MICROFINANCE INDUSTRY REPORT

Myanmar

2010

Published by ACTED and the Banking with the Poor Network in collaboration
with the Foundation for Development Cooperation.

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The Foundation for Development Cooperation was incorporated in 1990 in Queensland, Australia, and is an independent, not-for-profit international development organisation. Through alliances and partnerships, FDC undertakes a range of initiatives which seek to improve the lives of poor people in developing countries. FDC is a Charitable Institution, has Deductible Gift Recipient status and is exempt from Income Tax.

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iii. ACTED

This report was completed by the Agency for Technical Cooperation and Development (ACTED) in partnership with Banking With the Poor Network. ACTED is a non-affiliated France-based INGO that intervenes in emergency, rehabilitation and development settings in 30 countries World-wide.

ACTED has been actively engaged in Microfinance since the mid 1990s. Since then, ACTED has developed a series of specialised global tools to promote the Microfinance sector, including Oxus Group and ACTED's Microfinance Platform, through which it supports a number of tier-2 MFIs. ACTED is the co-initiator of a number of other MF initiatives, including: the lending peer-to-peer site Babyloan; the open source LTS Octopus; the Paris-based think-tank Convergences 2015; the South Asian Microfinance Network.

In Myanmar, ACTED has implemented projects as parts of the international relief effort that supported the country's recovery in the aftermath of the May 2008 Cyclone Nargis. Today, ACTED's activities in Myanmar focus in the delta township of Labutta and include: provision of shelter and drinking water; support to farmers, fishermen and livestock breeders through training and distribution of seeds, livestock, boats and related equipment; support to income-generating groups.

iv. The Banking With The Poor Network

This assessment was completed as a Banking With the Poor Network (BWTP Network) activity of the Citi Network Strengthening Program, in collaboration with the Foundation for Development Cooperation and funded by the Citi Foundation.

The Citi Network Strengthening Program supports the development of Industry Assessments for national and regional level networks. The purpose of the BWTP Network Industry Assessments is to provide an overview of the microfinance sectors in which the BWTP Network operates. These assessments aim to extend beyond the performance of individual institutions, and focus on the development of the microfinance market as a whole by being both descriptive and analytical in nature. The aim of these assessments is to provide an outlook on each industry that is a valuable resource to the BWTP Network, its members and the wider microfinance community.

The 'Microfinance Industry Report: Myanmar' is a review of the microfinance sector in Myanmar, and constitutes a new contribution to the BWTP Network's Asia Resource Centre for Microfinance (ARCM).

The ARCM is based on dialogue and information exchange at national and regional levels in South and Southeast Asia, and aims to constitute a one-stop learning and information hub for BWTP members and other microfinance actors in Asia.

The ARCM promotes increased outreach and efficiency of financial services for the poor in South and Southeast Asia, services that are essential in the fight against poverty in the region, improving the lives of millions through asset building and increased income.

The ARCM has two main objectives:

- First, the ARCM aims to encourage partnerships and cooperation in Asia, among microfinance providers and supporters, and between providers and financiers, in order to increase financial support for microfinance schemes and to increase peer learning.
- Second, the ARCM aims to build a knowledge management platform accessible to all microfinance actors in the Asia region, in order to increase institutional capacity, to increase the dissemination of innovations, and to develop regional and sub-regional standards in microfinance.

v. Acknowledgments

The Microfinance Industry Report: Myanmar was written by Sophie Vincent of OXUS Group, with the editing support of Luca Pupulin and Roisin Devale of ACTED, in collaboration with Jamie Bedson, BWTP Network Program Manager and Asia Regional Representative at The Foundation for Development Cooperation (FDC).

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vi. List of Acronyms

- **ACTED** Agency for Technical Cooperation And Development
- **AMDA** Association of Medical Doctors of Asia
- **ASEAN** Association of Southeast Asian Nations
- **BWTP** The Banking With The Poor Network
- **CARE** Cooperative for Assistance and Relief Everywhere
- **CBO** Community-based Organization
- **CGAP** Consultative Group to Assist the Poorest
- **CMLF** Community-managed loan funds
- **GDP** Gross Domestic Product
- **GONGO** Government-organized Non-governmental organization
- **GRET** Groupe de recherche et d’échanges technologiques
- **FAO** Food and Agriculture Organization
- **HDI** Human Development Initiative
- **LIFT** Livelihoods and Food Security Trust Fund
- **LNGO** Local Non-Governmental Organization
- **MADB** Myanmar Agricultural Development Bank
- **MCS** Myanmar Ceramic Society
- **MFI** Microfinance Institution
- **MFWG** Microfinance Working Group
- **MIS** Management Information System
- **MISFA** Microfinance Investment Support Facility for Afghanistan
- **MoU** Memorandum of Understanding
- **MMK** Myanmar Kyat
- **NGO** Non-Governmental Organization
- **PACT** Private Agencies Collaborating Together
- **PAR** Portfolio at Risk
- **PONJA** Post-Nargis Joint Assessment
- **PONREPP** Post-Nargis Response and Preparedness Plan
- **SHG** Self-help groups
- **SME** Small and Medium Enterprises
- **TCG** Tripartite Core Group
- **UNDP** United Nations Development Program

Exchange Rate - average rate in November 2009

1 US$ = 1,000 MMK

1. Myanmar General Overview

Myanmar is the second largest country in South-East Asia. The vast, flat, Ayeyarwady delta region is surrounded by hills and mountains. Being a heavy rainfall country, floods and landslides occur regularly during the mid-monsoon period (June to August) in areas traversed by rivers or large streams. The country is also highly prone to cyclones and earthquakes.

One of the most damaging natural disasters in Myanmar's history occurred in early May 2008 when Cyclone Nargis struck the Ayeyarwady delta, disrupting the lives of approximately 2.4 million people and killing another 140,000. The international community's response to Nargis was unprecedented in the country's recent history, paving the way to an increased presence of national and international aid organizations in the affected regions.

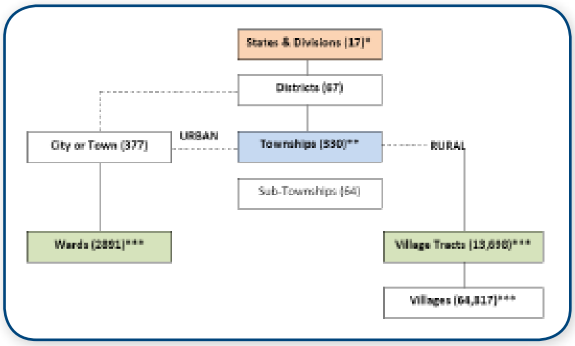


Figure 1 - Myanmar map and administrative structure

Source: MIMU, 2009

Table 1 - Population and Demographic Data, Myanmar

Total Population	**58,510,000 (average age 29)**
Estimated Population below poverty line[1]	19,308,300 (33% of the population 2007)
Estimated Households below poverty line	3,329,017
Estimated Population needing access to credit	Around 4,000,000
Rural population	70%
Number of active microfinance clients	385,283 (September 2009)
Number of cottage industries	Around 60,000
Cost of cultivation for 1 acre of monsoon paddy	Between 100 and 150 000 MMK (100 to 150 US$)
Exchange rate	Official rate: 6.1 MMK / US$ Market rate: 1,000 MMK / US$ (average Nov. 2009)[2]

Source: 2008 ASEAN figures, MFWG, Dept. of Cottage Industry, UNDP, interviews

1 Population living on less than 1US$ a day
2 This paper will uses market exchange rate of USD 1 = MMK 1000

2. Myanmar's Microfinance Sector

2.1 Terminology

Myanmar does not have any law or policy defining microfinance. In this report, the following terminology has been used, in line with the terminology used by microfinance stakeholders in Myanmar:

- *Microfinance* offers poor entrepreneurs access to financial services and usually involves microfinance institutions[3] (MFIs) with a dedicated staff. Where an MFI provides the credit and collects reimbursement we will use the term *institutional microfinance*.
- In the case of *Community-managed loan funds* (CMLF) credit to the members of a small group is effectively managed by the members themselves rather than by an institution. These funds are also referred to by a variety of names such as revolving funds, self managed village banks, accumulating savings and credit associations (ASCAs)[4]. Although these activities are referred to throughout the report, they are not included in the overall microfinance figures.
- *Cash Grants* are donations given in cash to vulnerable households. Cash grants appeared in Myanmar in the wake of Nargis to reduce food insecurity and replace the assets of Cyclone-affected populations. Amounts and beneficiary selection criteria vary across organizations (starting around 30 US$ up to 100 US$).

2.2 History and overview of the microfinance sector

The most significant regulatory obstacle to the development of microfinance in Myanmar is that formal financial institutions are not allowed to provide uncollateralised credit. According to the law on Financial Institutions of Myanmar, all credit has to be collaterised either with real estate or by a fixed deposit account[5]. As a consequence, millions of small and micro-entrepreneurs have to rely on informal money lenders or pawnshops for credit, with average reported monthly interest rates of around 20%. Farm-workers or labourers can also informally borrow from farm/land-owners for similar interest rates, without collateral[6].

To respond to the above regulatory bottleneck and to foster economic growth, microfinance was first introduced to Myanmar in 1997 by UNDP's Human Development Initiative (HDI), a pilot project that was regulated by a special MoU with authorities. As part of HDI, a number of microfinance initiatives were implemented through various international NGOs (INGOs) such as EDA, Grameen Trust, GRET and PACT in the Delta area (Ayeyarwady Division), the Dry Zone and Shan State. Later on, other INGOs also began providing microfinance services as part of their broader poverty alleviation intervention. From March 2006, PACT was selected as the single subcontractor for UNDP microfinance programming, becoming by far the dominant microfinance provider in the country.

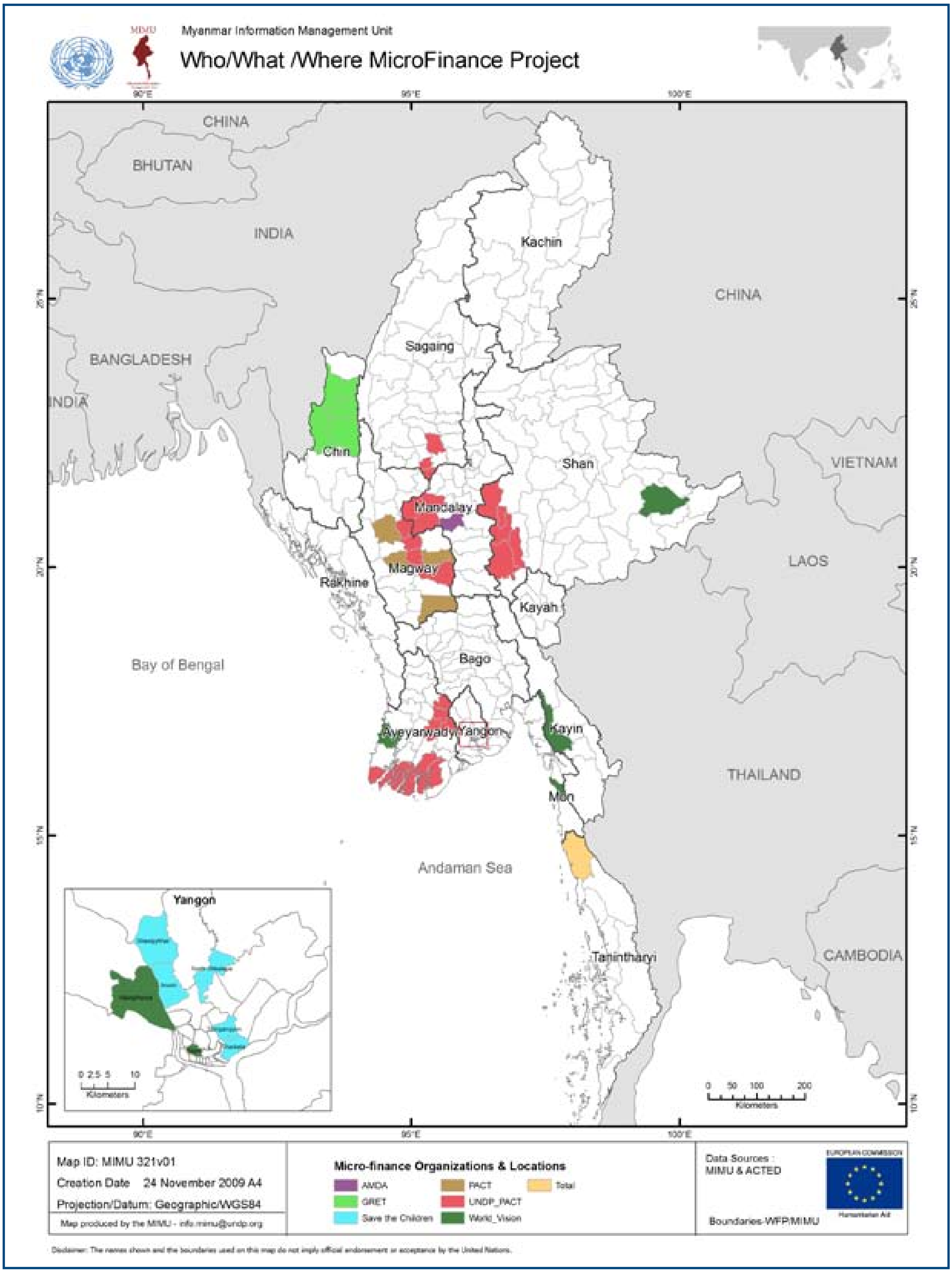
As of September 2009, 6 actors (five INGOs and one private company) are operating institutional microfinance in the country, all regulated by specific MoUs with authorities. The microfinance sector is currently servicing more than 385,000 clients (of whom at least 90% are women) with a total portfolio of around 27M US$. PACT is serving 92% of these clients and holding 93% of the total portfolio. In terms of geographical coverage, institutional microfinance exists in 46 out of Myanmar's 330 townships, which represent around 6,000 villages (see map below).

3 As there is no microfinance law or policies yet, MFIs do not exist as specific or separate entities in Myanmar. In this report, under this category are included actors which are running their microfinance programs as an institution, most of the time with separate track records.
4 CGAP Focus Note No.36, *Community-Managed Loan Funds: which ones work?* May 2006
5 The financial Institutions of Myanmar Law, State Law and Order Restoration Council Law No. 16/90, July 4th, 1990
6 Tripartite Core group report Nargis Periodic Review I, December 2008 and Post-Nargis Social Impact Monitoring, January 2009, interviews

Table 2 - Institutional microfinance activities mapping as of September 2009

Organizations	Beginning of MF	Geographical coverage	Targeted population	Active Borrowers	% women	Gross Loan Portfolio (MMK)
AMDA	2002	Mandalay State : 1 TS, 37 villages	Beneficiaries of AMDA's NGO program	1,510	100%	55,109,960 (55,109 US$)
GRET	1995	Chin State (North) 4 TS, 86 villages	Poor people in rural area	4,332	57%	300,313,000 (300,313 US$)
PACT (UNDP projects)	1997	Mandalay, Sagaing, Shan, Delta, Magway : 22 TS, 4 568 villages	Poor people to facilitate the growth of their micro-enterprises	319,744	93%	24,513,000,000 (24,513,000 US$)
PACT (non UNDP)	2005	Magway : 4 TS, 201 VT, 476 villages		33,713	100%	1,396,493,000 (1,396,493 US$)
Save the Children (Dawn Microfinance Program)	2002	Yangon Division, 5 TS	Poor women in peri urban area of Yangon	16,656	100%	400,000,000 (400,000 US$)
Total (Yadana Suboo Microfinance)	1997	Tanintharyi State, 1TS, 25 villages	Poor and middle poor individuals wishing to start or expand micro-enterprises in the pipeline area	1,197	75%	165,077,000 (165,077 US$)
World Vision	1998	Yangon , Mandalay , Ayerwaddy divisions, Shan, Kayin, and Mon State : 9 TS	Poor entrepreneurs, beneficiaries of other World Vision programs	8,131	71%	1,000,000,000 (1,000,000 US$)
Total				**385,283**	**93%**	**27,829,992,960 (27,829,922 US$)**

Figure 2 - Institutional microfinance actors in Myanmar as of September 2009



Source: MIMU, 2009

Box 1 - Microfinance in the Delta area after Nargis

The Ayeyarwady Delta was one of the areas in which microfinance was originally introduced within UNDP's HDI, firstly with the Grameen Trust as their implementing partner. After 5 years of operation, the Grameen Trust successfully completed its Grameen Bank Replication Project in the region, handed it over to another INGO, EDA Rural System, which in turn handed it over to PACT in 2006. PACT was very successful in expanding microfinance outreach in the delta region to more than 133,000 clients, with an outstanding loan portfolio of over 5 M US$ and a repayment rate of around 98%.

Cyclone Nargis had a devastating effect on the delta, by then the most developed microfinance region in Myanmar. Microfinance clients suffered major losses and had to increase their level of indebtedness in order to rebuild and replace their assets. As institutional microfinance was no longer available in the immediate aftermath of the cyclone, informal money lenders took the lead over the provision of credit, charging exorbitant interest rates.

Thanks to the significant national and international response to the Cyclone, the delta region has benefited from a relatively large amount of relief and rehabilitation funding. Microfinance has been recognized by aid actors as one of the tools that could accelerate the reconstruction effort and rebuild the local economic structure in a sustainable way. It is also hoped that an eventual success of microfinance in the post-Nargis delta reconstruction may lead to an enhanced role of microfinance at a national level.

Developed jointly by the international community, the Association of South-East Asian Nations (ASEAN) and the Government of the Union of Myanmar, the Post-Nargis Response and Preparedness Plan (PONREPP) sets out a three-year framework to guide recovery efforts. Covering the period from January 2009 through December 2011, the PONREPP provides a platform for the transition from emergency relief and early recovery towards medium-term recovery. Since September 2008, the Tripartite Core Group (TCG), which brings together the three structures involved in the PONREPP, has conducted a series of reviews of the situation of the cyclone-affected population.

In the most recent PONREPP report published in December 2008[7], the recovery needs were estimated at 690.5M US$ for 3 years, out of which 189 were allocated to the livelihood component, including:

- 50M US$ were initially identified as cash grants needs but not linked to a specific outcome at this stage;
- 12.2M US$ were identified as needed to improve access to credit, especially microfinance (outcome 6 of the livelihood component being to "increase livelihoods opportunities through improved access to credit, especially microfinance".)

However, despite having identified microfinance as a key reconstruction tool in their periodic reviews, in October 2009 the TCG surprisingly advised to remove microfinance from the PONREPP prioritised action plan up to July 2010[8]. The reasons provided were two-fold (1) the timeframe for implementing sustainable microfinance[9] was too short (2) no official microfinance framework exists in the country. If this decision translates into a lack of funding for further microfinance initiatives, there are two very serious risks:

- Firstly that the economic recovery of the delta will be unsustainable shaped by externally driven grant-distribution systems and hampered by high levels of indebtedness to informal lenders.
- Secondly, that the window of opportunity (provided by funding availability and by the momentum of the reconstruction effort) for developing microfinance in the region and nationally will be lost.

Microfinance should be viewed as an indispensable component in the delta recovery effort and in the promotion of sustainable growth throughout Myanmar, and should be prioritised accordingly in aid strategies.

7 Tripartite Core group report *Post-Nargis Recovery and Preparedness Plan*, December 2008

8 Tripartite Core group report *Post-Nargis Recovery and Preparedness Plan Prioritized Action Plan to address the critical needs of the survivors of Cyclone Nargis* to July 2010, October 2009

9 TCG's mandate is finishing in July 2010, it is still unknown who will further take the lead, worsened by the fact that presidential elections are likely to take place sometime at the end of 2010.

2.3 Characteristics and experiences in institutional microfinance

Regulatory framework

Current microfinance activities in Myanmar are conducted on the basis of specific authorisations provided to microfinance actors. These take the form of a set of Memoranda of Understanding (MoUs) signed by the various microfinance actors with their line-ministry. Microfinance is therefore not yet mainstreamed into a regulated financial sector, but is rather authorised by case-to-case permissions granted by the government.

There is no specific microfinance regulation in Myanmar. A law on microfinance was drafted in the late 90s, but nothing has been enforced yet and it is very likely that the situation will not change till the end of 2010. Currently, formal provision of financial services is regulated by the Central Bank in the Framework of the 1990 Financial Institutions law.

The Central Bank of Myanmar (established under the Central bank of Myanmar Law 1990) is the supervisory and regulatory authority for all private and state-owned financial institutions. Any financial institution needs to obtain the authorisation from the Central Bank to operate. According to the Financial Institutions of Myanmar Law 1990, "a financial institution is an enterprise established in the State, the purpose of which is intermediation on the money or capital markets through the collection of financial resources from third parties for investment on their own account in credit operations, credit and public debt instruments, securities, or other authorized financial activities".

The law classifies financial institutions and their services as follows:

- *Commercial banks* primarily collect deposits with terms of under one year and finance short-term credits;
- *Investment or development banks* primarily collect time deposits with terms exceeding one year and finance fixed and working capital;
- *Finance companies* primarily finance the purchase of goods or services with funding other than deposits from the public;
- *Credit societies* primarily finance their members (individuals) for consumption, production or commerce purposes, using funds collected from the members.

According to the Central Bank, and in the absence of specific microfinance legislation, regulation or exceptions (such as those granted through MoUs), MFIs fall under the third category, finance companies, and are therefore forbidden to collect deposit from the public. In addition, finance companies have significant restrictions in terms of interest rate capping. The Central Bank of Myanmar currently caps financial institutions' interest rates at 12% before inflation for savings and at 17% for credit[10], levels that are not sustainable when considering that the inflation rate for the country was estimated at almost 30% in 2008. The capping of interest rates is a serious constraint for the development of MFIs, which would not be able to cover their operational costs if they applied the capping. In comparison, the average interest rate for microcredit worldwide is currently around 28%[11], levels of interest that are generally considered as needed for MFIs to cover all their costs and ensure the permanence and expansion of the services they provide. Only at sufficiently high interest rates, still far below those of money lenders or informal sources, can MFIs reach the poorest and unbanked entrepreneurs.

Given the above constraint, to date none of the existing microfinance actors has launched a transformation process in order to register its microfinance program as financial institution. All are still operating under the exemptions provided by the MoUs.

Actors

Six actors are operating *institutional microfinance*. Five INGOs (AMDA, GRET, PACT, Save the Children, and World Vision) are conducting microfinance as one component of their broader livelihood programs and one private actor (Total, through Yadana Suboo Microfinance) is conducting microfinance activities as part of its socio-economic development program in the region where the company is working. PACT is by far the largest actor in terms of client outreach and size of portfolio. No national NGOs are implementing institutional microfinance, though lots are involved in cash grants and CMLF, especially as parts of the delta reconstruction effort.

In addition to the above, according to the Central Bank[12] a number of regulated entities are involved in microfinance activities, providing collateralised loans to small enterprises starting from 1 million MMK (equivalent 100,000 US$). These include the Myanmar Small Loan Enterprise, the Myanmar Agricultural Development Bank, the Myanmar Economic Bank and the Central Co-operative Society. However their growth is constraint by the tight regulatory framework.

Regarding the *mainstream banking sector* (which was until recently entirely dominated by state actors), it has recently lowered its entry barrier for private investors. However, to date this has not translated into any serious attempt by commercial banks to downscale[13], unlike in some neighbouring countries[14]. For the time being banks have shown little interest in microfinance, an unfamiliar sector which has not been actively promoted by the Central Bank or in national strategies. Nevertheless it should be noted that some small pilot downscaling initiatives have been recorded involving banks. Examples include Kanbawza Bank's crediting of CBOs (with the support of the FAO), or the revolving fund pilot credit by the First Private Bank (see box below).

In addition, *specialised agricultural banks* provide microfinance to the agricultural sector: the Myanmar Livestock and Fisheries Development Bank Ltd and the Myanmar Agricultural Development Bank (MADB). See below (Agricultural lending section) for further information.

Since 2002, a Microfinance Working Group (MFWG) has been holding regular meetings gathering microfinance practitioners, donors and private sector structures involved in microfinance and revolving funds programs, to share information and best practices. The group is a very important initiative which could lay the basis for the development of a network of microfinance practitioners that promotes best practices, exchange and the general interest of the sector vis-à-vis the government, donors and other public and private stakeholders.

Products and services

The INGO-lead institutional microfinance programs in Myanmar started with the "solidarity group methodology" using models derived from the Grameen approach. Some are using village centres and 2-2-1 lending, others are operating with village credit organizations closer to the village banking methodology, or through a group model approach. The large majority of group products include a compulsory mobilisation of savings by members before credit is provided. Women account for the vast majority of the borrowers, in line with international practices.

Yadana Suboo Microfinance, supported by French multinational Total, operates institutional microfinance with a different methodology, offering only individual products with no compulsory savings.

Products are designed to serve micro or small and medium enterprises (SME), to develop agricultural activities or to enable poor household to cover primary needs (education, health). Following Nargis, some specific products were also developed to replace the assets of the affected population, particularly agricultural assets such as livestock, paddy seed etc. Overall, products range from 5 to

10 The Central Bank of Myanmar Law, State Law and Order Restoration Council Law No. 15/90, July 2nd, 1990. These rates have been in place since April 1st, 2006.
11 www.cgap.org, average at in 2008
12 Information provided in the course of an interview with the deputy Governor
13 Downscaling refers to setting up microfinance component in existing bank that would reduce its loan size to reach micro businesses
14 commercial banks treating microfinance as a profitable core business like the Hatton National Bank in Sri Lanka or required by their government to downscale

Box 2 – NGO-bank partnership to promote access to credit for SMEs through bank downscaling

In 2008, the Myanmar Ceramic Society (a national NGO) started a project to support pot sellers and kiln owners in the village of Twantay, an area heavily affected by the decline of the ceramic industry. International competition combined with lack of access to financial services, meant that of out the 60 kiln owners operational 30 years ago, only 15 were left in 2008, employing around 2,000 people.

The 100,000 USD program implemented by MCS promoted financial access to both pot sellers and kiln owners, successfully leading to a revitalization of the local ceramic industry. The program had 3 components:

Provision of Micro credit facilities through a revolving fund for pot sellers

Groups of 8 members were formed among the pot-sellers to facilitate access to credit. Initial credit to groups was facilitated through a guarantee by either kiln owners or by MCS directly. Nowadays, the project provides access to credit to 256 families with a 50,000 MMK loan over 6 months per borrower. Borrowers pay 3% monthly interest, which is reinvested into the group's revolving fund, enabling the group to extend the program to new borrowers. The project is leading to a revitalization of the pot sellers and kiln industry, also thanks to a system of incentive by which pot sellers that manage to buy a kiln are granted a 100,000 MMK start up capital grant.

"Medio-Credit" from a bank for kiln owners

On average kiln owners have credit needs ranging from 1.5 up to 5 million MMK. In order to promote the growth and competitiveness of the sector, MCS facilitated the provision of credit to kiln owners by linking them with local banks and providing the required collateral to enable a bank loan. As a pilot, MCS deposited 28M MMK at the First Private Bank, which credited the 15 kiln owners with a lump sum of 25M MMK for a year at an interest rate of 17%. In line with the incentive system provided to pot sellers, small kiln owners managing to restore big kilns are granted with a 200,000 MMK award.

Capacity building

The impact of this project is extended by various activities conducted by the MCS such as training for pot sellers, a laboratory, market studies, and support to export.

Box 3 - GRET Village Credit Schemes methodology in Chin State

GRET started its microfinance operations in Northern Chin State in 1995. The program was set up using a village credit scheme methodology. Each village bank is composed of 10 to 30 solidarity groups with membership of five individuals per group. In each village bank, a credit committee, a management committee, a bookkeeper and a cashier are chosen by the members and trained by GRET. This methodology is applied to several products the program is offering.

The program reached operational sustainability in 2003 but is still operating under GRET's MoU and direct management. Another township was integrated in the program in 2005 and from 2008 GRET introduced an individual micro enterprise loan, with the support of the European Commission.

500 thousand MMK, for a maturity of 3 up to 12 months. The range of products is quite developed, as shown in the table below, including insurance components, health care, a widespread use of individual loans and some additional voluntary saving products. Less than half of institutional microfinance actors use MIS to track the performance of their microfinance activities.

Microfinance actors are able to provide services at sustainable interest rate, i.e.: above the cost of lending). These range between 24 and 48% yearly for credit.

Focus on agricultural lending

In a country where 70% of the population lives in rural areas and depends on agricultural activities, access to agricultural credit is an essential element for promoting growth. This is especially the case in the delta area affected by Nargis, which was considered as the "bread basket" of the country before being devastated by the cyclone. Lack of credit is one of the main problems faced by farmers, who used to borrow in previous years at interests of 10-15% per month from informal money lenders; they report that, at the present time, credit is very difficult to find, even at a higher rate[15]. One of the main obstacles for accessing credit is the lack of collateral, as farmers do not own the land they cultivate which is provided to them on lease.

Two banks are involved in agricultural microfinance: the Myanmar Livestock and Fisheries Development Bank Ltd and the Myanmar Agricultural Development Bank (MADB). However these only cover a fraction of the estimated credit needed by farmers. For example, a paddy farmer requires on average 100,000 to 130,000 MMK of loan per acre for cultivating each monsoon-paddy. The MADB provides only a fraction of the need, with a maximum loan size of 8,000 MMK per acre for short term loans without collateral at 1.5% a month. Even then, the loan is only available to farmers who are registered with the Land Record Department. As a result of lack of appropriate credit, paddy farmers are typically under a lot of pressure to repay any credit they receive just after the usual harvest time, leading to a glut of paddy for sale at harvest time, creating very low prices on the market.

Note that in addition to specialised banks, some of the institutional microfinance actors are offering agricultural loans. For example, PACT provides up to 80,000 MMK per acre per cultivation.

Key performance indicators

Some of these programs report good operational sustainability level with profits revolving in the activity. Most actors engaged in institutional microfinance report repayment rate above 90% with no write off, with the notable exception of those exposed to Nargis in the Delta region. For instance PACT project suffered from the loss of 4,282 microfinance clients; many survivors lost family members, homes, savings and productive assets, and were therefore unable to resume their income-generating activities without refinancing. Delinquency is not reported as an issue in the sector, however portfolio at risk (PAR) is not strictly tracked from day 1 because of a lack of adequate reporting tools or because these social players consider that in Myanmar, people will always pay back their debts, but not necessarily on time.

2.4 Community Based Loan Funds (CBLF)

Although the number of actors involved in institutional microfinance is limited, various other programs (often sponsored by development actors) support financial services provision. These often revolve around the concept of CBLF, as is the case for CARE's VSLA project (see Box 5 below). Such programs are very important in providing grassroots financial services. However they are outside of the scope of this report, which focuses on institutional microfinance (while for CBLF credit and savings funds are managed directly by the community and the group members).

15 Harvard Kennedy School, *Assessment of the Myanmar Agricultural Economy February 2009*

Box 4 - Agricultural Development Companies to provide agricultural loans to farmers, the Myanma Awba Group value-chain activities

In order to increase access to finance for the agricultural sector, in 2008 the Ministry of Commerce introduced a number of Agricultural Development Companies (ADCs). There are currently 27 ADCs operational, with the ultimate aim of having one in every township. An interesting example of an ADC is Shwe Kawa, which managed by the Myanma Awba Group as a Joint Venture (JV) between the group, local traders and farmers from Kawa Township (Bago division).

The Myanma Awba Group has been active in the sector of fertilizers, seeds and chemicals for paddy and pulse cultivation for 15 years. In 2004, with the idea of compensating the lack of funding for productive farming, the group started financing farmers through credit in cash and in kind (agricultural inputs).

The JV targets farmers (gathered in solidarity groups of 5) that have an official authorization for cultivation on at least 5 acres. The JV provides loans for of up to 80,000 MMK per acre, subdivided into a component in kind (equivalent of 50,000 MMK in seeds, diesel, fertilizer, etc.) and a component in cash (30,000 MMK in cash disbursed in 3 instalments, 2 before the season and 1 at the time of harvesting). A monthly 2% interest rate is charged, with the principal being repaid after harvest (i.e.: after 5 to 6 months for monsoon crops, 4 to 5 for winter crops). 1,500 farmers are already benefiting from this credit line amounting in total to 700,000 US$.

Benefiting from the Myanma Awba Group expertise, the JV is also providing the farmers with support on agricultural technology to improve their yield, providing stocking option so that farmers can better follow market trends. The JV also facilitates agreements with local traders for the purchase of the crops.

One of the drawbacks of such practices is the possibility of reducing farmers' negotiation power by linking them to traders before harvest. However, in this specific case, the price was reported to be agreed at the time of harvest, not before.

Box 5 - Village Savings and Loans Association Methodology (VS&LA) implemented by CARE

The VS&LAs model was first developed by CARE in Niger. It applies to a self-selected group of people who pool their savings into a fund from which members can borrow. The money is paid back by the selected borrowers with interest, leading to a constant growth of the pooled group fund. A regular savings contribution to the group is deposited with an end date in mind for distribution of all or part of the total funds (including interest earnings) to the individual members, on the basis of a formula that links payout to the amount contributed.

CARE Myanmar is currently piloting this methodology in Southern Chin State in 10 villages, based on 4 core principles:

- No external money is provided to the group;
- Self selection of the group members;
- Existence of an emergency fund to which all group members contribute and which is given as a grant in case of need from a member;

Setting of timeframe for the group, after which savings and earnings are distributed according to the number of shares bought. Typically this is 9 months to 1 year.

At the end of September 2009, the project gathered 178 members, who had saved around 1,200 USD that were lent to 81 of them. The social fund was around 100 USD, and 130 USD were collected from interests.

Table 3 - Microfinance products in Myanmar as of September 2009

Organizations	Methodology	Compulsory Savings	Products	Amounts/ borrower	Term, repayment	Saving Products
		Credit Products				
AMDA	Group sitting cycle including health insurance	Yes	Normal Loan	40,000 to 70,000K	1 year, bi-monthly	No
			Short Term Loan	50,000K	4 months, bi-monthly	
GRET	Village Credit Scheme	Yes	Normal Loan	60,000K	12 months	No
			Performance Loan	84,000K	12 months	
			Special Loan	120,000K	12 months	
			Microenterprise loan	250,000 to 500,000K	12 months	
PACT/UNDP	Group guarantee with Village Level Credit Organization (VLCO) with the possibility of loan insurance	Yes	Regular Income Generating Loan	60 to 150$		Yes
			Health Care Loan	50$		
			Educational Loan	50$		
			Agricultural Loan	80$		
			Seasonal Loans/ Consumer Loan	Up to 100$		
PACT			Microenterprise Loan	Up to 500$		
Save the Children (Dawn Microfinance Program)	Group guaranteed model	Yes	General Loan	14,000 to 100,000 K	25 weeks, weekly	Yes (in 1 TS)
			Emergency Loan (health care)	49,900 K	16 weeks, weekly	
			Nargiz loan		50 weeks	
Total (Yadana Soboo Microfinance)	Individual lending with a guarantor policy	No	Progressive Capital repayment Loan (PCL)	30,000 – 500,000 K	3, 6, 9, 12 months, monthly	Pilot phase in 4 villages
			Bulk Capital repayment Loan (BCL)	100,000 – 500,000 K	3, 6, 9, 12 months, monthly repayment with principal at the end of the cycle (bulk repayment)	
World Vision	Group guaranteed Model	No	Special Loan	5,000 to 100,000K	3-9 months, monthly/weekly	No
			Small Loan	5,000 to 50,000K	3 months, monthly/weekly	
			Microenterprise Loan	50,001 to 300,000K	3-9 months, monthly	
			Small Enterprise Loan	300,001 to 10,000,000K	3-6 months, weekly	
			Emergency Loan	50,001 to 300,000K	3-9 months, monthly/weekly	

3. The future of microfinance in Myanmar, challenges and opportunities

The parliamentary elections planned for 2010 may lead to a redefinition of aid strategies in Myanmar, including microfinance. It is likely that donors will wait until the elections to make the necessary commitments for the development of sustainable microfinance in the country. Similarly, the post-election period may enable a definition and implementation of new a microfinance regulatory framework.

3.1 Inclusion of microfinance in donor priorities

To date, there has been limited donor attention to the development of microfinance. Nevertheless, donor funding has been the driving force behind the rise of institutional microfinance in recent years. Regarding future perspectives, a microfinance component has been included in the LIFT multi-donor fund. The Livelihoods and Food Security Trust Fund (LIFT) is a five-year multi donor fund of US$100 million for Myanmar, governed by a donor consortium. A first round Call for Proposals has been launched on 11 November 2009 with prioritized townships of the Delta, Dry Zone, Shan State, Chin State, Rakhine State and Kachin State. Microfinance is included under two of the very broad themes of LIFT "Diversifying income sources" and "Increasing agricultural production". It is recommended that the LIFT donor consortium supports the development of microfinance as a key component in a broader poverty alleviation strategy, by supporting both existing and new microfinance actors in terms of technical assistance and build up of loan portfolio. The existence of this component could play a catalyst role in the structured development of microfinance as a regulated financial sector.

3.2 An enabling legal and institutional environment

UNDP estimates the demand for microfinance in Myanmar as between 400 and 600M US$[16]. Despite the success of a handful of institutional microfinance actors, the industry remains underdeveloped, its growth being constraint by the lack of a clear regulatory framework. Although microfinance is already possible through MoUs (notably through the Ministry of Agriculture and the Ministry of Cooperatives), the sector could grow exponentially is regulated by a clear, specific body of legislation.

The main challenge for the sector's development is the lack of a specific legal environment. Under current circumstances, transformation into MFIs will not happen and the growth of existing actors will be limited by their reliance on grants and their incapacity to collect voluntary savings or to contract loans. MFIs do not have collateral to provide to local banks and financing thanks to external investors is uncertain given the limitation and the control on foreign investments. Moreover, given the banking sector's general lack of willingness or incapacity to serve micro enterprises (itself largely due to a hostile regulatory framework), bank downscaling is unlikely to pave the way for the financing of SME growth.

An enabling legal framework is acknowledged amongst microfinance practitioners as one of the key pre-conditions for the development of microfinance, alongside the creation of MFIs capable of subscribing contractual relations with other formal financial institutions. There are three key preconditions for setting up an enabling legal and regulatory framework.

16 Estimation of a 100 US$ loan required by 40 to 60% of the 10 millions households

Firstly, there needs to be a sufficient number of structures that would qualify for a license. Out of the 6 actors currently involved in institutional microfinance, 5 of them stated their willingness to consider transforming their microfinance programs into regulated MFIs as soon as an enabling framework is in place.

Secondly, the issue of supervisory capacity and understanding of legislative and regulatory authorities is of key importance. It will be essential to build the capacity of the relevant authorities such as the Central Bank, by providing dedicated technical assistance and exposing them to other countries that recently introduced a microfinance legislative framework.

Lastly, experience from other countries shows the key role played by dedicated MFI apex institutions in developing a microfinance legal and institutional framework. The MFWG is already working on sharing information with various ministries in order to promote mutual understanding. Such efforts should be expanded and formalized.

4. Key recommendations for the development of microfinance in Myanmar

The development of microfinance in Myanmar requires a concerted effort between the government, donors and the other microfinance stakeholders. Throughout Asia microfinance has proved to be an indispensable tool in poverty alleviation strategies. Depending on each country, the dominant model varies from NGO-MFIs type (Bangladesh) to government sponsored programs (Sri Lanka, Indonesia), to a mix of both (India). A handful of microfinance actors already exist in Myanmar and could pave the way to a NGO-MFIs structured model benefiting from the support of donors and government.

This report makes two sets of recommendations.

- The first is aimed at donor countries, which in the short- to medium-term will play a key role for the development of microfinance. Given the lack of other sources of financing, donors should increase their support towards Myanmar's microfinance sector as part of their effort to alleviate poverty and promote growth by improving and expanding access to affordable rural finance. Donors should also be willing to support any initiative aimed at introducing a specific microfinance regulatory framework.
- The second recommendation is aimed at the Myanmar authorities and other microfinance stakeholders. It is recommended that a specific microfinance regulatory and legal framework is introduced, enabling the development of a sustainable and effective microfinance sector. However, such framework should be introduced gradually and in a phased manner, after a process of consultation with and capacity building of relevant stakeholders.

Recommendation 1

In order to promote sustainable economic growth and poverty alleviation, donor countries should include microfinance as a central component of their Myanmar aid strategy. Donor strategies should encourage the growth and improvement of the microfinance sector, and could support the introduction of a new microfinance regulatory framework.

The growth of the microfinance sector will rely on donor contributions until a new regulatory environment will enable MFIs to diversify their sources of financing. Until then, donors can play a key role in the extension and improvement of microfinance in Myanmar as well as in the preparation of microfinance stakeholders for transformation into a regulated sector. A number of priority areas could be considered by donors:

Ensuring that microfinance is included as a key component of donor livelihoods and reconstruction programs

Given the lack of access to financial services for the poor, microfinance should be encouraged as a component in any poverty alleviation development program, particularly in rural areas. This is also true for the post-Nargis reconstruction effort. In particular, it is recommended to gradually replace the ongoing cash-grant projects with microfinance. Although cash grants have proven to be a useful tool to promote asset replacement and provide basic needs in the immediate aftermath of the emergency, its prolonged use by aid actors can cause significant negative market distortions, hampering recovery and growth.

Increase the availability of financial services to the poor by expanding the MF portfolio

Given the lack of other viable means to finance portfolio growth, donor grants will be required to increase the outreach of microfinance. A double approach is suggested. On the one hand, donors should continue financing portfolio growth for existing institutional microfinance actors. On the other, new specialized actors should be invited and financed to enter the market as 'green-field' operations, fostering competition and the promotion of best practices.

Supporting the integration of best practices in Myanmar among microfinance practitioners

This could be achieved through a three-faceted approach. Firstly, technical assistance could be directly financed to improve ongoing microfinance intervention. In particular, gaps have been identified in terms of financial management, risk management, reporting and MIS, operational guidelines as well as exposure of national staff to best international practices. Secondly, donors could provide specific funding to pay for the piloting and dissemination of innovative (for Myanmar) microfinance practices. Lastly, support could be provided for the set up of a microfinance resource centre to serve all interested practitioners, preferably hosted by an apex institution.

Support the establishment of an enabling microfinance regulatory and institutional framework

Donors should be available to support and encourage the gradual establishment of a specific microfinance regulatory framework. This can be promoted by supporting initiatives that could include: technical assistance and exchange visits for relevant authorities; organization of relevant workshops and research; as well as support and financing of microfinance apex institution representing MF stakeholders.

Recommendation 2

A specific microfinance legal and regulatory framework must be eventually introduced to promote the sustained growth and efficiency of the microfinance sector. A lot of preparatory work will be needed to ensure that the new legislation is effective.

Microfinance differs from traditional banking in terms of funding, bottom line, target market, guarantee mechanisms, loan size, procedures, costs and interest rate. Therefore, an adequate regulatory and legal microfinance framework is required to enable the development of the sector, promoting competitions which will lead to a decrease in operational costs, enabling MFIs to reduce their interest rates. The introduction of a specific microfinance regulatory framework is necessary in Myanmar to enable a sustained growth of the sector. Ideally a new regulatory framework should be introduced gradually, following the achievement of a number of preparatory milestones. A solution that could be envisaged is a two-phased approach in which a general primary legislation is fast-tracked, while leaving most details to a secondary legislation that would be introduced at a later stage, pending achievement of the preparatory milestones. Such preliminary conditions include the following:

Relevant regulatory authorities have a good understanding and knowledge of microfinance

In order to improve understanding and knowledge of microfinance, it is recommended that the relevant authorities (in particular the Central Bank) are supported through technical assistance and the facilitation of exposure visits. Technical assistance could include the promotion of best practices and appropriate standards from recognized structure such as the one from the Consultative Group to Assist the Poorest (CGAP). Exposure visit could be encouraged to neighbouring countries which recently successfully introduced specific microfinance regulation.

An apex microfinance institution is set up and is able to represent the interest of MF stakeholders in the drafting of the legislation

The government could support the creation of an apex institution that would coordinate various inputs in the drafting of the microfinance legislation, ensuring that the legislation is an output of a consultative process. Such an agency would also have the potential to develop best practices through capacity building of practitioners and by developing a resource centre.

There is an increase in the number of institutional MF actors able and willing to be regulated

A growth of the microfinance sector in terms of portfolio and number of practitioners would encourage the introduction of a specific regulatory framework for microfinance. At the same time, practitioners of institutional microfinance will need to build their capacity to ensure that they (a) reach operational and financial sustainability and (b) are able to meet new regulatory requirements.

Once the above pre-conditions are achieved, an adequate legislation should include the following elements:

Funding facilitation for MFIs to promote sustainable growth of the sector

Sources of funding are a crucial factor for the development of the microfinance sector. An ideal direction would be to enable MFIs to collect deposits from the public, although this would require heavy regulatory control and adaptation from MFIs. Equally important will be to enable MFIs to contract loans from national banks or from foreign investors. The set up of a dedicated microfinance funds could also be considered from the beginning.

To increase or remove the interest rate ceiling

Myanmar MFIs could not be sustainable with the existing interest ceiling for financial institutions, especially given the current macroeconomic climate. It is recommended that the interest rate ceiling is either removed or increased to be in line with the global average interest rates. Any ceiling would need to be adjusted in accordance to the inflation rate. Eventually, and as observed in other countries, interest rates will reduce thanks to increased competition and MFIs' economies of scale.

To enable adequate product mix

The importance of a wide range of financial services integrating, for example, microinsurance and individualised saving products is now recognized as of key importance among microfinance practitioners and experts. Current microfinance providers in Myanmar have started to work on efficient and adequate product mix. A regulatory framework should take into account these needs and existing experiences while allowing and supporting their improvement and expansion.

Promotion of linkages between banks and microfinance

Current banking regulations are too restrictive to support the country's microfinance needs. New legislation should lead to a loosening of regulatory measures to enable the banks to redirect a larger portion of their loan resources to support new micro and small enterprises. In addition, banks loans to MFIs should be facilitated.

Introduction of appropriate financial, reporting and audit mechanisms for MFIs

The new legislation should promote accountability towards generally accepted standards such as the ones endorsed by the Consultative Group to Assist the Poorest (CGAP). These should include regular reporting, financial obligations, regular audits, etc

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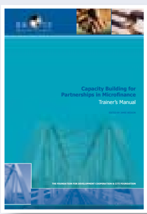

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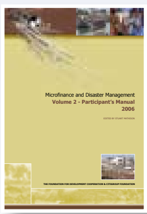

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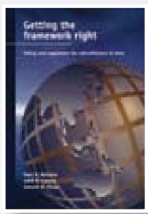

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