

IFC Advisory Services in East Asia and the Pacific

Microfinance in Myanmar Sector Assessment

By Eric Duflos, Paul Luchtenburg, Li Ren, and Li Yan Chen
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ACRONYMS

AFD	Agence Française de Développement
AMDA	Association of Medical Doctors of Asia
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASEAN	Association of Southeast Asian Nations
CARD	Center for Agriculture and Rural Development
CGAP	Consultative Group to Assist the Poor
DFI	Development Finance Institution
EAP	East Asia and Pacific
EU	European Union
FI	Financial Institution
FIND	Financial Inclusion for National Development
FMO	Financierings-Maatschappij voor Ontwikkelingslanden
GDP	Gross Domestic Product
HR	Human Resources
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Finance Institutions
IMF	International Monetary Fund
KfW	Kreditanstalt Für Wiederaufbau
LIFT	Livelihoods and Food Security Trust Fund
MADB	Myanmar Agricultural Development Bank
MAP	Making Access Possible
MFI	Microfinance Institution
MIDB	Myanmar Small & Medium Industrial Development Bank
MIS	Management Information System
MISFA	Microfinance Investment Support Facility for Afghanistan
MNO	Mobile Network Operators
MSE	Microfinance Supervisory Enterprise
NGO	Nongovernment Organization
OSS	Operating Self-Sufficiency
PACT	Partner Agencies Collaborating Together
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNOPS	United Nations Office for Project Services
WB	World Bank

Kyat/US\$ exchange rate: 100 Kyats = 0.12 US

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PHOTO CREDITS

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EXECUTIVE SUMMARY

Myanmar's re-entry onto the global stage provides a unique opportunity for IFC and the World Bank to engage in interventions that support development of Myanmar's nascent private sector. In June 2012, IFC and CGAP representatives conducted a financial sector scoping review to assess Myanmar's financial inclusion landscape and explore potential investment and advisory interventions. This report presents the team's key findings and preliminary recommendations. It aims at providing more public information, and helping define strategies to support the sector going forward. Additionally, it aims at informing a joint and complementary approach amongst the donors and Development Finance Institutions to develop the sector.

Myanmar is one of the poorest countries in Southeast Asia, with a per capita income of approximately US\$832 in 2011 (IMF 2012a). Its economy suffers from unstable inflation, a rigid interest rate regime, and a distorted exchange rate. Recently, the government embarked on a series of reforms to improve the business and investment climate, facilitate financial sector development, and further liberalize trade and foreign direct investment.

The financial sector in Myanmar is small and underdeveloped. It is dominated by four state-owned banks and 19 private banks. Foreign banks currently are not allowed to operate in Myanmar, though 17 foreign banks have already established local representative offices in-country. Overall, the banking sector is severely constrained in its outreach to the unbanked, with some industry estimates and recent research suggesting that less than 20 percent of the population has access to formal financial services (LIFT 2012).

The demand for microfinance¹ is high. However, few institutions provide microcredit, and unmet demand is estimated by industry experts at close to US\$ 1 billion (UNCDF 2012). Demand for formal savings is difficult to estimate and may depend on regions. Past crises in the banking and cooperative sectors have eroded public trust in formal savings products. Use of informal providers of credit and transfer services in both urban and rural areas is widespread despite the additional risks and expense (10–20 percent per month) (LIFT 2012).² Two clear priority markets are rural finance, with 54 percent of the population involved in agriculture, and international remittances, with over three million people from Myanmar working abroad (Ministry of Labour 2012).

The authors estimate that current microfinance outreach is 2.8 million microclients. The supply side comprises a variety of formal and informal actors. State-owned banks, such as Myanmar Economic Bank (MEB) and Myanmar Agriculture Development Bank (MADB), have a large outreach. MADB reports that it provides deposit and credit to more than 1.4 million people in rural areas, but on a subsidized basis. Private banks are not involved in microfinance, partly for regulatory reasons and partly because of a lack of interest. Cooperatives, which started in the early 20th century, report more than 10,000 primary societies and 470,000 members. International and national nongovernment organizations (NGOs), such as Partner Agencies Collaborating Together (PACT), GRET, World Vision, and Proximity, have pioneered microfinance methodologies since the mid-1990s with some success. The UNDP–PACT project is the largest microfinance initiative; it reports over 360,000 active borrowers and over 420,000

¹ This paper uses the shorthand term "microfinance" to refer to financial services for low-income people. The financial services used by low-income people include credit, savings, transfers, and insurance.

² According to the LIFT report, informal lending rates are usually below 20 percent, but they can go as high as 30 percent per month.

depositors. In addition, although 60 specialized agriculture development companies support 200,000 farmers with loans each harvest season, the largest one has fewer than 7,000³ clients. Informal lenders and semi-formal village revolving funds or community-based organizations are also widespread.⁴ Finally, several political and government organizations deliver credit. Overall, suppliers have limited capacity to expand in a sustainable way, and the transformation process of NGOs into for-profit licensed institutions could take years to develop. The market is therefore large enough to attract greenfield banks that could significantly improve outreach while contributing to innovation in the sector. While it needs to be further researched, the scope for branchless banking seems limited due to the lack of infrastructure and the high cost of SIM cards.

On the policy side, President Thein Sein's public endorsement of the development of a microfinance sector in May 2011 has opened the door to formalizing microfinance. In November 2011, the government adopted a new Microfinance Law as well as Notification 277 and Instructions. This framework allows local and foreign investors to establish fully privately owned MFIs, including those existing microfinance providers operating "illegally" before the law was established. While a more thorough analysis is required, the new legal framework for MFIs has several challenges that should be considered, including limited differentiation between deposit and nondeposit MFIs, low capital requirements for deposit-taking institutions, and an interest rate ceiling. The low capital requirements have spurred an influx of registered MFIs (118 MFI licenses were issued between November 2011 and November 2012). In addition, the Microfinance

Supervisory Enterprise has been tasked to license and supervise MFIs despite its limited experience in supervising financial institutions. It will therefore require significant training.

While the review focused on supply and policy environments, it also noted that the financial infrastructure is underdeveloped and lacks a functioning payment system. The central bank is actively working on this matter. There is no active credit bureau. The supply of technical support is also limited, with only a few trainers available. A microfinance working group made up of leading microfinance NGOs has been established; it could play an important role in the dissemination of good practices and advocacy. Donors have increased their financial support to microfinance. UNDP was the pioneer in doing so, with PACT in the mid-1990s; the Livelihoods and Food Security Trust Fund (LIFT) organized by a group of 10 donors has also become a key player after the Nargis cyclone in 2008. Notable forthcoming initiatives include the World Bank Financial Inclusion for National Development (FIND), which aims to support the regulatory and supervisory framework, and the UNCDF Making Access Possible (MAP) diagnostic tool, which will be used to conduct an in-depth diagnostic that can inform and influence future policies and donor activities. IFC is also planning a program to support the sector.

In summary, the microfinance sector is at the earliest stages of development in Myanmar. There are great opportunities alongside great challenges for growth. Any successful intervention will require a rapid dissemination of international good practices and a high level of donor coordination.

³ Interview with Myanmar Rice Association, June 2012.

⁴ Interviews with PACT and LIFT, October 2012.

I. COUNTRY CONTEXT



A. POPULATION

With a geographic area of 676,578 km², Myanmar is the second largest country in Southeast Asia in size (behind Indonesia); it has an estimated population of 62 million.⁵ More than two-thirds of the population lives in rural areas, where agriculture is the main source of employment, particularly around the Irrawaddy valley, which is situated between the Arakan Mountains in the West and the Shan Plateau in the East. Myanmar has one of the lowest population densities in the region, with an average of 90 inhabitants per square kilometer. The country is composed of 14 states and regions, 64 districts, 324 townships, and 65,148 villages. The most densely populated areas are Yangon, Ayeyarwady, Mandalay, and Mon State. The population is ethnically diverse, with 135 distinct ethnic groups and 108 different ethnolinguistic groups. The total population is estimated to be 68 percent Burmese, 9 percent Shan, 7 percent Karen, 4 percent Rakhine, 3 percent Chinese, 2 percent Indian, and 2 percent Mon.

Myanmar has a favorable geographic location in terms of trade: it borders India and Bangladesh to the Northwest, China to the Northeast, and Lao PDR and Thailand to the East. The country has a clear potential to be a regional trading hub. It has extensive fertile land and is richly endowed with natural resources, including oil and natural gas, metals, wood products, and precious stones. However, decades of isolation has left the country severely underdeveloped. Myanmar is one of the poorest countries in Southeast Asia, with a per capita income of approximately \$832 in 2011. It was ranked 149 out of 187 countries in the 2011 UNDP Human Development Index. According to the UNDP-supported household surveys, overall poverty was 26 percent in 2009, with significantly higher poverty concentration in rural areas (29 percent rural vs. 15 percent in urban areas) (UNDP 2011).

Figure 1: Myanmar Demographics Data



States/Regions	Population	Population per sq km	Number of Districts	Number of Townships	Number of Villages	Population 2012
1 Mandalay Region	14%	620	7	31	5,472	8,865,858
2 Ayeyarwady Region	14%	240	6	26	11,651	8,435,786
3 Yangon Region	12%	744	4	45	2,119	7,563,377
4 Sagaing Region	10%	68	8	37	6,095	6,382,723
5 Bago Region	10%	157	4	28	6,498	6,155,173
6 Shan State	10%	38	11	54	15,513	5,952,852
7 Magway Region	9%	122	5	25	4,774	5,480,736
8 Rakhine State	6%	93	4	17	3,871	3,412,529
9 Mon State	5%	244	2	10	1,199	3,001,724
10 Kayah State	3%	61	3	7	2,092	1,848,959
11 Tanintharyi Region	3%	96	3	10	1,255	1,676,282
12 Kachin State	3%	22	3	18	2,630	1,962,748
13 Chin State	1%	16	2	9	1,355	580,451
14 Kayah State	1%	27	2	7	624	321,447
Total			64	324	65,148	61,640,645

Source: Ministry of Health

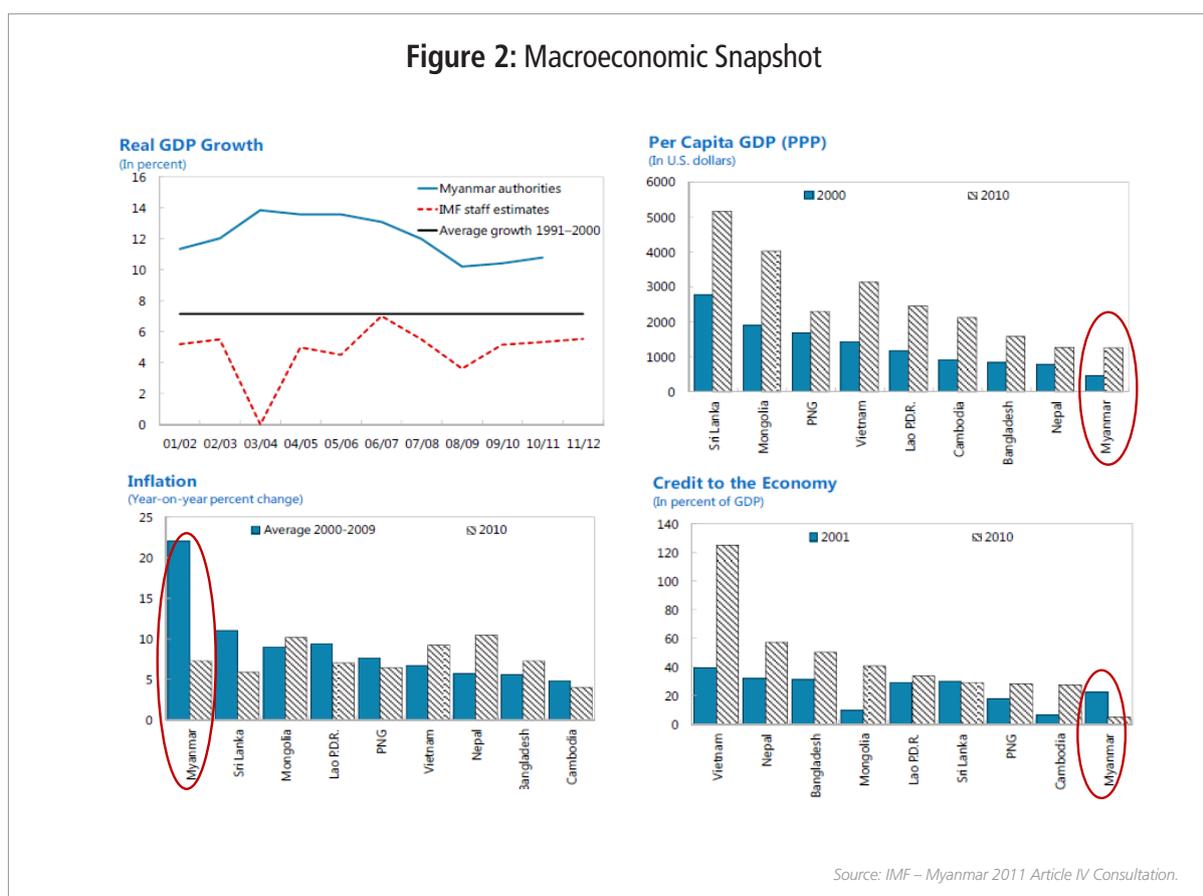
⁵ IMF estimate for 2011. Readers should note that data on Myanmar are limited and inconsistent, with population estimates ranging from 48 million to 62 million. The latest national census was conducted in 1983. Similar data discrepancies exist for other economic and social indicators.

B. ECONOMY

While the economy has experienced reasonable growth in recent years (real GDP growth was estimated at 5.3–5.5 percent in 2010–2012 by IMF), much of this was driven by buoyant commodities exports and high fiscal spending in the run-up to the 2010 elections. The overall economy continues to suffer from significant macroeconomic imbalances, including unstable inflation, a rigid interest rate regime, and a distorted exchange rate system. Furthermore, the business environment is widely viewed as opaque, corrupt, and highly inefficient. Wealth from ample natural resources is often concentrated in the hands of an elite group. In 2011, Myanmar was ranked 180 out of 183 countries in the Corruption Perceptions Index by Transparency International.⁶

Under the leadership of the new president, Thein Sein, the country has embarked on a series of economic

reforms to improve the business and investment climate, facilitate financial sector development, and further liberalize trade and foreign direct investment. Actions have included adopting a managed float exchange rate regime,⁷ increasing the deposit-to-capital ratio from 10 to 25 times (IMF 2012b), and allowing agricultural land to be leased for up to 60 years.⁸ Further reforms are underway to promote sustainable growth and to improve international competitiveness, including passage of the new Financial Institutions Law, Foreign Investment Law,⁹ and Special Economic Zone Law. Implementation of these laws will be critical if Myanmar is to join the ASEAN integration in 2015, which aims to create a single market and production base with the free flow of goods, services, investment, capital, and labor in Southeast Asia member countries.



⁶ <http://cpi.transparency.org/cpi2011/results/>

⁷ The managed float system allows for daily fluctuations in the exchange rate of Myanmar kyat to the U.S. dollar, against the initial exchange rate of US\$1 = 818 kyat set on 1 April 2012.

⁸ Interview with MADB, June 2012

⁹ The Foreign Investment Law was recently passed on 2 November 2012.

C. FINANCIAL SECTOR OVERVIEW

The financial sector is small and highly underdeveloped. Access to financial services is severely limited, as reflected by the low outstanding loans-to-GDP ratio of 4.7 percent and deposits-to-GDP ratio of 12.6 percent in 2011 (Seward 2012). Four state-owned banks and 19 private banks dominate the sector, which is closed to foreign competition in accordance with the existing Financial Institutions Law, which prohibits foreign banks from operating or engaging in any joint ventures with local banks. Myanmar has, however, committed to allow foreign banks to establish wholly owned operations once domestic banks have been prepared for foreign competition. Work is underway to revise outdated banking laws ahead of Myanmar's integration with ASEAN in 2015 (McNulty 2012). In anticipation of this, 17 foreign banks have established local representative offices in the country.

There is only one state-owned insurance company in Myanmar. It is small in scale and outreach and offers no insurance for any form of agricultural sector activities, such as flood, crop, or livestock. For the

first time in more than 50 years, private insurance companies have been given conditional approval by Myanmar Insurance and the Insurance Business Supervisory Board (IBSB) to begin operations. IBSB received 20 applications, but only 12 have been approved (all local and no foreign), pending their ability to meet paid-up capital requirements and deposit funds in Myanmar Economic Bank. Of the 12 companies, three plan to offer life insurance, which requires paid-up capital of K6 billion (nearly US\$7 million). The remaining nine institutions plan to offer life and general insurance, which requires total capital of K46 billion or (US\$53 million). The companies are Apex Insurance International Company, IKBZ Insurance Public Company, Great Future International Insurance Company, Capital Life Ltd Insurance Application, Global Standard Insurance Public Company, Green Asia Insurance Company, Jade King and Queen Service Company, Mya Wady Insurance Company, Pillar of Truth Insurance Company, Citizen Business Insurance Company, Ayeyar Myanmar Insurance Company, and Myintmo Min Insurance Company (Myanmar Times 2012).

Table 1: Overview of Myanmar's Banking Sector

State-Owned Banks (4)	Domestic Private Banks (19)	Foreign Banks with Rep Offices (17)
Myanma Agriculture and Development	Asia Green Development Bank	AB Bank
Myanma Economic Bank	Asia Yangon Bank	Bangkok Bank Public Company
Myanma Foreign Trade Bank	Ayeyarwaddy Bank	Bank for Investment and Development of Brunei Investment Bank (BIB)
Myanma Investment and Commercial Bank	Co-operative Bank	CIMB Bank Berhad
	First Private Bank	DBS Bank
	Innwa Bank	First Commercial Bank, Singapore Branch
	Kanbawza Bank	First Overseas Bank
	Myanma Apex Bank	Industrial and Commercial Bank of China
	Myanma Industrial Development Bank	Malayan Banking Berhad (MAYBANK)
	Myanma Livestock and Fisheries Development	Mizuho Corporate Bank
	Myanmar Citizens Bank	National Bank
	Myanmar Oriental Bank	Oversea-Chinese Banking Corporation
	Myawaddy Bank	Siam Commercial Bank Public Company
	Sibin Tharyar Yay Bank	Sumitomo Mitsui Banking Corporation
	Tun Foundation Bank	The Bank of Tokyo-Mitsubishi UFJ
	United Amara Bank	United Overseas Bank
	Yadanabon Bank	
	Yangon City Bank	
	Yoma Bank	

Source: Central Bank of Myanmar website - retrieved July 2012.

Expanding financial inclusion and microfinance is closely related with the stage of development of the formal financial sector. Currently several factors inhibit financial sector growth and outreach to the unbanked populations:¹⁰

- *Interest rates are set by the Central Bank.* In January 2012, the Central Bank lowered the minimum deposit rate from 10 percent to 8 percent, and the maximum loan rate from 15 percent to 13 percent. This narrow spread of 5 percent discourages banks from reaching the lower end of the market segment due to higher operating costs.
- *Deposits are limited to 25 times paid-up capital.* While the deposit-to-capital ratio was increased from 10 to 25 times in March 2011, it still limits the ability of banks to mobilize more savings. As a result, most banks do not serve rural areas, which represent at least two-thirds of the population.
- *Banks must maintain a liquidity rate of 20 percent.* Only 80 percent of deposits can be lent out. This shifts the focus of most banks to serve more profitable segments, such as the larger trade and construction companies, and further limits credit access to smaller enterprises and microclients.
- *Collateralized lending is conservative, with a 50 percent loan-to-value (LTV) ratio.* The Central Bank has expanded the eligible list of collateral to include land, buildings, gold, exportable crops, and bank deposits. The LTV of 50 percent is a self-imposed industry standard that reflects the conservativeness of the banking sector.
- *Limited provision of insurance services.* As noted, there is only one state-owned insurance company in Myanmar; it is small in scale and outreach, with no insurance for any form of agricultural sector activities, such as flood, crop, or livestock insurance.
- *Banking products and services are limited.* The sector is largely confined to fixed deposits and one-year fixed-rate loans. Some banks also offer domestic remittance services, but these are limited to urban areas, with hundys (informal domestic and international transfers) serving the larger rural market. Recently, private banks have been authorized to establish international banking businesses; 11 private banks are in the process of installing SWIFT to begin international remittance operations.
- *Limited prospects to use technology to increase access.* The potential for branchless banking is limited because of the monopolistic and underdeveloped status of the communication sector. Myanmar's mobile penetration rate is estimated at less than 5 percent with 3 million users, though the number of unique users could be as low as 1.3 million; a SIM card costs between US\$160 and US\$200 (Nomura Equity Research 2012). It will take time before mobile network operators (MNOs) can launch financial services in Myanmar, though the government has shown interest in moving this forward.

¹⁰ Information based on World Bank (2012b) and interview with Central Bank (June 2012).

MICRO LEVEL

II. DEMAND AND SUPPLY OF MICROFINANCE



Microfinance is widely seen as a key development tool to promote financial inclusion and alleviate poverty in Myanmar. While cooperatives have existed in country since the early 20th century, microfinance was first introduced to Myanmar in 1997 by UNDP's Human Development Initiative. In November 2011, the government passed the new Microfinance Law, paving the way for expansion of microfinance services by allowing local and foreign investors to establish wholly privately owned MFIs in country. This law also provided a legal footing for those existing microfinance providers that had been operating "illegally" before the law's passage. Nevertheless, the number of promising providers (i.e., institutions with the potential to scale up in a sustainable and responsible way) remains limited, and the financing gap is wide.

A. DEMAND FOR MICROFINANCE

A recent survey of 4,000 households conducted by LIFT found that only 16 percent of households used formal financial services. According to the survey, the most common sources of loans were family, friends, and moneylenders. Interestingly, poorer households borrowed mostly for food purchase and health emergencies, whereas higher income households borrowed for input purchase and business investments (LIFT 2012). This recent survey supports earlier claims that a large section of the population relies on informal lenders to meet its cash flow needs. Most notably, while the agricultural sector represents 43 percent of GDP and employs 54 percent of the population, only 2.5 percent of all outstanding loans are made to this sector (Seward 2012). The Myanmar Agricultural Development Bank (MADB) estimates that the production cost per acre of rice farmland is 100,000–150,000 kyats (US\$115–170), for which the maximum loan from MADB is 50,000 kyats, leaving a potential gap of at least 170 billion kyats (US\$194.3 million). Additionally, a farmer can borrow for a maximum of 10 acres. Farmers often fill the gap by borrowing from informal money lenders who often charge 10–20 percent interest per month (LIFT 2012). Alongside the demand for loans is the need for domestic and international money transfers, which is mostly met by using informal transfer providers. According to the Ministry of Labour,

there are over three million overseas workers from Myanmar working in ASEAN, as such, there is high market potential for international remittances. It is estimated that remittances from migrant workers represent at least 5 percent of the country's GDP (Hookway 2012).

It is estimated that the demand for microcredit is close to US\$1 billion (UNCDF 2012). While overall demand exceeds supply, according to MADB there is potential for over-indebtedness of farmers in some geographic areas (apparently due to several factors, such as the recent decline of the price of rice and beans, which are the main cultivations, and access to multiple loan sources, including money lenders). According to LIFT (2012), 63 percent of households interviewed had increased their level of indebtedness in the past year.

While the demand for microloans and microtransfers is clearly reflected in the large supply of informal services, the demand for savings is more complex and will require further research. Public trust in deposit services has been eroded by a cooperative crisis in the 1980s and a bank run in 2003–2004. Additionally, Myanmar's high inflation over the past decade (averaging over 20 percent from 2000 to 2009) (IMF 2012b), has prompted many to save in gold and commodities instead. However, the 2011 introduction of a new deposit insurance scheme (which covers up to 500,000 kyats per depositor) and a seemingly stabilized inflation rate may help make savings products more attractive (Thit 2011). According to PACT, there is significant demand for saving services but the nature and the amplitude of the demand varies depending on regions.¹¹

B. SUPPLY OF MICROFINANCE

Based on the limited data available, we have estimated that current microfinance outreach is 2.8 million microclients, with a total loan portfolio of 236 billion kyats (US\$283 million). See Table 2. Relative to the enormous demand, there are few institutions that provide microfinance services that have the potential to reach a large scale while providing their services in a financially sustainable and responsible way.

¹¹ Interview with PACT, October 2012

Table 2: Microfinance Providers in Myanmar

Category	Individual Institutions	Number of Branches / Outlets	Number of Borrowers	Outstanding Loan Portfolio (in Kyats)	Average Loan outstanding (in Kyats)	Number of Deposit Accounts	Total Savings (in Kyats)	Average Deposit Size (in Kyats)	Regulated	Supervisory Agency
State Owned Bank	MADB ¹	205	1,420,000	84,000,000,000	59,155	1,720,000	86,891,840,000	50,519	Yes	Ministry of
	MSLE ²	143	208,778	31,341,790,000	150,120	N/A	N/A	N/A	Yes	Ministry of Finance and Revenue
Private Bank	MLFDB ²	53	N/A	N/A	N/A	N/A	N/A	N/A	Yes	Central Bank of Myanmar
Non-Governmental Organization	PACT - UNDP ³	105	365,410	52,701,000,000	144,224	420,133	10,930,000,000	30,000	No	N/A
	PACT MFI ³	16	57,128	4,234,502,910	74,123	N/A	N/A	N/A	Yes	Microfinance Supervisory Enterprise
	GRET MFI ⁴	4	6,155	840,041,000	136,481	<i>Non-deposit taking MFI</i>			Yes	Microfinance Supervisory Enterprise
	Save the Children MFI ⁵	N/A	7,737	367,747,782	47,531	7,737	25,975,513	3,357	Yes	Microfinance Supervisory Enterprise
	World Vision MFI ⁶	12	13,282	1,910,033,328	143,806	N/A	N/A	N/A	Yes	Microfinance Supervisory Enterprise
	Proximity Design MFI ⁷	8	16,000	3,113,831,000	194,614	N/A	N/A	N/A	Yes	Microfinance Supervisory Enterprise
	AMDA ⁸	N/A	1,510	55,109,960	36,497	N/A	N/A	N/A	No	N/A
	Total ⁸	N/A	1,197	165,077,000	137,909	N/A	N/A	N/A	No	N/A
Cooperatives	Central Cooperative Society MFIs ⁹	46	32,851	1,125,690,000	34,267	32,851	340,340,000	10,360	Yes	MSE / Central Cooperative Society
	Financial Cooperatives - Union of Savings and Credit Federation ⁹	1625	476,632	16,500,000,000	34,618	476,632	24,200,000,000	50,773	Yes	Central Cooperative Society
Specialized Agricultural Companies	Rice Specialization Companies ¹⁰	38	57,502	20,092,708,226	349,426	N/A	N/A	N/A	No	N/A
	Other Agri Specialized Companies ¹⁰	22	140,000	20,000,000,000	142,857	N/A	N/A	N/A	No	N/A
Women's Union ¹¹		16	4,800	48,000,000	10,000	N/A	N/A	N/A	No	N/A
Union Solidarity Development Association ¹²		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Community Based Organizations ¹²		N/A	N/A	N/A	N/A	N/A	N/A	N/A	No	N/A
TOTAL		2,293	2,808,982	236,495,531,206	119,763	2,657,353	122,388,155,513			

NOTES TO THE TABLE

It should be noted that overall data availability and accuracy is low, so the above figures should be read with some caution.

1. Data as of March 2012 provided by MADB.
2. Data as of March 2011 from CBM (Seward 2012)
3. Data as of September 2012 from UNDP for PACT UNDP and as of end October 2012 from PACT for PACT MFI.
4. Data as of October 2012 from GRET.
5. Data as of October from Save the Children. Savings are from members only.
6. Data from World Vision MFI, 9 November 2012
7. Data from Proximity Design, October 2012.
8. Data as of end-September 2009 from ACTED and Banking with the Poor Network (2009).
9. Data as of May 2012 from CCS. Data for Microcredit Cooperatives as of September 2011.
10. Data as of September 2011 from the Myanmar Rice Association.
11. Estimates provided during interview with MADB, June 2012.
12. No data available.

MADB has about half of the estimated microclients. Generally, microfinance operators offer products designed to help micro or small enterprises meet production needs or enable poor households to meet primary needs. Products include income-generating loans, agricultural loans, consumer loans, healthcare loans, education loans, client welfare schemes, and voluntary savings. Microsavings remain underdeveloped due to a limited number of suppliers and the aforementioned lack of savings culture. The rough data estimate in Table 2 indicate that approximately 2.2 million people have access to formal voluntary “microsavings,” mostly through state banks, private banks, and cooperatives.¹²

There are six kinds of providers of microfinance services in Myanmar:

1. Informal and semi-formal sector
2. Banks
3. Cooperatives
4. NGOs
5. Specialized agricultural development companies
6. Government organizations

1. INFORMAL SECTOR AND SEMI-FORMAL SECTOR

A large informal sector exists and is composed of money lenders and *hundys* (informal domestic and international transfers). Informal providers are expensive and can be unreliable. Money lenders are reported to charge 10–20 percent interest per month, an indication of significant unmet demand for microcredit (LIFT 2012). The informal remittance market and *hundys* are widespread throughout the country, according to Myanmar Small & Medium Industrial Development Bank (MIDB), including in rural areas, and are providing much needed informal domestic and most often international remittance services. Family and friends, who charge various interest rates, are another important source of informal credit especially for the poor (LIFT 2012).

The semi-formal sector comprises of pawn shops¹³ and community-based organizations, such as village revolving funds and village savings and credit groups. While pawnshops are officially registered, it is not clear how they are supervised. Many deal only in gold, and they charge 3–5 percent in interest per month (LIFT 2012). Many village-based organizations were created by donors and international NGOs. According to MADB there are 12,000 of them serving 1.4 million people (Seward 2012).

2. BANKS

State-Owned Banks

State-owned banks, particularly Myanmar Economic Bank (MEB), represent the largest provider of deposit services in Myanmar. With 325 branches, MEB provides access to deposit services, primarily in urban areas (Seward 2012). While it does not engage in microlending, MEB does provide subsidized funding to Myanmar Agriculture Development Bank (MADB), which is a specialized agricultural development bank. MADB and the semi-private bank Myanmar Livestock and Fisheries Development Bank (MLFDB) provide small-scale loans to microenterprises. MADB has 1.72 million savers and 1.4 million borrowers, primarily in rural areas and the agriculture sector.¹⁴ Limited information is available on MLFDB. According to the World Bank (Seward 2012), MLFDB has 53 branches, and 55 percent of its loans are to the agricultural sector.

Private Banks

Private banks have shown little interest in microfinance because they often lack capacity and expertise for the undertaking and because of certain regulatory constraints. Banks are subject to an interest rate band of 8 percent minimum interest on savings and 13 percent maximum interest on loans on declining balance (Seward 2012). While

¹² This figure does not include the deposit accounts from the UNDP project which is not a formal institution.

¹³ Many pawn shops are registered by the Myanmar Small Loan Enterprise.

¹⁴ Interview with MADB, June 2012.

banks charge a 1 percent commitment fee and a lawyer's fee, they can hardly expect to break even if they move into microfinance, given that operational expenses for PACT, the leading MFI, represent 15–18 percent of its gross loan portfolio.¹⁵ Second, under the current Financial Institutions Law, collateral, including land, buildings, agricultural products/commodities, gold, and cash deposits, are required to back the loans, with a maximum loan-to-value ratio of 50 percent in most cases.¹⁶ This requirement also applies when banks provide funding to other MFIs, such as cooperatives, the Union Solidarity Development Party (USDP), or the women's association—all of which are engaged in retail lending to the rural poor—and as such it is difficult for banks to fulfill the role of wholesale funder. The new Financial Institutions Law may create a better environment for banks to downscale.

Private banks are reported to be generating profits primarily from domestic remittances and lending to trade and construction companies.¹⁷ As such, they serve only a small portion of the micro segment in terms of remittances, and they focus their activity on urban areas because of the inadequate infrastructure of the financial sector. The Central Bank has confirmed that 11 private banks are currently installing SWIFT to establish foreign banking businesses.¹⁸ The Central Bank expects that three private banks—Kanbawza Bank, Cooperative Bank, and Asia Green Development Bank—will be allowed to launch inward money transfers in the coming months.

3. COOPERATIVES¹⁹

Cooperatives focus primarily on deposit mobilization and microloans in urban areas. Supervised by the Ministry of Cooperatives, the entire cooperative sector as of March 2012 was comprised of one apex, 20 unions, 461 federations, and 10,751 primary societies.

The Central Cooperative Society (CCS) is the apex in this sector. CCS recently received a microfinance

license. It also operates 46 MFIs that function as village banks in seven states and regions. As of May 2012, CCS reported total capital of 152.65 million kyats, total membership of 32,851, total savings of 340 million kyats, and total loans outstanding of 1.1 billion kyats. CCS appears to have a reasonable governance structure in place: its General Assembly is the ultimate authority, and its Board of Directors comprises 35 members, including five full-time directors.

Financial cooperatives are organized under the Union of Savings and Credit Federation (tertiary level society), which, as of March 2012, had 41 savings and credit federations (secondary level societies) and 1,625 primary level societies. The Union does not have a microfinance license. It lends to the primary societies at a flat 2 percent interest rate per month. It also launched its own lending to individuals in June 2012. As a whole, the Union reported savings of 24.2 billion kyats and outstanding loans of 16.5 billion kyats, with a total membership of 476,632.

4. NGOs

Before the passage of the Microfinance Law in November 2011, only PACT UNDP was allowed to operate in Myanmar legally. All others operated without legal status, which essentially prevented them from developing or scaling up their microfinance programs. Since then, most international NGOs and NGOs have received or will soon receive their MFI license. The leading institutions (GRET, PACT, Save the Children, and World Vision) have reached over 450,000 active borrowers with an aggregate loan portfolio of over US\$69 million (see Table 2). Approximately 80 percent of total outreach and portfolio is accounted for by PACT UNDP.

PACT UNDP. UNDP initiated a microfinance project during the second phase of UNDP's Human Development Initiative in 1997. The project activities were initially implemented by three international NGOs (Grameen Trust from Bangladesh in the Delta

¹⁵ Interview with PACT, June 2012.

¹⁶ Interviews with Yoma and CB banks, June 2012.

¹⁷ Interviews with MIDB and Myanmar Oriental Bank, June 2012.

¹⁸ Interview with Central Bank, June 2012.

¹⁹ Data cited in this section were provided in June 2012 by CCS during interviews with the authors.

Region, GRET from France in Shan State, and PACT from the United States in the Dry Zone). Following an evaluation and in light of concerns about high costs of maintaining three distinct operations that had differing results, project implementation across the three regions was consolidated under one management system. In 2006, PACT was selected through an international bidding process to be the sole implementing agency.

As of March 2012, PACT UNDP operated in 25 townships covering 5,984 villages.²⁰ With 105 branches and a total staff of 1,780, PACT UNDP is the largest operator in Myanmar, it reports that it reaches 365,410 active borrowers with a loan portfolio of 42,456 million kyats (US\$51 million).

Other NGO initiatives are described in Annex B. Note that the review team believes that even the largest NGOs will require substantial upgrades to their systems if they are to sustain robust and responsible sustainable growth.

5. SPECIALIZED AGRICULTURAL DEVELOPMENT COMPANIES²¹

Sixty specialized agricultural development companies provide value chain financing for rice production (i.e., they provide seasonal loans along with seeds, inputs, fertilizers, etc.); 40–50 of these are said to be interested in an MFI license under the new Microfinance Law, according to the Myanmar Rice Industry Association. These 60 companies as a whole extend an estimated 40 billion to 60 billion kyats (US\$45–65 million) in loans each harvest season, supporting about 200,000 farmers. According to a list of 38 companies dated 9 July 2011 and provided by the Myanmar Rice Industry Association, the largest two companies (Gold Delta and Kittayar Hinthar) had outstanding paddy loans of 3.0 billion and 2.4 billion kyats, covering 76 and 176 villages, and reaching 6,866 and 6,824 farmers, respectively.

²⁰ UNDP emails, December 2012.

²¹ Data in this section are from an interview with the Myanmar Rice Industry Association, June 2012.

²² Interviews with World Vision and Asia Development Institute, June 2012.

6. GOVERNMENT ORGANIZATIONS (NONBANK)

Through its various organizations (the women's union and political party organizations), the government also plays an important role at the retail level. This may raise several concerns, including potential conflict of interest, but it does not threaten to crowd the private sector out of the market.

The **Myanmar Small Loans Enterprise** was established in 1952 as the State Pawnshops Management Board. In October 1961, it became a subsidiary company of the Burma Economic Development Corporation (BEDC) under the name of the People's Loans Company. When BEDC was nationalized in 1963, the People's Loans Company was incorporated first into the People's Bank of the Union of Burma and then into the newly formed Myanmar Economic Bank as a small loans department of that bank. When the Financial Institutions of Myanmar Law of 1990 was promulgated, the small loans department seceded from the Myanmar Economic Bank and became a separate financial institution in 1992 under the name of the Myanmar Small Loans Enterprise.

The newly established **Microfinance Supervisory Enterprise** (MSE), formerly known as the Myanmar Small Loan Enterprise (MSLE) has taken on new responsibilities as a microfinance supervisor for the entire sector. According to the World Bank (Seward 2012), MSLE issued 208,778 small-scale loans to microenterprises by March 2011, for a value of 31.3 billion kyats (US\$37.6 million). Loans are short term and are issued largely against gold collateral with high interest charges (3 percent per month) and thus are similar in style to pawn shop lending operations.

The **Union Solidarity Development Party** (USDP), the ruling party in Myanmar, has lending operations in each of the 330 townships in the country. USDP charges 3 percent per month on its loans with a typical ticket size of 30,000 kyats. Repayment rates of these loans are unknown. Total outreach is estimated to be around 500,000 for the entire country.²²

MACRO LEVEL

**III. THE POLICY, REGULATORY, AND
SUPERVISORY FRAMEWORK**



Overall, the policy and regulatory environment has improved significantly over the past year. However, weaknesses in regulations and supervisory capacity will need to be fixed as soon as possible to ensure healthy development of the sector.

Note: The information in this section is sourced from the team’s review of unofficial translations of the Microfinance Law and its instructions, the Cooperative Law, and the Financial Institutions Law, as well as several reports from donors and industry players (see bibliography in Annex E). The team also interviewed 24 industry players, including staff from the Central Bank and MSE. Many different laws and regulations can foster or hamper financial inclusion. A more thorough analysis of all the other laws and regulations is recommended as part of the FIND and the MAP projects. (see examples in Box 1)

A. POLICY ENVIRONMENT

The country is witnessing a rapid evolution at the policy level. The government appears eager to create a more conducive environment for banking and for broader financial inclusion. This is partly motivated by domestic pressures (upcoming elections) and external pressures (entry into ASEAN and removal of sanctions). Several laws and regulations are currently being revised, and microfinance is among the eight priorities of the National Development Strategy. The term “microfinance” is mostly associated with collateral-free microlending in Myanmar.

Political influence within the financial sector runs deep. For example, the government has been involved in the direct provision of microcredit through cooperatives since the 1970s and has economic branches of the party in all the 330 townships. Regional authorities also influence supervising and granting of licenses to MFIs.

The government plays a significant role in the banking sector, as evidenced, for example, by MADB providing subsidized credit to an estimated 1.4 million farmers. The banking sector will most likely undergo significant reform, with expectations for greater foreign investment and

market liberalization to follow broader structural and macroeconomic reforms. Early progress includes the liberalization of the exchange rate to a managed float in April 2012.

Reforms in telecommunications and upgrades in all phases of infrastructure will be critical for increasing financial inclusion. The World Bank estimates that 75 percent of people do not have access to electricity and only 12 percent of the roads are paved. Only 1 percent of the population accesses the Internet, and 5 percent have access to a phone.

B. REGULATORY ENVIRONMENT

Revisions to the Microfinance Law Directives and Instructions (which do not require parliament approval) and more trained supervisors are necessary to foster the growth of safe, sustainable, and responsible MFIs. The most notable regulatory reforms to date are the November 2011 Microfinance Law, Notification 277/2011 and the Directives and Instructions 1&2 (23 December 2011) from the Microfinance Supervisory Committee, and Directives 1 from the Microfinance Supervisory Enterprise (23 December 2011). A thorough review of all recent regulations noted in Box 1 is recommended as a complement to this report.

Box 1. Example of Key Regulation for Financial Inclusion in Myanmar (as of June 2012 unless stated otherwise)

- Financial Institutions Law (1990)—being revised
- Foreign Investment Law (1988) new law was passed in November 2012
- NGO Law
- Central Bank Law (1990)—being redrafted
- Cooperative Law (1992)
- Microfinance Law (2011), Microfinance Notification and Directives (2011)
- AML/CFT Law and regulations
- Telecommunication Law (being revised)
- Labor law

Current regulations make it difficult for commercial banks to serve the poor. Banks cannot lend at an interest rate above 13 percent; this effectively curtails their ability to lend profitably to low-income segments. Likewise, MADB has an interest rate

cap at 8.5 percent, which also limits any potential expansion. One positive development is the recent change in collateral requirements for secured transactions. Banks are now authorized to use gold as well as agriculture production as collateral. This may prompt banks to increase their lending, especially since many people save in gold.

According to MSE, as of November 2012, there were 118 licensed institutions, including six international NGOs, nine NGOs, 60 cooperatives, and 43 local companies. About half of them (63) have deposit-taking licenses. Cooperatives currently represent the largest share of licensed MFIs and are expected to continue to play a key role; however, they do not operate in rural areas where the need is most pressing. MSE is keen to see international MFIs, cooperatives, and international NGOs expand into rural areas.

PRELIMINARY ANALYSIS OF THE MICROFINANCE LAW AND INSTRUCTIONS

According to the new law: “Microfinance means extending microcredit to the grassroots people, accepting deposits from them, carrying out remittances, carrying out insurance business, borrowing money from local and abroad and carrying out other financial activities.” Before the new law, microfinance activities (with the exception of PACT UNDP) were regulated on the basis of Memorandums of Understanding between NGOs/projects and the government. NGOs/projects did not have legal status, and therefore, their operations were relegated to the informal sector. The new law confers legal status and enables licensed MFIs to provide credit, savings, insurance, and transfers (though this is limited, for the time being, to credit and deposits [see Directive 2 of 23 December]). MFIs need to have legal status before they can apply for a microfinance license (e.g., as an NGO, cooperative, or private company). MFIs looking to open a new branch need the approval of both the Region and the Supervisory Committee (see Figure 3).

²³Note that some translations mention “instruction”, and other translations mention “directives”

Box 2. Key Requirements for Licensed MFIs

- Have a legal status as cooperative, an NGO, or a private local or international company or organization
- Have minimum capital of 15 million kyat for nondeposit taking and 30 million kyat for deposit taking
- May provide loans and voluntary deposits (for time-being)
- Have a maximum lending rate of 30 percent per annum or 2.5 percent per month
- Have a minimum rate on deposits of 15 percent per annum or 1.25 percent per month

Source: Microfinance Law and Directives, December 2011, unofficial translations

The law’s new “instructions”²³ also include some degree of consumer protection. For example, Notification 277, Item 40, requires MFIs to regularly “notify the customers of the terms and conditions associated with their deposits and loans, including the interest rate and the calculation method.” MFIs are compelled to comply with AML/CFT regulations.

There are several issues relative to the current regulation:

1. Limited differentiation between deposit-taking and nondeposit-taking MFIs. According to global good practices on microfinance (CGAP 2012), to enable depositor protection, deposit-taking institutions of significant scale require specific prudential regulation and supervision (adapted from banking prudential supervision) that ensure these institutions are solvent. Lending-only MFIs also require regulations, but none that directly aims to ensure their solvency (e.g., consumer protection, AML/CFT).

2. The minimum capital requirements are too low especially for deposit-taking MFIs. Entry is too easy for small institutions with limited potential for growth and could result in the supervisory authority being overwhelmed as well as in failure of institutions. In comparison, the minimum capital requirements in Cambodia for nondeposit-taking MFIs is around US\$70,000 and US\$2.4 million for deposit-taking MFIs (National Bank of Cambodia 2012).

3. The interest rate ceiling and the spread between deposits and loans are too low. Myanmar's operational costs are typically high due to poor infrastructure, and inflation has historically been volatile (i.e., estimated above 20 percent year-to-year, even though officially it is at 8 percent). While informal lending rates are estimated at 10–20 percent per month (LIFT 2012), MADB lending rates are capped at 8.5 percent and commercial bank rates are capped at 13 percent per annum. While this ceiling is not so far from global average interest rates for microfinance, it may discourage MFIs from serving rural areas in a sustainable way given the high transactions costs associated with serving rural clients.

*4. It is unclear whether group solidarity is a requirement for the lending methodology.*²⁴ This could restrict certain types of institutions and available services. Many households need types of credit other than group-based lending; individual lending can also be successful without collateral.

5. It is unclear whether key prudential ratios are required in reporting. Documents that were reviewed for this report show several reporting formats for licensed MFIs that focus on net profit and loss, but none of the formats requires reporting on key prudential ratios. In addition some basic concepts, such as loan portfolio quality, are not included in the documents reviewed.²⁵

REGULATORY ENVIRONMENT FOR BRANCHLESS BANKING

The telecommunications sector is controlled by the state. It is unclear when it will open up to foreign

investors. Myanmar's mobile penetration rate is estimated at less than 5 percent with 3 million users, though the number of unique users could be as low as 1.3 million; a SIM card costs between \$US 160 and \$200 (Nomura Equity Research 2012)²⁶. Given the lack of infrastructure, the nascent payment system, and the current monopoly in the telecommunications sector, it could easily take five to six years before mobile-phone-based branchless banking is fully deployed. The Post and Telecommunications Department is a division of Myanmar's Ministry of Communications, Posts and Telegraphs. It aims at having 50 percent penetration by 2015 and has drafted a new law that might open up the sector to up to five MNOs (Nomura Equity Research 2012). At present, no agent regulation or e-money regulation exists, though Central Bank officials interviewed expressed strong interest to learn more from CGAP and others in these areas.

C. SUPERVISORY CAPACITY

There are two key challenges regarding the supervision of microfinance activities: (i) the fragmentation of supervision and (ii) the limited technical knowledge of the newly established MSE, which, in its previous capacity, provided small business loans on behalf of the Ministry of Finance.

FRAGMENTED SUPERVISION

As evidenced in Table 3, the supervisory structure governing the different types of financial inclusion institutions is highly fragmented.

Table 3: Supervisory structure for key financial inclusion institutions—Draft Analysis

Type of Provider	Banks	Cooperatives	MFIs	MADB	Pawn Shops
Supervisor	Central Bank of Myanmar (CBM) ^a and line ministries for state-owned banks	Ministry of Cooperatives and its regional offices	Microfinance Supervisory Committee, Microfinance Supervisory Enterprise, and region	Ministry of Agriculture	Myanmar Small Loan Enterprise and local authorities
^a Note that CBM is a department of the Ministry of Finance and Revenue. Also, specialized banks (government and semi-government) fall under their respective ministers.					

²⁴ See Directive 1 of MSE.

²⁵ For more information on key prudential ratios for microfinance deposit-taking institutions, see CGAP (2012).

²⁶ According to the IFC Office in Rangoon, the cost had gone down to \$US 120 by January 2013

LOW CAPACITY OF MICROFINANCE SUPERVISOR

MSE is the main agency responsible for daily supervision of MFIs, even though it has no previous supervisory training. In addition, MSE maintains its traditional small loan operations. This double role as a provider of financial services and supervisor is not usually considered good practice and raises questions about roles and responsibilities. Some of this confusion may be due to translation issues, because the Notification (implementing text of the regulation) is less than clear when delineating responsibilities.²⁷ Because MSE expects the demand for small loans to be gradually replaced by microfinance, it does not intend to stop or spin off the small loans.

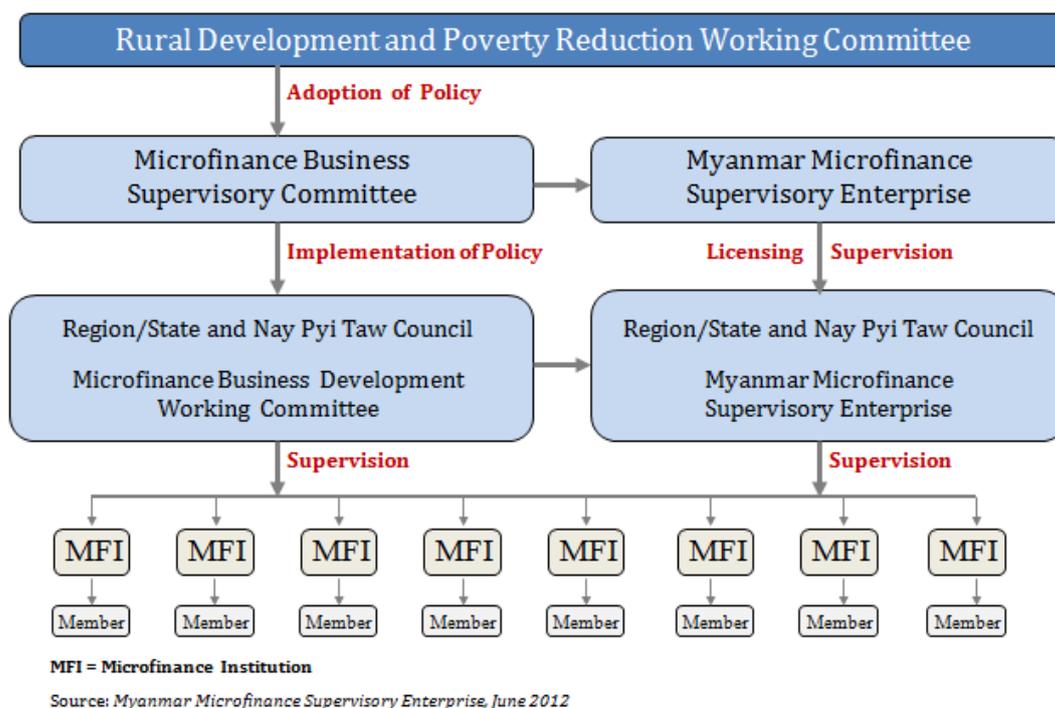
MFIs face other issues, including the fact that MSE reporting deadlines vary across states and divisions. Providers are often required to report on their

monthly activities before the close of the month or a few days thereafter, which does not allow for enough time for accurate reporting.

MSE has 1,800 staff in 15 states/divisions across the country; not all of them are involved in MFI supervision. At the state level, there are 92 supervisory officials and an average of five to six staff per state.²⁸ It has 32 staff in Nay Pyi Taw, including 10 supervisory officials. Currently, MFIs are active in only 12 states and divisions. MSE expects to increase staffing in each region as necessary to meet growing needs. It also is keen for staff to receive supervisory and English-language training. MSE has little experience in supervising financial institutions, and staff will require significant training.²⁹

A list of other regulation and supervision areas to research is included in the annex as inputs for future diagnostics.

Figure 3: Overview of the Regulation and Supervision Structure



²⁷ For example, paragraph 47 says, "the MFI shall accept the inspection of the auditors appointed by the Microfinance Supervisory Committee or inspectors assigned by the respective working committee of Region or state Government and Nay Pyi Taw Council."

²⁸ Note that these figures were collected during the IFC visit to Nay Pyi Taw; other sources mention a lower number of staff responsible for supervision.

²⁹ Interviews with MSE in Nay Pyi Taw, June 2012

MESO LEVEL

**IV. FINANCIAL INFRASTRUCTURE,
NETWORKS, AND TRAINING**



The research focused on analyzing the retail level and policy environment (micro and macro) and did not undertake a thorough review of the market and financial infrastructure. However, preliminary assessments found that, similar to the rest of the financial sector, the meso level for microfinance in Myanmar is under-developed and evolving rapidly.

A. FINANCIAL INFRASTRUCTURE

The financial infrastructure in Myanmar is still in its infancy stages compared to its ASEAN neighbors. This weak financial infrastructure impacts microfinance in a number of ways. The authors have listed below a number of issues and recent developments that could affect the development of microfinance and financial inclusion in the future.

- Myanmar currently has no credit bureau. This could become an issue as economic development and financial sector competition increases. Having a credit bureau could help banks and MFIs reduce overlap and thus potential over-indebtedness. This is an important issue as some segments of the population may be over-indebted (see demand section)
- The payment system is underdeveloped. A national switch is in the works but is not yet operational. There is a short-term plan to tie the national switch to the regional switch.
- The Central Bank has sought assistance from the Japanese Government to develop a cloud-based, high-speed network to support financial transactions throughout the country. The network is estimated to cost US\$384 million and will initially connect the Central Bank's links in Nay Pyi Taw, Yangon, and Mandalay (McLaughlin 2012).
- Use and acceptance of negotiable financial instruments (e.g., checks) is expected in 2013. An interbank check-clearing mechanism needs to be developed concurrently with the introduction of checks or soon thereafter.
- ATMs were introduced only this year in Myanmar and, while the situation is evolving rapidly, there were 88 ATMs in September 2012. Both Visa and MasterCard entered the market in November 2012 (Robinson 2012). MasterCard holders will be able to withdraw money from the 36 Cooperative Bank ATMs, and it is expected that MasterCard will sign licenses with other banks in the future (Than and Kyaw 2012). Earlier in the same month Visa signed licensing agreements with three domestic banks: Kanbawza, Co-operative Bank, and Myanmar Oriental. Visa cards will be used at ATMs and at some point-of-sales machines (Than 2012).
- There is no real securities market (though securities are issued by companies and banks, they are not listed on an exchange and, in most cases, are not traded). The government has issued limited government debt, which is largely bought and held by banks. A Memorandum of Understanding was established in March 2012 between the Central Bank and a partnership between the Tokyo Stock Exchange and Daiwa Securities Group to share knowledge and expertise in developing a securities exchange. Daiwa has long-standing ties to Myanmar and attempted to establish a securities exchange in the mid-1900s (Lwin 2012).
- A deposit insurance scheme that covers a maximum of 500,000 kyats per depositor was introduced by the state-owned insurance company, Myanma Insurance. As of October 2012, it is expected that all private banks will be required to adopt the deposit insurance scheme, with an annual premium of 0.25 percent (Mon 2011).
- Western Union announced a partnership with Myanmar Oriental Bank, as its first agent to offer Western Union money transfer services in Myanmar. Western Union claims that it will adjust its fees for the large number of migrant workers who send money back home. Although Myanmar Oriental

Bank has only 19 branches, it plans to open small stations nationwide to offer more transfers (Zin 2012).

- Some international audit firms are re-entering the market. PwC (PricewaterhouseCoopers) is expected to restart operations in November 2012. KPMG has just opened its office in Yangon. KPMG plans to provide tax and advisory services initially and audit services later (Deed 2012).

B. NETWORKS AND TRAINING INSTITUTIONS

Currently, there are no formal microfinance associations in Myanmar. There is a microfinance working group (MFWG) that has an informal membership made up primarily of international NGOs active in microfinance, including World Vision, PACT, Save the Children, AMDA, and GRET. Other smaller NGOs that plan to introduce microfinance include Mercy Corps and Entrepreneurs du Monde.

As of November 2012, 118 microfinance licenses were issued by the Microfinance Supervisory Enterprise mainly to local and international NGOs and cooperatives. As the number and variety of licensed institutions grows, the value of membership should increase, particularly when

it comes to fostering a productive relationship with the government. The current challenge is to devise a structure that can incorporate the wide variety of institutions without compromising its effectiveness.

While there is no specific microfinance training institute or center, two initiatives may address the situation. CARD, in collaboration with the German Savings Bank SBFIC, plans to provide capacity building to two emerging MFIs (Mingalar Myanmar and Myanmar Egress). And PACT has launched a training program funded by LIFT for up to nine local NGOs to build capacity in microfinance provision.

International rating agencies will play an important role in the future. In July, Planet Rating conducted a review on PACT so that it would comply with a LIFT request that all future microfinance fund recipients obtain a rating from an external rating service.

C. RESEARCH

There has been limited research conducted on the sector. However, a recent LIFT Baseline survey (2012) looks into use of credit, among other products. And the MAP Diagnostic is expected to bring in international research bodies (FINSCOPE and CENFRI) to further analyze the sector.

V. FUNDING



Funding for microfinance from international donors started in the 1990s through the United Nations and then funding increased significantly after the Nargis cyclone.

- While there is no formal microfinance apex³⁰ in Myanmar, LIFT (a multi-donor trust fund led by UNOPS created in response to the damage caused by the 2008 tropical cyclone Nargis) provides funding to several MFIs. Contributors to LIFT for microfinance include AusAid, DFID, and the EC. LIFT has granted more than US\$12 million for microfinance activities run by MFIs (UNDP/PACT, Save the Children/Dawn, and GRET). LIFT plans to work with the World Bank on the FIND project, with UNCDF on the MicroLead project, and on the MAP diagnostic of Myanmar. It anticipates that funding will increase through a specific microfinance window, which is in the final stage of approval by the LIFT Board. With the recent arrival of a microfinance specialist, LIFT will continue to play a significant role in the sector by coordinating donors, and funding certain MFIs.
- **UNDP**, a long-time supporter of microfinance, has provided more than US\$30 million for microfinance over the past 15 years. UNDP is developing a new three-year microfinance plan for 2013–2015. The creation of a poverty scorecard for Myanmar based on Grameen's Progress out of Poverty Index (PPI) supports this new strategy.
- **UNCDF** plans to support greenfield organizations at the retail level through the MicroLead project, which is funded by LIFT. Its upcoming MAP diagnostic, also funded by LIFT, is a diagnostic and programmatic framework to support expanding access to financial services for individuals and micro and small businesses. The MAP framework creates a space to convene a wide range of stakeholders around evidence-based country diagnostics and dialogue and leads to the development of national financial inclusion roadmaps. The framework was developed by UNCDF in

partnership with FinMark Trust and Cenfri. The MAP assessment will cover the demand side, supply side, policy, legal, regulatory and supervisory, financial infrastructure, and client capability and protection.

- In September 2012, **DFID** awarded microfinance grants to GRET, Save the Children, PACT, and World Vision to expand microfinance access to over 60,000 borrowers throughout Myanmar.
- The **World Bank Group** has recently opened an office in Rangoon and is using a joint approach wherever possible to support the development of the sector. The World Bank is launching the Financial Inclusion for National Development (FIND) project, which will primarily support MSE. Assistance will focus on three main areas: (i) institution building for microfinance supervision through the reform and implementation of the microfinance law and regulations; (ii) capacity building for MSE staff to perform its supervisory functions and for microfinance lenders in relation to evaluating borrowers and keeping accounts; and (iii) financial literacy and awareness. According to the World Bank, this assistance will be implemented in close alignment with the broader work to reform the financial sector in Myanmar as proposed in the Financial Sector Master Plan and other initiatives to improve access to finance by the Central Bank of Myanmar. Recognizing its need for support, MSE has requested training from various sources. IFC's primary focus will be to develop capacity at the meso and micro levels. IFC plans to support greenfields and provide a targeted sector-wide approach by supporting several promising implementers, such as international NGOs, in their transformation and scaling up process; supporting capacity building at the meso level; facilitating the dissemination of international good practice on responsible finance, branchless banking, and other key topics in collaboration with CGAP; and partnering with World Bank FIND on regulatory aspects.

³⁰ CGAP defines an apex as a second-tier (or "wholesale") fund that channels public resources to multiple retail financial providers

VI. RECOMMENDATIONS



The following are recommendations to strengthen the sector based on the findings of the review. Given that this report is a rapid assessment, the proposed next steps are indicative, and many areas will require further research. The report was presented and discussed with over 40 key stakeholders at a meeting on 19 October 2012 in Yangon. It is envisaged that IFC will support several of the recommendations through its upcoming Myanmar Microfinance program, in coordination with other donors and investors.

A. POLICY, REGULATORY, AND SUPERVISORY FRAMEWORK

SHORT TERM
(NEXT SIX MONTHS)

Review and adapt current microfinance regulation. Given the fast growing number of licensed MFIs and the limited supervisory capacity, current regulations need to be reviewed in a timely fashion to ensure they are in line with international good practices.³¹ There is a risk that MSE may create a situation where it does not have the capacity to supervise the institutions that it licenses to raise deposits. As supervisor, MSE should require sufficient minimum capital to keep the gate sufficiently narrow for MFIs wanting to become licensed deposit-taking institutions so that it can effectively conduct onsite and offsite supervision. For example, a distinction could be made between those institutions that require prudential supervision (mostly those that raise deposits) and those that follow nonprudential regulations (which apply to all MFIs and include consumer protection). Licenses for deposit-taking institutions should require having significant minimum capital as well as reporting on key accepted prudential ratios, such as capital adequacy ratio (see CGAP 2012). The law for cooperatives should be reviewed at the same time to prevent regulatory arbitrage whereby deposit-taking cooperatives apply for an MFI license to realize a “softer” regulatory regime. While a deeper

analysis of the regulatory framework is necessary, the team suggests that a rapid review of existing microfinance regulation by the World Bank, in collaboration with CGAP, could enable the government to make the necessary adjustments to improve the safety and reputation of the sector.

Identify requirement for nonprudential regulations. Nonprudential regulations should be reviewed as part of an in-depth regulatory framework review. The government may consider developing consumer protection regulations that enable transparency, fair treatment, and effective recourse mechanisms. At the same time, a more flexible approach may be necessary with regard to the current interest rate ceiling for MFIs, which may be too low for MFIs working in rural areas, where operational costs are higher. Once the communication market is liberalized and the payment system is more advanced, the government could explore how it can issue favorable agent banking and e-money regulations to foster the emergence of branchless banking that can significantly increase financial access.

Review supervisory structure. The government may review its current supervisory set up to increase links between MSE and the Central Bank, which is responsible for bank supervision. In several countries, MFIs have transformed into commercial banks that have become market leaders (e.g., Equity Bank in Kenya), and the central bank is almost always involved in the supervision of deposit-taking MFIs in successful microfinance markets (e.g., Cambodia, Pakistan). In many cases, a special unit of the central bank supervision department is responsible for the supervision of MFIs.

MEDIUM TERM
(OVER THE NEXT THREE YEARS)

Strengthen the supervisory capacity. There is high demand from and urgent need by the current supervisor for training and capacity building. While it will take some time to build

³¹ Namely CGAP (2012) and BIS recommendations.

up supervisory capacity, training should start now. The Central Bank and MSE require world-class training on international good practices for regulation and supervision of microfinance and on accounting and English language. There are several training opportunities in the region and globally, including the CGAP-Toronto Center Microfinance Supervisors Training Program and the Boulder-Turin training. The Alliance for Financial Inclusion (a network of central banks working together on financial inclusion) also offers learning opportunities through knowledge exchange with central banks. MSE has requested, and funders should consider funding, an experienced resident microfinance regulation and supervision expert to provide direct hands-on support. English language will be an issue, so significant translation of key international good practice documents is highly recommended. MSE has recently recruited an English teacher. It may also consider recruiting a few bilingual staff who can facilitate knowledge exchange with international organizations and with other supervisors in the region.

B. DEMAND AND SUPPLY OF MICROFINANCE

SHORT TERM
(NEXT 12 MONTHS)

Gain a better understanding of the sector. This sector assessment is not sufficient by itself to guide government policies and strategy for the development of financial inclusion. A more in-depth review of certain areas of the assessment is necessary. For example, a thorough analysis of the prudential and nonprudential regulations (as mentioned above) and of the payment system would be useful for developing longer term policies.

It is also important to better understand demand for financial services and products, given the complex history of the banking and financial sector in Myanmar. The team recommends *the industry further research and understand the diversity of the demand for financial services* in Myanmar. As highlighted by the LIFT Baseline Survey (2012), the significant diversity of the population requires

current and future providers of financial services to ascertain the specific needs of the segments they serve and adapt their services accordingly. This should include an understanding of what it will take for people to put their money in a formal savings account, given the current lack of trust in the banking sector. Likewise, demand surveys will help define key characteristics of payment services (e.g., local transfers) and understand the level of over-indebtedness. MAP will provide an opportunity to research and analyze client demand information.

MEDIUM TERM
(OVER THE NEXT THREE YEARS)

Support the emergence of sustainable retail providers. Given the huge gap between demand and supply of financial services, and the limited focus on sustainability and international good practices of the current providers, the team recommends building up the capacity of those providers that show solid potential for reaching scale in a sustainable and responsible manner and attracting internationally recognized greenfield banks.

- While 118 MFIs had obtained a license as of November 2012, fewer than 10 have the potential to become large-scale sustainable institutions. Donors and investors need to assess the potential of existing institutions and build capacity using performance-based contracts and international standards. It is expected that promising MFIs will require technical support in human resources, management information systems, product design, risk management, and business plans. Although MFIs can remain NGOs, organizations that want to significantly scale up will also need support for becoming limited liability companies as there is no precedent for this.
- Market demand is also large enough to absorb several international greenfield microfinance banks that can both raise the bar and provide a demonstration effect for the industry. The number of greenfield microfinance banks that Myanmar can absorb will depend on potential scale, target clients, and geographic

focus. Preference should be given to those that are willing to go to rural areas/down market, those that have a strong responsible finance track record, and those that are interested in helping the sector improve. The government and international funders should support such market entrants. These new entrants need to fully understand and adapt their business model to the local Myanmar context.

Ensure transparent and responsible financial services. The market is relatively new, so there is great opportunity to apply international best practices early on, especially in areas of transparency and responsible finance. Good examples of this are organizations that ensure they do no harm, put clients first, create demand-driven products, and are models of transparency in all of their operations and dealings. The team also recommends that key players endorse the Smart Campaign for client protection and that the largest players get certified by the Smart Campaign for client protection to serve as models and promote broader client protection within the industry. The team also recommends that emerging MFIs report their financial and social performance to MIX (a global platform for reporting on microfinance activity) with donor assistance, if needed.

Explore the potential for branchless banking. While the infrastructure is not yet available to unleash the potential of branchless banking to expand financial access, the situation may evolve rapidly over the next few years. It will be important to consider how technology and global lessons learned on branchless banking can be used to expand financial services in Myanmar.

C. MARKET AND FINANCIAL INFRASTRUCTURE

SHORT TERM
(NEXT 12 MONTHS)

Help strengthen the working group. With the rapid increase in the number of licensed MFIs, there is a need to bring these organizations into a network for

support and development. Most of these providers are small and have the potential to cause harm to the sector through practices that are not client-focused. The potential for savings fraud among these smaller players should not be underestimated, as it can escalate to foster further mistrust of the banking sector. Currently, there is a working group made up primarily of international organizations, such as PACT, Save the Children, World Vision, and GRET. This group can play a significant role as a convening body, particularly with an increasing number of organizations receiving their MFI licenses. The association might play a significant role in increasing the technical capacity of its members.

Support the emergence of technical providers. Given the lack of human capacity, the industry needs to attract more international experts and technical providers with a view to transferring skills to local counterparts. One option would be to create an apex that is mostly focused on funding technical assistance for participating MFIs. It could also provide credit lines to promising MFIs until they are fully capable of raising significant deposits or raising funds from private commercial banks.³² In addition, donors should sponsor a critical mass of national stakeholders to attend key training sessions, such as the Boulder-Turin training.

MEDIUM TERM
(OVER THE NEXT THREE YEARS)

Build a sound payment system infrastructure. A solid payment system is required to enable the sector to provide much needed payment services. The current payment system is underdeveloped. By supporting both the government and the private sector to develop a sound payment system, donors and investors will also facilitate the emergence of a financial ecosystem that can support new business models based on technology, such as mobile phone banking and agent banking using point-of-sale devices or other devices to undertake microfinance transactions, and also link financial access with other kinds of services (e.g. utilities).

³² For more information on good practices for apexes see Forster, Duflos, and Rosenberg (2012).

Explore creation of a credit reporting system. Credit information bureaus, when properly used, can reduce the risks of over-indebtedness, because they can help lenders to become more aware of the amount of debt clients are carrying. The team recommends exploring the creation of a credit bureau in which all key microfinance providers of a certain size are required to report.

D. FUNDER EFFECTIVENESS

SHORT TERM

(NEXT 12 MONTHS)

There is a clear opportunity in Myanmar to *ensure donor good practice* from the start. The CGAP country reviews (CLEARs) have demonstrated that good donor coordination can significantly contribute to the development of the sector (e.g., Cambodia); conversely, the reviews have shown that donors can have a negative effect on the sector (e.g., Nicaragua). Given the fact that Myanmar

is likely to become a “donor darling,” the risks are high for duplication and high disbursement pressure. However, LIFT has shown that effective donor collaboration mechanisms do work in Myanmar.

Microfinance cannot effectively absorb very large chunks of money, especially early on. A financial inclusion donor group could be set up to include all funders interested in supporting microfinance in Myanmar. This group could build on LIFT and include other donors and investors that support the sector. It also should hold regular meetings. Funders could review their respective comparative advantage for supporting the Myanmar microfinance market (e.g., human resources, funding instruments, technical know-how, experience in the region, performance measurement tools, etc.), and collaborate with each other on this basis. The group could also contribute knowledge to the upcoming MAP, adopt common reporting standards for MFIs, and co-fund specific projects.

ANNEX



A. SUMMARY OF OPPORTUNITIES AND CHALLENGES IN THE MARKET

	Strengths and Opportunities	Weaknesses and Challenges
Micro Level	<ul style="list-style-type: none"> There is interest of several international MFIs and investors to enter the market. There are start-up NGOs with support from regional technical providers. Several INGOs have significant microfinance operations, with PACT UNDP covering 80% of the INGO outreach, World Vision, Proximity, Save the Children, and GRET. As of November 2012, 118 institutions had obtained an MFI licence. Myanmar Agriculture Development Bank has large outreach with 1.7 million depositors and 1.4 million borrowers. Cooperatives also have a large outreach with over 475,000 members. Private banks are now permitted to perform international banking operations; opportunity for international remittances. There are approx. 60 rice specialization companies with value-chain finance. 	<ul style="list-style-type: none"> Governance is a concern due to past government intervention. There is low capacity of all institutions at the retail level compared with rest of the region. The informal sector is active on lending and remittances, but these come with high prices (10–20% per month) and with risks (hundys). The transformation process of INGOs will be complex (ownership and governance issues). The cooperative movement has a mixed reputation due to previous crisis in the sector and historical government intervention. Commercial banks are not providing services to SME and microclients due to lack of capacity and expertise and to unfavorable regulation. Overall capacity of banks is low. There are only 88 ATMs in the country, and debit cards are just being introduced. Branchless banking is nonexistent, but there is a high level of interest from different players. There is low mobile phone penetration (with SIM cards costing US\$200), poor connections, and unstable electricity supply.
Macro Level	<ul style="list-style-type: none"> Government is committed to reform. There is interest in innovation and new technologies for financial inclusion. The Microfinance Law creates legal space for previously informal MFIs. World Bank and other donors are prepared to support supervisors. Opening up of banking sector may provide new opportunities for financial inclusion. The new Farm Law allows land titles to be used as collateral. The World Bank project will support supervisory authority. 	<ul style="list-style-type: none"> The supervisory capacity for microfinance is limited. There are weaknesses in microfinance regulation (min. capital, methodology, interest rate, etc.). Supervision of microfinance is fragmented. There has been a high level of government intervention historically. There are lingering effects of the cooperative and banking crisis (1980s for co-ops and 2003–2004 for banks). It is unclear whether cooperatives are well supervised.
Meso Level	<ul style="list-style-type: none"> Technical support providers are entering the market (e.g., CARD and Planet Finance). Microfinance Working Group is operational. There is LIFT funding coordination. The upcoming MAP should prove helpful. The payments and telecommunication landscape is evolving and may provide opportunities for branchless banking. 	<ul style="list-style-type: none"> Payment system is underdeveloped. The telecommunication sector is under-developed. There are no credit bureaus or collateral registries. Limited collateral types are allowed. Microfinance Working Group has no legal status and does not include many players yet (primarily INGOs and donors). There is a lack of training providers.

B. PROFILE OF KEY MICROFINANCE OPERATORS

1. INFORMAL SECTOR

(see Section III for details)

2. BANKS (STATE-OWNED AND PRIVATE)

Myanmar Economic Bank (MEB) is Myanmar's largest bank in terms of number of branches (325) (Seward 2012). It evolved from State Commercial Bank (SCB), established in 1954, which provided a wide range of commercial banking services across the country. MEB continues as a state-owned financial institution, owned and supervised by the Ministry of National Planning and Economic Development, though the Central Bank has indicated that it is slated for privatization. MEB operates primarily in urban areas.

MEB provides commercial banking services as well as development banking services to both of the private sector and the state sector (it provides subsidized funding to Myanmar Agriculture Development Bank [see below], a specialized agricultural development bank). According to a World Bank report (Seward 2012), government bonds represented about 20 percent of total assets in 2011, with loans representing only 8.3 percent. The bank has limited growth potential because of its small capital base, and it is not allowed to keep the profits.

Myanmar Agriculture Development Bank (MADB) is owned and supervised by the Ministry of Agriculture and Irrigation.³³ It has the mandate to effectively support the development of agricultural, livestock, and rural socioeconomic enterprises in the country by providing banking services, including loans (seasonal loans and term loans) and deposits (savings deposits from rural savers at 8 percent per annum). MADB is not allowed to provide remittance services. Paddy loans represent 90 percent of its loan portfolio, with land registry as collateral (50,000 kyats per acre for up to 10 acres, representing one-third to half of the total

cost of rice production). Loans are approved, disbursed, and repaid at the bank's branch counters, which are mostly located in township centers, after the government terminated its vehicular mobile banking services in 1998. Lending methodology is based on 5–10 members of group liability.

MADB is the second largest financial institution in Myanmar by number of branches (205). As of March 2012, MADB reported total assets of 116 billion kyats (US\$132.6 million), total loans of 84 billion kyats (US\$96 million), and total deposits of 86.9 billion kyats (US\$104.3 million). With a paid-in capital of only 2 billion kyats, MADB is thinly capitalized. It suffers financial losses due to subsidized lending rates (8.5 percent lending rate compared to 13 percent charged by other commercial banks), nonperforming loans resulting from directed lending programs (e.g., overdue loans of 91 million kyats from directed lending to rubber plantation in mountainous areas through the Ministry of National Races and Border Areas Development), and low efficiency due to high operational costs associated with operations in rural areas where infrastructure is extremely poor. More recently, the bank suffered major deposit withdrawals with total deposits dropping to 68 billion as of 21 June 2012, because its directed deposit rate of 8 percent is even lower than the current inflation rate in Myanmar. The bank thrives on government subsidies channeled through MEB.

Myanmar Livestock and Fisheries Development Bank (MLFDB) used to be a state-owned bank owned by the Ministry of Agriculture and Irrigation. MLFDB is believed to be the only private or semi-private bank in Myanmar that provides microfinance, primarily to farmers engaged in livestock and fisheries operations. Its scope is clearly different from that of MADB, which primarily finances farmers engaged in paddy and other crops plantations. According to a World Bank report (Seward 2012), over 55 percent of MLFDB's loans are made to the agricultural sector. MLFDB has 53 branches and has a unique business model for lending. As with other private banks, MLFDB requires collateral for loans, 80–90 percent of which is in the form of land or buildings. It is also conservative in

³³ Information provided here on MADB is from a presentation made by MADB to the review team in June 2012.

lending against the collateral pledged; it has its own assessors in each branch to value collateral. Unlike other private banks, MLFDB has experimented with other forms of collateral, including equipment and fish/shrimp in cold storage as collateral. MLFDB does not currently plan to establish a subsidiary to do its microfinance business (Seward 2012).

3. COOPERATIVES³⁴

Cooperative activities were introduced in Myanmar at the beginning of the 20th century. Cooperatives focus primarily on deposit mobilization and microloans in urban areas. Supervised by the Ministry of Cooperatives, the entire cooperative sector comprises of one apex, 20 unions, 461 federations, and 10,751 primary societies (as of March 2012).

The **Central Cooperative Society (CCS)** is the apex in the sector. Under a newly received microfinance license, CCS also operates 46 MFIs of its own that function as village banks, covering seven states and regions. With a total staff of 40 at the seven branches, CCS provides seed money to the MFIs—4.5 million kyats initially and an additional 4.5 million kyats at the third month. The 46 MFIs, located in townships, have a total staff of 252. The loans provided by the MFIs range from 45,000 kyats to 120,000 kyats, with a compulsory saving equivalent of 2.5 percent of the loan size. The interest rate for loans is 2.5 percent per month flat (roughly 60 percent APR) and 1.25 percent for savings. Voluntary savings are no less than 1,000 kyats.

According to CCS, the MFIs have 98–99 percent repayment rates because the loans typically have a 60-day tenure and repayments are collected every day. As of May 2012, CCS reported total capital of 152.65 million kyats, 32,851 total members, total savings of 340 million kyats, and total loan outstanding of 1.1 billion kyats. CCS appears to have a reasonable governance structure in place, with its General Assembly being the ultimate authority; its Board of Directors comprises 35 members, including five full-time directors.

The financial cooperatives are organized under the **Union of Savings and Credit Federation** (tertiary level society), which has 41 savings and credit federations (secondary level societies) and 1,625 primary level societies (as of March 2012). The Union does not currently have a microfinance license—a grace period is extended to cooperatives under the new Microfinance Law. The Union lends to the primary societies at 2 percent flat per month. It reports that, as of May 2012, it has an outstanding loan portfolio of 1,086 million kyats, with a share capital of 60.72 million kyats. The Union also launched its own lending to individuals in June 2012. As a whole, the Union reported savings of 24.2 billion kyats and outstanding loans of 16.5 billion kyats, with a total membership of 476,632.

Among thousands of primary-level societies, the Employee Savings and Credit Cooperatives (1,191 primary societies), the Bazaar Savings and Credit Cooperatives (304), the Microfinance Cooperatives (142), and the Agriculture Savings and Credit Cooperatives (896) are the largest groups. The Employee Savings and Credit Cooperatives serve government employees from departments, schools, and hospitals, reaching a total of 265,199 members, with 17.2 billion kyats in savings and 6.7 billion kyats in loans, as of May 2012. The Bazaar Savings and Credit Cooperatives are community-based credit societies in urban areas with members comprising mostly market shop owners. These cooperatives combined have 45,792 members, with 3.4 billion kyats in savings and 5.5 billion kyats in loans. The Microfinance Cooperatives have 44,329 members, with 1.3 billion kyats in savings and 2.3 billion kyats in loans. The Agriculture Savings and Credit Cooperatives have 121,312 members, with 2.3 billion kyats in savings and 2.0 billion kyats in loans.

The **Cooperative Bank (CB Bank)**, a private bank with 25 branches, is closely associated with the cooperative system. It is owned by 4,500 shareholders, including 1,500 individuals (representing 70 percent of shareholders) and 3,000 cooperative societies. CB Bank lends

³⁴ Information provided here on CCS is from interviews with and handouts from CCS, June 2012.

to CCS, the union, and the primary societies, despite that fact that loans to the cooperative system represent less than 3 percent of its total loan portfolio. As of 6 March 2012, CB Bank reported total capital of US\$40.69 million, total assets of US\$732.22 million, and total profit of US\$11.46 million (as of 15 March 2012). CB Bank has an ambitious expansion strategy and has received Central Bank approval to expand its branch network from the current 25 branches to 55 branches by the end of 2012. It has recently installed ATMs and is in the process of launching an international transfer business. It also plans to launch a debit card, a Visa/Master card, and mobile banking.

4. NGOs

UNDP initiated a microfinance project in Myanmar during the second phase of UNDP's Human Development Initiative in 1997. The project activities were initially implemented by three international NGOs (Grameen Trust from Bangladesh in the Delta Region, GRET from France in Shan State, and PACT from the United States in the Dry Zone). An evaluation and concerns about the high costs of maintaining three distinct operations with different results led to the consolidation of the project implementations under one management system. Through an international bidding process, PACT became the sole implementing agency in 2006.

As of March 2012, PACT UNDP operated in 25 townships, covering 5,984 villages. With 102 branches and total staff of 1,673, PACT UNDP was the largest operator in Myanmar, reaching 365,410 active borrowers with a loan portfolio of 52,701 million kyats (US\$62 million).³⁵

PACT UNDP offers 10 products, including eight microloans (with loan sizes ranging from US\$65 to US\$250), one microenterprise loan (with loan size up to US\$1,875), and one microinsurance product. Because the insurance business is restricted by law, PACT UNDP launched the Beneficiary Welfare Program, which provides loan write-off and US\$125 for loss of life at a premium linked with loan size (1 percent of loan amount applied).

The microfinance methodology used in the PACT UNDP project is similar to that of the Grameen methodology. It features several flexible options in the repayment schedules based on the type of loan for which an individual applies. As a rule, repayments are made by regular installments according to agreed-upon schedules (weekly, bi-weekly, or monthly). The major exception is agricultural loans, which are collected as a lump sum during harvest time as a balloon repayment. The interest rate is 2.5 percent per month. According to PACT UNDP, repayment rates are close to 100 percent, and most loans are meant for agriculture (34 percent), livestock (33 percent), and trading (21 percent). Borrowers can access higher loan amounts based on successful repayment of previous loans.

PACT Myanmar is an international NGO wholly owned by PACT Global Microfinance Fund, which is registered in the United States. It entered Myanmar in 1995 by providing assistance to the poor through income-generating projects. In 1997, it started microfinance operations under the UNDP project. PACT Myanmar engages in microfinance, health, and livelihood programs.

PACT Myanmar recently received a microfinance license under the new Microfinance Law even as it retains its NGO legal status. It operates in the Magway region, which covers five townships (Minbu, Salin, Aung Lan, Myo Thit, and Pya Pone). It has 11 branches, with a total staff of 182 (171 field based and 11 Yangon based). It plans to expand to another 14 townships by adding 40 branches by 2014. As of April 2012, PACT Myanmar had 48,041 active members. It reports an OSS of 200 percent.

Proximity is a U.S.-based international NGO that has operated in Myanmar since 2004.³⁶ It features innovative and affordable climate-smart technologies and services to villages nationwide. Proximity has a customer base of around 100,000 rural households that are predominantly small plot farmers. Products include foot-operated irrigation pumps, drip irrigation sets, water storage tanks, solar lanterns, financial services, and farm advisory services. Proximity delivers its products through an extensive agent network in 125 townships (out of a

³⁵ Information provided here on PACT is provided by PACT through interviews and correspondence in June, October, and November 2012.

³⁶ Information provided here on Proximity is from interviews and correspondence with Proximity through June and October 2012.

total of 330 townships in Myanmar), including 165 private dealers, 800 village agents, and 1,400 village associations. To date, Proximity has delivered more than 110,000 products that have helped generate income for more than 500,000 people.

Proximity started credit lending three years ago. It has a total of eight offices, 135 sales and collection officers, and 17 dedicated credit officers. It offers two loan products. The first enables farmers to buy Proximity irrigation products and purchase basic farm inputs (e.g., seed and fertilizer). Over the past three years, Proximity has made a total of 42,517 of these loans, at an average loan size of around US\$54. The second product is a crop loan targeting small-plot rice farmers who need to purchase inputs and hire labor. These are six-month bullet loans with a flat rate of 2.5 percent per month on an average loan size of US\$125. Repayment rates have been 97–98 percent on over 16,000 active borrowers.

World Vision is an international NGO that has been in Myanmar since 1958.³⁷ It provides a wide range of community development activities, such as healthcare, infrastructure projects, school construction and education and nutrition support to children, agriculture and livelihoods trainings, etc. It operates in 11 out of 14 states and divisions in the country, with a staff of 850, mostly local. World Vision started microfinance operations in Myanmar in 1998 with microloans to the agriculture and commerce sectors. It currently operates in Yangon, Mandalay, and Ayeyarwady regions and Shan and Kayin states, with a network of 14 branches and 85 staff. World Vision reported total number of active borrowers of 13,282 (83 percent women) and a loan portfolio of US \$2.3 million with a loan range of US\$40–1,200 as of early November 2012. The loans are mostly group loans that follow a methodology similar to that of Grameen. Repayment rate is 99 percent. Two-thirds of the loans are used for trade and production, 18 percent are for agriculture purposes, and 12 percent are for the services sector. World Vision charges an interest rate of 2.5 percent flat per month. The standard loan period is six to nine months. Consistent with its social

mission, World Vision is piloting and investigating financial services with impact on vulnerable groups and children. An additional focus is job creation as financed income activities lead to employment gains. Jobs sustained include loan recipients as well as an additional 30 percent of total borrowers.

World Vision microfinance activities are supported with technical assistance and oversight from the London-based VisionFund global network of 35 MFIs. VisionFund supported World Vision Myanmar's recent implementation of an industry-recognized loan management information system (MIS). Fully operational in October, the MIS will lead to more secure reporting and improved social and financial analysis of client data. VisionFund has also used its own experts to train MSE and microfinance practitioner supervisors in the area of risk management.

Save the Children is an International NGO with headquarters in London.³⁸ It is funded by various sources on a global level and received grants from various bilateral and multilateral donors locally in Myanmar. It started Dawn Microfinance in Myanmar almost 10 years ago, under agreements with the departments of Health and Social Welfare. In June 2012, it registered and received a microfinance license under the new Microfinance Law.

Save the Children offers microloans and takes savings from members only, primarily in rural areas and peri-urban areas in the outskirts of Yangon. Loan sizes vary between US\$40 to US\$125, with a loan period of six months and weekly or biweekly repayments. It has also introduced seasonal agricultural loans in rural areas, with interest paid biweekly and lump sum payment of principal after 16 weeks. The interest rate is 2.5 percent flat per month. Dawn Microfinance is currently expanding rapidly and preparing for transformation into a more commercially viable provider of financial services.

GRET is the first international NGO to receive a nondeposit-taking microfinance license under the

³⁷ Information provided here on World Vision is from interviews and correspondence with World Vision in October and November 2012.

³⁸ Information provided here on Save the Children is from contacts with Save the Children in November 2012.

new Microfinance Law.³⁹ It started a microlending program in very remote areas in Chin State in 1995 with support from the European Union, UNDP, Stromme Foundation, and some embassies. The program was set up using a network of village credit schemes (i.e., a decentralized system enabling the community to be actively involved in the management of the service). Each village bank comprises 10 to 30 solidarity groups with five members per group. Members of the group assume joint liability for the loans. In each village bank, a credit committee, a management committee, a bookkeeper, and a cashier are chosen by the members and trained by GRET. The management committee approves the loans, and the credit committee disburses and collects money. The program reports that it reached operational sustainability in 2003. Since 2008, GRET introduced an individual microenterprise loan, with the support of the European Commission, that uses individual lending methodology with two witnesses. The program also offers vocational training on off-farm businesses. It does not take voluntary savings.

As of October 2012, GRET had 6,155 active borrowers and a total portfolio of 840,041,000 kyats (US\$988,283), covering four townships and 99 credit schemes (89 villages) in Chin State. GRET reports a 100 percent repayment rate. Most loans are used for pig and chicken breeding. GRET charges 2.5 percent interest per month plus an application fee. Loans are based on bullet repayments, with 12 months for group loans and 18 months for microenterprise loans.

5. SPECIALIZED AGRICULTURAL DEVELOPMENT COMPANIES

Sixty Specialized Agricultural Development Companies provide value chain finance for rice production (i.e., they provide seasonal loans along with seeds, inputs, fertilizers, etc.). According to the Myanmar Rice Industry Association, 40–50 of these are interested in a microfinance license under the new Microfinance Law. The Association estimates that the 60 companies, as a whole, extend 40 billion to 60 billion kyats in loans during each season, supporting about 200,000 farmers.

According to an incomplete list of 38 companies dated 9 July 2011, the two largest companies (Gold Delta and Kittayar Hinthar) had outstanding paddy loans of 3.0 billion and 2.4 billion kyats, covering 76 and 176 villages, and reaching 6,866 and 6,824 farmers, respectively.³⁹

Yangon is the center of distribution for rice production. The Rice Industry Association and the Specialized Agricultural Development Companies were formed to coordinate among farmers, traders, millers, and other companies on the supply chain. The Rice Industry Association is a 100 percent privately owned nonprofit association formed by various stakeholders of the rice industry. Specialized Agricultural Development Companies, usually one in each township, are typically owned by a few Yangon companies with export experience and local farmers, traders, and millers in the respective township, with a typical paid-in capital of 1 billion kyats. It provides a bundled package to farmers, including technical assistance/capacity-building services, seeds, fertilizers, rice milling, sales contract, etc., in addition to cash and in-kind lending at 2 percent per month. An average borrower holds five to seven acres and receives a loan of 70,000 to 80,000 kyats per acre, compared to the 50,000 kyats per acre they can get from MADB. An uncollateralized group lending methodology is used. They report a 95 percent repayment rate in the past three consecutive years.

Specialized Agricultural Development Companies provide an interesting supply chain model and are reported to have good credit policies with reasonable repayment rates. However, their market reputation is not great due to funding constraints as their capital is limited and banks are not lending without adequate acceptable collaterals.

The key stakeholders of the Rice Industry Association are mostly successful businessmen who have close connections with the government. The new regulation for MFIs, with very low capital requirements, makes it possible for them to transform into MFIs.

6. GOVERNMENT ORGANIZATIONS—NONBANKS (see Section III for details)

³⁹ Information provided here on GRET is from contacts with GRET in November 2012.

⁴⁰ Information provided here on the Myanmar Rice Industry Association is from interviews with the Myanmar Rice Industry Association in June 2012.

C. AREAS FOR FUTURE RESEARCH AT THE POLICY LEVEL

The following areas require further research; they may be addressed in upcoming research and/or by FIND and MAP initiatives:

- *Microfinance Law.* There seems to be different requirements for local and international organizations to get a license (see Appendix A of Directive 2).
- *Portfolio quality.* How do MFIs report their portfolio quality to the supervisors? There are no standards cited in the reporting formats of the Microfinance Law Instructions.
- *Transformation of projects and NGOs into for-profit MFIs.* The transformation of the UNDP project into a legal MFI will raise several questions, as will the transformation of NGOs into for-profit MFIs in the future. See Lauer (2008).
- *Consumer protection.* Given the high level of over-indebtedness of farmers in several areas of Myanmar, it is important to explore how the current legal environment will protect clients against over-indebtedness and abusive collection lending.
- *Bank downscaling.* With the new conditions for secured lending transactions, where gold and agricultural production can be considered as collateral, banks may be able to downscale in the future. Further research on this opportunity would be useful. Bank downscaling could have regulatory consequences (e.g., how would the microfinance portfolio of a bank be regulated and supervised?).
- *Foreign direct investment and banking sector laws.* It is important to understand the dynamics of this issue and when foreign investors will be able to engage in a joint venture. There are indications of emerging partnerships (e.g., with Singapore banks).
- *Agent regulation.* According to some of our interviews, an agent regulation is in the works. It would be useful to find out more about this regulation as it could open some new opportunities for branchless banking (see Duffos [2012]).
- *AML/CFT.* According to the Central Bank, the government has created a Financial Intelligence Bureau that includes the Central Bank. The team was told that the requirements from the AML/CFT Law are quite strict and require showing an ID card and having two introducers. More research on how to adapt such requirements to low-income segments would be useful.
- *Regulation and supervision of cooperatives.* The Ministry of Cooperatives has township antenna with up to 10 supervisors who control cooperatives financial statements quarterly and conduct monthly onsite supervision. The quality of this supervision should be assessed.
- *Pawn shops.* There are different opinions in the sector on how pawn shops are regulated and supervised. Additional research on that front would be welcome.

D. LIST OF MEETINGS

The team met with the following institutions and organizations:

Regulators and supervisors

Central Bank of Myanmar

Microfinance Supervisory Enterprise

Banks

Bank for Investment and Development of Vietnam

Myanmar Agriculture Development Bank

Myanmar Industrial Development Bank

Yoma Bank

Myanmar Oriental Bank

Cooperatives Bank

Microfinance organizations and cooperatives

CARD

Central Cooperative Society and Financial Cooperative Union

GRET NGO

Myanmar Rice Association/Specialized Agriculture Finance Companies

PACT

Proximity

Planet Finance

Save the Children

World Vision

Donors/DFIs/IFIs/Others

Market experts

UNCDF

UNDP

UNOPS—LIFT

USAID

World Bank

E. RESEARCH BACKGROUND

To identify the technical assistance support needed to improve access to finance and to inform future IFC investment decisions, the visit focused on mapping Myanmar's financial sector with a microfinance focus. The research commenced in June 2012 and was carried out by IFC's Paul Luchtenburg, senior operations officer for Microfinance Advisory Services in EAP; Li (Linda) Ren, senior operations officer for Microfinance Investment Services in EAP; Li Yan Chen, associate operations officer for Advisory Services; and Eric Duflos, East Asia and the Pacific regional representative for CGAP.

- The goal of the review was to determine the landscape for microfinance in Myanmar and to identify key potential partners. To achieve this, the team did the following:
- Assessed the overall environment, market, and role of sector stakeholders.
- Estimated the gap in access to financial services for microentrepreneurs and low-income populations.
- Reviewed leading microfinance institutions/ programs in terms of (a) major challenges; (b) market outlook; (c) outreach and efficiency in delivering financial services to microentrepreneurs and the broader population; (d) management and operations, including range of services; and (e) potential to significantly expand and be commercially viable.

- Reviewed the current regulatory and supervisory framework for microfinance.
- The team met with representatives from stakeholders involved in financial inclusion, including regulators; supervisors; representatives of state-owned banks, commercial banks, cooperatives, licensed MFIs, international NGOs, donors, DFIs/IFIs; and other market experts. Annex D offers a detailed list of these participants.

This report presents a preliminary analysis and a broad snapshot of the microfinance sector and related macroeconomic and financial sector developments. This report and the information herein should not be considered definitive, particularly given the limited publicly available information in Myanmar and the nascent stages of Myanmar's financial and microfinance sectors.

Upcoming initiatives, such as the UNCDF MAP, the World Bank FIND project, and other donor works, may serve to complement this report and enable greater understanding.

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