# Background Paper No. 3
# Rural Finance in Myanmar[1]

by


**Renate Kloeppinger-Todd**
**and**
**Tun Min Sandar**


**July 2013**

[1] This background paper was commissioned as part of a Strategic Agricultural Sector and Food Security Diagnostic for Myanmar, led by Michigan State University and in partnership with the Myanmar Development Resource Institute - Centre for Economic and Social Development (MDRI-CESD)

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Kloeppinger-Todd is a former senior adviser for Rural Finance, The World Bank and Sandar is a researcher at the Myanmar Resources Development Institute (MDRI), Yangon.

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## EXECUTIVE SUMMARY

Rural and agricultural finance in Myanmar at this time in its development represent many profound challenges but also a great opportunity. By using a comprehensive instead of a piecemeal approach and learning from the experiences in other countries Myanmar might well be able to shorten the time it takes to develop an efficient rural finance system. In this case the country would not have to go through the rather painful trial and error processes experienced elsewhere, sometimes with little success.

Myanmar's financial sector and banking system are small and quite underdeveloped. It is estimated that only about 10% of the population have access to formal financial services, with a much lower ratio in rural areas. There are four state-owned banks, seven semi-government and local Government-owned banks and twelve private banks, some of them quite recently created at the request of Government. Foreign banks are at present not allowed to operate in Myanmar or to engage in joint ventures with local banks. However, major regional banks and two Western banks (ANZ and Standard Chartered) have already set up representative offices or are in the process of doing so, with a view towards engaging in banking services once foreign ownership of financial institutions is allowed. In international banking, the opening of a representative office is not equivalent to beginning normal investment or commercial banking operations. The next stage for the international players will be to seek full branch licenses, a process in which the banks' enthusiasm is running ahead of the current status of legislation. New International Monetary Fund (IMF)-sponsored banking laws are due to be discussed by the Myanmar legislature next year, but the process of obtaining such a license could take months if not years.

Surprisingly, there are quite a large number of institutions providing microfinance in Myanmar. Most of them are small and of the Non-Governmental Organization (NGO)-type and were created and are supported by donors. The larger ones, especially the United Nations Development Program (UNDP)-initiated and supported PACT, do have the potential to develop into significant sustainable, possibly even nation-wide institutions. There will also be several new entrants into the microfinance field. The German Savings Bank Foundation is working with the Center for Agriculture and Rural Development (CARD) and local partners to open two microfinance banks. The International Finance Corporation (IFC) is supporting Acleda Bank of Cambodia in opening a microfinance bank in Myanmar. There will also be several green-field microfinance institutions sponsored by the Livelihoods and Food Security Trust Fund (LIFT). These new institutions will definitely have a major impact on microfinance in the country though it is not clear if and how much they will become active in rural areas and in financing agricultural activities.

Myanmar's formal rural financial sector is even less developed than the financial sector in general, and access to agricultural production credit from formal sources is nearly non-existent. Larger trading companies and processors report having access to some credit through bank branches of commercial banks in Township centers. However, formal credit is not sufficiently available to almost any farmer, let alone smallholder farmers. While the agricultural sector in Myanmar represents 43% of the Gross Domestic Product (GDP) and employs 54% of the population, only about 2.5% of all outstanding loans are made to this sector.

The Myanmar Agriculture Development Bank (MADB) is the only major financial institution that operates in rural space. MADB is the second largest financial institution in Myanmar by branches (205) and the largest by assets and loans. Its maximum credit amount for paddy production is 50,000 Kyats per acre and is limited to ten acres per farmer. It covers about 25-50% of the overall financing needs per acre at a rate of 8% per annum (p.a.) The balance is primarily financed through informal loans carrying an interest rate between 5 to 10% per month. The Myanmar Government seems to be aware of the lack of affordable financing. Plans are underway to increase loan sizes.[2]

The level of monetary savings in Myanmar is relatively low and there is little knowledge about the demand for savings in the overall population, and in rural areas in particular. Savings products do not seem to be attractive to clients of financial institutions and they are also not attractive to the institutions, for a variety of reasons. High transaction costs, especially in rural areas, and a minimum interest rate on deposits of currently 10% p.a. have been mentioned by Microfinance Institutions (MFIs). The availability of less expensive funding from donors is also certainly not an incentive to promote savings. Donors might want to rethink their potential involvement in providing funds for on-lending in favor of technical assistance and training so that MFIs can become more efficient (and less expensive) in providing their financial services, including for savings.

Transfer and payment services are a potentially promising business area for financial institutions but the required technological infrastructure is not yet there. The potential for money transfer via mobile telephones (m-banking) is currently limited due to the low level of cell phone coverage and the high cost of cell phone usage. However, this could change quickly.

As has been experienced by a number of countries that opened up for development after a prolonged period of being closed to the outside, there is the distinct possibility that Myanmar could become a *donor darling* and an object of speculation for foreign investors. For agriculture development it could mean that the majority of commercial banks, even if an enabling environment is created, would orient their financing to, for example, mining or gas ventures and construction of residential condos, hotels and office buildings that are deemed to be less risky and to present a faster pay-off than financing for agriculture. Such a boom could result in significant rural to urban migration with a host of follow-on problems. Creating employment and entrepreneurship opportunities in the country-side and financing for them in rural areas could be a mitigant.

Farmer indebtedness is a serious problem in Myanmar and the number of landless farm households is increasing. Working capital finance for farmers is exceedingly expensive except for the rather small amounts provided by the MADB and bad harvests can mean that farmers need to sell their land to satisfy loan repayments, becoming casual laborers instead.

There is a serious lack of financing for equipment. There are also very few storage facilities in villages that would allow farmers to store paddy and sell it later, hopefully at a higher price than right after harvest, nor are there lenders that would provide credit using the stored harvest as collateral.

In order to solve the shortcomings of Myanmar's rural finance system a comprehensive and multi-pronged approach is suggested. The following recommendations aim to address both the lack of financing for agricultural growth and the high level of indebtedness in rural areas. While most activities will require a long-term approach there are some short-term benefits to

[2] On January 17, 2013 there was an article in the Irrawaddy News regarding an announcement of Myanmar's Ministry of Agriculture and Irrigation about a planned increase in loan sizes to farmers. However, it is not yet known when and how this will be implemented.

be had as well. Table five indicates which agencies would have a comparative advantage in taking on sponsorship of individual activities.

A. Long Game – more than three years:

1) Explore the possibility to require commercial banks to dedicate a percentage of their loan portfolio to agricultural loans. This could already have short-term results;
2) Explore the possibility to restructure or reform MADB to become a commercially managed and sustainable bank. Some short-term results are possible as well;
3) Support the start-up and development of savings-based community financial institutions in remoter rural areas to address over-indebtedness; and
4) Support the government in developing an enabling framework for the financial sector.

B. Short Game – benefits to be expected within 2-3 years:

1) Allow commercial banks to undertake agricultural lending and assist them in developing respective capabilities, if necessary;
2) Enable MFIs to extend their services further into rural areas and to develop agriculture finance products, including inventory credit;
3) Promote the set-up of leasing companies or leasing subsidiaries of existing financial institutions; and
4) Explore the potential for setting up providers of non-financial services to farmers.

C. Recommendations regarding technology-driven innovations:

1) M-banking: Undertake preparatory work in setting up the enabling regulatory and licensing framework for m-banking. Determine and establish the possible partnership arrangements so that m-banking can be implemented fairly quickly once the technological and cost obstacles are overcome; and
2) International Remittances: Support the ongoing effort to enable efficient and cost-effective inward international remittances. They represent an interesting business proposal for Myanmar banks, given that an estimated 7 million Myanmar citizens live outside the country. No further information is available as to the level and distribution of remittances within the whole country or individual States.

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## ACRONYMS

| | |
|---|---|
| ADB | Asian Development Bank |
| ADCs | Agricultural Development Companies |
| AMDA | Association of Medical Doctors of Asia |
| APRACA | Asia-Pacific Rural and Agricultural Credit Association |
| BAAC | Bank for Agriculture and Agricultural Cooperatives |
| CARD | Center for Agriculture and Rural Development |
| CBFI | Community-Based Financial Institution |
| CESD | Centre for Economic and Social Development |
| CGAP | Consultative Group to Assist the Poor |
| DfID | Department for International Development |
| GDP | Gross Domestic Product |
| GRET | Group de Recherche et d'Echange (Group For Research and Technology Exchanges) |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| LIFT | Livelihoods and Food Security Trust Fund |
| MADB | Myanmar Agricultural Development Bank |
| M-Banking | Mobile (cell phone-based) banking |
| MFIs | Microfinance Institutions |
| MDRI | Myanmar Development Research Institute |
| MOAI | Ministry of Agriculture and Irrigation |
| MSU | Michigan State University |
| NGO | Non-Governmental Organization |
| NMB | National Microfinance Bank |
| p.a. | per annum |
| RIAS | Rabobank International Advisory Services |
| SBFIC | German Savings Bank Foundation for International Cooperation |
| SERP | Society for the Elimination of Rural Poverty |
| SHG | Self-Help Group |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication |
| TA | Technical Assistance |
| UNDP | United Nations Development Program |
| USAID | United States Agency for International Development |
| VSLAs | Village Savings and Loan Associations |
| World Bank-ARD | World Bank Agriculture and Rural Development Department |

## 1. MISSION BACKGROUND

This background paper is part of the overall diagnostic review of agriculture and food security in Myanmar, undertaken by Michigan State University on behalf of the United States Agency for International Development (USAID), in partnership with the Myanmar Development Resource Institute (MDRI). International experience and anecdotal evidence had pointed out that lack of access to financial services, on a sustainable and affordable basis, is one of the major constraints in agriculture development world-wide and in Myanmar. The goal of this background paper is to outline constraints, major issues, and opportunities in rural finance and to make preliminary recommendations towards a possible way forward.

In order to collect relevant information the mission met with government (deputy minister of finance, local government in Mandalay) and donors and NGOs who are active in the field. It also conducted a field visit to the Mandalay and Sagaing regions and visited villages in the Pyin U Lwin and Kyaukme (Shan State) townships. Unfortunately, it was not possible to meet with representatives of the Central Bank and the Cooperative Bank. The team was also unable to schedule visits to Myanmar Agriculture Development Bank (MADB) branches or to set up a meeting at the MADB headquarters. Especially recommendations regarding MADB should therefore be underpinned with further research before being seriously considered for implementation.

The team acknowledges that the time spent in-country, and especially in townships and villages, was quite short and geographically limited. Further work needs to be undertaken in this regard. While the findings are, therefore, preliminary, the team feels confident that they point in the right direction.

Rural and agricultural finance in Burma at this time in its development represent many profound challenges but also a great opportunity. By using a comprehensive instead of a piecemeal approach and learning from the experiences in other countries Myanmar might well be able to shorten the time it takes to develop an efficient rural finance system and might not have to go through the rather painful trial and error processes experienced elsewhere, sometimes with little success.

## 2. FINANCIAL SECTOR OVERVIEW

### 2.1. Commercial Banks

Myanmar's financial sector and banking system are small and quite underdeveloped. The low outstanding loans to GDP ratio of 4.7% (20.1 for Cambodia, 111.6 for Vietnam and 131.9 for Thailand), a key ratio in determining access to finance, demonstrates this fact (World Bank 2012). It is estimated that only about 10% of the population have access to formal financial services, with a much lower ratio in rural areas. Highly restrictive legislation further limits the existing financial institutions in providing demand-appropriate financial products and services. Limitations on interest rates for loans and deposits render the traditional banking business of taking deposits and providing credit rather unattractive so that banks focus on transaction services (remittances, current accounts, etc.)

Foreign banks are at present not allowed to operate in Myanmar or to engage in joint ventures with local banks. However, major regional banks and two Western banks (ANZ and Standard Chartered) have already set up representative offices or are in the process of doing so, with a view towards engaging in banking services once foreign ownership of financial institutions is allowed. In international banking, the opening of a representative office is not equivalent to beginning normal investment or commercial banking operations. The next stage for the international players will be to seek full branch licenses, a process in which the banks' enthusiasm is running ahead of the current status of legislation. New IMF-sponsored banking laws are due to be discussed by the Myanmar legislature next year, but the process of obtaining such a license could take months if not years (Parker 2012).

**Table 1. Myanmar's Commercial Banks**

| State-Owned Banks | Semi and Local Government Owned Banks | Private Banks |
|---|---|---|
| Myanmar Economic Bank | Myawaddy Bank | Kanbawza Bank |
| Myanmar Investment and Commercial Bank | Innwa Bank | Yoma Bank |
| Myanmar Foreign Trade Bank | Myanmar Industrial Development Bank | First Private Bank |
| Myanmar Agricultural Development Bank | Myanmar Fisheries and Livestock Development Bank | Asia Green Development Bank |
| | Sibin Thayaryay Bank | Ayeyarwady Bank |
| | Yadanabon Bank | Myanmar Apex Bank |
| | Yangon City Bank | Myanmar Citizens Bank |
| | | United Amara Bank |
| | | Tun Foundation Bank |
| | | Co-operative Bank (CB) |
| | | Myanmar Oriental Bank |
| | | Asian Yangon International Bank |

Source: Turnell 2012.

Myanmar has a ratio of bank branches per 1,000 km of 0.05. The equivalent ratios for Cambodia (2.2), the Philippines (27.7), Thailand (11.6) and Vietnam (7.0) indicate that Myanmar is quite under-banked (Turnell 2012). Given that most banks are headquartered in Yangon and have little outreach beyond the major towns, the situation in rural areas is stark.

A significant proportion of Myanmar citizens live outside the country (about 7 million, primarily in Malaysia, Thailand, and Singapore). International remittances could, therefore, represent an interesting business proposal for commercial banks, even though the payment system is quite inefficient and costly. Efforts are underway to introduce an inter-bank payment system, to establish arrangements with regional banks where there are a significant number of Myanmar citizens and to become associated with the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system for international payments. However, it is not known how advanced the SWIFT connection is at this time. In any case, these efforts are not expected to result in a major outreach into rural areas.

### 2.2. Microfinance

There are quite a large number of institutions providing microfinance in Myanmar. However, most of them are small and of the NGO-type and were created and are supported by donors. The larger ones, especially the UNDP-initiated and supported PACT, do have the potential though to develop into significant sustainable, possibly even nation-wide institutions.

**Table 2. Major Microfinance Schemes in Myanmar**

| Organization | Estimated # of borrowers | Aggregate Loan Portfolio | Geographic Coverage | Lending methodology |
|---|---|---|---|---|
| PACT (UNDP) | 400,000 | $55,000,000 | Ayerawaddy Delta, Dry Zone (Mandalay), Shan State | Peer Group Lending |
| PACT (non-UNDP) | 50,000 | $2,000,000 | Magway | Peer Group Lending |
| Save the Children (DAWN) | 20,000 | $500,000 | Yangon Division, | Peer Group Lending |
| World Vision | 10,000 | $1,000,000 | Yangon, Mandalay, Ayerwaddy Divisions, Shan, Karen and Mon States | Peer Group Lending |
| Proximity Design[3] | 16,000 | 2,964,000 | | Peer Group Lending |
| Group de Recherché et d'Echange (GRET) | 5,500 | $500,000 | Chin State | Village Credit |
| AMDA [4] | 2,000 | $100,000 | Mandalay Division | Peer Group Lending |

Source: Turnell 2012.

[3] Information from: CGAP and IFC – Microfinance in Myanmar – Rapid Sector Assessment, October 2012, not verified.

[4] The Association of Medical Doctors of Asia (AMDA) is an international NGO from Japan. Its focus is clearly on health issues, but it operates a number of small scale microfinance schemes around the region. In Myanmar the microfinance operation is aligned with a small health insurance scheme.

There are also cooperatives and their networks that primarily focus on deposit mobilization and micro loans in urban areas. The entire cooperative sector as of March 2012 was composed of one apex, 20 unions, 461 federations, and 10,751 primary societies (of which 142 are financial cooperatives). However, the other cooperatives are also involved in providing some kind of financial services (CGAP and IFC 2012). Given the top down approach under the former regime, where cooperatives were basically a tool for government influence-taking with the resultant baggage, and the short mission time, the mission team did not investigate further the potential of these cooperatives to transform into independent and sustainable rural financial institutions. It might be worthwhile to do this as a next step, in order not to leave any stone unturned.

The microfinance landscape is bound to change with the ongoing and anticipated entry of international new players. Two MFIs are being created by the German Savings Bank Foundation for International Cooperation (SBFIC) and the Philippine Center for Agriculture and Rural Development (CARD) and are now in their pilot phase.[5] Neither of those MFIs is focused on rural areas. However their sponsors have significant experience in rural microfinance and might support the entry into rural markets at a later stage.

The multi-donor trust fund LIFT, working with the well-known United Nations Capital Development Fund -supported Micro-Lead program, has put out a request for proposals for international microfinance networks to start and operate Greenfield microfinance institutions in Myanmar. In addition, IFC has received Board approval to financially support the entry of Cambodia's leading microfinance bank (Acleda Bank) into Myanmar. The efforts are expected to significantly change the microfinance landscape in Myanmar.

### 2.3. Insurance

There is only one state-owned insurance company in Myanmar. However, following a call for applications, licenses to enter the insurance market have been approved for twelve applicants. It is not yet known which fields of insurance these companies might enter into or if they indeed intend to follow up on their applications.

[5] See Publication: Sparkassenstiftung fuer international Kooperation, Projektaktivitaeten in Myanmar, November 2012

## 3. RURAL FINANCE LANDSCAPE

Myanmar's formal rural financial sector is undeveloped, and access to agricultural production credit is nearly non-existent. Larger trading companies and processors report having access to some credit through bank branches of commercial banks in township centers. However, formal credit is not sufficiently available to almost any farmer, let alone smallholder farmers. While the agricultural sector in Myanmar represents 43% of GDP and employs 54% of the population, only about 2.5% of all outstanding loans are made to this sector (World Bank 2012).

### 3.1. Myanmar Agriculture Development Bank

The Myanmar Agriculture Development Bank (MADB) is the only major financial institution that operates in rural space. It is owned and supervised by the Ministry of Agriculture and Irrigation (MOAI) and has the mandate to support the development of agriculture, livestock, and rural enterprises. MADB is the second largest financial institution in Myanmar by branches (205) and the largest by assets and loans. In the past MADB had grown into a country-wide network with 11,200 village banks established in the village tracts. However, in 2007 the village banks were withdrawn and at present only township branches offer loan and savings services (O'Brien 2012).

### 3.2. Specialized Agricultural Development Companies

In 2009 agricultural trading, processing and milling firms were encouraged to establish Agricultural Development Companies (ADCs) to lend to farmers. These companies are typically owned by a few Yangon companies with export experiences and by local large traders and millers in the respective townships. They are tasked with providing agriculture input loans that are often tied to supply and buy-back arrangements. Reportedly, some bad harvests and unprofessional credit management resulted in large-scale defaults. It is estimated that 80% of the ADCs have stopped lending (ibid). Inquiries during the team's field visit to various villages did not turn up any mention of significant ADC lending activities[6].

Some villagers reported input financing arrangements with individual local larger traders but these seem to be far and between and on rather onerous terms.

### 3.3. Informal Lenders

Informal credit is the last and often only resource available to farmers in rural areas. It comes from a variety of sources in a village: families, friends, larger farmers, millers, pawnshops, and others. It is available fast and when needed and mostly without the rather onerous collateral requirements of the MADB. However, lending is at such a high cost that it renders farming unprofitable for many farmers without own capital, see Table 4.

[6] One trader mentioned that in the past there were loans from rice specialization companies but that these are no longer available.

### 3.4. Lenders and Their Credit Terms

Table 3 gives an overview of agricultural lenders and the terms of lending encountered during the field visits to seven villages, and to the commodity exchanges in Mandalay and Moneywa. The information is based on discussions with farmers, traders, and millers and has not been verified. It is meant to give a first impression and is not to be taken as representative for all regions and States of Myanmar or even of what takes place in other villages of the regions visited.

Lending rate of 13-18% for the best and thus lowest-risk customers appear to be the most market-appropriate, based on a cost of funds of about 10% for deposits and transaction costs of between 3-8%. Microfinance institutions are allowed to charge up to 30% to allow for higher transaction costs. Any rate below 13%, as charged by some government-owned banks, includes subsidy elements and has resulted in credit-rationing. Conversely, the existence of extremely high rates charged by informal lenders indicates a severe lack of competition from more formal sources.

### 3.5. Savings

The level of monetary saving in Myanmar is relatively low and more research is needed to determine the demand for savings in the overall population and in rural areas in particular. While in many other countries micro-savings are one of the cornerstones of microfinance and households manage their finances through a mixture of savings and credit from a variety of sources, this does not seem to be the case in Myanmar. Savings products do not seem to be attractive to clients of financial institutions and they are also not attractive to the institutions, for a variety of reasons. High transaction costs, especially in rural areas, and a minimum interest rate on deposits of currently 10% p.a. have been mentioned by MFIs. The availability of less expensive funding from donors is also certainly not an incentive to promote savings. Donors might want to rethink their potential involvement in providing funds for on-lending in favor of technical assistance and training so that MFIs can become more efficient (and less expensive) in providing their financial services, including for savings.

During the discussions in different villages, the point was always made by attending farmers that there is little demand for savings. It should be noted that the attending farmers were in most cases all men. The few attending women did not participate in the discussions. The mission team did not schedule separate meetings with village women who in other countries are the majority of microfinance clients and who use savings services extensively. This was an oversight and subsequent field visits should include separate meetings with women, in order to get a clearer picture for the demand for savings on the village level.

In two villages the mission team encountered functioning membership-based village funds that require mandatory savings and that make relatively low interest (4% per month) loans to their members. These examples demonstrate that it is indeed possible to set up savings-based community-owned financial organizations. The funds appear to be thriving and are seen as something very special. It was pointed out to the mission team that surrounding villages had similar funds at some time in the past but those all disappeared. Further research into what led to the demise of the other funds and to the survival of those two funds might provide interesting input into some donors program, including the proposed program supported by LIFT to set up Village Savings and Loan Associations (VSLAs) in one region of Myanmar.

**Table 3. Lending Rates for Agricultural Production (Paddy) in Villages Visited by the Mission**

| Institution | Lending rates | Other costs to farmers | Collateral requirements | Type of loans<br>Other issues or benefits |
|---|---|---|---|---|
| MADB | 8.0% p.a.<br><br>8.5% p.a. | Repeat visits to township center = transportation and time costs | Fully secured by land<br><br>All loans from MADB are group loans and fully guaranteed by all members of the loan group of 7-10 farmers. In case of a default of one borrower the whole village will be blacklisted<br><br>Land and equipment plus group guarantees | Paddy loans, max 50,000/acre for up to 10 acres = about 25-50% of costs of required inputs for paddy cultivation;<br>Summer crops (beans and pulses), max 10,000, if at all; loans above for six months only<br><br>Collection rigorously enforced, no re-scheduling<br><br>Equipment loans, for up to three years. |
| Commercial banks | 13% -3o-% p.a. | For traders only to on-lend to farmers or to pay for purchases; Not available for farmers directly | 30-50% collateral if very good credit history | 1-3 year loans, there is competition among commercial banks |
| Myanmar Investment and Commercial Bank | 8% p.a. | Only available to larger millers and other processors | Collateralized by equipment and other assets | Equipment loans;<br>high collateral requirements |
| Traders and input providers, ADCs | 3% - 5% % per month = 27-60% p.a. | Farmers need to sell to the lending traders, might receive a lower price = possibility of side-selling | Agreement to sell to lending trader only | For inputs only, no financing for other pre-harvest expenses. |

| | | | | |
|---|---|---|---|---|
| Microfinance institutions | 2.5% per month = 30% p .a the legal maximum | Weekly or bi-weekly meetings; various fees can be added on | Social collateral | Often inflexible and not based on farming cycle; repayments strictly enforced; no restructuring |
| Informal lenders in the villages | 5% - 10% per month, 20% was mentioned in one village = 60-120% p.a. | None | None, flexible loan amounts and fast processes | Rigorous collection; can result in asset depletion and loss of land |
| Pawnshops | 5%-8% per month = 60-96% p.a. | None | Gold and other assets, if available | Rigorous collection; can result in loss of pledged assets |
| Village funds and VSLAs | 4% per month = 48% p.a. | Regular savings, loans only to members | Collateralized by membership shares and savings | Requires membership and participation in the regular savings program; It might be difficult to withdraw savings when they are needed. |

Source: Author.

**Table 4. Examples of Financing Costs of Paddy Production per Acre from Two Villages**[7]

| **Village 1**<br><br>**Use of fertilizer, commercially available seeds** | **Volume and terms of credit** | **Cost of credit for six months** | | **Village 2**<br><br>**Little use of fertilizer, local seeds** | **Cost of credit for six months** |
|---|---|---|---|---|---|
| Cost of paddy production per acre;<br><br>financing needed for six months from input purchase to receipt of sales proceeds | 300,000 | | | 250,000 | |
| MADB | 50,000, 8% p.a. | 4,000 | | | 4,000 |
| Village fund | 50,000<br>4% per month | 12,000 | | | |
| Informal village sources | 200,000<br>6-10% per month;<br>Assume 7% flat | 84,000 | | 200,000<br>6-10% per month;<br>Assume 7% flat | 84,000 |
| Total cost of loans | | 100,000 | | | 88,000 |
| Principle | | 300,000 | | | 250,000 |
| Total expenses excluding family labor | | 400,000 | | | 396,000 |
| Average paddy output per acre in baskets | 90 | | | 60 | |
| Price per basket | 3,600 | | | 3,600 | |
| Total income from paddy sale | 324,000 | | | 216,000 | |
| Profit/loss to farm household | (76,000) | | | (180,000) | |

Source: Author.

### 3.6. Transfer and Payment Services

As can be expected, given the low outreach of formal financial institutions into rural areas, a formal money transfer system is non-existing. As is the case in many countries there is reportedly an informal remittance market. The so-called hundys are assumed to cover the whole country including rural areas and to also provide services for inward international remittances. Due to the short mission period the team was unable to ascertain costs, availability, and efficiency of the hundys. Since a mobile phone-based money transfer system

[7] Assumes yield of 90 baskets/acre for Village 1 and 60 baskets/acre for Village 2. The average farmgate paddy price for emata varieties in 2011/2012 was 3,600 Kyats per basket for monsoon crops.

a la M-Pesa might be considered once Myanmar's mobile telephone market develops further, an analysis of the hundy system could provide interesting competitive data.

### 3.7. Insurance

No insurance is available at this time in rural areas and for farmers. Some MFIs offer a self-insured fund, funded from a portion of the interest from each loan. The coverage is for expenses related to the death of the MFI client, sometimes also the death of family members.

Agriculture insurance products such as insurance against weather-related events might be in high demand if available at a reasonable cost. Over and over again bad weather (too little or too much rain or rain at the wrong time) was cited as reason for the inability to repay loans from the proceeds of the harvest, resulting in the need to sell land.

## 4. PRELIMINARY FINDINGS – MAJOR ISSUES

### 4.1. Danger of a *Gold Rush*

As has been experienced by a number of countries that opened up for development after a prolonged period of being closed to the outside, there is the distinct possibility that Myanmar could become a *donor darling* and an object of speculation for foreign investors. Examples of such countries are Uganda, Ghana, possibly Cambodia, and a number of others. The negative effects of such an intrinsically positive development could be an influx of money that the country is ill-suited to utilize properly and that might crowd out better development potential, increase prices, and lead to a competition for the few highly trained local experts. For financial sector development, this could mean that easy money in the form of grants or credit-lines hinder a savings-led microfinance development and provide disincentives for fast institutional development of MFIs.

For agriculture development it could mean that the majority of commercial banks would orient their financing to, for example, mining or gas ventures and construction of residential condos, hotels and office buildings that are deemed to be less risky and to present a faster pay-off than financing for agriculture. The risk difference might only be a perception and not the reality but the results are the same. It will lead to a big gap in the funding requirements for agricultural production that governments alone are rarely able to fill. This development has been seen in many countries and government would be well-advised to address this issue before it becomes acute and there is no longer the political will or ability to take certain measures.

### 4.2. Farmer Over-indebtedness

While most farmers in developing countries and quite a number in developed countries are in debt and are unable to make a decent livelihood after meeting all their obligations, the situation in Myanmar is significantly worse. Just looking at the low percentage of input costs that can be financed from MADB as the only formal financial institutional source and at the very high costs of financing *from the outside* for the remaining expenses since most farmers do not have their own capital, one recognizes that this must lead to losses in bad years for smallholder farmers, even if the costs of family labor is not counted. Exceptional harvests in good years cannot always make up for losses in other years. Given the huge consequences of defaulting on loans granted by the MADB or by lenders from the outside default is not seen as an option.

In the seven village meetings conducted by the team the issue of increasing indebtedness for farm families was one of the major ones. Farmers who are unable to repay their loans on time and in full, are forced to sell their land to richer farmers in the village and then become casual laborers, thus increasing the pool of landless farmers.[8] Landless farmers (men and women) take on seasonal construction jobs or migrate to nearby cities and neighboring countries.[9] In one village, recruiters from a foreign owned gold mine in Kachin State picked up landless young men for work in their mines, at such low pay and very hard terms that the majority of them returned after only months away, many ill with malaria. None of the villages reported a

[8] Landlessness is a serious problem in Myanmar. It is estimated that nationally the landless population ranges from 35- 53% of the overall rural population (Woods 2012).

[9] One village reported that they used to have about 300 farmers with landholdings and that they are now down 100 farm families still owning their own land.

significant inflow of remittances, either from abroad or from the cities where landless people moved to. This could be because the emigrants do not receive high enough wages to send money back home, or because there is no secure and inexpensive way to send money into villages. Further research is required to analyze the underlying facts and to determine if increased inflows of remittances are possible and could contribute to lower indebtedness of farm families.

### 4.3. Financial Need of Farmers and Rural Populations not Engaged in Primary Agriculture

The demands for financial services in rural areas are diverse and can be addressed through a variety of institutions and products. One of the most important considerations concerning the demand for credit is the ability to repay. Providing credit to poor rural people for consumption purposes without a corresponding ability to repay will lead the deeper impoverishment. Financing needs for food, unless it is only short-term and there is the ability to repay from other sources, should be addressed through other policy measures than the provision of credit. Table 5 summarizes the different demands for financial services according to international experience and also as seen in Myanmar during the field visits.

### 4.4. Financial System is not Functioning as Appropriate

In many developing countries the financial system does not fulfill its function to efficiently allocate capital from those who have it (savers) to those who need it (creditors). In Myanmar the situation is worse because not only do the banks not collect many deposits and make loans, but they are more or less prevented to do so by a very difficult legal framework with onerous requirements, lack of accepted land and real estate registry, and no *other* property registry. Banking and credit skills are also sorely lacking as are the tools necessary to modern banking, and including microfinance where those skills are slowly being built up.

In rural areas and for financing of primary agriculture the situation is correspondingly worse. At the present time commercial banks are not allowed to finance primary agriculture. But even if allowed they would not do it unless they obtain the appropriate tools to manage the risks and are provided with major incentives to enter rural markets with their higher risks, transaction costs, and staff skill requirements, compared to urban markets.

Lack of sufficient credit has been reported on all levels of the value chain, except for the very largest players, who are reportedly able to set up companies in Singapore and to obtain inexpensive loans from there.[10] Traders, millers, transportation owners and, of course, the farmers, all complained of insufficient credit, either for on-lending to farmers or for purchase of products, or for on-farm working capital needs. Reportedly, this is due to very high collateral requirements and disinterest of financial institutions.

[10] As mentioned during an interview with the CEO of the Oil Traders Association.

**Table 5. Financing Needs in Rural Areas – Based on International Experience and in Myanmar**

| Financing need and type of client, based on international experience | Types of financial services required | Situation in Myanmar | Suitable financial institutions or other providers based on international experience | In Myanmar | Possible opportunities for support |
|---|---|---|---|---|---|
| Purchase of inputs | Short-term working capital credit | Not sufficiently available in Myanmar at affordable interest rates | Rural banks, financial cooperatives, input providers financed by commercial banks, some MFIs | MADB,<br>Some commercial banks for larger loans to input suppliers,<br>Some MFIs having the capability to do rural lending, Informal lenders,<br>A few surviving ADCs | Reform/restructuring of MADB, Technical Assistance (TA) to commercial banks to enable them to manage the risk in financing agriculture,<br>Possibly a credit line/ guarantee to commercial banks for on-lending to input suppliers |
| Post-harvest consumption needs (in order to avoid having to sell products right at harvest time) | Warehouse receipt financing, inventory credit | Difficult in Myanmar since there are few village-based storage opportunities, no legal framework for warehouse receipt financing | Commercial banks,<br>Specialized agricultural banks,<br>Some MFIs with special knowledge | Not available | Develop storage facilities,<br>Develop the legal framework for a warehouse receipt system,<br>Support MADB and interested commercial banks in participating in such a system,<br>Support a possible commodity exchange |
| Micro-entrepreneurs | Short-term credit, savings, money transfer | Informal credit at very high rates available, no savings or money transfer services | MFI, village-based savings and credit groups, financial cooperatives | MFIs provide some credit,<br>No savings or money transfer services | Conduct further research on the demand for savings and money transfer,<br>Support the set-up of village-based savings & credit institutions,<br>Support to MFIs to develop rural lending capabilities |

| | | | | | |
|---|---|---|---|---|---|
| Small and Medium-sized Businesses | Working capital and investment credit, money transfer | No money transfer services and little investment credit available,<br>Credit lines available for traders and brokers | Commercial banks | Commercial banks | Possibly credit line or partial guarantee,<br>TA to develop SME financing capabilities |
| Purchase of agricultural equipment (some scale irrigation, tractors, etc.) | Medium-term credit | Available to any significant extent for movable equipment, not available for small-scale irrigation needs | Commercial banks and leasing companies, equipment dealers | Some commercial banks and equipment dealers | Support the set-up of leasing companies or leasing subsidiaries of commercial banks |
| Purchase of food and other consumption needs | Savings in order to manage household budgets,<br><br>Credit only if there is the ability to repay,<br><br>Transfers from government or other services | Savings not available, Informal lenders provide credit at very high costs,<br><br>No government transfer services could be observed | MFIs, Village-based Savings and Credit Institutions,<br><br>Financial cooperatives | Some MFIs,<br><br>Informal lenders | Support to MFIs,<br><br>Set-up village-based savings & credit institutions |

Source: Author.

## 4.5. Lack of Efficient and Functioning Formal Financial Institutions

### *4.5.1. MADB*

The MADB is government-controlled and managed and not deemed to be an independent, profit-oriented financial institution, yet it is in many cases the only game in town. Its current outreach is the largest of all Myanmar financial institutions but it is limited to township centers and its customers need to travel quite far to reach its branches. It offers only one working capital product, at a low (subsidized) rate for one commodity (paddy) and covers less than 50% of the financing needs of its clients who are forced to revert to high-interest informal sources for the balance. MADB's equipment loan product carries more generous terms (three years) but requires very high collateral and is, thus, out of reach for smaller farmers, who are, again, getting squeezed in favor of those who own more assets that can serve as collateral. MADB is mandated to collect deposits. However, deposit levels at MADB have not been increasing over the past years. There appears to be little trust on the side of potential depositors due to a run on deposits in earlier years and high transaction costs for travel to bank branches. The mission team could not determine if MADB's savings products are demand-appropriate because nobody they met during the field trip declared that they maintain savings deposits with MADB. The team was not able to visit MADB branches or the head office of MADB.

### *4.5.2. Value Chain Actors*

There is some value-chain financing in Myanmar but it appears limited by lack of access to sufficient credit on most levels of the chain and not well liked by lenders and borrowers[11]. The aforementioned ADCs represent an effort of the government to increase financing for agricultural production since they were reportedly started at the instigation of the government.

### *4.5.3. MFIs*

During meetings with MFIs it became evident that there are efforts underway to develop loan products that are appropriate for the agricultural production cycle. These efforts are supported by specific donors and are mostly still in a pilot stage. They are limited to specific locations at this time. Whereas MFIs in many other country have developed from providing group-only lending into financial institutions that provide a variety of loan products including individual larger loans for repeat customers, all MFI lending in Myanmar is group-based and most loan products have rigid terms. Their maximum tenor is six months and they require regular bi-monthly or monthly payments of principle and interest, except in the case of the pilot agricultural loan programs where the principal is due in a bullet payment at maturity. Attendance at group meetings is mandatory.

[11] Lenders (input suppliers, traders) mention side-selling as an issue, whereas farmers complain that they receive below market prices for their products from their lenders/buyers.

### 4.6. Lack of Equipment Finance

In order to modernize Myanmar's agriculture the use of productivity-enhancing equipment (small and large) needs to increase. The use of small-scale irrigation equipment, ploughs, thrashers, small tractors, and other equipment will lead to increases in productivity for small farmers, whereas larger farms could take advantage of economies of scale by utilizing larger equipment. At the present time loans for the purchase of equipment are provided by MADB and some banks as well as by some firms selling such equipment. Interest rates range from 8.5% (MADB) to 13-16% p.a. and appear to be reasonable. But the overall amounts are limited by very high collateral requirements in the form of land and buildings, besides the equipment itself.

### 4.7. Lack of Non-financial Services for Smallholder Farmers to Increase Productivity

The main report discusses in detail the lack of extension services available to farmers and the results in terms of lack of profitability. Farmers are often at the mercy of input providers and their advice when purchasing fertilizers or seeds. Many farmers use little or no fertilizer and use their own seeds, with no guidance at all on their use. In other countries, efforts are underway to bundle credit with access to non-financial services on the village level, on a commercial fee basis.[12]

The lack of good main and feeder roads and unreliable access to electricity and connectivity are also major hindrances to the development of the agricultural sector and rural areas in general. Major investments in infrastructure will be needed to overcome these shortcomings.

[12] Basix, one of India's largest microfinance institutions, for example, set up a subsidiary company that provides advice to farmers. The company charges for its services and makes itself available to all farmers, with a discount to clients who are also credit clients. Efforts are underway and supported by donors to replicate this model in other countries in Asia and Africa.

## 5. PRELIMINARY FINDINGS − RECOMMENDATIONS ON THE WAY FORWARD

- To improve access to financial services in rural areas of Myanmar in order to increase agricultural productivity, and
- To reduce farmers' indebtedness.

The following recommendations should be seen in their entirety. A comprehensive approach is recommended in order to achieve the desired results. At the end of this section is Table 6, A Summary of Recommendations, indicating which international organizations are assumed to have a comparative advantage in supporting specific recommended activities. The recommendations are somewhat tentative given the short time spent in-country altogether and with field visits to townships and villages limited to only two regions. *Conducting further in-country analysis in different regions and consulting all relevant stakeholders in order to strengthen the results of the diagnostic related to the preliminary findings would, therefore, be the first recommendation.*

### 5.1. Long Game – Key Structural, Institutional and Policy Reforms

#### *5.1.1. Address the Existing and Anticipated Increasing Lack of Financing for Agricultural Growth*

Assuming that Myanmar will follow its current path and will experience significant growth over the next years, there will be a large demand for financing from all sources. In addition, the agricultural sector is already under-invested and has been for a number of years. Government sources will not be sufficient to ensure the kind of agricultural growth envisioned in Myanmar's development strategy. Experience indicates that in such a boom situation agriculture is usually last in line as far as private sector commercial bank financing is concerned. Experience in South and East Asia shows that, while difficult and controversial, government involvement in one or the other way is required. Many countries have been in this situation and have developed strategies. Thailand has enabled its Bank for Agriculture and Agricultural Cooperatives (BAAC) to acquire the skills and the funding (some government funding but mostly savings) to support agriculture nation-wide (World Bank 2009). Indonesia has set up its famous BRI Unit Desa to focus on microfinance and especially on savings mobilization in rural areas. India and Sri Lanka are requiring their commercial banks to set aside a certain percentage of their loan portfolios for agricultural lending. Given the lack of a wide-spread savings culture and the long lead time to develop one, it is suggested that Myanmar explore the second option first.

*Explore the possibility to require commercial banks to dedicate a percentage of their loan portfolios for agricultural loans*. Those banks who do not want to enter the agricultural markets themselves could be required to deposit the amounts, with some remuneration, in the Central Bank for on-lending to those institutions who do. The following steps are recommended:

a. Desk review of Indian and Sri Lankan experience;
b. Organize exploratory visits to India and Sri Lanka for policy makers and heads of commercial banks to learn first-hand about such policies, the requirements, issues, and results;
c. Make a determination to institute such requirements or not before the entry of foreign-owned banks. Timing is of the essence.

*5.1.2. Explore the Possibility to Restructure or Reform MADB.*

MADB is the only financial institution in Myanmar with significant rural outreach and the potential to increase the outreach further into villages. Restructuring government-owned and managed banks is considered very difficult. However, there have been two successful cases of restructuring of agricultural development banks in the past that could serve as examples and possible blue prints, the case of AgBank in Mongolia (now Khan Bank) and the case of the National Microfinance Bank (NMB) in Tanzania. Both were privatized subsequent to the restructuring effort and are still in business.[13] A possible transformation of MADB should happen in several steps with the next step to be only undertaken once there are favorable results from preceding step.

a. Ascertain that there is political will within the Myanmar government and especially that there will be the support of the Ministry of Agriculture for the objective to essentially create an independently managed sustainable financial institution that will be focused on agriculture. A field visit to first-hand see the Mongolian example might be advantageous;
b. Conduct an initial review of MADB's operations. This would include a field review of the operations and capabilities of some branches in at least the major States, a review of reporting structures, banking processes and procedures, and in-depth meetings with management on the different levels, including with the top decision makers within MADB;
c. Conduct a financial analysis of MADB's performance over the past several years;
d. Prepare a draft business plan based on conservative assumptions;
e. Determine if there is donor support to obtain the required technical expertise, including audits and, once the decision to go ahead is made, management advice.

*5.1.3. Explore the Potential for Community-Based Financial Institutions*

*Support the start-up and further development of savings-based community financial institutions (CBFIs) in rural areas, especially in remoter areas where the outreach by main-stream financial institutions and MFIs would be costly and inefficient.* These could be in the form of VSLAs, financial cooperatives, community-banks where the shares are owned by members of the surrounding communities or possibly village-managed village funds. [14]

Experience has shown that community-based financial organizations and institutions, if designed and implemented according to good practice and experience, can provide valuable services within their unbanked or under-banked communities. Community-based financial

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[13] In Tanzania there was some disappointment that the restructured NMB does not act as the envisioned catalyst to increased financing for agriculture but rather focuses on microfinance. Therefore, the Government of Tanzania decided to establish an Agriculture Development Bank focused exclusively on agriculture; Daily News of Tanzania, online edition, July 3, 2012 - http://www.dailynews.co.tz/index.php/biz/6969-agriculture-bank-to-boost-farming

[14] Several World Bank publications address community-based financial institutions and financial cooperatives:
The World Bank – Agriculture and Rural Development Department 2007, Discussion Paper 34 – Community-Based Financial Organizations: A Solution to Access in Remote Rural Areas, by Anne Ritchie;
The World Bank – Agriculture and Rural Development Department 2007, Discussion Paper 35 – Reaching Rural Areas with Financial Services: Lessons from Financial Cooperatives in Brazil, Burkina Faso, Kenya and Sri Lanka, by Ajai Nair and Renate Kloeppinger-Todd;
The World Bank – Agriculture and Rural Development Department 2007 – Providing Financial Services in Rural Areas: A Fresh Look at Financial Cooperatives;
The World Bank – Agriculture and Rural Development Department 2010, Discussion Paper 48 – Rural Banking: The Case of Rural and Community Banks in Ghana, by Ajai Nair and Azeb Fissha.

organizations can address over-indebtedness and enable asset accumulation by providing loans at lower rates than those provided by informal village sources and by offering savings opportunities for small temporary surplus amounts that would otherwise be used for consumption. One example is the case of the Self-Help Groups (SHGs) in Andhra Pradesh State of India. A survey of the use of proceeds of small loans made by SHGs in Indian villages showed that about 35% of each loan was used to repay higher cost informal loans. The balance was used for various productive activities. In those villages the households eventually became independent of money-lenders but still kept the relationships in order to have access to very short-term emergency loans.[15]

Further in-country research is required to determine the credit and savings needs especially of the poorer rural populations and to develop culturally acceptable systems of CBFIs. Experience has shown that countries and even states within a country require different approaches based on the prevailing culture and local preferences.

### *5.1.4. Improve the Poorly-functioning Financial System*

Coordinate with World Bank, IFC and other interested parties and support the government in *developing an enabling framework for the financial sector.* The following could be some of achievements:

a. Commercial banks are allowed to operate in agricultural markets;
b. The laws on collateral requirements are updated and reflect good international practice;
c. Interest rate ceilings and minimum deposit rate requirements are eased;
d. A legal framework for leasing has been adopted; and
e. The microfinance law has been improved, especially for deposit-taking institutions.

### *5.1.5. Index and Area-yield-based Weather Insurance Products*

Over the past ten years index-based weather insurance has alternately been praised as the one and best tool to reduce weather risk in agriculture including in the financing of agriculture, and as a promising but not commercially viable insurance product. The truth is probably somewhere in the middle. In any case, the requirements to set up a system for index-based weather insurance include among others a nation-wide system of weather stations that contain recordings over at least 10-15 years of weather history. The mission team was told that Myanmar does not have such a system. The introduction of index-based weather insurance on any large scale would, therefore, be far into the future.

[15] World Bank and Society for the Elimination of Rural Poverty (SERP) internal reports, 2004-2007.

## 5.2. Short Game

### *5.2.1. Commercial Banks and Lending for Agriculture*

*Allow commercial banks to undertake agricultural lending and provide assistance, if necessary***.** This would include provision of technical assistance to the financial institutions that are interested in financing agriculture as a business field area especially in the area of risk management,[16] once the obstacles on the policy level have been addressed. It is not expected that most commercial banks will lend to small farmers directly as a major business line. Rather, it has been international experience that commercial banks without a special mandate for smallholder agricultural finance prefer to focus on lending to larger agri-businesses and to major players within a supply chain, if at all. However, this could include funding for on-lending to farmers by input suppliers, traders and processors.[17]

### *5.2.2. Microfinance Institutions*

*Enable MFIs to extend their services further into rural areas and to offer products and procedures appropriate for the agricultural production cycle, including inventory credit.* LIFT, with funding provided by its donor group, is already actively involved in this effort as is Proximity Design. It is not recommended that a new initiative be started but rather to work within the established donor group.

### *5.2.3. Leasing of Agricultural Equipment*

*Promote the set-up of leasing companies or leasing subsidiaries of existing financial institutions once the legal framework for leasing has been established.* Leasing is a proven tool for equipment financing, also in rural areas.[18] IFC has considerable experience in this area. It is therefore recommended that IFC's involvement be solicited, both by its advisory services and its investment departments.

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[16] Some of the risks specific to agricultural lending are weather risks, price risks, pests, high risks of concentration, etc. For internationally traded commodities such as rice there are also exchange rate risks. For some further information see the following publication: The World Bank 2009 – Johannesburg Findings – Agri Finance Africa – April 2009 and; Managing Risks in Financing Agriculture: Proceedings of the Expert Meeting held in Johannesburg April 2009

[17] Such on-lending arrangements are usually the second best option, used when there are no suitable financial institutions. Usually, it works best for contract farming arrangements within a tight supply chain, where it is to everyone's advantage to treat the other partner fairly. In the arrangements that work best farmers achieve a price premium over market, for example for excellent quality, thus do not have incentives for side-selling and defaulting on loans: Unpublished study on Value Chain Finance done by RIAS for the World Bank, 2005. Also, see the value chain for gherkins in Sri Lanka that is providing pickles for McDonald's world-wide - http://www.lankabusinessonline.com/fullstory.php?nid=1685193327

[18] For example, see the following publications: The World Bank – Agriculture and Rural Development 2006, Discussion Paper 28 – Buffalo, Bakeries, and Tractors: Cases in Rural Leasing from Pakistan, Uganda, and Mexico, by Ajai Nair and Renate Kloeppinger-Todd; and: The World Bank – Agriculture and Rural Development 2004, Discussion Paper 7 - Leasing: an Underutilized Tool in Rural Finance, by Ajai Nair, Renate Kloeppinger-Todd and Annabel Mulder.

### 5.2.4. Non-financial Services for Farmers

Explore the potential for setting up providers of non-financial services to farmers, based on the BASIX model.

a. Undertake a desk analysis of the BASIX model and determine its commercial viability; and
b. Organize a study visit to India as part of an overall effort to learn about approaches MFIs have taken there to successfully provide financing for agriculture.

## 5.3. Recommendations Regarding Technology-driven Innovations

Technology has been the driver for many advances in banking, including rural banking, and in microfinance. While in Myanmar the technological requirements are mostly not yet there, this could change in a very short time. Two of the promising innovations that are especially important for rural areas are mobile banking and international remittances.

### 5.3.1. Mobile Banking

Mobile (cell phone-based) banking is mostly used to transfer money, i.e., paying bills or sending money, for example, from urban to rural areas. There are also some pilot projects aiming at using mobile banking for savings mobilization.[19] The most successful m-Banking enterprise is M-Pesa of Kenya where mobile banking for money transfer services is reaching even the remotest rural areas, at an attractive price. The low level of cell phone coverage and the high costs of cell phone usage in Myanmar do not yet allow for m-banking at any significant scale. However, it is recommended that the markets be observed closely in order to take advantage of changes that are sure to come. Meanwhile, preparatory work could be undertaken in setting up the regulatory and licensing framework that would enable such an effort.

### 5.3.2. International Remittances

International remittances represent an interesting business proposal for Myanmar banks, given that an estimated seven million Myanmar citizens live outside the country. The infrastructure to allow an efficient and low-cost money transfer system is being investigated and will reportedly be partially implemented in the near future.

[19] M-Pesa and Equity Bank of Kenya entered into a joint venture with the objective to mobilize savings across the country without having to build up the physical infrastructure needed for bank branches.

**Table 6. Summary of Recommendations**

| DONOR AGENCY | SHORT GAME | LONG GAME | RISKS |
|---|---|---|---|
| USAID | Possibly also some benefits in the short-term | Explore potential to set aside a portion of banking portfolios for agriculture;<br>Introduce set-asides, possibly on a sliding scale | Could lead to directed lending if not done properly; could provide opening for corruption |
| | Possibly also some benefits in the short-term | Determine if MADB is a potential candidate for reformation/restructuring;<br>Support the transformation of MADB | Too many entrenched players; No political will to go through with it |
| | TA for commercial banks | | Regulatory framework not enabling |
| | Support for MFIs to enter agricultural financing, including the development of inventory-credit products | | MFIs won't have the country-wide outreach |
| | Explore the potential for Mobile Banking | | Not all the players are lined up, such as Central Bank, Telcos, agents, bank(s), etc. |
| | | Start-up community-based financial institutions; (CBIFs)<br>Support the CBFIs until commercial viability | Credit lines or grants to CBFIs are provided too early, before savings and capital building have become firmly entrenched in the communities |
| Other donors and investors | | | |
| World Bank | Improve regulatory framework and supervision of the banking system | | World Bank might not be able to move as fast as is necessary; government could drag as well |
| | Improve the microfinance law | | Vested interests could block the increase in capital requirements for deposit-taking MFIs; |

| | | | |
|---|---|---|---|
| World Bank, con't. | Improve the system for international and domestic remittances | | Technology and software not sufficiently proven |
| LIFT, UNDP, UNCDF, DfID | Support MFIs to achieve rural outreach and scale | | |
| LIFT | Explore the potential for setting-up providers of non-financial services to farmers | | |
| IFC | Establish the legal framework for leasing | | |
| IFC, commercial investors | TA for commercial banks | | Regulatory framework not enabling |
| | Set up leasing companies | | Difficult to attract Investors that agree to a focus on rural leasing |

Source: Author.

## 6. SUGGESTIONS FOR FURTHER RESEARCH AND DIAGNOSTIC WORK

As mentioned earlier, this background paper is based on a desk review of previous publications and on the impressions gained during a two week visit to Yangon and two regions in the dry zone of Myanmar in November 2012. The results are, therefore, somewhat tentative and should be substantiated with further research. The following topics are deemed to be important:

1. Conduct a survey of the operations and the capabilities of Myanmar Agriculture Development Bank and some of its branches in several States/regions;
2. Survey commercial banks (government-owned and private) to determine how they could become involved in providing financing for agriculture, and on which basis;
3. Explore the potential for cooperatives and their networks and Apex to become involved in rural finance;
4. Explore further the issue of savings in order to develop a strategic approach;
5. Determine the importance of remittances in rural areas, including the use of the hundy system, and analyze the potential of remittances for further rural and agricultural development and the lowering of farmer indebtedness;
6. Conduct further analytical field work regarding the demand for savings and on how to develop savings further;
7. Conduct further analysis regarding the design and set-up of CBFIs; and
8. During field visits in rural areas conduct village meetings with women only in order to gain their perspective and input before formulating policies and strategies.

**ANNEX A**

**Table Annex A. List of Meetings**

| Date | Organization | Persons met | Location | Contact information |
|---|---|---|---|---|
| Nov. | World Bank | Pavo Eliste, Senior Economist<br>Stephen Jaffe, Advisor | Email exchange | peliste@worldbank.org<br>sjaffe@worldbank.org |
| Nov. | FAO | Calvin Miller, Senior officer – Agribusiness and Finance Group | Email exchange | Calvin.miller@fao.org |
| Nov. | IFAD | Michael Hamp, Senior Advisor – Rural Finance<br>Youquiong Wang, Country Program manager<br>Ganesh Thapa, Task manager for APRACA grant | Email exchange | m.hamp@ifad.org<br>y.wang@ifad.org<br>g.thapa@ifad.org |
| Nov. | Consultative Group to Assist the Poor (CGAP) | Eric Duflos | Email exchange | eduflos@worldbank.org |
| Nov. 11 | PACT | Fahmid Karim Bhuiya, CEO | No. 497, 1st floor, tower b, diamond condominium, Pyay road, Ward 8, Kamaryut Tsp. | fahmidk@gmail.com |
| Nov. 11 | GRET | | | |
| Nov. 11 | MDRI | Tin Maung Than, Director, Training and Communication | MDRI offices | betatmt@gmail.com |
| Nov. 11 | World Vision | Neal Youngquist, General Manager | 16 Shin Saw Pu Road, Ahlone Township | 525191, 527502 |
| Nov. 12 | German Savings Bank Foundation for International Cooperation | Silvia Sturm, Local long-term expert<br>Niclaus Bergmann, CEO | Telephone interviews | Silvia.Sturm@sbfic.de<br>Niclaus.bergmann@sparkassenstiftung.de |

| | | | | |
|---|---|---|---|---|
| Nov. 12 | Save the Children | Janis Sabetta, Microfinance Advisor<br>Indrajith Wijesiriwardana, Consultant Microfinance | 1st Floor, Salomon Business Centre, No. 224 A, U Wisaya Rd., Bahan Township, Yangon. | Janis.sabetta@savethechildren.org |
| Nov. 13 | UNDP | Igor Bosc, Senior Program Advisor<br>Khin May Shin, Program Analyst<br>Aye Lwin, Assistant Resident Representative (Governance) | UN Offices | Igor.bosc@undp.org |
| Nov. 13 | Livelihoods and Food Security Trust Fund (LIFT) | Mynt Kyaw, Business Development and Microfinance Officer | Room 335, Inya Lake Hotel | myntk@unops.org |
| Nov. 13 | Asian Development Bank (ADB) | Sharad Bhandari, Principal Country Specialist<br>Hideaki, Principal Infrastrure Sp.t | ADB Office, Inya Lake Hotel | sbhandari@adb.org |
| Nov. 14 | KBZ Bank | Khin Thida Maw, General Manager – Research Department<br>U Than Lwin, Deputy Chairman<br>Zaw Lin Htut, Senior General Manager, International Banking<br>Nang tin Moe Thu, Assistant Manager, Marketing & customer Services | Nr 33to 49, corner of Bank St & Mahabandoola Garden St, Kyauktada Township, Yangon | thanlwin@gmail.com |
| Nov. 14 | LIFT | Barclay O'Brien, Program Officer – Markets and Microfinance | Room 335, Inya Lake Hotel | barclayo@unops.org |
| Nov. 14 | Association of oil traders | Head of association | | |
| Nov. 14 | DFID | Anthea Kerr, Livelihoods Adviser | British Embassy | a-Kerr@dfid.gov.uk |

| | | | | |
|---|---|---|---|---|
| Nov. 15 | World Bank | Markus Kostner, Task Team Leader for Myanmar Community Driven Development project | e-mail exchanges | mkostner@worldbank.org |
| Nov. 16 | Myanmar Ministry of Finance and Revenue | Dr. Maung Maung Thein, Deputy Minister | Ministry Building in Nay Pyi Taw | Drmgmgthein.mofr@gmail. |
| Nov. 17 | Commodity Exchange – Pulses and Beans | Six traders | Mandalay | |
| Nov. 17 | Rice Industry Association | Seven traders/millers | Mandalay | |
| Nov. 17 | Village visit | Miller group | Pathein-Gyi Township – Mandalay Division | |
| Nov. 17 | Village visit | Ten farmers | Pathein-Gyi Township – Mandalay Division | |
| Nov. 18 | Sagay Region Government – Agriculture Division | Minister for Sagay Region,<br>Chief – Agriculture and Livestock,<br>Chief-Land Records department,<br>Chief-Irrigation Department,<br>Chief-Agriculture Development Bank (MADB)<br>Chief-Modernization Department,<br>Chief-Water Resources Utilization Department | Moneywa Sagaing Division | |
| Nov. 18 | Commodity Exchange – Beans and Pulses | Five traders | Moneywa | |
| Nov. 18 | Village Visit | Village assembly – about 8 farmers | Kin Mon village, Meoneywa Township Sagaing Division | |

| | | | | |
|---|---|---|---|---|
| Nov. 19 | Village Visit | Village assembly – about 11 farmers | Ayer Taw (Ward 3) Sagaing Division | |
| Nov. 20 | Village visit | Five Farmers | Pa Gar village, Kyauk Mae township, Northern Shan State | |
| Nov. 20 | Visit rice mill | Mill owner and farmers | Kyauk Mae Gyi village, Kyauk Mae township, Northern Shan State | |
| Nov. 20 | Village visit | Farmers | Kyaung Kone Village, Kyauk Mae township, Northern Shan State | |
| Nov. 20 | Village visit | Three farmers | Inn-Ttake-OO Village, Kyauk Mae township, Northern Shan State | |
| Nov. 22 | USAID | Gary Jahn | Park Royal Hotel | JahnGC@state.gov |
| Nov. 22 | Lift | Barclay O'Brien | Park Royal Hotel | barclayo@unops.org |

Source: Author.

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## ANNEX C

Farm level budgets for paddy growing, based on input obtained in two villages which are in the dry zone, growing summer paddy using irrigation.

During the meeting the farmers told the team that their cost to plant and harvest one acre of paddy is 300,000 Kyats for Pathein Village and 250,000 for Khin Mon Village. The subsequent detailed listing of expenses arrived at during considerable discussion, resulted in a higher total. The team used the 300,000/250,000Kyats for the calculation of interest expense in Table 4, assuming that the farmers might have been a bit generous when recalling their expenses.

**Table Annex C. Farm Level Budgets for Paddy Growing, Based on Input Obtained in Two Villages**

| Expense category[20] | Giyi Township - Pathein Village<br>Costs per acre of paddy in Kyats | Chaung Oo township- Khin Mon Village<br>Costs per acre of paddy in Kyats |
|---|---|---|
| Land preparation | 30,000 | 15,000 |
| Seeds | 30,000 | |
| Labor for transfer | 25,000 | 32,000 |
| Fertilizer (applied 3x and 2x, respectively) | 65,000 | 69,000 |
| Weeding by hand | 30,000 | |
| Weeding by spraying | 20,000 | 10,000 |
| Labor for irrigation (emptying and refilling the field) | 65,000 | |
| Diesel for water pump | | 80,000 |
| Labor for harvesting | 50,000 | 60,000 |
| Labor for thrashing | 10,000 | |
| Costs for transportation for thrashing | | 20,000 |
| Labor for drying | 10,000 | |
| Total Expenses | 395,000 | 286,000 |

Source: Author.

[20] Labor costs per day were given as 4,500 Kyats per day for men (heavy labor) and 2,500 Kyats for women (easier chores such as weeding).

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