Amsterdam, 05 November 2020
Commissioned by FMO

Evaluation of FMO-MASSIF investments in four microfinance institutions in Myanmar

Final report

Nienke Oomes (team leader)
Thierry Belt
Nathalie Gons
Asim Jaweed
Debbie Keijser
Ward Rougoor
Lisa Van Dongen

and
Myanmar Survey Research

seo amsterdam economics

Roetersstraat 29 - 1018 WB Amsterdam - T (+31) 20 525 1630 - F (+31) 020 525 1686 - www.seo.nl - secretariaat@seo.nl
ABN-AMRO IBAN: NL14ABNA0411744356 BIC: ABNANL2A - ING: IBAN: NL96INGB0004641100 BIC: INGBNL2A
KvK Amsterdam 41197444 - BTW NL 003023965 B

"Solid research, Sound advice"

SEO Amsterdam Economics carries out independent applied economic research on behalf of national and international clients – both public institutions and private sector clients. Our research aims to make a major contribution to the decision-making processes of our clients. Originally founded by, and still affiliated with, the University of Amsterdam, SEO Amsterdam Economics is now an independent research group but retains a strong academic component. Operating on a nonprofit basis, SEO continually invests in the intellectual capital of its staff by granting them time to pursue continuing education, publish in academic journals, and participate in academic networks and conferences. As a result, our staff is fully up to date on the latest economic theories and econometric techniques.

SEO-report nr. 2020-63

Information & disclaimer
SEO Amsterdam Economics has not performed any research on the obtained information and data that would constitute an audit or due diligence. SEO is not responsible for errors or omissions in the obtained information and data.

Executive summary

SEO Amsterdam Economics and Myanmar Survey Research were commissioned by the Dutch development bank, FMO, to evaluate its investments in four microfinance institutions (MFIs) in Myanmar. The four MFIs covered by this evaluation are:

- ACLEDA MFI Myanmar ('ACLEDA')
- Early Dawn Microfinance Company Ltd. ('DAWN')
- Maha Agriculture Public Company Limited ('Maha')
- Thitsar Ooyin MFI Myanmar ('Thitsar Ooyin').

This evaluation focuses on testing three key assumptions of FMO's 'Theory of Change':

1. FMO is "additional" in that it contributes to:
    - improving MFI access to funding directly (*financial additionality*)
    - improving MFI access to funding indirectly (*catalytic effects* and *demonstration effects)*
    - strengthening MFI capacity via non-financial support (*non-financial additionality)*
2. MFIs in turn improve access to finance for end-beneficiaries
3. Improved access to finance in turn improves the lives of end-beneficiaries (employment, income, access to goods and services, sustainable livelihoods)

Five information sources were used in this evaluation: (1) literature, project documents and data about the MFI sector in Myanmar and the specific MFI investments in Myanmar; (2) in-depth interviews with FMO officers, their MFI clients, other investors, regulators, and local financial sector experts, including through a field visit; (3) a focus group discussion with end-beneficiaries; (4) a large end-beneficiary survey; and (5) follow-up phone interviews with end-beneficiaries. More information about these data collection methods can be found in Appendix A.

Our main conclusions are the following:

1. FMO investments in Myanmar generally had:
    a. high financial additionality at the time of the investments;
    b. moderate catalytic effects (high in some cases)
    c. moderate non-financial additionality (low in some cases)
2. The MFIs generally had a high impact on improving access to finance for end-beneficiaries (moderate in some cases)
3. Improved access to finance had a high impact on improving lives of end-beneficiaries.

For FMO to maintain and improve its high financial additionality in Myanmar, we have the following recommendations for future investments:

- Invest in Tier 2 and Tier 3 MFIs with high funding gaps and high potential impact.
- Invest in financial institutions with potential to serve the 'missing middle'.
- Invest in MFIs that have the potential to expand geographically by using mobile banking technologies.
- Support MFIs with accessing local currency loans from local banks.
- Support MFIs with accessing and providing longer-term loans.

In addition, we have the following recommendations for future capacity development (CD) projects:

- Support CD related to the implementation of digital solutions and mobile banking technologies (e.g. digital loan applications, fintech credit scoring models; weather predicting technology).
- Support CD aimed at improving financial literacy and reducing over-indebtedness risks, ideally in coordination with existing organisations.
- Provide more CD support to MFIs to improve their technical skills in credit risk assessment and credit risk management, allowing them to transition from group to individual loans, expand geographically and reach more of the underserved.
- Devote more CD resources to market shaping initiatives and sector-wide CD programmes.

Table of contents

1 Introduction

SEO Amsterdam Economics was commissioned by the Dutch development Bank FMO to evaluate four of its investments in microfinance institutions (MFIs) in Myanmar.

1.1 Background

Myanmar is the poorest country within the Association of Southeast Asian Nations (ASEAN). This is in part the result of its previous isolation and the dominance of the military regime for more than five decades. GDP per capita is currently around USD 1,300, or a little over USD 100 per month (World Bank 2019, IMF 2020b). The UN's Human Development Index places Myanmar at 145 out of 189 countries and UN-recognised territories (UNDP, 2019).

Until recently, the Myanmar financial sector was small and underdeveloped, but it has grown significantly in recent years. Owing to significant reforms and economic growth since 2012, credit to the private sector increased from less than 5 percent in 2011 to around 30 percent in 2019/20, while the deposit-to-GDP ratio rose from around 10 percent in 2011 percent to 50 percent in 2019/20 (GIZ 2018; IMF 2020b). However, financial institutions still lack access to commercial funding, and access to finance for end-borrowers remain limited.

Financial inclusion is an important goal of Myanmar's government. Through various initiatives and reforms, the government has actively aimed to promote financial access, usage and quality of financial services for all, with the goal of improving social and economic development and the well-being of its population (Tambunlertchai, 2017). Thus far, national surveys indicate that the share of the population that is 'financially excluded'[1] declined from 38 percent in 2013 to 30 percent in 2018.[2]

SEO Amsterdam Economics was commissioned by the Dutch development Bank FMO to evaluate four of its investments in microfinance institutions (MFIs) in Myanmar. These MFIs include:[3]

- ACLEDA MFI Myanmar (hereafter: **ACLEDA**)
- Early Dawn Microfinance Company Ltd. (hereafter: **DAWN**)
- Maha Agriculture Public Company Limited (hereafter: **Maha**)
- Thitsar Ooyin MFI Myanmar (hereafter: **Thitsar Ooyin**).

1 Defined as: not having or using any financial products and/or services, neither formal nor informal.
2 Based on the Myanmar MAP surveys conducted in 2013 and 2018 (UNCDF & FinMark Trust, 2018),
3 In addition to these four MFIs, FMO also invested in BRAC Myanmar Microfinance and Proximity Finance Microfinance. These other FMO clients had also been invited to participate in the study but were either not available or not interested to participate.

1.2 Methodology

In order to provide a theoretical framework for this evaluation, the SEO evaluation team proposed a simplified Theory of Change (ToC) for FMO's MFI investments in Myanmar. SEO reconstructed ToC was based on the existing ToC for FMO-MASSIF and discussions with FMO staff. Figure 1.1 contains the reconstructed ToC, which incorporates comments from FMO.

The ToC distinguishes three different 'impact pathways', or levels, through which FMO could have impact. By 'FMO' we mostly mean FMO-MASSIF investments in MFIs and associated capacity development (CD). In line with the evaluation questions asked by FMO (described below), the three impact pathways in the ToC are:

1. **MFI Beneficiaries pathway**: Impact at the level of MFI customers (end-clients)
2. **MFI pathway**: Impact at the level of MFIs
3. **MFI Investor pathway**: Impact at the level of investors (MFI sector)

As the MFI Beneficiaries pathway indicates, FMO-MASSIF investments and CD aim to increase inclusive access to finance, which in the long run is expected to contribute to improving end-beneficiary outcomes. The outcomes generally envisaged by MASSIF are improvements in sustainable livelihoods, employment opportunities, and (gender) equality**.**

As the MFI pathway indicates, a precondition for improving access to finance is that FMO improves funding to MFIs, both directly and indirectly. FMO is assumed to have (financial or non-financial) ***additionality*** for MFIs and contributes to improvements in MFI performance, which in turn can have ***demonstration effects*** on the MFI sector (MFI pathway). Judged by the Financial Proposals (FPs) submitted for each investment, FMO expected all its MFI investments in Myanmar to help close the "financing gap" in the Myanmar MFI sector.[4] The key sources of financial additionality that FMO expected to have were (a) the provision of local currency funding, and (b) the provision of long-term funding, both of which were deemed scarce in Myanmar. By being one of the first that provides such additionality, FMO may have had demonstration effects.

As the MFI Investor pathway indicates, improvements in MFI performance can also have indirect effects on mobilising funding from other investors. In particular, FMO can have ***catalytic effects*** on other investors, either because FMO is a 'cornerstone investor' that mobilises other investors from the start (e.g. because FMO's participation reduces perceived risks), or because the improved MFI performance mobilises additional funding from other investors following the FMO investment (by reducing actual risk). At FMO, catalytic effects are seen as a separate source of additionality that derives from "the mobilisation of additional debt funding." FMO typically expects such catalytic effect to occur whenever it is the first foreign lender.[5]

Based on this ToC, the key hypotheses tested in this evaluation are:

1. **FMO is "additional"** in that it contributes to:

---

4 In many cases, the financial additionality was expected to partly derive from the interest rate caps on foreign debt imposed by the regulator, making foreign loans commercially unviable. This suggests that one of the ways in which FMO was expected to be additional relative to the market was actually through its ability to take more risk or accept a lower rate of return.

5 For example, in one Financial Proposal, the FMO deal team wrote that "additionality of the project is high and derives from FMO's loan being the first for the organisation—the loan counts as stamp of approval."

- improving MFIs' access to funding directly (*financial additionality*)
- improving MFIs' access to funding indirectly (*catalytic effects)*
- strengthening MFIs' capacity via non-financial support (*non-financial additionality)*

2. **MFIs in turn improve access to finance for end-beneficiaries**
3. **Improved access to finance in turn improves the lives of end-beneficiaries** (employment, income, access to goods and services, sustainable livelihoods)

In order to test these hypotheses, we address the underlying 'counterfactual' questions:
- **C1:** how would MFI's access to funding and non-financial support have developed without FMO's investments and CD?
- **C2:** how would access to finance for end-beneficiaries have developed without these MFIs?
- **C3:** how would end-beneficiary lives have developed without the improved access to finance?

We also answer specific evaluation questions posed by FMO. These evaluation questions are summarised in Table 1.1. below and are linked to the main three hypotheses that form the structure of this report. The table indicates in which section each evaluation question is addressed.

Table 1.1 Evaluation questions, broader topics and corresponding sections in the report

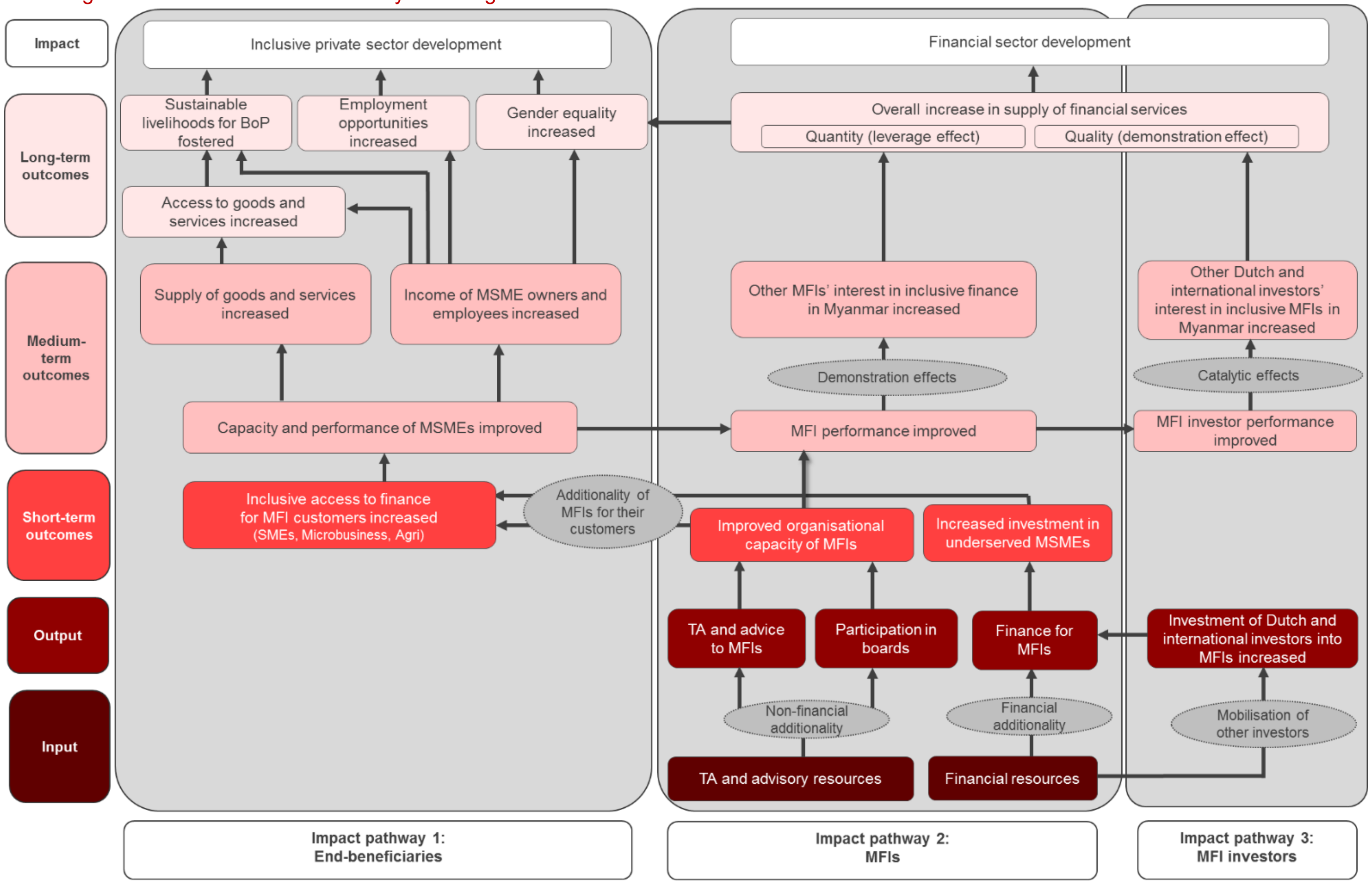
	Evaluation questions	Broader topic	Corresponding section
	MFI-sector level questions		
1	How has the microfinance sector (demand-side) in Myanmar developed in the last five years?	Background MFI sector	Section 2.3
2	How has the microfinance sector (supply-side) in Myanmar developed in the last five years?	Background MFI sector	Section 2.2
	And how has FMO contributed to this development?	Additionality of FMO	Section 3.3
3	What is needed for further development of the microfinance sector in Myanmar?	Background MFI sector	Section 2.4
	MFI-level questions		
4	What challenges do MFIs face in Myanmar in reaching the unbanked?	Impact MFIs on access to finance	Section 5.1
5	How do MFIs deal with these challenges? What works well, what doesn't work well?	Impact MFIs on access to finance	Section 4.2
6	How has the FMO investment affected the MFI?	Additionality of FMO	Section 3.3
7	To what extent has FMO financing been additional for the MFI (both in terms of financial and non-financial additionality)?	Additionality of FMO	Section 3.3
8	How could FMO improve its service offering to the MFIs?	Additionality of FMO (recommendations)	Section 5.3
	End-beneficiary questions		
9	Who are the end-beneficiaries? (characteristics of end-beneficiaries, financial literacy, financial indebtedness)	Impact MFIs on access to finance	Section 3.2
10	What are the needs of the end-beneficiaries and how do they experience the services provided?	Impact MFIs on access to finance	Section 4.1
11	How has the financial service changed the lives of the end-beneficiaries?	Impact on lives	Section 4.2
12	How can FMO client MFIs further improve their service offering to improve impact at the end-beneficiary level?	Impact on access to finance and lives (recommendations)	Section 5.2

1.3 Data collection methods

To minimise the selection bias introduced by our selection of stakeholders, we triangulate our results. "Triangulation" refers to the use of multiple methods or data sources in qualitative research to develop a comprehensive understanding of phenomena (Patton, 1999). Triangulation also has been viewed as a qualitative research strategy to test validity through the convergence of information from different sources. Therefore, this evaluation makes use of a variety of data collection methods to obtain a broad set of quantitative and qualitative information sources that were analysed and synthesised in order to test the key hypotheses and assess the counterfactual questions.

Five information sources are used in this evaluation. As a starting point, we (1) reviewed and analysed the available and relevant documents about the MFI sector in Myanmar, access to finance in Myanmar and FMO's MFI investments in Myanmar. Furthermore, we used (2) in-depth interviews with FMO officers, their MFI clients, other investors, regulators, and local financial sector experts, including through a field visit; (3) a focus group discussion with end-beneficiaries; (4) a large end-beneficiary survey; and (5) follow-up phone interviews with end-beneficiaries. More information about these data collection methods can be found in Appendix A.

Figure 1.1 Reconstructed Theory of Change



Source: SEO Amsterdam Economics

2 The Myanmar MFI sector

This Chapter[6] *provides a general financial sector overview (Section 2.1). It then focuses on Myanmar's MFI sector by analysing supply side developments (Section 2.2), demand side developments (Section 2.3), and offers a future outlook for this sector (Section 2.4).*

2.1 Financial sector overview

The financial sector in Myanmar remains underdeveloped relative to the size of the economy. This is in part the result of the previous isolation of the country and the dominance of the military regime for more than five decades. Despite significant reforms and financial sector growth since 2012, the financial sector still suffers from the lack of an adequate legal framework, infrastructure and capacity. It therefore cannot yet adequately fulfil its role as a financial intermediary.

2.1.1 Key Historical Developments

The history of Myanmar's banking sector has been volatile. In the 1950s, it was considered "the envy of Asia" with 10 domestically owned banks and 14 foreign-owned banks—the largest concentration of foreign banks in Southeast Asia.[7] After the military took control of the country, Myanmar banks were nationalised in 1963 and were only re-liberalised in 1992. Following a period of rapid growth between 1992-2002, Myanmar then experienced a severe banking crisis in 2003 when a bank run on private banks led to the collapse of three major financial institutions and resulted in economic hardship for the whole country.

Since the 2010 elections, Myanmar's legal framework for regulating the financial sector has been undergoing significant reforms. These have been aimed at bringing the country's banks closer to internationally accepted standards of operation and prepare the country for ASEAN integration. Following the enactment of a new Financial Institutions Law in 2016,[8] several new private banks were granted licenses. In 2017, the central bank adopted new crucial prudential regulations on capital adequacy, asset classification and provisioning, large exposure and liquidity ratio, setting the stage for bringing the Myanmar financial sector closer to Basel II framework and international best practices.

Despite progress with reforms, the financial sector remains vulnerable. First, it still suffers from the lack of an adequate legal framework, infrastructure and capacity (IMF, 2019), that include lack of effective mechanisms to ascertain banks' true health, the need to support an orderly deleveraging and recapitalisation of the sector; and to put in place mechanisms that limit spill overs while protecting small depositors. Second, the IMF noted already prior to the COVID-19 crisis that rising NPLs and undercapitalisation in some private banks could precipitate system-wide

6 We are grateful to Eleonora Castaldo (MFI sector expert on Myanmar) for her important contributions to this chapter.
7 See Nehru (2014)
8 Financial Institutions Law (Pyidaungsu Hluttaw Law No. 20, 2016), 25 January 2016

distress with large macro-financial spill overs.[9] Banks have been re-underwriting overdrafts into term loans, but this process lead to a rise in non-performing loans (NPLs). The IMF also noted that NPLs provisioning have not been evenly enforced to date and that overdraft loan conversion into large bullet payments might create future repayment challenges, thus leading to increased loan loss provisions going forward and weakening further the banks' capital position. Third, the developments and policy reactions to the COVID-19 pandemic will likely amplify these risks.

Access to funding has historically been one of the major hurdles to MFI growth in Myanmar. Before 2016, local MFIs were only allowed to borrow from local sources and were prohibited from taking foreign debt. While international MFIs could borrow from international sources, obtaining approval was difficult. Until 2016, MFIs in Myanmar therefore used to fund their operations primarily through equity, grants or other advances provided by their shareholders or donors. This favoured a modest growth of international MFIs that were able to tap into their international shareholders' or donors' pockets. Until 2016, however, de facto no MFI had borrowed much. This changed in August 2016, when the directive issued by the Microfinance Supervisory Committee[10] started to allow MFIs to borrow from both local and international lenders.

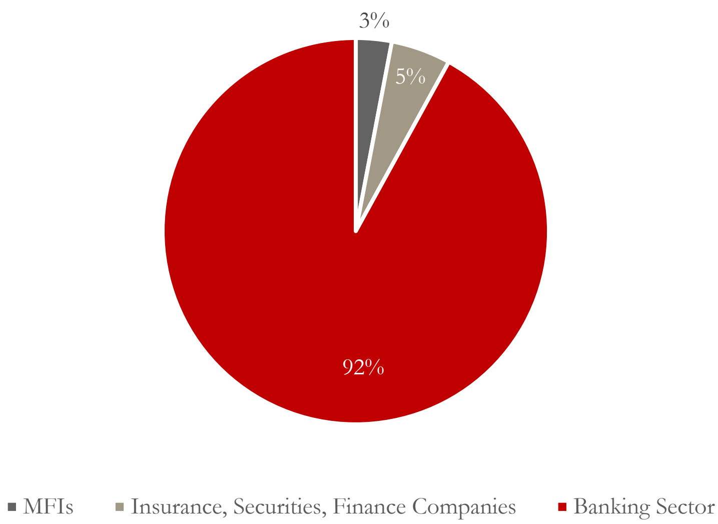
2.1.2 Financial Sector Characteristics

Private banks, state-owned banks and foreign banks dominate the financial sector, comprising of over 90 percent of total financial sector assets (around MMK 42.4 trillion, or USD 34.4 billion, in March 2016).

Only 8 percent of the financial sector is covered by non-bank financial institutions, of which less than 3 percent by microfinance institutions (MFIs).[11] In addition to MFIs, or organisations with MFI licenses, this sector consist of insurance companies, cooperatives, regulated pawn shops, and governmental (non-bank) organisations.

9 IMF (2019), IMF (2020a, 2020b)
10 Microfinance Supervisory Committee Notification No. (1/2016), 29th August 2016
11 GIZ (2018).

Figure 2.1 The banking sector dominates the financial sector in terms of its share in financial sector assets



Source: GIZ (2018), based on data for March 2016.

Banks

The banking sector consists of 27 private banks, four state-owned banks[12] and 13 foreign banks. Private banks are the drivers of innovation and growth in Myanmar's banking sector. They dominate the banking sector, holding approximately 80 percent of total bank loans and 70 percent of total bank deposits. Concentration is high, with the three largest banks holding almost two thirds of total private banks' assets,[13] and the six largest banks of the country accounting for 50 percent of total financial sector assets.[14]

Table 2.1 Private banks dominate the structure of the Myanmar banking system

	Number	Branches	Total Deposits	Total Assets	Total Loans
State Owned Banks	4	544	22.0%	27.6%	12.8%
Private Banks	27	1'835	69.4%	62.0%	79.5%
Foreign Bank Branches	13	13	8.6%	10.4%	7.7%
Total banking system in % of GDP			47.0%	66.0%	28.3%
Total MFI system in % of GDP			0.2%	N/A	1.2%

Source: For banking system: IMF (2020), based on data as of June 2019. For MFI system: SEO estimate based on MMFA data as of March 2019.

State-owned banks are shrinking, but still play an important role in today's banking sector. Following the nationalisation of all banks in 1963, Myanmar's banking sector was completely state-owned until 1990. State-owned banks' share in financial assets has been steadily declining (from 60

12 The four state-owned banks are the Myanmar Economic Bank, the Myanmar Foreign Trade Bank, the Myanmar Investment and Commercial bank, and the Myanmar Agricultural Development Bank (MADB).
13 GIZ (2018).
14 IMF (2020a).

percent in March 2015 to 28 percent in June 2019). This trend is expected to continue, as private banks and foreign banks continue to enter and grow in the market.

Foreign banks are relatively new to the market. Before 2015, the financial sector was closed to foreign competition, and foreign banks were not allowed to operate in Myanmar. The ASEAN financial sector integration, which was expected to start in 2020, is putting pressure to open up the financial sector to foreign institutions.[15] Since August 2018, foreign banks are allowed to take up to a 35 percent stake in a local bank.[16] However, a further opening of the market could be delayed by the risk that domestic banks might not withstand the competition from foreign banks.

Due to the historically restrictive lending regulations of the Central Bank of Myanmar (CBM), product offering by banks is limited. There is a culture of overdraft lending and conservative practice, using almost exclusively land and buildings for loan collateral, which creates an obstacle for the expansion of the sector.[17] Uncollateralised loans have been allowed by the Central Bank since February 2019, but still constitute a negligible portion of banks' assets.

Microfinance Institutions

The MFI sector in Myanmar is small but growing. As of February 2020, over 180 MFIs operated in Myanmar, serving more than 5 million clients, with a total loan portfolio of almost MMK 1.8 trillion (USD 1.2 billion). The sector, supervised by the Financial Regulatory Department (FRD), includes several international non-government organisations and commercial MFIs, financial cooperatives that have re-licensed as MFIs, several local NGOs that provide microfinance, and local commercial MFIs. This sector is described further in the following section.

Mobile Money

Provision of mobile financial services has increased rapidly in Myanmar since 2016. In that year, the Central Bank of Myanmar opened mobile financial services to non-bank financial institutions and granted the first license to Wave Money, a partnership between Telenor and Yoma Bank. Since then, a growing number of players have entered the market, taking advantage of cheaper access to telecommunication services, falling smartphone prices, and the market gap in payment services left by an inefficient banking sector.

Mobile finance services providers can be grouped in three major categories:

- **Telecom-owned mobile money providers** (e.g. Wave Money, M-Pitesan, MPT Money, My Money). These providers leverage large telco subscriber networks to distribute the product quickly. Wave Money is the leading mobile financial service provider, with a network of more than 48,000 agents located all over Myanmar. MPT Money, launched in January 2020, is the most recent entrant to the market. Since it can leverage MPT's large network of over 25,000 agents, it is expected to become an important player very quickly.
- **Bank-owned mobile money providers and operators that work in partnership with banks.** Examples of bank-owned providers are KBZ Pay by KBZ Bank, OnePay by AGD Bank, and CB Pay by CB Bank. Examples of operators that partner with banks are Ongo (in

15 GIZ (2018)
16 Central Bank of Myanmar Directive 1/2019, 29 January 2019
17 GIZ (2018)

partnership with Myanmar Oriental Bank) and True Money (in partnership with AGD Bank). Both types can leverage banks' large customer base to push better mobile payment capabilities.

- **Independent mobile money providers** (e.g. OkDollar). They are not restricted by a specific network but have more legwork to do to scale.

Mobile financial service providers offer different types of mobile financial services. These include digital wallets, remittances, bill payments, top-ups, and retail mobile payments.

Mobile money platforms are promising vehicles for improving financial inclusion in Myanmar. In particular, there is a high potential for banks, non-bank financial institutions and MFIs to use mobile money platforms to offer financial services to underserved groups. Examples include:

- **Wave Money**, a mobile financial services provider that partnered in late 2019 with Yoma Bank[18] to provide loans to its agents. Different financing or lending companies are expected to be on the Wave Money platform in the future, to offer microloans together with digital payment options.[19]
- **Ongo,** an app-based mobile money service, partnered with a number of MFIs (including DAWN and BRAC) to allow MFI clients to repay their loans via Ongo agents or through the Ongo smartphone application.

Informal Financial Services

Informal financial service providers have a long-lasting tradition and continue to play an important role in Myanmar. Based on interviews and desk research we understand that there are four key types of informal providers in the country: (1) moneylenders; (2) hundis; (3) pawnshops; and (4) other informal savings groups (Su Mae). [20]

1. **Moneylenders** are mostly the more wealthy individuals in a community who lend to people they know and trust. Their lending terms and degree of professionalisation vary: interest rates charged range from 3 percent per month (for collateralised loans) to 12 percent per month and are payable either daily, every 10 days or monthly. Loan maturities can span from a few days to a few years, with more common maturities being 2-4 months. For higher loan amounts collateral is required, but informal moneylenders are more flexible than banks with regard to items acceptable as collateral.
2. **Hundis** are informal value transfer systems used widely by local Myanmar citizens and offshore migrant workers to remit money and transport all types of goods domestically and internationally. The hundi system is unique because – unlike banks or formal money transfers– it delivers the money to the receiver's door. Hundis use less favourable exchange rates and make money off the spread in comparison with banks which primarily obtain profits by charging fees.
3. **Pawnshops** are semi-formal in that they are usually officially registered, yet it is unclear how these shops are supervised. They exchange goods (gold, jewellery, goods, or clothes), for

---

[18] "Wave Money and Yoma Bank team up to boost the development of Wave Money's agents and distributors"https://www.wavemoney.com.mm/wp-content/uploads/htd_Press-Release-Wave-Money-and-Yoma-Bank-team-up-to-support-MSMEs-ENG_FINAL-2.pdf

[19] Myanmar Financial Services Report, FMR, 2019

[20] This summary is based to a large extent on UNCDF & Finmark Trust (2018)

money, typically at an amount up to 80 percent of the collateral value. Interest rates range between 3 percent and 6 percent per month and loan tenor is generally a few months.

4. **Su Mae** are informal or semi-formal savings group established by NGOs or by community or workplace initiators. UNCDF estimates that there are more than 35,000 savings and credit groups with a penetration between 50 percent and 60 percent within Myanmar villages and wards. The interest rate of funds borrowed from a Su Mae vary between 2 percent and 4 percent per month, and loan tenor can go up to 3 times that of savings.

According to surveys commissioned by UNCDF,[21] the number of people dependent solely on informal service providers decreased from 2013 to 2018. Informal service providers are increasingly a complement to formal providers rather than a substitute for them, as many people now have access to a broader range of financial service providers.

Informal savings mechanisms are still popular. A significant portion of savings is still dominated by informal savings instruments such as gold or jewellery, informal savings and loans groups, and saving at home. Two main reasons for the continued popularity of informal savings are (1) the mistrust in formal financial institutions (e.g. the 2003 bank crisis is still on everybody's mind) and (2) the lack of real returns on formal savings products. The latter occurs because the current bank interest floor on savings is 8 percent p.a., while annual consumer price inflation was 8.6 percent in 2019 and is projected at 6.1 percent in 2020, which may still not mean a real positive return when taking into account savings account management costs. This suggests that there is still significant scope to attract formal savings if the interest floor on savings could be raised.

Other players

Cooperatives have also played an important role in extending financial inclusion in Myanmar. In 2018 there were 34,887 cooperatives with 3.2 million members,[22] offering both deposits and microloans in both urban and rural regions. Cooperatives are licensed by the Department of Cooperatives, which operates under the Ministry of Agriculture, Livestock, and Irrigation. The role of cooperatives in the provision of credit to the agricultural sector increased since cooperatives were used to channel loans to farmers and other companies in the agricultural sector from the China EXIM bank in 2013/14. The total facility provided by CHINA EXIM bank amounted to MMK 533 billion (USD 400 million) and has a 10-year tenor. As of March 2018, the total value of agricultural loans outstanding from cooperatives was MMK 529 billion (USD 345 million).[23]

The insurance sector is largely underdeveloped and has been in a state of transition since 2012, when the first local private companies received their insurance licences. Until then, the market had been entirely dominated by the state-owned Myanma Insurance. This company still maintains a dominant position over profitable insurance segments such as liability insurance, third party vehicle insurance, construction risk, and some health insurance products. [24]

21 UNCDF & Finmark Trust (2018)
22 UNCDF & Finmark Trust (2018)
23 UNCDF & Finmark Trust (2018)
24 GIZ (2016)

Private insurers are permitted to offer limited insurance products and are constrained by regulation. In particular, regulation requires that the same insurance policies are offered at the same prices. This limits competition and prevents further development of the sector.

In November 2019 the Ministry of Finance took a number of measures that liberalised the insurance sector. In particular, they authorised foreign insurers to operate wholly owned subsidiaries; they issued licenses to a handful of foreign insurance companies; [25] and provided for local-foreign joint ventures of insurance providers.[26] The announcement marks a significant step towards financial sector liberalisation, but tangible progress is yet to be seen.

2.2 MFI sector: supply-side developments

2.2.1 Key Historical Developments

The first microfinance projects in Myanmar started in the mid-1990s and were initially dominated by PACT UNDP. From the mid-1990s, the government started to allow large international NGOs to provide microfinance services. The most successful of these projects was initiated by the United Nations Development Programme (UNDP) in 1997, during the second phase of its Human Development Initiative. The project activities were initially implemented by three international NGOs (Grameen Trust in the Delta Region, GRET in Shan State, and PACT in the Dry Zone). In 2006, however, PACT was selected to become the sole implementing agency and by 2011 only PACT UNDP was legally allowed to operate in Myanmar. All other microfinance providers operated without legal status, which prevented them from scaling up their operations. As of March 2012, PACT UNDP operated in 25 townships, reaching over 350,000 active borrowers with a loan portfolio of MMK 42 billion (USD51 million).[27]

MFI sector growth took off with the enactment of the Microfinance Law in November 2011. The law allowed local and foreign companies to establish private MFIs, and provided a licensing regime for entities that were already running microfinance operations. Within one year from the passing of the law, close to 120 MFIs received licenses[28] due to low capital requirements that made it easy for small entities to apply for a license. In the following years, a number of foreign companies and international investors entered the microfinance market, either by establishing new greenfield microfinance operations (e.g. LOLC, ACLEDA, Fullerton), or by taking over operations of existing INGOs (e.g. Save the Children, GRET).

In the early years of operations under the 2011 Microfinance Law,[29] MFI growth was still constrained. Key constraining factors included (1) regulatory limitations, (2) a lack of funding

---

25 Five foreign companies were granted licenses to issue life insurance policies through wholly owned subsidiaries in November 2019: British Prudential, Japanese Dai-ichi Life, Hong Kong AIA, US Chubb and Canadian Manulife.

26 Three joint ventures for non-life insurance are between AYA Myanmar General Insurance and Tokyo-based Sompo Japan Nipponkoa Insurance; Grand Guardian General Insurance Co and Tokyo-based Tokio Marine & Nichido Fire Insurance; and IKBZ Insurance and Mitsui Sumitomo Insurance. Three life insurance JVs are between Capital Life Insurance and Tokyo-based Taiyo Life Insurance Co; Citizen Business Insurance and Bangkok-based Thai Life Insurance; and Grand Guardian Life Insurance Co and Osaka-based Nippon Life Insurance.

27 Duflos et al. (2013)

28 FMR FR Report (2018)

29 The Microfinance Law (The Pyidaungsu Hluttaw Law No.13), 30 November 2011.

from local banks (due in part to a lack of familiarity with microfinance) and (3) the absence of possibilities to borrow from international sources. International lenders, such as FMO, could not enter the market at the time since the cost of currency conversion and hedging made it prohibitively expensive for MFIs to access foreign loans. As a result, before 2016, international MFIs could finance themselves primarily from equity, grants or advances from investors and donors (mostly international). Local MFIs were also constrained in their access to funding, since they could only borrow from local lenders. (See the section on MFI funding later in this chapter for more details.)

Several other factors further boosted MFI sector growth since 2016. First, a new regulation in August 2016 gave all MFIs the ability to borrow from any local or international lenders.[30] Second, a new hedging mechanism became available (i.e. the LIFT-TCX hedging facility, which is described in Section 2.2.5 on 'MFI Funding'). These two factors combined fuelled the growth of the largest MFIs able to attract new borrowings.

Despite the growth in the number of MFIs, PACT UNDP has remained the largest player. In June 2014, UNDP ended its project and transferred its microfinance assets and funds to the Pact Global Microfinance Fund (PGMF). In 2015, the gross loan portfolio of PGMF already exceed USD100 million and was 10 times larger than that of the second largest MFI. Since then, the share of PGMF has decreased slightly but is still more than a quarter of the sector's total gross loan portfolio (and represents close to 30 percent of the sector's total assets). The Myanmar Microfinance Association reported in 2020 that the sector grew by 150 percent year-on-year since 2017 and that international MFIs generally had higher growth rates, given their easier access to funding.

Stricter capital adequacy requirements also triggered a first wave of market consolidation. A 2014 regulation laying out the criteria for deposit-taking MFIs was followed in 2016 by increased capital requirements. MFIs that were unable to meet the new requirements were granted the option of merging.

Up until the COVID-19 crisis, the MFI sector's portfolio quality was excellent. Both PAR30 and write-offs for the sector remained well below 1 percent throughout the past five years. This is an indication that the microfinance market as a whole was still far from reaching saturation. Nevertheless, a few selected market pockets had started showing initial signs of over-indebtedness (see Section '2.4.1 Challenges' for more detail).

MFI sector growth brought profitability and product differentiation. Between 2016 and 2018, several of the larger MFIs (e.g. DAWN, LOLC, Proximity) attained profitability, as their portfolio reached a large enough size to sustainably cover operating costs.[31] At the same time, MFIs introduced and developed individual loan products, partly in response to high demand from borrowers, and partly because these loans generally are more profitable for MFIs that can implement a sound credit risk assessment.

30 Microfinance Supervisory Committee Notification No. (1/2016), 29 August 2016.
31 Source: Mix Market. The break-even portfolio size varied for MFIs in a range between USD 5 million and USD 10 million for international MFIs.

2.2.2 Regulation and Supervision

The Financial Regulatory Department (FRD) of the Ministry of Planning, Finance and Industry is the agency in charge of regulating and supervising MFIs in Myanmar. The FRD's responsibilities include reviewing license applications, setting accounting and reporting standards, supervising MFI operations, and carrying out field inspections.

The legal framework for MFIs operating in Myanmar was first established by the Microfinance Law enacted in November 2011[32] and was subsequently amended by various regulations.[33] The key pieces of regulation include the following:

- **Capital:** The minimum capital requirement is set at MMK 100 million (~USD 73k) for non-deposit taking MFIs and MMK 300 million (around USD 213,000) for deposit taking MFIs.
- **Loans:**
  - *Size*: Loan size is capped at MMK 10 million (around USD 7,350).
  - *Collateral*: MFIs cannot accept collateral for any type of loan products.
  - *Interest rate*: The directive issued by the Microfinance Supervisory Committee in June 2019 (1/2019) establishes the maximum interest rate on loans at 28 percent (down from previous 30 percent). Additional fees should not exceed 2 percent per annum (p.a.).
- **Borrowings:** The directive issued by the Microfinance Supervisory Committee in August 2016[34] establishes that all MFIs in Myanmar can borrow funds from local and foreign sources and in both local and foreign currency. This replaced the previous regulation that required local MFIs to borrow from local sources only and MFIs with foreign shareholders to borrow from international lenders.
- **Deposits:**
  - *Non-deposit* taking MFIs can attract compulsory deposits from their customers of up to 5 percent of their loan amount. The directive issued by the Microfinance Supervisory Committee in June 2019 establishes the minimum interest rate on compulsory savings at 10 percent (down from previous 15 percent).
  - *Deposit-taking MFIs*: in order to qualify for a deposit-taking license, an MFI must have (1) a minimum of 3 years of operations in Myanmar, (2) profits made for a minimum of 2 consecutive years, (3) a minimum of MMK 300 million (around USD 220,000) in paid up capital, (4) adequate MIS, and (5) adequate internal control. Deposit-taking MFIs are restricted to attract deposits only from their members but there is no restriction on the amount of voluntary savings that a licensed deposit-taking MFI can collect, as far as it is compliant with the required prudential ratios (see below). Minimum interest rate on voluntary savings is set at 10 percent.
- **Prudential regulation:**
  - *Solvency ratio:* Equity to Assets should be greater than 12 percent.
  - *Liquidity:* Deposit-taking MFIs must maintain liquidity (i.e. the sum of cash in hand and cash at bank) greater than 25 percent of voluntary deposits.

In 2017, the Myanmar Microfinance Association (MMFA) prepared a position paper requesting several changes to the MFI regulation.[35] In particular, they requested to allow MFIs to take collateral for loans larger than MMK 3 million (around USD 2,200), to increase the

---

32 The Microfinance Law (The Pyidaungsu Hluttaw Law No.13), 30th, November, 2011
33 Microfinance Supervisory Committee Notification No. (1/2016), 29th August 2016
34 Microfinance Supervisory Committee Notification No. (1/2016), 29th August 2016
35 Myanmar Financial Services Report, FMR, 2019

maximum loan size to MMK 30 million (around USD 22,000), to take deposits from the general public (and not only from its members, as is currently allowed for deposit-taking MFIs) and to request clarity around MFIs' use of mobile and digital systems, including making it clear that the existing legal framework for digital financial services will not restrict MFIs. Our interviews with MFIs echoed that these restrictions were constraining their potential.[36]

The new Microfinance Business Law, which at the time of writing this report was expected to be adopted in 2020, will likely contain some positive changes. Judging by a draft of the revised law, which was published in The Mirror Daily and Myanmar Alin Daily in October 2019, the new law would allow MFIs to (1) act as insurance agents, (2) offer hire-purchase products; (3) engage in digital financial services. In addition, the draft regulation increases the coordination role of the MMFA. However, the draft does not include a provision for either higher loan sizes, collateral, or public deposits.

2.2.3 Microfinance Sector Characteristics

MFIs

Despite the large number of MFIs in Myanmar, the MFI sector is quite concentrated. As of February 2020, there were 189 MFIs in Myanmar, serving 5 million clients. Out of these, around 10 were deposit-taking MFIs (the largest MFIs).[37] The top 20 MFIs represent over 85 percent of the MFI market. The largest MFI, Pact Global Microfinance Fund (PGMF) has a 30 percent market share in terms of number of clients and 31 percent in terms of portfolio size.

Most MFIs are very small. According to the MMFA, the size distribution of MFIs at the end of the financial year 2019 was:[38]

- 30 MFIs with total assets over MMK 10 billion, up from 3 in 2017
- 40 MFIs with total assets over MMK 1 billion, up from 35 in 2017
- 103 MFIs with total assets below MMK 1 billion, down from 114 in 2017.

The largest MFIs are predominantly internationally owned. Table 2.2, which provides detailed information on the top 20 MFIs reveals that only two MFIs (Myat Kyu Thar and Maha) out of the top 20 are (mostly) locally owned.

36 However, some MFIs appear to apply lower caps themselves because of staff inability to process larger loans (see below under 'HR issues').
37 Source: Myanmar MicroFinance Association (MMFA).
38 The financial year 2019 ended in September 2019.

Table 2.2 FMO has supported five out of the top 20 MFIs in Myanmar (highlighted in grey)

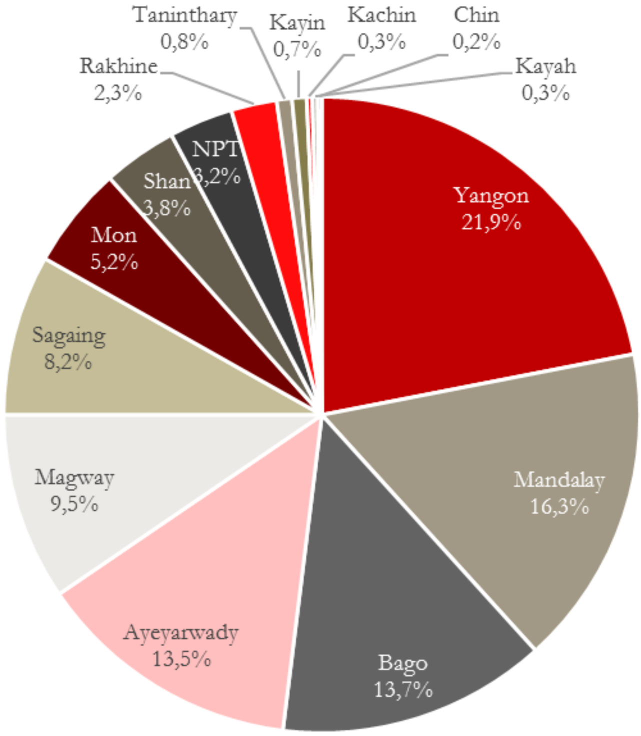
	Name of MFI	Credit		Deposits		Branches	PAR
		Borrowers	Portfolio	Depositors	Balance		
		% of top 20 total	% of top 20 total	% of top 20 total	% of top 20 total		
1	Pact Global Microfinance Fund (PGMF)	30	31	4	64	79	0.68%
2	Sathapana Limited	7	7	9	4	22	0.07%
3	Fullerton Finance Myanmar Co., Ltd.	5	6	5	1	37	0.31%
4	LOLC Myanmar MFI Co., Ltd.	4	6	6	6	53	0.42%
5	Vision Fund Myanmar	6	6	10	6	51	0.10%
6	Early Dawn MFI Co., Ltd.	6	5	9	2	57	0.30%
7	Alliance Microfinance	5	5	14	3	33	0.01%
8	KEB Hana Microfinace	3	4	4	1	35	0.78%
9	ACLEDA MFI Myanmar Co., Ltd.	3	4	5	4	9	0.15%
10	BNK Capital Myanmar	5	4	6	2	20	0.06%
11	Myat Kyu Thar	5	3	7	2	25	0.10%
12	Easy microfinance	3	3	-	-	16	0.14%
13	Proximity Finance	3	3	1	0	16	0.80%
14	Maha Agriculture Public Co., Ltd.	1	2	1	1	30	0.15%
15	BG Microfinance Myanmar Co., Ltd.	4	2	6	1	47	0.02%
16	BRAC	3	2	4	1	53	1.35%
17	Myanmar Finance International Ltd.	2	2	3	2	11	2.10%
18	Hayman Capital Co., Ltd.	3	2	4	1	14	0.50%
19	Advans MFI Myanmar Company Limited	1	2	-	-	11	0.00%
20	Shinhan Microfinance	1.3	1	2	0.6	N/A	0.26%
	TOTAL TOP 20	3,180,827	MMK 1,053 bn	2,413,866	MMK 168 bn	-	-

Source: MIX Market (2019), Myanmar Microfinance Association (2019) and other local sources (amounts in MMK, as of March 2019). Figure in percentages are in percent of top 20 MFIs.

Up until the COVID-19 crisis, the portfolio quality of the MFI sector was excellent. Both PAR30 and write-offs for the sector remained well below 1 percent throughout the past five years. The aggregate PAR30 for the sector stood at 0.7 percent as of December 2019.

MFIs operations are largely concentrated in urban areas, with the states of Yangon, Mandalay and Bago accounting for more than half of the MFIs' clients, as shown in Figure 2.2. Yangon and Mandalay are the two largest cities in the country. Bago is a large city 1.5 hours from Yangon, on the Yangon-Mandalay highway. Ayeyarwady is a fertile agricultural region with some beach resorts, and is the second most populous region. Distribution of MFIs' portfolio outstanding follows the same distribution.

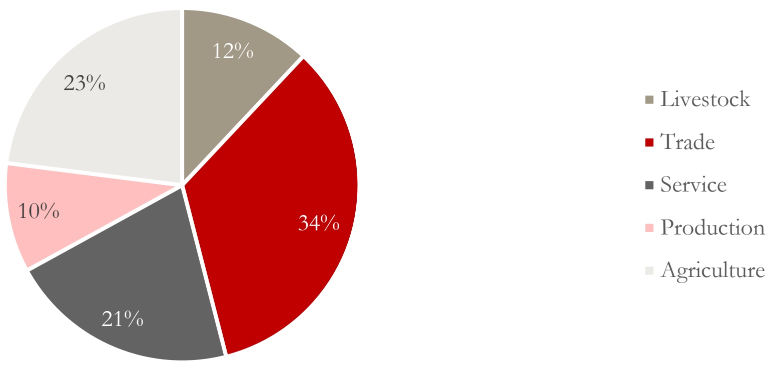
Figure 2.2 More than half of all MFI clients are in urban areas (Yangon, Mandalay, and Bago)



Source: Myanmar Microfinance Association (August 2019, MFI share in terms of number of clients)

Consistent with their geographic distribution, MFI loans primarily finance urban activities. The most important of these are trade (34 percent of total MFI loans) and services (21 percent). While almost two-thirds of Myanmar's population work in agriculture,[39] agricultural loans represent only 23 percent and livestock loans represent only 12 percent of total MFI loans (see Figure 2.3).

Figure 2.3 Agriculture accounts for only 23% of MFI loans, despite employing 2/3 of the population



[39] GIZ 2018

Source: Myanmar Microfinance Association (MFI loan distribution by number of loans and by sector, August 2019)

The MMFA plays an increasingly important role in the development of the MFI sector. It was established in 2013 and legally formalised since 2016. Its activities include lobbying with the regulator to promote important sector reforms and offering capacity building and training activities. The latter is mostly done in collaboration with donor agencies, like USAID, IFC, and the Austrian Development Agency (ADA).

The draft new MFI regulation, currently being reviewed by the parliament, is expected to increase the role of the MMFA. As of February 2020, only 115 out of the 189 MFIs present in the country were members of the MMFA, and 70 regularly reported their performance data to the MMFA. Under the new regulation, all MFIs would be requested to participate in the MMFA.

MADB

The Myanmar Agricultural Development Bank (MADB) is a state-owned bank that has the policy mandate to provide subsidised loans to the agricultural sector, targeting the same segment of the population that MFIs target in rural area. The MADB portfolio is mostly constituted of seasonal crop loans (up to one year), and credit to purchase agriculture machineries (up to five years).

MADB alone is larger than the entire MFI sector, and almost three times the size of the top 20 MFI loan portfolio. As of February 2020, MADB had a branch network of over 200 branches, serving 1.7 million customers. It also had a gross loan portfolio of over MMK 2.1 trillion (equivalent to approximately USD 1.5 billion). This is more than the total value of the loan portfolio of all MFIs taken together (MMK 1.8 trillion or USD 1.3 billion).

Nevertheless, MADB is operating at a loss, due to (1) a narrow interest rate margin, (2) a high level of arrears (NPLs), and (3) internal inefficiencies. Interest rates vary year by year, as mandated by the Ministry of Planning and Finance, but have fallen steadily over the last two decades. MADB orally reported that it lent at 17 percent in 2000-01, 13 percent in 2012-13, 8.5 percent in 2014-15 and at 8 percent in 2016-2019. Concurrently, MADB borrows primarily from Myanmar Economic Bank (MEB) at a 5 percent annual interest rate, implying a narrow interest rate margin (of 3 percent, which is unlikely to be able to cover operating expenses). [40] As of February 2020, MADB reported MMK 294 billion in non-performing loans (i.e., 13.6 percent of its portfolio), significantly underperforming the MFI sector given its inefficiencies, lack of internal controls and lack of incentives for borrower to repay the loan (given that an interest rate of 8 percent p.a. is the lowest available in the market).

In order to improve its collection rates, MADB recently started moving away from uncollateralised lending and group guarantees. Starting in 2018, MADB started collecting land ownership certificates of borrowers' properties (mainly real estate) as collateral for its new loans. However, while these certificates are physically kept in a bank's safe, MFIs cannot request or use them, as they are not allowed to request collateral for their loans.

---

[40] For comparison, as of March 2019 two of the most efficient MFIs in Myanmar had an operating expense ratio of 5.3% and 8.6% respectively (calculated based on Mix Market data).

Other Players

Private banks typically do not serve MFI clients, but other players serving microfinance clients include several other cooperatives, supervised by the Ministry of Cooperatives. Most private banks are not involved in direct provision of microfinance services due to regulatory constraints or lack of understanding the sector.

Yoma Bank represents an exception, since it is the first Myanmar bank to successfully launch and grow a digital credit product in November 2018, targeting micro and small business owners with loans from MMK 1 million (~USD 735) to MMK 10 million (~USD 7350). As of 17 February 2020, the digital credit portfolio of Yoma Bank reached MMK 29 billion (~USD 21 million), with more than 10,000 loans outstanding.

Yoma Bank's digital credit offer could become a sizable competitor of MFI individual lending. This is because it is both uncollateralised and cheaper than MFI loans (priced at 16 percent p.a. + fees, vs the MFI rate of 24-28 percent p.a. + fees). As of 17 February 2020, Yoma Bank's PAR 1 stood at 4.8 percent while its PAR 90 stood at 1.5 percent. These figures are much higher than those reported by MFIs but seem reasonable, considering the 'full tech approach' adopted by the bank.

2.2.4 MFI Product Offer

Credit Products

Group Loans: MFIs in Myanmar offer primarily group loans: as of February 2020, 70 percent of loans provided by MFIs that report to the MMFA are group loans. Group loan characteristics vary among different MFIs, but in general the loan size for group loans is capped at a lower amount than allowed by regulation (up to MMK 1 or 2 million, ~USD 735 or 1,470). Loan tenor can go up to 18 months and repayment frequency can be weekly, fortnightly or monthly. The pricing is regulated and hence standardised at 28 percent p.a. plus up to 2 percent p.a. in fees. Interest is calculated with a diminishing balance interest rate method.

Individual Loans: The largest and more sophisticated MFIs have developed individual loan products, with loan size up to MMK 10 million (~USD 7350), and loan tenor up to 24 months. They are generally repaid with monthly frequency. Similarly to group loans, individual loan pricing is capped 28 percent p.a. plus up to 2 percent p.a. in fees, but MFIs can offer cheaper pricing for good customers (down to 24 percent p.a.). Interest is calculated with the declining method.

Agricultural Loans: These loans can be offered as group or individual loans. They are designed to have repayments concentrated in the harvesting seasons with fortnightly or monthly interest payments, allowing farming families to invest in their crops or cover their expenses between harvests.

Hire-Purchase Products: While not yet specifically allowed by the microfinance regulation, several MFIs carry out micro-leasing through hire-purchase products, as Myanmar still lacks a regulatory and licensing framework for leasing. The majority of hire-purchase in rural areas is for agricultural equipment.

Other Loan Products: MFIs have progressively started differentiating their loan product offer, although these products still represent a very small portion of MFI portfolios. Alternative loan products include, among others: migration loans, garment workers loans, salary loans, and loans for people with disabilities.

Deposit Products

Deposit products are regulated and therefore standardised. A distinction can be made here between compulsory deposits and voluntary deposits: [41]

- **Compulsory deposits:** All MFIs are allowed to offer compulsory deposits to their clients for an amount of up to 5 percent of the loan amount granted. The minimum annual interest rate on compulsory deposits is 14 percent. According to market participants, it has become general practice for MFIs in Myanmar to request compulsory deposits from all their clients as a condition to access a loan. Compulsory deposits are generally deducted from the loan amount at disbursement.
- **Voluntary deposits:** MFIs with a deposit-taking license can offer term deposits to their members (but not to the general public) at a minimum annual interest rate of 10 percent. Very few MFIs to date have received the deposit-taking license.[42] According to an MFI sector expert, there is some flexibility in interpreting the definition of "members" to whom deposits can be offered, with some MFIs providing deposits only to their existing loan clients, while other MFIs extend the definition of members to old clients or even new potential loan clients.

Insurance Products

The Microfinance Law of 2011 includes insurance within the scope of MFI activity, but in practice MFIs are to date de facto prohibited from offering insurance products. On the one hand, insurance is listed as one of the services that MFIs can broadly provide. On the other hand, products need to be reviewed and approved by the regulator, and to date the regulator does not allow MFIs to offer insurance. Some MFIs provide a basic insurance package built into the loan to cover borrowers in the event of their death. However, this is not framed as insurance and not offered as such. At the time of offering a new loan, MFIs usually charge an extra fee, added to the cost of the loan, which is paid into a pool of funds ("social welfare fund") used to clear loans and cover funeral expenses for customers who pass away.

The new Microfinance Business Law, expected to be enacted in 2020, allows MFIs to act as agents for insurance companies. This will decrease MFI risk - since clients that have an insurance cover are less impacted by external shocks and can therefore maintain good repayment rates- and enable MFIs to tap into an additional revenue stream.

2.2.5 MFI Funding

In addition to regulatory hurdles, MFI access to local currency funding was constrained by a lack of affordable hedging instruments. As mentioned in Section 2.1.1, access to funding has historically been one of the major hurdles to MFI growth in Myanmar. Since MFI loans are all

---

41 The numbers in this paragraph are based on the Microfinance Business Supervisory Committee issued Directive 1/2019 that came into force on June 1, 2019: https://www.dfdl.com/resources/legal-and-tax-updates/myanmar-legal-update-new-set-of-interest-rates-for-microfinance-institutions/

42 The exact number could not be confirmed, but was estimated by market participants at around 10 MFIs.

denominated in local currency, attracting funding in foreign currency implies a major exchange rate risk for MFIs, particularly given the volatility of the Myanmar kyat (MMK). For the same reason, providing funding in local currency implies a major exchange rate risk for foreign investors. In the absence of an affordable hedging instrument, foreign investors had therefore been reluctant to provide local currency debt.

The Netherlands-based fund TCX has played a crucial role in supporting MFIs with attracting local currency funding from international lenders. This fund, which provides hedging solutions for alternative currencies, offered a hedging instrument at a price that was on the high end for MFIs, yet commercially viable for some of them. However, for most MFIs this would have resulted in an effective interest rate in MMK above the interest rate ceiling on commercial lending imposed by the CBM, which at the time was capped at 13 percent. However, at the end of 2016, the Livelihoods and Food Security Multi-Donor Trust Fund (LIFT) made funds available to subsidise hedging costs and allow the provision of local currency loans at 13 percent. The subsidised hedging arrangement offered by TCX and LIFT made local currency lending attractive to foreign investors; the facility launched in December 2016 was vastly oversubscribed within a few minutes, with eventually over USD 200 million in requests.[43] In May 2019, TCX launched a second facility (even though the interest rate cap had been raised to 16 percent). At the time of writing this report, this facility had not yet been fully deployed.[44]

Nevertheless, hedging remains expensive for most MFIs and hedged funding is not available for all MFIs. Over the period 2016 – 2020, hedging costs for a 3-year loan averaged 9.98% within a range of 7.18% to 15.09% due to macroeconomic instability and exchange rate volatility. Combined with credit margins in USD, typically ranging from 4% to 8%, this made local currency debt financing expensive for most MFIs. We also note that access to the LIFT-TCX facility has been limited to selected applicants, which are generally larger and well-established institutions with an international network.[45]

The top 20 ('Tier 1') MFIs currently have good access to foreign funding, whereas other MFIs continue to be constrained. Since end-2016, most International Financial Institutions (IFIs) and Microfinance Investment Vehicles (MIVs) have supported the MFI sector growth with the provision of both foreign currency debt and local currency debt, typically hedged via LIFT-TCX (although FMO-MASSIF offers unhedged local currency funding).

Foreign debt has become the most important source of funding for MFIs and, according to the MMFA, has contributed to more than 80 percent of MFI sector growth in the last few years. However, these funds have been mostly directed towards the top 20 MFIs, most of which are internationally owned.[46] This is because Tier 1 MFIs tend to have (1) stronger corporate governance, (2) better established processes inspired by international best practices, (3) good internal control mechanisms, and (4) for international MFIs, pre-existing contacts with

43 "TCX & LIFT in Myanmar: Facilitating investment flows into microfinance": https://www.tcxfund.com/tcx-lift-in-myanmar/
44 LIFT/TXC Program 2.1: Information Memorandum: https://www.tcxfund.com/wp-content/uploads/2019/05/Information-Memorandum-LIFT-2.0.pdf
45 As explained further in Section 3.3, this means that FMO-MASSIF local currency loans continue to be additional, particularly for those MFIs that do not have access to LIFT-TCX.
46 See section '2.2.3 Microfinance Sector Characteristics' for more detail

international lenders. However, Tier 2 and Tier 3 international MFIs and most local MFIs have generally remained excluded from international borrowing.

Local banks have not been a significant source of funding for MFIs, but this is picking up. One of the major reasons for the lack of local bank funding is that MFIs cannot provide collateral, as they themselves are not allowed to accept collateral for any loan products. Several banks (including e.g. Yoma Bank, AGD Bank, and Aya Bank) offer leveraged back-to-back arrangements to the top 20 MFIs. In these arrangements, an MFI is required to maintain a USD deposit with the bank. The MFI can than borrow a multiple of that amount (e.g. 1.5 to 2 times) in MMK. Back-to-back transactions are fairly common, as they are partially collateralised by the USD deposit, but they end up being quite expensive for an MFI, which needs to pay both the cost of its USD borrowing and that of MMK borrowing.

Since February 2019, when the Central Bank of Myanmar allowed banks to extend uncollateralised loans, some MFIs have received uncollateralised loans. While local banks generally consider uncollateralised lending to MFIs too risky, a few local banks in Myanmar have started providing uncollateralised loans to the best performing MFIs. In addition, IFC is working on a partial credit guarantee scheme to further encourage local banks to lend to MFIs without the need for real estate or cash collateral.

The use of deposits as a source of funding has also been constrained. Under the current regulation, this is allowed only for MFIs that have obtained a deposit-taking license. Given that deposit-taking licenses are only available to MFIs that have concluded at least three years of operations and have reported profits in two consecutive years, deposit-taking licenses have been granted only to Tier 1 MFIs.[47] Other MFIs are only allowed to attract compulsory deposits from their members up to 5 percent of the loan amount granted. As of March 2019, the highest deposit-to-loan ratio was 33 percent for PACT, followed by 17.5 percent for LOLC and 16 percent for Vision Fund. All other MFIs maintained a lower deposit to loan ratio.

2.2.6 Client Protection Principles (CPP)

Since August 2016, the Microfinance Law requires MFIs to comply with Client Protection Principles (CPP). These include: appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and mechanisms for complaint resolution.

Compliance with CPP, however, does not seem to be taken very seriously in practice. The regulation does not include a definition of terms such as 'over-indebtedness' or 'fair and respectable treatment' of clients, nor are there any guidelines related to collection and protection of customer data. Based on our interviews, compliance with CPP also does not appear to be monitored by the regulator. Selected MFIs that we spoke with did not yet seem to have received the CPP Certification and did not appear to be in a rush to get it. According to market participants, it seems reasonable to expect that they are 'at least loosely compliant.'

---

47 See section '2.2.2 Regulation and Supervision' to see regulatory requirements to qualify for a deposit-taking license.

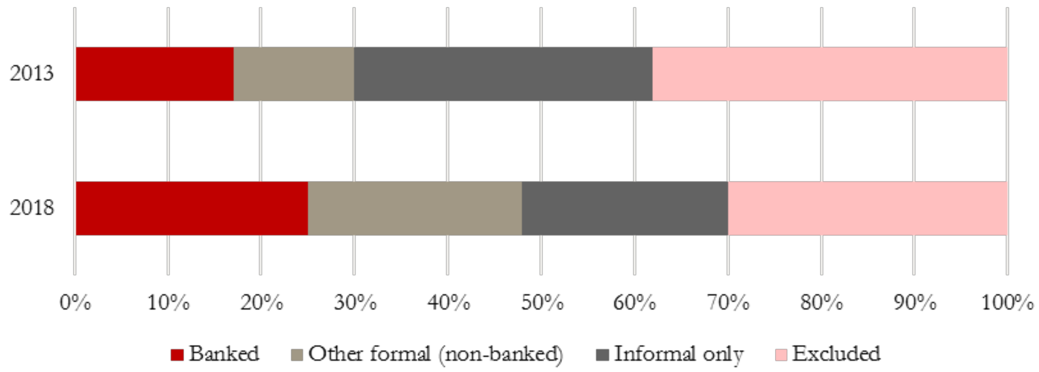
As of April 2020, only three MFIs had received the CPP Certification: (1) PACT (since April 2018), (2) LOLC Myanmar (since April 2019) and (3) MIFIDA (since December 2019).[48] However, several other MFIs endorsed the Smart Campaign, thus committing to taking steps towards the adoption of CPPs in their daily operations.[49] Among FMO clients, only DAWN and Maha endorsed the Smart Campaign. Despite many years of CD from Accion, however, DAWN had not yet obtained Smart certification, in part because this was deemed a long and bureaucratic process.

Additionally, some MFIs provide financial literacy programs and social welfare programs. Financial literacy programs tend to involve training of (potential) customers as well as distribution of materials, for example, a financial literacy booklet produced by LIFT. Social welfare programs tend to work as follows: an MFI maintains a 'social welfare fund' as an additional reserve account on the liability side of its balance sheet. In case of death of the customer, the MFI writes off a loan, renounces to collect the outstanding balance, and provides some financing to the family for funerals (all financed through the social welfare fund). As described earlier, the cost of this social welfare program is sometimes included in the cost of a loan.

2.3 MFI sector: demand-side developments

Access to finance from formal institutions increased significantly in Myanmar since 2013. As Figure 2.4 shows, the use of financial products from banks or other formal institutions (including MFIs) rose from 30 percent in 2013 to 48 percent in 2018. Access to formal financial products and services has increased across rural and urban areas, as well as for men and women.

Figure 2.4 Access to formal finance in Myanmar increased substantially between 2013 and 2018



Source: Myanmar Making Access Possible (MAP), 2013 and 2018

Note: "Other formal" refers to non-bank financial institutions, mainly MFIs. These numbers refer to the access to formal finance of individual consumers.

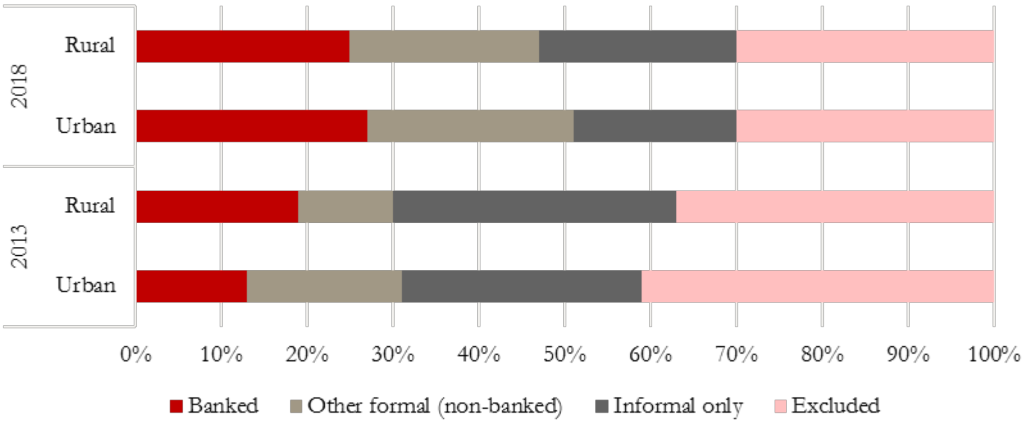
Nevertheless, access to finance has grown less in rural regions. As Figure 2.5 shows, access to formal finance increased more in urban than in rural areas between 2013 and 2018. Interestingly the share of 'banked' more than doubled in urban areas, from 13 percent to 27 percent while

48 Smart Campaign (https://www.smartcampaign.org/)

49 These include Advans, Alliance, ASA Microfinance, BC Finance Limited, BRAC, CARD, DAWN, Entrepreneurs du Monde, KEB, Hana Microfinance, Maha, Microfinance Delta International Company Limited, MDP Microfinance, Myanmar Finance International Limited, Proximity Finance, Socio-Lite Microfinance Foundation, Vision Fund Myanmar.

increasing only from 19 percent to 25 percent in rural areas. The faster increase in formal financial inclusion in urban areas as Yangon, Mandalay and Nay Pyi Taw is likely explained by lower costs of access due to higher population density and better infrastructure (Duflos, 2013; UNCDF & Finmark Trust, 2018).

Figure 2.5 Access to formal finance increased more in urban than in rural areas between 2013 and 2018



Source: Myanmar Making Access Possible (MAP), 2013 and 2018

Notes: "Other formal" refers to mainly MFIs. Note that rural access is driven mainly by MADB, which accounts for over 70 percent of rural access to banking. These numbers refer to the access to formal finance of individual consumers.

Even though around 70 percent of the population still lives in rural areas and depend on the agricultural sector (UNFPA, 2018; FAO 2019), only a small share of loans is made to the agricultural sector (Seward, 2012). The Myanmar Agricultural Development Bank (MADB) and the semi-private bank Myanmar Livestock and Fisheries Development Bank (MLFDB) supply small-scale loans to microenterprises in rural areas and the agricultural sector. Other formal financial institutions operating in rural areas are mainly MFIs. Commercial banks and foreign banks have exhibited less interest in microfinance loans because of strict regulations regarding collateral and interest rate caps. Moreover, in rural areas the financial infrastructure is underdeveloped and connectivity is poor (Duflos et al., 2013; UNCDF & Finmark Trust, 2018). However, some companies have begun to offer mobile financial services like KBZ Pay and Wave Money.

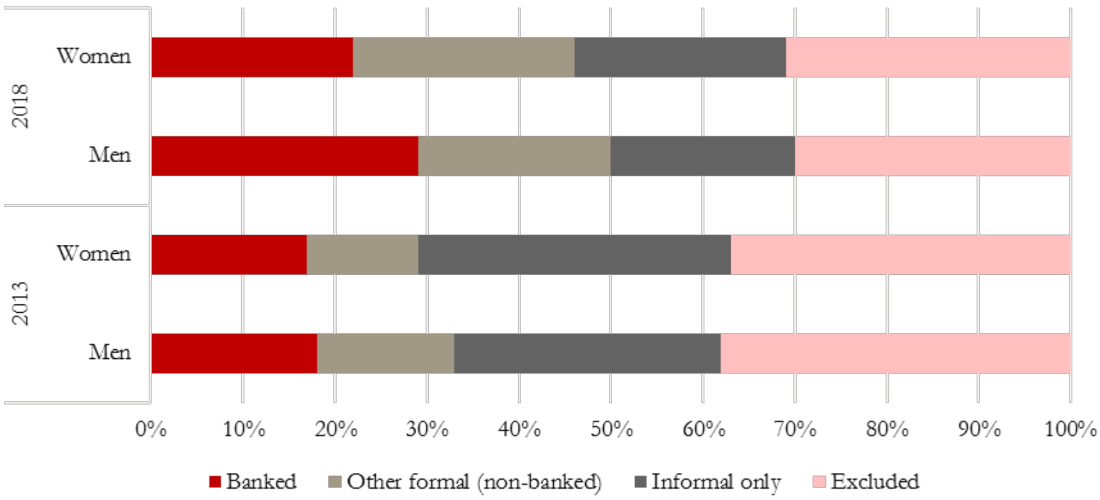
Demand-side factors that could explain the lack of financial inclusion in rural regions are its lower population density, lower level of income, and generally less lucrative economic opportunities. Myanmar's overall population density is quite low, and varies quite strongly across different regions and states. Rural areas in particular tend to have low population densities and poor (financial) infrastructure, due to which some areas are difficult or costly to access. (World Bank, 2019). In such areas, distance to a formal financial institution can be an important barrier. Moreover, incomes and economic opportunities in these regions also tend to be lower than in urban areas. These may well be the more fundamental reasons for the lower effective demand for finance.

When lack of financial infrastructure (and therefore distance) becomes a determining factor for the decision whether or not to borrow from a formal financial institution, people

tend to turn to more informal sources of finance, such as moneylenders and hundis[50] **or family and friends.** Increased MFI activity in rural areas is likely to explain the decrease in the exclusive use of informal sources and the increase in 'other formal sources', documented in Figure 2.5. The increase in regulated financial products suggests that a large share of demand for financial products by the rural population is still unserved.

Likewise, Figure 2.6 shows that access to formal finance increased somewhat more for men than for women in that same period. Men particularly increased their access to finance from formal banks, while women increased their access to finance from non-bank financial institutions, mainly MFIs. This could potentially be explained by the fact that more men are employed in the private sector or are own account workers than women (2014 Myanmar Population and Housing Census) and, MFIs, cooperatives and banks condition loans on property rights and wage slips. Women are more commonly involved in household activities and unpaid family work compared to men (2014 Myanmar Population and Housing Census).

Figure 2.6 Access to formal finance increased more for men than for women between 2013 and 2018



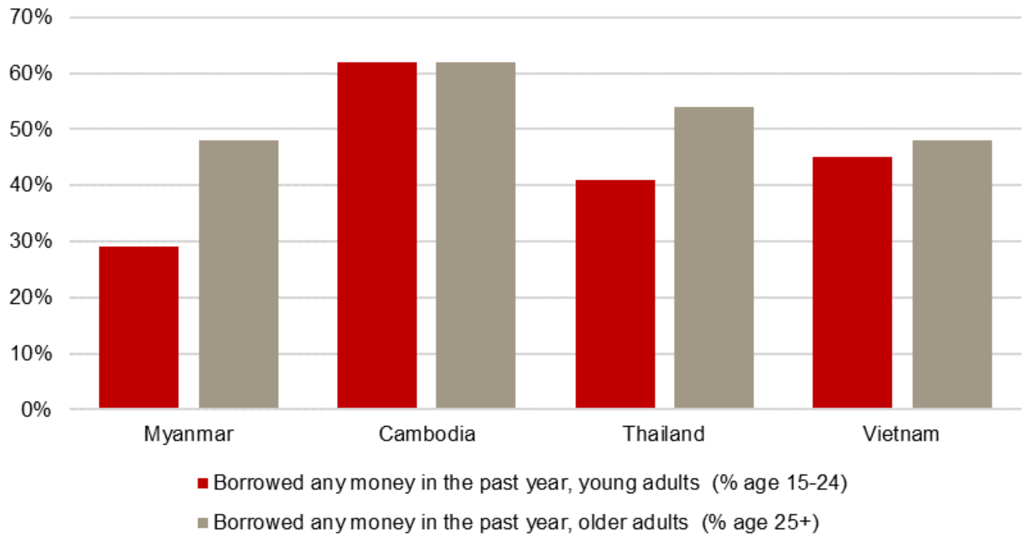
Source: Myanmar Making Access Possible (MAP), 2013 and 2018
Note: "Other formal" refers to non-bank financial institutions, mainly MFIs. These numbers refer to the access to formal finance of individual consumers.

Other groups that lag behind in terms of access to finance include youth, the poor, and the lower educated. Figure 2.7 illustrates that the share of young adults (aged 15-24) that borrowed any money (including from informal sources) has increased, but still remains lower in Myanmar than in other countries in the region, although already similar to Vietnam. Note that this does not necessarily mean that they are constrained in terms of access to finance, because it could also be that they see no need to borrow. However, recent research also points to economic groups whose financial needs are not being met by formal financial services. For example, the Myanmar Making Access Possible (MAP) survey from 2018 points to low credit use among the self-employed, who

[50] The 'hundi' system is an informal exchange in which paying someone in one location allows a payment to be made by an agent in a distant location and the difference is settled between the agents later on. This system was developed in India and remains quite popular in Myanmar, particularly for money transfers among workers.

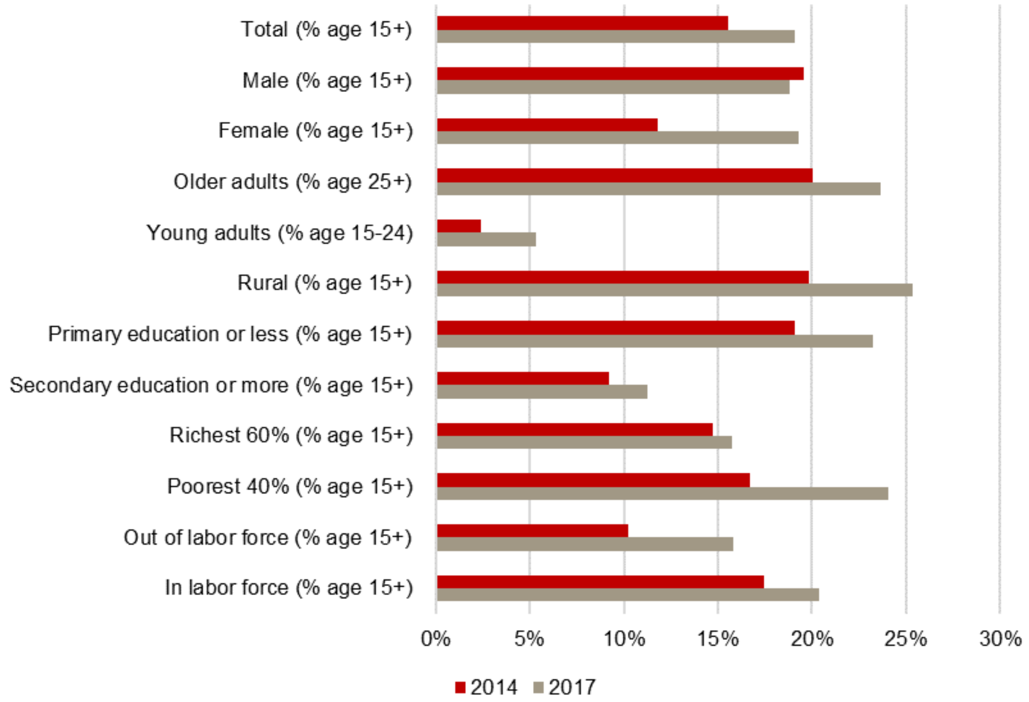
often made business investments with informal savings or remittances (MAP 2018, pp. 43-49). This suggests that the market for formal financial services is not yet fully developed.

Figure 2.7 Access to finance in 2014 in Myanmar was lower than in other countries in the region



Source: SEO Amsterdam Economics, based on IFC Global Findex (2018).

Figure 2.8 Access to formal microcredit has increased for many groups in Myanmar, but remains below 30 percent across the board.



Source: SEO Amsterdam Economics, based on IFC Global Findex (2018) data for Myanmar.

Financial depth has increased, but remains low relative to other South-East Asian countries. In 2013, only 6 percent of adults used more than one financial product from a formal institution (MAP 2013). By 2018, this had risen to 17 percent, but this is still relatively low for the region. The majority of adults remain narrowly served, with 31 percent using only one formal financial product, and 22 percent using informal products only (MAP 2018, p 27).

Savings at financial institutions has increased, but only 12 percent of adults have a formal savings account. The share of adults with a formal savings account doubled in the past 5 years, from 6 percent in 2013 to 12 percent in 2018. One of the reasons appears to be that most (if not all) MFIs request compulsory savings from their clients, and their number of clients increased 3-4 times since 2013. Nonetheless, the MAP surveys show that the overall savings rate also increased, as they estimated that the share of adults undertaking any kind of savings increased from 38 percent in 2013 to around 50 percent of the adult population in 2018. Nevertheless, a large share of savings remains outside of the financial system: based on the MAP 2018 survey, more than 75 percent of all savings nationwide were held in informal products; in particular, jewellery and gold alone accounted for 41 percent of all household savings in 2018. The attractiveness of jewellery and gold as saving instruments may be especially high due to the current environment of high inflation. The lack of trust in financial institutions likely also plays a role. This worsened after several crises, notably the cooperative crises in the 1980s and the banking crises in 2003 (Duflos et al., 2013).

2.4 Future MFI sector development

The MFI sector in Myanmar faces both challenges and opportunities going forward. On the one hand, it has enormous growth potential given that many people are still unserved or underserved in terms of access to finance. The MAP 2018 survey estimated that more than 50 percent of people in Myanmar did not have access to formal financial services, thus indicating a large unmet demand that can be tapped by MFIs in the future, including through new product offering and geographical expansion (as some areas are starting to show saturation). On the other hand, the sector continues to face regulatory bottlenecks, a lack of skilled labour, and additional portfolio risks and funding constraints resulting from COVID-19. By gradually addressing these challenges, it will be possible for the country to allow MFIs to attract more funding, thereby allowing them to increasingly respond to opportunities.

2.4.1 Opportunities

Subject to regulatory and COVID-19 related developments, the MFI sector in Myanmar still presents large opportunities for long-term growth. The main opportunities for long-term MFI market development can be classified into three categories:

1. opportunities for portfolio expansion (loan products and loan size);
2. opportunities for geographic expansion; and
3. other growth opportunities.

The realisation of these opportunities will depend importantly on whether regulatory approval for such expansion is granted, as well as on the duration and depth of the COVID-19 crisis. In addition, COVID-19 will also affect the speed of regulatory reforms.[51]

Portfolio expansion

There are several opportunities for product expansion:

1. **The transition from group loans to individual loans.** In our interviews with the MMFA as of early February 2020, they reported that group loans constituted more than 70 percent of the microfinance portfolio in Myanmar. Thus far, individual loans were mainly offered by the larger and more successful MFIs. As of early 2020, a number of MFIs were planning to make the transition from group lending to individual lending and were taking steps in this regard. However, since individual loans are typically larger and more risky than group loans, significant improvements in credit risk assessment and management are required for this market to take off. It is also likely that COVID-19 developments will slow down this transition.
2. **The provision of collateralised products**, when further regulatory changes will allow for it. Collateralised loans (with the exception of hire-purchase products) are however not included in the draft new regulation, currently in review at the parliament (see section on MFI regulation for more details). There is however the possibility that the new MFI law will allow for the provision of 'hire-purchase' products. A hire purchase, also called 'instalment plan,' is an arrangement whereby a customer agrees to a contract to acquire an asset by paying an initial instalment and repaying the balance of the price of the asset plus interest over a period of time. Being collateralised, hire-purchase products will allow MFIs to serve new segments of the market that would otherwise be too risky to be financed via uncollateralised lending, for example agricultural machines. This will open up new growth opportunities for MFIs.
3. **The provision of insurance products**. The new MFI regulation allows MFIs to act as agents for insurance companies, thus decreasing their risk and increasing profit through an additional revenue stream.
4. **The provision of digital credit products**. With over 120 percent SIM card penetration and over 40 percent Internet penetration as of January 2020, Myanmar offers promising opportunities for leveraging mobile technology to expand financial services to the unbanked, especially in rural and remote areas in a cost-effective manner. Among the first successful digital credit products targeting the MFI client segment was developed by Yoma Bank (see section 2.2.3 for more details).

Geographic expansion

A further expansion of MFIs to rural areas can represent a large growth opportunity for MFIs in the coming years. The large MAP (2018) survey cited in the previous section showed that 30 percent of people in Myanmar were still excluded from access to financial services (formal or informal) and 72 percent of financially included using informal products and services, whether alone or in combination with formal products. This suggests that there is still a large unserved or at least underserved market for MFIs to target in rural areas.

---

[51] On the one hand, the microfinance regulation (which was already approved by the lower house of parliament) is now stuck and its final approval will be delayed. On the other hand, there has been a number of fast initiatives to increase liquidity in the market (although thus far mostly limited to the banking sector).

The interest rate cap on MFI lending, while serving a social purpose, is still seen as a barrier for MFIs to expand in the more remote rural areas. The maximum interest rate MFIs are allowed to charge was increased over time, and has been fixed at 28 percent p.a. since June 2019. According to various market participants, this is still below the 'commercial' rate, given the higher costs required to acquire and serve clients in remote and sparsely populated locations.

According to financial sector experts in Myanmar, there are several ways in which MFIs could further increase access to finance in rural areas through the development of carefully designed agricultural lending products. Some of these measures could be taken by the local government, but donor assistance will likely be needed as well. Some possible measures include:

- **Increased offer of dedicated insurance products by insurance companies for farmers.** This can help to decrease variability in income and increase farmers' capacity to repay.
- **Allow MFIs to offer hire-purchase products for agricultural machinery**, as is already envisaged in the new MFI legislation.
- **Allow MFIs to offer digital financial services to farmers (also envisaged in the new MFI legislation).** This will reduce operating costs and reduce assessment time, thus responding promptly to financial needs of farmers, who currently borrow from informal moneylenders to cover their immediate liquidity needs.

Market participants identified a need for more training of MFI staff in order to encourage MFIs to make use of the above opportunities. First, many interviewees noted a need to increase agricultural know-how at the MFI level to reduce the risk of lending in rural areas. Second, market participants indicated a need for technical training in the new areas of hire-purchase products and digital financial services. If local knowledge institutions or the MMFA do not offer such training, there will be a need for agriculture-related capacity development for MFI staff by investors and other development partners. Ideally, this should be done in cooperation with the MMFA or local knowledge institutions so as to ensure sustainable knowledge transfer.

Other growth opportunities

Another opportunity for expansion is to allow the top MFIs to transform into microfinance banks. Following the example of other successful microfinance markets (e.g. Cambodia and India), it is reasonable to expect the best performing MFIs to eventually transform into microfinance banks and to attract deposits from the general public. Many of the top MFIs in Myanmar are already lobbying for this.

Finally, there are significant digital opportunities for expansion. These include the use of digital payment channels and the provision of digital financial services, which will likely be allowed by the new microfinance regulation. Such digital services would reduce the cost of serving more remote areas and could further improve the efficiency of MFIs.

2.4.2 Challenges

Despite the opportunities outlined above, many challenges also remain. The main ones discussed in this section are (a) funding challenges, (b) regulatory challenges, (c) human resource challenges, (d) over-indebtedness challenges, and (e) challenges related to COVID-19.

Funding challenges

Funding availability remains the first constraint to microfinance market growth mentioned by all parties interviewed. This includes several bottlenecks:

1. Funding from local banks is limited to two options:
    a. Leveraged back-to-back arrangements: the MFI deposits an amount in USD and can borrow against it a multiple of the USD amount in MMK. While more and more local banks started offering this arrangement it is still quite costly for MFIs, as they need to pay double borrowing costs (on both the USD and MMK amounts).
    b. Uncollateralised borrowing from local banks: as noted earlier, this has happened sporadically since it was allowed from February 2019, but options are still very limited as banks are reluctant to lend to MFIs without collateral.
2. **Borrowing from international lenders requires affordable hedging.** Hedging options are currently limited to back-to-back arrangements, short-term forwards (up to 6 months) and non-deliverable hedging mechanisms offered by TCX. At current market conditions, adding the cost of TCX hedging to the return required by international lenders still results in a total cost that exceeds the maximum interest rate on commercial loans allowed by the Myanmar Central Bank. This maximum interest rate had been increased from 13 percent to 16 percent p.a.(plus fees) in February 2019, but following the COVID-19 crisis was reduced again to 14.5 percent (plus fees) From 1 April 2020. The availability of TCX hedging in the last four years was largely made possible thanks to a subsidised mechanism financed by LIFT. This is however not yet commercially viable within the current pricing caps imposed by the regulator, since the subsidy is absorbing part of the costs that would otherwise be shared among the various stakeholders (MFIs, lenders and hedging providers). As long as a subsidy element is needed to meet regulatory requirements, it will not be a sustainable mechanism to finance MFIs' growth in the long run. [52]
3. **Lengthy approvals for foreign lending.** See the next section on regulation for more details.
4. **Limited options to use deposits as a funding source.** Under the current regulation, only deposit-taking MFIs can tap into savings to finance their operations, but they are only allowed to take deposits from their members[53]. While there is no restriction on the amount of voluntary savings that a licensed deposit-taking MFI can collect from its clients, they are not allowed to mobilise deposits from the general public. Thus for most MFIs deposits remain a limited source of funding.

Regulatory challenges

The regulatory environment for MFIs has improved, but remains weak and constraining to MFI market growth.[54] A new Microfinance Business Law was expected to further liberalise the market in 2020, but the draft in circulation has not yet been approved.

As of April 2020, limited technical and supervisory capacity at the regulator level still resulted in at least five bottlenecks for MFIs:

---

52 Note, however that TCX did hedge several transactions without subsidies, with smaller margins for lenders. According to a TCX representative, this is "the proof that a subsidy can leapfrog markets to non-subsidised debt even though those lenders are not motivated by a so-called 'commercial' margin."

53 The term « member » of an MFI is not clearly defined in the regulation, allowing for different interpretations at the MFI level.

54 ADB (2016)

1. **Lengthy approval required for foreign lending**: Central Bank approval is mandatory for foreign lenders and the process can take more than 2 months (and sometimes up to 6 months). This slows down the funding attraction process and therefore MFI growth prospects. In interviews, some MFIs reported having to slow down or stop operations in certain periods while waiting for delayed regulatory approval of their borrowings.
2. **MFIs cannot accept deposits from the general public.** As noted above, MFIs are restricted to collecting deposits only from members, which limits their ability to fund growth with deposits. Relaxing this constraint requires improving regulatory capacity to ensure that deposits are not at risk.
3. **MFI areas of operation need prior approval from local regulators.** MFIs are only permitted to open branches and acquire customers in specific areas for which the MFI has already obtained approval. While this arrangement is likely in place to reduce over-indebtedness and market saturation, the requirement of needing separate licenses for operations in different regions and states appears to constrain MFI growth.
4. **Pricing and products offered by MFIs are also regulated and hence standardised.** See section on regulation for more details.
5. **Funding limited to plain-vanilla options**: the regulator has limited familiarity with complex funding structures, thus funding instruments that are typically available in other markets (e.g. mezzanine financing, convertible loans, warrants, business correspondent model etc.) are not available to MFIs in Myanmar.

Human resource challenges

In addition to the funding constraints and regulatory bottlenecks, MFI growth in Myanmar is also constrained by the lack of skilled personnel. While lack of a skilled labour force is a challenge for most businesses in Myanmar, multiple stakeholders interviewed indicated that the MFI sector in particular has the following HR challenges:

- **Management and middle management**: the lack of a skilled local labour force to take on managerial responsibilities can be an obstacle to growth and innovation. This is particularly the case because most of the top 20 MFIs are led by foreigners, without a clear succession plan to local managers.
- **Junior staff**: The low quality of education in Myanmar offers only a limited pool from which to recruit junior staff. This is another factor that constraints growth and innovation. For example, most MFIs appear to cap their maximum loan size to less than half the regulatory limit, due to its staff inability to process larger loan applications.
- **High turnover rate**: a reported culture of limited staff loyalty to companies requires continuous MFI efforts to hire and train new employees, thus reducing productivity.

Over-indebtedness challenges

Given the rapid MFI sector growth, there are some emerging signs of over-indebtedness. This appears to be the case in particular in urban areas served by multiple MFIs and banks, notably Yangon, Mandalay and Bago. A survey conducted in 2018 by M-Cril[55] in the most crowded divisions[56] highlighted that 40 percent of borrowers in Yangon had three or more outstanding

[55] Multiple borrowings among MFI clients in Myanmar, M-Cril, June 2018. https://www.m-cril.com/pdf/M-CRIL%20-%20Findings%20Myanmar%20Survey%20Multiple%20Borrowing%202018.pdf

[56] Yangon, Delta, Bago, Mon, Mandalay

loans, more than 30 percent of borrowers in Bago and Mandalay had three or more outstanding loans. Also more than 5 percent of borrowers in Yangon and Bago had 5 or more loans, with clients reporting up to 7 or 8 current loans. Also, in addition to formal financial institutions, 9 percent of loans reported were taken from informal money lenders.

The lack of an official credit bureau serving the microfinance sector hinders the management of over-indebtedness risk. . While an official credit bureau is expected to be launched in 2020, with support from IFC, for the banking sector, MFIs would not covered by this credit bureau. The lack of a credit bureau means that MFIs have no way to verify the extent to which (potential) borrowers are already indebted with other MFIs, thus increasing the risk of over-borrowing. In all our interviews it emerged that MFIs want to reduce over-indebtedness and obtain information at the client level in order to avoid defaults. Some MFIs rely on local authorities and their own assessments to identify possible over-indebtedness, while other MFIs have adhered to a data sharing initiative among MFIs.

Instead of a credit bureau, there is now a data sharing initiative among MFIs, known as the Myanmar Credit Info Exchange or MCIX. This initiative was set up in October 2018 by a local technology provider, Thitsa Works, with the support of the Myanmar Microfinance Association. As of February 2020, MCIX collects data from 29 MFIs for a total of 2.1 million borrowers (approximately 40 percent of total MFI market). MFIs participating in MCIX are required to report 80 percent of their client data by the 15th of the following month.

One shortcoming of MCIX is that it lacks detailed and high-quality loan information that is necessary for an adequate indebtedness assessment. First, the system only collects basic client information (e.g., the last six digits of the client's ID number, name of institution from which a client borrows, and township). Additional information is added only if the loan has been written off. Second, MFIs can only check borrower information in those townships for which they are already reporting their data, thus MCIX data cannot currently be used to assess market saturation before starting operations in a new area. Third, the quality of the information provided is doubtful, as it is self-reported. While it is checked for consistency with historical data and the number of clients shared with FRD, there are no other mechanisms to ensure the quality of the information provided. Fourth, several key players (e.g. PACT) are not yet participating in MCIX, which weakens its efficacy.

The use of MCIX and other credit bureau-like initiatives is expected to increase over time, thus decreasing over-indebtedness risks. Thus far, participation in MCIX is on a voluntary basis, and larger players with better credit risk assessment capabilities may have incentives not to participate. Moreover, there are legal issues with sharing borrower information under the current microfinance law. However, the new microfinance regulation will specifically allow MFIs to share certain client data with credit bureaus and credit bureau-like initiatives, which will encourage more MFIs to use them. A number of MFIs and other market players have also called for including the largest MFIs in the official credit bureau, or having them regulated by the CBM.

Challenges related to COVID-19

At the time of writing this report, it is difficult to assess the full impact of COVID-19 on the microfinance sector in Myanmar. We include however the most relevant updates for the MFI sector as of 20 June 2020.

While the crisis is only in its early stages, it already seems obvious that MFI clients will be severely impacted by COVID-19 developments, affecting their repayment capacity. According to the World Bank (2020), the impact of short-term economic fluctuations related to the COVID-19 pandemic is likely to disproportionately harm poor and vulnerable households (World Bank, 2020). Travel and border trade restrictions related to the pandemic mean that the impact will be felt especially through (1) tourism-related services, (2) agricultural exports to China (68 percent of the poor in Myanmar work in agriculture), and (3) supply chain disruptions to manufacturing (notably for garments, which account for 13 percent of exports). As a consequence, delinquency rates of MFIs will likely increase in the coming months.

MFI operations were already significantly impacted during the months of March and April 2020. Since early March, group meetings were prohibited, and MFIs had to modify their group collection practices to received repayments from clients (e.g. requesting group leaders to collect payments for the entire group and deposit it at the MFI branch). On 6 April 2020, the FRD released a directive instructing all MFIs to temporarily suspend operations until 30 April, which was subsequently extended to 15 May. During the period from 6 April to 15 May, MFIs could keep their branches open with no more than 5 employees for emergency matters such as emergency loans, saving withdrawals and voluntary loan repayments. However, all disbursements and repayments "with force" had to be suspended. In addition to this directive, various measures were taken by local authorities, such as stopping MFI operations – and mandating the rescheduling of all microloans – in the Mandalay, Sagaing, Ayeyarwaddy, Shan and Magway regions, until April 30th. In addition the Mandalay regional government required all MFIs to waive interest on loans.

This could result in possible liquidity issues for MFIs. While a suspension of operations for almost 45 days is probably manageable for most MFIs, all of the larger MFIs are leveraged and will face some difficulty meeting liabilities without client repayments coming in and with decreasing prospects of further debt funding. MFIs might eventually face urgent liquidity issues and require moratoria on their loan repayments to lenders. Access to emergency liquidity funding might also be needed by some MFIs to keep operations running.

The central bank reduced the maximum lending rates for banks. Since April 2020, the maximum lending rates were reduced to 10 percent on collateralised lending (down from 13 percent) and 14.5 percent for un-collateralised lending (down from 16 percent), in an effort to increase liquidity in the market. The reduction of lending rates for banks had the unintended consequence that funding for MFIs that was secured under the second LIFT-TCX Facility was initially halted (because TCX cannot cover its hedging costs at a rate that is 1.5 percent lower than initially budgeted). LIFT responded by (1) requesting a waiver for loans under the second LIFT-TCX Facility, (2) allocating an additional USD 3 million in funding to its capital market program with TCX, which will allow qualifying MFIs in in Myanmar to access an additional USD 60 million in debt financing, and (3) by requesting that the interest rate paid by MFIs on the LIFT-TCX Facility will remain the same at 16 percent.

3 FMO's impact on the Myanmar MFI sector

This Chapter provides an overview of FMO activities with respect to four MFIs in Myanmar (Section 3.1), the characteristics of these MFIs (Section 3.2.), and an assessment of the financial and non-financial additionality of FMO activities (section 3.3).

3.1 Overview of FMO activity in Myanmar MFI sector

FMO's combined investments in ACLEDA, DAWN, Maha and Thitsar Ooyin amount to USD 25.8 million. Table 3.1 shows all investments and capacity development grants that FMO has provided to ACLEDA, DAWN, Maha and Thitsar Ooyin. All FMO-MASSIF investments in these four MFIs have been local currency loans.

Table 3.1 Overview of FMO's investments in four Myanmar MFIs

	ACLEDA	DAWN	Maha	Thitsar
First year of FMO investment	2017	2015	2019	2018
Type of investment (debt / equity)	Debt	Equity + Debt	Debt	Debt
FMO funds used for investments	MASSIF	MASSIF/FMO-A	MASSIF	MASSIF
FMO investments				
2015		USD 3mln (equity)		
2016		USD 3mln* (debt)		
2017	USD 3mln*			
2018	USD 5mln*	USD 5mln (debt)[57] USD 1.8mln (equity)		USD 2mln*
2019			USD 3mln*	
Capacity development		EUR 250k (2015)	EUR 80k (2018)	

Source: SEO Amsterdam Economics, based on FMO documentation.
*Despite loan amounts being expressed in USD equivalents, these loans were in local currency.

FMO started its investments in Myanmar with an equity investment in DAWN in 2015. One of the reasons for choosing equity rather than debt was that foreign debt funding was not possible before 2016, as described in the previous chapter. Having functioned first as a program created in 2002 by the NGO 'Save the Children', DAWN was transferred from an NGO to a for-profit MFI in 2015 and was jointly acquired by Accion (40 percent), Triodos (30 percent) and FMO (30 percent) in March 2015. The objective was "to establish DAWN as a premier MFI and model for Myanmar's nascent microfinance sector." [58]

In 2017 and 2018, FMO supported ACLEDA in Myanmar with two local currency loans, thus far amounting to USD 8 million in total. The funding objective of these investments was to "further expand its [ACLEDA's] lending operations to microfinance clients in urban and rural areas of Myanmar, who currently have limited or no access to capital".[59] In addition to these two

57 Commercial FMO-A loan.
58 https://www.fmo.nl/project-detail/49687
59 https://www.fmo.nl/project-detail/50637

loans, FMO currently also has an exposure on the parent company ABC in Cambodia, with a 5-year senior loan that matures in 2020.[60]

FMO started its involvement with Thitsar Ooyin in November 2018 with the signing of a USD 2 million loan in local currency equivalent. The investment in Thitsar Ooyin comprised the equivalent of USD 1 million (+1 million limit) senior unsecured debt in local currency to support the institution in its future loan growth plans. FMO's objective with this investment was to pursue its inclusive goals and geographically diversify its presence in Myanmar.[61]

In January 2019, FMO provided Maha with a USD 3 million loan in local currency equivalent. The aim of this loan was to "support Maha in reaching out to its farmers and small business owners in rural Myanmar" and help Maha "realise its growth ambitions in a challenging market where funding is scarce".[62]

Besides its financial investments, FMO also provided capacity development to two of the four mentioned MFIs:

- **In 2015, FMO provided DAWN with a grant of EUR 250k for a three-year project between 2015-17 that was implemented by Accion Advisory Services**. The project had three objectives: (1) scaling DAWN's current operations, (2) increasing DAWN's value proposition to clients and (3) leading consumer protection efforts, stakeholder dialogue and industry training.[63]
- **In 2018, FMO provided Maha with a grant of EUR 80,000 for a Capacity Development (CD) project on agricultural credit risk management.** This CD project started in October 2018 (prior to approval of the first investment) and involved the pilot deployment of a digital agri-lending suite built by Harvesting, a U.S.-based consultancy. The project aimed to provide digital credit scoring tools so as to allow Maha to better manage credit risk, including by building credit scores for farmers based on machine learning and multi-spectral imagery.

3.2 Characteristics of MFIs supported

The four MFIs that are part of this evaluation (ACLEDA, DAWN, Maha, and Thitsar Ooyin) together serve over 400,000 clients but differ substantially from one another in size, age, regional focus and activities. Each MFI faces different challenges, meaning that different lessons can be learned from analysing this sample. In analysing each MFI we took into account its current development phase and operational context.

60 https://www.fmo.nl/project-detail/31763
61 https://www.fmo.nl/project-detail/54888
62 https://www.fmo.nl/project-detail/55077
63 https://www.fmo.nl/project-detail/32719

Table 3.2 MFIs differ in age, size, regional focus and activities

	ACLEDA	DAWN	Maha	Thitsar
MFI history:				
Start year of MFI operations	2013	2015	2013	2018[64]
Ownership (local/foreign)	Foreign (Cambodia)	Foreign[65]	Local + foreign (IFC)	Foreign (France)
Clients and loans:				
Number of clients (end-2019/beginning 2020)	99,000	240,000	60,000	31,000
Loan portfolio size (2019)	33M USD	52M USD	16.5M USD	6.7M USD
Share of group loans	95 percent	90 percent	<10 percent	95 percent
Number of clients in a group	2-5 clients	10-30 clients	n/a	5 clients
Average loan size (group)	600 USD	165 USD	n/a	180 USD
Average loan size (individual)	2,800 USD	2,000 USD	610 USD	700 USD
Focus areas/characteristics:				
Deposit taking license	Yes	Yes	No	No
Urban/Rural focus	Urban/Rural	(Peri-)Urban	Rural	Rural
Key regions	Yangon, Bago and Mon	Yangon and Bago	Sagaing, Bago, Magway and NPT	Chin and Dry Zone
Number of branches	13	63	32	13
Share of agricultural loans	37 percent	17 percent	>99 percent	>80 percent
Share of loans to females	72 percent	>90 percent	53 percent	79 percent

Source: SEO Amsterdam Economics based on data from FMO and its clients.

3.2.1 ACLEDA

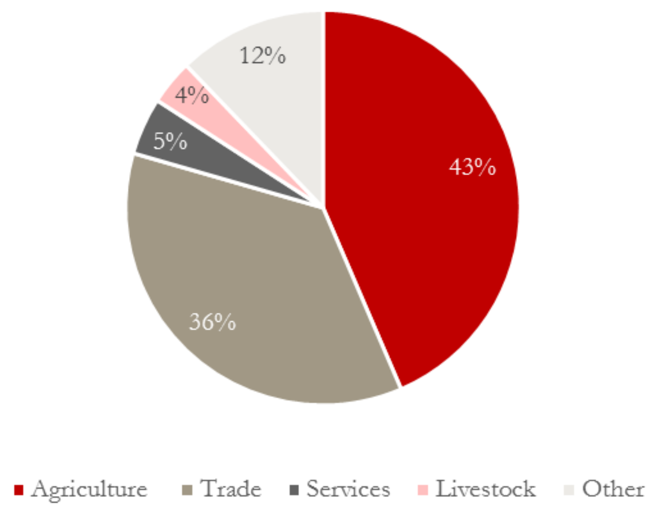
ACLEDA is among the largest 10 MFIs in Myanmar, serving nearly 100,000 clients through 13 branches in Yangon, Bago and Mon.[66] ACLEDA is owned by ACLEDA Bank Cambodia (hereafter ABC), which is Cambodia's largest bank and a long-standing partner of FMO.[67] ACLEDA operated its MFI in Myanmar since 2013 and became a client of FMO in December 2016.[68] ACLEDA has a deposit-taking license, meaning that it can collect deposits from its loan clients. Like other MFIs, it cannot take deposits from the general public.

ACLEDA's focus is predominantly on group lending for business purposes: these loans constitute almost 90 percent of the portfolio.[69] Compared to most other MFI group loans in Myanmar, ACLEDA's group loans are larger while the groups are smaller: typically between 2 and 5 people.

64 Thitsar's microfinance businesses were formerly operated by Gret Myanmar-Microfinance (in operation since 1995) and Gret Myanmar-dry zone (in operation since 2014).
65 FMO and Triodos hold a 30 percent share, whereas Accion holds a 40 percent share.
66 Client database ACLEDA as of November 2019
67 ACLEDA Bank Cambodia was originally an FMO-MASSIF client that subsequently graduated to FMO-A and eventually obtained full commercial market access, after which FMO exited this successful investment.
68 https://www.fmo.nl/project-detail/50637
69 Client database ACLEDA as of November 2019

ACLEDA focusses on providing financial services to female micro-entrepreneurs, who primarily engage in agriculture and trade-related activities (Figure 3.1). As of November 2019, nearly three quarters (72 percent) of their clients were female.[70]

Figure 3.1 ACLEDA mainly finances agriculture and trade-related activities



Source: SEO Amsterdam Economics, based on ACLEDA's client database as of November 2019

3.2.2 DAWN

DAWN was originally established as an NGO programme in 2002 by the non-profit organisation, Save the Children. In March 2015, a consortium consisting of FMO, Accion and Triodos Investment Management invested in DAWN to transfer the organisation from an NGO to a for-profit MFI. Since July 2018, DAWN has held a deposit-taking license.

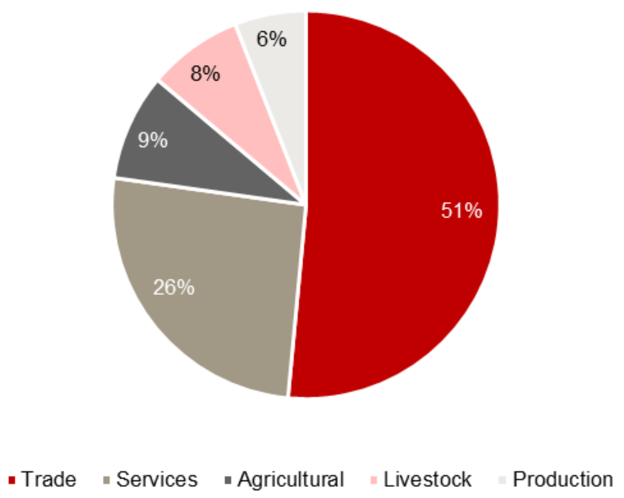
DAWN's portfolio grew significantly over the years and is now among the top 5 largest MFIs in Myanmar. As of December 2019, DAWN served more than 240,000 clients through 63 branches geographically dispersed across seven regions and states, DAWN was largely operating in (peri) urban areas around Yangon and Bago, but also operated in Mon, Kayin, Magway, Mandalay and Sagaing.

As of August 2019, 95 percent of DAWN portfolio consisted of group loans. These groups consist of 10-30 people and are formed at the township level. The average group loan equals USD 165.

DAWN mostly provides credit to female owners of small businesses in non-agricultural sectors. For group loans, it has a 100 percent female client base. The majority of its clients are small: micro and small business owners.

70 Client database ACLEDA as of November 2019

Figure 3.2 The majority of DAWN's clients are active in the trade sector



Source: SEO Amsterdam Economics, based on data provided by FMO

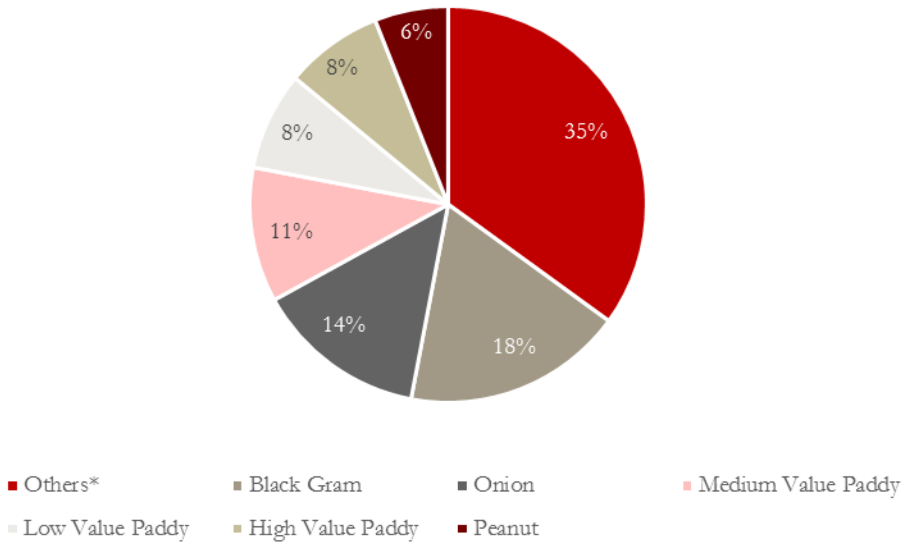
3.2.3 Maha

Maha is a microfinance institution focused on providing loans to more than 60,000 farmers in 8 regions of rural Myanmar. Maha was registered in 2013 and started operations in 2014. The main regions of operation are Sagaing, Bago, Magway and Nay Pyi Taw. Thus far, it holds a non-deposit-taking MFI license.

Maha focuses on individual agricultural loans rather than group loans.[71] This reflects the diversity of their client base, requiring different loan sizes according to farm size and different tenors according to the seasonality of crops. Over 90 percent of its portfolio consists of agricultural clients, of which over a quarter is devoted to rice cultivation. The remainder of the portfolio consists of MSME and vendor loans.

71 https://mahamfi.com/our-products/

Figure 3.3 Maha's clients mostly grow paddy (rice), black gram (beans), and onion



Source: Maha Monthly Dashboard Update, January 2020
* Other crops include chickpea (5 percent), garlic (5 percent), potato (5 percent) and flowers (3 percent), among others

3.2.4 Thitsar Ooyin

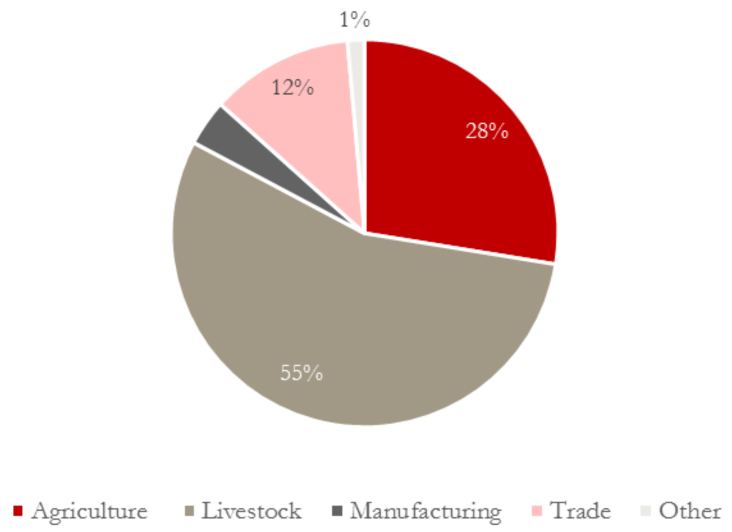
Thitsar Ooyin is a small MFI active in two of the poorest rural regions in Myanmar: Chin State and Dry Zone. As of end-2019, Thitsar Ooyin served around 31,000 clients through its 13 branches in 12 townships. It is headquartered in Hakha, the capital of Chin, which is a mountainous, sparsely populated state with the highest poverty rate in Myanmar.[72] Thitsar Ooyin was established by GRET, a French international development NGO founded in 1970. Operations in Chin State began in 1995, whereas in Dry Zone they began in 2014.

Thitsar Ooyin serves rural communities mainly with group loans with a focus on female clients. On average, approximately 80 percent of Thitsar Ooyin clients are women. As Figure 3.4 shows, 55 percent of clients had loans outstanding for livestock (as of November 2019), most of which is for pig breeding.[73]

72 https://www.gret.org/2018/12/microfinance-thitsar-ooyin-is-expanding-its-activities-in-myanmar/?lang=en

73 Pork production in Myanmar is primarily through small-holder farms, accounting for approximately 90% of pork production in 2018. (Myanmar Times 26 October 2018)

Figure 3.4 Thitsar Ooyin mainly finances livestock-related activities



Source: SEO Amsterdam Economics based on Thitsar Ooyin client database as of November 30, 2019

3.3 Additionality of FMO's investments in Myanmar

As described in Chapter 2, foreign debt funding for MFIs was virtually non-existent in Myanmar until 2016, so that international MFIs could only effectively fund themselves via foreign equity. Before 2016, local MFIs were only allowed to borrow from local sources and were prohibited from taking foreign debt. While foreign debt funding was not strictly forbidden for international (foreign owned) MFIs, obtaining approval was difficult and few investors were willing to provide local currency debt, given (a) the regulatory interest rate ceiling of 13 percent p.a. (raised to 16 percent only in 2019), (b) the volatility of the Myanmar kyat, and (c) the absence of affordable hedging instruments. Since end-2016, long-term foreign debt funding became available to MFIs in Myanmar, which significantly improved MFI's funding opportunities and lending capacities. However, all funding still needs to be checked and approved by the Central Bank of Myanmar (CBM), the Financial Regulatory Department (FRD) and the Microfinance Business Supervisory Committee.

3.3.1 Financial additionality

FMO's definition of financial additionality is consistent with the one provided by the Multilateral Development Banks Harmonised Framework for Additionality in Private Sector Operations.[74] It states that investments by Development Finance Institutions (DFIs) are (financially) additional if they provide financing that is "not available in the market from commercial sources on reasonable terms and conditions". DFI investments can therefore be financially additional not only if they offer increased amounts, but also if they offer a more attractive currency denomination (in particular, local currency financing), an extended tenor, or a

[74] This report was prepared by a group of Multilateral Development Banks (MDBs) in September 2018: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/resources/201809-mdbs-additionality-framework

longer grace period, compared to what is offered by the market. Note that offering a more attractive interest rate is not considered a source of financial additionality in the MDB framework, as it could be market distorting.

The financial additionality of FMO's early investments in Myanmar MFIs is abundantly clear, particularly as FMO offered equity and long-term local currency loans. This is especially the case for the first equity investment made in DAWN in December 2014, at a time that hardly anyone else was invested in the MFI sector in Myanmar.[75] Until 2016, foreign debt funding for MFIs was virtually non-existent in Myanmar and FMO was among the first foreign lenders to several MFIs. While foreign debt funding was not strictly forbidden, obtaining approval was difficult and very few lenders were willing to provide local currency debt, given (a) the regulatory interest rate ceiling (13 percent p.a. until early 2019),[76] (b) exchange rate volatility, and (c) the absence of affordable hedging instruments. This was not even the case for semi-private impact investors, let alone the commercial market. Any local currency loan provided by FMO was therefore highly additional. In addition, the fact that MFIs were not allowed to take general deposits from the public increased their funding gap.

One reason why FMO was able to make local currency loans within the strict regulatory limits was that the (global) MASSIF fund allowed it to offer unhedged local currency loans. While FMO's more commercial FMO-A fund would not have allowed it to take this currency risk, the MASSIF fund supported by the Dutch government allowed FMO to take this risk because of (i) the high need for funding; (ii) the heavy regulation preventing market rates (i.e., no commercial investor was interested in providing funding at 13 percent), and (iii) the expectation that market pricing would only become possible in the medium-run. Since few other DFIs (let alone commercial investors) were willing to take this risk, this made FMO highly additional.[77]

Between 2017 and early 2020, FMO's financial additionality for MFIs in Myanmar remained very high relative to commercial investors, but decreased somewhat vis-à-vis other DFIs. At the time of our visit in February 2020, just prior to the implementation of COVID-19 related policy measures, market access appeared to be good for three out of the four MFIs studied, and several of them noted that they now had sufficient interest from foreign lenders, including commercial ones. There were two main reasons for this decrease in additionality:

- First, the Livelihoods and Food Security Multi-Donor Trust Fund (LIFT) made funds available at the end of 2016 to subsidise the costs of hedging via TCX, a Netherlands-based foreign

---

75 The fact that FMO in several cases was among the first foreign investors can indeed be a source of additionality. Following DCED (2014), a publicly funded development programme is said to have 'input additionality' when "the public input resources are additional to what might anyway be invested or done by the applicant/partner company and other parties, *as well as the timing of it*". As the CEO of one of the MFIs noted, in the absence of FMO other investors may have come in, but later: "without FMO, the path to sustainability and profitability might have been delayed."

76 As described, below, this interest rate cap was raised to 16% in February 2019, and reduced again to 14.5% in April 2020.

77 Given the interest rate cap, there was no direct risk of crowding out commercial investors. However, one issue with DFIs offering funding at below-market pricing is that this could discourage MFIs to look for commercial funding. Moreover, it could possibly send the wrong signal to the regulator—suggesting that the interest rate cap of 13% was correctly priced, while in fact it was not. Given the small amounts offered at this low rate, however, we do not consider this an actual instance of 'crowding out', as the more likely counterfactual would have been that no commercial funding would have been provided.

exchange hedge fund.[78] This made it possible and more attractive for foreign investors to offer local currency loans to Myanmar MFIs within (or at) the 13 percent regulatory interest rate cap.

- Second, the interest rate cap itself was raised from 13 to 16 percent in February 2019.[79] This naturally further reduced costs and risks, and encouraged even some (semi-)private investors to come in (including e.g., Triodos, Maybank, Shinhan Bank), some of which also provided local currency loans with a tenor of three years. However, based on interviews with other investors and market participants, even the new cap of 16 percent was regarded as a below the market rate for commercial investors.[80]

Since the COVID-19 outbreak and related policy responses, MFI access to foreign funding has deteriorated again, implying that DFIs like FMO are once again highly additional in Myanmar. The COVID-19 pandemic and subsequent country policy responses have deteriorated both the economic prospects for end-clients in Myanmar and the conditions for foreign lenders, thus significantly limiting the prospects of commercial funding. Moreover, the regulator decreased the interest rate cap from 16 percent to 14.5 percent. This means that FMO and other DFIs continue to be highly additional, but investing in Myanmar MFIs has also become more risky.

3.3.2 Catalytic effects

In three out of four cases FMO investments in Myanmar spurred further investments from other investors. The equity investment in DAWN in particular provided a strong 'seal of approval'. Debt transactions were more likely to be catalytic when FMO was among the first lenders. For example, a large foreign investor (DFI) in Myanmar explained that when FMO, who has a strong reputation, provides more debt or equity it becomes easier and more attractive for them to approve more debt or equity funding as well.

Based on our analysis, it appears that these catalytic effects generally occurred because of two reasons (the first of which was generally seen as the most important):

- ***Reduction of perceived risk:*** The investment by a serious DFI such as FMO provides a positive signal that the risk of investing in this client is manageable, particularly as FMO is known to conduct thorough due diligence.
- ***Reduction of actual risk:*** The involvement of multiple investors reduces actual risk through (a) risk sharing via funding diversification and stability; and (b) improving corporate governance and overall management, e.g. through capacity development support.

Based on our research and field visit, we conclude that the main channel through which FMO had catalytic effects was by reducing perceived risks for other investors through a 'stamp of approval'. For example, a MFI client representative noted that the FMO investment had "facilitated relationships with other investors" and that "the FMO stamp of credibility makes us stronger. We can now reject small loans and request a higher minimum amount." By providing the very first sizeable international debt to one of the MFIs, FMO played an important catalytic

---

78 "TCX & LIFT in Myanmar: Facilitating investment flows into microfinance": https://www.tcxfund.com/tcx-lift-in-myanmar/

79 However, this cap was reduced again to 14.5% in April 2020 in response to the COVID-19 crisis.

80 According to an FMO officer familiar with Myanmar, 16 percent was close to being a market rate: "Maybe 16 percent still does not cover the full credit risk but at least you are making money."

role in mobilising other investors. Some of them even felt comfortable, with FMO present, in proposing significant commitments even preliminary to their due diligence.

It is also possible that FMO investments in Myanmar may have had some limited demonstration effects on local banks. During our visit in early 2020, multiple stakeholders noted that local banks were becoming more interested in increasing their investments in MFIs as they saw foreign investors with sound reputations, like FMO, pursuing microfinance investments. However, local banks were stymied from further investing in MFIs by their legal constraint prohibiting collateralised lending and by a lack of solid credit risk assessment skills.

The fact that other investors increased their funding to some FMO-investees after FMO does not necessarily indicate a causal relationship between FMO's presence and these 'follow-on' investments. In some cases, there were clear indications that FMO's investments directly contributed to mobilising new funding from other lenders, including by decreasing the actual and perceived risks of investing in these MFIs. In other cases, however, investments by other private impact investors took place prior, simultaneously, or followed within a few months of the FMO investments, which could mean that these other investments had already been in the making and that they would have occurred regardless of the FMO investment. Finally, there were also cases when it was more likely that these 'follow-on' investments happened because of changes in regulation (e.g., the increase from 13 percent to 16 percent) or another factor that reduced risks (e.g., the LIFT/TCX facility). Nevertheless, we found that the likelihood of catalytic effects was moderate to high in three out of four cases.

3.3.3 Non-financial additionality

In addition to being financially additional, FMO may be additional in non-financial ways. In FMO documentation, non-financial additionality is referred to as ESG additionality, which, in turn, is considered "an element in a financing package that cannot be easily obtained from other market parties… ensuring that outcome/returns to society will be higher than would otherwise be the case with other parties." [81] In practice, such elements can consist of capacity development or conditions imposed on the financing package, for example on which target groups to lend to. According to the aforementioned Multilateral Development Banks' Harmonised Framework, these elements can also include "strong safeguards, capacity building for clients, potential for market creation, or other positive externalities."[82]

Our evaluation findings suggest that the main impact of FMO was through its financial support rather than through its non-financial support to MFIs. During our interviews, all MFIs emphasised the importance of FMO's financial investment, but not many emphasised non-financial aspects. Several MFIs stated quite clearly that FMO had not changed their overall strategy,

[81] FMO Score Card Manual: Additionality

[82] https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/resources/201809-mdbs-additionality-framework

nor for example their target groups.[83] This was likely because the strategies of these MFIs were already considered to be fully in line with FMO's impact goals and target groups (targeting microfinance in a least developed country, with particular focus on women-led and rural MSMEs). As one FMO official noted, FMO does not by default intend to alter business strategies; rather, FMO invests *because* businesses have a good strategy that creates impact on end-beneficiaries. This having said, there were a few cases where FMO could have considered earmarking funds for specific underserved target groups, as some of its MFI clients operated in areas where market saturation had started to become an issue.

Based on our evaluations, it appears that the CD channel was not used to the fullest. In some cases, hardly any CD was provided, possibly because the investments were still relatively young and FMO usually first starts with a financial relationship before offering CD. In one case, a CD project was carried out that could be considered a failure: some key objectives were not met, and both the MFI client and responsible FMO staff noted that the pilot was not successful (but this is not unusual for pilots). In another case, the MFI client was more positive and noted that FMO had helped to strengthen their local capacity, including through a study visit to Cambodia. However, most CD to that client was provided by financially supporting another CD provider, and FMO appears to have had limited impact on the substance of the CD programme.

Since capacity development needs remain large, there is a lot of potential for FMO to do more CD in countries like Myanmar. If more CD staffing resources could be made available, which we understand is currently a constraint, FMO could both be more (non-financially) additional and achieve more impact through CD projects. We understand that some of this is already happening in response to a COVID-19 response package FMO has made available to its clients. In our concluding chapter, we provide concrete recommendations on this.

It is possible that FMO had some limited non-financial additionality through policy discussions with the regulator in the early years of its investments in Myanmar. According to one of the MFIs, FMO contributed by assessing and speaking with regulators about the challenges in the MFI sector in Myanmar from the very beginning. An FMO official who had worked on Myanmar in the early years confirmed that FMO, jointly with other foreign impact investors (including IFC, Symbiotics, and Triodos) had lobbied with regulators to loosen regulatory requirements. While both FMO and the regulator suggested that the contribution of FMO to policy changes was possibly not crucial,[84] the responsible FMO official believed that it was "with the help of" the group of foreign investors to which FMO belonged that the interest rate cap was raised from 8 percent to 10, 13, and then 16 percent: "We have come a long way." When asked what would have happened if FMO had not participated in these discussions, the FMO official responded that these regulatory changes would likely also have happened (as "IFC had the most lobbying power") but considered it possible that they might have happened later. In general, most

---

83 In one case, one MFI stated explicitly that neither FMO nor any other lender contributed to altering their strategy. In two cases, neither our desk research or interviews revealed examples of the MFI starting to do something very different from before, or of FMO affecting the MFI's business in a particular way that a commercial party would not have done.

84 The evaluation team tried to assess this by visiting the senior official from the Financial Regulatory Department (FRD) in Nay Pyi Taw, who had been identified by FMO as a key counterpart. However, this senior official did not recall having had such discussions with FMO in particular, possibly because FMO always held these discussions together with other foreign investors.

stakeholders interviewed agreed that the IFC and the World Bank have most influence on regulators in Myanmar, given that (a) they have local offices in Myanmar; (b) IFC's overall investments in the Myanmar MFI sector have been larger; and (c) the World Bank has been providing significant capacity development support to the CBM. Due to its relatively small size, FMO's non-financial additionality in the area of policy dialogue will therefore likely remain limited.

4 Impact MFIs on end-beneficiaries

The MFIs generally had a high impact on improving access to finance for end-beneficiaries (Section 4.1). Improved access to finance in turn generally had a high impact on improving their lives (section 4.2).

4.1 Impact of MFIs on improving access to finance

This Section aims to test the Theory of Change hypothesis that FMO contributes to improving access to finance for end-beneficiaries, in particular for underserved groups. In order to test this, it is important to understand (1) that what extent the groups served by FMO's MFI clients are 'unbanked' or 'underbanked'; (2) which groups in the country (e.g., women, youth, people in rural regions) are most underserved. In its documentation, FMO often assumes that certain groups (e.g. rural women) are specifically underserved, but thus far, not much analysis was done at FMO to ascertain this.

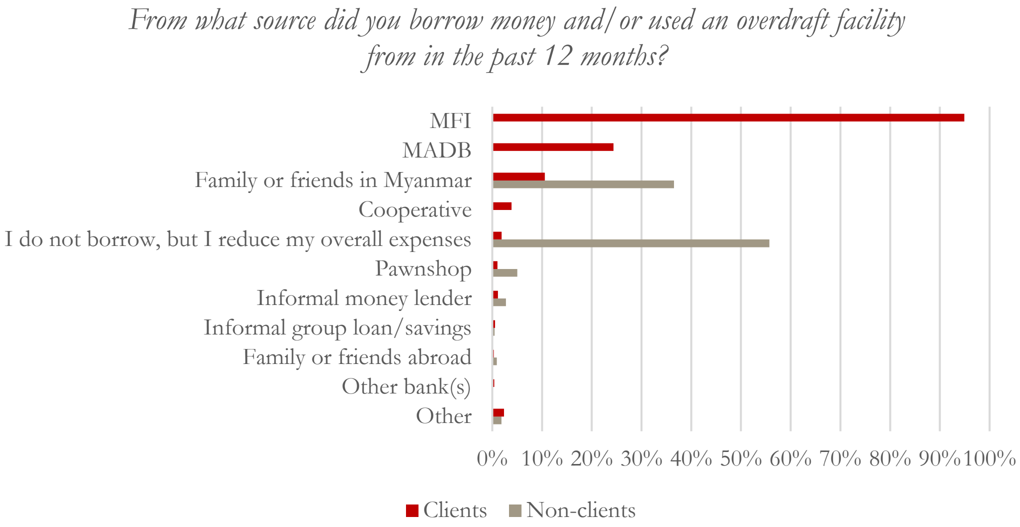
Our findings suggest that there are at least four ways in which the MFIs supported by FMO have contributed to improving their clients' access to finance:

1. **First, the four MFIs studied all increased their MFI client base and loan portfolio size significantly in the period following the first FMO investments.** As our data on loan portfolio growth show, both the number of clients and the size of the overall loan portfolio often increased rapidly in the period directly following the FMO investment, sometimes by 50 percent or 100 percent in one year. While one should be careful to attribute this solely to FMO, it does make it plausible that FMO funding was used in part to reach new clients and/or to increase lending to existing clients.

2. **Second, it seems likely that MFIs in Myanmar improved access to formal sources of finance for those who previously only had access to informal sources of financ**e. According to UNCDF, formal financial inclusion increased from 30 percent in 2013 to 48 percent in 2020[85] but remains below 50 percent. Our survey results indicate that 37 percent of non-MFI clients still relied on family and friends as a source for borrowing. This suggests that the MFI loans provided were used at least in part to substitute for informal sources of finance, and that there is still scope for more such substitution.

85 These estimates include people who have used at least one of the following services: credit, savings, insurance or payment from any financial service provider- bank and non-bank (MFI).

Figure 4.1 In the past 12 months, client respondents borrowed from MFIs and/or MADB; non-clients either did not borrow, or borrowed from family or friends



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020
Note: respondents were able to choose multiple answers

3. **A third way in which MFIs in Myanmar likely contributed to improving access to finance is by lowering the cost of borrowing.** This may have happened both directly (by being cheaper than informal lenders) and indirectly (by providing competitive pressures on informal lenders). Our survey confirmed that loans from MFIs were significantly cheaper than informal loans and loans from family and friends. As Figure 4.8 shows, surveyed clients responded that the annual interest rate they have to pay for a loan from an informal money lender is nearly 30 percentage points higher than the interest rate from an MFI (when asked directly). Follow-up interviews suggested that a key channel through which MFI loans affected incomes was that they lowered borrowing costs *directly* compared to the cost of borrowing from informal money lenders. Both MFI clients and non-clients described an MFI's lower interest rates as its main advantage over other financial service providers. In addition, several stakeholders noted that MFIs also lowered borrowing costs *indirectly*, through competitive pressures on informal money lenders. For example, multiple stakeholders noted that informal moneylenders typically used to lend at 10 percent or sometimes even 20 percent per month, but that a rate of 5 percent was now more typical in certain regions (e.g., Sagaing) given the competition from MFIs.

4. **A fourth way in which some of the MFIs improved access to finance is by expanding in remote rural regions.** The two rural MFIs that FMO supported (Thitsar Ooyin and Maha) both clearly improved access to formal finance for farmers in remote rural regions. While some farmers in these regions had access to subsidised agricultural bank (MADB) or cooperatives loans, the amounts they could borrow through those sources were limited due to a maximum loan size and strict eligibility requirements such as the possession of a land ownership certificate. Some MFIs stated explicitly that they were able to expand geographically because of the FMO funding. However, not all 'rural' regions are equally 'remote' anymore. In one instance, as many as 40 MFIs were registered in the southern part of one region previously

considered 'remote', of which 32 in the small town where one of the FMO investees had an office that we visited. Yet hardly any MFIs were registered in the northern part of the region, suggesting that there is still plenty of scope for MFIs to expand geographically.[86]

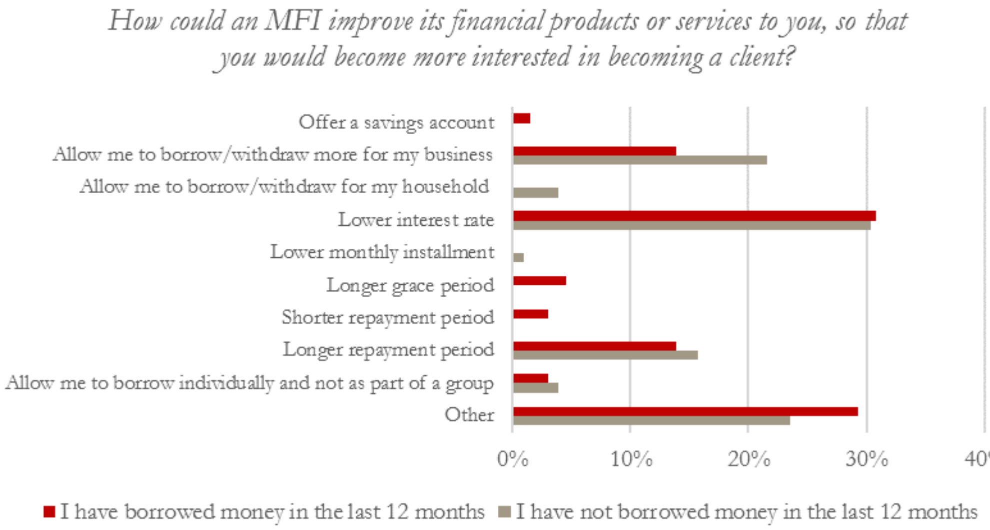
Based on our survey and follow-up phone interviews, non-clients that were not borrowing from MFIs explained how MFIs can make their financial services more attractive to them. In particular, non-clients said they would be more interested in becoming a client if they could obtain:

a. **Larger loans:** As Figure 4.2 shows, many of the unbanked non-clients (particularly the ones who did not borrow from any source in the past 12 months) would like to borrow more for their business, pointing to unmet demand.
b. **Lower interest rates:** Naturally both clients and non-clients indicated in surveys that they would like lower interest rates. Nevertheless, this did not seem to be the main barrier to access MFI loans, because other survey questions and follow-up interviews indicated that respondents perceived the interest rates at MFIs to be low compared to the cost of informal borrowing from money lenders.
c. **Longer loan tenors:** Both the survey and the follow-up interviews confirmed that a longer loan term is important to potential clients, especially farmers.[87] Providing longer-term loans, however, can only be done if the MFI also gets longer term funding (which for FMO means that providing longer loans to MFIs is more additional).
d. **More flexible repayment options:** Interviews suggested that facilitating repayment procedures could increase the demand for financial services. For example, A 50-year-old female residing in Magway explained that she would appreciate it if she could "deliver money with someone else instead of going to pay in person. Especially when I am busy." For similar reasons, quicker loan application processes and faster disbursement of loans were also appreciated.

[86] For example, one rural MFI had already have obtained formal permission to work in six townships in addition to the seven in which they were already operating, but liquidity constraints had prevented them thus far from opening branches there. This suggests that additional funding has good prospects of leading to improved access to finance in these additional townships.

[87] For example, a 42-year old female client residing in Magway said that she would prefer a loan with a longer term. She explained that, as a farmer, a loan term of six months can be difficult. "At the time of repayment if the crops are not yet harvested, we are in trouble."

Figure 4.2 Non-clients preferred to borrow more, at lower interest rates and with a longer repayment period



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020
Note: only non-clients answered this question

While the survey results did not show a strong interest in savings accounts at MFIs, other information sources suggested that offering more attractive savings options could be an opportunity for MFIs to further improving their funding. The savings rate in Myanmar is still lower than in other ASEAN countries. According to a financial sector expert, this is in part due to "a deep and historical preference for gold"[88] and in part due to the general low level of trust in financial institutions. One constraint here is that MFIs currently appear to use compulsory savings as a way to increase the effective interest rate they can charge their clients (e.g., charging interest on USD 100 while disbursing only USD 95). Another constraint is that, without stronger supervision of MFIs and a deposit insurance system, saving at an MFIs can be risky.

Phone interviews confirmed that clients and non-clients had an interest in saving, but did not consider saving at an MFI attractive. As a female MFI client in Yangon explained, "Nobody likes to save their money in the [MFI's deposit account] as we didn't get any interest fees." These interviews also suggested that there were some key barriers to using savings products at an MFI, including the difficulty of withdrawing MFI deposits[89] and the perception that it is not possible to save small amounts profitably at an MFI. For example, a 33-year old man from Bago explained that he saved in gold because "I do not have a large amount of money."[90] For others, a lack of mobility was the main barrier to saving at an MFI. For example, a 55-year old female from Pyay, Bago, explained that she saved in a group that kept aside "some money which we earned, especially to cover health expenses." However, she did not have any formal savings at the MFI because she

---

88 According to this interviewee, gold is in fact considered liquid in Myanmar: you can borrow anywhere if you pawn your gold; e.g., place your gold with your neighbor and get a quick loan for a week, then repay the loan and get your gold back.

89 A male client residing in Bago suggested that it more attractive to save in banks because MFIs make it more difficult to withdraw deposits: "If I am willing to save, I can save freely at other banks, where we can take out money if we want anytime, and where they have a card system [ATM card/Debit card/Credit Card]. For MFIs, they have procedures to take out money."

90 Similarly, another interviewee noted that "It is good to save at a bank when having plenty of money."

did not know "how to drive the motorbike. I sent money with [others] only. That's why I didn't save money [at the MFI]."

4.2 Impact of MFIs on the lives of the end-beneficiaries

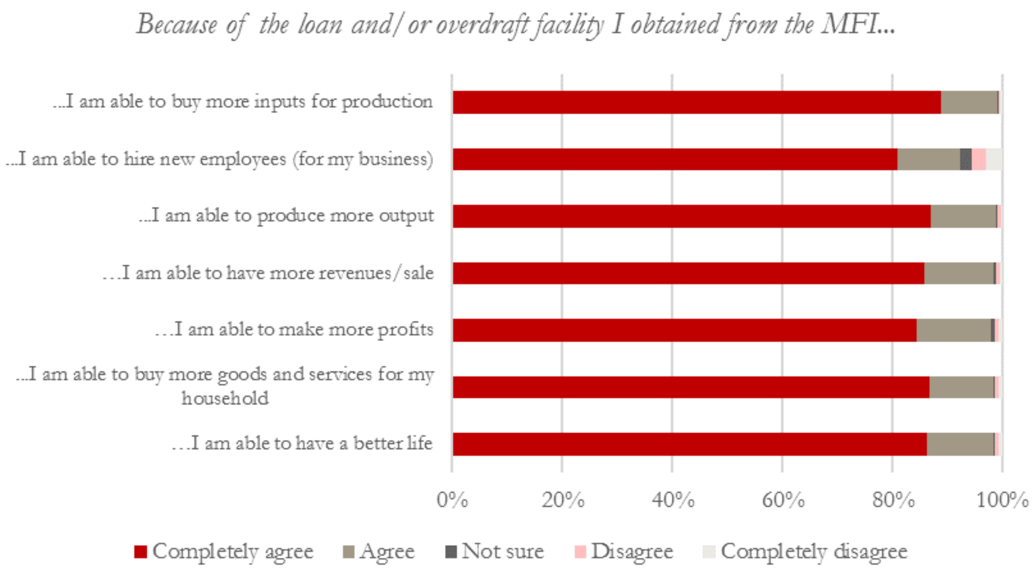
This Section aims to test the Theory of Change hypothesis that FMO contributes to improving the lives of end-beneficiaries. In order to test this, we need to determine (1) in what way the MFI loan was used, and (b) what impact this had on the lives of end-borrowers.

Our findings show that there are at least three indications that MFIs in Myanmar improved the lives of their clients.

1. The vast majority of MFI clients surveyed was highly positive about the impact of MFI loans on their inputs, employees, and outputs. As Figure 4.3 shows, 80-90 percent of respondents stated that it was <u>because</u> of the MFI loans that they were able to buy more inputs, hire new employees, and produce more output.
2. **A similarly overwhelming majority fully agreed that the MFI loans generated more revenues and profit, and allowed them to consume more goods and services.** In another large survey carried out by Maha itself, [91] borrowers saw a positive effect of loans on their production, output, revenues and profits. This suggests that, relative to a 'control group' that did not receive an MFI loan, agricultural loans improve agricultural outcomes (productivity, revenues) and increase household consumption. These results are broadly in line with the existing literature on microfinance, which has generally reported strong evidence for the positive effect of access to microcredit on (1) borrowing (2) business investment and expansion, and (3) consumption choice.
3. **85 percent of all respondents fully agreed with the statement that, because of the MFI loans, they are now able to have better lives.**

[91] This survey was carried out among more than 2000 borrowers and nearly 400 non-borrowers.

Figure 4.3 The vast majority of clients agreed that MFI loans allowed them to buy more inputs, hire new employees, produce more output, earn more income, and have a better life.



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020
Note: only clients answered these questions

While a positive respondent bias in surveys cannot be excluded, our interviews with clients generally confirmed that they had largely positive views on their MFI borrowing experience. For example, a 51-year-old man from Bago attributed his transition from day labourer to landowner to the MFI loan he received form the FMO investee: "If I had not received a loan like this, there would have been no chance for a villager like me to make an improvement [in my life]." Similarly, a 37-year-old female client residing in Yangon noted that, before the loan from the MFI, she and her husband "had to work at a shoes workshop as daily wage workers. After getting a loan from the MFI, we were able to establish a workshop at our house, hire workers for us. We can even give raw material to some workshops and take the finishing product (shoes) back." The evaluation team also spoke with a female MFI client residing in a rural village, who started out as a day labourer on other people's farms and road construction, but now she is an employer of others. Her MFI loan allowed her to pursue pig breeding and make a profit that she invested in producing high-revenue crops, like betel leaf. At the time we spoke to her, she had stopped being a day worker and even hired others.

Some follow-up phone interviews suggested a more limited impact of MFI loans, due to the relatively small size of the loans, particularly in urban areas. For example, one MFI client noted that there were "no significant changes in life" as they received a loan for only "4 lakhs or 5 lakhs" [around 266 to 333 euros]. Similarly, another client noted that they "actually cannot do much with this little amount of money. [The MFI] also cannot lend what the people need, which is a big amount of money. In this country, it is not good to do business with people like us, the poor. The rich people can invest the money and make a profit, but the poor are just busy with borrowing and returning the money."

These results should be seen in light of the existing literature on microfinance, which has generally reported strong evidence for the positive effect of microcredit on (a) access to credit and (b) business investment, but not on profits or income. Table 4.1 shows the results of seven prominent randomized control trials (RCTs) that are widely referred to in academic literature on microcredit. As this table shows, there is substantial evidence that MFIs improve access to credit (i.e., MFI credit does not just substitute for other sources of credit but improves the extent to which the credit needs of the poor are met and enables the poor to borrow more).[92] Moreover, strong evidence of significant increases in business investments were found in all six studies in which this was tested. However, as shown in the table, virtually none of the RCTs was able to find evidence for increases in profit or income.

The existing literature does provide some evidence that microcredit broadens consumption choice. In particular, there is considerable evidence that access to microcredit decreases non-essential or 'impulse' consumption in favor of other, generally more productive spending and investment priorities. Four out of the five studies that tested for the effects on consumption reported significant declines in consumption of non-essential 'temptation goods'[93] (such as alcohol, tobacco, sweets, betel leaves, and gambling) or in expenses on festivals and celebrations.[94]

There is less evidence in the literature for a number of other effects. First, the relationship between increased business investments and profits is not robust. Second, there is little to no evidence for large increases in total income or total consumption and household investments in education. Third, there is mixed evidence on the effect of access to microfinance on women empowerment and health. On the positive side, there is also no solid evidence for harmful effects, even in the case of individual loans and in areas with high interest rates.[95]

92 Karlan and Zinman, 2011; Angelucci, Karlan, and Zinman, 2015; Attanasio et al. 2015; Augsburg et al. 2015; Banerjee, et al., 2015; Crépon, et al., 2015; Tarozzi, Desai, Johnson 2015
93 Angelucci, Karlan, and Zinman, 2015; Attanasio et al. 2015, Banerjee, et al., 2015; Crépon, et al., 2015
94 Banerjee, et al. 2015, Crépon, et al., 2015
95 Augsburg et al. 2015; Angelucci, Karlan, and Zinman, 2015; Karlan and Zinman, 2011

Table 4.1 The literature on microfinance shows mixed results on effectiveness of microcredit

	The Philippines	Mexico	Mongolia	Bosnia and Herzegovina	India	Morocco	Ethiopia
↑ = significant increase x = insignificant ↓ = significant decrease	Men & women, individual loans, $110 - $550, > 60 percent APR.	Women, group liability, $450, 110 percent APR	Women, individual & group loans, $700, 27 percent APR	Men & women, individual loans, $1800, 22 percent APR	Women, group liability, $600, 24 percent APR	Men & women, group liability, $1100, 15 percent APR	Men & women, group liability, $600, 24 percent APR
Credit access		↑	↑	↑	↑	↑	↑
Has started a business	↓ *	x	x	x	x	x	x
Invested in business		↑	↑	↑	↑	↑	↑
Business profit	**x**	x	x	x	x	↑	x
Total income		x	x	x	x	x	x
Total consumption		x	↑	↓	x	x	
Consumption of Durables		↓	x	x	↑	x	
Consumption of Food		x	↑	x	x	x	
Health		x		x	x	x	
Education		x	x	x	x	x	
Temptation goods and festivals & celebrations		↓	x	↓	↓	↓	
Women empowerment		↑			x	x	x
Childrens' school attendance		x	x	x	x	x	x
Stress, depression,	x	↓		x			
Levels of trust in community	↑	↑					

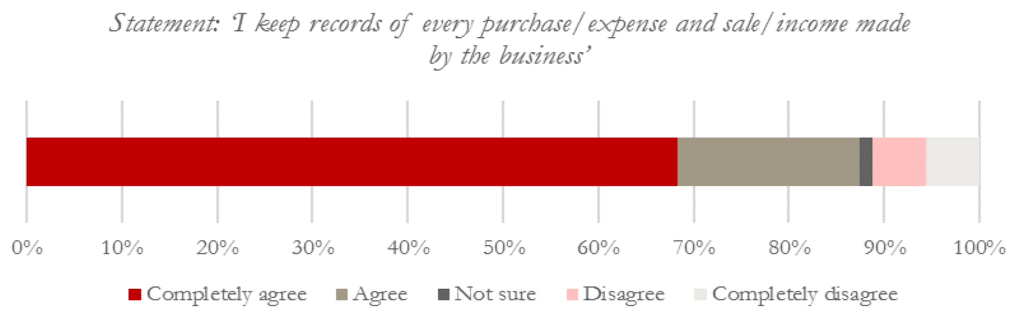
Source: SEO Amsterdam Economcis, based on Karlan and Zinman, 2011; Angelucci, Karlan, and Zinman, 2015; Attanasio et al. 2015; Augsburg et al. 2015; Banerjee, et al., 2015; Crépon, et al., 2015; Tarozzi, Desai, Johnson 2015.

4.3 Financial literacy

Our own survey results suggest that the level of financial literacy[96] in the MFI operating areas was mixed among both MFI clients and non-clients. While it was beyond the scope of this evaluation to conduct a thorough assessment of financial literacy in Myanmar, we used several independent data sources to obtain indicative information, given that the lack of financial literacy and awareness had been some of the "strongest doorstep barriers" to improving access to finance in Myanmar (MAP 2018). The sources we use to assess financial literacy were: (a) a survey among clients and non-clients; (b) follow-up phone interviews; (c) independent information sources such as the Myanmar Making Access Possible (MAP) survey data; and (d) interviews with other investors and financial sector experts.

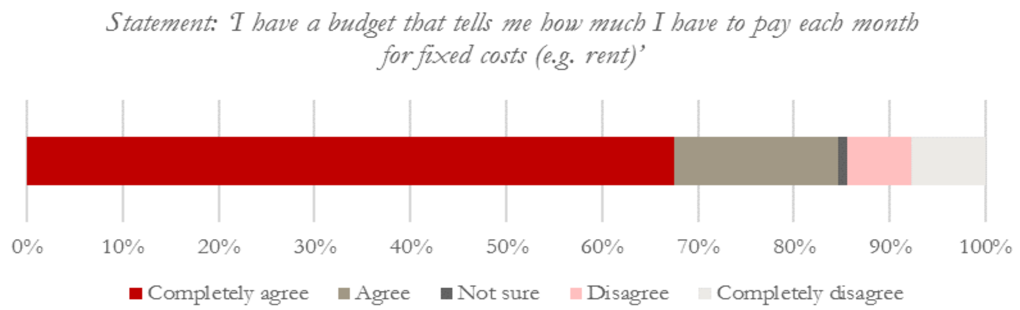
On the one hand, there are indications that the lack of financially literacy is not a major constraint to improving access to finance in Myanmar. Figure 4.4, for example, shows that most survey respondents kept records of their business cashflows. Furthermore, 85 percent of respondents stated that they had a budget for fixed costs (see Figure 4.5). Phone interviews confirmed that both clients and non-clients had a general understanding of their household and business costs, which indicated a certain level of financial literacy. Non-client interviews suggested that most did the math correctly and simply decided that it is not profitable to borrow.

Figure 4.4 87 percent of the respondents stated that they kept track of business cashflows



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020

Figure 4.5 85 percent of the respondents stated that they had a budget for fixed costs

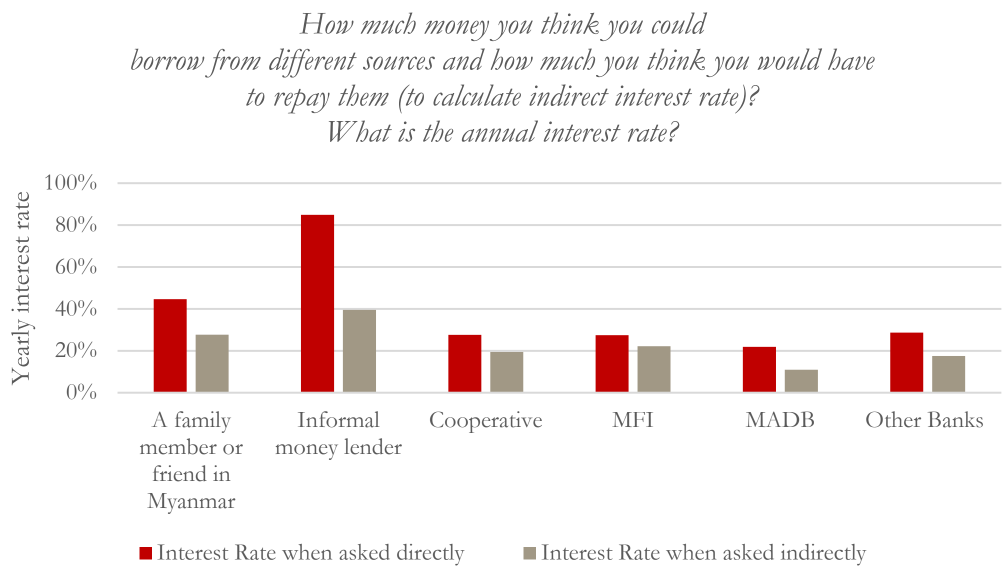


Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020

96 Financial literacy is defined as "consumers' awareness, skills and knowledge enabling them to make informed, effective decisions about financial resources" (Sayinzoga, Bulte, & Lensink, 2016).

On the other hand, the survey did indicate gaps in financial literacy among end-beneficiaries. For example, there was generally a large discrepancy in what survey respondents understood as the interest rate when asked directly versus the interest rate calculated indirectly based on questions about loan amounts and repayment amounts (see Figure 4.6).

Figure 4.6 Survey respondents are not consistent in their interest rate calculations



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020

MFIs and donor organisations aim to improve training on financial literacy through various initiatives. These initiatives are designed to improve financial literacy to help consumers make more informed choices about financial products and services and avoid problems such as over-indebtedness (MAP 2018). An example of such an initiative is the financial literacy app launched by Wave Money in 2018. UNCDF provided Wave Money with grant to design a financial gaming application where people can learn more about financial concepts such as savings, interest payments and insurance while they play.[97] Additionally, some MFIs provide financial literacy programs. Financial literacy programs tend to involve training of potential and actual customers as well as distribution of materials, for example, a financial literacy booklet produced by LIFT. Survey results, however, suggest that there is still room for improvement as only 10 percent of client and 3 percent of non-client respondents partcipated in a financial literacy training.[98]

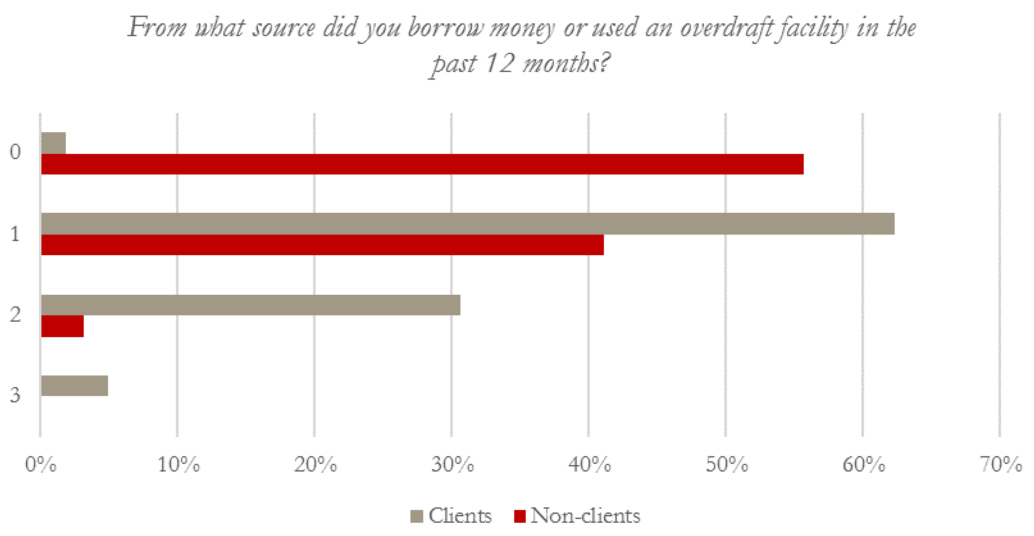
4.4 Over-indebtedness

Based on our survey and interviews, there is evidence that quite a few MFI clients in Myanmar borrowed from multiple sources. Figure 4.7 shows that around 30 percent of client survey respondents borrowed from two different sources in the last 12 months, and 5 percent even borrowed from three sources. Note that all MFI loans were counted here as one "source", so the

97 https://www.uncdf.org/article/1689/using-digital-gamification-for-enhancing-financial-literacy-in-myanmar-migration
98 Based on data from the survey conducted by MSR in February 2020

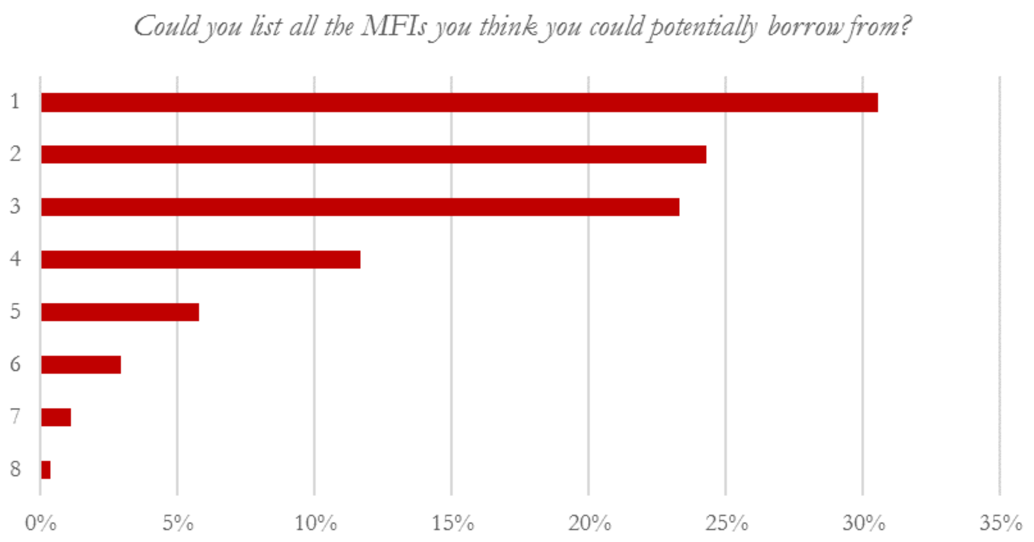
number of actual loans is likely to be even higher. As Figure 4.8 shows, as many as 45 percent of clients indicated that they could borrow from three or more MFIs. Interviews with MFI managers and other stakeholders confirmed that many MFI clients had multiple loans from different sources, but this appeared to be due to the low limits on loan sizes and few stakeholders seemed to be concerned about it.

Figure 4.7 About 35 percent of clients borrowed from two or more sources in the past 12 months (where all MFI loans count as one source)



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020
Note: respondents were able to choose multiple answers

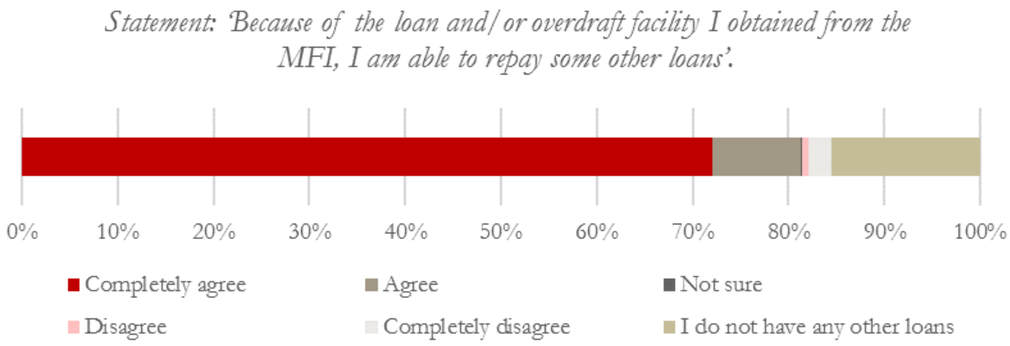
Figure 4.8 As many as 45 percent of clients indicated that they could borrow from three or more MFIs



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020
Note: only clients answered this question

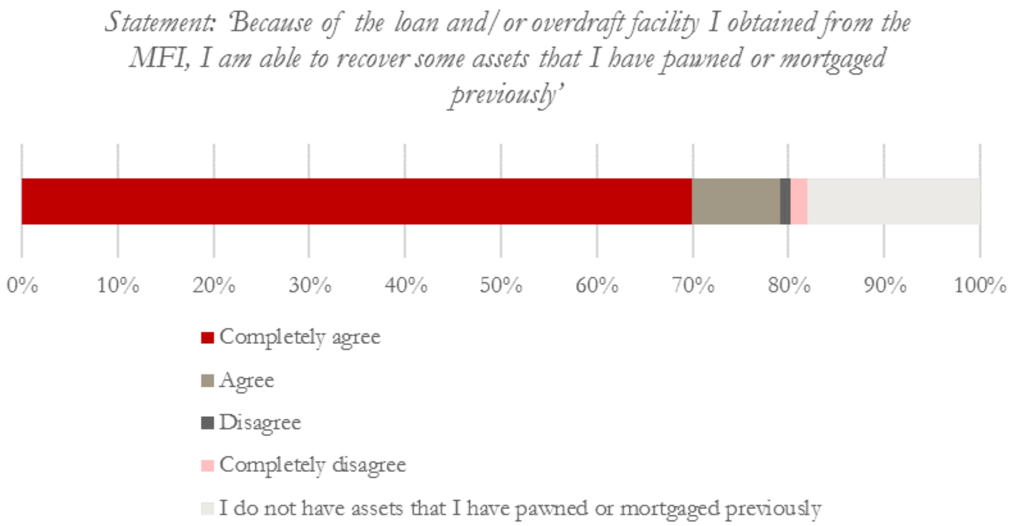
It is also clear that MFI clients also use MFI loans to repay other loans. In our survey, almost 80 percent of client respondents mentioned that, because of the MFI loan, they were able to repay other loans or recover assets. Nearly three quarters of respondents (72 percent) strongly agreed with the statement that it helped to repay other loans, while 70 percent strongly agreed that it helped to recover some assets that they previously pawned or mortgaged. While clients may benefit from this strategy, for example by refinancing more expensive loans, or if informal funding sources are more readily available during emergencies, it does nevertheless increase their risk of over-indebtedness.

Figure 4.9 The vast majority of clients agreed completely that MFI loans allowed them to repay other loans



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020
Note: only clients answered these questions

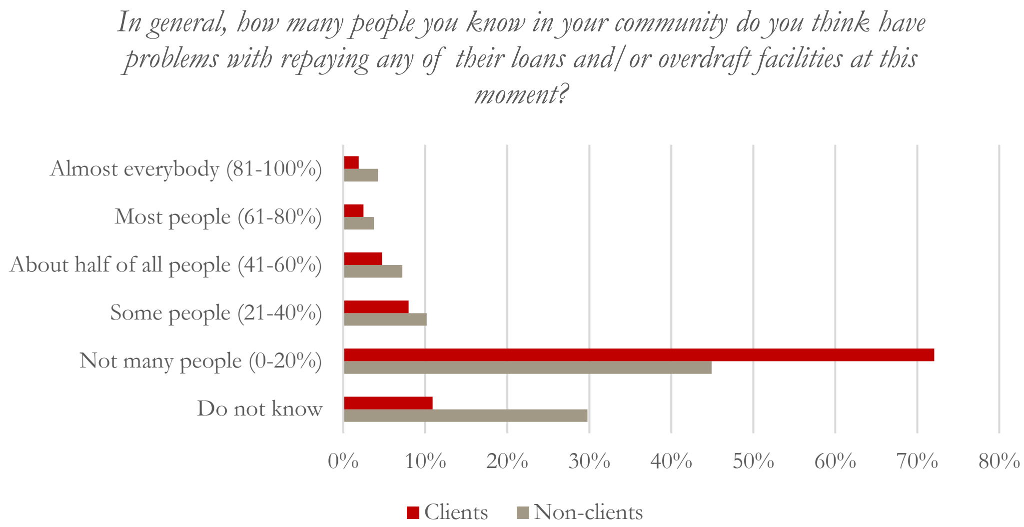
Figure 4.10 The vast majority of clients agreed completely that MFI loans allowed them to recover some assets that they had pawned or mortgaged



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020
Note: only clients answered these questions

In general, the various stakeholders interviewed agreed that the risks of over-indebtedness are larger in urban areas, but may be increasing in rural areas. In rural areas, multiple loans (and multiple source borrowing) were said to be common (and accepted by MFIs up to three loans) but over-indebtedness was not yet seen as a large risk. Overall, there were limited reports of repayment problems in interviews with rural respondents. In-depth interviews with clients suggested that having more than one loan is a financial management strategy openly employed by some clients to access higher amounts of credit, without necessarily facing repayment difficulties. However, increased competition between MFIs has allegedly led to some MFIs aggressively recruiting new clients, with credit officers paid on commission getting incentives to "push" loans on borrowers. Our survey results did not show a statistically significant difference between rural and urban respondents regarding over-indebtedness indicators.

Figure 4.11 Over-indebtedness was not yet perceived as a major problem



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020

While survey respondents did not report knowing many people in their community who faced repayment difficulties, follow-up interviews did provide examples where multiple source borrowing had resulted in spiralling debt:

- A 37-year-old female client residing in Yangon estimated that "three people out of ten on average" had trouble repaying multiple loans.
- A 50-year-old female client residing in Magway found that "it happens always" that people take on multiple loans from different sources. "Some could not repay loan and ran away."
- A 42-year old female client residing in Magway had seen people who had difficulty repaying, and explained that they "have to borrow from outside with 5 percent interest rate [per month] and solve the problem." Another lady in the same area noted that she had seen people take on "loans from all the MFI that came" and that "if they have no money for repayment, they borrow from outside at a 20 percent rate [per month] to repay."

Even if clients are able to manage and repay multiple loans, this can impose a large burden on them and can increase repayment risks. The low limits on loan size (especially for group loans) imply that many clients need additional loans from other formal or informal sources. Managing these multiple loans, often with different terms, can be complex to manage and imposes a heavy burden on the MFI client, given the high transaction costs and opportunity cost of managing multiple loans and repayment cycles. Multiple loans are therefore more likely to lead to repayment problems, even for clients that would have been able to manage the same loan amount if it had been provided by a single lender.

5 Conclusions and recommendations

This report has described the aggregate results of an evaluation of four MFI investments that were made by the Dutch Development Bank, FMO, in Myanmar during the period 2015-2019. This evaluation was commissioned by FMO and was originally termed "A study on reaching the unbanked in Myanmar." While the evaluation is broader than just that, it has indeed focused on assessing the extent to which FMO, via these MFI investments, has improved access to finance for end-clients in Myanmar – and the subsequent impact of that on employment, income, and reducing inequality.

The key questions addressed in this evaluation are:

1. To what extent has FMO contributed to:
   a. Improving MFIs' access to funding directly? (*financial additionality*)
   b. Improving MFIs' access to funding indirectly? (*catalytic effects)*
   c. Strengthening MFIs' capacity via non-financial support? (*non-financial additionality)*
2. To what extent have MFIs in turn improved access to finance for end-beneficiaries?
3. To what extent has improved access to finance in turn improved the lives of end-beneficiaries? (employment, income, access to goods and services, sustainable livelihoods)

This chapter contains a summary of our conclusions and recommendations on these three questions. Section 5.1 contains a summary of our answers to each of the three questions. Section 5.2 contains recommendations on all three topics.

5.1 Conclusions

Financial additionality: high

Despite significant reforms and growth since 2012, Myanmar still has the smallest and least developed financial sector in South East Asia. Since 2016, many new small MFIs emerged, but the MFI sector remains underdeveloped and highly concentrated. Up until the COVID-19 crisis, the portfolio quality of the MFI sector was good, in part owing to the continued prevalence of group lending. However, many MFIs still face significant gaps in corporate governance, ICT capacity, credit risk assessment, and risk management skills.

FMO's investments in Myanmar MFIs were highly additional to the commercial market. Until 2016, foreign debt funding for MFIs was virtually non-existent in Myanmar and international MFIs could only effectively fund themselves via foreign equity. While foreign debt funding was not strictly forbidden, obtaining approval was difficult and few investors were willing to provide local currency debt, given (a) the regulatory interest rate ceiling,[99] (b) exchange rate volatility, and (c) the absence of affordable hedging instruments. Other reasons why commercial foreign investors generally were not interested in investing in MFIs were the high risks resulting from geographically

[99] The interest rate cap for both loans was 13% p.a. until early 2019, raised to 16% in February 2019, and reduced again to 14.5% in April 2020.

wide-spread operating areas and a lack of supervision capacity. The fact that MFIs are not allowed to mobilise deposits from the general public further increased the financial additionality of FMO funding relative to the market.

While FMO's financial additionality naturally decreased over time with MFI market development, it remained substantial and has lately increased again due to the COVID-19 crisis. Smaller MFIs continued to be constrained in their funding, but in recent years, the top 20 MFIs improved access to foreign funding, not only from DFIs but also from some private impact investors, owing in part to a (temporary) increase in the regulatory interest rate cap and to a donor facility that allowed for subsidised hedging via TCX. Some MFIs had just started to get some access to commercial funding but this dried up again due to COVID-19. While the health impact of the coronavirus has remained limited thus far in Myanmar, the local and global policy response to the pandemic have deteriorated both the economic prospects for end-beneficiaries in Myanmar (thereby negatively affecting MFI portfolio quality) and the risks for investors. Both have further reduced MFIs' access to commercial funding, implying that FMO and other DFIs will continue to be highly additional in the foreseeable future.

Catalytic effects: moderate

By providing a 'seal of approval', FMO's MFI investments in Myanmar were catalytic in a number of cases. Based on desk research as well as interviews with MFI representatives and other investors, we found that the equity investment in DAWN in particular provided a strong 'seal of approval', while the debt transactions with other MFIs were more catalytic when FMO was among the first lenders. Market participants noted that more debt or equity provided by a DFI like FMO generally makes it easier and more attractive for other investors (even large DFIs) to approve more debt or equity funding as well.

Based on our analysis, it appears that these catalytic effects generally occurred because of two reasons (the first of which was generally seen as the most important):

- ***Reduction of perceived risk:*** The investment by FMO provided a positive signal that the risk of investing in this client was manageable, particularly as FMO is known to conduct thorough due diligence.
- ***Reduction of actual risk:*** The involvement of FMO reduced actual risks via (a) risk sharing through funding diversification and stability and (b) improving corporate governance or other management aspects, e.g. through capacity development support.

Two key external factors also helped to encourage investments by other investors (prior to COVID-19). First, the Livelihoods and Food Security Multi-Donor Trust Fund (LIFT) made funds available at the end of 2016 to subsidise the costs of hedging via TCX, a Dutch foreign exchange hedge fund.[100] This made it possible and more attractive for foreign investors to offer local currency loans to Myanmar MFIs within (or at) the 13 percent regulatory interest rate cap at the time. Second, the interest rate cap itself was raised from 13 to 16 percent in February 2019.[101] This naturally also reduced costs and risks for other investors.

---

[100] "TCX & LIFT in Myanmar: Facilitating investment flows into microfinance": https://www.tcxfund.com/tcx-lift-in-myanmar/

[101] However, this cap was reduced again to 14.5% in April 2020 in response to the COVID-19 crisis.

Non-financial additionality: moderate but high potential

The non-financial additionality of FMO's interventions in Myanmar has been mixed. Non-financial additionality is referred to as ESG additionality in FMO documentation. This, in turn, is considered as "an element in a financing package that cannot be easily obtained from other market parties… ensuring that outcome/returns to society will be higher than would otherwise be the case with other parties." [102] In practice, such elements can consist of capacity development or conditions imposed on the financing package, for example on which target groups to lend to.

While FMO had some non-financial additionality via capacity development projects, the main impact of FMO appeared to be financial rather than non-financial. Some CD projects were well received (for example a study tour to Cambodia, co-financing of CD with Accion) while others had limited results (but were interesting pilots). CD related to Smart certification was less well received, as it was seen as an unnecessarily long and bureaucratic process that does not appear add much value to MFIs with already strong CPP policies. Several MFIs stated quite clearly that FMO had not changed their overall strategy, nor for example their target groups. This was likely partly the case because MFI target groups were already in line with FMO priorities. However, there were a few cases where FMO could have considered earmarking funds for specific underserved target groups, as some of its MFI clients operated in areas where market saturation had started to become an issue. Moreover, capacity development needs remain large and a lot more could potentially be done in this area. Some of this is already being done in response to COVID-19 response package FMO has made available to its clients, but more concrete recommendations are suggested below.

Impact on improving access to finance for target groups: high

Access to finance from formal institutions increased significantly in Myanmar in recent years, but constraints remain for specific groups. Access to finance has generally grown less rapidly for women and in rural regions. Other groups that lag behind in terms of access to finance include youth, the poor, and the lower educated, which also tend to have a lower level of financial literacy. In addition, medium-sized SMEs (sometimes referred to as "the missing middle") are particularly constrained, since MFIs are bound by a maximum loan size of 10 million kyat (about USD 7,000), while SMEs typically only start from USD 35,000.

Given that we already established that FMO was highly additional, it is plausible that MFIs used this additional funding to increase their on-lending to end-beneficiaries. That is, if they obtained funding from FMO that they otherwise would not have been able to obtain, it is also likely that they used this funding to make more or larger loans they would otherwise not have made. This was particularly the case in the early years of the FMO investments when the MFI market was still highly regulated, thin, and undeveloped. The more additional FMO was, the more additional the MFI was for its clients, in most cases. However, there was also a case where FMO was highly additional to a small rural MFI that did not have much alternative access to funding, but that did serve clients in a rural area that was already well served by other MFIs.

102 FMO Score Card Manual: Additionality

Our data analysis, survey results, and interviews suggest that the MFIs supported by FMO likely contributed to improving their clients' access to finance in several ways:

1. The four MFIs all increased their MFI client base and loan portfolio size significantly in the period following the first FMO investments.
2. MFIs contributed to a substitution of informal with formal sources of finance.
3. MFIs often contributed to lowering the cost of borrowing, both directly (by being cheaper than informal lenders) and indirectly (by increasing competition for informal lenders, thereby driving down rates).
4. MFIs improved access to finance by expanding in rural, remote regions.

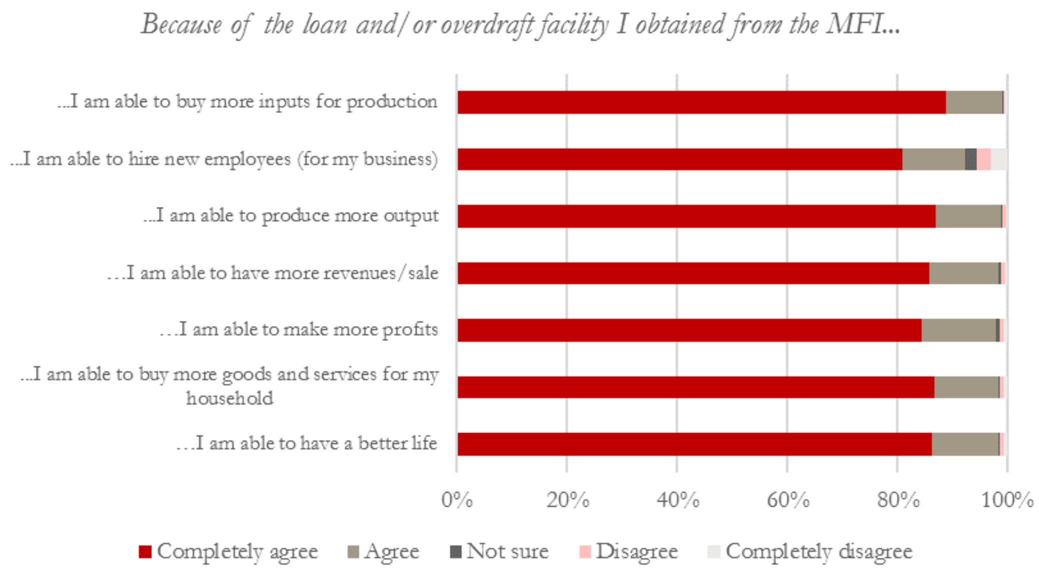
At the time of our field visit and phone interviews, just before COVID-19 hit Myanmar, the main challenge faced by both urban and rural MFIs was increasing market saturation, and the associated risk of over-indebted clients. This was not only the case in the (peri-)urban areas, but also in some rural areas that only a few years ago were considered to contain large amounts of unbanked or underbanked potential clients. In a small rural town visited by the evaluation team, 32 MFIs had already registered, and the local FRD had already put a halt to granting more licenses to new MFIs wanting to enter the region.

Both our survey and our follow-up interviews with end-beneficiaries suggested that multiple source borrowing had started to be common, pointing to emerging risks of over-indebtedness. In our survey, almost 80 percent of client respondents mentioned that, because of the MFI loan, they were able to repay some other loans or recover some assets. Nearly three quarters of respondents strongly agreed with the statement that it helped to repay other loans, while 70 percent strongly agreed that it helped to recover some assets that they pawned or mortgaged previously. This could mean that clients are refinancing more expensive loans, that they have better access to informal sources for emergencies, or that they are at a risk of over-indebtedness. Follow-up phone interviews suggested that multiple source borrowing was generally not seen as a problem yet, but a few cases of spiralling debt were reported.

Impact on improving lives: high

The vast majority of MFI clients surveyed was highly positive about the impact of MFI loans on their lives. As many as 80-90 percent of respondents stated that it was because of the MFI loans that they were able to buy more inputs, hire new employees, produce more output, generate more revenues and profit, and buy more goods and services. Overall, 85 percent of all respondents fully agreed with the statement that, because of the MFI loans, they were able to have a better life. Another large survey, carried out by one of the MFIs, also confirmed that borrowers saw a positive effect of loans on their production, output, revenues and profits. While a positive respondent bias in surveys cannot be excluded, our follow-up interviews with clients generally confirmed that they had largely positive views on their MFI borrowing experience. Only some urban borrowers noted that the size of this positive impact was limited due to the small size of the loans.

Figure 5.1 The vast majority of end-beneficiaries agreed that MFI loans allowed them to have a better life.



Source: SEO Amsterdam Economics, based on a survey conducted by MSR in February 2020

5.2 Recommendations

5.2.1 Investment recommendations

While FMO's financial additionality in an emerging MFI sector such as Myanmar's naturally declines as this MFI sector is developing, there are still ample continued investment opportunities that would have high additionality and high development impact. Moreover, FMO's additionality has recently strengthened, as some funding dried up in the COVID-19 environment.

Based on our evaluation findings, we have the following concrete recommendations for future FMO investments (beyond COVID-19 related emergency support for MFI clients):

1. **Invest in MFIs with high funding gaps and high potential impact.** While all MFIs currently experience funding gaps due to COVID-19, in the medium term the MFIs with the largest funding gaps are more likely to be domestically owned Tier 2 and Tier 3 MFIs.
   - **Financial additionality:** While FMO was highly additional to all MFIs when the country first opened up, our MFI sector analysis and case studies showed that many Tier 1 MFIs in the past few years did achieve reasonable access to funding, particularly those with foreign ownership. While this access to funding has undoubtedly worsened again as a result of the COVID-19 crisis, Tier 2 and Tier 3 MFIs typically have even higher funding gaps, as they do not meet eligibility criteria for most of other lenders, e.g. they are by definition less mature and may not yet be profitable.
   - **Recommendation:** FMO should continue to support Tier 1 MFIs in the wake of the COVID-19 crisis. Once funding for Tier 1 MFIs improves again, however, FMO should consider focusing more on Tier 2 and Tier 3 MFIs that are experienced with serving

underserved market segments. With 190 MFIs in the country, picking the right Tier-2 and Tier-3 MFIs from a commercial perspective can be challenging, and the sector also needs consolidation, but it can be attractive from a additionality and impact perspective (see below). However, well-run Tier 2 and 3 MFIs can be attractive both from an additionality and impact perspective. Given that FMO's investments do need to be commercially viable (i.e., they are not allowed to have an expected negative return from the outset), FMO cannot support the smallest MFIs that may not be able to compete with Tier 1 MFIs in the long run, but could support those Tier 2 and 3 MFIs with either (a) a high potential of becoming Tier 1, either on their own or through acquisition by larger MFIs, or (b) a clear niche market with high additionality, high expected impact, as well as good commercial potential.

- **Expected impact:** Tier 2 or 3 MFIs, particularly those with an NGO background, tend to serve poorer households in underserved areas, and can therefore have more impact both in terms of improving access to finance and in terms of improving end-beneficiary lives. As the example of Thitsar shows, some of these smaller MFIs have a long track record of serving particular groups or villages, where they have built up significant local networks and local knowledge. They may therefore be better able to meet their clients' needs and prevent over-indebtedness than larger MFIs entering these areas, who do not have this comparative advantage in local networks or knowledge and may have more aggressive lending practices.

2. **Invest in financial institutions that can serve the 'missing middle'.**
   - **Financial additionality:** Our interviews revealed that there is a clear financing gap for the 'missing middle,' as neither MFIs nor banks are currently able or eager to offer medium-sized SME loans (between MMK 10-50 million, or roughly USD 7,500 to USD 37,500). These loans are too large for MFIs (which are not allowed to lend above MMK 10 million), and tend to be too small for banks.
   - **Recommendation:** FMO could support (a) MFIs that have the potential of scaling up to SME lending by transforming into small banks over time, or (b) banks that are able to 'scale down' to SME lending. In the latter case, funding should be earmarked specifically for SMEs.
   - **Expected impact:** SMEs are known to generally have a large impact on employment, income generation, and innovation. Fostering the SME market could therefore contribute to job growth, income growth, and access to new goods and services.

3. **Invest in MFIs that have the potential to expand geographically by using innovative business models, in particular by using digital solutions such as mobile banking technologies.**
   - **Financial additionality:** As our research showed (Chapter 2), mobile money platforms are promising vehicles for improving financial inclusion in Myanmar. MFIs currently have insufficient funding and capacity to be able to expand to more remote regions and try out more innovative business models. Experts believe that mobile solutions can help to reduce operating costs of reaching remote areas, as MFIs can use existing countrywide distribution networks for distribution and collection. This was noted to be a growing opportunity, particularly as Myanmar now has an estimated 95 percent phone ownership, of which 80 percent smart phones (owing to their strong trade links with China).
   - **Recommendation:** Support MFIs with the largest potential to expand to remote and underserved regions by using digital mobile solutions for loan applications, repayments,

transfers, and savings accounts. However, this should be coupled with capacity development in risk management and strengthening regulation and supervision, as mobile solutions can also increase delinquency rates (see recommendations to improve non-financial additionality). In addition, FMO could consider earmarking funding for specific regions, or specific target groups within those regions, that are assessed to be most underserved.

- **Expected impact:** The potential impact of using mobile money platforms to offer financial services to underserved regions is high. Our evaluation of Thitsar Ooyin showed that it cannot be assumed that all rural regions are underserved, as some smaller towns in rural areas are already well served by MFIs. However, there are still plenty of remote rural areas that are hardly or not at all served by MFIs due mainly to high costs of operating in these regions. Digital solutions can help to reach these underserved borrowers, who are typically at the bottom of the pyramid and have a high potential to improve incomes and livelihoods. Moreover, supporting more innovative business models can have important demonstration effects on the sector, i.e. they have the potential to be copied by other MFIs, potentially leading to systemic impact

4. **Support Tier 1 MFIs with accessing local currency loans from local banks**.
   - Financial additionality: Our research showed that access to local currency funding improved significantly with the donor-funded TCX/LIFT facility that effectively subsidised local currency hedging. Local currency hedging will not be subsidised forever, and TCX hedging costs tend to make local currency loans expensive due to the high exchange rate volatility. A more sustainable solution may therefore be for MFIs to obtain local currency funding from local banks. Local banks have recently been allowed to provide uncollateralised loans to MFIs, but thus far very few have had the risk appetite to do so.
   - Recommendation: FMO could help reduce risks for local banks to provide local currency funding to MFIs by offering a partial guarantee (as is currently done by IFC).
   - Expected impact: By allowing local banks to build up experience with uncollateralised lending to MFIs, FMO can help reduce the perceived risks of lending to MFIs such that local banks continue MFI lending without the partial guarantee of a DFI. This could have demonstration effects on other banks and would imply a long-term, sustainable impact on the sector.

5. **Support MFIs with accessing and providing larger and longer-term loans.**
   - **Financial additionality:** MFI are often not able or willing to offer longer term loans to their clients as MFIs themselves lack access to long-term funding. While various DFIs now do offer longer-term loans (sometimes more than 3 years), commercial investors are still reluctant to do so. Yet, our survey results suggested that MFI clients have a strong preference for longer-term loans.
   - **Recommendations:** FMO should continue to use MASSIF funding for providing long-term loans to MFIs in Myanmar, as long tenors are an important source of additionality, particularly for MFIs that still lack access to such long-term loans from other DFIs.
   - **Expected impact:** Longer term loans reduce MFI liquidity risk, which provides funding stability and allows them to offer longer term loans to end-borrowers as they improve their liquidity planning and asset and liability management.

5.2.2 Capacity Development (CD) recommendations

In addition to continued investment opportunities in the Myanmar MFI sector, there are many opportunities for FMO to further improve its non-financial additionality and development impact in Myanmar through CD projects for MFIs. FMO appears to be highly additional in this area. While funding for CD was much more accessible 10-15 years ago, following initial investor excitement for the microfinance sector, not many DFIs provide targeted CD funding to Myanmar MFIs. Yet in some cases, CD to MFIs can potentially even be more impactful than investments as it can have longer term, more sustainable effects on the MFI and could even have systemic effects on the sector, particularly when there are positive spill-overs and demonstration effects on other MFIs.

1. **Support CD related to the implementation of digital solutions and mobile banking technologies** (e.g. digital loan applications, fintech credit scoring models; weather predicting technology).
   - **Nonfinancial additionality:** Even for Tier 1 MFIs, FMO could be additional by supporting the development of innovative digital solutions, as not many other DFIs are offering support in this area, while there are significant opportunities. It is also difficult for MFIs to procure such support in the local market, as international expertise is typically needed. While some MFIs are already experimenting with mobile banking technologies[103] (and FMO already provided some CD in this area), there are other MFIs that do not have yet developed this channel but would have the potential to do so.
   - **Recommendations:** This type of CD could accompany specific investments in MFIs that have the potential to expand geographically and reach more underserved customers through mobile banking technologies (see investment recommendation 3).. In addition, FMO could support MFIs with training their clients in applying mobile banking technologies, e.g. as part of financial literacy programmes (see next point).
   - **Expected impact:** See investment recommendation 3.

2. **Support CD aimed at improving financial literacy and reducing CPP risks.** As noted above, our research pointed to emerging risks of over-indebtedness, in part because of gaps in financial literacy among end-beneficiaries. However, getting MFIs to obtain Smart certification of their CPP policies will likely not be sufficient to address over-indebtedness, and may even be an unnecessary burden for MFIs whose CPP policies are already deemed strong.[104]
   - **Nonfinancial additionality**: Financial sector experts suggested that there is a continued need for financial literacy programmes and that further support is needed with the creation of a credit bureau for MFIs. While other organisations (e.g. IFC, UNCDF, Accion) and the local Myanmar Microfinance Association (MMFA) already provide some training in this area, this is clearly not sufficient and several of these organisations have expressed interest in collaborating with FMO on such sector-wide CD projects.

---

103 As we noted in Chapter 2, Wave Money, a mobile financial services provider, partnered in late 2019 with Yoma Bank to provide loans to its agents, and they expect different financing or lending companies to be on the Wave Money platform in the future, to offer microloans together with digital payment options. Ongo, an app-based mobile money service, partnered with a number of MFIs (including DAWN and BRAC) to allow MFI clients to repay their loans via Ongo agents or through the Ongo smartphone application.

104 This was not only noted by one of the MFIs in Myanmar, but was also noted by several other MFIs in other countries that were interviewed by SEO in the context of its overall evaluation of FMO-MASSIF.

- **Recommendations:** CD aimed at reducing CPP risks should not focus (only) on formal certification of CPP policies, but could also focus on (a) supporting MFIs and the Myanmar Microfinance Association with training in applied financial literacy and financial management techniques; (b) supporting the creation of a credit bureau for MFIs; (c) supporting regulators with efforts aimed at consolidation of the MFI sector. These types of CD could be undertaken jointly with other organisations active in this area.
- **Expected impact:** Improving financial literacy will help reduce the risk of over-indebtedness, which has sometimes been a consequence of aggressive MFI lending practices. Based on the experience of other countries (e.g. India, Sri Lanka), over-indebtedness can have a major negative economic, social and psychological impact on MFI borrowers, thus should be avoided.

3. **Provide more CD support to MFIs to improve their credit risk models and technical skills in credit risk assessment and risk management**.
   - **Nonfinancial additionality:** Given the limited training offered locally or by other DFIs, FMO can be highly additional in this area, but should not substitute the work of the MMFA.
   - **Recommendations:** FMO could support MFIs with (a) training MFI staff in credit risk assessment and credit and liquidity risk management;[105] (b) developing credit risk scoring models and technologies, which is especially important for uncollateralised individual loans. Rather than competing with other CD providers, FMO could do this jointly with other DFIs or support the local MMFA via knowledge transfer or co-funding of training events at different levels (e.g. advanced, intermediate, beginner). One option would be for FMO to hire an independent expert to first do a needs assessment (as MFIs themselves do not know what they do not know) on the basis of which a training programme can be developed in cooperation with MMFA.
   - **Expected impact:** Further improving credit risk assessment and risk management skills is an important precondition for MFIs to be able to offer larger and longer uncollateralised loans and reach out to new market segments. Providing CD in this area can help MFIs to (a) speed up the transition from group loans to individual loans that are larger, longer and have more flexible repayment options (which our survey indicates are something that borrowers would like), (b) expand geographically to areas with more unserved or underserved borrowers with limited credit histories but high potential impact.

4. **Devote more CD resources to market shaping initiatives and sector-wide CD programmes.**
   - **Nonfinancial additionality:** There are not many organisations that offer sector-wide CD in Myanmar, while many MFIs have similar needs and could benefit from joint training events, conferences, or improvements to the enabling environment. At present, FMO is offering only limited sector-wide CD projects due to the limited availability of CD resources.
   - **Recommendations:** Consider making more resources available for sector-wide, pre-investment CD projects in countries with less developed sectors, such as the financial sector in Myanmar.

[105] This could also training in collections mechanisms an tools, underwriting techniques, and techniques to strengthen MFI's capacity to better assess and meet farmer's financial service's needs, such as bullet repayment.

- **Expected impact:** In such less developed sectors, strengthening the enabling environment (including through policy dialogue, support to regulators, and co-funding of training programmes) could have a significant market-shaping development impact and can open up new investment opportunities for FMO as well as other funders.

References

Angelucci, Manuela, Dean Karlan, and Jonathan Zinman. 2015. "Microcredit Impacts: Evidence from a Randomized Microcredit Program Placement Experiment by Compartamos Banco." American Economic Journal: Applied Economics 7 (1): 151–82.

Asian Development Bank (2016). *Myanmar Microfinance Regulatory Benchmarking Survey. MYA-02: Support for Commercial Microfinance Industry in Myanmar under the Mekong Business Initiative.* Retrieved from https://tinyurl.com/y4psghut

Attanasio, Orazio, Britta Augsburg, Ralph De Haas, Emla Fitzsimons, and Heike Harmgart. 2015. "The Impacts of Microfinance: Evidence from Joint-Liability Lending in Mongolia." American Economic Journal: Applied Economics 7 (1): 90–122.

Augsburg, Britta, Ralph De Haas, Heike Harmgart, and Costas Meghir. 2015. "The Impacts of Microcredit: Evidence from Bosnia and Herzegovina." American Economic Journal: Applied Economics

Central Bank of Myanmar (2019). *Quarterly Financial Statistics.* Retrieved October 2019, from https://www.cbm.gov.mm/content/2506

CGAP and IFC (2013). *Microfinance in Myanmar Sector Assessment.* Retrieved from https://tinyurl.com/y6qvkrvo

Crépon, Bruno, Florencia Devoto, Esther Duflo, and William Parienté (2015). "Estimating the Impact of Microcredit on Those Who Take It Up: Evidence from a Randomized Experiment in Morocco." American Economic Journal: Applied Economics 7 (1): 123–50.7 (1): 183–203.

DCED (2014), "Demonstrating Additionality in Private Sector Development Initiatives", Donor Committee For Enterprise Development.

GIZ (2016). Myanmar's Financial Sector a challenging environment for Banks. Retrieved from https://www.giz.de/en/downloads/giz2016-en-Banking_Report.pdf

GIZ (2018). *Myanmar Banking Sector in Transition. Current Status and Challenges Ahead.* 2018 GIZ Banking Report (4). Retrieved from https://tinyurl.com/y4qsxblb

IFC Global Findex (2017), https://globalfindex.worldbank.org/country-data/myanmar

IMF (2019), Myanmar : 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Myanmar, IMF Country Report No. 19/100, April 2019, Washington DC: International Monetary Fund

IMF (2020a). Myanmar : 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Myanmar, IMF Country Report No. 20/88, March 2020, Washington DC: International Monetary Fund

IMF (2020b). Myanmar : Requests for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument-Press Release; Staff Report; and Statement by the Executive Director for Myanmar, IMF Country Report No. 2020/215, July 2020.

Karlan, D. and Zinman, J. (2011), "Microcredit in Theory and Practice: Using Randomized Credit Scoring for Impact Evaluation", Science 332(6035), 1278- 1284.

MAP (2013) *Myanmar Making Access Possible (MAP) Supply, Demand, Policy and Regulatory*. UNCDF, Finmark Trust and Centre for Financial Regulation Inclusion. Retrieved from https://tinyurl.com/y667cje5

MAP (2018). *MAP Refresh Myanmar Diagnostic*. Retrieved from: http://finmark.org.za/wp-content/uploads/2019/04/Myanmar_Diagnostic_2018_CB3_repro.pdf

Micro-Credit Ratings International Limited (2018), Multiple borrowing amongst MFI clients in Myanmar. Retrieved from https://www.m-cril.com/pdf/M-CRIL percent20-percent20Findings percent20Myanmar percent20Survey percent20Multiple percent20Borrowing percent202018.pdf

Milken Institute (2017). *Framing the Issues: Financial-Sector Development and Expanding Access to Credit in Myanmar*. Retrieved from https://tinyurl.com/y3hm68kp

Mix Market (2019). Retrieved 2019, from https://tinyurl.com/y46k2xc9

Myanmar Financial Services Monitor and FMS Research and Advisory (2019). *Myanmar Financial Services Report 2018*. Retrieved from https://tinyurl.com/y63ahtf5

Nehru, V. (2014), "Banking on Myanmar: A Strategy for Financial Sector Reform," Carnegie Endowment, June 2014: https://carnegieendowment.org/2014/06/05/banking-on-myanmar-strategy-for-financial-sector-reform-pub-55813

Odell, K. (2015), Measuring the Impact of Microfinance: Looking to the Future. Washington, DC: Grameen Foundation.

Patton, M. Q. (1999). Enhancing the quality and credibility of qualitative analysis. Health services research, 34(5 Pt 2), 1189.

Sayinzoga, A., Bulte, E. H., & Lensink, R. (2016). Financial literacy and financial behaviour: Experimental evidence from rural Rwanda. The economic journal, 126(594), 1571-1599

Smart Campaign. Retrieved from https://www.smartcampaign.org/

TCX (2018). Blended Finance in Myanmar. TCX's role in realizing financial inclusion through innovative partnerships in Myanmar. Retrieved from https://tinyurl.com/yxtox2we

TCX & LIFT in Myanmar: Facilitating investment flows into microfinance. Retrieved from https://www.tcxfund.com/tcx-lift-in-myanmar/

TCX/LIFT Program 2.1: Information Memorandum. Retrieved from https://www.tcxfund.com/wp-content/uploads/2019/05/Information-Memorandum-LIFT-2.0.pdf

UNCDF and Finmark Trust, with Myanmar Survey Research (2014*). Finscope Myanmar 2013: Survey Highlights*. Retrieved from http://finmark.org.za/_country/myanmar/

UNCDF and Finmark Trust (2018) *Myanmar Making Access Possible (MAP) Diagnostic 2018 Report.* Retrieved from http://finmark.org.za/_country/myanmar/

Watkins, T. A. (2018). *Introduction to Microfinance.* World Scientific Publishing Company.

Wave Money and Yoma Bank team up to boost the development of Wave Money's agents and distributors. Retrieved from https://www.wavemoney.com.mm/wp-content/uploads/htd_Press-Release-Wave-Money-and-Yoma-Bank-team-up-to-support-MSMEs-ENG_FINAL-2.pdf

World Bank (2020). "East Asia and Pacific in the Time of COVID-19," East Asia and Pacific Economic Update, April 2020. Retrieved from: https://openknowledge.worldbank.org/handle/10986/33477

References to legislation

- The Microfinance Law (The Pyidaungsu Hluttaw Law No.13), 30 November 2011
- Microfinance Supervisory Committee Notification No. (1/2016), 29 August 2016
- Microfinance Business Supervisory Committee, Directive No (1/2019), 5 June 2019
- Financial Institutions Law (Pyidaungsu Hluttaw Law No. 20, 2016), 25 January 2016
- Central Bank of Myanmar Directive 1/2019, 29 January 2019

Appendix A Data collection methods

To minimise bias and ensure that our conclusions do not depend on our particular selection of stakeholders included in interviews or the survey, we always aim for triangulation of results. "Triangulation" refers to the use of multiple methods or data sources in qualitative research to develop a comprehensive understanding of phenomena (Patton, 1999). Triangulation also has been viewed as a qualitative research strategy to test validity through the convergence of information from different sources. Therefore, this evaluation makes use of a variety of data collection methods to obtain a broad set of quantitative and qualitative information sources that were analysed and synthesised in order to test the key hypotheses and assess the counterfactual questions.

Desk review formed the basis for the evaluation, the other key methods are described separately below. As a starting point, we reviewed and analysed all available and relevant document about the MFI sector in Myanmar, access to finance in Myanmar and FMO's MFI investments in Myanmar. In the sections below, we further elaborate on (1) in-depth interviews; (2) end-beneficiary survey; and (3) phone interviews with end-beneficiaries.

In-depth interviews

Prior to and during our field visit of February 3-11, we interviewed a wide range of stakeholders. The first interviews were conducted with relevant FMO staff (including investment officers, a capacity development officer, and evaluation officers). Subsequently, phone interviews with the respective MFI representatives were conducted to introduce the study and collect their initial views and information about their operations. These interviews were followed by a field visit conducted by our Team Leader (Nienke Oomes), two additional SEO economists (Debbie Keijser and Nathalie Gons), and two financial sector consultants based in Myanmar (Asim Jaweed and Eleonora Castaldo). Subject to available resources, we continued interviews until convergence/saturation was reached.

During our field visit, the following stakeholders were interviewed:
1. **FMO's client MFIs**: ACLEDA, DAWN, Maha and Thitsar Ooyin
2. **Non-client (M)FIs**: Myanmar Agriculture Development Bank (MADB), Yoma Bank
3. **MFI sector experts**: UNCDF, Myanmar MFI Association (MMFA), and Thitsa Works
4. **Financial regulators**: the Financial Regulatory Department (FRD)
5. **MFI investors**: DG (KfW) and IFC
6. **Other stakeholders**: GIZ, IMF

As part of our field visit, we also conducted in-depth interviews with Thitsar Ooyin's management and clients nearby Monywa. On February 10, 2020, SEO conducted in-depth interviews with five Village Credit Scheme member clients in Thar Si, a village of about 300 households and 1,500 people located 10 miles outside of Monywa. Thitsar Ooyin's Dry Zone General Manager, Monywa Branch Manager, and a loan officer also attended these interviews. As a result, we cannot exclude the possibility that client responses may have been biased.

End-beneficiary survey

As described in our Proposal and the Inception Report, the evaluation included an end-beneficiary survey among a total of 1,947 (potential) borrowers. Under the supervision of SEO Amsterdam Economics, Myanmar Survey Research (MSR) conducted a survey in February 2020 among a total of 1,947 respondents in the operating areas of four different MFIs: DAWN, ACLEDA, Maha, and Thitsar Ooyin. These operating areas corresponded to eight regions or states in Myanmar: Yangon, Naypyidaw, Bago, Magway, Mandalay, Sagaing, Chin and Mon. The study applied a quantitative research method using computer-administered personal interviews (CAPI).

Out of these 1,947 face-to-face interviews, a total of 1,544 interviews were conducted with a representative group of end-beneficiaries of the four different MFIs. Additionally, 403 interviews (±100 per MFIs) were conducted with respondents that are not end-beneficiaries of the MFIs (and preferably not of any MFI) but live in the same State or Region as the end-beneficiaries.[106] By including interviews with 'unbanked/non-client' respondents it can be assessed why certain people do not make use of financial services, what their obstacles or reservations are from using the services, and how MFIs can improve their services to reach these unbanked groups.

Table A.1 The sample distribution was roughly equal across MFIs

MFI	Sample size	
	Client	Non-client
DAWN	390	100
ACLEDA	393	102
Maha	381	100
Thitsar Ooyin	380	101
	1544	403
TOTAL	1974	

Source: Technical Report by MSR

More information about sampling, the selected sample and all the survey results can be found in Annex A.

Phone interviews with end-beneficiaries

In order to validate and deepen the survey findings, the evaluation team originally planned to supplement the survey by 12 focus group discussions (FGDs) with MFI clients as well as non-clients. However, due to COVID-19 developments, the FGDs were replaced by 40 phone interviews with end-beneficiaries.

The sampling frame for the follow-up phone interviews was the original sample of survey respondents, consisting of both MFI clients and non-clients. Out of this sample, a subset of 7 clients and 3 non-clients per MFI were selected by gender, location, age and other criteria in the

106 As part of the sampling process, we will also assess to what extent it is possible to 'match' these unbanked respondents with banked respondents on other characteristics besides location (e.g. demographics). This would help to identify the behavioural and attitudinal differences between the two groups.

quantitative survey. Table A.2 shows the type of clients and non-clients that have been selected for the phone interviews.

Table A.2 Sample distribution for phone interview respondents

	Type of respondent	MFI			
		ACLEDA	DAWN	MAHA	TSOY
Client	Bad Loan Experience	2	2	2	2
	Good loan Experience	3	3	3	3
	Trouble repaying	2	2	2	2
Non-client	Borrows from Family	1		1	1
	Borrows from Informal money lender/pawn shop	1	1	1	
	Unqualified for MFI loan	1	1		1
	Does not trust MFIs		1	1	1
Total		10	10	10	10
Grand Total		**40**			

Source: Technical report MSR

MSR conducted the phone interviews and produced full transcripts of each phone interview both in local language and in English (translated). These translated transcripts were subsequently analysed by our SEO evaluation team.