Assessment and training on two step loan, credit guarantee system, and venture capital for CLMV

Country Assessment Reports

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Contents

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This study has benefitted from previous studies, research reports, and guidance documents developed by OECD, World Bank, and UNCDF among others.

3. List of acronyms

ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
AFI	Alternate Financing Instrument
BMO	Business Membership Organization
CLMV	Cambodia, Lao PDR, Myanmar, and Vietnam
DFAT	Department of Foreign Affairs and Trade
FASMEC	Federation of Associations for Small and Medium Enterprises
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
IDP	Industrial Development Policy
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
ME	Microenterprises
MFI	Microfinance institutions
MSME	Micro, Small and Medium Enterprises
NBC	National Bank of Cambodia
NFIS	National Financial Inclusion Strategy
NSEDP	National Socio-Economic Development Plan
NSO	Network service operators
RIA	Regulatory impact assessment
SME	Small and medium enterprises
SMEDP	Small and Medium Enterprises Development Plan
TVET	Technical and vocational education and training
UNCDF	United Nations Capital Development Fund

4. Executive summary

The major constraints for SMEs to borrow from banks are high interest rates, short loan term, and strict collateral requirements. The manufacturing industry requires medium- to long-terms loans to get returns for repayment from their capital investment. In many cases, the current loan conditions do not satisfy their needs. On the other hand, commercial banks have difficulty in providing long-term loans by depending solely on short-term deposits from individuals. In addition, SME loans comparatively have high handling cost and high credit risk. Therefore, in many countries, commercial banks are cautious in extending SME loans and pose strict collateral as well as other requirements from SMEs.

An OECD report mentions that 'Fostering alternative financing instruments (i.e. funding other than bank lending) is one of the most prominent policy responses to potential SME financing gaps across the ASEAN region. A well-diversified financing landscape for small businesses has the potential to address some of the obstacles that SMEs face in obtaining adequate funding by complementing bank financing, while at the same time enhancing financial inclusion in ASEAN Member States (AMS).'

With this context in mind, the objective of the project was to improve the design and delivery of alternative financing mechanisms through two step loan, credit guarantee scheme and venture capital. This will in turn increase the potential for growth of SMEs and support their participation in the local economy.

In Cambodia, most programs score high on alignment having laid out objectives, which means there is a clear intention on the outcomes of each AFI program, and it is in alignment with providing support for SMEs. However, only five out of nine programs fare high on both alignment and objectives. These five programs have clearly defined objectives, which are also aligned in a way to enhance the three alternate financing instruments of our concern.

The policy environment in Cambodia is rich. However, human capital and skill development lacks holistic focus. There is inadequate policy-level focus on risks and their management. Venture capital is at a nascent stage, but a vision to accelerate it quickly is present. There is a deficit in attention to credit guarantee schemes and two-step loans. Information sharing of MSME access to credit through credit bureaus are at a nascent stage. The adoption of information and Communication technology by MSMEs has been low. More thrust in women entrepreneurship is needed.

In Lao PDR, credit guarantee has seen increased utility among the MSME segment. However, there is limited visibility around the loans (for example specific loans disbursed by ACLEDA bank) which provide these benefits which limits the accessibility of this service. Also, limited knowledge around how to avail these benefits is also a limitation among MSME's which leads to educed usability of this instrument. Two-step loan as an instrument has witnessed extensive utility among MSME's of Lao PDR in the form of subsidized loans from commercial banks.

The supervision of credit disbursement, management and usage is weak specifically post-COVID. The ownership and management for the upcoming CGS needs attention. Credit lending by banks is demand or market driven with no regulations around allocation percentages across priority sectors. We also see that there is limited thrust on engaging women MSME's. Venture capital is at a very nascent stage of development. Limited focus on developing a robust risk framework and securitization. Credit reporting needs to be strengthened. There is a considerable focus on capacity building of MSME's.

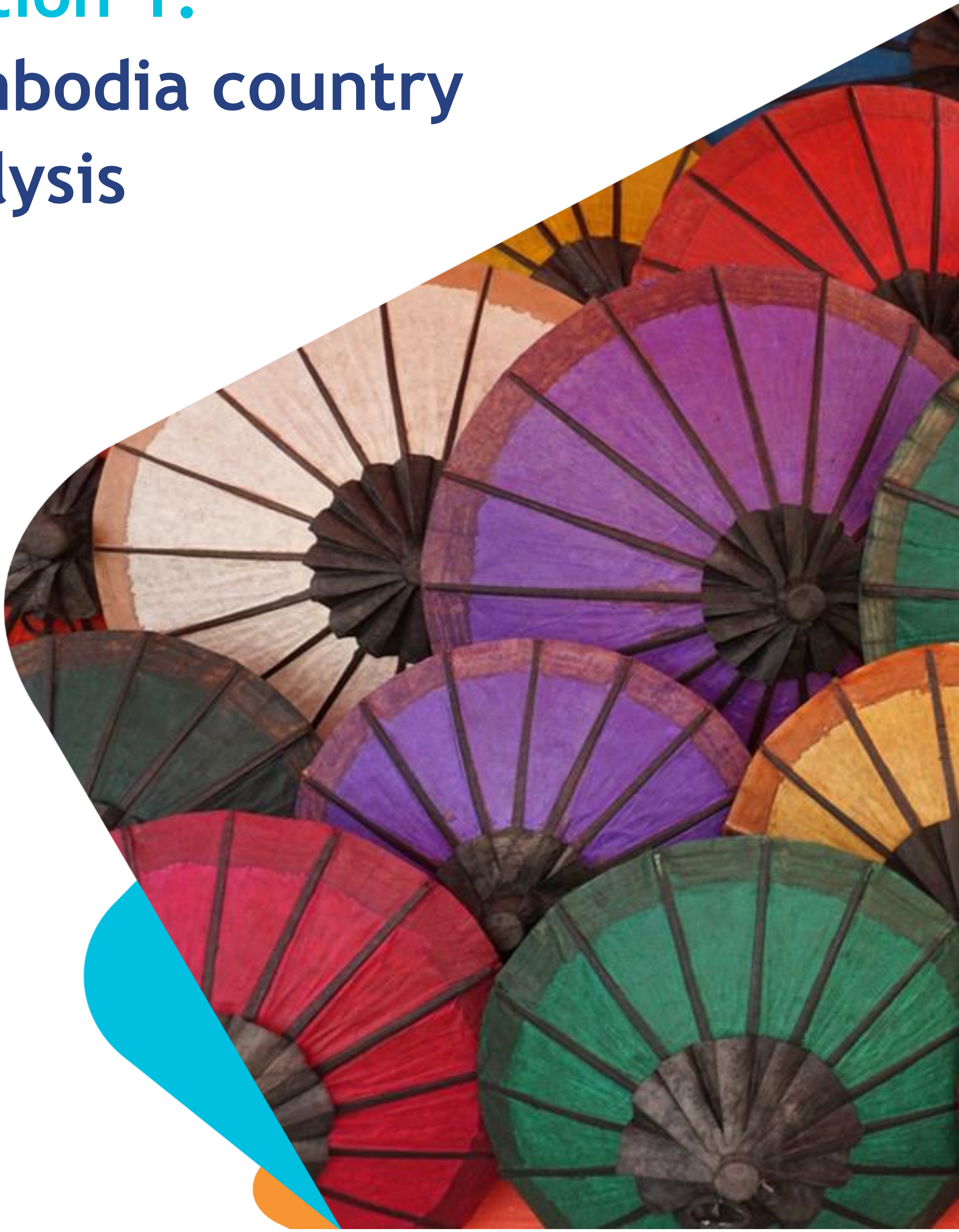
In Myanmar, most programs or projects are ranked low on adaptability resulting in either low performance or pre-closure of the program or project due to changes in the environment. Only two products launched in response to COVID-19 stand out in this aspect. Impact varies between low and moderate for most of the programs or projects. This suggests that while these programs have clear objectives, lack of an impact assessment by the program results in limited information of the successes, failures, and challenges during the implementation of the programs or projects. These limit the learnings and evolution of the programs or projects in the future.

A much-needed focus on developing human capital and skills is present. Risk frameworks are not emphasized sufficiently in policies. Adoption of the latest technology among MSMEs is acknowledged as a policy goal and can support the development of alternate financial instruments. The venture capital (VC) ecosystem is at an early stage of evolution and will need sustained efforts by the government to achieve critical mass. SME focused policies in Myanmar underscore the need to reduce regulatory and compliance barriers for MSMEs. There is an information asymmetry between MSMEs, financial institutions, and policymakers hamper the development of credit markets for enterprises. Further, efforts to improve access to credit for MSMEs is hampered by the policies indicating the need for real-estate collaterals by banks.

In Vietnam, most programs or projects score high on having laid out objectives, which means there is a clear intention on the outcomes of each program or project. Similarly, most programs or projects are ranked low on adaptability resulting in either low performance or complete closure of the program or project due to changes in the environment. Therefore, it is integral that any program or project incorporate adaptability in its design, resulting in greater sustainability and overall better performance.

A range of funds promoted by the Ministry of finance supports the growth of MSMEs. Limited technical capability and inflexible design limits the accessibility of credit guarantee funds. Limited trust among locally managed public credit guarantee funds and commercial banks has led to low usage of credit guarantee funds. Viet Nam has initiated steps to improve the policy and regulatory space to allow investments from venture capital funds in Vietnamese MSMEs. Limited incentives for small investors to establish themselves as venture funds. There is high dependence on banks for funding support which limits the growth of the startup ecosystem. Focus around innovation support automatically excludes a considerable number of MSME's. There are concentrated efforts around reducing turnaround time for establishing venture capital and startups.

Section 1:
Cambodia country analysis



Cambodia country analysis on the landscape of two step loan, venture capital, and credit guarantee scheme for MSME financing

The country analysis is based on primary and secondary research to deepen our understanding of the MSME 'Alternate Financing Instruments' (AFI) in Cambodia. Primary research included in-depth interviews with four organizations. These are the National Bank of Cambodia, the Ministry of Economy and Finance, the Cambodia Chamber of Commerce, and ACLEDA Bank.

I. Stakeholder snapshot for MSME alternate financing (two-step loan, venture capital, credit guarantee scheme) development in Cambodia

For the stakeholder analysis we adopted a three-tiered approach of identifying stakeholders and analyzing their activities. The three tiers of our analysis is mentioned below.

- **Tier 1 - Macro-environment.** To identify stakeholders responsible for regulatory, policy, and strategic initiatives in the country and analyze their activities
- **Tier 2 - Meso-environment.** To identify and analyze initiatives designing and implementing country-level or sector-level programs to increase the adoption of alternate finance instruments for MSMEs
- **Tier 3 – Micro-environment.** To identify and analyze specific solutions from financial institutions that promote the adoption and usage of alternate financial instruments for MSMEs

The figure below presents a snapshot of stakeholders working across the three tiers.

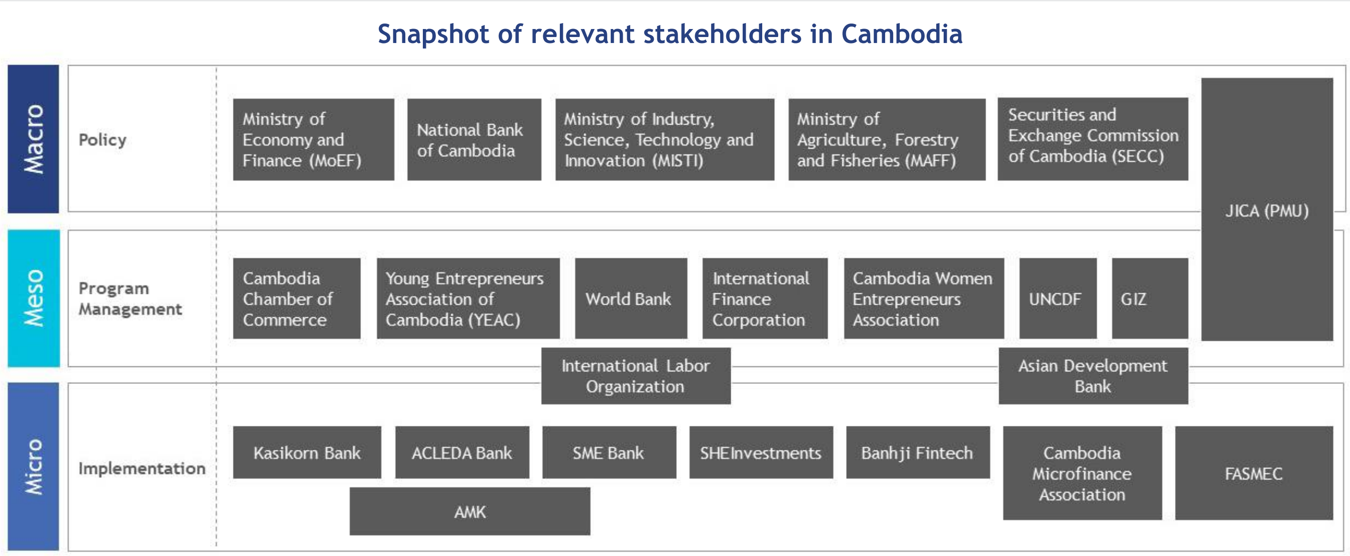


Figure 1: Stakeholder landscape for alternate financing in Cambodia

The macro stakeholders are engaged primarily in policy design, coordination, and monitoring. Most of the policymaking bodies, ministries, and regulators at this level focus on providing support to SMEs. The National Bank of Cambodia oversees the financial system in Cambodia. However, for SME development, the overall responsibility lies with the Ministry of Industries and Handicraft and particularly the General Department of SMEs and Handicraft—a dedicated department to handle SME Policy. The Ministry of Agriculture, Forestry and Fisheries (MAFF) develops and implements development policy for SMEs operating in the agriculture and fishery sectors, whereas the Ministry of Industry, Science, Technology and Innovation (MISTI). The Royal Government of Cambodia (RGC) typically introduces 'banking regulation and bank restructuring programs.'[1]

The meso stakeholders work to manage the policies established by the ministries. For example, the Cambodia Chamber of Commerce (CCC) matches international investors with local businesses. Further, it has a working group which deals with issues lying at the interface of private sector participation and capacity development of MSME. SME financing programs implemented by IFC, World Bank, and JICA (all three of which are key players) are detailed later in the report. Industry associations such as YEAC provide support to SMEs at the meso level.

Compared to the macro and meso levels, most stakeholders at the micro level conduct their initiatives either to MSMEs or other vulnerable groups such as women and youth. ACLEDA Bank, for example, partnered with the Overseas Private Investment Corporation (OPIC), Goldman Sachs' 10,000 Women initiative, and IFC in 2016 to support women-owned SMEs in Cambodia.[2] The financial literacy and training programs, for example, are either delivered through digital channels where physical presence is limited or through traditional channels where infrastructures such as schools and training centers are available. Associations like the Federation of Association for Small and Medium Enterprises of Cambodia (FASMEC) also engage to enhance SME connectivity. For example, FASMEC partnered with the London-based agency Sram and Mram Resources in 2018, to introduce a website to help its members (300 in number then) to advertise and sell products.[3]

In the following sections we present our analysis and insights from primary and secondary research.

II. Macro-analysis

We have analyzed a few important national and sector-focused development policies on how they have enabled a conducive environment for the development of the three alternate financing instruments – two-step loan, venture capital, credit guarantee scheme. We focus on five most relevant development plans (see figure below) to analyze Cambodia's policy landscape against the three alternate financing instruments (AFI). These are 1) National Strategic Development Plan (NSDP) - Rectangular Strategy - Phase IV 2018-2023, 2) Industrial Development Policy 2015–2025, 3) National Financial Inclusion Strategy 2019–2025, 4) Agriculture Strategic Development Plan (ASDP) 2019–2023, and 5) Small and Medium Enterprise Development Policy and Five-year Implementation Plan 2020-2024.

[1] https://data.adb.org/media/7251/download
[2] https://www.acledabank.com.kh/kh/eng/md_ln20161101
[3] https://www.phnompenhpost.com/business/fasmec-brings-website-smes

It must be noted that MSME development is one of the many components or focus-areas of national-level strategies. A direct reference to alternate finance instruments (AFI) focused on MSMEs might therefore not be available.

Major policies or plans in Myanmar geared towards MSME alternate financing

		Two-step loan	Venture capital	Credit guarantee
National level development policies	National Strategic Development Plan (NSDP) - Rectangular Strategy - Phase IV 2018-2023	The document mentions that 'Cambodia is gradually losing its access to concessional loans, domestic savings will be the key source of capital for both public and private investment.'	Preparing and implementing mechanisms to facilitate new business start-up by cutting time for registration, license application and other relevant procedure as well as reforming the public service for business.	While the banking and finance sector experiences a significant progress, credit growth and interest rate still remain high in spite of gradual decline.'
National level development policies	Industrial Development Policy 2015-2025	One of its four primary objectives is 'developing and modernizing MSMEs by expanding and strengthening manufacturing, modernizing and officially registering enterprises, promoting technology, and strengthening industrial linkages between domestic and foreign enterprises (specifically in agro-industries)'.		
National level development policies	National Financial Inclusion Strategy 2019-2025	Enhancing financial inclusion by increasing access to quality formal financial services, reducing financial exclusion of women by half from 27% to 13%, and increasing usage of formal financial services from 59% to 70% by 2025'.	Increase consumer empowerment and protection, and financial sector transparency.	'Promote innovative credit products for SMEs.'
Sectorial policies	Agriculture Strategic Development Plan (ASDP), 2019-2023	The MAFF promulgates its Agriculture Strategic Development Plan in support of national development objectives, including the many MSMEs in agriculture.		
Sectorial policies	Small and Medium Enterprise Development Policy and Five-year Implementation Plan 2020-2024	One of the pillars is to 'increase access to finance'.	One of the pillars is to 'promote entrepreneurship and human capital development.'	One of the pillars is to 'increase access to finance'.

Figure 2: Policy inclusion for MSME alternate financing in Cambodia

As detailed in the assessment framework for the program, the macro environment for alternate financing of MSMEs can be analyzed through four variables, i) **relevance** of policies and regulations in providing a platform to introduce AFI in the country, ii) **effectiveness** of the policies or regulations targeted towards AFI in terms of their design, iii) **efficiency** in achieving the objectives of alternating financing within the country, and iv) **sustainabilit**y of the effects of the policy or regulations towards providing alternate financing for MSMEs.

We now analyze the role of the macro-environment in facilitating AFI for MSMEs in Cambodia.

Human capital and skill development lacks holistic focus

Human capital and skill development form an integral part of SME financing. An OECD report on the subject mentions that alternate financing 'techniques are not well-suited for many SMEs, as they require a well-established and stable earning power and market position, and demand a certain level of financial skills.'[4] With respect to venture capital funds the report quotes that 'countries are increasingly implementing measures that target the skills of existing or would-be entrepreneurs.'

[4] https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf

Multiple reports suggest that SME entrepreneurs and managers in emerging economies may often lack the awareness 'and capabilities to understand and access a wider range of financial options than traditional debt.'

The National Strategic Development Plan (NSDP) - Rectangular Strategy - Phase IV 2018-2023 mentions job creation via 'skill training, provision of job market information, improvement in working condition and promotion of business and investment' as one of its four strategic goals. The first 'strategic rectangle' of this plan is dedicated to human resource development. Two of these 'sides' or aspects of the rectangle are a) strengthening of the quality of education, science and technology and b) technical training.

One of the major measures or action plans of the Industrial Development Policy 2015–2025 is to 'enhance human resources development to ensure strong and dynamic industrial development through the provision of specialized skills training to address skills shortage in priority sectors by way of increasing training scholarships for engineers and technicians'. The plan recognizes that 'skills training remains inadequate [in Cambodia] to service the industrial sector, which suffers from low productivity as a result.' The IDP 2015-2025 also recognizes that 'the government policy must be designed in such a way as to open up opportunities for workers to continue learning and acquiring new skills.' It further wants to widen the 'dissemination of industrial development information' to aid policy design. The Cambodia Investors Corporation runs 'capacity building programs focused on all aspects of management of a business' for women. The MoWA has recognized that 'the trainings [available] are not market-demand driven, but it lacks qualified and full-time staff to increase the efficacy of its vocational skills program.'

The Skill Development Fund too has two main objectives. These are a) to 'address skills mismatches and b) alleviate the shortage of skilled labor'. ADB contributes USD 9.6 million to the fund over 3 years, out of which 'USD 7 million is for training and $2.6 million for operations.'

An SME skill and training development framework should ideally take into account five major aspects. These are formation of knowledge networks, finance support, business support frameworks, SME workforce skills, and entrepreneurship skills. Policies in Cambodia need more focus on building innovative knowledge networks for SMEs and entrepreneurial skills development.

There is inadequate policy-level focus on risks and their management

The NSDP 2018-2023 plans to focus on 'preparing mechanisms to deal with economic crises and risks which could occur in the financial sector, banking and non-banking sector as well as real estate and other sectors.'

The Industrial Development Policy 2015–2025 focuses on four major kinds of risks and their associated measures. The four kinds are a) risks Related to Regional and Global Environment Changes, b) risks Related to Management of Macro-Economic Issues, c) risks Related to Political Instability, and d) risks Related to Governance, Institutions and Coordination.

Risk assessment affects FIs and MSMEs to equal degrees. Risk management is necessary to ensure that banks and other FIs are able to disburse their loans optimally without business failure. Risk management frameworks at the level of banks and the securities market are therefore essential. This is especially important to build a venture capital ecosystem in a country. It has been argued that 'venture capital can flourish especially - and perhaps only - if the venture capitalist can exit from a successful portfolio company through an initial public offering (IPO), which requires an active stock market.'

A risk framework typically functions in a feedback mechanism, and involves three stages[5]. These stages are a) risk analysis, b) risk evaluation (tolerability decisions and analysis of options), c) risk reduction or control (decision making and implementation or monitoring). Cambodia's policies do not lay adequate emphasis on any of these aspects. All of these stages may affect SME operations substantially - that is especially valid in a post-COVID-19 scenario for example. The IDP mentions setting up four priority industrial sectors (manufacturing, drugs and medical equipment production, agro-industries, and tourism and textile) towards minimizing these risks partially.

Venture capital is at a nascent stage, but a vision to accelerate it quickly is present

The NSDP 2018-2023 has a focus on 'preparing and implementing mechanisms to facilitate new business start-up by cutting time for registration, license application and other relevant procedure as well as reforming the public service for business.' The National Policy Framework on Education, Technical and Vocational Training 2017-2025 has given a thrust to enhance technical skills, especially at intermediate and advanced levels by using courses in response to the demand of the 'labor market, industry sector and new business start-ups'.

Further, one of the strategic imperatives of the Small and Medium Enterprise Development Policy 2020- 2024 is to 'promote entrepreneurship and human capital development'. There is also an Entrepreneurship Development Fund (EDF) created by the MEF particularly to develop MSMEs. Through the EDF 'the government provides USD 5 million annually to construct an ecosystem for MSMEs, involving business matching and incubators, among others.'[6] A startup incubation/acceleration program by a major VC firm 500 Startups has been launched in late 2020. This is discussed in-detail later in the Meso analysis. The Techno Startup Center was launched in April 2019, by the MEF and the Ministry of Education, Youth and Sports (MoEYS). The center aims to become 'a center of excellence, supporting successful growth of youth-led startups by enhancing entrepreneurship and innovative capacities'.[7]

These policies have built a support mechanism to enable the VC space in the country to thrive. The MEF is in the process of developing a Digital Economy Framework with a vision for the next 20 years. Few of the focus areas of the framework are development of DFS, timely delivery of goods and services, and digital skill development. These will aid the VC-centric policies to enhance the start-up ecosystem greatly.

[5] https://www.mdpi.com/2071-1050/11/16/4501/htm
[6] https://www.adb.org/sites/default/files/publication/646146/asia-sme-monitor-2020-volume-1.pdf
[7] https://sustainabledevelopment.un.org/content/documents/26399Report_Supporting_MSMEs_to_Achieve_the_SDGs_in_Cambodia_through_Streamlining_Business_Registration_Policies.pdf

There is a deficit in attention to credit guarantee schemes and two step loans

Credit guarantee schemes or two step loans (also called intermediary loans) don't find a direct mention in any of the policies, except for the IDP 2015-2025 that mentions the intention to devise alternate financing mechanisms to 'drive industrial activities along with the strengthening of domestic saving mechanism such as insurance and pension plan to ensure sufficient source of credit with low interest rate.'

While a direct support for TSL/CG is missing, policy initaitives do indicate at the need for intervention's in the credit to MSME space. The ADB SME Monitor 2020 report[8] suggests that Cambodia's MSME-focused policies 'aim to increase access to quality formal financial services and reduce the financial exclusion of women by half (from 27% to 13%).' Further, 'they also aim to increase usage of formal financial services from 59% to 70% by 2025 and improve household welfare.' It also mentions that there 'is a plan for the SME Bank to offer credit guarantee schemes.' The NSDP 2018-2023 mentioned a goal to establish an SME Bank 'to provide financing to small and medium enterprises as well as enhancing the preparation and implementation of other financing options'. The SME Bank was established in April, 2020 with an initial funding of USD 100 million to improve MSME's access to finance. However, as the ADB report notes, and our primary research indicates there is no concrete update in this regard. There are other credit guarantee schemes and two step loans – established to curb COVID-19 damage or by multilateral agencies like IFC and ADB – which are discussed in the next section.

The National Strategic Development Plan (NSDP) - Rectangular Strategy - Phase IV 2018-2023 notes that Cambodia is 'gradually losing its access to concessional loans'. It recommends that 'domestic savings will be the key source of capital for both public and private investment.'

Information sharing of MSME access to credit through credit bureaus are at a nascent stage

The NSDP 2018-23 likewise mentions 'Strengthening information sharing mechanism at all levels of public administration to enhance management effectiveness and respond to the demand of public service users in this rapidly changing national and international context'. This implies that better management of information sharing systems, particularly MSME credit history, is needed.

The IDP 2015-2025 recognizes that it is important for Cambodian SMEs to register themselves in a formal tax regime. This will help the government to have accurate information about the SME sector 'so that it can initiate proper supporting policies to enable better access to credit information and other business advises to grow their business and investment'. 2018 onwards the Ministry of Industry and Handicraft (MIH) started rolling out the 'One-Roof Service (ORS) policy for improving coherent MSME registration'. The ORS policy aims 'to provide a one-stop service for MSME entrepreneurs to register their businesses, and to promote efficiency and transparency of the environment of doing businesses in Cambodia.'

[8] https://www.adb.org/sites/default/files/publication/646146/asia-sme-monitor-2020-volume-1.pdf

Credit Bureau is present but ADP reports they 'are either in the planning or nascent stage'

Credit Bureau Cambodia (CBC) has been in operation since 2012. As of end-2019, CBC had 161 members, including commercial and specialized banks, MFIs, and rural credit institutions (100% of formal lending institutions). Members must upload their full credit information at least monthly; for account openings and closures, updates occur weekly. In addition, members must check their credit boards to understand borrower conditions. In July 2019, the CBC launched a commercial credit platform.

CBC covers 5 million consumers out of an adult population of 9 million. According to the NBC, as of end-2019 there were 4 million active borrowers in Cambodia with a total of 3.3 million active accounts. In addition, there were 4,000 commercial accounts. CBC estimates that 68% of the loans in their portfolio belong to MSMEs. As for commercial reporting, CBC had more than 21,000 legal entities in its database at end-2019. There were 1,283 companies holding 5,371 active commercial loan accounts in the market.

The consumer credit report includes a consumer profile, demographic data, account information, number of accounts, credit limits, tenure of outstanding loans, loan amounts, repayment history, and employment details. As of July 2019, 200 consumers per month checked their credit reports. While this is small, it is a dramatic increase from 2017–2018, when only 10–20 people would have their credit checked. Starting January 2019, the general public could also request their credit report from CBC through its authorized agents, ACLEDA and AMK. According to the NBC, 3,172 personal credit reports were issued to the general public in 2019.

The adoption of information and Communication technology by MSMEs has been low

Technology adoption measures have been adopted at interpersonal and community levels. For example, the NSDP 2018-2023 notes that 'the use of information and communications technology (ICT) has risen substantially, reflected through rise in mobile number users from 2.7 million in 2012 to 10 million in 2017.' This plan also focuses on 'education and training program by focusing on the broad use of digital technology and incorporation of the use and awareness of digital technology into the academic curriculum.' However, the structural level of leveraging ICT for connecting businesses or monitoring SME registration or their credit history, needs to be build.

The IDP 2015-2025 mentions that the Royal Government of Cambodia wants to '[move] toward developing a technology-driven and knowledge-based modern industry.' Leveraging technology for 'raising income and improving productivity through investment and utilization of new technology' has also been mentioned. With regard to MSMEs, the plan recognizes that the 'the absence of proper book keeping hinders these enterprises from access to finance necessarily for business expansion or new technology acquisition.' ADB's SME monitor 2020 report[9] mentions that 'Cambodia wants to connect to the world, and there are tech-savvy young people who are willing to start a new venture; but overall they are few in number.'

More thrust in women entrepreneurship is needed

There are multiple private sector initiatives supporting women-owned SMEs. The three most prominent among these being a) the Cambodia Investors Corporation (CIC), b) the Cambodia Women Entrepreneurs Association (CWEA), and c) SHEinvestments. A robust women entrepreneurship framework must cover three primary aspects. These are policy coordination and leadership, project development and management, and targeted initiatives. Initiatives mentioned above are typically focus on one key aspect while disregarding others – thus making the effort inadequate. For example, SHEinvestments emphasizes particularly on skill development (financial management, marketing, and business planning). The application of a gender lens to all facets of the initiative is also limited.

The CIC sources local funds and applies a 'peer-to-peer format to match investors and SMEs'. It also designs and implements 'incubator and capacity building programs focused on all aspects of management of a business.' The CWEA provides fee-based membership in exchange of 'access to networks, advocacy, mentorship, capacity building and training.' SHEinvestments, which is considered to be a more effective initiative, provides 'alternative funding sources, networking, advocacy and consulting focused on women entrepreneurs.'

In this regard, an UNESCAP report[10] suggests the SME Development Policy and Five-year Implementation Plan 2020-2024 to adopt certain strategic points. Few of these points are to a) adopt a targeted approach to SMEs ('setting separate targets and KPIs for WSME'), b) 'Design should be sector-specific based on priority sectors identified in the draft SME policy but targeting WSME in these sectors or additional sectors where WSMEs operate identified via research studies,' c) 'Earmark grants for incubators to enhance capacity and curriculum in order to specifically cater to WSME in the identified priority areas, coupled with outreach to women start-ups and founders, to enroll them in incubators.'

III. Meso analysis

As detailed in the assessment framework for the program, an active meso environment for alternate financing of MSMEs can be analyzed through six variables, a) **Alignment** of the program align with the environment, ii) has the program been designed with **clear and specific objectives**, iii) **Feasibility** of implementing the program, iv) **Adaptability** of the program to changing environments — via the **availability of supporting ecosystem** or resources to help implement the program — and v) **Impact** of the program on MSMEs. These variables are particularly vital to facilitate impactful intermediary loans

[9] https://www.adb.org/sites/default/files/publication/646146/asia-sme-monitor-2020-volume-1.pdf
[10] https://www.unescap.org/sites/default/d8files/2020-08/Cambodia_Recommendations_SME_Policy.pdf

(or two-step loans i.e., TSL), credit guarantee schemes (CGS), and venture capital products (VC) to support the MSME sector in the country.

For the meso-level analysis, we shortlisted a few prominent programs focused on driving alternate financing for MSMEs in the country. We then analyzed the programs on their ability to cover the six variables of the assessment framework mentioned above.

In the diagram and below table we list down all current programs which currently encourage alternate financing opportunities for MSMEs.

We have analyzed a few important national and sector-focused development policies on how they have enabled a conducive environment for the development of the three alternate financing instruments – two-step loan, venture capital, credit guarantee scheme. We focus on five most relevant development plans (see figure below) to analyze Cambodia's policy landscape against the three alternate financing instruments (AFI). These are 1) National Strategic Development Plan (NSDP) - Rectangular Strategy - Phase IV 2018-2023, 2) Industrial Development Policy 2015–2025, 3) National Financial Inclusion Strategy 2019–2025, 4) Agriculture Strategic Development Plan (ASDP) 2019–2023, and 5) Small and Medium Enterprise Development Policy and Five-year Implementation Plan 2020-2024.

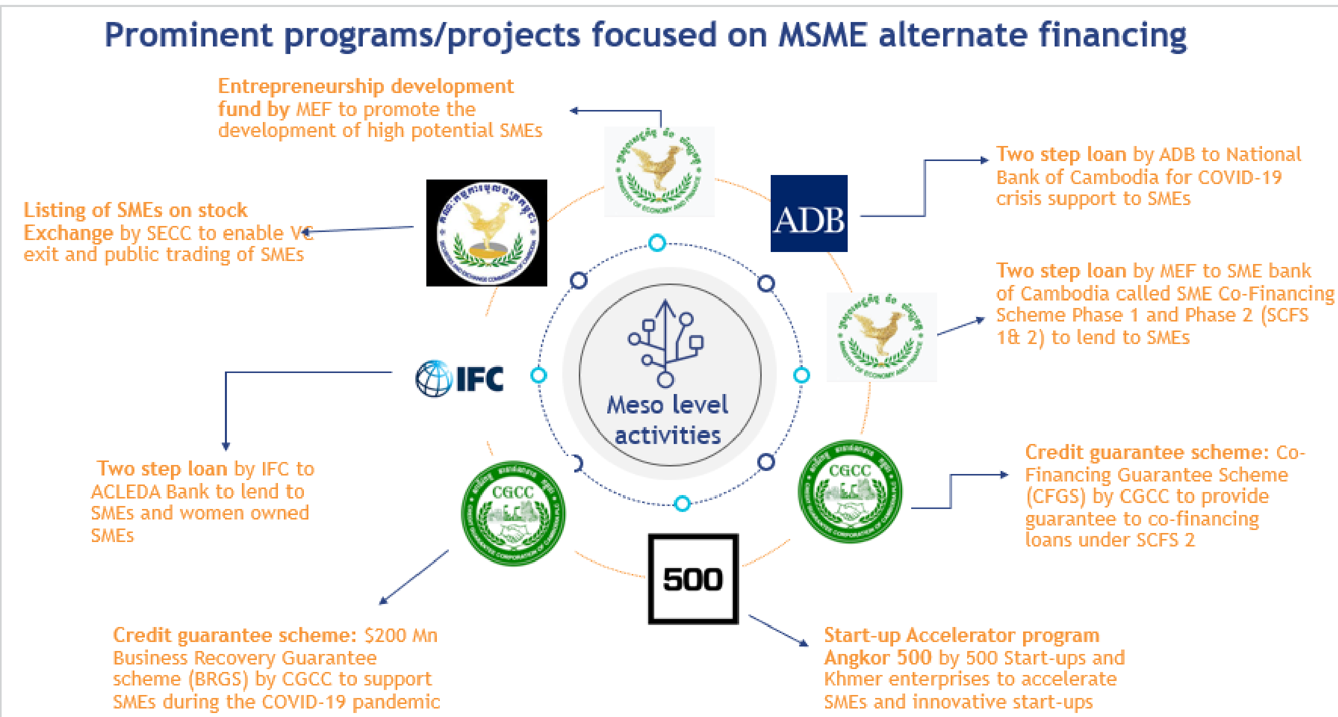


Figure 3: Programs or projects - MSME alternate financing

S. No.	Program name	Description	Analysis of the program				
			Alignment	Objectives	Adaptability	Feasibility	Impact
1	SME Co-financing Scheme Phase 1 (SCFS I)	The SME co-financing scheme (phase 1), designed as a two-step loan, is a joint venture between the SME Bank of Cambodia and other partner financial institutions. It was launched on 3rd April 2020 with the objective to provide low-interest loans to SMEs and build up priority sectors such as manufacturing and handicrafts, curb imports while satisfying domestic demand, and create employment opportunities[11]. SMEs can borrow USD 200,000 for working capital and USD 300,000 for investment capital from the bank, at a seven	High	High	High	Moderate	High

[11] https://www.phnompenhpost.com/business/more-smes-look-scfs-loans

		percent annual interest rate and a payback period of not more than seven years.					
2	SME Co-financing Scheme Phase 2 (SCFS 2)	The SME co-financing scheme phase 2, designed as a two-step loan, is a joint venture between the SME Bank of Cambodia and 26 partner microfinance institutions. It was launched on 16th August 2021 to provide affordable financing to SMEs for economic diversification and recovery from the COVID-19 pandemic. SMEs can borrow a maximum of USD 500,000 for capital expenditure and working capital of USD 300,000 from any of the 26 partner institutions. The duration of the	High	High	High	Moderate	High

		loan is seven years[12].					
3	Inclusive financial sector development program – subprogram 2	This is a two-step loan. Subprogram 2 was approved in September 2019 with multiple objectives around developing a stable financial sector and increase financial inclusion in Cambodia. A concessional loan of USD 40 million was provided to the National Bank of Cambodia (NBC) for executing the program. The NBC borrowed the sum at 1% during the grace period, and 1.5% thereafter. The loan has a principal repayment period of 16 years. One of the objectives of the program was to increase access to	Moderate	High	Moderate	High	High

[12] https://www.khmertimeskh.com/50918080/sme-co-financing-scheme-phase-2-officially-launched/

		finance to SMEs[13].					
4	IFC 2 step loan	A USD 200 million loan from IFC to ACLEDA Bank was approved on May 10, 2021. This would be structured as a USD 100 million loan and up to USD 100 million syndicated loan over 5 years. The first tranche is primarily meant to serve underserved SME segments, including women-owned SMEs. The second one is primarily to foster technological innovation and competition. IFC also mentions financial additionality to 'sustain operations and expedite post-COVID19 pandemic recovery'. The objective of the loan is to	High	High	Moderate	Moderate	High

[13] https://www.adb.org/sites/default/files/project-documents/44263/44263-015-rrp-en.pdf

		provide increased access to finance for underserved SME segments, including women-owned SMEs. The investment will also foster greater inclusiveness of the SME financing market via innovation and competition[14].					
5	Entrepreneurial Development Fund	The Entrepreneurship development Fund is a public venture capital fund. It was set up by the Ministry of Economy and Finance (MEF) in 2019 as a national platform for promoting entrepreneurship in the country. The annual allocation for the fund is USD 5 million. It was developed as a part of the Government's	High	Moderate	Moderate	Low	Moderate

[14] https://disclosures.ifc.org/project-detail/SII/44882/acleda-sr-2020

		rectangular strategy (Phase 4), with one of the objectives being promoting the capacity of high potential SMEs and innovative startups. 107 beneficiaries from 10 programs received support in 2020. A few of these programs include incubation and acceleration programs, digital adoption programs, product development programs, etc.					
6	Angkor 500	The Global early-stage VC firm 500 Startups launched the Angkor 500 program on 23rd November 2020 to accelerate the development of the Cambodian startup ecosystem. This was done in partnership with Khmer	Moderate	Moderate	Moderate	High	High

		Enterprise, the implementation unit of the Entrepreneurial Development Fund (EDF). The program supports entrepreneurs with team formation, testing of product and business model, build skills in investor engagement, and international showcasing to receive coaching from industry leaders.					
7	Listing of SMEs on Cambodian Stock Exchange (CSX) Growth Board	In 2019, the director-general of SECC Sou Socheat suggested the listing of a few SMEs on the CSX. The Main Board is for companies excluding SME. SMEs are going to be listed on the Growth Board of the CSX. Though some firms have	Moderate	Low	Low	Low	Moderate

		registered[15], there continues to be a reluctance of SMEs to list themselves because of their low level of financial literacy[16]. Listing themselves would enable SMEs to access funding from the capital markets and allow VCs to exit the firm.					
8	Business Recovery and Guarantee Scheme (BRGS)	BRGS was launched by the Credit Guarantee Corporation of Cambodia on 29th March 2021. The value of the first tranche of this scheme was USD 200 million. The objective of BRGS is to support MSMEs and large firms to enhance their access to formal loans from participating financial institutions. The	High	High	High	Moderate	High

[15] https://www.phnompenhpost.com/business/csx-growth-board-set-list-smes-next-year
[16] https://www.asiamoney.com/article/281ftoe8pzmwd2bkk90qo/southeast-asia/csx-makes-an-sme-push

		guarantee will act as collateral for 70-80% of the loan amount borrowed from the partnering financial institutions[17]. The total guarantee tenure is 7 years. The guarantee fee per annum is 1% of outstanding loan for priority sector. The single borrower guarantee limit is USD 0.5 million for SMEs.					
9	Co-Financing Guarantee Scheme (CFGS)	CFGS was launched by the Credit Guarantee Corporation of Cambodia on 22nd September 2021. The value of the first tranche of this guarantee scheme is USD 50 million. The objective of CFGS is to support MSMEs and large firms to enhance their access to formal loans from	High	High	High	Moderate	Moderate

[17] https://www.cgcc.com.kh/en/brgs/

		participating financial institutions. The guarantee will act as collateral for 70-80% of the loan amount borrowed from the partnering financial institutions[18].					

The table above analyzes the major alternate financing programs which are currently ongoing or have recently been completed. The analysis is based on the five meso-level parameters mentioned above. The qualifiers i.e., high, or moderate, or low have been used in an indicative sense and derived from primary and secondary research.

- Most programs score high on alignment having laid out objectives, which means there is a clear intention on the outcomes of each program, and it is in alignment with providing support for SMEs. However, only five out of nine programs fare high on both alignment and objectives. These five programs have clearly defined objectives, which are also aligned directly in a way to enhance the three alternate financing instruments of our concern.
- Most programs have created or have the potential to create a high impact because of the information on the progress laid out so far, have a framework in place to report impact, nature of stakeholders involved, and the amount committed for funding
- Programs score high on adaptability because they involve multiple stakeholders and the risk of reliance on only one stakeholder is eliminated. In case of one or more parties backing out, the program can still adapt to the change and continue
- Program on Venture Capital are weak in comparison to the two-step loan and credit guarantee programs. They are still in their nascent stages and the impact they would have on Cambodia's MSME ecosystem is yet to be seen.
- The SCFS 1 and SCFS 2 programs leverage complementarity. They have the BRGS and CFGS credit guarantee schemes built into them.
- The Angkor 500 program scores low on alignment because of its primary focus on tech-based startups. The link to MSMEs is through its collaboration with Khmer enterprise which has a focus on MSMEs because of one of the objectives of the Rectangular Strategy. However, it scores high on feasibility and impact because of the nature and number of stakeholders involved.

[18] https://www.phnompenhpost.com/business/credit-guarantee-corporation-cambodia-launches-50-million-co-financing-guarantee-scheme

- Though some SMEs have listed themselves on the Cambodian Stock Exchange (CSX), they may not be able to leverage the full effect of the capital markets because of the small size of the CSX.

IV. Micro analysis

A thorough micro analysis of alternate financing instruments available to MSMEs can be done based on five variables. These are i) **Utility** means whether the product or service addresses the needs of the specific target group, ii) **Compatibility** means whether the product or service conforms to all guidelines, laws, and market environment within the country and complements other existing or relevant solutions, iii) **Accessibility** means whether the solution is available and accessible to the target group at their convenience, iv) **Usability** refers to how the target group perceives the solution to be useful and is customizable as per their changing needs, and v) **Impact** translates to the intended impact of the solution on the target group and their enterprise. As the maturity of the three alternate financing instruments is still low, it is difficult to quantify their impact on MSMEs. For this, an in-depth understanding is required around the most conducive profiles for providing loans.

We have qualitatively analyzed each of the three alternate financing instruments against the variables mentioned above.

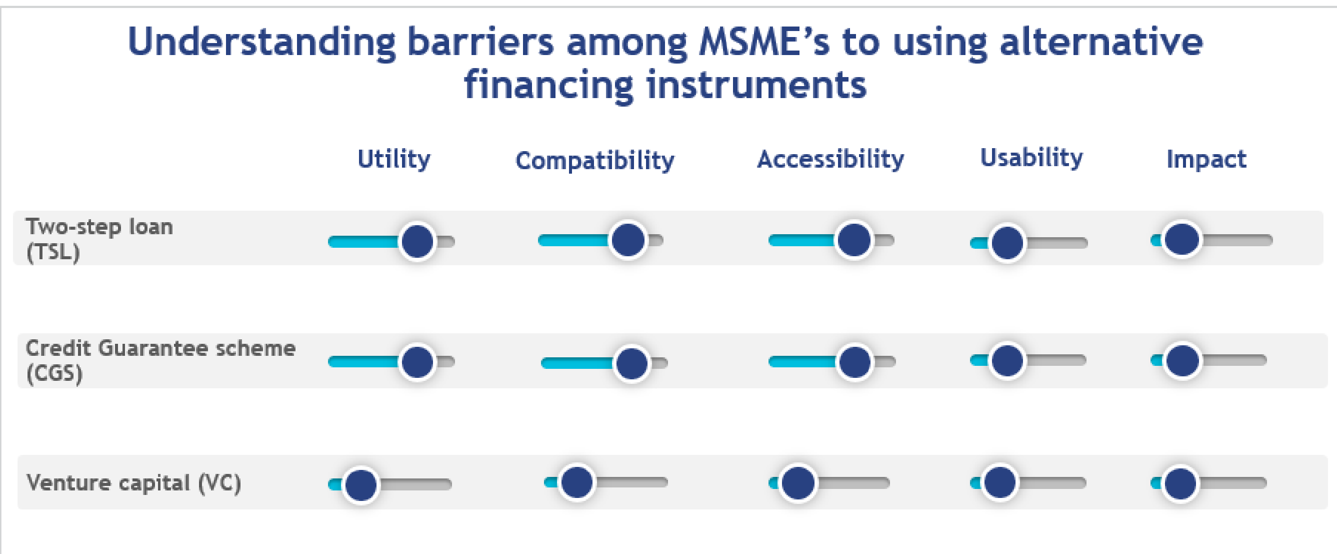


Figure 4: Micro-analysis of three instruments against variables

The two-step loan programs in Cambodia aim to build up priority SME sectors —manufacturing and handicrafts, create employment opportunities — and have high utility among MSMEs in Cambodia. The average SME loan size of $13,367 in 2020[19] with an interest rate of 11.8% and an average tenure of 4 years. Demand for credit for MSMEs has grown over the last few years. In the first quarter of 2019, MSMEs held 70% of all loan accounts. They are also highly compatible and accessible to the target

[19] ASIA SME monitor

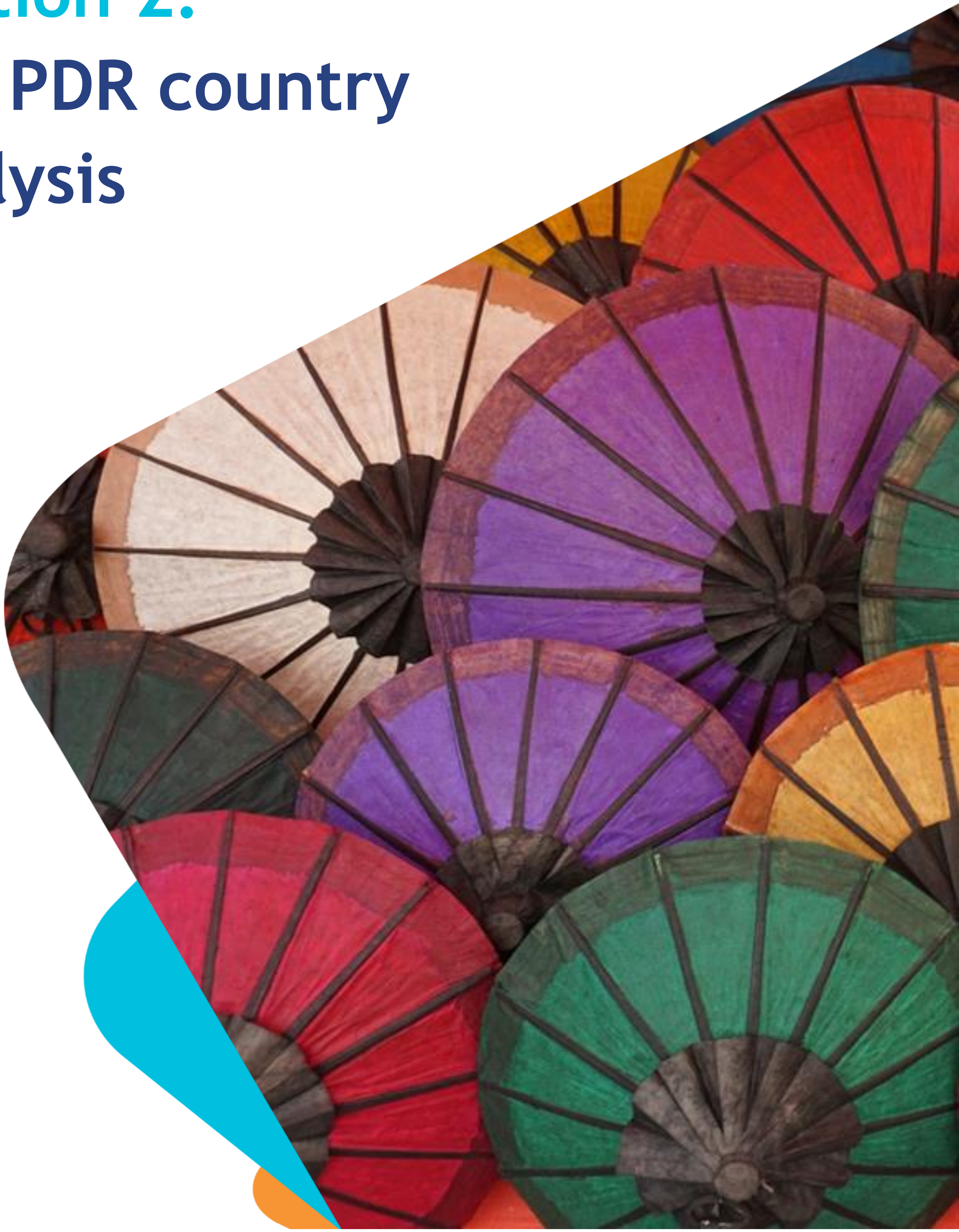
group with multiple benefits such as flexible interest rates, nuanced product offerings, and flexible collateral requirements depending on the requirement of the financial institution[20]. However, the 2 step loan programs are nascent in the country — with most of them less than a year old — and their usability and impact remain to be seen.

The BRGS and CFGS Credit Guarantee schemes are less than six months old and were launched to provide additional support to MSMEs borrowing under SCFS 1 and 2. They have high utility for MSME and have been developed in line with the policies of the government of Cambodia to support the survival and economic recovery of MSMEs during the COVID-19 pandemic. As they have been developed in Cambodia by the CGCC, they are compatible with the market environment and laws and regulations of the country. After the Secured Transaction Law was passed in 2007, moving property was being allowed to be put as collateral for MSME. BRGS and CFGS further eased the requirement for physical collateral with the guarantees acting as collateral for 70-80% of the loan, making it more accessible to MSMEs. Like the two-step loans, given their nascency, it remains to be seen as to how MSMEs perceive the guarantee offerings and the impact they can create as an alternate financing instrument.

Venture Capital as an instrument is still in its early stages in Cambodia. The Angkor 500 program was launched only in November 2020 with a primary focus on tech startups. Also, VCs do not have many exit opportunities in Cambodia because of the small size of the Cambodian Stock Exchange (CSX). CSX began its operations in 2012 and only 5 listed companies were there on the exchange at the end of 2019[21]. The current VC landscape is not well-targeted to the needs of SMEs or accessible to them. Measures are being taken to make the product compatible through programs like Angkor 500 and encouraging more SMEs to list on the CSX to take advantage of the capital markets. Because of the nascency, there is insufficient data on the usability and impact of the VC financing instrument in Cambodia.

[20] https://www.phnompenhpost.com/business/more-smes-look-scfs-loans
[21] ASIA SME Monitor

Section 2:
Lao PDR country analysis



Lao PDR country analysis on the landscape of two step loan, venture capital, and credit guarantee scheme for MSME financing

The country analysis is based on primary and secondary research to help alleviate our understanding of the MSME 'Alternate Financing Instruments' (AFI) in Lao PDR. Primary research included detailed discussions with eight prominent organizations – Department of Small and Medium Enterprises Promotion (DOSMEP), Bank Supervision Department (Bank of Lao PDR), Financial Institution Supervision Department (Bank of Lao PDR), Bank Service Department (Bank of the Lao PDR), Lao National Chamber of Commerce and Industry (LNCCI),the Lao Development Bank, Maruhan Bank, and SACOM Bank.

I. Stakeholder snapshot for MSME alternate financing (two-step loan, venture capital, credit guarantee scheme) development in Lao PDR

For the stakeholder analysis we adopted a three-tiered approach of identifying stakeholders and analyzing their activities. The three tiers of our analysis is mentioned below.

- **Tier 1 - Macro-environment.** To identify stakeholders responsible for regulatory, policy, and strategic initiatives in the country and analyze their activities
- **Tier 2 - Meso-environment.** To identify and analyze initiatives designing and implementing country-level or sector-level programs to increase the adoption of alternate finance instruments for MSMEs
- **Tier 3 - Micro-environment.** To identify and analyze specific solutions from financial institutions that promote the adoption and usage of alternate financial instruments for MSMEs

The figure below presents a snapshot of stakeholders working across the three tiers.

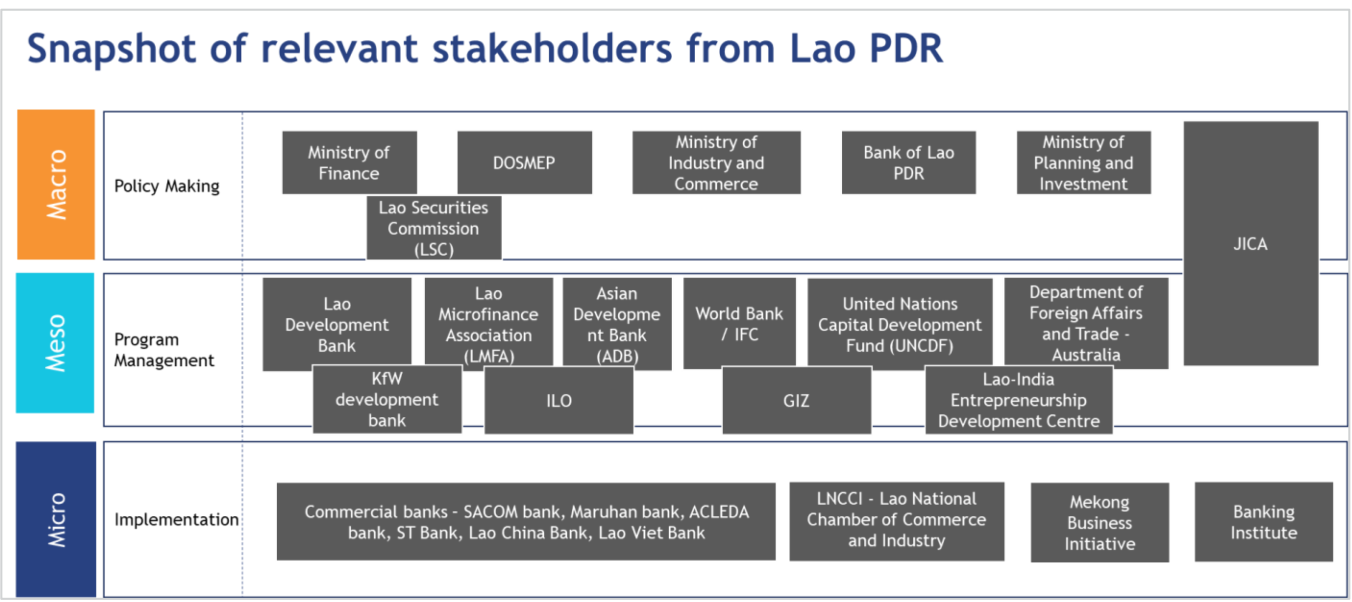


Figure 1: Stakeholder landscape for alternate financing in Lao PDR

The macro-level stakeholders work under the overall stewardship of The Bank of Lao PDR, which oversees the financial system in the country. However, for MSME development, the overall responsibility lies with the Department of SME Promotion under the Ministry of Industry and Commerce, which is largely in line with international best practices. DOSMEP works with the Bank of Lao PDR to develop and implement policies for the MSME sector in Lao PDR. A separate department that focuses on SME development is a positive step, considering the size and the specific needs of the MSME sector. Focused attention on SMEs improves the potential to harness SMEs for economic growth.

The meso-level stakeholders in Lao PDR serve as a link between the policy and actions on the ground. They serve as important drivers of change in the MSME alternate financing landscape. These stakeholders include international development agencies that work with the macro-level players. An important gap that the meso-level stakeholders fill is the capacity gap in policy institutions at the macro level.

The micro-level stakeholders include financial institutions like commercial banks, MSME development organizations, SME centers by LNFCCI, among others. Institutions at this level are in charge of the implementation of the policy.

Having discussed the stakeholders, we now look at our assessment of the macro-environment in Lao PDR.

II. Macro-analysis

We have analyzed a few important national and sectoral development policies on how they have enabled a conducive environment for the development of the three alternate financing instruments – two-step loan, venture capital, credit guarantee scheme. We focus on the five most relevant development plans (see figure below) to analyze Lao PDR's policy landscape against the three alternate financing instruments (AFI). These are 1) Lao PDR Financial Inclusion Roadmap (2018–2025), 2) Strategic Action Plan for Private Sector Development in the Lao PDR (2021-2025), 3) Strategic Plan for Capital Market Development (2016–2025), 4) SME Development Plan (2016–2020), and 5) SME Promotion Activities by Law (2011). It is important to note that SME development is but one component of the national-level strategies. Therefore, a thorough articulation of development of alternate financing in such strategies may not be available.

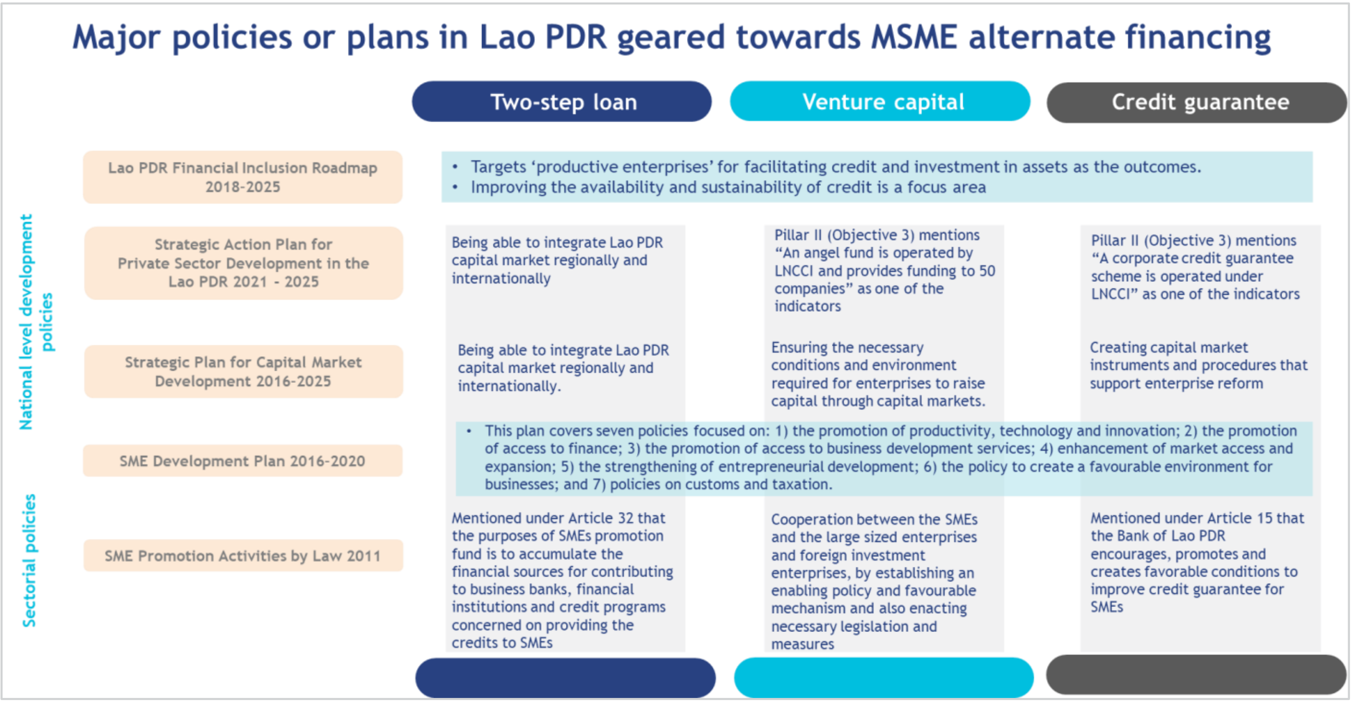


Figure 2: Policy inclusion for MSME alternate financing

As detailed in the assessment framework for the project, the macro environment for alternate financing of MSMEs can be analyzed through four variables, i) **relevance** of policies and regulations in providing a platform to introduce AFI's in the country, ii) **effectiveness** of the policies or regulations targeted towards AFI's in terms of their design, iii) **efficiency** in achieving the objectives of alternating financing within the country, and iv) **sustainability** of the effects of the policy or regulations towards providing alternate financing for MSME's.

We now analyze the role of macro environment in facilitating AFIs for MSMEs in Lao PDR

The supervision of credit disbursement, management and usage is weak specifically post-COVID

Individual departments in the central bank are assigned responsibilities to conduct online and offline supervision of disbursement, management and utilization of the credit provided by banks to MSME's. However, these departments are completely dependent on the banks to provide field data around these parameters. Also, the frequency of inspection depends on the historical credit risk being managed by the bank. There is a need to conduct interim risk assessments, holistic review of the risk ratios of each lending banks, incorporate innovative reporting processes for supervision in the post-COVID scenario e.g. data upload from banking applications, and use of advanced data analytics to foresee and transfer or manage credit risks. However, based on our interviews with relevant stakeholders, the use of technology and manpower for effective supervision is lacking, especially considering the need to modify supervision for alternate finance instruments

The ownership and management for the upcoming CGS needs attention

The SME Development Plan (2016-2020) mentions the creation of a 'model credit guarantee project for MSMEs' in the future. The plan does not clearly mention about the ownership of the project. It hints at multiple stakeholders/owners comprising of 'individuals, the Government's credit guarantee fund, credit guarantee companies' has been hinted. A section of this plan also mentions 'improved MSME involvement in regulation amendment' and 'improved issuance of licenses' as desirable outcomes – which were to be achieved by 2020. While it is encouraging to see a mixed ownership model for CGS, this model requires clearly demarcated ownership and responsibility indicators for each integral stakeholder along with independent and capable day to day management of the CGS.

In addition, while recently a project by the World Bank has setup a partial credit guarantee facility for an emergency response credit, its scope is limited in terms of size and impact of the guarantee offered.

Credit lending by banks is demand or market driven with no regulations around allocation percentages across priority sectors

DOSMEP focusses on the priority sectors (agriculture, industry and handicrafts, tourism) for providing credit to MSME's. However, the allocation of credit among these four sectors does not have any upper or lower limits. Due to COVID-19 there has been limited demand for credit from the tourism and handicrafts sector. However, the flexible market-driven approach followed by DOSMEP has helped credit reach MSME's who require it the most. The approach follows a demand-side initiation by an MSME in need for credit. While these flexible policies have benefitted the country in emergency situations like the pandemic, they might not help push alternate financing to the targeted MSME's (having limited funds or collateral). This is because this segment lacks awareness and knowledge around existing avenues for credit and hence might never apply for the financing schemes.

There is limited thrust on engaging women MSME's

There have been efforts focused on women entrepreneurship. In 2017 the Women's Entrepreneurial Center (WEC) was established through funding from the U.S. Department of State. The WEC's objective is to act as an incubator for business ideas lead by women, and conduct vocational business trainings. The National Strategy for the Advancement of Women 2011-15 was drafted in 2006. MFIs actively participate with women entrepreneurs as well. However, more thrust at the macroeconomic policy level is needed to to engage and enable women entrepreneurs. Lao PDR ranks low (8th out of 10 countries) in the promotion of inclusive SMEs for women. According to the World Bank's gender action plan for 2017-2021 30-40% of new entrepreneurs entering Lao PDR's market are women. These women entrepreneurs will be exposed to risks different from men. Gender sensitive policies informed by Gender Disaggregated Data (GDD) are required to create a women-centric business ecosystem specifically focusing on alternate financing is required to let these businesses flourish.

Venture capital is at a very nascent stage of development

There is a need to focus on infrastructure development such as banking and communications along with ease in regulations to help attract investors. There has been a lot of discussions through business associations on development of venture capital within the country. For example, the Mekong Business Initiative (MBI) is focused 'on startup and SME support policies, as well as direct engagement with business associations, entrepreneurs, and investors'. In March 2017 it hosted the 2nd Annual Mekong Startup Ecosystem Summit – however the thrust has faded since then. There needs to be specific focus around developing platforms, such as the MIB, to encourage private sector collaborations, focus on social impact investments, agencies dedicated to supporting the range of start-ups, and development of dedicated funds to facilitate the development of a range of enterprises.

Another encouraging development is LNCCI's two financing plans awaiting approval from the Bank of the Lao PDR. The first is an investment scheme whereby LNCCI requests large firms to invest in start-ups, making a pool of quasi-venture capitalists/ business angels. In the absence of a developed capital market, getting large firms or public firms to invest in start-ups can encourage innovation and offer funding to nascent enterprises. A selection committee of local banks, investors representing large companies, and the LNCCI Secretariat will evaluate proposals and decide the investment amount. The second supports entrepreneurs prior to start-up phase[22]. Though promising, unless the plans are approved and implemented, it will be difficult to analyze their design and impact.

Decree no. 299[23]

Decree no. 299 issued in 2019 laid down the 'principles and regulations relating to the organization, management, use and inspection' of SME Promotion Fund. For the promotion and establishment of SMEs, it sought to a) 'centrally mobilize funds from various sources', b) 'manage and administer the funds to be used in the provision of credit and the implementation of technical projects', and c) 'regulate the provision of credit to create favorable conditions for SMEs to access to the sources of funds'.

Further:

Article 10 of the decree mentions a 'Provision of credit in the form of co-investment with small and medium enterprises having sound business action plan, but cannot access to finance due to the lack of collateral'. Article 25 of the decree mentions that 'to mobilize funds from domestic and external sources' is a right and duty of the SME Fund.

These can help to drive alternate financing and venture capital ecosystem in the country.

Limited focus on developing a robust risk framework and securitization

The SME Development Plan (2016-2020) mentions no strategy or framework to evaluate risks or debt. The Financial Inclusion Roadmap (2018-2025) however mentions 'modernizing regulations and reducing

[22] ADB, "Asia Small and Medium-Sized Enterprise Monitor 2020", October 2020. https://bit.ly/389gNKA
[23] Lao PDR, "Decree On Small and Medium Enterprise Promotion", September 2019. https://bit.ly/3jadDMY

risks' as a key strategy to achieve its outcomes. The Strategic Plan on Capital Development (2016-2025) mentions lack of risk management experience among the existing securities companies as a challenge, but doesn't offer ideas/guidelines on MSME securities and risk management. The financial supervisory structure in Lao PDR consists of three elements namely the Ministry of Finance, the Bank of Lao PDR, and the Lao Securities Commission (LSC). The LSC consists of securities exchange, auditing firms, asset management companies, credit rating agency, among other entities. It makes laws on securities and other allied subjects related to finances. These laws and frameworks on securities and risks are important because all the money raised through the capital market comes under its purview. This is why the Strategic Plan on Capital Development (2016-2025) mentions ensuring that 'the exchange, the Securities Depository Center (SDC) and securities intermediaries operate with limited risk, with the ability to integrate regionally and internationally' within its outline.

Risk management is necessary to ensure that banks and other FIs are able to disburse their loans optimally without business failure. Risk frameworks at the level of banks and the securities market is therefore essential. This is especially important to build a venture capital ecosystem in a country. It has been argued that 'venture capital can flourish especially - and perhaps only - if the venture capitalist can exit from a successful portfolio company through an initial public offering (IPO), which requires an active stock market.'

Credit reporting needs to be strengthened

We note briefly the evolution of Lao PDR's Credit Information Bureau through the policies or plan we are analyzing:

- The SME Development Plan (2016-2020) proposed to set up a database to provide market information to SMEs. One of the elements under this plan's policy on access to sources to funding was to strengthen 'the organizations that facilitate SMEs' access to credit'. These include Bank of Lao PDR's Online Credit Information System, court registrars, the Economic Dispute Resolution Center, etc. Further, access to quality and standard accreditation systems is an element under the policy to promote productivity, technology, and innovation.
- In 2017 the IFC began working with Lao PDR to reform its credit information framework. This was a part of a larger effort to 'improve the country's financial infrastructure, facilitate lending for smaller businesses, and boost economic growth.'

The Strategic Plan for Capital market Development (2016-2025) notes development of 'modern information and communication technology systems that are well-suited to the desired level of capital market growth.' This is especially significant for Venture Capital products.

A regulatory framework to allow and monitor comprehensive information flow is essential. Such a system should ideally focus on both negative and positive credit information on loans, payment histories, law suits, bankruptcies, etc. In November 2019 Lao PDR upgraded its Credit Information Bureau under the IT department to the Lao Credit Information Company (LCIC) as a separate legal entity. All commercial banks are members of the LCIC. Members need to update their databases regularly by mandate. Currently some local MFIs are considering to apply for membership too.

Information infrastructures for credit risk assessment, with loan level granularity, is known to reduce the risk perception of investors while identifying SME investment opportunities. It will also help mitigate the risk of offering alternate financing by providing and managing credit information on MSME's. Lao PDR's LCIC is in a good stage of evolution. It should concentrate on making the databases more robust and interconnected as expressed in the Strategic Plan.

There is a considerable focus on capacity building of MSME's

Capacity building of MSMEs is an integral activity to help increase the financial inclusion targets. 'MSME skills and strategic vision are a key ingredient to any effort to broaden the range of financing instruments'.[24]

The SME Promotion Activities by Law (2011) mentions 'training on entrepreneurs' capacity building, labor skills development, upgrading and utilizing advanced technology' under Article 20 entitled Increasing on productivity. The decree also mentions under Article 38 as 'a right and duty' of other organizations to establish technical institutes to support SMEs in 'labor skills development, products development research, the training, workshop, counselling and other professional technical services'. The Strategic Plan Capital Market Development (2016-2025) mentions financial literacy as one of its four pillars. The SME Development Plan (2016-2020) has included training and capacity building of entrepreneurs on 'business management, marketing planning, accounting, law, among others, under its policy on access to business development counseling. These policies can help promote knowledge around advantages of alternate financing and skills around using alternate financing. This will help in quick accessibility of these alternate instruments.

Article 38 of the law on the promotion of Small and Medium Sized Enterprises

Rights and Duties of other organizations

Regarding the management of SMEs promotion, other organizations have the rights and duties as follow:

- Establish the center or technical institutes to support the SMEs in various areas related to the roles such as entrepreneur development, labor skills development, products development research, the training, workshop, counselling and other professional technical services;
- Advertise, disseminate, supervise and monitor the promotion of SMEs under their sectors;
- Regularly summarize and report to their high authority and the industry and commerce sectors at their levels the progress on the implementation of SMEs promotion;

[24] OECD, "New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments", 2015. https://bit.ly/3mHBxBN

III. Meso analysis

As detailed in the assessment framework for the project, an active meso environment for alternate financing of MSMEs can be analyzed through six variables, i) **Alignment** of the program or project align with the environment, ii) has the program or project been designed with **clear and specific objectives**, iii) **Feasibility** of implementing the program or project, iv) **Adaptability** of the program or project to changing environments (via **availability of supporting ecosystem** or resources to help implement the program or project), and v) **Impact** of the project and program on MSME's. These variables are particularly vital to facilitate impactful intermediary loans (or two step loans i.e. TSL), credit guarantee schemes (CGS), and venture capital products (VC) to support the MSME sector in the country.

For the meso-level analysis, we shortlisted a few prominent programs or projects focused around driving alternate financing for MSME's in the country. We then analyzed the programs or projects on their ability to cover the six variables (of the assessment framework (mentioned above).

In the diagram and below table we list down all current projects and programs which currently encourage alternate financing opportunities MSME's.

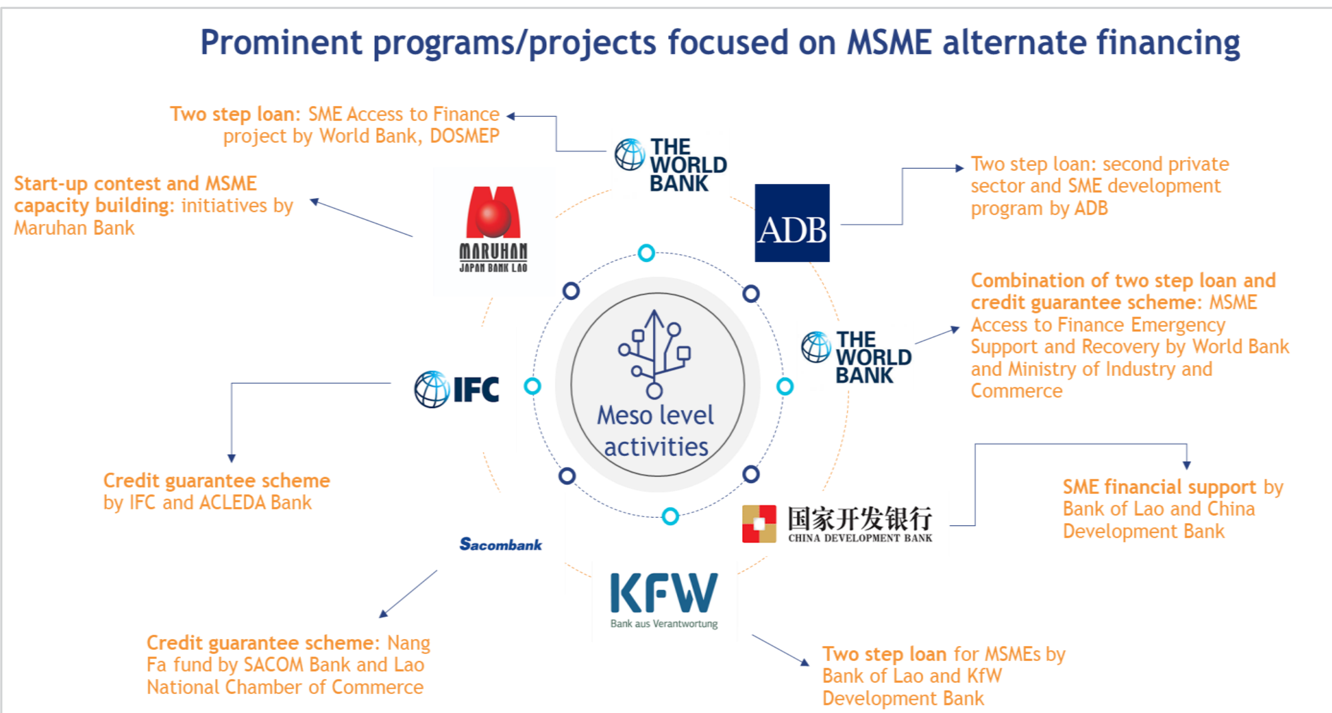


Figure 3: Programs or projects - MSME alternate financing

Table 1 Mapping of MSME alternate financing programs or projects to assessment variables

S. No.	Program or project name	Description	Analysis of the program or project				
			Alignment	Objectives	Adaptability	Feasibility	Impact
1	MSME Access to Finance Emergency Support and Recovery project	The MSME Access to Finance Emergency Support and Recovery project by World Bank and Ministry of Industry and Commerce fares high on adaptability and alignment. It's a USD 40 million loan with Lao PDR as borrower. The project was launched noting that 'MSMEs have been greatly impacted by economic disruptions resulting from the ongoing COVID-19 crisis.'[25] The project is going to run from 2021-2025. Its	High	Moderate	High	Moderate	Moderate

[25] WORLD BANK, "Project Information Document - Micro, Small, and Medium Enterprise Access To Finance Emergency And Recovery Project", September 2020. https://bit.ly/3DhlfFA

		objectives are to a) establish a partial credit guarantee facility, b) create an emergency and recovery line of credit to MSMEs, and c) technical assistance and project management. The project is focused on the thematic areas of enterprise development, financial stability, policy/banking regulation and restructuring, and disease control and pandemic response.					
2	Nang Fa fund by SACOM Bank and Lao National Chamber of Commerce	The Nang Fa fund by SACOM Bank and Lao National Chamber of Commerce and Industry (LNCCI)[26] is also high on adaptability and availability. It's going to operate	High	Moderate	High	Moderate	Moderate

[26] LNCCI, "Smes Have New Option In Obtaining A Loan", June 2020. https://bit.ly/3yawZWp

		as a credit guarantee scheme wherein the LNCC will authorize the loan and act as a guarantor with the SACOM Bank. An initial tranche of ~ USD 31,249 has been assigned as of now. The loan is meant to help farmers to set shops to sell their produce to customers or middlemen.					
3	SME Access to Finance project	World Bank's SME Access to Finance project[27] in collaboration with DOSMEP has a clear goal to 'to provide long-term funding sources for banks so they, in turn, can provide long-term credit to small and medium enterprises'. The duration of the project is from 2014-2021	High	High	Low	Moderate	Moderate

[27] WORLD BANK, "Lao Pdr – Small, and Medium Enterprise Access To Finance Project", July 2021 (updated). https://bit.ly/3kjnPCa

		and it is worth USD 20 million. It is designed as a two-step loan with Ministry of Finance as borrower and Ministry of Industry and Commerce as implementing agency. Its initial closing date was set as 31 December 2020. The project has adapted itself to difficulties caused by the global pandemic. As of June 2021 however the project declares itself as 'moderately satisfactory' on a variety of indicators. There is scope to consider a better designed monitoring and evaluation framework to understand the use of credit by SMEs and its effect on parameters like income. The					

		project is focused on the sectors of banking institutions (62%), other NBFIs (21%), and public administration in the industry, trade and services segments (17%).					
4	Maruhan Bank's SME initiatives	Maruhan Bank's SME initiatives[28] fare highly on alignment, adaptability, and clarity of goals. These initiatives are based on the premise that funding SMEs must go hand in hand with training and capacity development. Focus areas of the initiatives include bookkeeping, business life cycle, digitalization, online training, workshop, and mentoring, etc.	High	High	High	Moderate	Low

[28] The Laotian Times, "LAO SME APPOINTS MARUHAN JAPAN BANK LAO AS A STRATEGIC PARTNER ON JOINTLY DEVELOPING, ENABLING, AND BUILDING SMEs IN LAO PDR", December 2020. https://bit.ly/3mN9fpx

		The first startup competition was organized in 2020 and the second cohort is under arrangement. These initiatives are endorsed by DOSMEP and MOEFC. This also makes the programs more feasible and available.					
5	Lao Access to Finance Fund	Germany has provided the Lao Access to Finance Fund (LAFF) around USD 7.99 million[29] towards a two-step loan setup. The participating entities are the Bank of the Lao PDR and KfW Development Bank. The project is high on clarity of goal, which is to 'facilitate access to long term finance for households and MSMEs in rural	Moderate	High	Low	Moderate	Moderate

[29] Bank of the Lao PDR news, "Germany provided an additional EUR 6.8 million for the Lao Access to Finance Fund (LAFF) to the Bank of Lao PDR", March, 2020. https://bit.ly/3ykyVLY

		areas'. The grant also aims at 'capacity building to strengthen systems of Bank of the Lao PDR and Partner Financial Institutions of LAFF.'					
6	Private sector and SME developm ent program	ADB's second private sector and SME development program ran from 2013-2018 in two parts. Part 1 and part 2 committed USD 15.11 million and USD 4.38 million respectively. Three major outputs have been achieved. Regulatory efficiency has improved, SME policy has been implemented, and trade policy supporting SME development has improved due to this project. This project therefore fares high on	Moderate	Moderate	Low	High	High

		feasibility and alignment.					
7	Credit guarantee scheme by IFC and ACLEDA Bank	IFC and TMB Vientiane Branch of TMB Bank Public Company Limited provided USD 9.1 million loan to ACLEDA Bank in 2017. The objective of the program was to increase SME finance to USD 60 million for 3000 SMEs[30] (especially women-led ones) by 2021.	Moderate	High	Low	Moderate	Low
8	Two step loan by Bank of Lao and China Development Bank	In 2017 the Bank of the Lao PDR and China Development Bank signed an MOU[31] to promote SME financial support in Lao PDR. As of December 2019, 12 commercial banks in Lao PDR were going to receive USD 300 million of	Low	High	Low	Moderate	Low

[30] World Bank Group, "IFC and TMB Boost ACLEDA Bank Lao's Financing to Smaller Businesses in Lao PDR", October 2017. https://bit.ly/3zmFaAg
[31] Bank of the Lao PDR news, "BOL and CDB sign MOU on Financial Cooperation to promote the development of SMEs in Lao PDR", November, 2018. https://bit.ly/3Be4Foc

		funding in three phases[32].					

The table above analyzes the major alternate financing programs or projects which are currently ongoing or have recently been completed. The analysis is based on the five meso-level parameters mentioned above. The qualifiers i.e. high or moderate or low have been used in an indicative sense, and derived from primary and secondary research. We may draw the following inferences from these findings:

- Most programs or projects score high on having clearly laid out objectives, which means there is a clear intention on the outcomes of each program or project
- Most programs or projects are ranked low on adaptability resulting in either low performance or complete closure of the program or project due to changes in the environment. It is integral that any program or project needs to incorporate adaptability in its design which results in greater sustainability and overall better performance.
- Impact varies between low and moderate for most of the programs or projects. This suggests that while these programs have clear objectives, lack of an impact assessment results in limited information on how these programs or projects performed. These limit the learnings and evolution of the programs or projects by design.
- The most important parameter in Lao PDR's MSME landscape is alignment with national goals. A program is well aligned to finance MSMEs when it extends credit and builds capacity in parallel. High alignment and high adaptability is the combination that can produce the best impact. This combination is seen in only three out of the eight programs or projects.

IV. Micro analysis

A thorough micro analysis of alternate financing instruments available to MSMEs can be done on the basis of five variables. These are i) **Utility** means whether the product or service addresses the needs of the specific target group, ii) **Compatibility** means whether the product or service conforms to all guidelines, laws and market environment within the country, and complements other existing or relevant solutions, iii) **Accessibility** means whether the solution is available and accessible to the target group at their convenience, iv) **Usability** refers to how the target group perceives the solution to be useful and is customizable as per their changing needs, and v) **Impact** translates to the intended impact of the solution on the target group and their enterprise.

We have qualitatively analyzed each of the three alternate financing instruments against the variables mentioned above.

[32] The Phnom Penh Post, "Laos' central bank set to use $300M Chinese loans for SME financing", December, 2019. https://bit.ly/3zjMY5Y

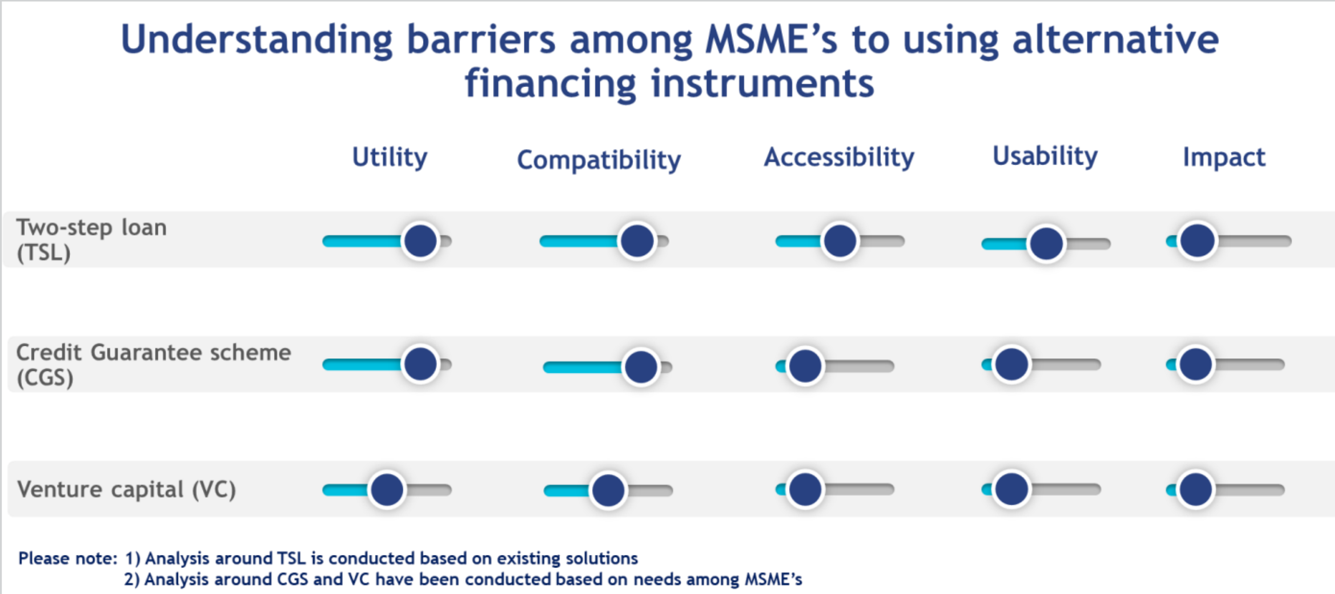


Figure 4: Micro-analysis of three instruments against variables

About 12 percent of Lao small and medium enterprises have a bank loan or a line of credit. These SMEs account for 97 percent of the private sector and provide 63 percent of jobs in Lao PDR. With so many SMEs constrained in accessing finance in Lao PDR, it's estimated they face a financing gap of US$1.2 billion. Women who own or run about a third of the country's SMEs face a US$340 million financing gap[33]. Therefore, it is safe to say that there is a potentially a high utility for alternate financing among MSME's in the country.

- Credit guarantee has seen increased utility among the MSME segment. However, there is limited visibility around the loans (for example specific loans disbursed by ACLEDA bank) which provide these benefits which limits the accessibility of this service. Also, limited knowledge around how to avail these benefits is also a limitation among MSME's which leads to educed usability of this instrument.
- While small and old businesses do not have sufficient knowledge to understand the utility for venture capital to help grow their business. New-age startups find it intriguing but find the process complex.
- Two-step loan as an instrument has witnessed extensive utility among MSME's of Lao PDR in the form of subsidized loans from commercial banks. For example, the LAFF (USD 7 million provided by Germany) extends around USD 52,180.6 to eligible MSMEs in rural areas[34]. The fund is especially useful due to its highly subsidized interest rates. Credit guarantee has high utility specifically for small businesses struggling to cope with the economic slowdown brought on by COVID-19. According to a survey by the Lao National Chamber of Commerce and Industry, more than three-

[33] Houérou Philippe, IFC, "Helping to Meet Challenges in Lao PDR". https://bit.ly/3jczYJL
[34] Bank of Lao PDR news, "Opening ceremony of Lao Access to Finance Fund (LAFF) Project". https://bit.ly/2Wls87K

quarters of respondents reported a drop of at least 20% in revenues during the first quarter of 2020, compared to the same period in 2019[35].

TSL as an instrument is compatible with all laws and regulations within the country with multiple agencies managing the instrument. Capital markets are small in scale in the Lao PDR and have yet to become a funding venue for growing MSMEs and start-ups. The Lao Securities Commission (LSC) is brainstorming a new market board for growth enterprises and start-ups—to allow MSMEs to take advantage of the capital markets[36]. In addition, while no regulations stop banks from creating Venture Capital funds, banks have not seen venture capital as an area of intervention.

Limited efforts around digitizing processes has led to an increased turnaround time for MSME's to access credit. Within some banks, while MSME's can initiate the application process through the service centers, it goes to the main branch for approval after which the entrepreneur has to visit the respective branch to sign the contract. This complete process can take a few months which hampers accessibility of loans among MSME's, these barriers need to be dealt with while offering alternate financing to MSME's.

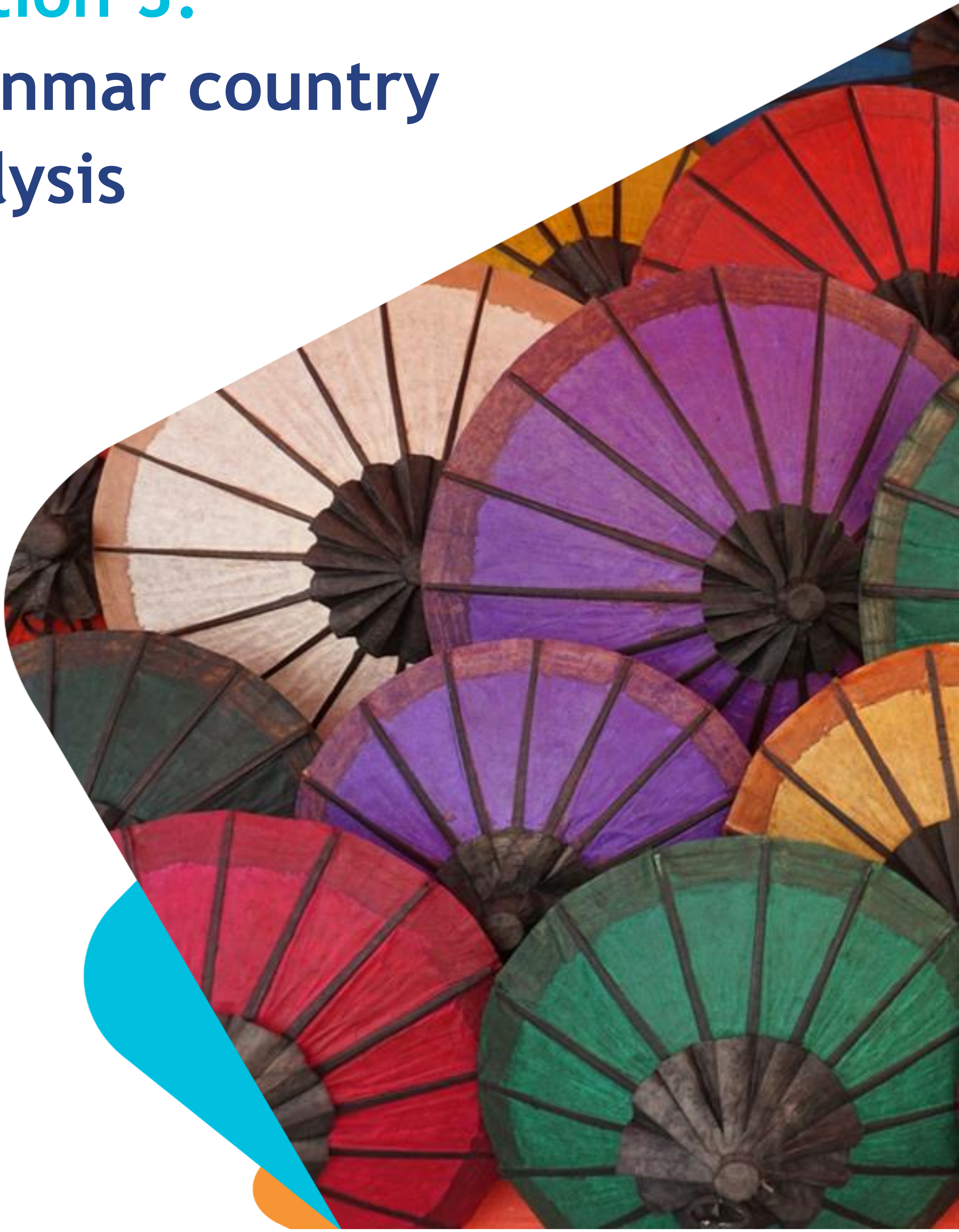
- Most of these loans are accessible to MSME's who are part of the priority sectors (agriculture, industry and handicrafts, tourism). However, lack of collateral, limited business vintage, limited credit footprint are some reasons why MSME's are not able to access all these loans. Around 60% MSMEs find lenders over emphasizing the need for collateral thereby reducing accessibility even farther for businesses having limited or no collateral[37].
- MSMEs in need of a loan do not need to go to Sacom Bank to negotiate the transaction themselves because the Nang Fa Fund run by the Lao National Chamber of Commerce and Industry will authorize the loan and act as a guarantor with the bank on their behalf. This means that farmers and business operators don't have to offer their land or house to the bank as a form of security. The loan cooperation agreement was signed at this point in time so that farmers and business owners can receive assistance quickly, with an initial tranche of 300 million KIP being offered to MSMEs[38]. In addition, a World Bank project (Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery Project[39]) has established a Partial Credit Guarantee facility to backstop bank lending to MSMEs. If other projects can replicate, this is bound to increase accessibility constraints among MSME's.
- A few service providers specifically mentioned during our in-country consultations that start-ups are not preferred. For example, The Lao Development Bank has 4929 loan portfolios currently, none of which are startups. This places a lot of constraints on start-ups to avail any form of credit without the establishment of a conducive venture capital environment.

[35] World Bank Group, "Unlocking Access to Finance for Small and Medium Enterprises in Lao PDR", September 2020. https://bit.ly/3B3vuLF
[36] ADB, "ASIA SMALL AND MEDIUM-SIZED ENTERPRISE MONITOR 2020", October 2020. https://bit.ly/389gNKA
[37] The ASEAN Secretariat, "Handbook for MSME Access to Alternative Sources of Finance in ASEAN", 2017. https://bit.ly/3y7aOR7
[38] LNCCI, "SMEs Have New Option In Obtaining A Loan", 2020. https://bit.ly/2WopFJQ
[39] Project Information Document, "Micro, Small, and Medium Enterprise Access to Finance Emergency and Recovery Project (P174169)", https://bit.ly/3mp5LJu`

Non-productive loan utilization is a major cause of worry for banks which leads to high NPA for lenders. The usability of these loans is low across instruments as there is limited focus on how these instruments need to cater to the needs of the MSME's.

In this context, for alternate financing instruments to be accessible and usable among MSME's, they need to match both the i) lifecycle of the MSME as well as the ii) specific financial needs of the MSME's. The tenure of the credit (1 year to 10 years) will need to be customized accordingly. There is also a need to focus on business management needs like a) Driving innovation in business, b) Availability of resources, c) foresee growth of business which will eventually have a direct impact on the business growth and financials. In addition, other factors like limited skills to manage business, limited access to open markets, weak internal business systems are other reasons which lead to low usability of credit. Training MSMEs in financial and capital market literacy is critical for increasing access to finance. Several organizations have stated, as part of their mission, to educate and train MSMEs, both in financial and management matters including LSC.

Section 3:
Myanmar country analysis



Myanmar country analysis on the landscape of two step loan, venture capital, and credit guarantee scheme for MSME financing

The country analysis is based on primary and secondary research to deepen our understanding of the MSME 'Alternate Financing Instruments' (AFI) in Myanmar. Primary research included in-depth interviews with 11 prominent organizations. These are the Central Bank of Myanmar, Financial Regulatory Department of the Ministry of Planning and Finance, the Directorate of Industrial Supervision and Inspection of the Ministry of Industry, Yoma Bank, Cooperative Bank, Small and Medium Enterprises Development Bank, Myanmar Economic Bank, Myanmar Insurance, UAB Bank, Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), and the Myanmar Young Entrepreneurs Association (MYEA).

I. Stakeholder snapshot for MSME alternate financing (two-step loan, venture capital, credit guarantee scheme) development in Myanmar

For the stakeholder analysis we adopted a three-tiered approach of identifying stakeholders and analyzing their activities. The three tiers of our analysis is mentioned below.

- **Tier 1 - Macro-environment.** To identify stakeholders responsible for regulatory, policy, and strategic initiatives in the country and analyze their activities
- **Tier 2 - Meso-environment.** To identify and analyze initiatives designing and implementing country-level or sector-level programs to increase the adoption of alternate finance instruments for MSMEs
- **Tier 3 – Micro-environment.** To identify and analyze specific solutions from financial institutions that promote the adoption and usage of alternate financial instruments for MSMEs

The figure below presents a snapshot of stakeholders working across the three tiers.

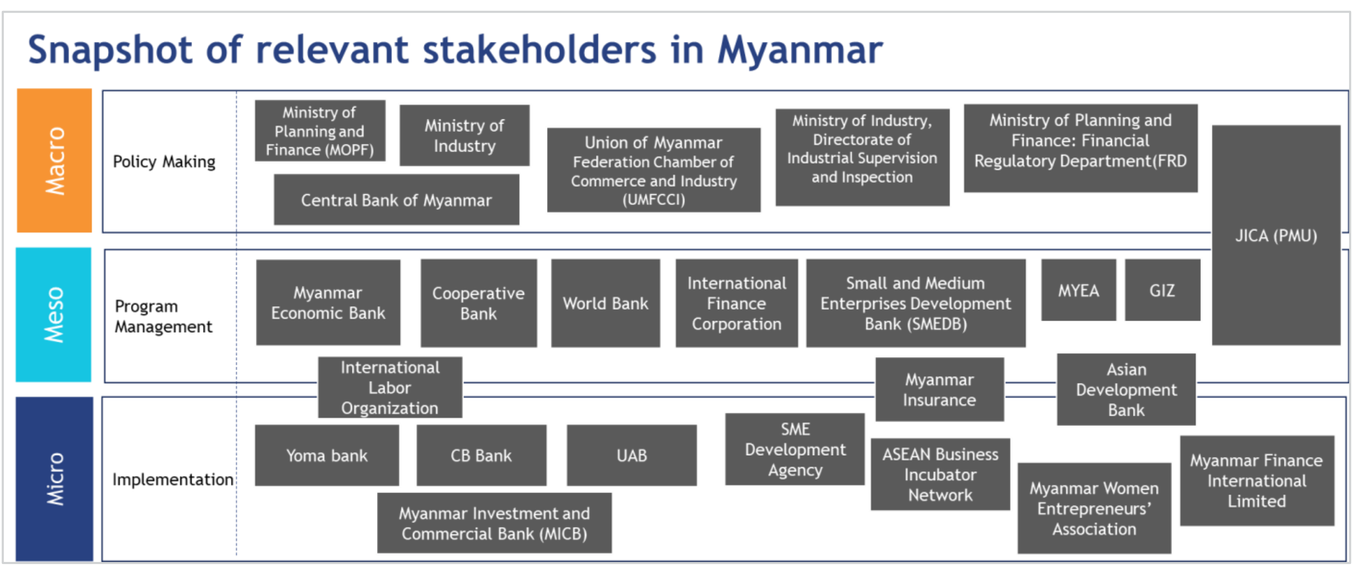


Figure 1: Stakeholder landscape for alternate financing in Myanmar

The macro stakeholders are engaged primarily in policy design, coordination, and monitoring. Most of the policymaking bodies, ministries, and regulators at this level focus on providing support to SMEs. The Central Bank of Myanmar and the Financial Regulatory Department (FRD) oversee the functions of the financial system in Myanmar. The most comprehensive and complete data on SME is published by the Central Department of Small and Medium Enterprise Development within the Ministry of Planning, Finance, and Industry. In January, 2018 the SMEs Development Central Committee's Notification Numbers was published, which established the organizational hierarchy governing SMEs. The SME Central Committee is a cross-ministerial team placed at the apex level. The SMEDA (of the Directorate of Industrial Supervision and Inspection) works under the ambit of its working committee. It has both macro and meso features. The SME Development Department under the Ministry of Planning, Finance and Industry (MOPFI) is also tasked with smooth and effective functioning of SMEs. The Small Scale Industries Department under the Ministry of Agriculture, Livestock & Irrigation (MOALI) supervises the microenterprises in the country.

The meso stakeholders work to manage the policies established by the ministries. The Myanmar Economic Bank for example 'provides subsidized credit to SMEs at 9% per annum'[40] and acts as a channel to disburse JICA's two-step loans. JICA being a major lender is unique in the sense that it has involvement in both policy design and implementation. Funding support that comes from international, multilateral organizations like World Bank, IFC, and GIZ is concentrated mostly on SME development and finance.

Micro stakeholders are concerned with the implementation of policies, programs, and regulations developed by macro and meso stakeholders. They interact across the spectrum of MSMEs and a number of them undertake their own SME-focused initiatives - some of which are delivered through digital channels. However, much of them have a limited physical presence at the community level—where face-to-face interactions and handholding support to MSMEs are essential. The Myanmar Investment and Commercial Bank (MICB), for example, is one of the 'designated state banks for trade financing'. In the wake of the COVID-19 pandemic, the MICB reduced its interest rates to SMEs (which form 60% of their account portfolio) to keep the economy stimulated.

Having looked at the major and relevant stakeholders briefly, we move to a macro-analysis of policies and regulations concerning MSMEs in the next section.

II. Findings from Macro-analysis

We have analyzed a few important national and sector-focused development policies on how they have enable a conducive environment for the development of the three alternate financing instruments – two-step loan, venture capital, credit guarantee scheme. We will focus on the five most relevant development plans (see figure below) to analyze Myanmar's policy landscape against the three alternate financing instruments (AFI). These are 1) Myanmar Financial and Inclusion Roadmap (2019-2023), 2) COVID-19 Economic Relief Plan (CERP), 3) Myanmar Sustainable Development Plan 2018-2030,

[40] https://www.adb.org/sites/default/files/publication/646146/asia-sme-monitor-2020-volume-1.pdf

4) Small and Medium Enterprise Development Policy 2015, and 5) The Myanmar Indicative Private Sector Development Framework and Action Plan 2016.

It must be noted that MSME development is one of the many components or focus-areas of national-level strategies. A direct reference to alternate finance instruments (AFI) focused on MSMEs might therefore not be available.

Major policies or plans in Myanmar geared towards MSME alternate financing

		Two-step loan	Venture capital	Credit guarantee
National level development policies	Myanmar Financial Inclusion Roadmap 2019-2023	TSLs to improve access to finance and to encourage capital investment in SME. TSL via MEB for bank SME lending	Availability of funds for SMEs will also be enhanced by encouraging the growth of other alternative providers that can serve formal SMEs such as capital markets, crowd funding, etc.	Enhancing Financial Access through a Sovereign Credit Guarantee Facility ($60M Loan)
National level development policies	COVID-19 Economic Relief Plan (CERP)	Obtain external development financing in the form of grants and concessional loans to finance measures under CERP and Myanmar's response to the pandemic.	Foreign investors who have been looking at the Myanmar market may take the opportunity to seek fast-track approvals of their investments into the country, in particular for reputable international firms.	Government credit guarantee schemes of up to 50% for any new loans made by banks to Myanmar enterprises, whose turnover is less than MMK 1 billion, for working capital.
National level development policies	Myanmar Sustainable Development Plan 2018-2030	Allow authorized foreign banks to provide both kyat and foreign currency loans to domestic borrowers, and to engage in interbank lending with local institutions	Strategy 3.3: Provide a secure, conducive investment enabling environment which eases the cost of doing business, boosts investor confidence and increases efficiencies	SME growth has been hampered by limited access to finance, market access, security of land tenure, access to technology and information, amongst many other obstacles.
Sectorial policies	Small and Medium Enterprise Development Policy 2015	Among challenges facing the SME sector in Myanmar, access to finance is identified as a major obstacle, and the following strategies proposed: Microfinance; credit guarantee scheme; hire purchase; two-step loan; trade credit; and connecting entrepreneurs to investors.		
Sectorial policies	The Myanmar Indicative Private Sector Development Framework and Action Plan 2016	State-owned commercial banks (SOCBs) that offer cheap loans to chosen sectors such as agriculture, "crowd out" more efficient FIs, and therefore limit access to finance, and the development of the sector.	Ambitious goals for improving the business enabling and venture development environment	Priority issue: The legal and regulatory environment enables FIs to manage and price risk, secure creditor rights, leverage technology, and finance sustainable growth.

Figure 2: Policy inclusion for MSME alternate financing in Myanmar

As detailed in the assessment framework for the project, the macro environment for alternate financing of MSMEs can be analyzed through four variables, i) **relevance** of policies and regulations in providing a platform to introduce AFI in the country, ii) **effectiveness** of the policies or regulations targeted towards AFI in terms of their design, iii) **efficiency** in achieving the objectives of alternating financing within the country, and iv) **sustainabilit**y of the effects of the policy or regulations towards providing alternate financing for MSMEs.

We now analyze the role of the macro-environment in facilitating AFI for MSMEs in Myanmar.

A much-needed focus on developing human capital and skills is present

Policies relating to MSME development in the country are cognizant of the need to empower the demand-side (entrepreneurs) with the right skills and awareness to participate in the development of alternate finance instruments in the country. The policies also encourage the development of alternate finance instruments by the supply side (banks / financial institutions) for MSMEs in the country.

The Small and Medium Enterprise Development Policy 2015 emphasizes training on access to financial resources, appropriate taxation and procedures, and business development services. On the subject of financial literacy, the policy gives most importance to three aspects. These are a) education on the correct use of a loan, b) education on international practices and procedures for market promotion, and c) provision of training sessions on taxation. Further, the policy recommends formation of 'research and development funds' by the government to university, college, training centers and research departments to train human resources invested in SMEs.

The Private Sector Development Framework and Action Plan 2016 aims to improve conditions for operating businesses by 'education/training to develop human capital'. It recommends the private sector to 'play a role in developing institutions to improve and upgrade workforce skills and training quality, especially for women, youth, and ethnic groups.' Therefore, 'sensible use of experienced foreign employees/advisors, creation of a training institute, and boot camps' is mentioned as short-term action.

The second strategic pillar of the Myanmar Financial Inclusion Roadmap 2019-2023 is dedicated to SMEs and emerging (i.e. larger holder) farmers. Under this pillar, it mentions SME capacity building to improve the 'lack of the necessary skills, templates, and tools'. This it believes will in turn will 'help prepare SMEs to approach formal financial institutions for finance'.

Risk frameworks are not emphasized sufficiently in policies

While risk frameworks are mentioned, there are no dedicated sections or chapters on it – which detail out 'mechanisms to lower credit guarantee costs according to how much risk has been reduced by the provision of business development systems.'[41]

While MSME development policies underline the importance of credit history of MSMEs for risk evaluation and loan appraisals, as we will discuss later in this section – a fully functional credit bureau is not yet in place.

Risk assessment affects FIs and MSMEs to equal degrees. Risk management is necessary to ensure that banks and other FIs are able to disburse their loans optimally without business failure. Risk management frameworks at the level of banks and the securities market are therefore essential. This is especially important to build a venture capital ecosystem in a country. It has been argued that 'venture capital can flourish especially - and perhaps only - if the venture capital can exit from a successful portfolio company through an initial public offering (IPO), which requires an active stock market.'

The Myanmar Financial Inclusion Roadmap 2019-2023 has a separate section on 'SME Risk Assessment and Risk Management Mechanisms.' It touches upon four aspects to enhance SME risk assessment and management. These are: a) having a well-functioning credit information system that must be expanded

[41] https://www.econstor.eu/dspace/bitstream/10419/103856/1/779742370.pdf

on a timely basis, b) establishing a modern secured lending system, c) reviewing existing credit guarantee schemes (this point has been reproduced in the box below), and d) focusing on priorities of farmers and SMEs. But the roadmap's focus is on identification of these risk aspects, and not corrective measures. It lacks elements of risk measurement and assessment – typically followed by reporting and monitoring. This has affected the implementation of the roadmap's vision. For example, the roadmap recommended a Secured Transaction Law and an online collateral registry to help SMEs use movable collateral as assets against loans. However, not enough affirmative action has been seen in this regard.

From section 6.2.2. Improve SME Risk Assessment and Risk Management Mechanisms of the Myanmar Financial Inclusion Roadmap 2019-2023

Review existing credit guarantee schemes. Credit guarantee schemes have helped to support access to credit by SMEs in some countries, but the existing schemes in Myanmar appear to have had little impact. The reasons for this need to be explored further, and potential changes identified that will make them more effective before introducing any new credit guarantee products. In the medium term, the operation of credit guarantees should be moved from Myanmar Insurance to a dedicated credit guarantee fund or agency, with relevant legal reforms.

Adoption of the latest technology among MSMEs is acknowledged as a policy goal and can support the development of alternate financial instruments

Technology companies were recognized as a separate sector only in 2017. The use of technology and innovation is low among SMEs. Using e-commerce to business advantage remains critically under-exploited.

The Myanmar Indicative Private Sector Development Framework and Action Plan 2016 reommends to constitute a legal and regulatory environment that enables 'FIs to manage and price risk, secure creditor rights, leverage technology, and finance sustainable growth'. The document, in its section on 'cross-cutting themes and action plans', acknowledges that effective private sector development reform requires 'high quality, 21st century ICT support'. The policy recommends the concerned government departments 'establish business development services such as a consultation department for technology and management, information dissemination on marketing and trade.' The Myanmar Financial Inclusion Roadmap 2019-2023 too 'highlights the significance of utilizing financial technology.' The roadmap also mentions the importance of the Myanmar Digital Economy Roadmap 2018 in this regard. A brief of the digital roadmap is reproduced in the figure below. The SMEDA has a Technology and Market Promotion Department as one of its three departments too.

The Myanmar Digital Economy Roadmap 2018.

Launched by the Digital Economy Development Committee (established in 2017 and chaired by the Union Minister, MOPFI), the Digital Economy Roadmap outlines a number of measures to digitize government as well as trade and innovation. The most relevant include the development of a digital trade/e-commerce policy, promotion of e-government, promotion of digital signature as being equal to physical signature, encouraging people to use DFS, digital literacy, digital innovation, digital payment systems, and incentives for SMEs to use digital technology.

The venture capital (VC) ecosystem is at an early stage of evolution and will need sustained efforts by the government to achieve critical mass

Equity firms like Seed Myanmar, Myanmar Private Equity and Venture Capital Association have called Myanmar's VC ecosystem nascent. There are only a few VC firms available to fund start-ups. About 50 firms or angel investors extending private equity exist. But their investments are focused on traditional and asset-rich sectors. The SME Development Agency and the ASEAN Business Incubator Network (launched in 2018) offer the only two incubator programs for start-ups available in Myanmar. However, these programs are too reserved in terms of eligibility. They focus on a less diverse group of small and medium enterprises.

The Indicative Private Sector Development Framework and Action Plan 2016 mentions 'improving the business enabling and venture development environment' as one of Myanmar government's critical success factors. Developing SME incubators and value chains is one of its important objectives. It also aims to accelerate the 'development of enterprises and entrepreneurship' by improving 'intermediary channels and institutions to improve access to finance, knowledge, innovative technology, and networking'. The Small and Medium Enterprise Development Policy 2015 mentions 'encouraging the establishment of business that is regarding venture capital' under its Financial Resources agenda.

ADP's SME Monitor 2020[42] reports that the Securities and Exchange Commission of Myanmar (SECM) and the Myanmar Securities Exchange Center (MSEC) think 'SMEs are not attractive candidates for capital market participation.' The most important reasons for this being lack of skills and knowledge, insufficient or improper financial reporting, high capital requirement, and lack of corporate governance and appropriate mindset. The COVID-19 Economic Relief Plan provides a thrust in this direction. Developing 'a central e-commerce website where retail businesses can post their products and sell online' was one of its action plans by the end of 2020. The plan also mentioned developing a 'Challenge Grant' competition amongst Myanmar's ICT/e-commerce community for innovative ideas to combat the pandemic. The Small and Medium Enterprise Development Policy 2015 likewise recommends 'arranging workshops, seminars, management, and production-related trainings, vocational training and technical training with the support of local and international organizations' as

[42] https://www.adb.org/sites/default/files/publication/659451/asia-sme-monitor-2020-sme-development-index.pdf

a means of enabling conducive business environment. The ability of the government to follow through on these plans will shape the development of a VC ecosystem in the country.

SME focused policies in Myanmar underscore the need to reduce regulatory and compliance barriers for MSMEs

The Myanmar Indicative Private Sector Development Framework and Action Plan 2016 mentions that 'instead of developing a transparent and predictable regulatory framework to allow healthy competition, the current regulatory approach in Myanmar focuses heavily on licensing market entry, and imposing restrictions on service providers and foreign investment.' It has set as its priority to improve the legal and regulatory framework for business entities. Its major concern is to establish 'regulatory practices in line with principles of international best practice, including reducing the regulatory burden on SMEs and considering the regulatory impact of new laws and regulations.'

Similarly, the COVID-19 Economic Relief Plan (CERP) exempted 'lease fees charged to affected firms (that have leased state-owned factories for manufacturing, have made progress in their line of business, and have made regular payments in the past three months) for 3-6 months.' The CERP has further instructed to 'review all export applications, licenses and permits, and remove those that are not required to maintain market access or to protect health, safety and security.' These moves are indicative of a series of strategies (in different sectors), which Myanmar has adopted to ease business constraints - especially in the wake of the COVID-19 pandemic. Such moves to ease supply-side constraints hold the key to enhancing the business ecosystem for MSMEs.

Information asymmetry between MSMEs, financial institutions, and policymakers hamper the development of credit markets for enterprises

ADB's SME monitor report notes that a) there are no data on SME exports and imports in Myanmar, and b) there are no data on value chain participation. Their report also suggests that Myanmar Insurance is of the opinion 'that an overall lack of information is endemic and hinders the development of the credit infrastructure'.

Further, Myanmar Companies Law No.29/2017 enabled Directorate of Investment and Company Administration (DICA) to begin online SME registrations in 2017. However, this database is separate from the one maintained by the SMEDA. While there is intent to merge the two databases it has not been completed. Lack of credible statistics on MSMEs is a barrier for effective policymaking.

The Myanmar Indicative Private Sector Development Framework and Action Plan 2016 mentions the need to 'develop a searchable database on the trade repository for duties/commercial taxes by HS code' as a foundational priority. The Myanmar Financial Inclusion Roadmap 2019-2023 mentions that the 'availability of data, information, and surveys on SMEs will further help to guide policymakers and service providers.' The 12-point Economic Policy 2016[43] mentions 'prioritizing the rapid development

[43] https://themimu.info/sites/themimu.info/files/documents/Statement_Economic_Policy_Aug2016.pdf

of fundamental economic infrastructure' - which includes 'a data ID card system, a digital government strategy, and an e-government system.'

MSME mostly lack proper accounting and financial reporting methods. Commercial banks and other partners find it hard to rely on SME information in the absence of a credit reporting bureau. As of August, 2021, when our primary research was conducted - multiple stakeholders had indicated that a credit bureau is yet to be functional. The regulation establishing a credit bureau in Myanmar was enacted in May, 2018. It was decided that the bureau will be privately owned, with banks holding a 51% share, but a representative from the Central Bank of Myanmar will sit on its committee.

Efforts to improve access to credit for MSMEs is hampered by the policies indicating the need for real-estate collaterals by banks

The Myanmar Indicative Private Sector Development Framework and Action Plan 2016 has highlighted the need to widen the scope of collateral which can secure loans for MSMEs. As per current norms of the Central Bank of Myanmar - only immovable property meets the cut. This leaves out 'movable collateral (e.g., receivables, inventory, and equipment), to be used as collateral for loans' - which is allowed by most modern financial systems. The plan adds that this regressive aspect makes it 'practically impossible for SMEs and the less affluent, and especially women and ethnic groups, to borrow from banks'.

The ADB SME monitor reports that 'there is no collateral registry in Myanmar. Land, buildings, gold, diamonds, savings certificates, credit certificates, savings deposits, and government bonds are all acceptable collateral.' The Ministry of Planning and Finance was in the process of drafting a Secured Transactions Law with the help of the IFC. The law is meant to serve two main agendas: (i) 'broadening the range of collateral, especially movable collateral that will be acceptable to lenders', and (ii) establishing a national collateral registry.

The Financial Sector Development Strategy (FSDS) 2015-2020 underlines 'addressing the collateral regime (secured transactions, movable collateral)' as an important sub-area.

III. Meso-analysis

As detailed in the assessment framework for the project, an active meso environment for alternate financing of MSMEs can be analyzed through six variables. These are i) Alignment of programs or projects with the environment, ii) clear and specific objectives of the program, iii) Feasibility of implementing the program or project, iv) Adaptability of the program or project to changing environments (via availability of supporting ecosystem or resources to help implement the program or project), and v) Impact of the project and program on MSME's. These variables are particularly vital to facilitate impactful intermediary loans (or two step loans i.e. TSL), credit guarantee schemes (CGS), and venture capital products (VC) to support the MSME sector in the country.

For the meso-level analysis, we shortlisted a few prominent programs or projects focused around driving alternate financing for MSMEs in the country. We then analyzed the programs or projects on their ability to cover the six variables of the assessment framework (mentioned above). The analysis is based on our subjective understanding of the programs or projects in a defined country context.

In the diagram and below we list down current projects and programs which currently encourage alternate financing opportunities for MSMEs.

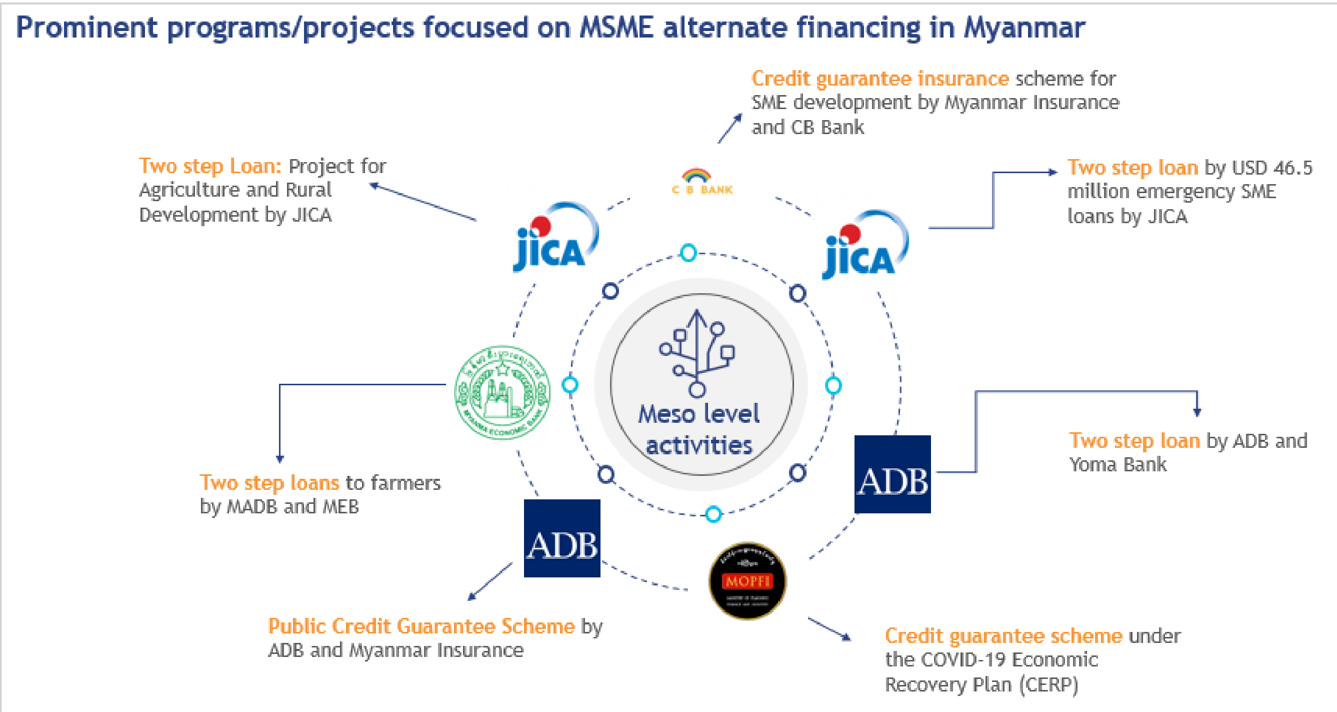


Figure 3: Prominent alternate financing programs/projects for MSME in Myanmar

S. No.	Program or project name	Description	Analysis of the program or project				
			Alignment	Objectives	Adaptability	Feasibility	Impact
1	Credit guarantee insurance scheme for SME development by Myanmar Insurance and CB	SME CGI Loan scheme is a special financing scheme for the development of SMEs in Myanmar by the government-owned Myanmar Insurance and CB Bank. Both	High	High	Low	Moderate	Moderate

	Bank 2020[44]	the bank and Myanmar Insurance jointly share the risk of the loan. The scheme provides collateral-free loan of up to a maximum loan amount of 20 million MMK. The period of repayment period is 1 year. A 10% per annum interest rate is payable to CB Bank. CB Bank in turn pays to Myanmar Insurance a percentage of the 10% as premium fee. The premium fee for collateral category is 2% in year 1, 1.5% in year 2, and 1% in year 3 and above. In the w/o collateral category these interest rates are 3%, 2.5%, and 2% respectively.					

[44] https://www.cbbank.com.mm/en/sme-banking/loans-financing/government-assisted-loans/sme-cgi-loan

2	Two step loan by USD 46.5 million emergency SME loans by JICA 2020[45]	In the wake of the COVID-19 pandemic the Japan International Cooperation Agency (JICA) announced emergency loans worth USD 46.5 million to assist businesses in Myanmar hit by the situation as part of its plan to help the country. The loans are low-interest and will support to SMEs. The emergency program is operated through Myanmar Economic Bank and other commercial banks participating in the SMEs project. JICA gives these loans at 3% concessionary rate. The baseline interest rate at which SMEs can access	High	High	High	High	Moderate

[45] http://www.thaibizmyanmar.com/en/news/detail.php?ID=3185

		the loans is 5.5%.					
3	Two step loan by ADB and Yoma Bank 2018[46]	The Asian Development Bank's (ADB) Trade Finance Program (TFP) and Yoma Bank signed an agreement in 2018 to provide guarantees of at least USD 10 million annually to support trade, especially for small and medium-sized enterprises (SMEs), in Myanmar. The product has two components: a) Revolving Credit Facility (RCF)—provides loans directly to banks in the TFP countries of operation to support pre- and post-shipment transactions, and b) Funded Risk Participation Agreement (FRPA)—pilot launch in 2017;	Moderate	Moderate	Moderate	Moderate	Low

[46] https://www.adb.org/news/adb-partners-yoma-bank-support-smes-myanmar

		automatically binds the TFP for up to 50% of bank risk in support of funded trade transactions.[47]					
4	Credit guarantee scheme under the COVID-19 Economic Recovery Plan (CERP) 2020[48]	The CERP 2020 is in partnership with the World Bank. The total funding for the plan is USD 50 million. The Myanmar Government guaranteed 50% of any new loans made by banks to Myanmar enterprises up to a turnover < MMK 1 billion for working capital that are not beneficiaries of the other action plan focused on MSMEs. This action plan is to provide MMK 100 billion 1-year working capital loans to improve working capital of affected MSMEs, with a focus on MSME in the CMP and	High	High	High	High	Moderate

[47] https://www.adb.org/sites/default/files/publication/29080/trade-finance-program-brochure-2019.pdf
[48] https://www.mopfi.gov.mm/sites/default/files/COVID-19%20Economic%20Relief%20Plan(CERP)-Eng_0.pdf

5		hotel/tourism sectors at 1% interest rate per annum. The loans are to be given to existing or new firms in selected high-growth sectors of the economy – whose progress is judged to have been impacted by COVID-19 and its effects.					
5	Public Credit Guarantee Scheme by ADB and Myanmar Insurance [49]	The name of this project is Enhancing Financial Access through Public Credit Guarantee Scheme Project. The project will provide a loan of USD 60 million (broad division: USD 20 million for inclusive finance, and USD 40 million for SME finance and leasing) to the Myanmar government – of which USD 57 million which	High	High	Low	High	High

[49] https://www.adb.org/sites/default/files/project-documents/50173/50173-003-cp-en.pdf

		will be on-lent to Myanmar Insurance in kyat equivalent, to provide credit guarantees to SMEs. Preliminary design specifications contemplate a 50% guarantee coverage on a side-by-side basis for an annual fee of 2% of the guaranteed amount up to 5 years. The components the project wants to impact are institutional development, public financial governance, implementation, and promotion of private sector investment. The project also had a focus on Gender equity and mainstreaming.					
6	Two step loans to farmers	In the FY 2018-19 the Myanmar Agriculture Development	Moderate	Moderate	Low	Moderate	Low

	by MADB and MEB[50]	Bank (MADB) planned to lend over Ks 2 trillion via two step loans from Myanmar Economic Bank. The bank lent Ks 45.017 billion from the JICA's loan to 1,193 farmers from 129 townships in 12 states and regions and Ks 2.603 billion from the MEB's loan to 242 farmers from 52 townships.					
7	Two step Loan: Project for Agricultu re and Rural Developm ent by JICA[51]	The Agriculture and Rural Development Two-Step Loan Project ran from 2017 to 2020. The total funding provided by JICA was USD 134.21 million. Farmers with less than 50 acres of land and running SME business were recommended to apply for this loan. The	Moderate	Moderate	Low	High	Low

[50] https://data2.unhcr.org/es/news/21657
[51] https://www.adb.org/sites/default/files/linked-documents/48409-003-dc.pdf

		Myanmar Economic Bank (MEB) and Myanmar Agricultural Development Bank (MADB) are the participating banks in the project. The project's objective was to help the Myanmar's Agriculture Development Strategy to accelerate agricultural sector growth through three strategic pillars of governance, productivity, and competitiveness					

The table above analyzes the major alternate financing programs or projects which are currently ongoing or have recently been completed. The analysis is based on the five meso-level parameters mentioned above. The qualifiers i.e. high or moderate or low have been used in an indicative sense, and derived from primary and secondary research. We may draw a few inferences from these findings:

- Half of the projects score high on having clearly laid out objectives, while the other half scores moderately – with the exception of one program.
- Most programs or projects are ranked low on adaptability resulting in either low performance or pre-closure of the program or project due to changes in the environment. It is integral that any program or project needs to incorporate adaptability in its design which results in greater sustainability and overall better performance. The two products launched in response to COVID-19 stand out in this aspect.
- Impact varies between low and moderate for most of the programs or projects. This suggests that while these programs have clear objectives, lack of an impact assessment by the program results

in limited information of the successes, failures, and challenges during the implementation of the programs or projects. These limit the learnings and evolution of the programs or projects in the future.

The most important parameter in Myanmar's MSME landscape is alignment. A program is well aligned to finance MSMEs when it extends credit and builds capacity in parallel. High alignment and high adaptability is the combination that can produce the best impact. This combination is seen in only two out of the eight programs or projects.

IV. Micro analysis

A thorough micro analysis of alternate financing instruments available to MSMEs can be done on the basis of five variables. These are i) **Utility** means whether the product or service addresses the needs of the specific target group, ii) **Compatibility** means whether the product or service conforms to all guidelines, laws and market environment within the country, and complements other existing or relevant solutions, iii) **Accessibility** means whether the solution is available and accessible to the target group at their convenience, iv) **Usability** refers to how the target group perceives the solution to be useful and is customizable as per their changing needs, and v) **Impact** translates to the intended impact of the solution on the target group and their enterprise.

We have qualitatively analyzed each of the three alternate financing instruments against the variables mentioned above.

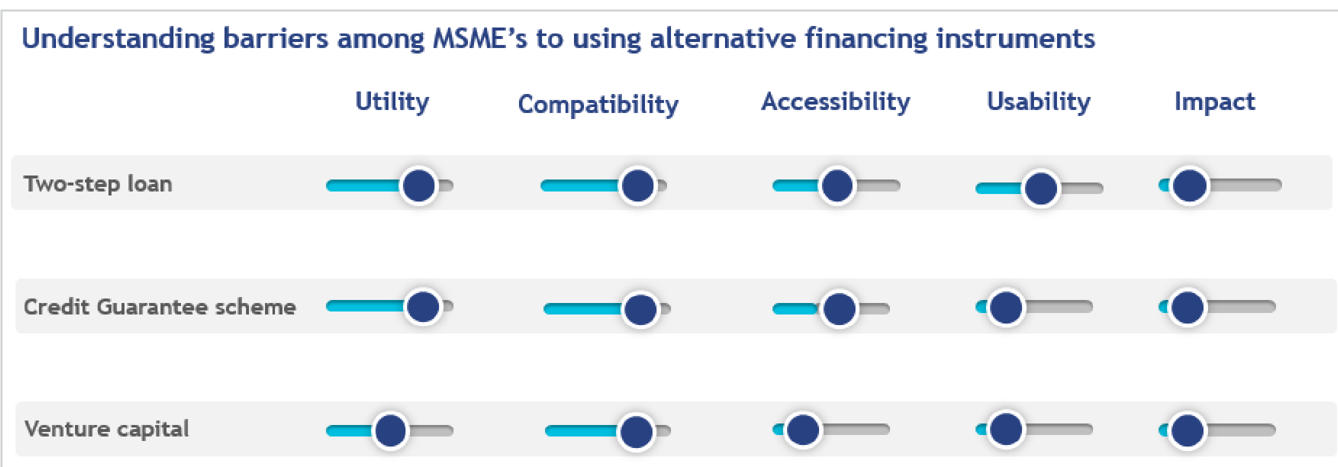


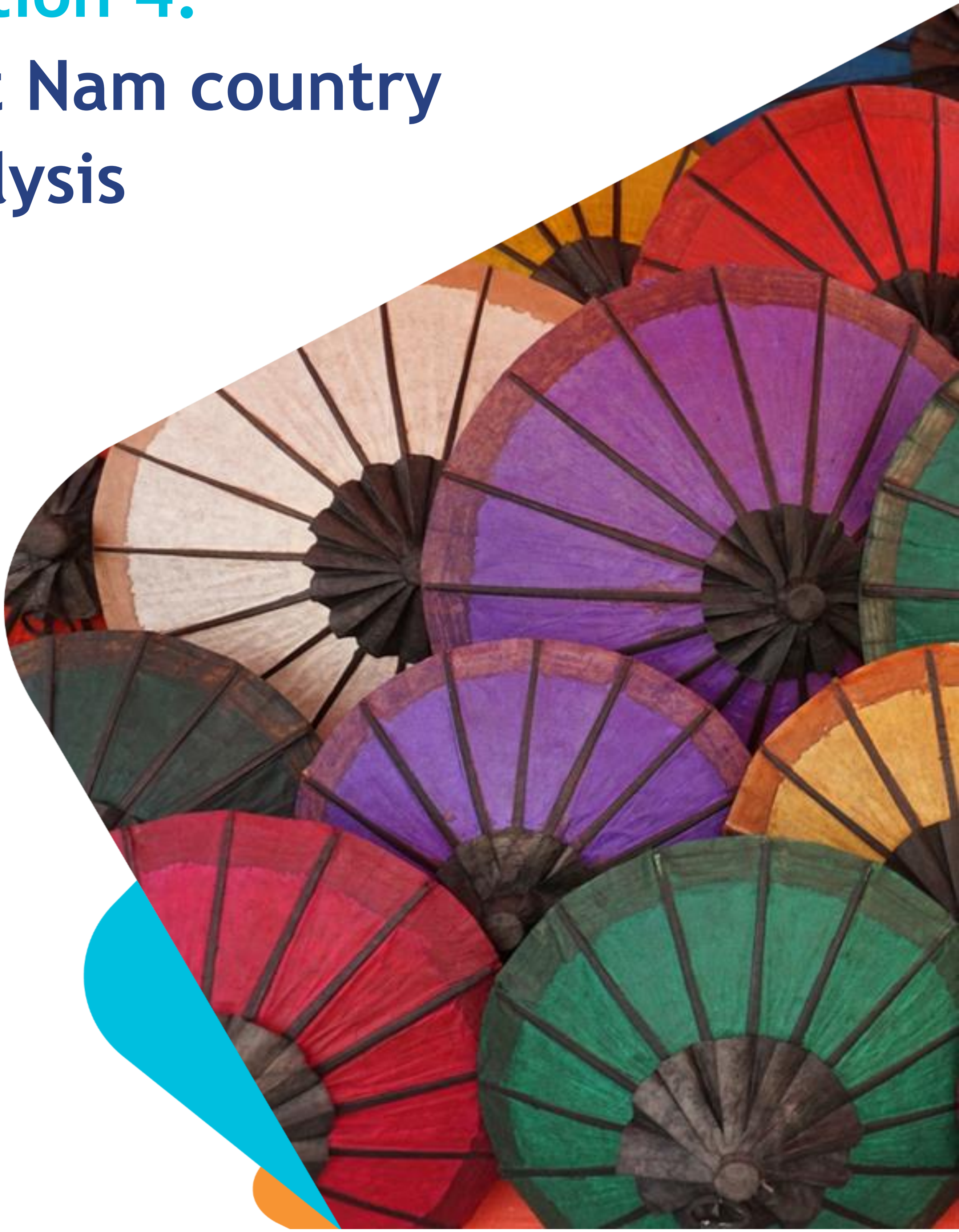
Figure 4: Analysis to understand how the three AFI fare on micro-level parameters. Please note that analysis of VC has been done with the assumption of a proto-product using data gathered via primary and secondary research.

Two-step loans in Myanmar fare high on utility and compatibility. For example, apart from the emergency COVID-19 fund, JICA's TSL has run over 2016 to 2019 over two phases. 80% of these funds are mandated to be utilized towards fixed asset/capital, and 20% as working capital. This division ensures that businesses can develop their foundations over a period of time (the completion period of these loans is 8 to 10 years). However, in our primary research multiple (channel) lending institutions have opined that their own profits from administering the TSL are very low. They have further mentioned that profits are not commensurate also with the quantum of operations and paperwork. These reduce the usability of the TSL. These loans also do not reach the most far flung of entrepreneurs, which are too many in number, thus reducing impact. The 'category' of SME also matters. It appears that a more strategic approach to finance the agricultural SMEs through the TSL is necessary.

Credit guarantee schemes have been extended by the Myanmar Insurance since 2015. These loans have been a savior for SMEs which fall short of necessary or required collateral. For a CGL extending over three years, SMEs with collateral pay a 2% premium in the first year, 1.5% in the second, and 1% in the third. For SMEs without collateral, the premiums are 3%, 2.5%, and 2.0% respectively. There is an average bank lending rate of 13% (10% in a CB Bank example mentioned in the meso-analysis table). It has been on the table for some time now that the MOPFI and the CBM will develop a CG fund – post which Myanmar Insurance will retract from the insuring processes. Our primary research has not shed any new light on this front.

Venture capital (VC) projects or products don't feature in the list above. However, estimated utility and compatibility of VC instruments is high. As discussed in the meso section, VC is at a nascent stage. Businesses typically need to fulfil three major financial needs. These are working capital needs, expansion needs, and emergency needs. New businesses typically have high working capital needs, moderate expansion needs, and low emergency needs (disregarding exceptional situations like the COVID-19 pandemic).

Section 4:
Viet Nam country analysis



Viet Nam country analysis on the landscape of two-step loan, venture capital, and credit guarantee scheme for MSME financing

The country analysis is based on primary and secondary research to help alleviate our understanding of the MSME 'Alternate Financing Instruments' (AFI) in Viet Nam. Unfortunately, we could not conduct primary research with any stakeholder due to the lack of response from the country focal point. Therefore, the insights and analysis have been collated based on secondary research only.

I. Stakeholder snapshot for MSME alternate financing (two-step loan, venture capital, credit guarantee scheme) development in Viet Nam

For the stakeholder analysis we adopted a three-tiered approach of identifying stakeholders and analyzing their activities. The three tiers of our analysis is mentioned below.

For the stakeholder analysis we adopted a three-tiered approach of identifying stakeholders and analyzing their activities. The three tiers of our analysis is mentioned below.

- **Tier 1 - Macro-environment.** To identify stakeholders responsible for regulatory, policy, and strategic initiatives in the country and analyze their activities
- **Tier 2 - Meso-environment.** To identify and analyze initiatives designing and implementing country-level or sector-level programs to increase the adoption of alternate finance instruments for MSMEs
- **Tier 3 - Micro-environment.** To identify and analyze specific solutions from financial institutions that promote the adoption and usage of alternate financial instruments for MSMEs

The figure below presents a snapshot of stakeholders working across the three tiers.

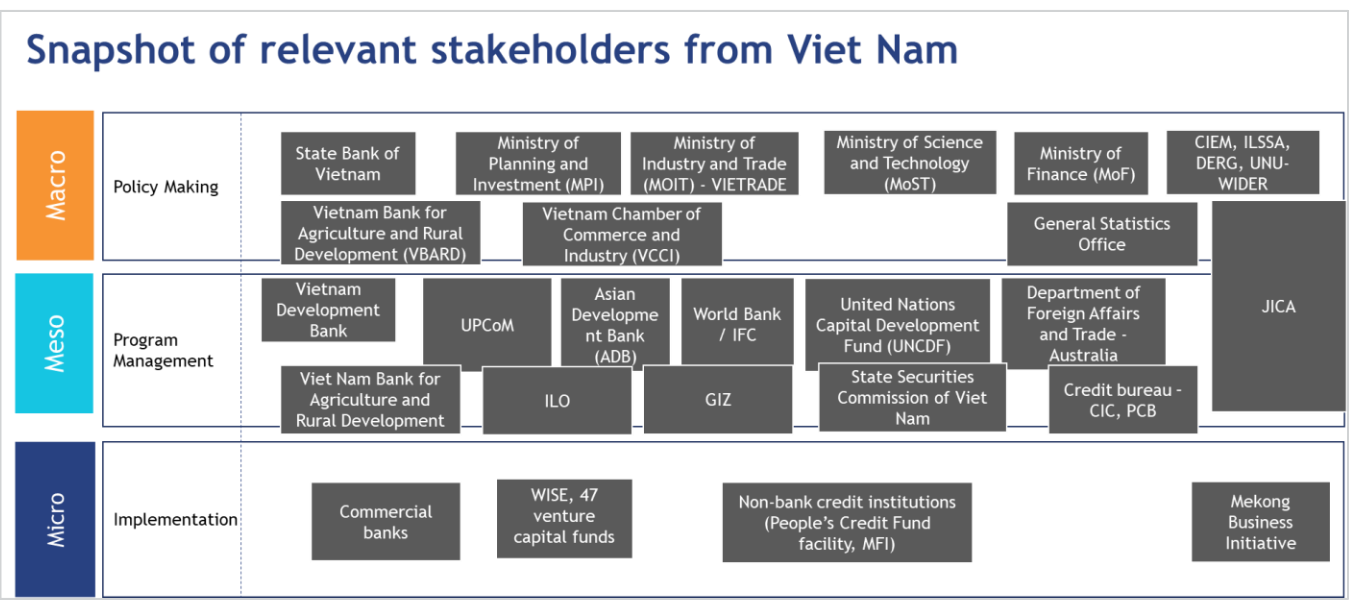


Figure 1: Stakeholder landscape for alternate financing in Viet Nam

The macro-level stakeholders work under the overall stewardship of The Ministry of Planning and Investment (MPI), which is the focal government authority for MSME development. MPI works directly with the central bank to address SME policy and implementation issues. While not specializing in MSMEs, the state-owned Vietnam Development Bank (undergoing restructuring in 2020) helps service some of their financing needs. The Ministry of Industry and Trade (MOIT) provides promotion support to SMEs for overseas trade. SME Development Promotion Council is the policy coordination body where EDA (Agency for Enterprise Development) under MPI is the policy implementing agency. The Viet Nam Bank for Agriculture and Rural Development also grants credit to newly established enterprises, whereas the Ministry of Science and Technology provides specific support to technology-based MSMEs.

A variety of academic institutions like Central Institute for Economic Management (CIEM), Institute of Labor Science and Social Affairs (ILSSA)[52], Development Economics Research Group (DERG)[53] at the University of Copenhagen, UNU-WIDER, and the General Statistics Office conduct surveys related to MSMEs in the country to inform the macroeconomic policies related to MSME development.

The meso-level stakeholders in Viet Nam serve as a link between the policy and actions on the ground. They serve as important drivers of change in the MSME landscape. Meso-level stakeholders consist of international development agencies who support macro-level players to formulate policies and develop capacity around alternate financing. It includes donor agencies that co-invest in alternate financing projects. It also consists of development banks that drive credit financing projects along with their monitoring and evaluation. The State Securities Commission (SSC) has been researching the feasibility of crowdfunding; its usefulness will depend upon the risk appetite and financial sophistication of the investors and offering firms. There is no dedicated SME capital market in Viet Nam, but UPCoM (Unlisted Public Company), a trading venue for unlisted stocks, offers equity financing opportunities for growing and viable SMEs. The UPCoM commenced its operation in 2009, with 872 companies registered as of end-2019. It is not a dedicated MSME market but an equity financing venue accessible for MSMEs, offering concessional requirements for registration.

The micro-level stakeholders include financial institutions like commercial banks, NBFC's, venture capital, and angel funds. PCF (People's Credit Funds) and MFIs are the leading forms of non-bank financing. People's Credit Funds, introduced in 1993, are credit institutions established voluntarily in the form of cooperatives. According to the SSC, there are 47 venture capital funds in Viet Nam. Business angels include the WISE (Women Innovative Startup and Entrepreneurship) network investing in women-owned businesses. But there are no data on the number of angel investors or the size of their investments. Business communities also play a crucial role in voicing government policies involving business development and global thematic agendas such as gender mainstreaming. Institutions at this level are in charge of the implementation of alternative financing solutions. Having discussed the stakeholders, we now look at our assessment of the macro-environment in Viet Nam.

II. Macro-analysis

[52] Institute of Labor Science and Social Affairs website, http://ilssa.org.vn/en
[53] Development Economics Research Group website, https://www.econ.ku.dk/derg/

We have analyzed a few essential national and sectoral development policies on how they have enabled a conducive environment for developing the three alternate financing instruments – two-step loan, venture capital, credit guarantee scheme. Next, we will focus on five development plans (see figure below) to analyze Viet Nam's policy landscape against the three alternate financing instruments (AFI). These are 1) Vietnam 2035[54], 2) National Financial Inclusion Strategy until 2025 (2020)[55], 3) National Strategy for Gender Equality for the 2011-2020[56], 4) Socio-economic development strategy 2021-2030[57] (still in process of formulation) and 5) Other SME support policies. It is important to note that SME development is but one component of these national-level strategies. Therefore, a thorough articulation of the development of alternate financing in such strategies may not be available.

As detailed in the assessment framework for the project, the macro environment for alternate financing of MSMEs can be analyzed through four variables, i) **relevance** of policies and regulations in providing a platform to introduce AFI's in the country, ii) **effectiveness** of the policies or regulations targeted towards AFI's in terms of their design, iii) **efficiency** in achieving the objectives of alternating financing within the country, and iv) **sustainability** of the effects of the policy or regulations towards providing alternate financing for MSME.

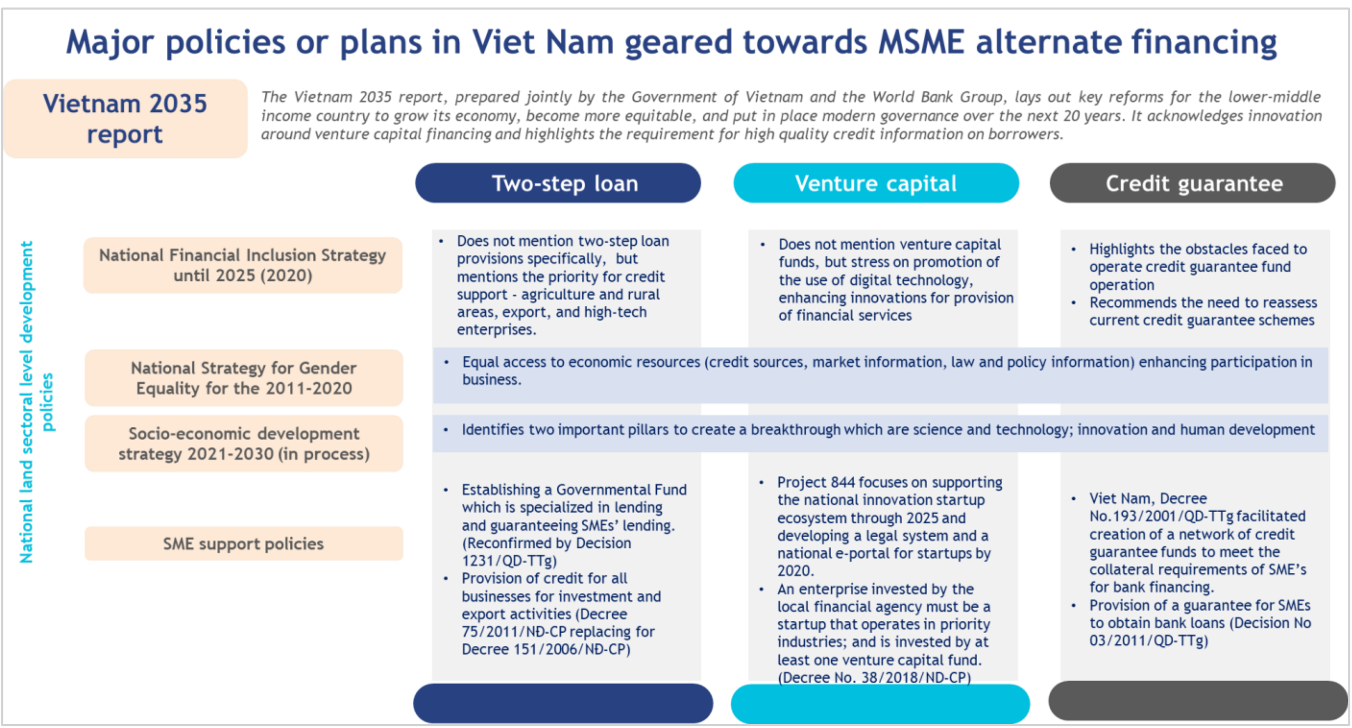


Figure 2: Policy inclusion for MSME alternate financing

[54] The World Bank and Ministry of Planning and Investment of Vietnam, "Vietnam 2035", 2016, https://bit.ly/3iveuH7
[55] Vietnam Microfinance Working Group, "DRAFT OF VIETNAM NATIONAL FINANCIAL INCLUSION STRATEGY 2025, VISION TO 2030", 2019, https://bit.ly/3FhCkzW
[56] "Approving the 2011-2020 National Strategy for Gender Equality", 2010, https://bit.ly/2Ym9a24
[57] "VIET NAM'S VOLUNTARY NATIONAL REVIEW- KEY MESSAGES", https://bit.ly/3uYLBZf

We now analyze the role of the macro-environment in facilitating AFIs for MSMEs in Viet Nam

A range of funds promoted by the Ministry of finance supports the growth of MSMEs

Over the last few years, the government has developed a range of funds to help cater to different credit needs of MSME's. The Ministry of Finance manages 10 state-owned funds for MSMEs which are disbursed through commercial banks at subsidized interest rates to MSME's: (i) SME Development Fund, (ii) National Foundation for Science and Technology Development Fund, (iii) Fund for Science and Technology Innovation, (iv) Environment Protection Investment Fund, (v) Cooperative Development Support Fund, supporting cooperative-typed MSMEs,(vi) Farmer Support Fund,(vii) Women Support Fund, (viii) Credit Guarantee Fund, (ix) Local Development Investment Fund, and (x) Ho Chi Minh Financial Investment Company (formerly a Local Development Investment Fund)[58]. Both the central and provincial budgets contribute capital to these funds, which are mobilized through credit guarantees and interest subsidies. VDB mobilizes most of the finds, providing Dong 10 trillion (USD 436 million) via bonds. The funds are not for profit and thus can provide lower interest rates, generally 2%–3% below market rates for comparable loans.

Limited technical capability and inflexible design limits the accessibility of credit guarantee funds

In Viet Nam, Decree No.193/2001/QD-TTg[59] facilitated the creation of a network of credit guarantee funds to meet the collateral requirements of SMEs for bank financing. Credit guarantees have been in place at the local level since 2001 and the central level since 2009. Since 2009 VDB has been entrusted with overseeing both the main fund and the local funds. However, one of the significant constraints behind the low accessibility of credit guarantees in Viet Nam includes an inadequate capacity of staff involved in the credit guaranteeing task and inflexible design of local guarantee funds[60]. This inflexibility is evident through the limited scope of making adjustments in the coverage rate of the loan guarantees and in the loan guarantee fee charged. The adaptability of the local funds to meet the needs of the local enterprises can lead to reduced turnaround time and greater accessibility of these funds. It can take up to three months for a guaranteed approval, whereas well-functioning credit guarantee schemes can process requests within one or two weeks.

Limited trust among locally managed public credit guarantee funds and commercial banks has led to low usage of credit guarantee funds

The Credit Guarantee Funds (CGFs) are operated through two channels: 1) VDB's credit guarantee fund from the state budget; and 2) Local Guarantee Funds (LGFs) operated by local and city governments with funding from local budgets (Credit Guarantee Fund, having 27 locally-run credit guarantee funds in the larger provinces (the number is expected to grow further). However, usage of the CGF has been

[58] Asian Development Bank, "ASIA SMALL AND MEDIUM-SIZED ENTERPRISE MONITOR 2020", October 2020, https://bit.ly/389gNKA
[59] Decree No.193/2001/QD-TTg, https://bit.ly/3mbBzjd
[60] Ha Thi Thieu Dao, ASEAN journal for poverty studies, "CREDIT GUARANTEE FOR SMALL AND MEDIUM ENTERPRISES THE CASE OF MUNICIPAL CREDIT GUARANTEE FUNDS IN VIETNAM", 2017, https://bit.ly/2Y5iKGp

low. From 2001 to mid-2017, only 2000 SME loans were backed by guarantees. In 2017, the total value of guaranteed loans was equivalent to 0.12% of total outstanding SME loans and 0.03% of GDP, the last figure being much lower than in Thailand (over 1% of GDP) and Malaysia (1.5% of GDP)[61]. One of the factors behind these statistics has been the lack of trust among commercial banks and CGF. Commercial banks are reluctant to accept local government guarantees fearing they will not be honored. Therefore, cooperation between banks and these funds is not strong.

Viet Nam has initiated steps to improve the policy and regulatory space to allow investments from venture capital funds in Vietnamese MSMEs

While the venture capital sector has achieved considerable success in Viet Nam, the legal system consisting of Law on Investment, Law on Enterprises, Law on Credit Institutions, and Law on Securities do not mention venture capital in detail. On the other hand, a specific focus on venture capital needs at the macro- level has resulted in most of the active venture capital firms being established abroad. Moreover, there is a need for more alternative routes for exiting the investment. However, considering these hurdles that venture capital firms and startups have to encounter, the Vietnamese government is showing strong effort to make legal reforms and improvements, e.g., recently issuing guidelines on the establishment and running of venture capital firms, simplifying the complicated procedures of paperwork, proposing tax incentives for investors and startup-affiliated parties. For example, Supporting to SMEs No.04/2017/QH14 and its guidance Decree No.38/2018/ND-CP[62] specifically mentions investments by venture capital funds.

Decree No. 38/2018/ND-CP

In accordance with this Decree, based on the reality of local government budget, each Provincial People's Committee shall request the People's Council of the same level to consider designating the local financial agency to make investments in startups.

An enterprise invested by the local financial agency must be a startup that operates in priority industries or sectors; and is invested by at least one **venture capital fund**. The local financial agency shall quarterly update and publish the list of invested enterprises on its website and the website of Provincial People's Committee.

Total investment made by the local financial agency in a startup as prescribed in Article 22 herein shall not exceed 30% of total investments jointly made by **venture capital funds** in that startup. The term of an investment with funding from local government budget shall exceed 05 years from the investment date.

[61] Le Ngoc Dang and Anh Tu Chuc, "Challenges in implementing the credit guarantee scheme for SMEs : the case of Viet Nam", 2019, https://bit.ly/3F4gZKs
[62] Decree No. 38/2018/ND-CP dated March 11, 2018 of the Government detailing the investments in small and medium-sized start-up companies, Luat Viet Nam, https://bit.ly/3EZKDQZ

Limited incentives for small investors to establish themselves as venture funds

There are lack of concise laws and legislation governing the venture capital funds. At present, there is no official law that specifically regulates the establishment and operation of those funds. The laws about fund establishment currently exist where the conditions to establish a fund are too high for smaller investors, according to the Ministry of Planning and Investment. For instance, a public fund needs to have at least 100 investors and the total sold fund certificates need to reach at least 50 billion VND (around US$ 2 million); a limited partner fund needs the minimum capital of 50 billion VND with maximum of 30 limited partners who are legal entities; to establish a security company the capital must start from 50 billion VND (Ministry of Planning and Investment, 2016) [63]. Therefore, existing local venture capital investors have established themselves as companies instead of structuring themselves as funds.

There is high dependence on banks for funding support which limits the growth of the startup ecosystem

The financial sector in Viet Nam is still overly dependent on banks, not the capital market. Due to this bank-centric nature of the economy, bank loans are the primary source for MSMEs to raise funds. An undeveloped capital market makes it difficult for venture capital firms to raise money for a fund's establishment and find exit alternatives for their investments[64]. This may result in limited growth of the bond and stock market, limiting the development of the startup ecosystem. This is because these startups require easy access to funds, are risky investments for banks and investors need profitable exit routes to recoup their investments.

Focus around innovation support automatically excludes a considerable number of MSME's

The venture capital industry in Viet Nam has gone through a few years of development with adequate growth in VC funds. There is also a considerable focus on innovation support enterprise support policies. However, innovation support is overly focused in the areas of research and development, and intellectual property rights s, which automatically exclude most MSMEs. For example, the SME Support Law offers preferential innovation support to SMEs part of value chains and clusters. Similarly, the legal definition of "Science and Technology Enterprise" is stringent and makes compliance difficult even for those SMEs which could, in principle, join this target group[65]. In addition, innovation policy support mainly focuses on supply-side interventions, while limited attention is on building capabilities at the organization to innovate and absorb external technology. This is specifically integral as Viet Nam is driven by its growing internet penetration, smartphone adoption, and young demographics. As a result, sectors like fintech, e-commerce, and enterprise solutions have attracted significant funding

[63] Dao, Nhat-Minh, Lahti University of Applied Sciences, "VENTURE CAPITAL TO FINANCE STARTUPS: The situation of Vietnam", 2016, https://bit.ly/3urFNHi
[64] Robyn Klingler-Vidra Building a Venture Capital Market in Vietnam: Diffusion of a Neoliberal Market Strategy to a Socialist State, Asian Studies Review, 2014, https://bit.ly/2WprlCY
[65] OECD, "SME and Entrepreneurship Policy in Viet Nam: Policy Highlights", https://bit.ly/3a6UDtz

in the last year. MSMEs that are engaged in traditional trade and low-tech industries - mostly engaged in agri-business remain excluded from the focus of such support.

There are concentrated efforts around reducing turnaround time for establishing venture capital and startups

Asian venture capitalists are attracted by the regional expansion of Viet Nam's growing companies and startup ecosystem. The Ministry of Planning and Investment has designed a draft circular guiding the establishment, management, and operation of Investment Funds insurance for creative startups in Viet Nam. Accordingly, once minimized, the procedures for establishing a fund will result in venture capital funds being set up within three days in Viet Nam[66]. This is in addition to the numerous government-backed measures and stimulus efforts that have been established to support startups. For example, the National Digital Transformation Program was approved in June 2020, or the earlier implemented 'Supporting National Innovative Start-up Ecosystem to 2025' project. This project supports the national innovation startup ecosystem through 2025 and develops a legal system and a national e-portal for startups by 2020.[67] Viet Nam also promotes MSME participation in government projects which benefits all stakeholders by reducing the turnaround time for implementing policies. In addition, MPI has carried out a number of activities to promote innovation. In addition to the Vietnam Venture Summit, the Vietnam Innovation Network aims to unlock the nation's potential and keep pace in the Industry 4.0 era. The MPI is also working on establishing the National Innovation Centre, which is expected to break ground at the end of this year, with assistance from global corporations and organizations.

Master Plan 844

The 2017 SME Support Law elevated the Master Plan 844 of 2016 as a policy enjoying full legal status. The targets of the master plan include innovative start-ups and their supporting network of universities, incubators, and the like. The master plan is designed to develop a national ecosystem for improving innovative capacity, establishing incubators, and incentivizing venture capital for start-ups. Master Plan 844 directs state-owned enterprises, state-backed business associations, and government agencies to seek out technology-based start-ups to solve procurement problems, among others. Large state-owned enterprises have budgets to hire technology-based start-ups and MSMEs.

III. Meso analysis

As detailed in the assessment framework for the project, an active meso environment for alternate financing of MSMEs can be analyzed through six variables, i) **Alignment** of the program or project to

[66] Agllaw, "Vietnam 'opened the door' to welcome a wave of venture capital", https://bit.ly/39TNigw
[67] Deshmukh Atharva, "Why Vietnam's Emergence as a Startup Hub is Promising for Investors ", Vietnam briefing, 2020, https://bit.ly/3oAb1v5

the environment, ii) has the program or project been designed with **clear and specific objectives**, iii) **Feasibility** of implementing the program or project, iv) **Adaptability** of the program or project to changing environments (via the **availability of supporting ecosystem** or resources to help implement the program or project), and v) **Impact** of the project and program on MSME. These variables are particularly vital to facilitate impactful intermediary loans (or two-step loans, i.e., TSL), credit guarantee schemes (CGS), and venture capital products (VC) to support the MSME sector in the country.

For the meso-level analysis, we shortlisted a few prominent programs or projects focused on driving alternate financing for MSME in the country. We then analyzed the programs or projects on their ability to cover the six variables of the assessment framework (mentioned above). The diagram and table below list all current projects and programs that currently encourage alternate financing opportunities for MSME.

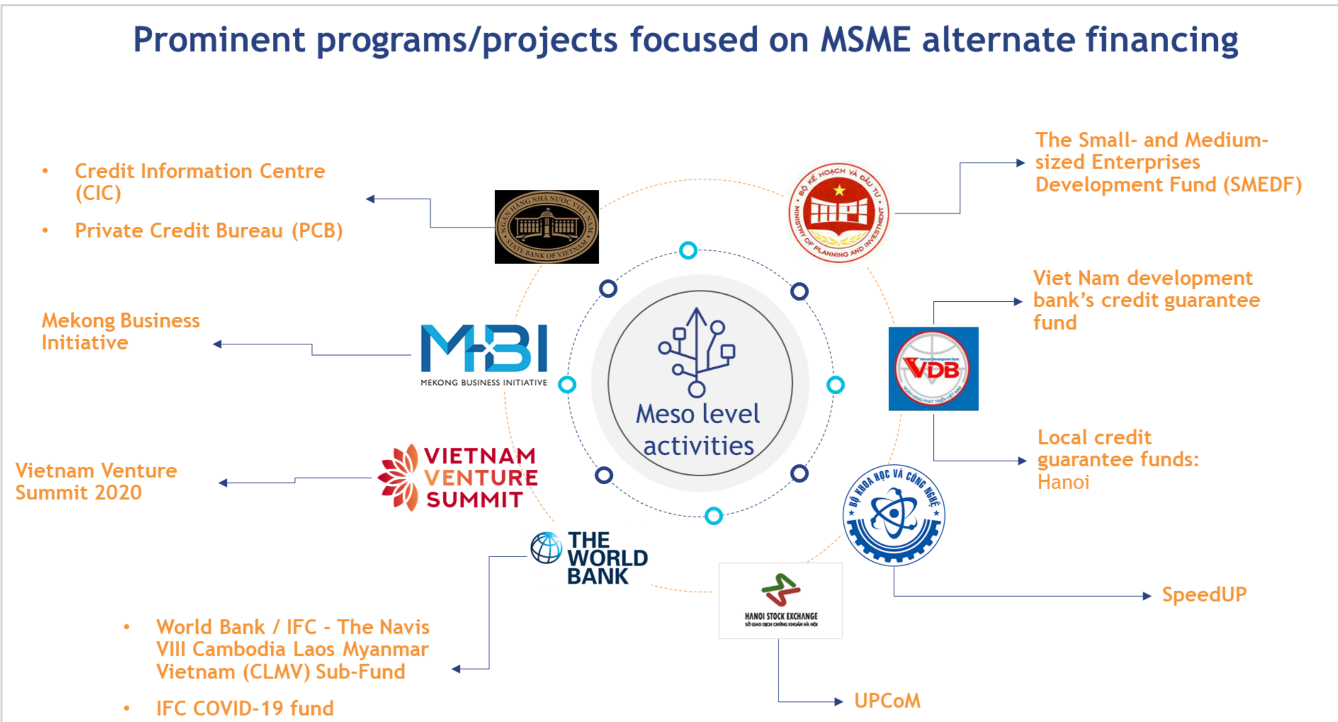


Figure 3: Programs or projects - MSME alternate financing

Table 1 Mapping of MSME alternate financing programs or projects to assessment variables

S. No.	Program or project name	Description	Analysis of the program or project				
			Alignment	Objectives	Adaptability	Feasibility	Impact

1	Viet Nam development bank's credit guarantee fund	Through the operation of credit guarantee funds for SMEs and the Viet Nam Development Bank, more favorable conditions for SMEs to access loans from credit institutions enable them to expand their production and business. However, they do not greatly appreciate the effectiveness of the CGSs and the guarantee activities of the VDB due to the small size of the fund. Before 2018, the charter capital required for a CGF was only 30 billion VND (US$130,000). Until the end of 2016, the total capital of all the CGFs in Viet Nam was US$63 million.	High	Moderate	Moderate	Moderate	Moderate
2	Local credit	People consider Ho Chi Minh's	High	Moderate	Moderate	Moderate	Moderate

	guarantee funds	(HCM) Credit Guarantee Fund as one of the most active CGFs in Viet Nam. HCM City's Credit Guarantee Fund is a non-profit financial organization that the city established in 2006 and is under the control of the People's Committee of Ho Chi Minh City, aiming to bridge the gap between enterprises and credit institutions, supporting small and medium enterprises in accessing capital from bank institutions, non-bank credit institutions, microfinance institutions, and people's credit funds, developing production and business activities and services, and building their					

		capacity for corporate management. Until 2014, Ho Chi Minh City's CGS had a chartered capital of 232.35 billion VND.					
3	UPCoM	Viet Nam has a stock market for unlisted public companies and privatized state-owned enterprises, called UPCoM ("Unlisted Public CoMpany") under the Hanoi Stock Exchange. The UPCoM commenced its operation in 2009, with 872 companies registered as of end-2019. It is not a dedicated MSME market but an equity financing venue accessible for MSMEs, offering concessional requirements for registration.	Low	Moderate	Low	Low	No information
4	World Bank / IFC - The	The Navis VIII Cambodia Laos Vietnam (CLMV)	Moderate	Moderate	NA	NA	NA

	Navis VIII Cambodia Laos Myanmar Vietnam (CLMV) Sub-Fund[68]	Sub-Fund is a co-investment vehicle that will co-invest in well-established, mid-market companies across its designated target countries. While the larger Parent Fund (Navis Fund VIII) primarily focuses on geographies across Southeast Asia and Oceania, the Sub-Fund will mainly invest in the SIFEM priority countries of Cambodia, Laos, and Vietnam, and on occasion in neighboring markets with strong economic ties. Over 50% of the Sub-Fund is expected to be invested in Vietnam. The fund will focus on generalist yet competitive sectors, including					

[68] Asian Development Bank, "ASIA SMALL AND MEDIUM-SIZED ENTERPRISE MONITOR 2020", October 2020, https://bit.ly/389gNKA

		education, healthcare, consumer goods, retail, and financial services. SIFEM's co-investors in the Sub-Fund include Norfund (Norway) and the World Bank's IFC					
5	World Bank / IFC – COVID-19 fund	IFC, a member of the World Bank Group, As part of its COVID-19 fast-track financing support package, the IFC provides VPBank with $100 million and OCB with $40 million in one-year renewable senior loans. The funding will give the two banks additional liquidity to continue lending to businesses as these banks are offering payment relief to their borrowers simultaneously. The IFC is also partnering with international	High	High	Moderate	Moderate	Low

		lenders, including the Asian Infrastructure Investment Bank (AIIB), to mobilize an additional financing package to further expand VPBank's lending capacity to local businesses impacted by the pandemic. AIIB will be co-financing up to $100 million to support VPBank's trade finance and working capital finance to Vietnamese enterprises, including SMEs, during the COVID-19 crisis.					
6	Vietnam Venture Summit 2020	Thirty-three investment[69] funds (a few prominent funds include VinaCapital Ventures, 500 Startups, AlphaJWC, BeeNext, CyberAgent	High	High	NA	NA	NA

[69] Khanh Khanh, "Investment funds to pour US$815 million in Vietnam startups in 5 years", Hanoi Times, November 2020, https://bit.ly/3mpd4PA

		Capital, Do Ventures, FEBE Ventures, Genesia Ventures, Monk's Hill Ventures, Insignia Ventures, Patamar Capital, Smilegate, Vietnam Investment Group, and Viet Capital Ventures)that attended the Vietnam Venture Summit 2020 (VVS) with the theme "Going Digital" on November 25 have committed to pour US$815 million into innovation startups in Vietnam in the 2021-2025 period					
7	SpeedUP	SpeedUP is a VND 11.75 billion (US$ 520,520) fund, which was started by Ho Chi Minh City's Department of Science and Technology. The fund has a range of investments	Moderate	High	Low	Low	No information

		ranging from VND 350 million (US$15,500) to VND 1,282 billion (US$56,792). Also, Decree 76/ND-CP[70] builds on the Law on Technology Transfer[71] and allows for the use of Science and Technology Development Funds which have tax exemptions to invest in startups.					
8	SMEDF	The Small- and Medium-sized Enterprises Development Fund (SMEDF)[72] under the Ministry of Planning and Investment (MPI) is specifically designed for SMEs planning to create products in value chains or expand their business footprint. The	Moderate	High	Moderate	Moderate	Modera te

[70] DETAILED PROVISIONS AND INSTRUCTIONS FOR IMPLEMENTATION OF SOME ARTICLES OF THE LAW ON TECHNOLOGY TRANSFER, 2018, https://bit.ly/3mqpBm1
[71] Das Koushan, Vietnam briefing, “Vietnam: Registration of Technology Transfer Now Mandatory”, 2018, https://bit.ly/3uSGklS
[72] “Specialist loans to jack up SME growth”, Vietnam Investment Review, February 2020, https://bit.ly/3owcQck

		fund receives budgetary support and also financial support from other organizations and individuals. The SMEDF lends money to commercial banks to allow them to support MSMEs. These banks are Military Bank (MB), Saigon-Hanoi Commercial Joint Stock Bank (SHB), and BAC A.					
9	Credit bureau	Viet Nam has two credit bureaus: i) Credit Information Center (CIC) under the SBV having 40 million borrowers on record and, (ii) the Private Credit Bureau (PCB) licensed by SBV in 2013 with a database of 26 million borrowers (of which 99% are individuals and the remainder	Moderate	Moderate	Low	Moderate	Low

		MSMEs). As of January 2020, For the 200,000 MSMEs, there are between 750,000–800,000 loans on record.					

In addition, there is a need to identify market-led alternate financing within Viet Nam, a robust credit information system is necessary to help narrow the supply-demand gap confronting MSME financing. In addition, a joint venture between CBA and FiinGroup is set to enter Vietnam to provide analytics and data solutions to financial institutions, credit-granting agencies, payment services agencies, and other data companies. Both companies will further explore establishing a private credit bureau, with traditional and alternative data points, to support credit-granting institutions by end-2021. In Viet Nam, there is a need to integrate broader data sources (links to tax records, social insurance data, business registration, and operations information, and telecom data) to help integrate data and services for MSME.

The table above analyzes the major alternate financing programs or projects which are currently ongoing or have recently been completed. The analysis is based on the five meso-level parameters mentioned above. The ratings, i.e., high, moderate, or low are subjective classifications based on primary and secondary research. We draw the following inferences from these findings:

- Most programs or projects score high on having laid out objectives, which means there is a clear intention on the outcomes of each program or project
- Most programs or projects are ranked low on adaptability resulting in either low performance or complete closure of the program or project due to changes in the environment. Therefore, it is integral that any program or project incorporate adaptability in its design, resulting in greater sustainability and overall better performance.

The impact of these programs are not measurable due to a lack of suitable monitoring and evaluation systems in place despite clarity in the objectives of the programs. This limits the learning and evolution of projects in the future.

IV. Micro analysis

A thorough micro analysis of alternate financing instruments available to MSMEs can be done based on five variables. These are i) **Utility** means whether the product or service addresses the needs of the specific target group, ii) **Compatibility** means whether the product or service conforms to all guidelines, laws, and market environment within the country and complements other existing or relevant solutions, iii) **Accessibility** means whether the solution is available and accessible to the target group at their convenience, iv) **Usability** refers to how the target group perceives the solution to be helpful and is customizable as per their changing needs, and v) **Impact** translates to the intended impact of the solution on the target group and their enterprise.

We have qualitatively analyzed each of the three alternate financing instruments against the variables mentioned above.

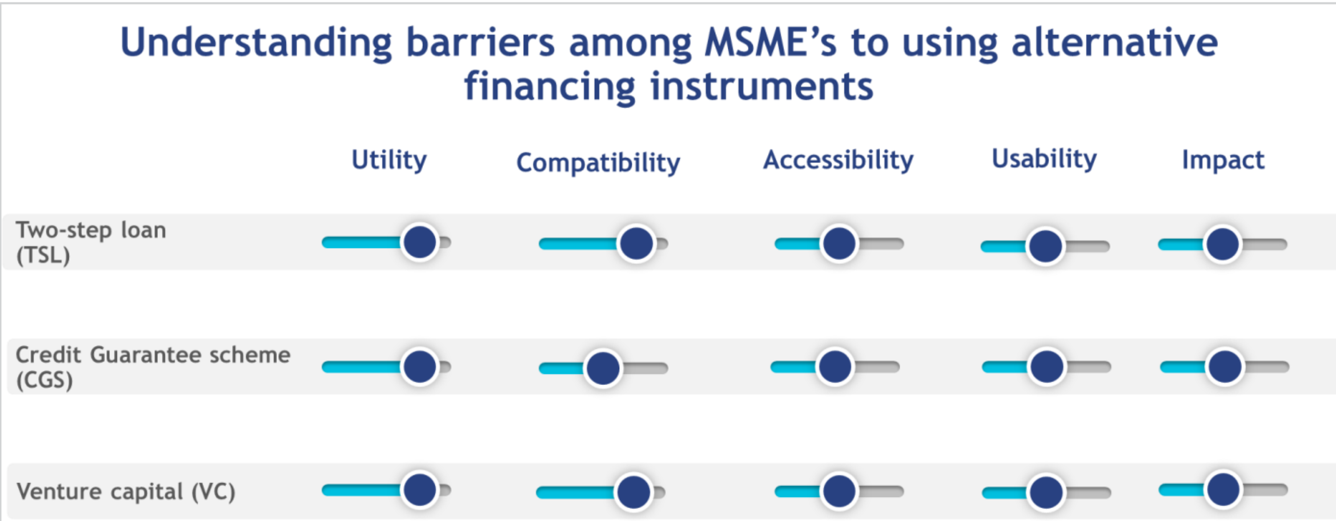


Figure 4 Micro-analysis of three instruments against variables

As of the end of 2019, the Agency for Business Registration, under the Ministry of Planning and Investment, had 760,000 enterprises registered. According to the General Statistics Office, 5 million household businesses (sole proprietorships or personal home businesses) are primarily engaged in agri-business. Of these household businesses, 1.6 million are registered, with the remaining 3.4 million unregistered, i.e., informal firms. Manufacturing is the largest employer with more than 25% of the workforce[73]. While most MSMEs are engaged in traditional business or low-technology sectors, the informality of household businesses is deep-rooted within the economy. Viet Nam has already made efforts to reform its business registration systems to encourage more MSMEs to join. However, additional efforts are required to improve accessibility to credit.

Multiple pieces of research point out specific challenges around access to finance for MSME in Viet Nam. Some excerpts are mentioned below:

- Around 80% of MSMEs have no access to external financing. From the ones who do have access, 40% of the MSME's experience late credit disbursement. In addition, while 80% of MSMEs are concerned with rising business costs, a substantial portion of them prefer less complicated processes, lower tax compliance costs, and a better business environment.[74]
- Another example from Phu Tho Province in Viet Nam showed that roughly 64% of 165 enterprises could not borrow any funds from banks due to unqualified collateral. It was indicated that firms consider the demand for secured assets to be the most challenging constraint in removing the

[73] Asian Development Bank, "ASIA SMALL AND MEDIUM-SIZED ENTERPRISE MONITOR 2020", October 2020, https://bit.ly/389gNKA
[74] USAID-ASEAN, "Handbook for MSME access to alternative sources of finance in ASEAN", 2017, https://bit.ly/3y7aOR7

barriers to accessing bank capital for SMEs in Viet Nam, following by the lack of a proper quality business plan and the complicated procedure for loan appraisal as well as other strict conditions for borrowing, such as financial performance or firms' age.[75]

- The SBV maintains it is difficult for MSMEs to access credit because they have limited financial capacity and cannot write credible business plans. They are also weak in information technology and accounting and do not have accurate financial data.

Two-step loan as an instrument has witnessed extensive utility among MSME's in Viet Nam in subsidized loans from commercial banks. MSMEs receive a 2% interest rate subsidy if they borrow from one of the ten state-run funds that the Ministry of Finance oversees. However, to control credit risks, commercial banks providing two-step loans often apply the same set of evaluation criteria and risk criteria for all enterprises, across sectors, without considering the specific characteristics of SMEs. For example, a private bank's screening criteria for MSMEs include i) operating for at least two years, ii) no overdue debt, and iii) minimum revenue amount. However, state-owned banks are much more flexible. For example, the Investment and Development Bank (BIDV) accepts credit applications from newly operating enterprises; SMEs only need to prove the operation duration of a full six months, the maximum turnover is VND20 billion, and the semi-annual financial report is valid with a receipt from the tax authorities; but collateral is mandatory. The Viet Nam Bank for Agriculture and Rural Development also approved granting credit to newly established enterprises; it does not specify the credit conditions but considers each loan flexibly. [76] These efforts by state banks have led to increased accessibility and usability of two-step loans among MSME.

Viet Nam first developed a credit guarantee scheme for MSMEs in 2001 (under Decree No.193/2001/QD-TTg), revising it in March 2018 (under Decree No.34/2018/ND-CP). This decree sets five conditions for MSME borrowers: (i) it should be a feasible investment project, (ii) it should have an approved business plan, (iii) it should have equity capital worth at least 20% of the project, (iv) it must not have tax arrears of over one year, and (v) it must have collateral. Unfortunately, these conditions already limit a substantial number of MSME from accessing these funds.

Credit guarantee has high utility specifically for small businesses having limited forms of collateral, more so when struggling to cope with the economic slowdown brought on by COVID-19. However, even though credit guarantee funds have been in existence for a long time in the country, the accessibility for the same is only moderate. This is due to the arrangement of the funds. For example, the bank currently has not considered the guaranteed loans as low risk, so with a guarantee certificate, banks still charge similar interest rates as conventional loans. This means that the MSME must bear a higher interest rate than a loan with collateral due to the guarantee fee. This increases the cost of accessing a credit guarantee for the MSME. In addition, the lack of adequate professional competence of staff involved in the credit guaranteeing task and the lack of a single formidable credit database platform that facilitates access to finance for SMEs are other reasons that limit the accessibility and usability of credit guarantees.

[75] Asian Development Bank, "ASIA SMALL AND MEDIUM-SIZED ENTERPRISE MONITOR 2020", October 2020, https://bit.ly/389gNKA
[76] Asian Development Bank, "ASIA SMALL AND MEDIUM-SIZED ENTERPRISE MONITOR 2020", October 2020, https://bit.ly/389gNKA

In terms of venture capital, research highlights that a few traits among entrepreneurs might impede the entrepreneurial spirit and the venture capital process. Vietnamese SMEs are predominantly family-managed. The issue of control is essential, leading to a preference for debt rather than equity. Firms also tend to protect their interests by being secretive, so they are not willing to share the company's information. Firms do not usually comply with international accounting standards or statutory audit requirements, so it is hard for a venture capitalist to evaluate. Venture capitalists have to rely heavily on pre-investment due diligence, mainly by collecting references on business owners through personal networks and contacts. [77]

In addition, due to the lack of a conducive regulatory framework, most venture capital (VC) funds with operations in Viet Nam have legally registered abroad, mainly Singapore, to escape the uncertainty of the national regulatory framework. This further limits the accessibility and utility of venture capital for MSME.

[77] Dao, Nhat-Minh, Lahti University of Applied Sciences, "VENTURE CAPITAL TO FINANCE STARTUPS: The situation of Vietnam", 2016, https://bit.ly/3urFNHi

Section 5:
Annex

5. Annex

A. Stakeholder list for in-country consultations

Stakeholder Category	Stakeholder names & participants- Cambodia	Stakeholder names & participants - Lao PDR	Stakeholder names & participants - Myanmar
Government Ministries			Ministry of Planning and Finance: (1) JICA(PMU) (2) Financial Regulatory Department(FRD) (3)Myanmar Insurance Participants: U Ko Ko Maung Deputy Director General, Daw Kyi Kyi Win Director
		Department for Small and Medium Enterprise Promotion (DOSMEP) of Laos PDR SME Promotion Fund Participants: Ms. Sengkao Phoutthavong, Deputy Director of SME Promotion Fund Ms. Vilavanh MANIPHOUSAY, Credit Assistant of SME Promotion Fund	Ministry of Industry: Directorate of Industrial Supervision(DISI) Participants: U Zayar Moe Deputy Director Daw Phyoe Zar Maung Assistant Director U Myo Myint Director Daw Phyu Phyu Hnin Staff Officer
			Directorate of Industrial Supervision and Inspection (DISI) Participants: Rita Tun Myint
Central Banks and	National Bank of Cambodia Participants:	Bank of Lao PDR (1) Bank Service Department	Central Bank of Myanmar:

Development Banks	Mr. Men Pheakdey	(1) Bank Supervision Department (2) Finance Institute Supervision Department Participants: Dr. Khamvilay Kadoudom Acting Head of Legal Division Chandaly Chitkhanty Deputy Head of Project Management Division Kingthong PHIAKEO Technical Officer Mr Sengaloun Vilaysan Head of Credit Division	(1)Myanmar Economic Bank Participants: U Kyaw Zin Oo Deputy General Manager Daw Tin Thida Su Assistant General Manager
		Lao Development Bank (SME Bank) Participants: Ms. Viengkham Vansilalom Deputy Managing Director Mrs. Keokenta Lormany Head of Credit administration Division	CB Bank Participants: U Yee Tun OO Ronald Ye Kyaw Swar Maung Sandy Kho San Yin Aung
			Small and Medium Enterprises Development Bank (SMEDB) Participants: Daw Zin Mar Kyin Chief Operating Officer
Service providers (Financial Institutions/ MFIs)			Yoma bank Participants: Daw Hsu Thet Htoon
	ACLEDA Bank Participants: Mr. Soeng Phorn	Maruhan Bank Participants:	UAB Participants: Mr. Mahesh Bhandari

		Mr. Anthony Chin CEO of Maruhan Japan Bank Lao	
		SACOM Bank Participants: Mrs Monvilay Boliboun Deputy General director	
Autonomous bodies/Industry Associations	Cambodia Chamber of Commerce Participants: Ms. Chea Sok Im	Lao National Chamber of Commerce and Industry Participants: Mr. Phoutthasone Phomvisay Deputy Secretary of LNCCI, Director of SME Service Centre	Union of Myanmar Federation Chamber of Commerce and Industry (UMFCCI) Participants: U Aye Tun Joint Secretary General

B. Detailed assessment framework

Tier 1—Macro-level (Regulations, policies, strategies)	
Parameters	**Indicators**
Relevance: What is the relevance and significance of the policy, regulation, or strategy?	**Importance**: Importance and need for alternate credit mechanisms to support MSME development is clearly understood by all stakeholders
	Alignment: Aligned to the country's national objectives
Design effectiveness: Does the policy, regulation, or strategy incorporate elements of effectiveness?	**Clarity of goals**: Objectives and outcome are clearly defined and easily understood by all stakeholders
	Coherence (Internal and External): Aligned to national and global laws, governance structures, policies, regulations or strategies avoiding conflict of interest
	Inclusiveness: Needs of all stakeholders have been incorporated as per socioeconomic environment of the country
	Accountability: The design should clearly outline the roles, responsibilities, and accountability of different stakeholders
	Competitiveness: The design strengthens the development of existing institutions while encouraging competition and innovation within the country
Efficiency: Are the policy, regulation or strategy achieving their objectives efficiently and in a holistic way?	**Consultative**: Views of all stakeholders considered while framing the policy, regulation or strategy
	Transparency: The policy, regulation or strategy was set up and implemented in an open and transparent manner and progress is accessible to the public at all times
	Turnaround time: The policy, regulation or strategy design is finalized and implementation is to be completed within a specified time period
	Valuation: The policy, regulation or strategy has the desired impact in comparison to financial resources spent on designing and implementing it
Sustainability: How is the sustainability or permanence of the effects of the policy, regulation, or strategy?	**Resource availability**: Country have availability of resources to adequately support the policy, regulation or strategy
	Proportional advantage: The policy, regulation or strategy offers more advantages than disadvantages

	Revision: The policy, regulation or strategy can be analyzed and revised with changing needs of the stakeholders
Impact: What is the impact of the policy, regulation, or strategy?	**Clear measurement protocols**: Measurement and evaluation protocols clearly articulate the potential effects of the policy, regulation or strategy when implemented
	Outcome: Impact of the policy, regulation, or strategy on the overall environment

Tier 2—Meso-level (Programs and projects)	
Parameters	**Indicators**
Alignment: Does the program or project align with the environment?	**Alignment to global environment**: The program or project are aligned to various global laws, development goals (SDGs), and Environmental and Social governance (ESG) strategies
	Alignment to macro-environment: The program or project are aligned to the regulatory environment in the country
Clarity of goals: Has the program or project been designed with clear and specific objectives and goals that all stakeholders understand, and can work towards achieving?	**Clear objectives and milestones**: The program or project has clearly defined objectives broken down into periodic milestones along with role clarity of each stakeholder
	Attainable goals: The program or project has specific and realistic goals to achieve
Availability of supporting ecosystem: Are various core and supplementary resources available to help implement the program or project? (Support during project execution as compared to planned activities)	**Internal support:** There is adequate support from internal stakeholders who are part of the program or project
	External support: There is adequate support from external stakeholders who are not part of the program or project
Feasibility: Is the program or project operationally feasible and economically justifiable?	**Resource utilization**: The project or program is able to utilize resources efficiently
	Cost versus benefit: The costs induced by the program or project are adequately compensated by the benefits accrued from implementing it

	Contingency management: All risks within the program or project have been identified and contingency plans can be enacted if an identified risk becomes a reality
	Monitoring mechanisms: There is a monitoring mechanism in place which oversees all tasks and metrics necessary to ensure that the program or project is within scope, on time, and on budget
Adaptability: Is the program or project adaptable to changing environments, technologies, expectations, and situations?	**Responsive to macro-environment:** The program or project is responsive to any change in the regulatory or political environment
	Responsive to industry or sector: The program or project is responsive to any change in the technology or market or provider environment
	Responsive to user needs: The program or project is responsive to any change in the needs and requirements of the target segment
Impact: Is the program or project able to have intended developmental impact on the target segment as well as other stakeholders and the overall environment	**Specific criteria of evaluation-** The design has very specific impact indicators in place for the program or project
	Mechanism to measure impact: The design has mechanisms in place to measure and quantify the impact of the program, project
	Impact on MSME sector: The program or project has been able to make the required impact on the MSME sector on the whole

Tier 3—Micro (Financial Service Providers)	
Parameters	**Indicator**
Utility: Is the solution useful or beneficial for users?	**Target segment:** The solution is designed for a specific target segment
	Address gap: The solution addresses the need or a gap of the specific target segment
Compatibility: Is the solution compatible with the environment?	**Compatible with macro-environment:** The solution design conforms to the current technical standards, guidelines, and laws of the country
	Compatible with meso-environment: The solution is aligned to a specific outcome or impact of a program, project

	Complement other products and services: The solution is able to complement features of existing products or services
Accessibility: Is the solution accessible to the target segment for usage?	**Availability:** The solution is easily available for the target segment at all times
	Mechanism: The target segment should have the mechanism to access the solution
Usability: Does the solution allow the target segment to attain their intended goals?	**Perceived benefit versus cost:** The perceived benefit of using the solution is more than the cost incurred by the target segment
	Customizable: The solution can be easily customized based on changing requirements of the target segment
Impact: What is the impact of the solution on the target segment?	**Impact on target segment:** The impact on the 'information, education, advice' levels of the target segment
	Impact on the enterprise: The impact on the micro-enterprise business and profitability

C. Stakeholder-wise detailed areas of enquiry

reas of Enquiry—Government Ministries / Multilateral Agencies (Macro)	
A. Overview of alternate finance mechanisms for MSMEs	
1	What are key policy priorities for your ministry vis-à-vis MSMEs (e.g. employment, value addition)?
2	Do you have an estimate of the credit gap to MSMEs in the country? (Reports / other documents quantifying the scale of the credit problem for MSMEs)
3	What are the sectors where MSMEs are prevalent? What are the policy steps taken by the Government to increase access to credit for MSMEs in these sectors? Do you have a policy to promote clusters for individual sectors to provide focused support to MSMEs?
4	What are the sectors identified as 'priority sectors' for SME development particularly among women? Are there any soft funding that your ministry / Central Bank has made available to support MSME development?
5	Apart from your ministry, what other departments or ministries or public sector organizations are the key stakeholders in determining government policy around financial literacy for MSMEs?
6	Do you engage with industry associations to understand the needs of MSMEs in the country? What formal and informal mechanisms are available for this dialogue?
B. The relevance of the alternate finance mechanisms	
1	What are the key policy initiatives on ensuring access to alternate finance by the government? What is the role of your ministry in designing and implementing these programs alternate finance schemes?
2	What are the overarching national policies and programs that guide the initiatives to ensure the availability of alternate finance mechanisms your Ministry?
3	What are the aims and objectives of the different SME National financial literacy policies? What are the areas it seeks to address?
4	Are there particular subgroups (women, other vulnerable groups) which you think should be targeted to address the lack of representation in the SME landscape?
5	Do the current programs and policies target women entrepreneur and entrepreneurs from other vulnerable groups?
6	What has been the experience of the current programs to ensure greater access to credit for MSMEs
C. Design Effectiveness of the policies and programs	
1	Does the design of the program take into account the different nature of needs of MSMEs?
2	Do the policy design documents clearly articulate the stakeholders involved, objectives, and intended outcomes?
3	Did the policy drafting team ensure that the policies being designed were in consonance with internationally accepted best practices? What were the best practices or frameworks consulted during the process?
4	Are the roles and responsibilities of individual stakeholders outlined in the policy document?
5	How was the allocation of the responsibilities among different stakeholders done?

6	How are the responsibilities between the public sector and private sector entities distributed? Is the distribution of roles in accord with their market power?
D. The efficiency of the policy design process	
1	How much time did the consultation process and the drafting of the policy on financial literacy take? What was the process followed to design and develop the policy?
2	Who were the stakeholders involved in drafting the policy?
3	Did the policy documents also include a financial component, detailing any budgetary allocation for the policies and a breakup of activities and budget allocated for each activity?
4	What are the outcomes of the policy? Does it justify the amount of time and money spent on the development of the policy?
E. Sustainability of the policy environment	
1	Did the policy outline the resources (financial, infrastructural, and human) required to implement the policy successfully?
2	What were the challenges in terms of access to resources for the implementation of the policy? How were these challenges overcome?
4	What were the findings of the policy audit? Did the benefits outweigh the costs of the policy?
5	Were any midway course correction carried out based on intermediate feedback on the implementation of the policy? What was the process followed to effect the changes?
F. Measurement of Impact	
1	What are the indicators to measure progress and policy outcome? How aligned they were to overarching national policies?
2	Are periodic assessments and review protocols in place to check the progress of the policies?
3	Were Monitoring and Evaluation protocols in place to ensure the collection of timely feedback and course correction (if required)?
4	Were impact assessments of the policies and the programs under it carried out to understand the long-term benefits of the policies? If yes, please mention the findings of the assessment.

Areas of Enquiry—Development Banks / Public Sector SME Promoting Agencies (Macro +Meso)	
A. Overview of access to finance for MSMEs	
1	What are the institutional mandates for the promotion of MSMEs in general and access to credit for MSMEs in particular?
2	How big is the credit gap for MSMEs in the country?
3	Are there particular subgroups (women, other vulnerable groups) which you think should be targeted to address the lack of representation in the SME landscape?
4	What are the policy steps taken by the Government to ensure alternate financial products for MSMEs is available in the country?
B. The relevance of the programs to ensure access to credit for MSMEs	

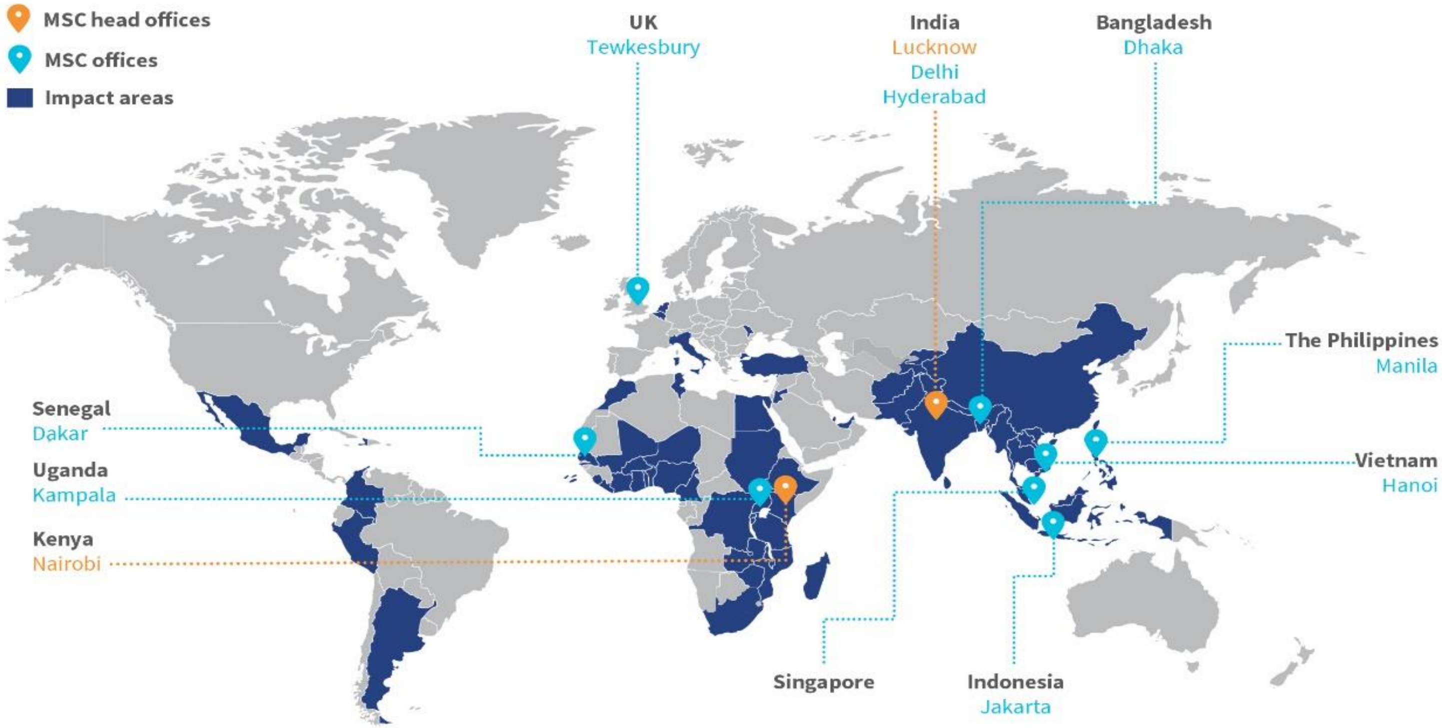
1	What are the key policy initiatives on ensuring access to credit taken by the government? What is the role of your organization or agency in designing and implementing the policy?
2	What are the overarching national policies and programs that guide your policy initiatives?
3	How do you ensure that the mandates of the programs and projects you implement to ensure access to credit meet the aims and objectives of MSME development? What are the specific areas you work on? (mention examples related to two-step loan, credit guarantee scheme, and venture capital)
4	What has been the experience of the current programs on providing access to credit?
C. Design Effectiveness of the policies and programs	
1	Does the design of the program take into account the different nature of support required by MSMEs vis-à-vis the larger enterprises?
2	Do your programs clearly articulate the stakeholders involved, objectives, and intended outcomes?
3	Do you ensure that the policies being designed were in consonance with internationally accepted best practices and overarching national policies?
4	Are the roles and responsibilities of individual stakeholders outlined in the program document?
5	How was the allocation of the responsibilities among different stakeholders done?
6	How are the responsibilities between the public sector and private sector entities distributed? Is it broadly in accord with their respective capabilities?
D. The efficiency of the policy design process	
1	How much time did the consultation process for the program or project take? What was the process followed to design and develop the policy?
2	Did you seek external technical support to conceptualize, design, and develop the financial literacy program or project?
3	Who were the stakeholders involved in drafting the program or project?
4	Did the program or project documents also include a financial component, detailing any budgetary allocation for the program, funding sources, and an activity wise breakup of the budget?
5	What are the outcomes of the program or project? How are the costs versus benefits assessed in the implementation of the program or project?
E. Sustainability of the policy environment	
1	Did the program outline the resources (financial, infrastructural, and human) required to implement the policy successfully?
2	What were the challenges in terms of access to resources for the implementation of the policy? How were these challenges overcome?
3	What were the costs involved to implement the program or project? Is an independent audit of the implementation of the policy available?
4	What were the findings of the program review? Did the benefits outweigh the costs of the program or project?
5	Were any midway course correction carried out based on intermediate feedback on the implementation of the policy? What was the process followed to effect the changes?
F. Measurement of Impact	

1	What are the indicators to measure progress and policy or program outcome? How aligned they were to overarching national policies?
2	Were periodic assessments (internal and external) and review protocols put in place to check the progress of the programs?
3	Were monitoring and evaluation protocols in place to ensure the collection of timely feedback and course correction (if required)?
4	Were impact assessments of the programs or projects carried out to understand the long-term benefits of the policies? If yes, please mention the findings of the assessment.
G. Supporting ecosystem	
1	Are the roles and responsibilities of individual stakeholders outlined in the program or project document?
2	How was the allocation of the responsibilities among different stakeholders done? Did it take into account the individual strengths of the stakeholders to distribute responsibility?
3	How are the responsibilities between the public sector and private sector entities distributed? Is it broadly in accord with their respective market positions?
4	What were the challenges faced with internal factors like the administration of the program and financial resources?
5	What were the roles for which external stakeholders were crucial? What were the challenges with external elements like infrastructure or service providers?
H. Feasibility	
1	Was there a risk management plan in place to manage any contingency during the implementation of the plan?
2	Was there a monitoring mechanism in place to oversee all tasks and metrics necessary to ensure that the program or project is within scope, on time, and on budget?
3	Was there a mismatch between the program or project objectives and the on-ground infrastructure available to implement the project?
4	What were the challenges that arose due to this situation? How were those challenges addressed?
5	Did these challenges lead to financial overrun?
I. Adaptability	
1	Did any of the programs or projects face issues due to rapid changes in the macro environment? How did the program or project adapt to this change?
2	Did the expectations of the end consumers change from the program or project resulting in a reorientation of the project objectives? How did the project cope with these changes?

Areas of Enquiry—Service Providers (Financial service providers)	
A. Overview of their role	
1	What is the institutional mandate for the promotion of MSMEs?
2	What are the policy steps taken by the Government for the development of MSMEs in the country? Are there any budgetary support or central bank support for MSME development?

3	What role does the organization play in providing access to financial products and services MSMEs?
4	Do you participate in any program that promotes alternate finance mechanisms like two-step loans, credit guarantee schemes, or venture capital?
5	What are the capacities and strengths of the organization that is advantageous for MSME development?
B. The utility of programs offering alternate credit products	
1	What is the target segment of your intervention? Why did you select this specific target segment?
2	What are the gaps you have identified among the current product offerings for the target segments?
3	What are the potential benefits to MSMEs that your initiative envisions?
4	Does your initiative target to provide services for women entrepreneur and entrepreneurs from other vulnerable groups?
5	Are there any feedback mechanism to assesses customer needs/ customer satisfaction and address customer grievances?
C. Compatibility	
1	Does the design of your initiatives take into account the different nature of support required by MSMEs?
2	How do you ensure that MSME development initiatives in alignment with the national priorities vis-à-vis MSMEs? Please enunciate with suitable examples.
D. Accessibility	
1	How can MSMEs access your services? Are there limitations to the accessibility of the service in terms of geography, time, cost etc.?
2	Are there pre-conditions to entrepreneurs accessing your services? What are those conditions?
3	What is the medium (channel) of delivery of the service? Why do you think this channel is the best way to deliver the service?
4	Do you use alternate / surrogate data for due diligence of credit proposals?
5	Do you partner with new generation fintech companies for extended reach and quick turnaround?
E. Usability	
1	What are the costs and the benefits of the service provided by you?
F. Impact	
1	What are the measurable indicators to gauge the alignment of your activities with overarching national policies?
2	What are the measurable indicators to understand the performance of the service?
3	Do you have a provision to conduct periodic assessments (internal and external) of the service? What has been the output of such assessments?
4	Are monitoring and evaluation protocols in place to ensure the collection of timely feedback and course correction (if required)?

5	Were impact assessments of the initiative carried out to understand the long-term benefits? If yes, please mention the findings of the assessment.
6	Do you measure sector wise exposure and impact of your MSME development activities?



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