II. Microfinance Development in Myanmar: Towards Sustainable Financial Systems

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Potential of Microfinance in Myanmar

1. Access to financial services is constrained in Myanmar, both for the corporate sector and for households, resulting in insufficient or inadequate supply of credit and weak mobilisation of domestic savings. Currently, bank and non-bank financial institutions' outreach and capacities to address corporate and individual needs are very limited, and their responsiveness to small economic players is even weaker. As a result, whereas huge demand is observed in the informal financial markets, the constrained institutional capacities on the supply side of financial systems are impeding vigor in economic activities. Above all, a serious worry is the lack of access to credit in rural Myanmar, where about 65 percent of the population resides, as well as among the poor and the potential entrepreneurs who are spread nationwide, including in urban areas.

2. Having a quarter century history over the world, microfinance is perceived to be an effective instrument for poverty alleviation—as a sustainable financial system by which poor and small economic players can leverage their economic activities and substantially improve the quality of their lives. In Myanmar, the demand for micro-loans was roughly estimated by the UNDP to be US$400 million to US$600 million, suggesting a huge potential benefit, which the sustainable microfinance can bring to hundreds of thousands of poor households if the proper environment were given. Another beneficial aspect of microfinance is that its highly market-friendly approach promotes establishment of sound financial disciplines among borrowers and lenders, which perfectly fits the current policy directions toward successful transition to a market economy in Myanmar.

Rural Finance

3. With the overwhelming proportion of population being in rural areas, development of the rural economy is requisite to accumulation of national wealth in Myanmar. With the exception of Saving and Credit Cooperative Societies engaged in provision of financial services, Myanma Agricultural Development Bank (MADB), a state-owned bank, is virtually the only major source of institutional credit for small-scale farmers in terms of relative coverage

and accessibility. Due to the ever-growing demand for seasonal credit to boost output of paddy and export crops, MADB's mandate and funding priority has been given to farmers over non-farmers. In addition, the scale and impact of MADB loans to farmers are severely limited in comparison with the funding requirements; from the interviews in Shan State, the Dry Zone and the Delta Zone, it was found that only about 5 to 15 percent of women clients of UNDP microfinance projects are able to obtain loans from MADB—through their husbands. Also, geographical constraints in the rural area make provision of financial services very difficult; the remoteness of villages that are reachable only via mountain paths contributes to very high transaction costs. As a result, there is excess demand for capital in the countryside, which is unsolvable by conventional banking. MADB's lending methodology has shifted from village banking to the use of its branch network, which appears to be inadequate for improving farmers' access to financial services. Currently, MADB, yet unfamiliar with microfinance technologies, has not envisaged changing its business scope that is based on traditional agricultural lending.

Informal Credit

4. In general, the majority of the rural and urban poor and small economic players are highly dependent on informal sources of credit for their production inputs and consumption requirements despite the efforts by the government and donors alike to provide alternative sources of credit. Traditional moneylenders in villages give loans at 10 to 15% interest per month if no collateral is given (usually in the form of gold and jewelry) and at 5 to 7% per month if collateral is available.

International and Local NGOs involved in Microfinance

5. Microfinance in Myanmar is at an embryonic stage. It is an exogenous phenomenon brought to the country by international NGOs (INGOs) contracted with the UNDP (funding agency) and UNOPS (executing agency) who are interested in using microfinance as part of an overall package for poverty alleviation. However, this situation has not prevented various local organisations or associations and other international NGOs from initiating microcredit projects, some with a savings component.

6. Currently, there are estimated twenty-three international and local NGOs and projects involved in microfinance in Myanmar. They can be classified into four groups: microfinance INGOs, multipurpose INGOs, local NGOs, and UNDP-assisted projects. The operation of microfinance in these programmes typically comes as a sub-component of a larger intervention

by the INGO concerned under agreement with respective line ministries, such as the Ministry of Cooperatives, the Ministry of Health, and the Ministry of Social Welfare. This indicates that no government agency in Myanmar has been designated as the sole entity through which to register a microfinance programme. According to the *inventory survey* and field interviews conducted as part of our microfinance study, NGOs are present in a total of forty townships, excluding the thirty-one townships covered by special UNDP-assisted projects. The coverage represents 12 percent of the total number of 330 townships in Myanmar. All of the programmes target the poor as clients; microfinance INGOs are concentrated in serving the women of rural poor households and other programmes serve both rural and urban poor households. Due to the dominance of three INGO projects, rural women represent 95 percent of the total number of microfinance clients. The major sources of funds are foreign donor grants; some small programmes operate only with internal sources.

7. The survey captured that the total number of active borrowers of fifteen core institutions is 109,209 and the aggregated loan outstanding is Ks 1.6 billion as of the end of 2001. The savings services are yet limited: less than half of the institutions have adopted compulsory savings and very few have adopted voluntary savings. As to lending methodologies in credit programmes, all of the NGOs surveyed employ the group-lending approach without any tangible collateral, about half of them doing so in combination with individual lending. The loan terms range from 6 months to 20 months, mostly concentrating on 6 months to 12 months. Most of the programmes adopt cost-recovering or market-based interest rates, although some NGOs apply zero or very minimal interest rates due to the concerns for outreach to a larger number of poor households. The loan vary in size but clearly target poor clients: the minimum ranges from Ks 1,500 to Ks 50,000 and the maximum from Ks 50,000 to Ks 300,000.

8. ***UNDP/UNOPS-supported Projects.*** The three UNDP/UNOPS-contracted INGOs have provided microcredit and savings services to the poor since 1997: Grameen Trust (up to mid-2002) in three Delta Zone townships, PACT in three Dry Zone townships, and GRET in five Shan State townships. Combined, these three INGOs dominate NGO-operated microfinance in Myanmar, constituting 87 percent of the total outreach. They have a view to institute sustainable microfinance operations in the country. The fact that their geographical coverage is limited, extending to only 3 percent of Myanmar's townships, can be explained by the pilot nature of the projects under the special framework of the overall undertaking agreed by the UNDP and the Myanmar government. However, the cumulative outreach of

the three projects, which was 94,724 active borrowers in 1,518 villages as of the end of 2001 (25,102 in the Delta Zone [657 villages]; 49,165 in the Dry Zone [487 villages]; and 20,457 in Shan State [374 villages]), is regarded as nothing less than remarkable, considering that the projects had been operating for only about four years, had covered areas suffering from poor infrastructure and communication facilities (they are some of the poorer areas in Myanmar), and had local staff that lacked experience. The aggregate loan portfolio outstanding at that time was Ks 1,421 million. The three projects have also shown credible performance in outreach of credit delivery; for example, PACT reports that they have been serving an average of 60 percent of the existing households in the villages they cover, which is a surprisingly high penetration ratio. As to savings mobilisation, the three projects are still limited, with a balance in total of Ks 185 million.

9. Activities served by the three projects are farming (Shan State) and livestock farming (Dry Zone and Delta Zone), trading (Dry Zone) and other non-farming activities (Delta Zone). The three INGOs have a total of 350 staff members. All three projects have demonstrated high repayment rates (99% to 100%) and low portfolio at risk (0% to 1.2%), which are comparable to international best practices. The operational self-sufficiency reportedly ranged from 117 percent to 227 percent and the financial self-sufficiency from 47 percent to 76 percent (assuming a 35% inflation rate) as of the end of 2001, which are good at this stage of development. Field interviews and secondary data indicate that the targeted households perceive the three projects as positive interventions that can bring significant benefits to their economic situation: increases in income, savings, and asset build-up; availability of better food and nutrition to the family; improvement in housing conditions; lesser dependence on moneylenders; and improvement in the clients' quality of life.

10. ***Multipurpose INGOs Projects.*** INGOs programmes other than those contracted with UNDP, including World Vision, CARE Myanmar, Save the Children USA, Save the Children UK, and the GRET Chin project, are implementing their own microfinance projects for from 6 months to 7 years. Except for the GRET Chin project, they are yet at the pilot stage or have just begun to expand operations. They are mostly under legal cover by a memorandum of understanding with the ministry supervising activities in their fields. The five INGOs that responded to the *inventory survey* have an aggregate number of ninety staff members involved in microfinance operations, with World Vision having the highest, in the nine townships in the Yangon and Mandalay divisions and Chin State. The aggregate active borrowers were 11,021, out of which the GRET Chin project (6,239) and World Vision (3,728) were dominant,

as of the end of 2001. According to the survey, three INGOs report repayment rates from 99.2 percent to 100 percent, one reports a rate of 91.7 percent, and the other 79.9 percent.

11. The GRET Chin project started in 1995 with village banking methodologies and is now being operated in three townships with a loan portfolio of Ks 70 million. It is worth noting that the project is showing remarkable progress, with an operational self-sufficiency ratio of 98 percent. Its strong point is the development and strengthening of local community organisations, which has promoted cohesion and solidarity in areas under a very difficult environment. Interviewees reported significant increase in their income and were able to reinvest profits for business expansion. Conversely, the weaknesses of the project are that the value of savings was not inculcated at the start of the programme and that some methodological problems have resulted in difficulties in management and control. The Japanese embassy's Grassroots Fund is currently being put to good use in building the capacities of the local boards and staffs, which is a meaningful intervention in view of weak local capacities in microfinance.

12. ***Local NGOs Microfinance Operations.*** Mostly registered with the Ministry of Home Affairs, local organisations or associations (YMCA, YWCA, Myanmar Women's Entrepreneur Association, Myanmar Council of Churches, Caritas, Myanmar Baptist Convention, and others) are also involved in microfinance activities for a period of one to eight years in twenty townships of the country. The primary focus of assistance is the poor women. Some try to operate along the key principles of sustainable microfinance, whereas the focus of others remains to be seen. According to the inventory survey, the seven local NGOs reported a total number of forty-seven staff members involved in microfinance programmes. The aggregate number of active borrowers was reportedly 3,464 as of the end of 2001. As to performance, five of the local NGOs are reporting repayment rates of 100 percent or close to 100 percent, whereas the remaining two report 60 percent and 75 percent. The relative efficiency of operations of this group is lower than that of INGOs, which is to be expected considering that some of the local NGOs started programmes only recently.

13. ***Other UNDP-assisted Projects.*** Other UNDP-assisted projects include the Community Development Remote Township (CDRT) project, UN Drug Control Program (UNDCP), UN High Commissioner for Refugees (UNHCR) Committee, and the FAO Revolving Fund (up to 2002). CDRT is an integrated project with several components, such as health, education, and water supply, through a self-reliant group (SRG). Operating in ten townships

in the border area of Rakhine, Chin, and Kachin. 1,005 SRGs have been formed, covering 15,674 households or 68 percent of the target population. Total savings mobilised amounted to Ks 56.4 million. Each qualified member is given a loan of Ks 20,000 through the SRG. The UNDP provided US$458,658 as capital grants that were then on-lent to the members. According to the UNDP, the SRGs act as a social safety net for the poor by strengthening their social functions and providing flexible loan products based on mobilising small periodic savings. On the other hand, some important tasks remain to be tackled, including a banking or microfinance link for long-term expansion and continuous provision of training to new SRG members. Being still in its infancy, it is too early to access the SRG approach in Myanmar; however, positives would include the promotion of solidarity groups and social bonds, whereas a negative might be the possibility of non-repayment by some borrowers since the loan came from a grant by a donor, which might erode credit discipline among the rest of the members. The fact that SRG members are free to set the loan conditions may create moral hazard in leading to the sustainability of SRG microcredit scheme. Field observations recorded a possible future conflict between the GRET Chin project's cost recovery interest rates and the SRG's zero interest rate scheme.

14. The FAO Revolving Fund was also supporting the development of communities in Shan State, the Dry Zone, and the Delta Zone but the funding was ceased due to project termination. A notable experiment was the use of private banks as conduits of the funds for self-help groups. An informal tie-up between Kanbawza Bank, a private commercial bank, and the community based organisations (CBO) in the Dry Zone emerged within this project; CBOs borrowed from Kanbawza Bank against their deposits as collateral for re-lending to their members. It is worth noting that, de facto, the CBOs were charging commercial rates.

Saving and Credit Cooperative Societies

15. The cooperatives' movement in Myanmar originated from the promulgation of India's Co-operative Societies Act in 1904. Primarily it was contemplated as a government-sponsored measure to relieve the agricultural related indebtedness of farmers. In 1992, as political, economic, and social conditions changed, a new cooperative law was enacted to give a wider mandate and freedom to the financial cooperatives. Today, there are reportedly 1,942 functioning Saving and Credit Cooperative Societies in operation with a total membership of 431,000 individuals, forming a sector with significant weight in Myanmar. The total amount of savings held is reportedly Ks 3,851 million and the total amount in loans disbursed is Ks 6,337 million. Official statistics indicate that the aggregate savings and loans have

increased by 706 percent and 1,184 percent respectively in the last decade, while the number of cooperative societies and members have declined.

16. The extensive field research conducted on selected Saving and Credit Cooperative Societies as well as the collection of numerical information through the *inventory survey* illustrate that such societies have a strong potential to become one of the pillars of the microfinance industry in Myanmar, together with the NGO sector. In Myanmar, there are two types of Saving and Credit Cooperative Societies: open- and closed-type memberships. The open type can accept anybody (from all walks of life) whereas the closed type only accept one type of membership and very exclusive (for example, employees only, factory workers only, etc.). The open type societies include small shop owners, vendors, and micro-entrepreneurs as members and are extending financial services on a small scale. According to the records of the Ministry of Cooperatives, as of 2001 there are about 139 open-type Saving and Credit Cooperative Societies, with total membership of 10,097; however, the actual membership number is estimated to be greater than that.

17. For the purpose of the study, the *inventory survey* was conducted on thirty-four Saving and Credit Cooperative Societies, which represent 24 percent of the sample size. The summary of the findings about institutional characteristics and modalities of the financial services are (i) the thirty-four societies surveyed have, in total, 11,018 members, 7,214 active borrowers, and 10,710 savers, with the Mandalay societies having the farthest outreach; (ii) the average minimum loan ranges from Ks 5,000 to Ks 10,000 per member. Out of the 34 societies, six do not require collateral for loans whereas the rest demand collateral from members in the forms of immovable properties, co-guarantors, or a combination; (iii) the loan duration ranges from one month to four years, with a majority of the programmes (83 percent) being for less than twelve months. Though the interests charged vary from society to society, 71 percent of all the programmes fall into a range from 25% to 60%, which is reasonable for covering the cost of funds and operating costs; (iv) nineteen of the thirty-four societies pay interest earnings on share capital, ranging from 4% to 36% per annum, with four societies paying 18% per annum; and (v) twenty-two societies have five or more board of director members and the remaining societies each have three or four. All of the surveyed societies have full time staff ranging from one to fifteen depending on the size of operations.

18. Including the findings by extensive field research on nine representative Saving and Credit Cooperative Societies in the Mandalay and Sagaing divisions and Shan State, the following

are concluded: (i) the financial landscape for the thirty-four cooperative societies is dominated by nine cooperatives in terms of assets; numbers of members, savers, and borrowers; loan outstanding; savings deposits; and share capital. Of the nine, the Pyin Oo Lwin Market Savings and Credit Society in Mandalay stands out as the best performing and may be in the best financial position to expand into microfinance; (ii) there is a concentration of better performing cooperatives in the Mandalay and Sagaing divisions despite some financial troubles encountered by five cooperatives with significant resources; (iii) cooperatives that operate in township markets are performing better than are cooperatives not similarly situated. Market-based operations are able to capture the fast cash turnover in township markets; and (iv) a notable phenomenon that seems to be unique in Myanmar credit and saving societies is that two cooperative societies have established their own pawnshop businesses (one in the Sagaing division and the other in Shan State), which cater to the poorest sector of the community by accepting collateral of small value, such as old bicycles and appliances. These cooperatives that operate pawnshops perform better in financial terms than do the majority of the Saving and Credit Cooperative Societies.

Banks and Pawnshops.

19. At least six private banks, including top-ranking ones, have expressed an interest in being financiers or wholesalers of loans for microfinance operations; some banks have already begun pilot testing. They are all in search of an investment outlet for excess liquidity in the short-term, due to lack of investment opportunities in the traditional credit markets or reluctance to lend to firms in view of non-performing loans. Hence, their interest in microfinance operations is centered on the potential for utilising idle funds. Pawnshops, which are licensed financial entities owned either by the government or the private sector, form a segment of financiers to the poor in Myanmar, with interest rates ranging from 3% to 6% per month. Some of them have also expressed interest in microfinance, and one has drawn funds from private banks to re-lend to farmers.

Key Issues Affecting the Development of Microfinance in Myanmar

20. ***Interest Rate Policy.*** An immediate problem confronting emerging microfinance institutions (MFIs) is the current interest rate policy. Section 61 of the Central Bank Law prescribes maximum level interest rates; the current ceiling is a maximum of 15% on lending, which is considered by many MFIs as impossible for financial sustainability. Currently, three UNDP-contracted microfinance operations and some other INGO projects are *officially* authorized to charge flexible interest rates under special legal cover for their integrated projects; however,

the institutionalisation of these projects as well as expansion of other microfinance operations requires flexible financial management in order to be sustainable, more particularly in interest rate setting. Also, private banks that have expressed interest in microfinance would not be able to intervene in microfinance if they are not assured the ability to charge flexible interest rates. Today, the requirement of flexible interest rates for microfinance is well recognised over the world as pre-requisite for development of the microfinance industry, and this is also true in Myanmar.

21. ***Legalisation and institutionalisation.*** The on-going microfinance projects under the support of the UNDP and other international and local NGOs are facing an urgent need for legalisation of entities, only by which they can sustain operations even without special legal cover supported by supervising ministries. The issue of institutionalisation will have to be dealt with through legal action as may be allowed under current Myanmar laws; therefore, an investigation for a permissible legal structure for those projects is indeed an urgent task. Serious study is needed concerning legal paths for lawfully registering NGO MFIs via amendment of the existing law or via policy declaration. If the present legal framework is not able to provide an avenue for the institutionalisation of the INGO projects and other similar projects (including the ones by local associations), it will be important for the government and stakeholders to work together to formulate an appropriate framework.

22. ***Localisation.*** Institutionalisation is separate from, although in some ways linked to, localisation. The link between the two issues is the fact that having a legal entity such as a MFI makes a lot of sense if local staff members can effectively participate in its operation. However, localisation should not prevent the benefits to have access to the services and expertise of international experts. Field visits to the three UNDP-contracted projects and interviews with local managers and staff members indicate that those projects are not yet ripe for immediate localisation. Localisation process is desired to take place, but for the time being international experts should continue providing their experiences and expertise and work toward building the capacities of local management, targeting a hand-over in the future.

23. ***Implementing Capacities of MFIs.*** Due to the embryonic stage of microfinance in Myanmar, the following weaknesses have been identified in NGO microfinance projects as issues requiring policy measure consideration for further microfinance development. (i) The relative inexperience of local managers and staff members in almost all of the NGO

projects brings about insufficient understanding about the corporate governance required in the course of institutionalisation, e.g. the role and functions of boards of directors; (ii) Although the INGOs have been providing training to local staff members, there is an apparent need to conduct systematic training programmes to enhance managerial capacities both at headquarters and at branch levels; at present, expatriate consultants make all key personnel decisions; (iii) A look at the educational background of local staff shows that qualified staff members with financial and accounting disciplines are lacking, whereas financial management is a pressing need to maintain the quality of the loan portfolio and improve the management; (iv) Supporting structure for management, e.g. internal audit, is yet to be formed even in the three INGO projects supported by the UNDP; (v) Personnel issues are now surfacing, including some regarding variation in the scale of salaries among local staff members of the three INGOs; and (vi) The local management has yet to prove a capacity to cope with problems emerging when the number of clients begins to increase and as the operation expands to cover more areas and more clients.

24. ***Upgrading Indigenous Financial Systems.*** The cooperatives sector, particularly the Saving and Credit Cooperative Societies, have a strong potential of becoming one of the pillars of the microfinance industry in Myanmar. However, it must be noted that there also are important challenges ahead that need to be addressed to insure that these societies are able to deliver their services effectively and efficiently to the poor and the micro-entrepreneurs in their community. The challenges include, but not in an exhaustive way: (i) The governance of the board of directors and internal controls are to be enhanced or improved. Also, the external audit by the Ministry of Cooperatives needs to be strengthened; (ii) Since the Saving and Credit Cooperative Societies do not have a standard chart of accounts, the data for the repayment rates, delinquency rates, portfolio at risk and other financial indicators are not too reliable. Different understanding and interpretation of key indicators are prevalent. Bookkeeping systems and financial management need substantial improvement and the development of performance standards is particularly needed; and (iii) A systematic and rigorous human resource development programme for boards of directors and staff in the area of microfinance is a requisite.

Implications from Philippines Experiences in Microfinance Development

25. After the pursuit of financial reforms in the mid-1980s, the Government of the Philippines adopted the 1991-1998 Medium Term Philippine Development Plan, under which the implementation of market-based financial and credit policies and the increased participation

of the private sector in the financial market were emphasized. Among the reform steps, new credit policy prepared a national strategy for microfinance, with a view to address poverty in the country. Since then, the Government of the Philippines has been aggressively working to create an enabling environment and a legal and regulatory framework for the establishment and growth of sustainable MFIs, and thus the country's experiences provide good lessons for Myanmar, as follows.

26. The government's clear focus on the role of microfinance as an important vehicle for poverty alleviation (as 'Microfinance as a cornerstone in fighting against poverty' in President Arroyo's State of the Nation Address in July 2001) as well as rural development has been a base for policy formation to create an enabling environment. As the coordinating body among the various ministries and implementing agencies, the National Credit Council (NCC) has set out credit policies to rationalise directed credit programmes. Together with the central bank (Banko Sentral Philipinas), NCC carries an important role in promoting microfinance. Another government entity, a wholesale bank (People's Credit and Finance Corporation), has also supported private sector led microfinance. Likewise, the government's overall support is indispensable for microfinance development. As to regulation and supervision of microfinance, the central bank has been taking supportive measures, such as the lifting of the moratorium on the establishment of new banks to allow the entry of new microfinance-oriented thrift banks and rural banks.

27. Private sector-led microfinance services in the Philippines are provided by three pillars: rural banks and thrift banks, NGOs, and credit cooperatives. Active movements for establishing industry standards and thereby commercialising microfinance are being undertaken. Networking and supporting organisations among the private sector, including the Microfinance Council for NGOs, and confederations and federations of credit cooperatives are very active. These structures are functioning to share information among members, promote best practices and innovative technologies through a number of seminars and workshops, and conduct training to enhance the quality of services and institutional capacities of MFIs.

Lessons from Literature Survey on Worldwide Experiences

28. Many issues that Myanmar faces as its microfinance industry is on the verge of taking off have been shared by other countries in the course of nearly a quarter century history of microfinance development in the world. According to the literature survey on worldwide

experiences conducted as part of the study, with a purpose to draw lessons relevant to policy formulation at the current stage of microfinance development in Myanmar, the following are summarised: (i) Step-by-step formalisation of MFIs through a process that begins with legalisation and licensing and progresses to the introduction of explicit regulations is the most appropriate strategy; (ii) The sustainability of microfinance depends on the degree of understanding of microfinance specificities such as risk profiles, which in sum characterised as highly market-oriented approach to the provision of financial access to the poor; (iii) The establishment of sound regulatory environment is a requisite to well balance the growth and stability of the microfinance industry. However, it is impossible to find a 'one-size-fits-all' advice anywhere in the world. To achieve sound regulatory framework, capacity building of policy makers for regulation is a more serious issue than is selection of particular forms of regulation. Over-regulation by insufficient regulatory capacities has brought about serious impediments in many countries' microfinance development. Equally crucial is the appropriate timing for introducing regulations: too early introduction also brings about harmful results; and (iv) As for the mid- or long-term perspective, the integration of MFIs into the formal financial sector appears to be the most effective way to materialise the dual mission of microfinance, i.e., extending the outreach and attaining financial sustainability.

Part 3 Road Map and Proposals

Road Map for Microfinance in Myanmar

29. **The *Three Pillars* Approach.** There is a need for a gradualist but coordinated approach to microfinance development. The first step is to craft an overall national strategy on microfinance supported by the government, microfinance institutions, and the donor community. The three pillars of microfinance development in Myanmar can be international NGOs/local NGOs/local association projects, financial cooperatives, and banks interested in microfinance (This manifest can be abbreviated as NGOs–CO-OPs–BANKs. Note that the role of the MADB in microfinance should be carefully assessed in consideration with agriculture policies and institutional capacities). The main goals are to build project implementation capacities, ensure a policy environment conducive to microfinance development, and harness the diverse expertise and resources coming from the donor community to support Myanmar. The emphasis should be on improving the quality of microfinance projects/operations by building the capacities of implementers and concerned government ministries, including the Central Bank of Myanmar and the Ministry of Cooperatives, rather than on an aggressive and rapid expansion of microfinance. Expansion

is also necessary, but not at the cost of sacrificing quality of implementation.

30. Country Action Agenda for Myanmar (CAAM). A national strategy supported by various stakeholders has to have at its core (1) consistent financial and credit policies; (2) an identification of the critical roles of the stakeholders; and (3) a road map for the development of sustainable microfinance. A sketched proposal for such a road map is as follows: (i) A *goal* is to be defined. It may emphasise the ultimate objective of microfinance as a poverty-reducing instrument or mechanism; (ii) A *Vision Statement* is then desired, to articulate the collective mission of all public and private entities engaged in microfinance; (iii) *Basic principles* should denote key characteristics that microfinance entails and that should be further pursued in Myanmar, such as *large and deep outreach, sustainability, client focus*, and *innovation;* (iv) *Strategies* should elaborate core measures to materialise the vision, and hence achieve the goal. Suggested strategies include (a) maintaining a focus on the poor, (b) facilitating an enabling policy, and a legal and regulatory environment, (c) expanding the institutional capacity of MFIs, (d) building an efficient core of microfinance technicians and training centres, (e) promoting sector-wide performance standards, and (f) promoting sustained linkages to commercial capital; (v) *Roles of each player* are to be defined—in particular those of the government. A set of the first steps for the government includes (a) determination of an anchor ministry; (b) establishment of a preparatory microfinance unit and/or working groups in the government, in order to create a legal structure for registering MFIs and crafting policy declaration allowing microfinance players to charge cost-recovering interest rates (that include or take into account the following: cost of funds, administrative cots, risk, and reasonable margin); and (c) preparation for promoting sector-wide performance standards for microfinance, in collaboration with MFIs and other stakeholders; (vi) *Model projects* of NGOs and Saving and Credit Cooperative Societies, being desirable, are to be implemented; and (vii) *The timeframe* for the overall action agenda stated in the above is to be declared. For example, the government may have to complete formal registration of MFIs and policy declaration on a short-term basis (one to two years), whereas establishment of performance standards takes longer (three to six years).

Legal and Regulatory Framework: Pressing Needs for Legalisation of MFIs and Adoption of Flexible Interest Rates Policy

31. Whereas the establishment of a regulatory framework for MFIs involves a complicated process that requires careful designing and capacity building in the long term, the legalisation of MFIs is to be resolved immediately to help the microfinance industry to take off in

Myanmar. Considering the embryonic state of Myanmar's current microfinance activities, it is very premature to talk of regulation, since the main purpose of regulation is to protect depositors and avoid systemic risk in the financial sector. The social costs of an inappropriate regulatory framework are very high, such as higher transaction costs, limited competition, discouragement of the formalisation of informal microfinance, and weakening of savings mobilisation. Policy makers should focus on the more important concerns: (i) the legalisation of entities as MFIs; (ii) the resolution of policy dilemmas that create uncertainty over the sustainability of microfinance operations; (iii) the capacity building of MFIs and policy makers; and (iv) the facilitation of dialogue between MFIs and policy makers.

32. Given that special memoranda of understanding between the government and some projects involving microfinance have expiration dates, the question now is whether it is possible to use the current legal framework–Financial Institutions Law, Organization Law, etc.–for the establishment of NGOs and associations that can engage in microfinance. A preliminary review by the study indicates that application of the Financial Institutions Law may be able to immediately clear the path for the entities involved in microfinance to function as legitimate financial institutions, but the MFIs must get exemptions concerning the existing ceiling interest rates and prudential regulations. Another option for the government is to enact a new law allowing the creation of a new category of NGOs for financial service provision. The new law could allow MFIs to function as legitimate intermediaries, charge cost-recovering or flexible interest rates, and engage, perhaps, in a limited deposit-taking activities. With this option, the consequences resulting from limitation of deposit taking as well as potential competition with private banks should be assessed; however, those may not really bring about problems or complaints, since MFIs and banks basically serve different markets.

33. Saving and Credit Cooperative Societies have no problem in terms of legal registration. As such, the Saving and Credit Cooperative Societies may form the main pillar of microfinance development provided that appropriate capacity building on microfinance is pursued. As regards the interest rates, it seems that the interest rate ceiling imposed under the Money Lenders Act (1945) would not apply to Saving and Credit Cooperative Societies. However, to ensure those flexible practices, a policy statement from the government would pave the way for expected involvement of Saving and Credit Cooperative Societies in microfinance without need of changes or amendment of the particular law governing those societies. The second mechanism for cooperative society provision of micro-credits to poor clientele is the establishment and operation of pawnshops that are legally recognised and licensed entities.

This is a workable solution, but the ideal situation is for Saving and Credit Cooperative Societies to be directly engaged in microfinance.

Establishment of Myanmar National Credit Council

34. The development of microfinance involves a wide variety of stakeholders. Relevant agencies for provision of small-scale financial services include associations, NGOs, cooperative societies, pawnshops and banks. The end-users of microfinance are varied: farmers, traders, shop-vendors, and any kind of micro-entrepreneur. Rural as well as urban development by enhanced economic activities and reduced poverty through microfinance are the overarching objectives. These multiple facets of microfinance suggest that policy formulation by the government toward successful microfinance needs a coordinated approach among different ministries and public agencies. Thus, as was shown by the Philippine experiences (see paragraph 26), a governmental coordination body that focuses on creation of favorable policy environment for microfinance merits consideration.

35. The establishment of a Myanmar national credit council (MNCC) to coordinate market-oriented financial and credit policies may be envisaged, with close collaboration with the Ministry of Finance and Revenue and the Central Bank of Myanmar. By monitoring the development process of MFIs and their coalition and the evolution of industry standards, such an MNCC would be able to ensure an exchange of information among the different streams of MFIs (for example, between NGOs and cooperative societies), including their successes and failures, and hence contribute to promotion of performance standards for MFIs.

Microfinance Coalition and Establishment of Performance Standards

36. In a number of countries where the microfinance sector has taken off and flourished, stakeholders have solved the problem of inadequate or asymmetric information on the sector by coming together to form an association composed of practitioners in the field, advocates, regulators and policy makers, and donor agencies. At this stage of microfinance development in Myanmar, there is no institution or agency that functions as a repository of information for microfinance. INGOs have gained considerable experience before coming to Myanmar, while new entrants—that is, local practitioners—have expressed their desire for information on how to deliver microfinance in a cost-effective manner. It is proposed that a network composed of practitioners, advocates, and representatives of relevant government ministries be organised in the country. Depending on the consensus regarding the network's objectives

and work programme, its functions may include (i) coordinating capacity-building programmes; (ii) exchanging information and sharing experiences; (iii) sharing performance data of microfinance players, perhaps through publication; (iv) undertaking research projects; and (v) linking up with international networks to build up a wealth of information for the sake of the Myanmar microfinance industry.

37. To form a microfinance network (or *coalition*), a step by step approach is recommended. At the outset, it will be good to make membership of such a *coalition* as broad-based as possible. The participants belonging to *Capacity Building Initiative*, the three microfinance INGO project members, some financially sound Saving and Credit Cooperative Societies, and some local NGOs and associations could form the core of the network. Government agencies would be able to attend the network's meetings, seminars, and workshops on their own accord as observers, which is optional because those agencies may not be prepared yet for such involvement. At an opportune time, representatives of government agencies should become involved; they would be instrumental in providing future policy and institutional reform support that would benefit the microfinance industry. If the proposed *microfinance unit* in the government were to materialise, then it could be a regular participant in the evolving microfinance network. Thus, the informal group could later on evolve into a formal microfinance network in Myanmar. To ensure continuity of interest and involvement in microfinance activities, there is need to establish a secretariat or small management unit for the microfinance network.

38. The network's major activities would be (i) identification and agreement on a biding set of core beliefs and principles in the practice of microfinance; (ii) definition of a common work agenda as well as the structure of membership and the operating rules and procedures; (iii) establishment of an accurate database on microfinance practice in Myanmar (its prototype has been initiated as an inventory survey of this study, as seen in Chapter 6); and (iv) formulation and promotion of performance standards for microfinance. It is expected that the members of the network would develop a working attitude of flexibility and proactive social entrepreneurship to advance the interests of both the MFIs and the clients who represent the poor in Myanmar. The activities should be well sequenced to contribute to the establishment of credibility in the microfinance industry in Myanmar.

39. Performance standards will become an indispensable component of the information infrastructure for microfinance in Myanmar, which is needed for its further growth and

development. They can be used for the internal purposes of the management of the organisations concerned as well as by external parties such as donors, the government, and other interested parties to monitor the MFIs and determine what assistance may be needed to improve performance. Performance standards can function as an effective *self-supervisory* tool of the microfinance industry until the capacities of regulators fully develop. The process of formulating the standards is preceded by the formulation and adoption of standard charts of accounts, standard financial reporting formats, etc, which may take a period of time. Training of MFIs and advocacy on the recognition and adoption of performance standards are also needed. Covering those demands, donors will have a crucial role in supporting the establishment of performance standards. As for the standards, they may have two key components: (i) indicators of compliance to administrative requirements and management (such as governance, management, and organisational structure); and (ii) indicators of financial performance (such as portfolio quality, efficiency, stability of operations, and structure of assets). For Saving and Credit Cooperative Societies, the performance standards may have to be separately developed in view of the difference in the operation of those societies vis-à-vis the NGO MFIs.

Microfinance Model Projects

40. Currently, the natural limitation imposed by the character of microfinance INGO projects under the UNDP and government's agreement constrains further growth and development of microfinance. Also, given that the presence of international donors that provide funds and technical assistance is scarce, such limitation would seriously hamper development of this emerging sector. It is observed that only the GRET Chin project has initiated a specific microfinance focus without affiliating to any specific humanitarian umbrella. To mainstream microfinance projects in Myanmar, an establishment of *model projects* based on an explicit *financial sustainability approach* is therefore recommended. The opportunity for expansion in a financially sustainable manner by implementing *model projects* would further demonstrate and establish best practices in microfinance in Myanmar.

41. In order to attain a greater impact on poor communities, it is proposed that pilot *model projects* be initiated in strategic areas. Through field visits and first- and second-hand information on the performance and potential of MFIs and cooperative societies, the proposed strategic areas are the Yangon Division and and the Mandalay/Sagaing Division, based on the following viewpoints: (i) coverage of both urban and rural areas that have a significant number of poor households; (ii) strong presence of local and international organisations that

have gained good experience in microfinance and have expressed commitment to the expansion of operations; (iii) ease of monitoring and supervision of the pilot project; (iv) high density of population of poor households; (v) presence of support systems, including training facilities, both from the government and from international organisations; and (vi) openness of practitioners as well as local authorities to implementation or support of microfinance pilot projects.

42. In Yangon District, it is recommended that the pilot test be implemented by an NGO, which can be selected based on a set of criteria to be jointly determined by the government and a supporting donor. There is an indicative pre-feasibility study of a project targeting the poor in Yangon District that was recently conducted by one of the INGOs. According to this study, the project will be able to sustain its operations by reaching more than 56,000 clients within five years, operational sustainability will be attained by the end of year 2, and financial sustainability by the end of year 3. As an implementer of the pilot project, internationally reputable MFI service providers are strong candidates and there are also possibilities for local NGOs to participate in possible donor support, given their growing outreach and improving performance. Candidates among local NGOs include YWCA, MMCWA, etc.

43. In the Mandalay and Sagaing Divisions, it is recommended that the pilot project be implemented by selected Saving and Credit Cooperative Societies since they have attained a measure of success in their microfinance operations even without the benefit of training and technical assistance. Field visits and the *inventory survey* have identified the potential of Saving and Credit Cooperative Societies because of their innovativeness in adopting key best practices, such as levying market interest rates; targeting different market sectors; being flexible in repayment terms; providing graduated loan amounts; having trainable management staff, good governance, adequate records and financial bookkeeping systems; and promoting savings mobilisation. Candidates to implement the pilot test may include Shwe Thanlar General Business and Services (Sagaing Division), Pyin Oo Lwin Market Vendors Cooperative Society (Mandalay Division), and Ya Za Soe Saving and Credit Society (Mandalay Division).

Myanmar Microfinance Center of Excellence (MMCE) and Capacity Building Programmes

44. Building the capacities of NGOs, cooperative societies, and other potential players is the key to the growth of the microfinance industry in the country. By so doing, the nascent MFIs can expand their outreach and develop cost-effective, sustainable operations. In this regard,

the establishment of a Myanmar Microfinance Center of Excellence (MMCE) as the principal resource centre for microfinance promotion and development is recommended. Such an establishment would gather the limited human resources for microfinance in the country (i.e., teachers and trainers) in one place, making efficient use of existing fixed assets (e.g. buildings), and allow the nascent microfinance industry to draw on a common knowledge and skills pool across different sectors. Thus, such an MMCE is envisaged to have economies of both scale and scope in capacity building in microfinance industry. The MMCE would become a focal point in a long-term capacity building programme where international expertise could be made available, even as the centre gradually increased the domestic capacity to provide technical assistance to microfinance programmes.

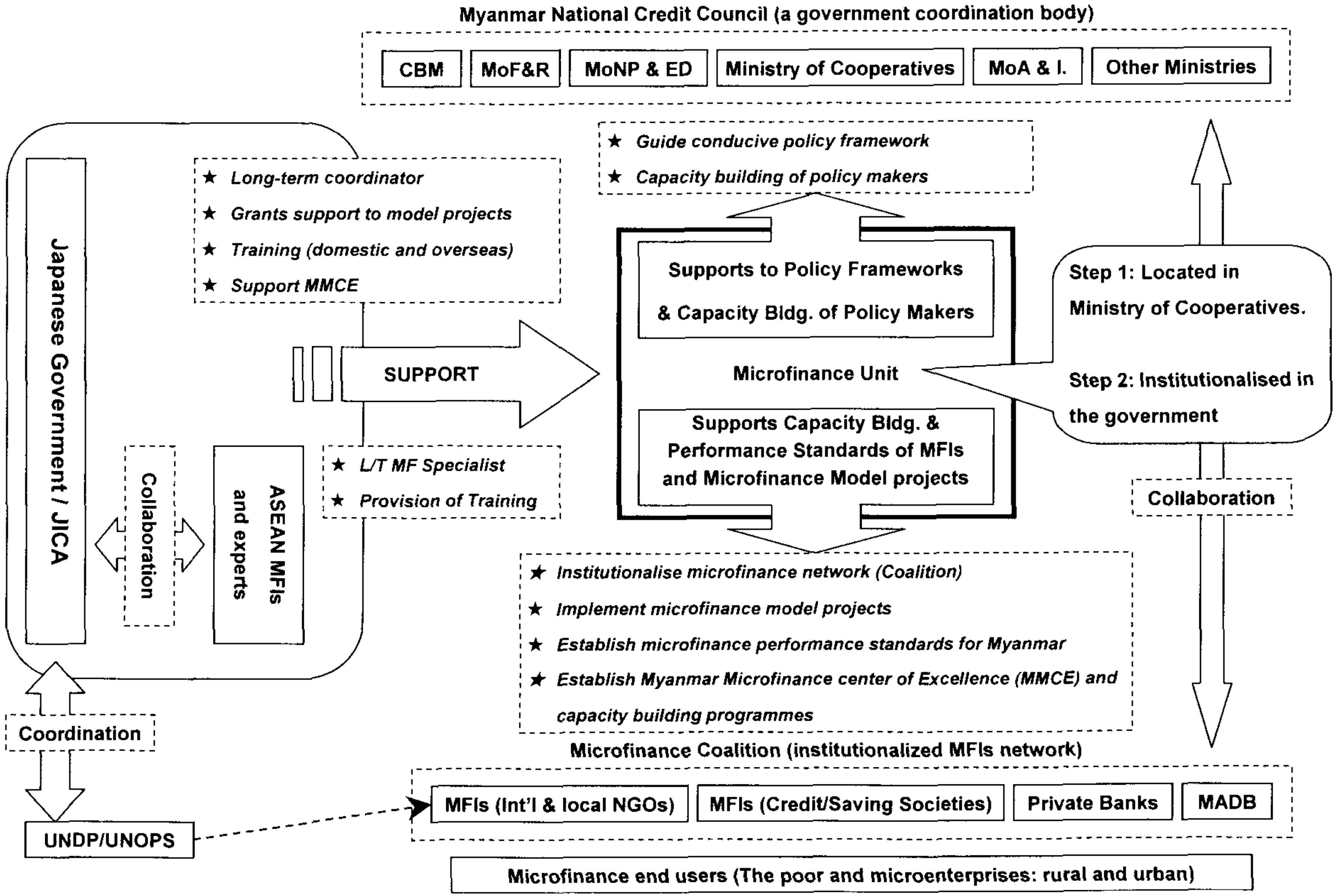
45. Because an MMCE is a long-term strategy, and establishing one would be an evolutionaly process, a phased approach is recommended. Phase 1 could focus on building the capacities of existing local training institutions through training of local trainers in the field of microfinance as well as improving the existing structure and facilities of the institutions that would be involved. The recommended institutions include *Yangon Cooperative Degree College* and *Sagaing Cooperative Regional College* (SCRC) in the cooperatives sector, the *Capacity Building Initiative* (CBI) in the NGO sector, and the *Myanmar Bankers' Association* (MBA) in the banking sector. The said two cooperative colleges have facilities such as lecture rooms, computers, and dormitories that can accommodate trainees from the cooperatives sector. Moreover, the location of these colleges is strategic relative to the location of the proposed pilot microfinance projects. It must be noted, however, that the existing facilities need to be improved. The current faculty and training staff of the two colleges may have the potential to be teachers and trainers in microfinance, since many of them have at least 10 to 20 years of actual cooperative management experience. However, their knowledge and experience have to be enhanced by exposure to and training in best practices in microfinance. As to the NGO sector, the CBI is a joint project undertaking of international and local NGOs in Myanmar that aims to provide training for Myanmar nationals and use local knowledge and expertise in Myanmar to design and implement more effective development projects. In 2001, the CBI, in its own office, conducted nine trainings, which were attended by 202 participants from thirty-two NGOs. The CBI has strong potential to be developed as the NGOs' training arm for microfinance. As to the training programmes for trainers and practitioners, both basic and advanced management development workshops should be organised through the development of modules. To implement phase 1, it is strongly recommended that a full time microfinance capacity building experts and a core of short-

term trainers/experts be mobilised. The capacity building programmes will not only be in the form of formal training but will also offer an exposure programme and study visits to see good practices in different countries.

In phase 2, an MMCE would be established as a joint undertaking by the government and a supporting donor. It is envisioned that the said MMCE would have a distinct personality with a full time staff and trainers composed of academicians, policy makers, faculty members coming from the CBI and the two cooperative colleges, and practitioners. To vest it with formal recognition, it may be advantageous to locate it in an academic setting, e.g., in a university such as the University of Yangon. During the next phase (phase 3), such an MMCE would link with other microfinance institutes in Asia, for example CARD in the Philippines, BRAC in Bangladesh, and BRI in Indonesia, to strengthen it own capabilities and share experiences. It is envisioned that under phase 3 the MMCE would build its internal and international capabilities, and participate in exchanges of faculty members and staff. Publications of training and operations manuals, training kits, case studies, researches about microfinance in the country and experiences of other countries will also be tasked.

<u>**Building Sustainable Microfinance Systems in Myanmar**</u>

(Proposed Structure of Follow-Up Project from 2003)



Introduction

Objectives and implementation process of the study

1. The microfinance study* was envisaged as part of the *Study on the Financial Sector* within the framework of the *Myanmar-Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy*, with a purpose of identifying key issues and setting out recommendations of policy measures. An underlying perception has been that the formal and informal financial systems are key to vigorous economic development and social stability in Myanmar. Upon agreement of both FMWG members, preparation for the microfinance study began after the Tokyo Workshop (4-5 December 2000) for the *Myanmar-Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy*. The Japan FMWG members submitted the first report, *Preliminary Findings on Microfinance in Myanmar*, at the Yangon Workshop (23-24 November 2001), and then the JICA consultants team, including experts from the Philippines, was established. Since then, the collaboration between Myanmar and Japan has developed through the sharing of emerging findings and views on the policy environment for microfinance in Myanmar. To increase Myanmar policy makers' exposure to international experiences and policy issues in microfinance, a one-week joint study programme was conducted in the Philippines under the sponsorship of JICA (3-10 March 2002). Myanmar and Japan FMWG members, Ministry of Cooperatives and Ministry of National Planning and Economic Development policy makers, Myanma Agriculture Development Bank representatives, and UNDP/UNOPS observers, learned the Philippines' experiences through discussions with central bankers, other policy makers, private sector practionners, and donors, who through trial and error have created an environment conducive to microfinance as an effective tool for poverty alleviation and a sustainable financial system.

2. With a purpose to share among broader stakeholders in Myanmar the emerging outcomes of the study and the lessons learned from the Philippines, the same study team, supported by JICA, organised a one-day (June 8, 2002) workshop in Yangon, exclusively focusing on

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* The study on microfinance, which is comprehensive, from evaluation of the sector to overall policy proposals, was an outcome of joint works of FMWG taskforce members, their supporting members, JERI consultants, and local consultants. This composite report includes all of the microfinance study's reports in full as well as its executive summary. The introductory section of this composite report names the study's contributors, gives other acknowledgments, and describes the study's background, objectives, and process.

microfinance, *Workshop on Microfinance Development for Myanmar.* Gathering at the International Business Centre were nearly one hundred representatives as well as three ministers in the Myanmar government—H.E. Brig. Gen. D.O. Abel, H.E. Lt.Gen. Tin Ngwe, and H.E. Dr. Than Nyun—and Dr. Konosuke Odaka, Chief Organiser of the JICA project and Mr. Tetsuya Ishii, Director, Ministry of Foreign Affairs, Japan. Other than the FMWG taskforce members and consultants, the participants included Myanmar policy makers in relevant ministries, bank representatives, international and local NGO representatives, donors involved in microfinance, and related programmes' representatives. The findings and recommendations reported by the study team were discussed under the chairmanship of leaders of the *Structural Adjustment Programmes* in both countries. One of the important outcomes of the workshop is a unanimous voice among stakeholders to establish a common *place* (*forum*), in which policy makers and other participants can share information, exchange views, and discuss problems and tasks, thereby heading toward the creation of an enabling environment to sustain microfinance in Myanmar.

3. Encouraged by the enthusiasm and fruitful outcomes of the said workshop, the second phase of the study was conducted during June-December 2002 by the expanded research team: the JERI-administered JICA consultants team welcomed another expert from the Philippines and the number of full-time local microfinance researchers increased to three. Through further strengthened cooperation with FMWG members, the team tackled two sets of challenges. First, more in-depth analysis was implemented by *inventory surveys* on and complementary field visits to the existing NGOs involved in microfinance activities and to the Saving and Credit Cooperative Societies in Yangon, Mandalay and Sagaing, and Shan State. Second, in parallel to this, concrete proposals for policy measures to be taken in Myanmar, subject by subject, were developed. The second-phase activities' outcomes, were added to the reports submitted earlier at the Tokyo Workshop, and the whole reports constitute this volume.

Composition of report

4. This report consists of the three parts. Part 1, *Assessment of and Basic Directions for Microfinance in Myanmar*, includes three chapters, which were submitted at the above mentioned Tokyo Workshop on 21-22 July 2002. Chapter 1 provides a global picture of microfinance in Myanmar—to share a firm understanding of its present status and performance. An overview of major microfinance providers and relevant institutions,

including three international NGOs under UNDP/UNOPS contract, other international NGOs, local NGOs, banks and pawnshops, cooperative banks and societies, is provided. This overview illustrates the sharp contrast between substantial demand for financial services for the poor and the growing but utterly insufficient supply of microfinance. This chapter then identifies key issues affecting the development of microfinance, describes interventions needed in this emerging industry, and lists fundamental policy recommendations. Chapter 2 includes observations and lessons learned from the Philippines' experiences from a study programme conducted in March 2002. This chapter details the policy environment and institutional setups that support development of the Philippines' microfinance system, which has grown through trial and error over years. Identifying key factors to the creation of an enabling environment, this chapter sets out resourceful thoughts and some central proposals for policy making in Myanmar. Chapter 3 is a literature survey on worldwide experiences on key issues selected in consideration of the current phase of microfinance development in Myanmar: institutionalization, governance, legal and regulatory framework, and national strategy. The objective of this chapter is to provide Myanmar stakeholders with broader perspectives and resourceful materials for policy formation, which are regarded as crucial at the current stage.

5. Part 2, *Microfinance Institutions and Saving and Credit Cooperatives*, includes detailed analysis of microfinance institutions and relevant organisations through *inventory surveys* and a series of fields interviews that were conducted by the team members and local consultants during August-October 2002. Chapter 4 deals with international and local NGOs and donor-funded projects that are involved in microfinance, whereas Chapter 5 is about Saving and Credit Cooperative Societies, revealing their potential as microfinance institutions. This is the very first detailed description of Myanmar financial cooperatives in the English language. Both chapters attempt in-depth analysis of various institutional aspects, outreach, and financial performance. The framework of the analysis in part 2 is also to serve as a sample model for Myanmar policy makers and practioners—a model to subsequently maintain and develop a system for overseeing microfinance institutions in the country.

6. Part 3, *Road Map and Proposals*, develops a series of policy measures and concrete proposals to materialise policy recommendations that are stated in Part 1 and Part 2. Chapter 6 attempts to set out a *road map* incorporating most of the proposals on policy and actions to be taken, which are described, subject by subject, in the subsequent chapters. This chapter aims at providing Myanmar microfinance stakeholders with a starting point toward establishing a

national strategy of their own. 'Three pillar approach', namely NGOs, cooperatives, and banks as the main streams to carry out microfinance, is proposed together with a skeletal framework of *Country Action Agenda for Myanmar* (CAAM), an illustration of what are to be done by each player involved in microfinance with an indicative timeframe. The chapter also sketches the role of donors and the possible assistance from the Japanese government and JICA, which is expected to be indispensable in materialising the policy measures and capacity building programmes that are proposed throughout this report. Chapter 7 specifically deals with the legal and regulatory framework. After pronouncing that the legalisation of NGOs as authorised entity to lawfully provide financial services to the poor, this chapter analyses the pros and cons of the use of the existing legal framework for registering microfinance NGOs in a more formal manner. It then suggests some options for the measures to harmonise with existing laws. Legal issues about Saving and Credit Cooperative Societies are also addressed. Finally, chapter 7 emphasises the necessity of building policy makers' capacities in microfinance supervision and regulation over the medium-to-long-term. Chapter 8 suggests, drawing from resourceful experiences in the Philippines (see chapter 2), an establishment of a coordination body within the government to discuss credit policy for small economic players and poor people, with a view to promoting a market-friendly environment to sustain microfinance operations in Myanmar. The monetary authorities and relevant ministries should be involved in such policy coordination, and dialogue with the private sector should be promoted.

7. Chapter 9 firstly describes substantial benefits from establishment of a *microfinance network* among microfinance practioners, and then discusses it as a key for the take-off of this industry in Myanmar. Step-by-step formation of such a network as well as sequenced network activities are proposed in detail. Among those activities, establishment of performance standards for microfinance institutions is particularly emphasised, since they would serve as central tools to enhance organisational and sector capacities and hence build society's confidence in microfinance institutions. Such standards would facilitate government, private investor, and donor cooperation with the microfinance industry. Chapter 10 launches an innovative recommendation to the Myanmar government and potential donors to support '*Microfinance Model Projects*' as *break-throughs* to bring about rather quick success and visibility in society, so that the country can start to narrow the huge gap between supply and demand of financial services to the poor. This chapter pre-identifies strategic geographical areas in which to implement such pilots, such as Yangon, Mandalay/Sagain Divisions, and gives the rationale for doing so. Subsequently it is proposed that NGO or INGO projects in Yangon Division

and that Saving and Credit Cooperative Societies in Mandalay/Sagain Division be chosen as powerful candidates, exploiting their high financial feasibility as well as the effective institutional capacities accumulated so far in Myanmar.

8. Chapter 11 includes another innovative proposal to establish a *Myanmar Microfinance Center of Excellence* (MMCE) as the country's focal point for capacity building in microfinance, in order to address the huge demand for training in both NGO and cooperatives sectors. To materialise a concept for said MMCE, the potential of existing training institutions and their programmes are pre-assessed by field visits and the survey results are reported. Chapter 11 then goes on to assert that Sagaing Regional Cooperative College and Yangon Cooperative Degree College may have great potential for development into strong resource centers for microfinance training for the cooperatives sector and that Capacity Building Initiative (CBI), a joint project undertaking of international and local NGOs, may have strong potential to be developed as the training arm for NGOs. Basic methodologies for training programmes and detailed training modules are identified in this chapter. To further concretize MMCE on a realistic basis, a phased approach is recommended: a process to build capacities in existing local training institutions as phase one, an establishment of MMCE as phase two, and a creation of linkage between the MMCE and international microfinance institutes as phase three.

Part I

Assessment of and Basic Directions for Microfinance in Myanmar

Chapter 1

Microfinance Development in Myanmar

Towards Sustainable Financial Systems

Table of Contents

1. Overview

1.1 General Background

1. Microfinance is perceived to be a critical instrument in poverty alleviation as borne by the experience of several developing countries that have promoted its use in the last few years. In Bangladesh, considered by some "the mecca of microfinance", per capita GDP in 1996 was estimated to be only $212 in 1987 US dollars. Poverty is a very serious problem but its incidence was reported to have declined from over 70% in the early 1980s to less than 50% by the early 1990s. This decline was attributed to a broad based growth that occurred through improved agricultural technology, labour-intensive industrialisation, and rapid growth of the informal service sector (Asian Development Bank 2000).

2. The ADB contends that a strong financial NGO sector emerged as a result of the poor quality of public services in Bangladesh. It was estimated that there might be as many as 1,000 microfinance organisations that provide loans. Some mobilise savings and many provide non-financial services such as training, consciousness raising and skills development. Most use the group lending technology popularised by Grameen Bank while some work with much larger groups. The majority of those microfinance organisations are small, serving only a few hundred persons, while others are huge. As of December 1997, the four largest are BRAC, PROSHIKA, ASA and SWANIRVAR Bangladesh with combined membership of over 7.6 million and loans outstanding of 21 billion Taka (Development Forum, 1997).

3. As of February 1998, Grameen Bank, which is a specialised Bank for the poor, had 1,128 branches located in 38,951 villages. It had disbursed a total of US$2.3 billion in loans to 2.3 million borrowers, ninety four percent of which were women. Equally impressive, it was able to generate cumulative savings (Group Fund) amounting to over US$170 million. Grameen Bank's remarkable performance in terms of repayment (over 95%) and impact has attracted various attempts at replication in many parts of the world. A total of 223 Grameen replication programmes have been established in 58 countries in Asia, Africa and Latin America during the last ten years.

4. One such replication, albeit with significant modifications, is the Center for Agriculture and Rural Development in the Philippines. Started as a community development organisation offering balloon-based repayment loans, it began a phased transformation of the NGO into

a bank in 1997, a pioneering effort in the Philippines, providing a demonstration model for other MFIs in the country. It became the first private bank specialising in microfinance in the country. Embarking on a massive scaling-up during the last four years, CARD is now the largest private MFI in the Philippines, reaching more than 50,000 poor women in hundreds of economically depressed villages through 30 branches. In 1999, two island bank branches were established. As of 31 December 2001, the combined loan portfolio of the NGO and the Bank was valued at P378.99 million with a repayment rate of 99.95%. With the bank's opening, savings mobilisation from the public was legalised, bringing the value of savings close to P80 million from more than 84,000 accounts (CARD Annual Report 2001).

5. Bank Rakyat Indonesia is a state-owned commercial bank whose traditional mission has been the provision of banking services to rural areas of Indonesia. BRI is Indonesia's largest bank, and its Unit Desa, or local banking system, is the leading provider of sustainable microfinance in the world. Until 1983, the Unit Desa system had mobilised deposits of only $17 million; the system now holds more than $2 billion in deposits (BRI Internet posting, 2002).

6. In 1997, there were 2.5 million loans outstanding at the BRI units, with an average account size of $650. About 87.9% of all loans are in the range of less than US$900. Savings growth is also impressive, especially since all Unit savings are voluntary. Today the units have $3B in total savings from 16.2 million savings accounts. Without exclusively targeting the poor, the BRI units have assisted hundred of thousands of households in lifting themselves out of absolute poverty over the past decade. Without exclusively targeting women entrepreneurs, the Units have helped finance more than 500,000 businesses run by women. By efficiently intermediating between small savers and borrowers, the Units are an important force for equitable development in Indonesia.[1]

7. Despite the economic crisis in Indonesia in 1997, BRI''s Unit Desa continues strong. As of December 1998 it served 2.5 million borrowers, 21.7 million savers, and had a loan portfolio valued at more than $585 million. More than 96 percent of BRI units were profitable in the third quarter of 1999 (BRI Internet posting, 2002).

8. In Myanmar, the lack of access to credit and savings is a serious constraint on the development of the countryside and on the ability of poor households to improve their economic situation.

[1] Sugianto (1997)

The poor households' traditional source of credit is the informal moneylender who charges interest rates of between 10 to 15 percent per month without collateral, although in some instances, field visits revealed that some form of collateral is required but lower interest rate is charged at 5 to 10 percent per month.

9. In this light, the advent of microfinance to Myanmar offers a strategic and cheaper alternative to the informal credit sources for the majority of poor households and micro-enterprises. It also provides a potential for mobilising savings from hundreds of thousands of households who keep their surplus in the form of gold, jewelry or livestock. Although there are twenty licensed private banks in the country, they mostly operate in the urban areas. The state-owned banks operate in both rural and urban areas but their reach is also limited.

1.2 Objectives of the Study

10. The chapter provides a global picture of microfinance in Myanmar in order to have a firm understanding of its present status and performance and in particular, to determine what further interventions might be necessary to further its development. It discusses not only the three UNDP-funded INGO microfinance projects but also other minor microfinance projects or operations implemented by other institutions, e.g., local associations and other INGOs. Microfinance in Myanmar is still in an embryonic stage and is mainly limited to three projects within 3 areas and 11 townships implemented by the United Nations Development Programme (UNDP) and the United Nations Office for Project Services (UNOPS).

11. The pawnshops and cooperative societies were included in the discussion of this chapter because field observations indicated that these institutions also provide micro-credits to the small borrowers. Other international NGOs are also currently involved in providing micro-credits to target borrowers. Some private banks have expressed interest in microfinance, hence, their inclusion in the discussion.

12. At the outset, it must be pointed out that the pawnshops, cooperative societies, local associations and other international INGOs such as World Vision, etc., implement microfinance projects that lack the scale and scope of the microfinance projects of the three INGOs under contract with and funding from UNDP. While their current scope of operation and funding is quite limited and minor, nevertheless, they have the potential to grow into

sustainable MFIs given a policy environment that is conducive to their growth and development.

1.3 Research Methodology

13. The study used descriptive analysis as a general method to arrive at the conclusions and recommendations. It made used of available secondary data as well as primary data generated from two field visits (November-December 2001 and January-February 2002). Key informant interviews and focused group discussions were the instruments used to generate primary data and related information. In-house discussions with other team members of the Fiscal and Monetary Policy Working Group (Study on the Financial Sector) that is part of the Myanmar-Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy contributed insights and refinement of ideas and analysis. An annex lists the persons interviewed in the course of the research.

14. The main drawback of the discussion is the limited availability of data on financial performance of microfinance projects and programme implementation. The main reason for the limited data is the lack of a monitoring and reporting system on microfinance activities and operations that tracks performance on a regular basis. Notwithstanding this limitation, the authors of this chapter made use of the rich information derived from several field visits over the duration of this study and the secondary data made available by the interviewees to the extent possible. Focused group discussions yielded precious insights into microfinance operations in the country. This approach enabled the study team to piece together a comprehensive discussion and analysis of the development of microfinance in Myanmar.

2. Demand for Microfinance

15. To give an idea of the scale of demand for microfinance on a worldwide basis, it is best to refer to recent data from the World Bank's inventory of microfinance institutions. That inventory show that as of September 1995, about US$7 billion worth of loans to more than 13 million individuals and groups were outstanding in 206 respondent microfinance institutions. Those microfinance institutions have mobilised over US$19 billion in deposits in 45 million deposit accounts[2].

16. In Myanmar, the demand for micro-loans was roughly estimated to be US$400 to US$600 million.[3] This approximation was based on the microfinance operations of the three INGOs supported by UNDP that reported an average penetration rate of 40 to 60 percent of households in their areas of operations. It was further assumed that an average loan outstanding of US$100 would be required by 40 to 60 percent of an estimated 10 million households. Apart from this rough attempt to estimate the demand for microfinance in the country, there has yet been no effort to arrive at a more systematic and data-driven analysis. However, the UNDP estimate although rough is important because it gives an idea of the order of magnitude of the potential impact that sustainable microfinance can bring to thousands of poor households if given the chance to have proper development.

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[2] Paxton and Cuevas (1996).

[3] UNDP Draft Project Document MYA/01/004/A/01/31

3. Microfinance Providers in Myanmar

17. Microfinance is an exogenous phenomenon brought to the country by UNDP and several other international NGOs who are interested in using microfinance as part of their overall package for poverty alleviation. A national strategy and programme to promote and develop microfinance is absent and thus, microfinance in Myanmar is really in a nascent stage. However, this situation has not prevented various local organisations or associations and the other international NGOs to initiate micro-credit projects, some with a savings component (and thus, technically, can be labeled as minor "microfinance" projects) but in reality, only the three INGO projects under contract with UNDP can be classified as serious microfinance projects. This is because it is only the three UNDP-contracted INGOs that are solely focused on microfinance with a view to institute sustainable microfinance operations in the country.

3.1 UNDP Microfinance Projects

18. The UNDP HDI-E has a microfinance component. This is the Microfinance Project whose goal is to assist poor rural households to gain sustainable and adequate livelihood through access to credit. UNDP has contracted three INGOs to implement a project that has provided micro-credit and savings services to the poor since 1997. They are Grameen Trust (operating in three Delta Zone townships), PACT (in 3 townships in Dry Zone) and GRET (present in 5 townships in Shan State).

19. The coverage in terms of number of townships is very small: only three percent of the country's townships are under the Microfinance Project. However, the relatively small coverage may be explained by the experimental or pilot nature of the Project. Microfinance is a new approach that has yet to be tested and sustained in a country like Myanmar. Thus, the project areas have been consciously limited to those geographical areas and townships.

20. As of December 2001, the UNDP Microfinance Project has a total active outreach of approximately 105, 908 distributed among the three INGOs as follows: Grameen Trust - 32,901; GRET - 23,280; and PACT - 49,727. Although small relative to the total number of individuals or poor households demanding microfinance services, the cumulative outreach since the Microfinance Project started almost four years ago, can be considered remarkable considering the relative difficulty of the areas where the three INGOs have been contracted to operate and the lack of experience of the project staff in microfinance. The covered areas

suffer from poor infrastructure and communication facilities. They are some of the poorer areas in Myanmar. For example, in Delta Zone, electricity runs only for 2 to 4 hours daily while the roads are in a sad state of disrepair.

21. Despite these constraints, the INGOs have shown creditable performance. For example, PACT reports that a 6o percent "penetration ratio", defined as the proportion of households to the total number of households in the project site covered by its operation. In the three townships where PACT operates, about 80 to 82 households out of an average of 120 to 130 households in 500 out of 660 villages have been reached by microfinance operations[4]. This is remarkable outreach performance.

22. Loan size ranges from Ks10,904 to Ks11,809 per borrower and because of the inflationary pressure, the borrowers cannot fully enjoy the benefit of the loan. Micro-enterprise loans of Ks 50,000 repayable over two years are given. Field interviews and secondary data indicate the target households' positive perception of the three INGO Microfinance Projects as an intervention that can bring a significant impact on their economic situation. The following are the perceived benefits arising from participation in the three microfinance projects.
    - improvement of the clients' quality of life
    - substantial increase in income
    - increase in savings and asset build-up
    - availability of better food and nutrition to the family
    - improvement of housing conditions
    - basic schooling for the children and
    - lesser dependence on moneylenders.

23. Table 1 shows the comparative performance of the three INGOs according to key indicators as of December 2001:

[4] From Mr. Fukui and Ms. Honda interview with Mr. Fahmid of PACT dated August 2002.

Table 1. Comparative Performance of GRET, PACT and Grameen Trust, December 2001

FEATURE	GRET	PACT	GRAMEEN TRUST
Location	Shan State	Dry Zone	Delta Zone
Covered Areas	5 townships; 374 villages	3 townships; 487 villages	3 townships; 657 villages
Branches	5	13	7
Staff Complement	51 staff 1 local credit manager, 8 head office staff and 39 loan officers	170 staff 72 loan officers 1 national project coordinator	79 Staff 1 local project director and 64 loan officers
Loan Use	Farming	Livestock Trading	Pig/duck raising; non-farm activities such as selling prawns, vegetables and snacks, fishing nets, row boats, sewing
Active Members	23,280	49,727	32,901
Active Borrowers	14,613	47,087	26,326
Portfolio (in 000 kyats)	Ks 262,219	Ks 587,217	Ks 358,758
Repayment Rate	99%	99.98%	100%
Operational Self-sufficiency[1]	99%	112%	88.8%
Financial Self-sufficiency[1]	58.7%	66.1%	45.2%
Collateral/Guarantees	Solidarity group, Mortgage for individual	Solidarity group	Solidarity group
Duration of Loan	6 months, 1 year	6 months, 1 year	1 year
Repayment Frequency	Monthly interest rate, principal end of the cycle	Bi-weekly	Weekly
Interest Rate	3.75% per month, monthly principal at end of cycle=45% per annum	0.9% fortnightly=45% per annum	20% flat=38.5% per annum in 50 equal monthly installments of principal and interest
Average Loan Size	Ks 11,264	Ks 11,809	Ks 10,904
Insurance	None	Beneficiaries Welfare Programme, Mar 2000 Ks 50 annual Now Ks75 premium Death benefit: Ks25,000	None
Savings (in 000 Kyats)	8,897	76,642	53,083
Non-financial Service	None	Business extension, training on working capital management, credit methodology Non-formal Business Education	None

[1] As of June 2001.

Sources: UNDP/UNOPS December Report, INGO Reports, MCRIL Reports

24. The three microfinance projects have begun the institutionalisation and localisation process as envisaged in their respective agreements/contracts with UNDP/UNOPS. All the three INGOs, that is, the Grameen Trust, PACT and GRET have seriously taken the task as they have began working on the documentary requirements for the registration of their projects as local NGOs. One of the authors had the privilege of actually observing the process of forming the local township board of the GRET project in Shan State. In the Dry Zone, the local project staff members have started the process by drafting an organisational structure that reflects the localisation process through the creation of a board of directors coming from local people. Likewise, in Delta Zone, the local staff members have now began drafting the articles of incorporation of a local MFI and have proposed to name it as the "Microfinance Delta Association." They envision it to have a seven-member board with two members coming from the private sector and five from the project staff.

25. The local staff members, respectively in the three UNDP areas, have seen the importance of the registration of a local MFI. They believe that the institutionalisation of the Microfinance Project and its localisation through the creation of local NGOs/MFIs will be the vehicle that will allow them to expand their operation to other townships and reach a greater number of clients. The problem though is that the local staff members together with the local managers do not have the requisite expertise and experience to guide the institutionalisation and localisation exercise. Some of the local staff members have also expressed concern about their ability to handle pressure from local authorities and the international funding agencies that might have their own respective ideas and agenda in running the local MFI. It seems that they will be dependent yet on systematic and well planned technical assistance in the following areas:
    - setting up of support units at the Head Office Level such as personnel/administration, internal audit, training, and, finance;
    - development and installation of management information systems (MIS) not only at the head office level but also at the branch level;
    - new loan and savings product development;
    - governance of microfinance programmes;
    - improvement on the current credit and savings methodologies especially in the area of dealing with repayment crises and rehabilitation;
    - financial management;
    - strengthening branch management and
    - resource mobilisation and donor relationship.

3.2 International NGOs and Other UNDP-supported Microfinance Projects

26. Other international NGOS like World Vision, CARE Myanmar, Save the Children USA and Save the Children UK are implementing their own microfinance projects. It was observed that the microfinance projects of these international NGOs are either on a pilot stage or are now just beginning to expand operations, although still on a limited scale, to other parts of Myanmar as in the case of World Vision. Some of these international NGOs implement their microfinance projects through a memorandum of understanding (MOU) with a ministry, for example, the Ministry of Health in the case of World Vision. The MOU serves as the legal basis for implementing the microfinance project in a target area or to serve target clientele by providing them micro-credits at interest rates that are not subject to the ceiling imposed by the Central Bank of Myanmar.

27. There is a wide variation in credit and savings methodologies, i.e., techniques of group formation, repayment schemes, savings schemes and interest rates. Borrowers normally pay interest charges ranging from 0 to 4% per month. The average loan size ranges from 5,000 to 10,000 kyats with an average loan duration of six months. The loan repayment schedule varies from weekly to end of cycle.

28. One of the more serious international NGO is World Vision that has been into microfinance for almost four years now. It has a total outreach of 3,676 active clients served by four branches located in four townships. Its total loan outstanding was 102,598,493 kyats with an estimated portfolio-at-risk of 2.5 percent. It has a full staff complement composed of twenty local staff members and one expatriate. It plans to expand within the next five years to reach 11,000 clients. Table 2 shows the operations highlights of World Vision.

Table 2. Operations Highlights of World Vision as of December 2001

Description	From inception[1] to December 2001
Total number of loans disbursed	14,525
Number of first loan disbursed	7,516
Number of repeat loan disbursed	7,009
Amount of loans disbursed (in kyats)	451,206,000
Average loan size (in kyats)	31,064
Number of active loans	3,676
Value of outstanding portfolio (in kyats)	102,598,493
Payment in arrears > 1 day	1.37%
Late portfolio (balance of loans > 1 day)	2.81%
Portfolio at risk > 30 days	2.52%
Operational sustainability	73%
Percentage of women's receiving loan	69%

[1] From inception-December 1997

Source: World Vision, Myanmar

29. Some of these INGO projects try to adhere to some rudimentary form of performance standards while those that are still in the pilot or experimental stage are more concerned with reaching as many poor households as possible without necessarily adhering to the strict discipline of best practice microfinance. All the NGOs interviewed have either full time staff members or a full time unit for their microfinance project. This indicates the seriousness in providing microfinance services. Nonetheless, these INGOs are fully aware that capacity building in microfinance is a critical concern, hence, according to Save the Children UK, INGOs are all planning to develop a joint capacity building programme focused on microfinance. Table 3 shows the comparative microfinance schemes of some INGOs according to key indicators.

30. Thus, the difference between the microfinance projects of these INGOs and those of the three INGOs under the UNDP/UNOPS Microfinance Project is that the latter are purely microfinance operations implemented according to best practices in microfinance. This means emphasis on viability and sustainability. The former use microfinance as a component of a larger project, say, health, education or agriculture as a good entry point in the targeted community. The provision of micro-credits supports the livelihood projects of the poor households.

31. Another UNDP-supported project is the FAO Revolving Fund in Shan State, Dry Zone, and

the Delta Zone; GRET village banking approach in Chin State; and, the CDRT project. It is worth noting that these UNDP-supported projects also have variations and differences in their microfinance operations. Except for the GRET project in Chin which also has received financial support from the Japanese Embassy, all the above- mentioned "microfinance" projects give their loans to the community as grants.

Table 3. Comparative Microfinance Methodology of International NGOs

Key Indicators	SCF UK	World Vision	SCF US	CARE International
Average Loan Size/Borrower	5,000-10,000 kyats	31,064 kyats	10,000 kyats	5,000 kyats
Interest Rate	4% monthly	48% per annum (flat) + 2% administration fee	4% monthly	0%
Repayment	End of cycle	Weekly	Weekly	End of cycle
Loan Term	6 months	6 months	6 months	6 months
Savings	None	4-5% monthly (35 kyats/week) based on the loan	Voluntary	None
Legal Cover	Agreement with UNESCO	Agreement with Ministry of Health	Agreement with Ministry of Health	Agreement with Ministry of Health
Full time Staff	Yes	Yes	Yes	Yes

3.2.1 FAO Revolving Fund

32. The FAO Revolving Fund adapted the self-help group approach. It has several modalities such as the formation of Farmers Income Generation Group (FIGG) and the Women's Income Generation Group (WIGG). The FIGG has a membership ranging from 50 to more than 500 individuals in a given village. There are no criteria on income or target client. Thus, a member may be one who is well off or not. FIGG is governed by an executive committee and gets guidance from the village tract advisers representing the local leadership.

33. FAO provides assistance in-kind such as farm inputs, equipment, poultry and livestock. Loan maturity ranges from six months to three years with interest rate ranging from 0 to 20 percent. Some loans are paid in cash; others in kind. All loan repayments are made to the FIGG in order to ensure that the fund revolves in the community.

34. For off-farm projects, FAO provides cash assistance. Members pay the interest rate of 2

percent per month while the principal is paid at the end of one year. Loan amounts range from 600 to 300,000 kyats with an average amount of 10,000 kyats per member. Savings are not mobilised. There is a one-time membership fee of 100 to 200 kyats depending on the group's decision. The whole membership meets every six months.

35. One of the key features of this project is the use of private banks as conduit of the funds for the groups. In Kalaw township in Shan State, one FIGG who now owns the fund claim that they would like to standardise the interest rates charged on loans regardless of project type. In addition, they are also considering an increase of the interest rate in view of inflation. This demonstrates that members are willing to pay a higher interest rate to preserve the value of their revolving fund.

36. The weakness of this model, however, is that the membership of the groups is not limited to the poor. Better off farmers and some local authorities are said to have cornered the big loans. Worse, some of them did not repay, leading to the collapse of some group funds. Since meetings were held only every six months, the group simply served as a credit delivery structure. This arrangement has not empowered the group members, especially the poor members. The lack of leadership rotation has also reinforced the tendency of the group toward elite capture. The result was often the domination of and dependence on traditional leaders who are members of the local elite.

37. An important development is the emerging informal tie-up between Kanbawza Bank, a private commercial bank and the Community Based Organisations (CBO) under the FAO Revolving Fund Project in the Dry Zone. FAO organises those CBOs that are encouraged to have capital build up through savings in a private bank. Under the tie-up, the bank gives loans to some 20 CBOs at the rate of 15% per annum against their savings deposit with the bank. The leveraging ratio is 1:4. For every one kyat deposited, the bank gives a loan of 4 kyats. It is also interesting to note that CBOs re-lend to their members at the rate of 4% per month. It appears that CBOs borrow from Kanbawza Bank for re-lending to their members who cannot individually borrow from the bank because of their limited incomes and their lack of creditworthiness from a private bank's perspective. The Project Management Office of the FAO Project reports that twenty villages have been linked to the private bank through this approach. What is encouraging to note is that another private bank, Yoma Bank is now also involved in giving loans to the CBOs using the latter's deposits as guarantee or security to the loan.

38. The future evolution of this Project[5], i.e., after the support from FAO has stopped, points to the opportunity of creating a village cooperative or another form of microfinance institution, that will provide microfinance loans to members at interest rates that are higher than the Central Bank-sanctioned rate of 15%. It is worth noting that the CBOs are now de facto charging commercial rates and this practice apparently has the blessing of the local cooperative township officer. Interviews revealed that in the local areas the village cooperatives are allowed to charge commercial rates if permitted to do so by the local cooperative township officer. The prevailing attitude seems to be that commercial rates are necessary to ensure cost recovery for the village cooperatives and that it is access to micro-credit, not strictly speaking the interest rate charged, that matters to local borrowers. The local cooperative township officer in a village that was visited affirmed that it is possible for a village cooperative to implement commercial-oriented microfinance provided that the by-laws of the cooperative is amended to reflect it. The responsibility of approving the by-laws rests with the local cooperative township officer.

3.2.2 GRET village banking in Chin

39. Developed by FINCA Founder John Hatch, village banking is a means of delivering financial services, made unique by the way responsibility and autonomy are given to borrowers in running their banks and in its emphasis on community, as well as, individual development.

40. Village banks are community-based credit and savings associations of 25 to 50 low-income individuals who are seeking to improve their lives through self-employment activities. The participants themselves choose their members, elect their officers, establish their by-laws, distribute loans to individuals, and collect payments and savings. Their loans are backed not by goods or property, but by moral collateral: the promise that the group, in solidarity, stands behind each individual loan.

41. The GRET village banking in Chin State has the following key features:
    - Each village bank is composed of 10 to 30 solidarity groups with membership of five per group.
    - Local management is through a credit committee composed of a chairperson, treasurer and secretary. The credit committee is elected from the management committee

[5] The Project started in 1994. The first phase was for the period 1994-1996; the second phase covered 1997-1999. The third phase covers the period 2001-2002.

composed of the group leaders.

- The management committee meets every month while the whole village bank membership normally meets at the end of every loan cycle.
- The first loan amount starts at 5,000 kyats per member and is gradually increased in the succeeding loan cycle.
- The interest rate was initially at 4 percent per month. This was later reduced to 3.75 percent per month.
- Loan maturity is one year. Interest is paid monthly while the loan principal is paid at the end of the loan term.
- Members are allowed to get refinancing on the interest that is collected every month but they have to pay at the end of the regular loan cycle.
- The village bank started to collect savings equivalent to 3 percent of the loan value in December 2001.

42. Started in 1995, GRET Chin Village Bank has a total outreach of 8,115 clients organised into 83 village banks in three townships of Chin State. It has a loan portfolio of 69,542,845 kyats. The reported operational self-sufficiency is 118.8 percent. It has 20 full-time staff members and a full-time expatriate manager. Table 4 shows the operations highlights of GRET Chin Village Bank as of December 2001[6]

43. The GRET Chin Village Bank certainly has some strengths and apparent weaknesses. One of its strong points is the development and strengthening of local community organisations. This allows the village bank members to work together for community projects and, thus, promote cohesion and solidarity.

[6] During the field interview, it was claimed that the loan repayment rate was more than 95%. This will have to be validated in future field work in view of the non-availability of pertinent data.

Table 4. Operations Highlight of GRET Chin as of December 2001

	Hakha	Tedim	Falam	State Level	Total
Number of villages	33	18	27	-	78
Number of VC's	36	20	27	-	83
Number of households	2,996	2,608	2,511	-	8,115
Number of members	2,533	2,478	2,291	-	7,302
Number of groups	513	455	461	-	1,429
Number of active borrowers	2,303	1,837	2,099	-	6,239
Penetration ratio	84.5%	95%	92.15%	-	90%
Women involvement	42.6%	33.27%	36.5%	-	37.6%
Loans outstanding (kyat)	30,035,312	15,426,908	24,080,625	-	69,542,845
Operating cost coverage	130%	155.2%	131.3%	94.2%	118.8%
Field staff	5	3	4		12
Portfolio per field staff (kyat)	6,007,062	5,142,302	6,020,156		5,795,237
Members per field staff	507	826	573		609

44. As per interviews with the clients, the GRET Chin approach has improved their lives economically since they were able to access credit that was very difficult to secure before GRET Chin came in. Most of them could not access loans from the MADB because they do not own land. With virtually no moneylenders in the areas, sources of credit were the Christian church that provides only emergency loan and relatives and friends for small loans to pursue income-generating activities. The majority of those interviewed reported significant increase in their income and was able to reinvest their profits for business expansion. Some also reported improved food intake of the children and improvement in housing conditions.

45. There are also some weaknesses in the model, namely: the value of savings was not inculcated at the very start of the programme. This explains why the revolving fund did not increase significantly. The village bank relied primarily on interest income and donor funding. Secondly, the village bank membership is too large to be managed and monitored effectively. It is difficult to get everyone's active participation if membership goes beyond fifty. Thirdly, leadership rotation was not practiced, giving rise to dependence on and domination by traditional leaders. Fourth, membership composition is mixed, mostly dominated by men. The irony is that experience has shown that the best clients in microfinance are poor women.

46. GRET Chin has started its localisation and institutionalisation process since May 2000. GRET Chin already has local governing boards both at the state and township levels although these are not yet legally registered. GRET Chin local staff members are still debating whether

to register as a local NGO under the Ministry of Home Affairs or under the Ministry of Cooperatives. The local board at the state and township levels meets regularly (monthly, quarterly).

47. The grant from the Japanese Embassy, i.e., the Japanese Grassroots Fund is currently being put to good use in building the capacities of the local board and staff in the areas of governance and management of the microfinance project. This is a very crucial intervention by the Japanese government in view of weak local capacities in microfinance and the emphasis on building capacity will result in quality project implementation in the future. Sustainable microfinance rests to a great extent on the quality of management and project implementation by microfinance institutions.

48. The authors' interaction with the local project staff members indicates that the local staff members are very confident and excited to have their own local NGO. However, they realise that they will still need technical assistance from GRET Chin and support from the Japanese government in the areas of organisational and financial management, resource mobilisation, improvement of their existing credit methodologies to adhere to best practices and product development. The major worry of the project staff members now is the termination of the project contract with UNDP on February 2002. More than the funding constraint that will ensue, it is the legal cover to operate as a microfinance institution that is the real source of concern. It is noted that GRET Chin Village Bank has decided to continue its microfinance operations even without UNDP's funding assistance.

49. Another issue that needs to be addressed when the partnership between GRET Chin and UNDP ends is the ownership of the loan fund and the fixed assets. Can GRET Chin or the local organisation that will be registered become the owners? Can GRET Chin carry on by having a memorandum of understanding with UNDP to manage the existing project as an interim legal cover until such time that the local NGO is legally registered?

3.2.3 Community Development for Remote Townships Project

50. The Community Development for Remote Townships (CDRT) Project is funded by UNDP. CDRT is an integrated project with several components, namely, health, education, water supply, agriculture and income generating activities through self-reliant group (SRG). The project operates in ten townships in the border area states of Rakhine, Chin and Kachin.

The Project's Terminal Report (2002) indicated that at June 2002, 1,005 self-reliant groups (SRGs) had been formed. They covered 15,674 households or 68% of the target population. Total savings mobilized amounted to kyats 56.4 million. A SRG is composed of 15 to 20 poor women, self-selected through a process of wealth ranking. The group is provided an awareness training after which each member starts weekly savings of 5 to 15 kyats for a period of 1 to 2 months. Based on her savings and attendance performance, a member who becomes qualified for a loan is given a loan of 20,000 kyats through the SRG. The UNDP provided US$458,658 as capital grants that were then on-lent to the members.

51. Peer pressure is an important feature of the credit delivery mechanism, with members of the SRG receiving their loans only after the other members have proven their credit worthiness. Peer pressure is used to guarantee loan repayment among members. The members of the SRG receive their loans only after the other members have repaid their own loans.) The members pay 2 to 3% interest rate per month depending on the project type, loan amount and the group's decision. The loan maturity varies from 3 to 12 months depending on the project and group decision. Loan repayment modality is either weekly, monthly or at the end of loan cycle.

52. The UNDP Terminal Report (2002) lists the following as the strengths of the SRG approach:
- The SRG approach focuses directly on poor households and has a very strong affinity, participation, shared vision, organisation, capacity building and capital accumulation.
- SRGs have a social function as well as an economic function. SRGs act as a social safety net for the poor and the groups are more empowering and supporting than traditional microfinance approaches.
- The SRG approach focuses on women and promotes gender equality.
- The SRGs are based on mobilising small periodic savings and the capital belongs to the SRG members and not with a NGO or microfinance institution. Interest repayments cover inflation and costs and members are trained and required to maintain financial accounts.
- The SRG approach, being community owned and managed, can provide flexible loan periods, interest rates and repayment schedules and more effectively meet the needs of its members.
- The SRGs provide social support that enables the poor to overcome their risk averse behaviour and having access to flexible, low cost loans backed by a supportive environment, gives the confidence for the initial investment in activities that promote

livelihoods.

- The SRG approach better meets the needs of the remote communities as well as the project objectives. It does not require or depend upon changes in government legislation to become sustainable.

The Terminal Report listed the following as weaknesses of the SRG approach:

- Groups require strong initial support for training and capacity building.
- For scaling up of activities, groups need to be linked to the banking (or formal micro credit sector) for long term growth and expansion.
- An external organisation such as a project or NGO is required to promote, train and support the new groups.

53. The SRG approach is still in its infancy. It insures the inclusion of the poor in the programme and promotes group solidarity, savings mobilisation and client empowerment through training. However, the weakness lies in the common knowledge that the loan funds that are on-lent by SRGs to members came from a capital grant to the community from a donor (UNDP). Thus, there is the possibility of non-payment by some borrowers since the loan came from a grant from a donor. This might erode credit discipline among the rest of the members. The fact that members of SRGs are free to set the loan maturity schedule, the interest rate and loan repayment modality may create moral hazard problems to the sustainability of the SRG micro-credit scheme. On the other hand, clients of GRET Chin village banks who are aware of the SRG approach are now comparing their microfinance project with that of the CDRT and are complaining why they have to repay their loans while the SRGs do not. While this complaint may not be an accurate reflection of SRG micro-credit practices, there is need for community members to have a clear understanding of both approaches and their attendant loan conditions. Otherwise, there may be confusion in the community as indicated in the interview of GRET Chin village bank members.

3.3 Local Microfinance Operations

54. A number of local organisations or associations are also involved in microfinance activities. These also have full time staff for the implementation of their microfinance/micro-credit projects. They are legally registered with the Ministry of Home Affairs. They are the YMCA, YWCA, Myanmar Women's Entrepreneur Association and MCCA, among others. Each of these local organisations or associations implements its own microfinance/micro-

credit projects mostly on a pilot basis. The interest rates being charged by most of these local organisations or associations range from 0 to 4 percent per month. The average loan per member ranges from 5,000 to 10,000 kyats. The primary focus of assistance is the poor women. Loan repayment modality is either monthly or at the end of the loan cycle.

55. Some try to operate along the key principles of sustainable microfinance, e.g., charging interest rates that cover operating costs and risks, etc., but others stand to gain from a wider exposure to best practices in microfinance in order to vest some degree of viability and sustainability in their respective operations. Most, if not all, of them has micro-credit provision as a minor component of a larger project that has objectives other than making credit available to target clientele. It is also worth noting that local NGOs interviewed have either a part-time or full-time staff for their microfinance project.

56. One notable local organisation that has potential for best practices is the YWCA that has an outreach of 1,100 active clients and is operating in 2 townships. It delivers credit through solidarity groups, charges 3 to 4% per month interest rate on loans provided, payable monthly in 6 to 10 months. YWCA is also promoting weekly savings mobilisation of 25 kyats per member. It has full-time staff members who have working knowledge on financial and organisational sustainability of their microfinance project. The YWCA obtains technical and financial support from international donors to build institutional capacities.

57. The Women's Entrepreneur Association is another local organisation that is presently trying to build its capabilities using best practices. It has a total outreach in the key Bazaar of Yangon of around 300 women. Total loan portfolio is 3.1 million kyats. The vision of the institution is to establish a women's bank to cater to the needs of women entrepreneurs.

58. The Mother and Child Welfare Association (MCWA) is not directly engaged in microfinance operations at the head office level. Its microfinance operations are done through its local chapters at the township level where a committee is in charge of mobilising and managing its microfinance project. The local chapters generate funds from members and local people and these are used for lending to members. Table 5 shows the microfinance operations of the MCWA network. Table 6 shows the comparative microfinance methodology of selected local NGOs operating in Myanmar.

Table 5. Microfinance Operations of MCWA at the Different State and Division Levels

	State/Division	MWCA			
		Chapters in Township		No. of Borrowers	
		1999	2000	1999	2000
1	Kachin State	6	6	62	74
2	Kayar State	1		10	
3	Kayin State	2	6	9	54
4	Chin State		3		27
5	Sagaing Division	26	25	247	330
6	Tanintharyi Division	10	10	454	578
7	Bago Division	5	12	54	187
8	Magwe Division	26	17	2,312	1,761
9	Mandalay Division	30	31	25,372	14,506
10	Mon State	10	9	680	441
11	Rakhine State		2		
12	Yangon Division	44	45	2,695	4,905
13	Ayeyarwaddy Division	26	26	1,169	4,818
14	Shan (South)	3		10	
15	Shan (North)	2	7	34	78
16	Shan (East)	10	10	196	142
17	Total	201	209	33,124	27,907

Source: MCWA Reports

Table 6. Comparative Microfinance Methodology of Local NGOSs

Key Indicators	Women Entrepreneur Association	YMCA	YWCA	MCWA (through local chapters)
Average Loan Size/Borrower	5,000 kyats	20,000-30,000 kyats	1,000-10,000 kyats	5,000-10,000 kyats
Interest Rate	3% monthly based on declining balance	0%	3-4% monthly	2%
Loan Term	5 months	8 months	6-10 months	1-2 years
Repayment	Monthly	After 6 months (daily)	Monthly	Monthly or end of cycle
Savings	For pilot testing	none	25 kyat/week	Not required
Full time Staff	4	2	Unit	Local committee (no full time staff)

Source: WEA, YMCA, YWCA, MCWA

3.4 Banks/Pawnshops

59. Some private banks in Yangon have expressed an interest to be involved in microfinance projects since they see not only the potentials of microfinance as a new loan product but they also see it as a way to contribute in the poverty alleviation programme of the government.

60. Yoma Bank, First Private Bank and Asia Wealth Bank have expressed interest as a financier of or wholesaler of loans of microfinance operations. In the case of First Private Bank, the condition for its participation in microfinance is a either a collateral or guarantee or cash deposit to be provided by UNDP as security for its loans to microfinance operations. They are all in search of an investment outlet for excess liquidity in the short-term. There is lack of investment opportunities in the traditional credit markets. Some private banks are apparently reluctant to lend to firms in view of high non-performing loans. Hence, their interest in microfinance operations as a potential profit centers for the banks' idle funds.

61. Myanmar Oriental Bank is thinking of providing wholesale lending to MFIs to build its image as a bank with social orientation. MOB is open to the possibility of providing loans with no collateral nor security after it has assessed first the operations and capacities of the MFIs but MOB expects the INGOs to approach the bank formally. This means that MOB and INGOs should discuss areas of collaboration. INGOs can provide the technical assistance while MOB can take care of the credit funds. On the other hand, First Private Bank is also interested to provide microfinance to local NGOs/MFIs but it doubts the viability of these institutions. This is partly due to its lack of familiarity with microfinance operations and the lack of track record of the contemplated local NGOs/MFIs. First Private Bank will give loans to MFIs but it needs collateral as security for those loans.

62. As earlier stated, Kanbawza Bank (KBZ) has already begun pilot testing its own microfinance project in the Dry Zone through linking the qualified CBOs to their bank branch in Kyaukpadaung Township with the assistance of the staff members of the FAO Revolving Fund Project. As discussed earlier, for every one Kyat deposited by the CBO, four Kyats are given as loan to the CBO. The first cycle of this initiative was successful and this has encouraged both the CBOs and Kanbawza Bank to plan the expansion of operations. However, the main issue raised by the Kanbawza Bank is whether the Central Bank of Myanmar will allow private banks to give microfinance loans at unregulated interest rates.

63. Moreover, KBZ Bank does not know whether the Central Bank will allow KBZ to engage in microfinance. The pilot testing of the KBZ in the Delta was done through opening a private account to lend to the FAO Revolving Fund Project's CBOs. This is a personal project of the chairman of the KBZ Bank and not a project of KBZ as an institution. Central Bank is yet to adopt a definitive policy towards MF activities and to allow private banks to get involved in MF projects. If ever it will be allowed to deal with microfinance, KBZ Bank has expressed that it has no systematic HRD programme on microfinance and thus, will need assistance to build its own capabilities.

64. Some pawnshops have also expressed interest in microfinance. There are two types of licensed pawnshops in Myanmar: private and government. The field interviews indicated that it is possible to have both private and government pawnshops in the same townships. The government pawnshops are licensed under the Ministry of Finance. They only accept gold as a form of collateral. The interest rate is 3% per month. The loan has a maturity of 5 months and can be renewed for as long as the client pays the interest rate due during the five-month period. Loans may be renewed up to three times. If principal and interest due are not repaid by due date, the pawnshop sells the gold to cover the unpaid loan. Any excess from the sale proceeds after collecting the principal and interest is given to the borrower.

65. The private pawnshops can be licensed through YCDC, MCDC or Ministry of Border Area Development. Private pawnshops accept gold, properties like buildings, vehicles, and home appliances, among others, as collateral. The interest rates vary from 3 to 6 % per month. The loan has a maturity of 5 months and can also be renewed[7]. Most of the clients of the pawnshops are from the rural areas particularly the farmers. The loan is normally used to purchase production inputs and for home consumption. The average loan amount borrowed from the pawnshops ranges from 5,000 to 10,000 kyats. In Kyaukpadaung, the average loan ranges from 10,000 to 30,000 kyats. Aye Myint Ta Pawnshop in Kalaw on the average gives loans of around 100,000 kyats everyday to 20 to 30 clients. In a month the average loan outstanding is around 2.5 million kyats and for 5 months (one cycle), the average is around 12.5 million kyats. The owner of the pawnshop revealed that he borrows from Yoma Bank at an interest rate of 15% per year and then use the funds to lend to farmers.

[7] Some pawnshops probably do not allow loan renewals. One interviewee pawnshop does not allow loan renewal. At the end of the loan cycle, a client who is unable to repay the loan, will be asked to remit the difference of the market value of the collateral and the sum of the remaining interest plus principal to his creditor pawnshop. The balance, if any, will be kept by the client.

3.5 Cooperative Bank and Cooperatives

66. The Cooperative Bank Yangon was registered under the Myanmar Company Law in 1992. It received a banking license from the Central Bank of Myanmar on 3 August 1992. The Board of Directors is composed of six cooperative societies, one trading company and a director from the Ministry of Cooperatives who is appointed by the Government. The Cooperative Bank now has nine years of commercial banking experience, a medium-size bank owned by 46 shareholders of which 27 are cooperative societies and 19 are private shareholders. The Cooperative Bank lends to cooperative societies and private individuals. The bank also maintains a close working relationship with Asia Wealth Bank and Kanbawza Bank through a client referral system. Loan accounts that are too big for the Bank to handle are referred to either bank. Those banks in turn refer medium-size clients to the Cooperative Bank. The bank claims that it can go into microfinance "provided the State gives it financial backing and a credit guarantee[8]." Twenty percent of its current loan portfolio comprises loans to cooperatives while 80% are loans to private individuals/firms.

67. The cooperative movement in Myanmar originated from the promulgation of India's Co-operative Credit Societies Act in 1904. Primarily it was contemplated as a government-sponsored measure to relieve the agricultural indebtedness of the farmers in Myanmar. The first agricultural credit cooperative society was organised and registered in January 1905 and set up in Myinmu Township, Sagaing Division. As the circumstances in political, economic and social conditions changed, so did the cooperative movement.

68. In 1992, a new cooperative law was enacted, giving wider mandate and freedom to the financial cooperatives. Today, the Ministry of Cooperatives reports that there are 1,942 functioning credit cooperative societies in operation with a total membership of 431,000 individuals. Total amount of savings held was 3,851.14 million kyats and total loan disbursed was 6,336.45 million kyats. Compared to the 1988-89 data, this represents a decrease of 26% in terms of functioning credit societies, 41% decline in membership, but an increase in savings and loan releases by 706% and 1184%, respectively.

69. Table 7 shows the status and trend of primary cooperative societies for the period 1998-2001. Table 8 presents the income, expenditure, profit and loss of primary savings and credit cooperative societies. As of December 2001, the gross income and expenditure

[8] Interview with the Cooperative Bank Yangon, December 06, 2001.

registered was around 661.2 million kyats and 446.7 million kyats, respectively. The reported net profit of 214.5 million kyats in 2001 represents a decrease of 420% from that reported in 1998-1999.

70. The decline in reported membership and net income does not indicate a robust cooperative sector. However, without more data and survey of the reported cooperatives societies, it is difficult to make a definitive statement on their present status and financial performance at this time. The surviving cooperative societies may have a potential role in microfinance if they can develop the discipline and microfinance technology to make them sustainable institutions.

71. This point to the need to conduct a systematic study of credit cooperative societies. Their proximity to the target clientele of microfinance and their being grassroots entities add to their potential as microfinance players in the country. However, because of the information void that is now present, it is to the benefit of the entire country to have that systematic study conducted soon. What is available now in respect to their potential role in microfinance is anecdotal evidence gathered by the authors during their field interviews in the country.

Table 7. Savings and Credit Primary Co-operative Societies, 1988-89 to 2001-02, 3rd quarter December

	Years	No of Societies	No of members in Lakhs	In million kyats		
				Share Contribution	Savings	Loan Amount
1	1988-89	2,641	7.24	19.60	477.55	493.54
2	1989-90	2,372	6.11	15.25	421.98	667.17
3	1990-91	2,372	5.99	15.89	492.77	835.88
4	1991-92	2,374	5.87	15.39	544.47	988.09
5	1992-93	2,346	5.50	19.07	654.69	1,044.50
6	1993-94	2,347	5.52	102.87	655.86	1,283.03
7	1994-95	2,188	5.24	280.53	1,433.66	2,411.38
8	1995-96	2,249	5.05	465.44	918.11	2,690.93
9	1996-97	2,212	4.96	500.35	1,223.83	4,013.48
10	1997-98	2,042	4.24	1,176.89	1,754.74	3,639.59
11	1998-99	2,038	4.18	1,316.56	4,487.88	16,466.93
12	1999-2000	2,098	4.53	1,232.54	3,354.71	9,270.48
13	2000-2001	1,964	4.16	1,104.43	3,696.54	8,483.07
14	2001-2002 Dec	1,942	4.31	1,072.17	3,851.41	6,336.45

Source: A Study on the history of savings and credit cooperative societies in Myanmar, February 2002.

Table 8. Income, Expenditure, Profit and Loss Account of Primary Savings and Credit Cooperative Society Ltd (1998-99 to 2001-2002 Dec)

(kyats in million)

No	Year	Income	Expenditure	Profit and Loss	
				+	-
1	1998-99	1,734.4	619.9	1,114.4	-
2	1999-2000	1,044.5	680.2	364.2	-
3	2000-2001	850.2	655.3	194.8	-
4	2001-2002 (Dec)	661.2	446.7	214.5	-

Source: A Study on the history of savings and credit cooperative societies in Myanmar, February 2002.

72. Field observations in Yangon and Dry Zone indicated the potential of cooperative societies in contributing to microfinance development in Myanmar. For example, a primary society interviewed in Yangon, the Mahadanan primary cooperative is already implementing a microfinance programme but has modified it by using cooperatives principles. At present, the society has around 3,000 members with reported savings deposits of 1,149 million kyats and loan disbursement of 742 million kyats. In the past, the society used to charge interest rate of 5% per month on loans and gives 3% per month on savings. Since the end of 1999, the society has followed the Central Bank regulations that mandated a deposit interest rate of only 10% per annum and annual interest rate of 15% on loans.

73. The society made certain innovations one of which is to use service charges as a cost-recovery mechanism. Thus, its members pay an interest rate of 15% per year plus 21% service fees. It seems that the imposition of a service charge has nothing to do with the government regulation since this is a cooperative society decision adapted by the members. The Central Bank monitors and regulates only the interest rate. Each member can borrow five times his savings but beyond this amount, a member should have a guarantor or collateral. The loan duration is one year. The membership of the society is categorised into three: government workers/staff; pensioners (retired employees); and people working in small/ medium enterprises. The society does not borrow from the banks. It was observed that in Yangon there are about 10 credit societies of this type.

74. It seems that some primary village societies have taken the initiative of mobilising their own savings and re-lending to members at an interest rate ranging from 2 to 4% per month. One primary village society in the Dry Zone was able to borrow from the Cooperative Bank in Yangon and used the loan to on-lend to its members. While the members pay in kind, the

computed interest rate ranges from 3 to 5% per month. The village societies believe that the interest rate they charge is lower than the moneylenders' and thus, the benefit of a lower interest rate accrues to the members themselves.

75. Primary village societies and townships societies are unable to borrow loans from government and private banks. The latter requires collateral that inhibits access to this source of liquidity. For example, interviews revealed that cooperative and primary societies under the Kyanyan Township Cooperative Society could not borrow from government and private banks for lack of collateral. Private banks do not like to lend to cooperatives societies because of their bad experiences in the past. Cooperative societies used to borrow from government banks.

76. As a result, the members of the cooperative society resort to the moneylenders who lend at the rate of 8 to 10% per month. What this implies is that those village societies are not able to raise sufficient liquidity from member deposits. Thus, the inability to meet the liquidity demand of members forces those members to depend on moneylenders for consumption and production inputs.

4. Myanma Agricultural Development Bank and Microfinance

4.1 General Background

77. The Myanma Agricultural Development Bank (MADB) is a state-owned bank established in 1953 as the State Agricultural Bank. From 1970 to 1975, it became the Agricultural Finance Division of the monolithic People's Bank System and was reconstituted as the Myanma Agricultural Bank in 1976. It became the Myanma Agricultural and Rural Development Bank in 1990 and the Myanma Agricultural Development Bank in 1976. MADB has a countrywide network of 15 regional offices and 205 township branches with over 3,000 bank staff members providing banking services to farming communities.

78. It is a state-owned bank organised under the Myanma Agricultural Development Bank Law. The Myanma Companies Act does not apply to MADB. It is exempt from registration and payment of stamp duty and taxes on income or dues and levies related to banking operation. However, by law, MADB remits 75% of its net profits to the Government (Table 9).

79. MADB is audited by the Auditor General and submits an annual report to the Government through the Ministry of Agriculture and Irrigation together with its balance sheet and profit and loss statement certified by the Auditor General. The Board of Directors lay down the rules of operation of the bank, the types of loans, repayment and grace period, eligible clients, investment purpose, interest rate, collateral and guarantee requirement and saving mobilisation. The Central Bank of Myanmar supervised MADB and regulated its interest rate policy until 1996.

Table 9. MADB Income, Expenditure and Net Profit Allocation, 1994-2000

(In million kyats)

Year	Income	Expenditure	Net Profit	Reserve Fund	Contribution to Govt	Balance
1994-95	342.12	124.23	199.86	47	152	0.86
1995-96	724.05	218.99	505.06	126	379	0.06
1996-97	981.41	342.23	639.18	159	480	0.18
1997-98	968.23	382.37	585.86	146	439	0.86
1998-99	1,400.88	652.78	748.10	187	561	0.10
1999-2000	1,361.92	713.95	647.97	161	486	0.97

Source: Myanma Agricultural Development Bank

80. MADB's authorised capital is Ks 100 million of which Ks 60 million has been paid up by the Government. A Reserve Fund was also set-up with an initial contribution of Ks 20 million by the Government[9]. As of March 31, 2000, the Reserve Fund was Ks 444 million[10]. This came from transfers from the Bank's profits.

4.2 Sources of Funds

81. MADB's loanable funds come from (i) short-term borrowings from the Central Bank of Myanmar (63% of total sources), which carries an interest rate of 10%; (ii) savings deposits of farmers and rural population (28%); (iii) capital and reserve fund (8%) and (iv) special fund account from the Government (0.8%).

82. Borrowings from the Central Bank of Myanmar (CBM) are subject to a ceiling of Ks 10 billion per year. As of 31 March 2000, CBM borrowings stood at Ks 5.75 billion. In the same year, the special fund account was Ks 95.73 million in the same year. The special fund account is for loans under the Programme for Development of Border Areas and National Races[11]. A rural savings programme was launched in October 1993 to mobilise more savings from farmers and rural population. Savings deposits earn an interest rate of 9%. Savers can borrow farm development loans up to 4 or 5 times their savings. The loans can be used to purchase power tillers and pump-sets. Loans carry a maturity of 4 to 5 years. As of November 2001, there are about 2.07 million savings deposit accounts with total savings deposit of about Ks 2.998 billion. The average amount of savings is around Ks 5,000[12].

4.3 Focus on Agriculture

83. The main aim of the Bank is to support the development of agricultural, livestock and rural socioeconomic enterprises in the country by providing banking services[13]. Myanmar has total cultivable land of 45 million acres only 25 million of which are currently under

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9 Performance Profile of Myanma Agricultural Development Bank, Ministry of Agriculture and Irrigation, Myanma Agricultural Development Bank, March 2000

10 Myanma Agricultural Development Bank Balance Sheet as at 31-3-2000.

11 Performance Profile of Myanma Agricultural Development Bank, Ministry of Agriculture and Irrigation, Myanma Agricultural Development Bank, March 2000.

12 Performance Profile of Myanma Agricultural Development Bank, Ministry of Agriculture and Irrigation, Myanma Agricultural Development Bank, 4 December 2001.

13 Performance Profile of MADB, Ministry of Agriculture and Irrigation, Myanma Agricultural Development Bank, 4 December 2001.

cultivation. About 75% of the population of 51 million people is in the rural areas where agriculture and agriculture-related activities are the main occupations. The agriculture sector contributes 34% of Gross Domestic Product, 23% of total export earnings and employs 63% of the country's labour force.

84. Although there is a lot of private banks and state-owned banks, MADB is still the only major source of institutional credit for small-scale farmers in terms of scale, coverage and accessibility. Due to the ever-growing demand for seasonal credit to boost output of paddy and export crops such as oilseeds, beans, pulses and industrial crops such as cotton and sugarcane, funding priority will continue to be given to farmers over non-farmers in the foreseeable future[14].

4.4 Lending Policies and Procedures

85. Its credit thrusts are geared towards crop production and farm investment. For seasonal loans, farmers have to form groups of 5 to 10 members and accept liability for their own individual loans as well as for the loans of other members of the group. No other collateral is necessary because in Myanmar all farmlands are owned by the State and cannot be offered as collateral for loans. For term loans, MADB Law requires a security consisting of a pledge of savings deposits, cattle, farm machineries or implements bought with the loan proceeds, and two reliable personal sureties[15].

86. A village loan screening committee chaired by the village administrative chief and composed of village level staff of the Land Records Department and the Agricultural Extension Service and a farmers' representative (the committee secretary) certifies the borrower's name, the size of the farm,[16] the kind of crop to be planted and the amount of the proposed loan. All loans are processed at MADB's township branches and the branch manager gives the loan sanction after working out the demand, need and repaying capacity of each and every farmer.

87. The manager is responsible for full recovery of all loans with due interest at harvest time. In case of delay, he can ask for the village loan screening committee's help. In case of loan

[14] Agricultural Credit Policy and Operations, Ministry of Agriculture and Irrigation, Myanma Agricultural Development Bank, 27 October 2001.

[15] Agricultural Credit Policy and Operations, Ministry of Agriculture and Irrigation, Myanma Agricultural Development Bank, 27 October 2000.

[16] The average farm size is 10 to 15 acres.

default. MADB is empowered to recover those loans as if they were arrears of Land Revenue. Enforcement of the law on loan recovery is also an important factor in ensuring loan repayment. MADB can attach movable and immovable property for non-repayment of loans.

88. It is currently giving loans directly to farmers after it decided to forego village banking in 1998. It uses group liability as security for the loan and has experienced very good loan recovery since then. The loans range in size from Ks 5,000 to Ks 25,000 according to sown crop acreage and the repayment capacity of the farmer borrowers.

4.5 Regulated Interest Rate Policy

89. MADB is neither regulated nor supervised by the Central Bank of Myanmar (CBM) but being a state-owned bank, it follows the interest rate policy of CBM. The Ministry of Agriculture and Irrigation, the chair of MADB, is empowered by MADB Law to determine its interest rate. However, in practice MADB has always followed the interest rate policy set by the Central Bank of Myanmar. CBM lends to MADB at 10% and MADB on-lends to its borrowers at 15% per annum. Interest rate paid on depositors is currently 9%.

4.6 Loan Portfolio Performance[17]

90. The loan portfolio consists of three types of loans. The first is seasonal crop production loans for one year that are provided to various types of crops in 3 separate seasons: pre-monsoon, monsoon and winter. The loans are for the cultivation of 9 main crops such as paddy, groundnut, sesame, mustard, corn, peas and beans, sugarcane, jute and long staple corn. During the financial year 2000-2001, Ks 9.91 billion were disbursed for monsoon crops, Ks 2.05 billion for winter crops and Ks 159 million for pre-monsoon crops. The loan recovery rates are 100% for monsoon loans, 99.83% for winter loans and 100% for pre-monsoon loans.

91. The second type of loan is the term loan for farm development and investment. There are two types of term loan: (i) short term up to 4 years and (ii) long term from 5 to 20 years. This loan is for the purchase of farm implements, pump sets, power tillers, draught cattle,

[17] Drawn from Performance Profile of Myanma Agricultural Development Bank, Ministry of Agriculture and Irrigation, Myanma Agricultural Development Bank, 4 December 2001.