YANGON UNIVERSITY OF ECONOMICS

DEPARTMENT OF COMMERCE

MASTER OF BANKING AND FINANCE PROGRAMME (MBF)

INFLUENCING FACTORS ON CUSTOMER CHOICE OF LOAN PRODUCTS OF MYANMA ECONOMIC BANK (MEB)

OHNMAR THEIN

(MBF-5th BATCH)

DECEMBER, 2019

YANGON UNIVERSITY OF ECONOMICS

DEPARTMENT OF COMMERCE

MASTER OF BANKING AND FINANCE PROGRAMME (MBF)

Influencing Factors on Customer Choice of Loan Products of

Myanma Economic Bank (MEB)

Supervised by

Submitted by

Daw Yee Yee Thein

Ohnmar Thein

Associate Professor

Roll No. 45

Department of Commerce

MBF- 5[th]Batch

Yangon University of Economics

2017-2019

ACCEPTANCE

Accepted by the Board of Examiners of the MBF Programme, Department of Commerce, Yangon University of Economics, in partial fulfillment for the requirements of the Master Degree, Master of Banking and Finance(MBF).

Chairman

Dr. Tin Win

Rector

---------------------------------	--------------------------
(Supervisor)	(Examiner)

---------------------------------	--------------------------
(Examiner)	(Examiner)

---------------------------------	--------------------------
(Examiner)	(Examiner)

December, 2019

ABSTRACT

This study focuses on the influencing factors affecting on loan product choice offered by Myanma Economic Bank (MEB). The aims of this study are o identify the loan services in MEB and to analysis the influencing factors on customer choice for loans of MEB. Structured questionnaire with 5-point Likert scale is used in order to collect primary data. Simple random sampling method is used in this study. 120 loan customers out of 186 from MEB are chosen as the sample population. The survey data show that most of the SME owners are middle aged people and they are using MEB loans for 2 or 3 years. There are four independent variables namely interest rate, collaterals, accessibility and repayment. Dependent variable in this study is SME loan choice decision. The regression result showed that repayment and accessibility have the strong positive relationship on loan choice. In additions, the result proved that accessibility has the strongest influence on loan choice. Thus, Myanma Economic Bank should focus on loan accessibility in order to get more customers.

ACKNOWLEDGMENTS

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

Page

ABBREVIATIONS

SMES   Small and Medium Enterprises

MEB   Myanma Economic Bank

JICA   Japan International Cooperation Agency

PFI   Public Finance Institution

SPSS   Statistical Package for the Social Sciences

CHAPTER 1

INTRODUCTION

The Small and Medium Enterprises (SMEs) play a vital role in the development of the country's economic growth. SMEs assist in regional and local development as they accelerate industrialization in rural areas by linking them with the more organized urban sector. This helps achieve fair and equitable distribution of wealth by regional dispersion of economic activities. (Berger and Udell 2006)

SMEs generally face difficulties in obtaining finance with lack of collateral and insufficient documents to support loan application. According to Airs (2007), SMEs are vital for economic growth and development in both industrialized and developing countries because they playa key role in creating new jobs. Financing is necessary to help them set up and expand their operations, develop new products, and invest in new staff or production facilities. Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there come at times for all developing SMEs when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit.

Small and medium enterprises (SMEs) share the biggest part in Myanmar economy in terms of number, contribution to employment, output, and investment. Myanmar economic growth is thus totally dependent on the development of SMEs in the private sector. Today, the role of SMEs has become more vital in strengthening national competitive advantage and the speedy economic integration into the ASEAN region. Small and medium enterprises (SMEs) share the biggest part in Myanmar economy in terms of number, contribution to employment, output, and investment. Myanmar economic growth is thus totally dependent on the development of SMEs in the private sector. Today, the role of SMEs has become more vital in strengthening national competitive advantage and the speedy economic integration into the ASEAN region. (Kyaw, 2008)

Every small business needs financial assistance at some point. Most Micro, Small and Medium Enterprises (MSMEs) usually require some sort of financial assistance when they are moving up the growth curve. The money may be needed for purchasing essential equipment, upgradation of infrastructure or for meeting operating expenses. Where the money comes from is totally the discretion

of the owner and his/ her priorities. Many different businesses have the option of procuring financing from various borrowing instruments.

Myanma Economic Bank (MEB) was established on 2nd April 1976, one of the largest state-owned banks, originated from the State Commercial Bank (SCB) founded in 1954. MEB operates both domestic and foreign banking services besides its major function of commercial banking services with its network of (309) bank branches. To implement Myanmar 12 point economic policy and investment policy, MEB is developing two policies. Firstly, MEB is offering loans to develop country's SME sectors. Secondly, MEB helps for the loans to all SMEs nationwide in order to harmonize the country's economy. The bank prioritizes services focusing on export and having a direct effect on economic development, and SMEs what the state and regional governments recommended.Myanma Economic Bank, teaming up with six private banks will give K30 billion loans to small and medium enterprises (SMEs). The country's SMEs can acquire loans from the Myanma Oriental Bank, Ayeyawady Bank, from Co-Operative Bank (CB), commonly known as CB Bank, the Myanmar Citizens Bank, the Kanbawza Bank and the Small and Medium Industrial Development Bank under the Credit Guarantee Insurance (CGI) system.(Myanma Economic Bank, 2019)

1.1   Rationale of the Study

Micro, small and medium enterprises (MSMEs) share the biggest part in Myanmar economy in terms of number, contribution to employment, output, and investment. Myanmar economic growth is thus totally dependent on the development of MSMEs in the private sector. MSMEs have to deal with a number of constraints that hinder their development potential, such as the shortage in power supply, unavailability of long-term credit from external sources and many others. Among them, the financing problem of SMEs is one of the biggest constraints.

Over 90 percent of businesses in Myanmar are MSMEs and most of them are facing difficulties in raising capital, acquiring technology and access to the market. Some businesses complained that banks' loans are difficult to acquire. Lack of enough financing could lead to slowdown in MSME growth and this will hurt country's economy and development. Thus, MSME loans become vital in order to achieve economic development.

Creating effective channels to obtain capital, which is considered the most vital need among MSMEs, remains difficult and MSMEs are faced with numerous obstacles in order to fulfill the

financial requirements. The government's ability to support the country's SME's acquisition of capital will ultimately determine if they will be successful or fail to compete against their stronger regional rivals.

Currently, customers and relatives or friends are clearly the most common source of finance for MSMEs. Key factors are trust and longstanding relationships. There are many banks offering SME loans but there are no clear about influencing factors on SME owners to take loans.

Myanmar Economic Bank is a state-owned and it has started giving MSME loans since 2015. MEB has provided Ks10 billion MSME loans to 246 enterprises and the loans were made from public savings. In providing the loans, MEB give priority to manufacturing production, export sectors, import substitution, recycling, and energy saving sector, technology-based manufacturing and services. Loans to the relevant businesses will be capped at K300 million with interest of 9 percent a year for tenures of three to five years (MEB, 2019). Many MSMEs try to get finance from other sources while some MSMEs take loans from banks. Thus,Myanmar Economic Bank has to find out the influencing factors on MSMEs that are currently getting loans formMyanmar Economic Bank in order to attract more borrowers. By studying those influencing factors, banks can create attractive strategies for MSME loans.

1.2 Objectives of the Study

The objectives of the study are as follows:

1) To identify the loan services in MEB

2) To analysis the influencing factors on customer choice for loans of MEB

1.3   Scope and Method of the Study

This study only focuses the influencing factors on taking loan products from Myanma Economic Bank. In this study, descriptive statistics research method is used. Both primary and secondary data are used in this study. Simple random sampling method is applied to collect primary data. To collect the primary data, structured questionnaire with 5- point Likert scale is used.120 loan customers out of 186 from MEB are selected as sample population approximately 64 percent of total population. Secondary data are obtained from the MEB bank's annual reports, previous research papers, and text books and online sources.

1.4   Organization of the Study

This thesis is composed of five chapters. Chapters one is an introductory one that presents rationale of the study, method of the study, scope and limited of the study and organization of the study. Chapter two presents with literature review of SME Loan. Chapter three describes profile of Myanma Economic Bank and Loan Products and Service. Chapter four presents the analysis of influencing factors on loans. Chapter five presents the conclusion, suggestions, and needs for future research.

CHAPTER 2

LITERATURE REVIEW

This chapter presents the literature review related to this study. In additions, it includes the conceptual framework for this study.

2.1   SMEs

There has not been a universal definition of SMEs. SMEs are often defined by number of employees, total capital, total sales turnover, or total asset. In the European Union, the upper limit is 250 employees and Euro 50 million-turnover or Euro 43 million-total balance sheet (OECD, 2005). In the US and Canada, SMEs are enterprises having less than 500 employees (Hammer et al., 2010). China's definition of SMEs is more complex. The SMEs criteria vary widely across industries whereby some industries are enterprises with less than 300 employees, others might have up to 3000 (Wang, 2008). Singapore definition of SMEs is quite simple: below 200 employees or less than 100 million dollars of annual sale turnover. Malaysia and Thailand, on the other hand, set the criteria differently for different sectors. Table 2-1 presents the definition of SMEs in selected countries.

The term SMEs has been severally defined by institutions, regions and based on number of people employed, sales or assets (Mensah, 2004). According to the World Bank, a venture employing up to 300 people with US$15 million in annual revenue, and US$15 million in assets is an SME. But to the Inter-American Development Bank, an SME is a business employing up to 100 employees and earning not more than US$3 million in revenue (Dalberg Global Development Advisors, 2011). Furthermore, European Union defines SMEs as a venture that employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. Small and medium enterprises are thus defined as firms with 10 to 250 employees, as and more than 10 million euro turnover or annual balance sheet total (Akorsu and Agyapong, 2012).

The UNIDO defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries. The definition for industrialized countries is given as follows; a) Large - firms with 500 or more workers; b) Medium - firms with 100-499 workers; c) Small - firms with 99 or less workers and the classification given for developing countries is as follows; a) Large -firms with 100 or more workers; b) Medium - firms with 20-99 workers; c) Small - firms with 5-

19 workers; d) Micro - firms with less than 5 workers (UNIDO, 1999). It is clear from the various definitions that there is not a general consensus over what constitutes the SME (Ayyagari et al, 2006). Definitions vary across industries and also across countries. SMEs include a wide range of businesses, which differ in their dynamism, technical advancement and risk attitude. Many are relatively stable in their technology, market and scale, while others are more technically advanced, filling crucial product or service niches. Others can be dynamic but high-risk, hightech "start-ups" (Mensah, 2004).

2.2 Influencing Factors of Loan Choice

There are many influencing factors for customers who want to take SME loans. By considering those factors, SMEs decide which loan is useful for them.

2.2.1 Interest Rate

In the area of financial sector of economy, „interest rate" is a common phenomenon, described as amount charged which is expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates typically noted on an annual basis, known as the annual percentage rate (APR). The assets borrowed could include, cash, consumer goods, large assets, such as a vehicle or building. Interest is essentially a rental, or leasing charge to the borrower, for the asset's use. When the borrower is a low-risk party, they will usually be charged a low interest rate; if the borrower is considered high risk, the interest rate that they are charged will be higher. However, interest is charged by lenders as compensation for the loss of the asset's use. In the case of lending money, the lender could have invested the funds instead of lending them out. With lending a large asset, the lender may have been able to generate income from the asset that they should have decided to use themselves.

As applied so in the financing sector, MFIs offers financial facilities to SMEs in terms of loans and non-financial services like; business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted to them (Quaye, 2011) cited by Asantey and Tengey (2014), where they required to pay an extra amount „interest" after receiving the loans for their businesses. However, SMEs faces difficulties in accessing bank loans as a consequence to the high risk, low profitability and lack of collateral required by banks. In the ears and eyes of lenders; loan's interest rates are not compatible with the performance of the SMEs and that these MFIs charge high interest rates and hence SMEs tend not to be profitable (Harvie, 2010).

Larger firms usually comply with higher disclosure requirements to a greater extent than SMEs because of their access to a broad range of external funds including bonds, equity and loans (Zhi Wang; 2010). All in all however; the general observation is that, financial institutions charge higher interest rates to SMEs than to bigger companies in order to compensate for the higher costs of information collection, the smaller volume of external financing and the greater risk of failure.

Kimutai (2003) defines interest rate as the price one pays for using borrowed money (loans).In money – monetary economies money creates claims because it is an asset, store of value as well as a medium of exchange. Therefore those who lend money expect to be compensated for handing over their claims for the period of the loans to those who borrow money. This interest rate also covers the expose to credit risk by lenders. Therefore interest rate can be defined as the price lenders expect (and borrowers pay) for exchanging current claims for greater future claims to goods and services. Interest rates represent the cost of money.

Ingram (2011) states that interest rates are important because they control the flow of money in the economy. High interest rates curb inflation but also slow down the economy. Low interest rates stimulate the economy, but could lead to inflation. When interest rates are high, people do not want to take loans out from the bank because it is more difficult to pay the loans back, and the number of purchase of real assets goes down. The opposite is also true. The effects of a lower interest rate on the economy are very beneficial for the consumer. When interest rates are low, people are more likely to take loans out of the bank in order to pay for things like houses and cars. When the market for those things gets strong, price decreases and more people can purchases these things. This also bodes well for investors, who perceive less risk in taking out a loan and investing it in something because they would have to pay less back to the bank. When people do not have to spend as much money on bank payments, they have more disposable income to put toward things they want to purchase. These effects, although certainly not direct, are enough to stimulate the market when interest rates are low. Low interest rates are not beneficial for lenders, who are seeing less of a return on their loan than in times when interest rates are high. This means that banks may find themselves having to lower the interest rates accrued on money deposited in the bank in order to maintain a steady profit.

However, interest rates do not really have an effect on how much people save, because an increased amount of disposable income means that they are more likely to spend it than to save it. When interest rates increase, though, foreign investment can increase because people outside of the country want a larger return for their investment and they are more likely to get it in a state of high interest rates. This causes more demand for the dollar, driving up its value in the international market. The opposite happens, though, when the interest rates are decreased. Although much of it is contained

within consumers' perception of the economy and their income, interest rates can drive up consumer spending, investment and the amount of loans people take out of the bank.

2.2.2 Repayment

Various scholars have examined loan repayment and non-repayment (default) and their determinants in the past. Several factors have been identified in different studies as having an impact on loan repayment. Numerous factors such as interest rates, age, marital status, location,high interest rate, inadequate loan sizes, poor appraisal, lack of monitoring, and improper client selection are said to impact on the likelihood of default. However, according to Atsmegiorgis (2013) the factors affecting repayment performance can be grouped into four factors namely individual/borrowers factors, firm factors, loan factors and institutional/lender factors. Nawai and Shariff (2010) also posited that the underlying repayment factors can be basically classified under four headings, namely, individual/borrower, firm, institutional/lender, and loan characteristics affecting repayment performance. Conversely, an alternative classification by Roslan and Karim (2009) identified three broad categories as characteristics of the borrower, characteristics of the firm, and attributes of the loan.

Individual/borrower's characteristics include the age of borrower, gender, level of education, business experience, household size, credit use experience, household income, non- business income, type of business activity, and amount of business investment (Nawai and Shariff, 2010). Several studies have established the impact of individual factors on loan repayment. For instance, Nawai and Shariff (2013) established that the factors affecting the ability of the borrowers to repay their loans are business factors, borrower's attitude towards their loans, other debt burden, amount of loan received, business experience, business formality and family background. A study by Ochung (2013) established that there was a significant relationship between individual borrowers' factors and the loan repayment among customers of commercial banks in Kenya. Further, Njangiru, Maingi and Muathe (2014) also revealed statistically significant results, for borrowers' characteristics effect to loan repayment and sustainability. As such, the study established that due to problems of high risk and high cost of borrowing, uncertainty of repayment capacity on the rural borrower has been reported high due to irregular income streams.

Loan characteristics include the loan size, repayment period, collateral value, number of installments, and application costs among others. Past studies have established the influence of loan factors on loan repayment (Nawai and Shariff, 2010). Atsmegiorgis (2013) revealed that the loan repayment rate was significantly related with loan size, loan type, and previous loan experience, purpose of loan, educational level and type of collateral offered. The study recommended that

commercial banks should design loan strategies giving particular emphasis on these factors while they are giving loans to their customers. In addition, Kibosia (2012) established that loan defaults by SMEs has significantly been increasing and a number of determinants affected the loan defaults key among them interest rates, type of loan, repayment period and economic conditions have also contributed to loan defaults by SMEs.

Firm/Enterprise characteristics are the firm specific factors that influence loan repayment by small and medium enterprises. Some of the characteristics of the firm/project include ownership structure, type of firm, and distance between firm location and the lending bank (Nawai and Shariff, 2010). Kohansal and Manosoori, (2009) established that the amount of loan approved or received, that is loan size, could have a positive effect on repayment performance. A study by Ochung (2013) established a significant relationship between firm/group factors and the loan repayment among customers of commercial banks in Kenya.

Lender/Institutional characteristics are the factors within the financial institution that may influence loan repayment. Institutional/lender factors include the time lag between loan application and disbursement, interest rate, access to business information, access to training on loan use, cooperative membership and penalty for lateness to group meetings (Nawai and Shariff, 2010).A study by Kibosia (2012) established that poor credit analysis and monitoring and economic conditions also contributed to loan defaults by SMEs hence banks should put more emphasis on credit risk management, training of staff and adopt credit scoring in vetting of SME customers loan requests. Korankye (2014) also established that the causes of loan default to included inadequate loan sizes, poor appraisal, lack of monitoring, and improper client selection and recommended that financial institutions should have clear and effective credit policies and procedures and must be regularly reviewed.

2.2.3 Collaterals

Collateral refers to security or guarantee for the loan borrowed. Collateral acts as an indication enabling the bank to attenuate or eliminate the adverse selection problem caused by the existence of information asymmetries between the bank and the borrower at the time of the loan decision. Although bank knows the credit quality of the customers, the collateral helps to alleviate moral hazard problems once the loan has been granted. Consequently, problem of moral hazard faced by the bank in lending could be restrained by having collateral. As stated by Aghion and Bolton (1992), collateral can therefore be seen as an instrument ensuring good behavior on the part of borrowers, given the existence

of a credible threat. Hasnah et al. (2012), has found that character/management plays a significant role on the probability of loans approved by credit officers.

In the case of Malaysia, SME financing is also relatively small, and thus, could not be the major source of income, or deposit, for the financial institutions. Moreover, it is difficult to obtain information and supportive documents to justify the validity and creditability of SME businesses since most SMEs do not keep proper records of their business transactions. Banks are starting point of external credit but they are reluctant to lend to small and medium enterprises (SMEs) due to the high credit risk involved. In view of that, Credit Guarantee Corporation (Malaysia) Limited (CGC) was set up to assist SMEs to secure loans from financial institutions in Malaysia. CGC is the only issuer of credit guarantees to SMEs, the performance of CGC directly reflects the availability of credit guarantees to SMEs. In 2006, CGC has shown commendable progress in providing wider credit enhancement products, advisory services on financial and business development and credit information services besides provider of credit guarantees. (www.bnm.gov.my)

Collateral is less likely to be required for older, more established firms. Collateral also may be used to lessen some of the moral hazard related monitoring issues in business lending. As displayed by (Boot, Thakor & Udell, 1991), even after accounting for the cost of repossessions, banks may use collateral to reduce moral hazard problems when lenders are able to take unobservable ex post actions that affect project payoffs.

The use of collateral on loan contract is a widespread phenomenon by banks while lending to SMEs. Davydenko and Franks (2008) found that 75.7% loans are secured in France and while they observed that 88.5% loans are secured in Germany. Similarly, Degryse and Cayseele (2000) show that 26% of loans are secured in Belgium. In the case of the USA, Steijvers et al. (2010) find that about 87% loans are secured with various types of collateral and with some covenants. Menkhoff et al. (2012) find that around 15% of loans are secured in Thailand. In 2007, the World Bank conducted an enterprise survey among 560 small and medium enterprises in Bangladesh to understand the collateral requirements by the commercial banks. The survey results show that 67.14 per cent of SMEs provided land and buildings as collateral to get access to the bank loans. On the other hand, about 43 per cent SMEs provided personal assets and about 29 per cent firms provided equipment and machinery as collateral. However, only 3.39 per cent firms pledged accounts receivables as collateral (World Bank Enterprise Survey, 2007). Hence, the results suggest that commercial banks in Bangladesh are comfortable to provide SME loans when they are secured with the fixed assets as collateral.

With regards to the less developed economies, Feder et al. (1988) analyses the use of collateral and access to credit in three developing countries (India, Thailand and Korea) and it is found that political, social and legal issues may influence the use of collateral in Korea. On the other hand, pledging collateral is legal in Thailand and India. However, excessive use of land collateral certainly reduce bank creditworthiness assessment cost for the banks. In Thailand, the use of collateral can increase the access to credit by 40% in compared to loans those without any collateral. In examining the potential substitutes for collateral requirements in Thialand, Menkhoffet al. (2012) find that about 11% of the borrowers are credit constraints and rest of the borrowers borrow without any collateral. La Portaet al. (2003) show that the relationship banking can reduce the use of collateral and similarly loans provided based on the relationship lending are more risky in the Mexican loan market. Godlewski and Weill (2011) examine the effect of information asymmetry on loan spread and collateral in 31 countries where about half of them are developed countries. The result show that there is a positive relationship exists between the use of collateral and loan spread and hence, validating the observed risk hypothesis.

There is a wide array of research shows that collateral is acting as a disciplinary role for the borrowers, and it can solve the moral hazard problem of the loans (Chakraborty and Hu, 2006; Menkhoff et al., 2006; 2012; Brick and Palia, 2007). On the other hand, research based on ex-ante information shows that the collateral can reduce the adverse selection problem of the loans (Godlewski and Weill, 2011; Jimenez and Saurina, 2009; Hainz et al., 2013; Jimenez et al., 2006; Lehmann and Neuberger, 2001). However, Blazy and Weill (2013) did not find any evidence that the collateral can reduce the ex-ante and ex-post information asymmetry, and hence asking for collateral is not due to information asymmetry, but it may be due to bank internal policy while lending to fi rms. Jimenez and Saurina (2004) find that the loans given based on collateral security are more ex-post riskier than the loans given without any collateral. They infer that due to the collateral, banks are less restrictive to evaluate the quality of the loans and as a result, their default rates are higher than the non-collateralized loans.

Collateral is seen as a signaling device for the banks to know about the borrowers' quality and hence, pledging collateral can reduce the credit risk of the loans by increasing access to the credits. On the other hand, it is also possible that poor borrowers will provide more collateral because of their capital constraints and also for credit rationing from other sources (Gama and Duarte, 2015). Information asymmetry is even acuter in the segment of SMEs and hence, pledging collateral is higher for the small and medium firms than the large firms due to inability to show their credit worthiness (Chakraborty and Hu, 2006; Grunert and Norden, 2012). Gama and Duarte (2015) find that as there is an incentive for collateralized borrowers to act in the best interest of the banks and therefore, pledging

collateral can increase access to finance for small businesses. Menkhoff et al. (2012) examined the issue of collateral in the context of less-developed country (Thailand) and show that there is a positive relationship exists between pledging collateral and access to credit. Neuberger and Rathke-Doppner (2015) also found similar results in the German market and conclude that when firms pledge collateral, it increases access to credits from banks. On the other hand, there is empirical research those do not find any relationship between pledging collateral, and access to credits (Kundin and Erecgovac, 2011; Ono and Usegi, 2009).

The literature also shows evidence that by pledging collateral borrowers will show their ability of repayment, and they can ask for bank loans with lower interest rates. Gama and Duarte (2015) and Comeig et al. (2015) proposed that when borrowers are pledging collateral they can access loans with lower interest rates and hence; they argue that quality borrowers pledge more collateral to avail loans with lower interest rates. Blazy and Weill (2013) find that high collateral measures the poor quality of the borrowers and hence, interest rate increases with the amount of collateral. Theory based on the observed risk hypothesis is also suggesting similar results. It is found that when information asymmetry is lower, in that case, banks can measure the riskiness of the borrowers more accurately and therefore, banks will ask for higher collateral and also higher interest rates from the risky borrowers. Therefore, a positive relationship exists between collateral, interest rates and credit risk of the loan (Godlewski and Weill, 2011; Brick and Palia, 2007; Jimenez et al., 2006). Brick and Palia (2007) observed that loans with higher levels of collateral charged with 200-400 basis points more interest rates than the loans with lower or no collateral. Therefore, it shows that when the information gap is lower banks can evaluate the riskiness of the firm with more accuracy and if firms are riskier, they are charged with more interest rates.

Beck et al. (2011) find that foreign banks and the large public banks tend to provide the loans with collateral and giving less importance to the soft and relationship based information. Beck et al. conclude that regardless of the bank ownership type, large banks use more arms-length lending, and so they ask for more collateral from the SMEs. In contrast, Jimenez et al. (2009) show that technology based credit scoring of large banks reduces collateral requirements for SMEs due to a strict screening process by the credit scoring models. Mian (2003) stated that government-owned banks have less screening and monitoring processes for loans, and therefore, they require higher collateral. Likewise, government-owned banks have more default rates on the loan contract which are higher than the private or foreign banks. Conversely, it is possible to get loans with lower interest rates from the public banks as a result of political and hidden motives for lending to firms (Berger et al., 2008; Cole, 2009; Sapienza, 2004). With respect to foreign banks, it is stated that they are situated far from the local

community, and it is difficult for them to monitor the loans by keeping a close contract with the borrowers and as a result; foreign banks ask for more collateral while lending to SMEs (Mian 2009). Thus, depending on the bank ownership structure and bank size, collateral requirements are also different based on banks internal policy, and it exerts different outcomes in terms of access to credit and interest rates for SMEs.

A large number of studies show that the effect of market competition on collateral requirements for SMEs in connection with access to credit and interest rates. In examining the effect of competition, Voordeckers and Steijvers (2006) find that when several banks are competing for the same borrowers, it reduces the collateral requirements for the borrowers. Since, to attract the borrowers to be with their banks, banks need to provide their best offers, and it will ultimately reduce the collateral requirements. Menkhoffet al. (2006) find that when a borrower has the opportunity to borrow from different banks, it increases the bargaining power of the borrower and it results with a lower interest rate on the loan contract. Jimenez et al. (2009) find that in a competitive market, banks ask for more collateral than it is in the concentrated market. The reason is that in a competitive market banks want to develop their holding power in the loan contract due to excessive switching behaviour of the borrowers. Hainz et al. (2013) argue that as the competition increases, banks prefers to use their best screening process due to a large number of lenders and as a result, strict screening process reduces the collateral incidence. They also find that the market competition reduces the interest rates on the loan contract due to a tighter process of the loan. Jimenez et al. (2009), Chakraborty& Hu (2006), Kozubíková et al. (2015) also document a positive relationship between market competition and collateral requirements for small business lending.

2.2.4 Accessibility

Access to Credit by SMEs refers to the ease with which SMEs can secure financial assistance or loans from lending institutions (Kitili, 2012). SMEs' access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs. The latter functions take place within a particular socio-economic context, which is in fact determined by the historical patterns of financial intermediation (Braverman&Guasch, 1990). Accessibility to credit is significant for SME's seeking to grow and expand their businesses Bank credit usually comes in the form of a small business loan. Businesses often use these lines of credit to expand, explore new areas of their industry, acquire another company, or pay employees. These are essential to the overall success of a business. Lack of access to credit is indicated as a key problem for SMEs

worldwide countries (Vera &Onji, 2010). Access to Credit by SME's is, therefore, vital for the growth and development of SMEs. The availability of external finance directly impacts the productivity and growth of this industry (World Bank 2012). It is a well-recognized all over the world that banks are the main external capital provider for SMEs sector in both developed and developing countries (Vera &Onji, 2010).

According to Kung'u (2011) businesses face numerous obstacles that hinder them from accessing credit. According to the authors this obstacles include poorly segmented nature of financial systems that raises transaction costs and other financial services.The author further highlighted that most financial institutions have listed SMEs as un-creditworthy. Atieno (2009) on her part suggested that strict lending policies have also worsened the problem of credit accessibility to SMEs.

According to Wanjohi (2009) argued that the problem of lack of accessibility by SMEs stemmed from formal lending organization enlisting SMEs as uncredit worthiness. The author further argued that the emergence of lesser formal lending institutions such as microfinance institutions and SACCOs cannot solve the problem of lack of credit accessibility by the SMEs. Microfinance institutions and SACCOs face limited growth because of lack of adequate funds themselves therefore they can only offer short terms loans since they have no options of refinancing such as from central bank.

Oliveira and Fortunato (2006) also noted that SMEs faces many obstacles especially financial constraints which have affected their performance to a greater extent. Lacksof finance resources have limits the ability of SMEs to exploit economies of scale in the same way multinationals firms can. He suggested that startups do not have enough cash flow hence are not able to rely on commercial banks for financing therefore they left with the option of using own saving or financing from the relatives and friends.

Obtaining credit facilities on commercial terms along with competition for both funding and clients, requires on one hand, SMEs charging clients the full cost of the delivered services, while on the other hand managing cost structures to ensure sufficient returns to pay for the more expensive commercial funds. This includes effectively managing risks, having good corporate governance, and increasing the level of transparency in both individual SME and the industry as a whole. SMEs need the cooperation of all market participants to ensure the continued growth of microfinance and thus the continued impact on poverty alleviation in developing countries (Reille and Forster, 2008).

A number of studies namely Onugu (2005), Wawire and Nafukho (2010), identified lack of focus, reliance on one or two markets, improper book keeping and records, inadequate market research,

poor business strategy and competition as some of the factors that place SMEs in bad position as far as credit accessibility is concerned. According to Heffernan (2006), SMEs face a range of risks that affect their choice of financing: credit risk (counterparty risk), liquidity risk (funding risk), settlement risk (payment risk), (duration mismatch risk), capital risk (gearing risk), operational risk (risk of financial losses brought on by for example failure of internal systems, fraud, or loss of key employees, and so on) and sovereign and political risks.

Ochanda (2014) in his study on credit accessibility found that financial resources affected the performance of 92% of the firms studied when the measure of growth is profitability. The SMEs cited high interest rate and collateral demand as some of the factors that hindered most SMEs from accessing the credit from formal lending institutions. The study also found that innovation was important in the growth of SMEs.

Muguchu (2013) study on relationship between credit and financial performance of SMEs used both inferential and descriptive analysis in conducting the study. The study sampled 40 SMEs that operated within the CBD in Nairobi. Similar to other studies access to credit was found to positively affect performance of SMEs. On the other hand, Byaruhanga (2012) findings further revealed that credits terms and accessibility influenced the performance of agricultural cooperatives.

The accessibility of finance by SMEs has stirred attention worldwide for many decades as access to finance is important for the growth of SMEs (Osano&Languitone, 2016). Financial problem has long been one of the stout challenges entrepreneurs faced (Legas, 2015; Hoang &Otake, 2014). Supply and access to credit are the most notable constraint, with access to capital and limited financing options emerging as the most significant challenges in Ethiopia (Monitor Group, 2014). The study by (Assefa, Zerfu, &Tekle, 2014) reveals that access to finance tops the constraint list where 37.7 percent of the MSEs reported it as a key constraint. Entrepreneurs typically start businesses primarily through their own savings because of limited access to startup capital (Kusi, Opata, &Narh, 2015) and existing firms finance their business from internal sources such as owners personal savings and retained profits (Wu, Song, & Zeng, 2008) to informal types of financing such as business credit cards, and trade credit (He & Bake, 2007) and few of them from formal external sources of financial institutions (Abdulsaleh& Worthington, 2013).The study by (Monitor Group, 2014) found retained earnings, credit cards, loan associations and investments from family and friends are the main sources of capital for small and growing enterprises. The study by (Fikadu, 2015) shows that personal saving is the major source of finance for SME. In Ethiopia, since most SMEs do not have a track record with banks, entrepreneurs are forced to borrow from informal financial markets at higher interest rates or quiet the business

(Ageba&Amha, 2003). The study by (Le, 2012) found that old firms are more likely to finance themselves through their internal sources

2.3   SME Loan Decision

Different factors influence borrower decisions in getting loans from financial institutions. These factors can be internal or external factors. Before borrowing money from institutions like banks, SME owners consider factors like prime interest rate, available loan, loan duration, repayment ability, required documentations requested by banketc (Ismail 2013). SME borrowers think their own internal assessment of their own capacity to grant loans to their customers, other literatures show that character, capacity, condition and collateral are the factors that influence loan decisions (Haron et al. 2013, Mahanty 2015, Alliance Bank 2016).

Accessibility is one of the key things that influence loan decisions by customers. Most borrowers review the products and services of bank or financial institutions. A borrower's careful and well drafted business proposal to the lender indicates the borrower's commitment and confidence about the business plan. (Alliance Bank 2016.)

Previous researches (Bopkin 2010, Prosser 2012, and Lamb 2005) show that developed economies have favorable economic, market, technological conditions as compared to developing and emerging economies whose conditions are fragile. It is therefore more likely to have favorable loans decisions for SMEs in developed economies as compared to developing or emerging economies.

Collateral is the security/guarantee firms offer to creditors to compensate the riskiness of accessing credit or loan from the lenders (Haron et al. 2013). The collateral serves as an attestation that enable banks to eliminate the adverse choice problem which result from the existence of information opaqueness between the banks and the borrowers during the time of making loan decisions. This ensures good behavior from borrowers knowing that they may lose their property upon credit default (Haron et al. 2013, Agbion and Bolton 1992).

In most emerging and some developed economies, it is much harder for SMEs to obtain any form of loan without collateral and sufficient documentations (Airs 2007). From the lenders' point of view, financing SMEs are seemly riskier due to the vagueness of the transactions as compared to larger companies (Berger and Udell 2006), therefore making collateral requirement for granting loans is very essential (Haron et al. 2013). Haron et al. (2013) also asserted that collateral is mostly required from

small enterprises and new firms but larger, old and well established firms easily get loans without collateral.

2.4   Previous Study

Hilario (2016) did the research titled "Factors Influencing Access to Finance by SMEs in Mozambique: Case of SMEs in Maputo Central Business District". The purpose of the study was to establish the factors that influence access to finance by SMEs. The research focused on a sample size of 242 SMEs. Structured questionnaire is used in order to get the primary data. He used simple random sampling method. The conceptual framework of his study was presented in Figure (2.1).

Figure (2.1) Conceptual Framework of the Previous Study
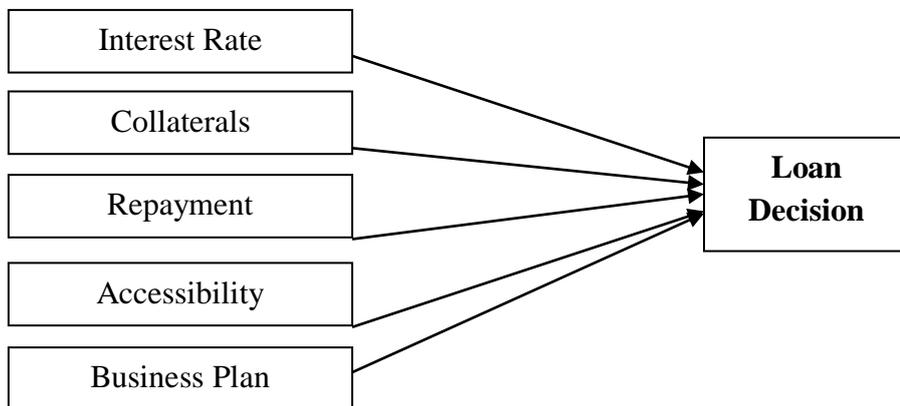
Source: Hilario (2016)

Hilario (2016) found out that interest rate and collateral requirements affect on the loan decisions of the SMEs. He suggested that financial institutions should reduce terms and policy in order to improve the loan availability for SMEs.

2.5   Conceptual Framework of the Previous Study

Conceptual framework is developed based on the above literature review and previous study of Hilario (2016). The conceptual framework for this study is presented in Figure (2.2).

Figure (2.2) Conceptual Framework of the Study

```
Collaterals  ─────────┐
                       ├──→  Loan
Repayment  ────────────┤     Decision
                       │
Accessibility  ────────┘
```
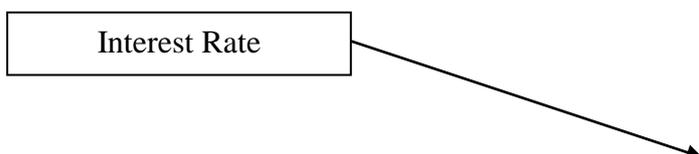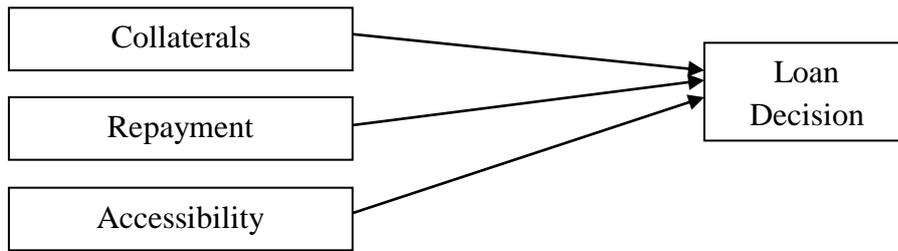
Source: Adapted from Hilario (2016)

The above conceptual framework has been developed based on Hilario (2016). There are four independent variables: interest rate, collaterals, repayment and accessibility. There is only one dependent variable: loan decision of the customers. The study finds out the relationship between dependent variables and independent variables by regression model in SPSS version 22.

CHAPTER (3)

PROFILE OF MYANMA ECONOMIC BANK

This chapter presents the profile of Myanma Economic Bank and its loan products to customers.

3.1 Profile of Myanma Economic Bank (MEB)

Myanmar Economic Bank (MEB) was established on 2nd April 1976, one of the largest state-owned banks, originated from the State Commercial Bank (SCB) founded in 1954.

In accordance with the State Commercial Bank Law, the State Commercial Bank became the first and foremost state-owned commercial bank in Myanmar with the aim to raise the entire people's economic development through the support of a nation-wide banking system. Since its establishment, the SCB extended its service areas as well as its number of branches throughout the country year by year. There were 40 SCB branches across the country in 1962.

In 1962, Myanmar economic system was changed to socialist economy and State nationalized all banks under the law of People's Bank of the Union of Burma Act in 1 967. According to that law, all the nationalized banks were merged together as a monolithic bank called People's Bank of the Union of Burma. However, the monolithic banking system was found in efficient and therefore the Bank Act of 1975 was promulgated. Only four state-owned banks namely, the Union of Burma Bank (UBB), Myanmar Economic Bank (MEB), Myanmar Foreign Trade Bank (MFFB) and Myanmar Agricultural Bank (MAB) was reorganized and came into effect from 2nd April l976 by bank act of 1975.

Though MEB was the successor of the former SCB, it could provide only domestic banking services while the MFTB and MAB rendered banking services for foreign exchange transactions and seasonal loans for agricultural development, respectively. In 1988, Myanmar has embarked on the market oriented economy and accordingly, the Central Bank of Myanmar (CBM) Law and Financial Institutions of Myanmar (FIL) Law were promulgated in 1990 in order to restructure the financial sector to be in line with the market economy. The FIL Law recognized the MEB as an existing state-owned commercial bank.

To be able to effectively support the real sector of the economy, the monetary authority is trying to change the landscape of the banking sector by enacting a new Financial Institutions Law (FIL) on 25th January 2016. The new FIL replaced the old Financial Institutions of Myanmar Law enacted in 1990. The new law contains detailed guidelines for both domestic and foreign financial institutions, covering all essential areas such as responsibilities, powers and objectives of the supervisory authority, and prudential regulations and requirements for all financial institutions. The FIL lays the foundations for promoting a more efficient and stable financial system with added supervisory power of the Central Bank of Myanmar (CBM).

3.1.1 Present status of MEB

In Financial sectors in the world, there are rapid changes regarding financial technology. Although financial infrastructure is not solidly build in MEB, as it is a state owned bank, it does not satisfy with its e-payment like ATM system,e-remittance system, e-pension payment, MEB aims for transforming its banking system from manual to real time gross settlement (CBS). Currently MEB is developing its e-payment system by cooperating with IT solution partners (MMM, Wave money, OK$).

Appropriately, MEB operates both domestic and foreign banking services besides its major function of commercial banking services with its network of (309) bank branches. (1) saving

agency, (7) remittance agency offices, (14) state and regional banking offices and (6) Head Office Department. Head Office Department include Administration Department, Accounts Department, Loans and Supervision Department, Savings and Development Finance Department, Internal Audit Department and Research, Training and Public Relations Department and Information Technology Department.

3.1.2 Vision

As a state owned financial institution, MEB aims to provide financial services to public by law, regulations and procedures that change in policy from financial sector.

3.2 Types of Loan provided by MEB

MEB provide the loans and advances. The type of Loans and advances are housing loans, commercial loans, loans to MADB, loans to SEE, loans to Nay Pyi Taw Development Committee, loans to SMIDB and loans to interbank lending. In order to promote Small and Medium Enterprises in Mynamar, Myanma Economic Bank is lending MEB MSME Loan which funds was provided by Own Funds. And Myanma Economic Bank also implement the Two-step Loan Project as both Executing Agency and PFI which funds was provided by JICA.

3.2.1 Commercial Loan

Commercial loan classified by types of business as Production, Trading, Manufacturing, Transportation, Construction and Services by taking immovable assets. It provides as a short-term funding arrangement for a company's working capital or for individual private investment. In paying off the loans, borrowers can pay back in two installments over two years, with a one year grace period if the payment program is three years.

The maximum amount of Loan is based on FSV of collateral approved by Credit Committee of Myanma Economic Bank. The interest rate for the commercial loan will be 12.5 percent per annum payable quarterly. Maturity Year is 3 year for repayment. Commercial loan is collateral based lending.

Requirement check-list for applying Commercial Loan are attached with Application form, Lease of Land, Business license, Tax Receipt for (3) Yrs, Lawyer Report, Accessor (appraiser Report), Profit & Loss, Balance Sheet, NRC , C.S.S, Photos of Collateral and Business, Certificate of non brokerage, Certificate of without Tenant, Certificate of Township Administration, Promissory Note, and Land form (105/106).

Approved by credit committee of MEB. Various loan proposals are examined by the Credit Committee. Credit Committee also supervises and monitors the credit management of the MEB.

3.2.2 MEB MSME Loan

Myanma Economic Bank is planning to lend K250 billion to local small and medium enterprises (SMEs) in 2018-19 fiscal year. MEB MSME Loan is deposit-generating loan. MEB MSME Loan will be managed by MEB under its SME loan programme. The interest rate for MEB loan is 9 percent per annum payable quarterly. Myanma Economic Bank provides SMEs loans to the following sectors; the manufacturing, production, trading, import substitution, recycling & Energy saving business and Technology based industries. SMEs that borrow from the MEB must channel at least half the funds into fixed capital and the other half as working capital. Borrowers who are able to put up property as collateral, will be eligible to a maximum of K300 million in funds. Those who do not have property will be able to get access to K20 million via the Credit Guarantee Insurance Scheme. The MEB loan term is three years with a grace period of one year and must be repaid over four installments in the last two years. If the loan term is four years, the grace period will be 18 months and there will be six repayments in the last two and a half years. And for a loan term of five years, the grace period will be two years and there will be six repayments in the last three years.

In paying off the loans, borrowers can pay back in four installments over two years, with a one year grace period if the payment program is three years. With a four year loan, borrowers will have a one and a half-year grace period, with the repayment being made in five installments over the last two and a half-years of the loan. The five year loan has a two year grace period, and the repayment must be made in sic installments in last three years.

Requirement check-lists for applying MEB MSME loan are attached with
Application form (Objective, Repayment plan, Detail Investment of fixed assets), SME Member Card by ECC, Testimonial of State & Region Government, NRC , C.S.S, Passport photo of applicant, Photos of Collateral & Business, Land form (105,106), Lease of Land/ fresh old land, Business license, Income Tax Receipt, Form (E),(VI),(XXVI), Memorandum of Association, Memorandum of Articles, Company Registration, Meeting minutes, Cash flow (Profit & Loss , Balance Sheet) , Approved by credit committee of MEB.

3.2.3　JICA (Japan International Cooperation Agency)MSME Two-step Loan

Myanma Economic Bank also implement the Two-step Loan Project as both Executing Agency and PFI which funds was provided by JICA.

JICA's loan for SMEs works in two steps. They will first lend to Local banks via the MEB. MEB first provide JICA loans to Small and Medium Industrial Development Bank to lend (SMEs) intreprenours in 5 cities (Yangon , Mandalay , Pathein, Magway and Mawlamyaine). Later JICA loan was distributed for SMEs to private banks through MEB.

JICA Two-step Loan will be managed by MEB under JICA SME loan programme. The interest rate of JICA two-step loan is 8.5 percent per annum payable quarterly. Myanma Economic Bank provides JICA Two-step loans to the following sectors; Product Business of construction materials, Product Business of foodstuff, chemical Production, Labor intensive manufacturing, Rubber material production, Travel & Tour, Handicraft and souvenir Business ,Technology based Industry by taking immovable (JICA Two Step loan provide agriculture, real estate, insurance, gemstone, liquor shops and restaurants entertainment and ammunitions arsenal equipment).

JICA Two-step loan that borrow from the MEB must channel at least 80 percent funds into fixed capital and 20 percent as working capital. Borrowers who are able to put up property as collateral, will be eligible to a maximum of K500 million in funds. Those who do not have property will be able to get access to K20 million via the Credit Guarantee Insurance Scheme. In paying off the loans, borrowers can pay back in four installments over two years, with a one year grace period if the payment program is three years. With a four year loan, borrowers will have a one and a half-year grace period, with the repayment being made in five installments over the last two and a half-years of the loan. The five year loan has a two year grace period, and the repayment must be made in sic installments in last three years.

Detail short lists for need to applying JICA MSME Loan are attached with Ownership evidence of lease of Land, Land form (105/106) etc, SME member Card, Recommendation of E.C.C, Company Registration (or) Business License, Testimonial of FDA (for foodstuff only), Tax Receipts for 3 Financial years,   Profit & Loss, Balance Sheet for 3 Financial Year, Passport Photo, C.S.C,NRC,Testimonial for employer, Photos of collateral, Business, Location Map, Photo of detail materials for use to buy , Business Plan and Testimonial for environmental pollution., Approved by Credit Committee of MEB and JICA 2 step Loan Committee.

CHAPTER 4

ANALYSIS OF INFLUENCING FACTORS ON LOAN PRODUCTS OF MEB

This chapter presents the research design, profile of the respondents. In additions, it includes the influencing factors on the loan choice. Finally, it presents the regression result.

4.1   Research Design

This study is done in order to identify the influencing factors of MEB borrowers on taking loans from Myanma Economic Bank (MEB). Both primary and secondary data are included in this study. Primary data are collected by selecting 120 loan customers out of 186 from MEB are selected as sample population approximately 64 percent of total population. Simple random sampling method is used. The researcher went to the MEB banks in Kyauktadar Township and requested the officials to collect the data. By the help of officials, researcher had the chance to collect the data. The survey data are entered into the SPSS version 22 to analyze the data into mean score, and regression.

4.2   Profile of the Respondent

The profiles of the respondents include gender, age, education, monthly salary, and position. These data are collected by using structure questionnaire collected from 120 respondents.

4.2.1   Age of Respondents

All the respondents of age level classification are shown in Table (4.1). These respondents are divided into five groups: 26 years to 30 years, 31 to 35 years, 36 to 40 years, and above 41 years.

Table (4.1) Age of Respondents

Age	No. of Respondents	Percentage
26 - 30 years	15	12.5
31 – 35 years	74	61.67
36 - 40 years	18	15.00
Above 41 years	13	10.83

Total	**120**	**100**

Table (4.1) represents the findings of respondent age demographics. As shown in table, 61.67% is the highest which is between 31 to 35 years and the second highest is 15% which is between 36 years and 40years. The third highest is 12.5% which is between 26 years and 30 years. The fourth highest is 10.8% which is above 41 years.

4.2.2   Education of Respondents

The respondents' educational level is shown in Table (4.2) and the education levels of the respondents by frequency and percentage.

Table (4.2) Education of Respondents

Education	No. of Respondents	Percentage
Graduate	112	93.33
Post Graduate	5	4.17
Master	3	2.50
Total	**120**	**100**

Table (4.2) indicates the educational level of the respondents. The highest percentage shown in figure is graduate level which is 93.3%. The second highest percentage is Post Graduate Degree holders which is 4.17%. Moreover, the third highest percentage is Master degree holders which is 2.5% .

4.2.3   Taking Loans from Other Bonus

This section identifies whether respondents also take the loans from other banks. Table (4.3) presents the finding result.

Table (4.3) Taking Loans from Other Banks

Taking Loans from Other Banks	No. of Respondents	Percentage

Yes	26	21.67
No	94	78.33
Total	**120**	**100**

According to Table (4.3), it is found that 78.33 % the respondents do not take SME loans from other banks while 21.67% of total respondents take loans from other banks as well.

4.2.4   Relationship Year with MEB Loans

The study identifies the relationship duration between customers and MEB bank. Table (4.4) presents the relationship year between borrowers and MEB bank.

Table (4.4) Relationship Year with MEB Loans

Relationship Year with MEB Loans	No. of Respondents	Percentage
less than 1 year	12	10.00
1-2 years	36	30.00
2-3years	72	60.00
Total	**120**	**100**

According to Table (4.4), the highest score is 60% and the respondents are 72 with 2 to 3 years of MEB loans, 30% indicates that 1 to 2 years of MEB loan with 36 respondents and the least mean score is 10% and the respondents are 12 with less than 1 year of MEB loan.

4.3   Influencing Factors on Loan Choice

In this study, influencing factors that may affect on the loan choice of customers towards loan products are analyzed. The influencing factors include interest rate, collateral, repayment, and accessibility.

4.3.1 Interest Rate

Interest rate could be the important influencing factor as the borrows need to think carefully. Customer perception towards the interest rate of respondents is shown in Table (4.5).

Table (4.5) Interest Rate

Sr.No	Statement	Mean Score
1.	I find MEB loan interest rate is reasonable.	4.18
2.	I usually compare the loan products before I take the loan.	4.24
3.	Interest rate is affordable.	4.18
4.	I am satisfied with the interest rate of MEB loan products.	4.16
	Overall Mean	**4.19**

Source: Survey Data, 2019

As a result of Table (4.5) shows thatthe highest mean score (4.24) represents that the respondents usually compare the loan products before I take the loanwhile I am satisfied with the interest rate of MEB loan productswhich has the lowest mean score (4.16). The overall mean score of interest rateis 4.19 which represents the interest rate strongly influence on the respondents.

4.3.2 Collaterals

Collateral is the thing that the bank asked as the trust. On the other hand, SMEs may have the difficulty for paying that. Table (4.6) presents customer perception towards the collaterals.

Table (4.6) Collaterals

Sr.No	Statement	Mean Score
1.	MEB do not ask Collateral for MSME loans.	4.08
2.	Without collaterals, it is easier for SMEs to take loans.	4.11
3.	The process is fast if the bank does not ask collaterals.	4.02

4.	I do not have to wait for a long time to get the loan from MEB.	4.07
	Overall Mean	**4.07**

Regarding to Table (4.6), the highest mean score is 4.11 indicates that the majority of the people are satisfied that without collaterals, it is easier for SMEs to take loans while the least mean score 4.02 represents that the process is fast if the bank does not ask collaterals. According to the overall mean score 4.07, it is obvious that the respondents agree the collateral factor.

4.3.3 Repayment

Repayment factor is very important for the respondents. Borrowers need to consider repayment terms before they take the loan.

Table (4.7) Repayment

Sr.No	Statement	Mean Score
1.	A repayment amount is reasonable.	4.14
2.	Repayment duration is flexible.	4.03
3.	MEB repayment policy is attractive.	4.04
4.	Repayment terms are important for SMEs.	4.08
	Overall Mean	**4.07**

According to Table (4.7), the findings show that the highest mean is 4.14 which represent a repayment amount is reasonable while the lowest mean score 4.03 represents that repayment duration is flexible. According to overall average mean scores 4.07, the respondents are highly influenced by repayment factor.

4.3.4 Accessibility

It is important to access the financial institutions easily. Otherwise, borrowers will go to the place they could take the loan.

Table (4.8) Accessibility

Sr.No	Statement	Mean Score
1.	I could easily access loan information from MEB.	4.06
2.	MEB has separate loan information counter.	4.05
3.	It is easy to apply loan application.	4.23
4.	MEB has brochure about loan products and services.	4.03
	Overall Mean	**4.09**

Source: Survey Data, 2019

According to accessibility factor in Table (4.8), the highest mean score 4.23 represents that most respondents are strongly satisfied with loan application which is easy to apply. The another highest score is 4.06 which indicates that the respondent could easily access loan information from MEB. The mean score 4.05 represents that MEB has separate loan information counter. Moreover, the least mean score 4.03 indicates that MEB has brochure about loan products and services. According to overall mean 4.09, accessibility factor influence on the respondents.

4.4   SME Loan Decision

This study identifies the SME loan decision practice from Myanma Economic Bank (MEB). Table (4.9) presents the SME loan decision.

Table (4.9) SME Loan Decision

Sr.No	Statement	Mean Score
1.	If the interest rate is lowered, I am more interested to get the loan.	3.91
2.	No collateral policy encourages me to take loan.	4.08
3.	I am satisfied with the loan products of MEB.	3.95
4.	I will keep using MSME loans.	4.05
5.	I will recommend other friends to take loan from MEB.	4.03
	Overall Mean	**4.00**

Source: Survey Data, 2019

According to Table (4.9),the highest mean score (4.08) shows that the majority of the respondents are satisfied that no collateral policy encourages the respondents to take loan while the lowest mean score (3.91) indicates that If the interest rate is lowered, I am more interested to get the loan. According to overall mean score (4.00), SME loan decision influence on the respondents based on the loans, collateral policy, the interest rate.

4.5 Analysis on Influencing Factors on SME Loan Choice

This section analyzes the relationship between influencing factors and SME loan choice. In order to find out the relationship, survey data are entered into the SPSS and analyzed. Table (4.10) presents the regression model.

Table (4.10) Effect of Factors Influencing on Customers Choice of Loan of MEB

Variable	Unstandardized Coefficients		β	t	Sig
	B	Std Error			
(Constant)	.535	.388		**1.378**	**.171**
Interest Rate	.108	.099	.101	1.094	.276
Collaterals	.069	.093	.066	.743	.459
Repayment	.305***	.093	.276	3.277	.001
Accessibility	.364***	.092	.371	3.977	.000
R Square	.447				
Adjusted R Square	.428				
F value	23.216***				

Source: Survey Data, 2019
*** Significant at 1% level, ** Significant at 5% level, * Significant at 10%level

According to Table (4.10), the value of R square is almost 44 percent thus this specified model could explain about the variation of factors influencing on customers choice of loan of MEB. The overall significance of the model, F value, is highly significant at 1 percent level. This model can be said valid. The model can explain almost 42 percent about the variance of the independent variable and dependent variable because Adjusted R square is 0.428.

Among four independent variables, repayment has the expected positive sign and is strongly significant at 1 percent level. According to the regression result, positive relationship means that the increase in repayment in customers leads to more customer choice of loan of MEB. If there is better repayment policy by 1 unit, this will also raise customer choice of loan of MEB by .305 unit.

Accessibility of use has the expected positive sign and is strongly significant at 1 percent level. According to the regression result, positive relationship means that the increase in accessibility in customers leads to customer choice of loan of MEB. If there is an increase in accessibility by 1 unit, this will also raise customer choice of loan of MEB by .364 unit.

The standardized coefficient (Beta) of risk has the largest value (.371) among four explanatory variables indicating that Accessibility has the greatest contribution to increase customer choice of loan of MEB when the variance explained by other variables is controlled for. The overall evaluation reveals that model explains the variation in customer choice of loan of MEB well because the estimation produced expected signs and significant coefficients for most variables. The increases in repayment and accessibility the positive effects on customer choice of loan of MEB.

CHAPTER 5

CONCLUSION

Based on the chapter 4, this chapter presents the findings followed by suggestions and recommendations. Furthermore, it includes the need for further study.

5.1   Findings and Discussion

This study focuses on influencing factors on customer choice of loan products from Myanma Economic Bank (MEB). The main objectives of study include identifying the loan services in MEB and analyzing the influencing factors on customer choice for loans of MEB. The study explores that most of the respondents are between 31 and 35 years old and they are female graduated. Majority of the people are using only loan products form Myanma Economic Bank while others also use from other private banks. They have been using MEB loan for 2 or 3 years.

Most of the SME owners state that they consider interest rate before they take the loan from the bank. They used to compare interest rates from banks before they make the final decision. Most respondents agree that MEB loan interests are reasonable and they feel that it is affordable for that interest rate. Furthermore, most respondents state they are satisfied with the loan interest rate as MEB offers different interest rate for MEB MSME loan, Commercial loan and JICA MSME loans. Thus, customers have the choice while considering the loan.

Relating to Collaterals, it is found that collaterals hinder the SMEs to take the loans. Most respondents are eager to take the loans when they do not need to pay collaterals to bank. MEB do not take collateral for MEB MSME loans thus most respondents take the MEB MSME loans with specific interest rate. Moreover, people agree that the loan process is fast if the bank does not ask for the collateral.

Relating to repayment, borrowers agree that repayment amount is reasonable for MEB loans. In addition, loan term is favorable and flexible as it is quarterly based. In addition, most borrowers agree that MSME loan is attractive. Borrowers state that repayment terms are important for SMEs as they have to consider their repayment ability.

Relating to accessibility, borrowers state they get the required information easily as MEB has separate loan information counter. In additions, MEB arranges brochures for loan products and people could refer to them easily. Furthermore, borrowers state the loan application process is simple and easy.

To summarize, borrowers agree that MEB loan products are easily accessible as MEB branches are over the country and there is the separate information counter for loan.

It is found that most of the SMEs want to take loans if there is lower interest rate. They want to take the loan from MEB as MEB offers no collateral for MSME loans and repayment terms are flexible. Most of the customers feel MEB loans are relevant for their business.

According to the analytical regression result, only repayment terms and accessibility have the positive strong relationship with the loan choice. Accessibility can be ranked as the most influencing factor on loan choice.

5.2 Suggestions and Recommendations

In order to retain its customers and supports SMEs, Myanma Economic Bank should focus the major profile of the respondents in order to create attractive new loan products and terms.

For interest rate, most borrowers consider interest rate thus MEB should offer the most used loan products with lower interest as government promotes SME sector. MEB should offer flexible interest based on the business types and regional development. MEB is the state owned bank thus the bank should offer lower interest rate for the business that could create more employee job opportunities at the region.

For collateral, MEB should offer different kinds of the loan products without collateral. Thus, MEB should continue proving MEB MSME loan product without requesting collaterals. MEB should offers for other types of loan without collateral by asking two referrals to grant the loan. In additions, to evaluate the business, MEB should request business plan and financial statement of the business. By reducing the collateral, MEB will have more SMEs borrowers.

For repayment, MEB should offer current repayment terms. To be more attractive, MEB should make flexible repayment policy. MEB loan officer should check the business plan, financial statements and business location. Based on the findings, loan officer should decide the loan repayment terms for each SME. As the result, SMEs could get the loans under affordable repayment terms.

Relating to accessibility, MEB should upload the loan products information on its website. In additions, MEB should offer online loan application form so that potential borrowers could download the application form and submit it. The head office could also review the loan process across the country and this will greatly improve the accessibility of loan service.

According to regression result, MEB should pay more attention to repayment policy and accessibility. It is recommended MEB should pay the greatest focus on loan accessibility as this factor has the greatest contribution to loan choice.

5.3   Needs for Further Research

This study only focuses on the influencing factors on loan decisions from MEB bank by collecting questionnaire from only 120 customers. This does not cover other service quality and marketing factors. In additions, it does not cover the customers from other banks and does not cope for the whole banking industry. Therefore, the further study should focus on the other influencing factors and collect survey to cover the whole banking industry and financial institutions like microfinance. This will cover the most influencing factors on customers when they take loans from the banks or financial institutions in Myanmar.

REFERENCE

Akorsu, P. K., & Agyapong, D. (2012). Alternative Model for Financing SMEs in Ghana. *International Journal of Arts and Commerce, 1*(5), 136–148.

Aris, N. M. (2007). *SMEs Building Blocks for Economic Growth.* Malaysia: Department of Statistics Malaysia.

Asantey, J. O., & Tengey, S. (2014). The Determinants of bad loans in financing small and medium-size enterprises in the banking sector in Ghana: A factorial analysis approach. *International Journal of Research in Business Management, 2*(11), 13-26.

Atsmegiorgis, C. (2013). *Survival analysis of loan repayment rate of customers of Hawassa district commercial bank.* Hawassa, Ethiopia: Hawassa University.

Ayyagari, Meghana, Aslı, D. K., & Vojisla, M. (2006). How Important Are Financing Constraints? The Role of Finance in the Business Environment. *World Bank Policy Research Working* .

Berger, A. N., & Udell, G. F. (2006). A more complete conceptual framework for SME financE. *Journal of Banking and Finance*, 30.

Biro, K. (2002). *Central Credit Reference Information System.* Malaysia: Bank Negara Malaysia.

Harvie, C. (2010). SMEs and Regional Production Networks. In T. T. Vo, D. Narjoko, & S. Oum, *Integrating Small and Medium Enterprises(SMEs) into the More Integrate East Asia ERIA Research Project Report 2009-8* (pp. 19-45). Jakarta: ERIA.

Ingram, D. (2011). The Effects of low Interest Rates on the Economy.

Kimutai, E. (2003). Development of co-operative rural finance services in Kenya: Challenges and urgent issues to address. *Workshop proposal*.

Kyaw, A. (2008). *Financing Small and Medium Enterprises in Myanmar.* Japan: Japan External Trade Organization.

Mensah, S. (2004). *UNIDO Regional Workshop of financing SME's.* Ghana: A review of SME financing sehemes in Ghana.

Nawai, N., & Shariff, M. N. (2010). Determinants of Repayment Performance in Microcredit Programs: A Review of Literature. *International Journal of Business & Social Science, 1*, 152-161.

Nawai, N., & Shariff, M. N. (2013). Loan Repayment Problems in Microfinance Programsthat use Individual Lending Approach: A Qualitative Analysis. *Journal of Transformative Entrepreneurship, 1*(2), 93-99.

Quaye, I. (2011). Bridging the SME financing gap in Ghana: The role of microfinance institutionS. *Open Journal of Business and Management, 2*, 339-353.

Roslan, A. H., & Karim, A. (2009). Determinants of microcredit repayment in Malaysia: the case of Agro bank. *Humanity & Social Sciences Journal, 4*(1), 45-52.

Wang, C. H. (2008). Helping others in online games. *Prosocial behavior in cyberspace Cyberpsychology & Behavior, 11*(3), 344-346.

Zhi, W. (2010). Small and Medium-Sized Enterprises: Characteristics and Performance. *Investigation*, 332-510.

APPENDIX

LOAN PRODUCTS FROM MYANMA ECONOMIC BANK

Survey Questionnaire

PART I: Demographics

1. What is your gender?

   - Male □
   - Female □

2. What is your Age Group?

   - Less than 20 years □
   - 21– 25 years □
   - 26 - 30 years □
   - 31 – 35 years □
   - 36 - 40 years □
   - Above 41 years □

3. What is your highest level of Education?

   - High School Student □
   - Graduate □
   - Post Graduate □
   - Master □
   - Other □

4. Do you currently take the other banks' loans?
   - Yes □
   - No □

5. How long have you been taking MEB loans?
   - Less than 1 year □
   - 1-2 years □

- 2-3 years ☐
- More than 3 years ☐

PART II: Influencing Factor

How much degree do you agree for the following factors relating to MEB Loan Product?

Scale definition: (5= Strongly agree, 4 =Agree, 3 =Neither disagree nor agree, 2 = Disagree, 1= Strongly disagree)

	Degree				
Interest Rate	**5**	**4**	**3**	**2**	**1**
1. I find MEB loan interest rate is reasonable.					
2. I usually compare the loan products before I take the loan.					
3. Interest rate is affordable.					
4. I am satisfied with the interest rate of MEB loan products.					
Collaterals					
5. MEB do not ask Collateral for loans.					
6. Without collaterals, it is easier for SMEs to take loans.					
7. The process is fast if the bank does not ask collaterals.					
8. I do not have to wait for a long time to get the loan from MEB.					
Repayment					
9. A repayment amount is reasonable.					
10. Repayment duration is flexible.					
11. MEB repayment policy is attractive.					
12. Repayment terms are important for SMEs.					
Accessibility	**5**	**4**	**3**	**2**	**1**

13. I could easily access loan information from MEB.					
14. MEB has separate loan information counter.					
15. It is easy to apply loan application.					
16. MEB has brochure about loan products and services.					
SME Loan Decision					
17. If the interest rate is lowered, I am more interested to get the loan.					
18. No collateral policy encourages me to take loan.					
19. I am satisfied with the loan products of MEB.					
20. I will keep using loans.					
21. I will recommend other friends to take loan from MEB.					