrowers in Yangon and also not focus on other Division of JICA Two-Step Loan borrowers in Myanmar.

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APPENDIX C

Attachment 2: Report on Current Repayment and Overdue Status

Form of Current Repayment and Overdue Status Report

(As of DD/MM/YYYY)

1. Sub-loans from the Project Operating Account (1st generation)

(million Kyat)

Duration of arrears	Number of the Sub-Loans with arrears	Total Amount of Arrears	Total loan amount of Sub-Loans with arrears	Total repaid amount from Sub-Loans identified in each category
3 to 6 months				
6 months to 1				
1 to 2 years				
Over 2 years				

2. Sub-loans from the Revolving Fund Account (2nd- and succeeding-generation)

(million Kyat)

Duration of arrears	Number of the Sub-Loans with arrears	Total Amount of Arrears	Total loan amount of Sub-Loans with arrears	Total repaid amount from Sub-Loans identified in each category
3 to 6 months				
6 months to 1				
1 to 2 years				
Over 2 years				

3. Fund Transfer from Project Operating Account (1st generation)

(million Kyat)

Duration of arrears	Number of the FTD with arrears	Total Amount of Arrears	Total loan amount of FTD with arrears	Total repaid amount from FTD identified in each category

3 to 6 months				
6 months to 1				
1 to 2 years				
Over 2 years				

4. Fund Transfer from the Revolving Fund Account (2nd- and succeeding-generation)

(million Kyat)

Duration of arrears	Number of the FTD with arrears	Total Amount of Arrears	Total loan amount of FTD with arrears	Total repaid amount from FTD identified in each category
3 to 6 months				
6 months to 1				
1 to 2 years				
Over 2 years				

Note: This report only covers the sub-loans and Fund-Transfers by Deposit whose principals are in arrear.

Date:

Name and Title:

(Authorized Signature)

APPENDIX D

Attachment 3: Outline of an Annual Environmental and Social Performance Report

Outline of an Annual Environmental and Social Performance Report to JICA

1. Basic Information

Name of Organization:
 Completed by (Name):
 Position in Organization:
 Reporting Period: From: To:
 Completed in (MM/YY)

2. Subprojects using JICA Funds during the Reporting Period

Name of Subproject approved during the reporting period	Industry Sector	Project Scope	Project Cost (JPY)	Approval Date	Environmental Category *	Reason of Categorization	Documents made(e.g. EIA, RAP, IPP)	Any outstanding environmental, IR or IP** issues

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* Please refer Environmental and Social Categorization: Definition or II. 2.2. of JICA Guidelines for Environmental and Social Considerations (April 2010)
 ** IR = Involuntary Resettlement, IP = Indigenous People

3. Subprojects using JICA Funds to be Approved in the Next FY

Name of Subproject approved during the reporting period	Industry Sector	Project Scope	Project Cost (JPY)	Approval Date	Environmental Category *	Reason of Categorization	Documents made(e.g. EIA, RAP, IPP)	Any outstanding environmental, IR or IP** issues

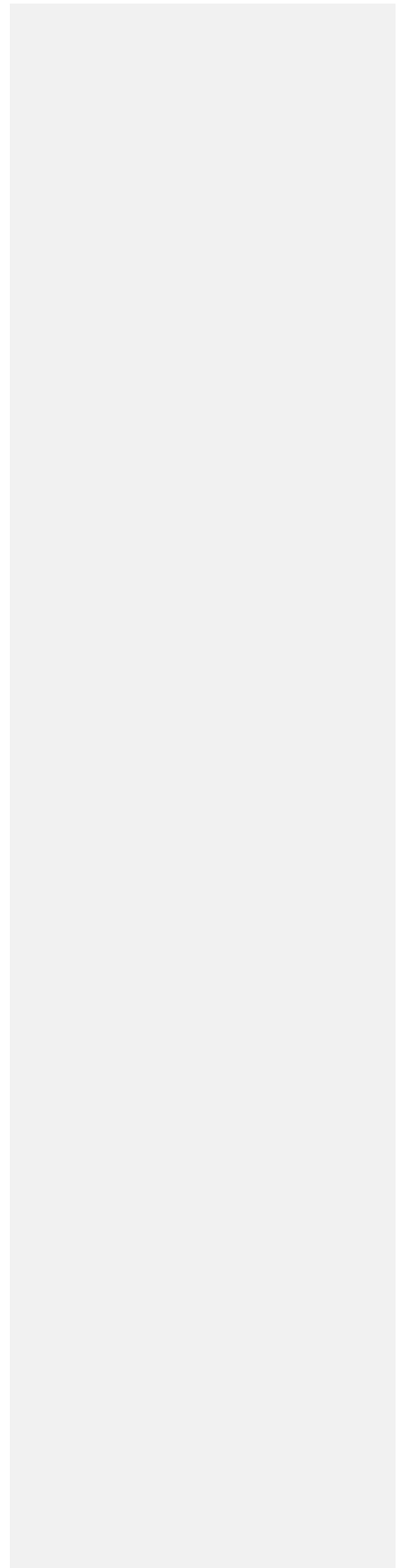
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4. Environmental and Social Management System (ESMS)

Please describe if ESMS of your organization has changed in any way (e.g. establishment of a new division for environmental and social management) since JICA's appraisal.



APPENDIX A

Questionnaire Challenges of JICA Two-Step Loan Practices in SMEs

1. The ownership form of your business is

Sole proprietorship

Partnership firm

Private Company Limited

2. Which industry sector are you involved in?

Manufacturing

Labor intensive works

Wholesale

Retail

Services

3. In which year did you register your business at SMEs center?

Before 2005

2006-2010

2011-2015

4. How many work forces do you currently employed?

1 to 30 workers

31 to 50 workers

51 to 300 workers

5. What is your business initial capital?

5 -20 Million

21-50 Million

51-100 Million

101-200 Million

201-300 Million

301-400 Million

401-500 Million

6. Where did you get JICA SME TSL loan information?

Newspaper

Pamphlet

Online

Friends/ Relatives

Face to face announcement from bank's staff

7. For which source did you borrow for your business expansion and /or working capital?

KBZ Bank

AYA Bank

MAB Bank

CB Bank

MCB Bank

SMIDB Bank

8. Which term of loan did you borrow for your business expansion?

Less than one year

Between one to three years

Above three years

9. Which term of loan did you borrow for your working capital?

Short Term Loan

Medium Term Loan

Long Term Loan

10. What is the major challenge on JICA SME TSL Financing?

	<input type="checkbox"/> Strongly Disagree	<input type="checkbox"/> Disagree	<input type="checkbox"/> Neutral	<input type="checkbox"/> Agree	<input type="checkbox"/> Strongly Agree
Not enough real estate collateral					
Easy to provide necessary a lot of legal documents for JICA TSL					
Cost of funding is less than expected which compare to normal SME's loan					
Faced with issues which SMEs can't provide audited financial statement for JICA TSL					
Loan Organization, Assessment and Approval process are difficult to finish					

11. What is the major challenge on the Loan Processing Cost?

	<input type="checkbox"/> Strongly Disagree	<input type="checkbox"/> Disagree	<input type="checkbox"/> Neutral	<input type="checkbox"/> Agree	<input type="checkbox"/> Strongly Agree
Lawyers' fee is not affordable for SMEs					
Appraisers fees charges is not convenience					
Stamps Duties fees is rather expensive for SMEs					
SME don't want to pay insurance fees for getting loan					
SME think immovable fees is not concerned for getting loan					
When SME apply loan movable fees is rather expensive					

12. What is the major challenge on Loan Process?

	<input type="checkbox"/> Strongly Disagree	<input type="checkbox"/> Disagree	<input type="checkbox"/> Neutral	<input type="checkbox"/> Agree	<input type="checkbox"/> Strongly Agree
Bank does not deliver clear messages and information on origination requirement					
Bank takes too long for assessment of credit worthiness					
Bank takes too long for approval					
Bank often ask undefined additional requirement					

13. What is the key underwriting requirement for JICA SME TSL?

	<input type="checkbox"/> Strongly Disagree	<input type="checkbox"/> Disagree	<input type="checkbox"/> Neutral	<input type="checkbox"/> Agree	<input type="checkbox"/> Strongly Agree
Physical Collateral is burden for SMEs					
Legal Document which relates to Business is not convenient for SMEs					
Audited Financial Statements are not always prepared for SMEs business					
The experiences in business is one of the difficulty for getting loan					
Business Plan					

14. Challenges on Proportion to Use of Fixed Assets

	<input type="checkbox"/> Strongly Disagree	<input type="checkbox"/> Disagree	<input type="checkbox"/> Neutral	<input type="checkbox"/> Agree	<input type="checkbox"/> Strongly Agree
Fixed assets portion 80% which relates to infrastructure is appropriated with business types.					
Granted loan portion 80% for fixed asset is sufficient for business requirement assets.					
Adjusted in portion for fixed assets (80%) requirement would be more advantaged for SMEs. (For example 80% to 65% portion for fixed assets purchasing).					
Financing for fixed assets purchasing is more important than financing for working capital.					
If term of loan for fixed asset is long-term loan, it is more appropriate for SMEs business expansion.					

15. Challenges on Proportion to Use Working Capital

	<input type="checkbox"/> Strongly Disagree	<input type="checkbox"/> Disagree	<input type="checkbox"/> Neutral	<input type="checkbox"/> Agree	<input type="checkbox"/> Strongly Agree
Working capital portion 20% which relates to JICA guideline is appropriated with business types.					
Granted loan portion 20% for working capital is sufficient for business requirements.					
Adjusted in portion for working capital (20%) requirement would be more advantaged for SMEs. (For example 20% to 45% for working capital).					
Financing for working capital is more important than financing for fixed assets purchasing.					
If term of loan for working capital is short-term loan, it is more appropriate for SMEs sector.					

16. What is the major challenge to get two-step loan from PFIs which relates to banking services and procedures?

	<input type="checkbox"/> Strongly Disagree	<input type="checkbox"/> Disagree	<input type="checkbox"/> Neutral	<input type="checkbox"/> Agree	<input type="checkbox"/> Strongly Agree
PFIs always provide and support banking knowledge and clear messages for TSL on time.					
Due to delay in PFIs' banking procedures, JICA TSL is difficult to get from PFIs.					
JICA TSL could not get on time due to PFI's credit approval process take long time.					
SMEs could not get TSL from PFI's when PFI requested to provide restricted collateral requirement.					
As per each PFI's requirement, the frequency of loan repayment period is different which challenges for SMEs. (For example, monthly payment, quarterly payment, etc.,)					