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SME Lending – Myanmar

Better access to finance for SMEs

Promoting sustainable private-sector-led growth with the aim of creating more and better jobs is one of the key pathways to eliminating poverty. Encouraging the growth of small and medium sized enterprises (SMEs) is therefore one crucial element of the development strategy put forth by Myanmar’s government. Myanmar is opening up and integrating with the outside world in terms of trade and investment. The country also actively encourages greater private but also financial sector development.

Therefore KfW Development Bank supports, on behalf of the German Government, the formal banking sector in Myanmar to provide access to sustainable and need-based financing for SMEs.

Context

Before the early 1960s Myanmar’s banking system had ten domestic and fourteen foreign banks - the largest concentration of foreign banks in Southeast Asia at that time. As consequence of a series of economic and political shocks, the development of the financial sector was impeded, leaving a legacy of distrust in cash as a unit of value and banks as a secure place.

Today, less than 30 % of the population has access to formal financial services and credit in rural areas; particularly in the agricultural sector this is severely constrained. Further, current banking practices severely limit access to loans for SMEs. SMEs without the currently acceptable types of collateral have no access. Those with acceptable collateral and financial statements are only offered the standard repayment options and loan maturity not addressing specific financing and

investment needs. SME development therefore not only means the provision of funding but also requires capacity building on micro, meso and macro level.

Project approach

The Ministry of Planning and Finance (MoPF) is responsible for financial sector development projects in the realm of development cooperation. It is the project partner of KfW Development Bank for the SME Lending Programme (SELP). The Myanmar Economic Bank (MEB) acts thereby as the Paying Agent.

SELP aims to provide access to financial services for SMEs tailored to their investment needs, to build capacity of financial institutions and to raise awareness on best SME banking practices.

In the first phase KfW finances a refinancing facility to

Project name	SME Lending Programme (SELP)
Commissioned by	Federal Ministry for Economic Cooperation and Development (BMZ)
Country/Region	Myanmar
Lead executing agency	Ministry of Planning and Finance (MoPF)





Banknotes and ATM in Myanmar Source: KfW Banking Group

Co-Operative Bank Ltd. (CB Bank), which has its headquarters in Yangon and 162 branches throughout the country. As the first participating bank CB Bank is supported in providing sustainable and needs-based financing to SMEs and in developing a SME lending segment.

Further, via a capacity building component institutional capacity building and training for an adequate level of implementation efficiency of the refinancing facility is funded. This comprises technical consulting services to CB Bank as well as training measures for its management and operative staff in Yangon and selected branch offices. The first selected bank will thereby serve as model for all future participating financial institutions.

The project is closely coordinated with GIZ, who is also engaged in the financial sector as well as SME development in Myanmar. GIZ supports local partner institutions at different levels of the financial sector. This includes advisory services to the Central Bank of Myanmar on creating a supportive legal framework, support to training providers for the banking sector, and cooperation with individual banks to pilot the provision of financial services for SMEs.

Impact

SELP provides support at widening the banks' lending methodology based on prevailing Central Bank regulations and to improve access to financial services for SMEs, tailored to their investment needs.

Through the branch network of CB Bank, the implementation of SELP enables an outreach to share the benefits of the programme with SMEs nationwide.

In a second phase the programme will be extended to include further financial institutions.

KfW Development Bank has already launched similar programmes worldwide, including in neighbouring countries such as Laos. Our experience shows that access to loans enables SMEs to invest in the expansion of their business activities, which in turn has positive effects on income and employment for the population.



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