MYANMAR Case Study

MICROLEAD

CASE STUDY OF SAVINGS MOBILIZATION IN MYANMAR:

OPPORTUNITIES AND CHALLENGES

By Eleonora Gatti

Introduction

United Nations Capital Development Fund (UNCDF) is the UN's capital investment agency for the world's 48 least developed countries. With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.[1]

UNCDF *MicroLead* Expansion supports the development and roll-out of deposit services by regulated financial service providers (FSPs) in 21 countries. The programme offers grants and loans that incentivize leading providers to start up new, or strengthen existing, financial institutions that target low-income people.[2]

MicroLead Expansion in Myanmar is a 4-year (2014–2017), US$7-million programme funded by Livelihoods and Food Security Trust Fund.[3] *MicroLead* supports two southern microfinance market leaders to greenfield in Myanmar in addition to working with a regional association of credit unions to create new rural saving and credit cooperatives. By the end of 2017, *MicroLead* aims to reach 100,000 clients and mobilize a combined total of $6.7 million in deposits in Myanmar.

This paper is one in a series of financial inclusion knowledge products written by UNCDF, and it sits within the scope of UNCDF *MicroLead* Expansion programme in Myanmar. This series is written to inform the reader on the financial behaviour and preferences of low-income people, development of financial products, management of financial services and greenfield operations of FSPs in Myanmar.

Aims and objectives

This paper focuses on the opportunities and challenges of mobilizing savings deposits in Myanmar. The purpose of the paper is to answer the following questions: 1) Which FSPs mobilize the highest volume of savings and why? 2) What are the inhibitors of mobilizing savings in Myanmar? and 3) In particular, what are the implications of the 15-percent regulated floor on deposits for microfinance institutions (MFIs)?[4]

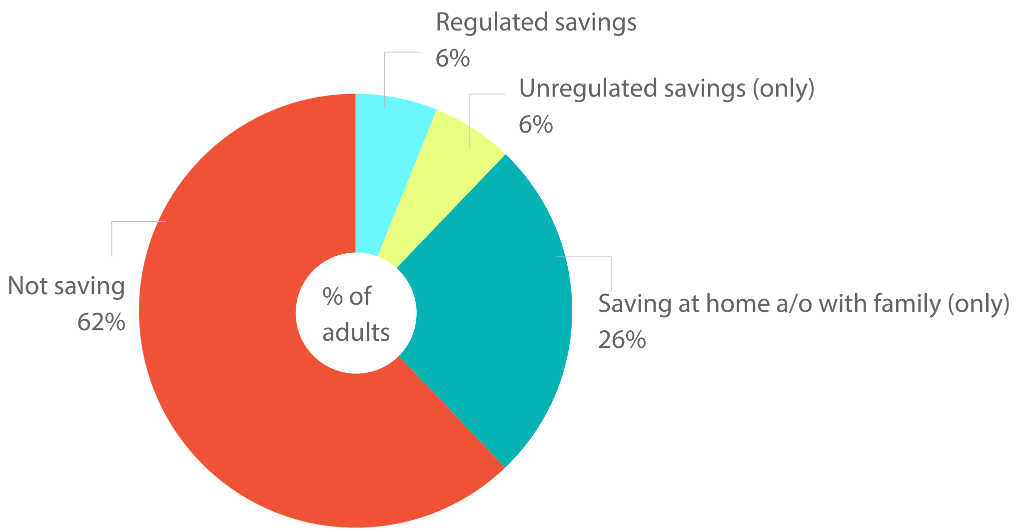
Savings in Myanmar

Overall, the Myanmar population is thinly served by financial services, with an estimated 30 percent of adults using products offered by regulated FSPs. Only 6 percent of adults use more than one regulated financial product type (credit, savings, insurance and/or payments), and only 5 percent of adults have a bank account in their name.[5] Amongst formal products, credit has the deepest reach (19 percent formal access), while payments stand at just under 10 percent, **savings at 6 percent** and insurance at 3 percent. 'Of the total adult population in Myanmar, 62 percent do not report any savings, and amongst those who save, informal saving dominates the savings landscape.'[6] **Figure I** provides more detail on the savings landscape in the country.

1. See www.uncdf.org
2. See www.uncdf.org/en/microlead
3. See www.lift-fund.org
4. Microfinance institutions referred to in this paper are legal microfinance institutions registered with the Myanmar Financial Regulatory Department.
5. Doubell Chamberlain and others, 'Myanmar: Demand, Supply, Policy and Regulatory,' Making Access Possible (MAP) (n.p., Centre for Financial Regulation and Inclusion and Bankable Frontier Associates, 2014) p. xii,100. Available from www.lift-fund.org/sites/lift-fund.org/files/publication/MAP_Myanmar_Diagnostic_full_report_Final.pdf
6. Ibid.

Figure I

Savings landscape in Myanmar



Source: Chamberlain and others, 'Myanmar: Demand, Supply, Policy and Regulatory.'

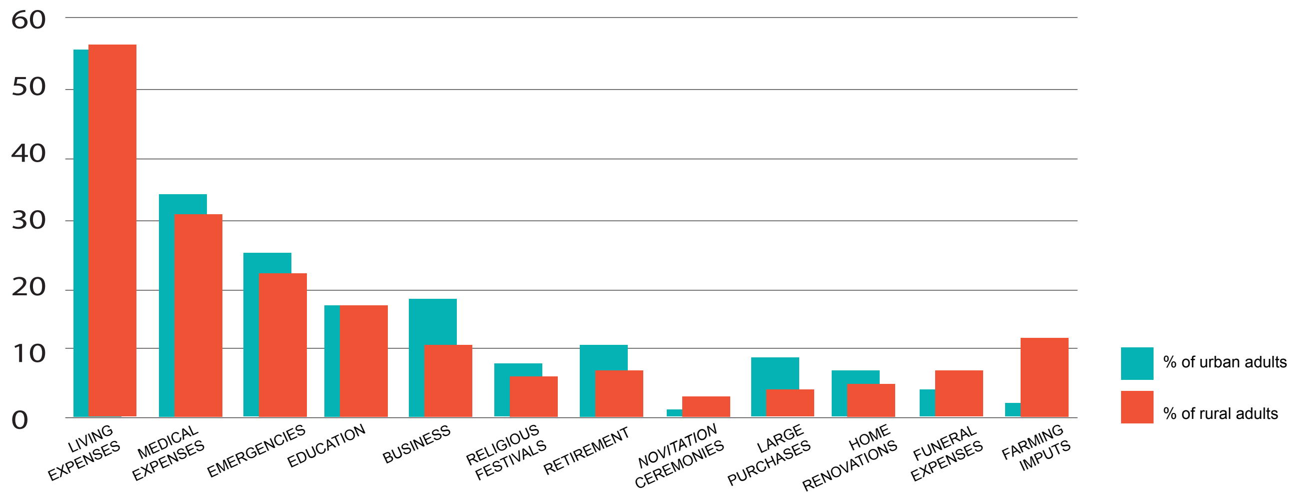
Hyperlink: http://www.lift-fund.org/sites/lift-fund.org/files/publication/MAP_Myanmar_Diagnostic_full_report_Final.pdf

Why people save and where

Myanmar history is characterized by many demonetizations, which have contributed to the shared view amongst Myanmar citizens that 'cash is for transactions, not for saving.'[7] According to the Making Access Possible diagnostic, 26 percent of adults in Myanmar do save informally—mostly at home or in assets (livestock, jewellery, gold) or as members of savings groups.[8] 'Gold jewellery is like having money in a bank account without bank fees,' and when low-income people save in cash, 'they do it for [a] very specific reason and they would even keep separate tins and clay pots in the household for different types of savings.'[9] **Figure II** shows key reasons why Myanmar adults save. It is clear that there are people who save to cope with everyday needs, people who save to prepare for emergencies (medical emergencies, funerals), and people who save to fulfil a planned purchase (agricultural equipment, vehicle, household furniture, electronic equipment).

Figure II

Saving with a purpose



Source: FinMark Trust and UNCDF, *FinScope Myanmar 2013: Survey Highlights* (n.p., 2014).
Available from http://www.lift-fund.org/sites/lift-fund.org/files/publication/BKLT_FSMyanmar_05141.pdf

7. Jan Chipchase and others, *Afford Two, Eat One: Financial Inclusion in Rural Myanmar* (n.p., 2014). Available from http://static1.squarespace.com/static/534bf494e4b06a4afe162e21/t/53a8ff12e4b0c510a5452683/1403584274616/AffordTwo%2CEatOne-FinancialInclusionInRuralMyanmar.pdf
8. Chamberlain and others, 'Myanmar: Demand, Supply, Policy and Regulatory.'
9. Judyth Gregory-Smith, *Myanmar: A Memoir of Loss and Recovery* (n.p., 2012) p. 216.

Savings habits are also dependent on the different employment types. The Making Access Possible diagnostic identified five categories of Myanmar adults who show different approaches to savings: **1) Farmers, 2) Adults employed by or who own a formal enterprise** (enterprises that are considered regulated/licensed to operate), **3) Adults employed by or who own an informal enterprise** (enterprises that are considered unregulated/un-licensed to operate), **5) Formal consumers** (employees who are employed in the formal private sector or in the public sector) and **6) Informal consumers** (adults who receive wages from the informal market, such as casual workers, farm workers and those who rely on remittances).[10] The table provides more detail on the savings habits of these six categories.

Table 1

Detailed savings landscape in Myanmar

	Formal savings (% of adults)	Informal savings only (% of adults)	Family and friends only (% of adults)	Excluded (% of adults)	Savings (% of income)	Average monthly savings (US$ equiv.)
Farmers 	6%	5%	29%	61%	23%	$25
Formal enterprises 	17%	8%	38%	37%	28%	$67
Informal enterprises 	4%	11%	29%	56%	46%	$75
Formal consumers 	17%	11%	26%	46%	24%	$28
Informal consumers 	3%	5%	18%	74%	25%	$20

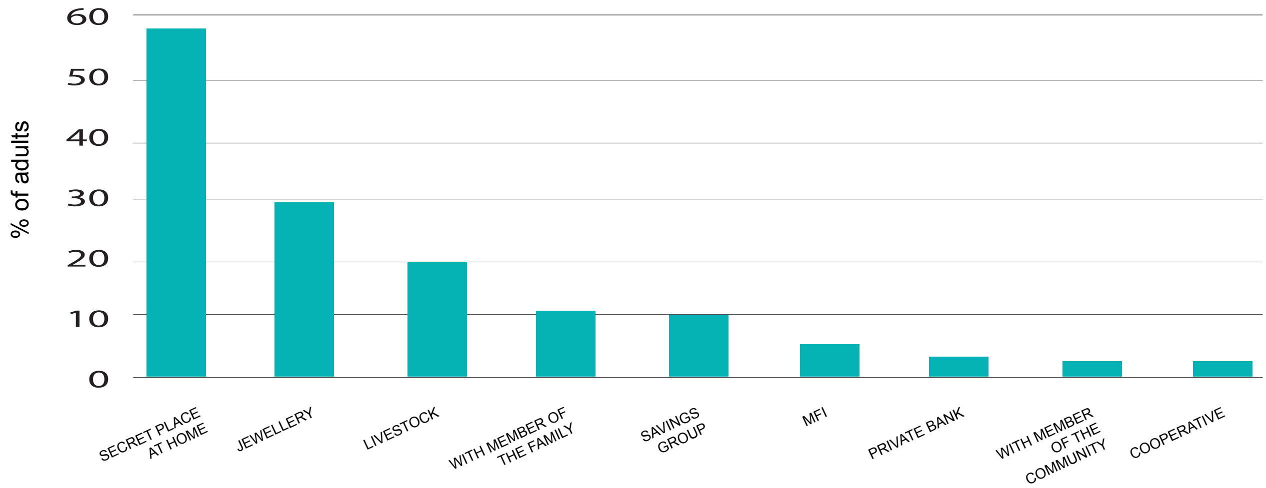
Source: Chamberlain and others, 'Myanmar: Demand, Supply, Policy and Regulatory.'

Employees/Owners of formal enterprises as well as formal consumers have the highest take-up of formal savings. It does not come as a surprise that informal consumers have the lowest take-up of formal savings and are, for the most part, unable to formally save (74-percent exclusion rate). Farmers and employees/owners of informal enterprises are the segments making the most use of informal savings with family and friends to cope with shocks, business needs and consumption smoothing.

Overall, the people of Myanmar still prefer to save outside formal financial institutions, especially those who represent the target market for MFIs. **Figure III** highlights this preference. Reasons for informal saving include a wide spectrum of perceived disadvantages of having a bank account, chief amongst them are the following: income is too little to warrant depositing it in a formal account, there is a low level of trust towards the banking system, there is a low level of education of how a bank works, and bank branches are not within reach. It is important to note that 1 percent of Myanmar adults reported that they do not save in banks because similar services can be found within the community, such as in informal savings groups.[11]

10. Chamberlain and others, 'Myanmar: Demand, Supply, Policy and Regulatory.'

Figure III
Keeping savings safe

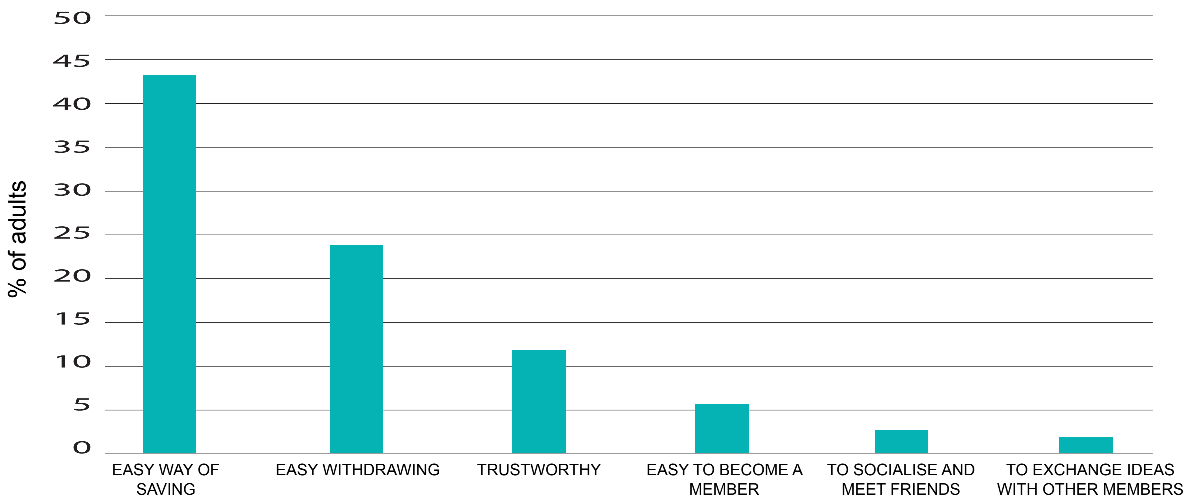


Source: FinMark Trust and UNCDF, *FinScope Myanmar 2013: Survey Highlights.*

Myanmar culture is rich with well-functioning and successful, yet informal, saving clubs, peer-lending groups, rotating savings and credit associations, Buddhist saving and lending groups, funeral societies, etc.[12] One key success factor of these informal savings groups is the high propensity for the people of Myanmar to be true to their word and to honour informal contracts.[13] Development specialists who favour saving as a development tool have positively commented that the cultural tradition of honouring one's debts (i.e., *majjhima paṭipada*) means that the mindset of saving at the individual and community level is a well-established cultural practice. Myanmar informal savings groups have many features in common with the self-help group characteristics of the credit union movement, such as a high level of trust amongst group members, a high propensity for savings group members to honour contracts, and the fact that they are usually restricted to a defined geographical area.

The list of characteristics above demonstrates why the majority of people in Myanmar display a reluctance to use the formal banking system. In contrast, **figure IV** shows a list of characteristics that members of informal savings groups, as highlighted above, report as reasons for enjoying use of informal savings groups systems.

Figure IV
Benefits of saving in an informal savings group



Source: FinMark Trust and UNCDF, *FinScope Myanmar 2013: Survey Highlights*.

11. FinMark Trust and UNCDF, *FinScope Myanmar 2013: Survey Highlights*, p. 21.
12. Chipchase and others, *Afford Two, Eat One: Financial Inclusion in Rural Myanmar.*
13. Interview by author with Stuart Rutherford, saving specialist and co-author of *Portfolios of the Poor: How the World's Poor Live on $2 a Day* (http://www.portfoliosofthepoor.com/authors.asp), Yangon, Myanmar, 27 February 2015.

Regulatory and policy environment

In February 2015, the Myanmar Government approved the *Financial Inclusion Roadmap* 2014–2020,[14] which lays the strategic foundations for increasing financial inclusion from 30 percent to 40 percent of adults by 2020. The *Roadmap* identifies two priorities in terms of savings to increase financial inclusion in the country: 1) To provide low-cost savings vehicles for short-term savings; and 2) To extend the availability of account-based savings options.

Development of micro saving and credit enterprises is one of the key priorities for the Myanmar Government to reduce poverty levels. In 2011, H.E. President U Thein Sein presented eight fundamental priority tasks to foster rural development and tackle poverty to be performed by ministries and state organs (i.e., Development of agricultural production sector, Development of livestock breeding and fisheries, Development of rural productivity and cottage industries, Development of micro saving and credit enterprises, Development of rural cooperative tasks, Development of rural socio-economy, Development of rural energy, and Environmental conservation).[15] Of these eight national development priorities, microfinance policy objectives are managed under the auspices of the Financial Regulatory Department (known as the Microfinance Supervisory Enterprise at the time of the 2011 Microfinance Law,[16] which sat under the Ministry of Finance and Revenue).

Key highlights related to savings of the Microfinance Law and five subsequent microfinance directives include the following:

- 'Microfinance means extending micro-credit to grass root people.'[17]
- One of the eight objectives of the Microfinance Law is to cultivate savings habits.
- Microfinance organizations classified as deposit-taking organizations shall disburse loans with funds collected from resources other than the public deposits, the compulsory savings deposits from its members and their voluntary savings deposits.
- The interest rate on microfinance loans shall be 30 percent p.a., declining balance.
- The interest rate on savings deposits shall be a minimum 15 percent p.a.
  - The 15-percent interest should be calculated as effective rate.
  - The 15-percent interest on compulsory deposits must be calculated on the client balance at the end of the month.
- MFIs cannot deduct clients' savings from the loan disbursement amount.
- MFIs cannot accept deposits from non-members.
- For voluntary savings, MFI clients need to save a set percentage of the loan amount, which is set by the MFI. For example, if one client borrows $100 and the set savings amount is 5 percent, then the client is required to save $5.
- MFIs are permitted to apply a mobile payment system (except remittances from local and abroad).

Financial service providers' savings products

State-owned banks

Myanmar Agricultural Development Bank (MADB): MADB promotes a savings culture amongst farmers by operating a programme for rural savings mobilization. Farmers must have savings deposits with MADB as a precondition for getting loans from the bank. In fiscal year 2013/2014, MADB had a portfolio of $14 million, a fraction of the deposit base of approximately $93 million reported at the end of 2011/2012 (see **figure V**). MADB indicates that, in 2012, farmers faced low prices because of paddy and crop failures, which caused many of them to withdraw their savings. In addition, the Ministry of Agriculture and Irrigation decreased the 50-percent compulsory savings needed to take out a loan under this scheme to 30 percent as a response to the paddy and crop failures, contributing to the massive withdrawal of savings in 2011/12. This lower level of deposits is likely to persist: in 2012, the Ministry of Irrigation and Agriculture decreased the interest rate on loans while maintaining the same retail deposit interest rate, causing the interest margin for MADB to shrink from 5.0 percent to 0.5 percent.[18]

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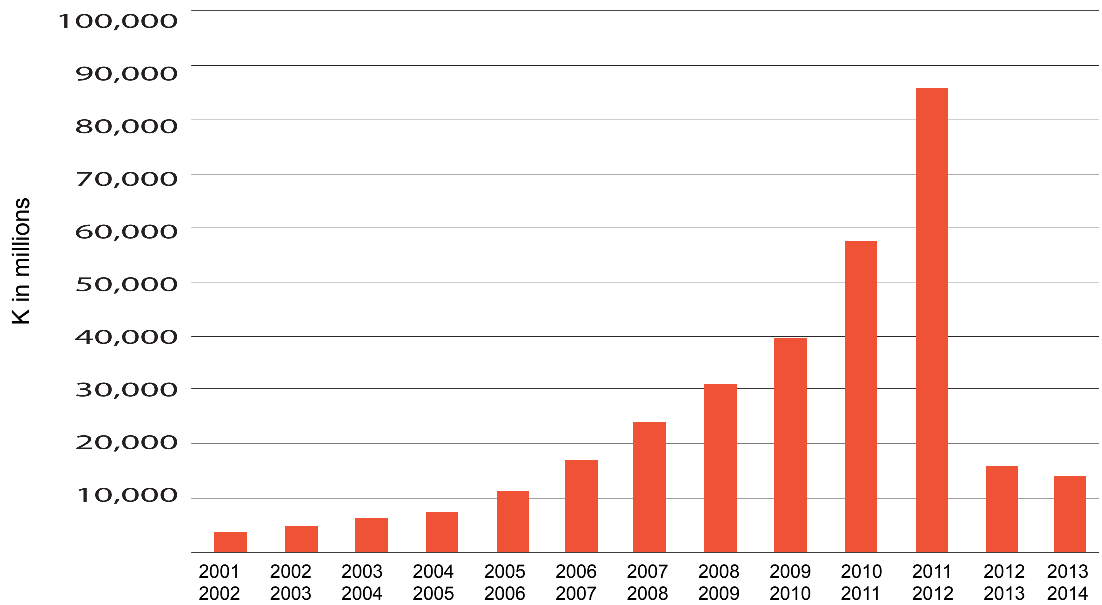
14. UNCDF Making Access Possible, Centre for Financial Regulation and Inclusion and FinMark Trust, *Myanmar Financial Inclusion Roadmap 2014–2020: Creating financial inclusion through leadership towards a market based approach* (n.p., n.d.). Available from http://www.uncdf.org/sites/default/files/Documents/myanmar_roadmap_repro.pdf
15. Chamberlain and others, 'Myanmar: Demand, Supply, Policy and Regulatory, p. 8; Daw Win Myint, Deputy Director General of the Planning Department, 'Policies for Growth and Development of Myanmar,' n.p., n.d., p. 8. Available from http://yangon.sites.unicnetwork.org/files/2013/05/Policies-for-growth-and-development-in-Myanmar-13-2-2012DWM.pdf
16. Myanmar, Microfinance Law, Law No. 13 of 30 November 2011.
17. *MicroLead* translation of the Microfinance Law available here: http://www.uncdf.org/sites/default/files/download/microlead_myanmar_microfinance_law.docx
18. Chamberlain and others, 'Myanmar: Demand, Supply, Policy and Regulatory.'

Figure V
Savings held by Myanmar Agricultural Development Bank



Source: Khin Nam Myint, MADB Yangon Office employee, presentation to author, 15 August 2014.

Myanma Economic Bank: The Bank offers deposit products on the same terms as commercial banks and is not formally mandated to play a role in mobilizing savings; however, the Bank credits its savings accumulation to its relatively large branch network and clients' trust in state-owned banks. In 2010, the Bank raised the limit on the minimum deposit account balance from K1,000 to K10,000, and determined that interest on savings deposits would only be calculated from K10,000 and above. The Bank offers two savings accounts: 1) individual account; and 2) joint account, on which the clients can enjoy interest payments.[19]

Overall, state-owned banks have been most successful in mobilizing savings when they tie it to credit (e.g., MADB) and when an effort has been made to bring these services closer to rural clients thanks to extensive branch networks (e.g., Myanma Economic Bank).

Commercial banks

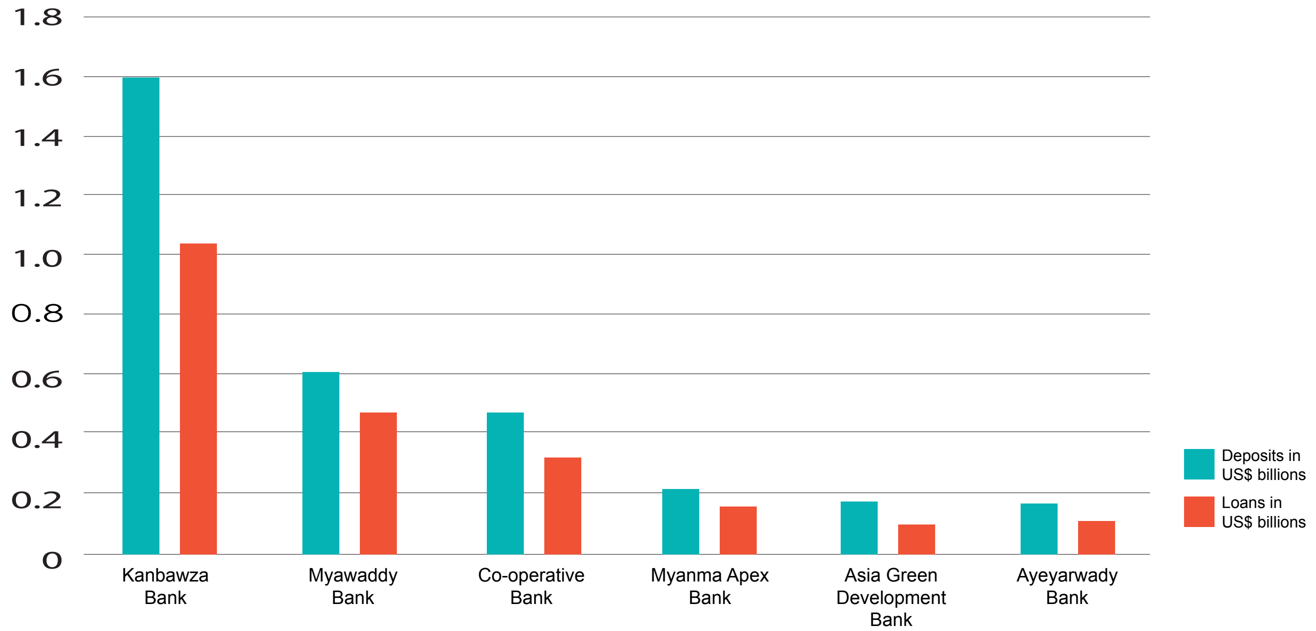
Current banking legislation in Myanmar has very strict parameters on the types and characteristics of products banks can offer. The Financial Institutions Law[20] sets out the functions that banks can perform; however, the ability to perform each of these functions is subject to prior approval of the Central Bank, which limits the range of savings products commercial banks are able to offer to their clients (see **figure VI** for the value of deposits and loans of leading commercial banks). Overall, commercial banks currently offer few types of savings products:

1. *Deposit account:*
    - Interest floor of 8 percent p.a.[21] Interest for the month is calculated on the minimum balance existing from the morning of the 6th to the end of the month.
    - Limited initial deposit of K1,000 and minimum monthly balance of K1,000.

2. *Fixed deposit account:*
    - Interest: 9 percent interest p.a. for 1-month deposit, 9.25 percent p.a. for 3-months deposit, 9.50 percent p.a. for 6-months deposit, 9.75 percent p.a. for 9-months deposit, and 10 percent p.a. for 1-year deposit.
    - All rates are quoted with no additional bank charges.
    - The fixed deposit accounts are for individuals and organizations subject to eligibility.

19. Thomas Foerch, San Thein and Sophie Waldschmidt, *Myanmar's Financial Sector: A Challenging Environment for Banks* (Yangon, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2013). Available from https://www.giz.de/en/downloads/giz2013-en-financial-sector-myanmar.pdf
20. Myanmar, Financial Institutions Law, Law No. 16 of 4 July 1990.
21. Beginning 1 June 2012, the Central Bank of Myanmar set the annual interest rate of deposits at no less than 8 percent.

Figure VI
Deposits and loans of leading commercial banks



Source: KPMG Advisory (Myanmar) Limited, *The Banking & Financial Services Sector in Myanmar* (n.p., 2013). Available from https://www.kpmg.com/MM/en/IssuesAndInsights/ArticlesPublications/Documents/Banking-and-Financial-Services-Sector-in-Myanmar-KPMG-Publication.pdf

Microfinance institutions

The 2011 Microfinance Law created for the first time in Myanmar a distinct microfinance sector. Before 2011, the United Nations Development Programme was the sole institution legally allowed to provide micro lending and savings services to people in rural areas in Myanmar. A new class of MFIs has begun building on the historical experience of the United Nations Development Programme, with the implementing partner and international NGO Pact. The sector has opened up to dozens of international entrants and a greater number of domestic participants. There are currently 235 licensed MFIs, which is a dramatic increase from microfinance essentially being illegal three and a half years ago.

From 2011 to 2014, there were two classes of MFIs: deposit taking and non-deposit taking. In 2014, the Central Bank directed MFIs to collect compulsory deposits.

The microfinance sector has predominantly two savings products: compulsory and voluntary. They have the same requirements:

- The interest floor is 15 percent p.a.
- The interest should be calculated on the client balance at the end of each month.
- The interest should be calculated as effective rate.
- Savings collection cannot be deducted from the disbursed loan amount.
- The savings amount should be set as a fixed percentage of the disbursed loan.

With regulated interest on deposits at 15 percent p.a., MFIs are reluctant to mobilize voluntary savings. The MFIs claim that the 15-percent interest floor is too high, making savings collection commercially unviable. With incentives for MFIs to collect savings being so commercially weak, many MFIs have not invested funds to upgrade internal control systems needed to collect voluntary savings and to safeguard misappropriation of funds. Ultimately, the 15-percent floor on deposits limits the ability of MFIs to diversify their funding base using clients' deposits as they are more expensive than international debt financing—on average, 13-percent interest on a hedged local currency loan.[22]

Diversification for savings products across all FSPs is extremely limited. Myanmar is a fledgling FSP market. The current regulatory environment is not yet conducive to innovation within the sector.

22. To learn more about funding, please refer to the UNCDF publication 'Funding Challenges for the Microfinance Sector in Myanmar'.

Summary of the savings landscape in Myanmar

To answer the three questions set at the beginning of this paper, the savings landscape can be summarized in the following way:

1. *Which FSPs mobilize the highest volume of savings and why?*

   Ninety-four percent of adults in Myanmar have no formal savings. State-owned banks, commercial banks and MFIs serve the remaining 6 percent of formal savers. Using the available data, out of the three categories above, private commercial banks have to date mobilized the highest combined volume of savings due to, amongst other factors, a high number of branches across the country (especially in rural areas), the provision of online banking services and an increasing number of ATMs and POS.

2. *What are the inhibitors of mobilizing savings in Myanmar?*

   Overall, the people of Myanmar still prefer to save outside formal financial institutions, especially those who represent the target market for MFIs. Reasons for the preference for informal saving include a wide spectrum of perceived disadvantages of having a bank account, chief amongst them are the following: income is too little to warrant depositing it in a formal account, there is a low level of trust towards the banking system, there is a low level of education of how a bank works, and bank branches are not within reach.

3. *In particular, what are the implications of the 15-percent regulated floor on deposits for MFIs?*

   The 15-percent regulated floor on deposits does not provide the right commercial incentive for MFIs to scale up the mobilization of savings: a) it is a much cheaper option for MFIs to leverage international debt financing (13-percent interest on a hedged local currency loan); and b) the 15-percent spread does not give sufficient margin for MFIs to cover their costs working in remote rural areas.

Ways forward

This paper has shown that the Myanmar savings culture is a culture of informality. Below are key ways forward to formalize the savings culture in Myanmar, which emerged from conversations held with MFIs, savings experts and development partners working in Myanmar.

- *Growing the sector organically, from informal to semi-formal to formal*

  It is not difficult to understand why the vast majority of micro-savings are still outside the formal sector. When incomes are extremely low, informal savings groups can provide a means for saving. Village-level savings groups have existed in Myanmar as part of the culture going back hundreds of years. The saving ethos is alive and well in Myanmar, giving rise to positive forecasts for stimulated growth of savings. As prosperity rises and savings group deposits increase, the ability to issue larger and larger loan sizes increases, adding investment into local business and community economies. Savings groups are popular for a variety of reasons, with trust amongst peers cited as one of the most treasured reasons for staying within the informal sector. Values and security obviously play a major role in the life of villagers who save, but as group activity and growth give more and more opportunities to communities, cross-over with formal FSPs begins to occur. Building the capacity of existing savings groups to ensure their organic growth in underserved villages means that, as these developing savings groups mature and gain confidence, they will reach out to financial institutions for loans larger than their own savings groups can provide. In this trajectory of confidence-building and self-determined expansion, savings groups 'could evolve organically from informal to semi-formal[23] to formal.'[24] Save the Children Myanmar is running a very successful village saving and loan association programme in Rakhine, one of the most financially underserved states in Myanmar. Similarly, Association of Asian Confederation of Credit Unions is fostering self-reliant savings groups and building their capacity to become registered saving and credit cooperatives.

23. Semi-formal groups are informal groups that are receiving institutional capacity-building support from national or international development organizations to transition to a formalized savings group. Semi-formal groups come into being when an organization decides to leverage existing informal savings groups rather than creating groups from scratch.
24. Comment by Jeffrey Ashe to this article: Eric Duflos and Paul Luchtenburg, 'Understanding Typical Financial Behavior in Myanmar,' 13 August 2014. Available from http://www.cgap.org/blog/understanding-typical-financial-behavior-myanmar

Informal savings groups have many interesting lessons to teach both the FSP sector and the regulatory environment. The ownership of resources and the ability to live by community values is reported by savings groups to be of extreme importance. To just chase customers from a FSP perspective is to miss many of the reasons why savings groups flourish. FSPs need to know how their institutions can work with the community values so treasured by savings groups.

- *Mobilizing savings should be a commercially viable option*

Augmenting the spread between interest floor on deposits and capped interest on micro-loans by lowering the interest floor is essential for making savings mobilization a commercially viable strategy for FSPs, especially for MFIs serving the bottom of the pyramid. Regulation of financial services is complex. Myanmar, as a nation emerging into new territories of international markets and international investment, quite rightly treads a path where drive for economic growth has to be measured against the need for inclusive economic growth. FSPs that are looking to increase their client base advocate for a more favourable commercial environment. All MFIs interviewed for this paper called for a reduction of the 15-percent floor on savings. Myanmar banks pay out generous interest rates of 8 percent and more in many cases. MFIs and international investors put forward a persuasive business case that the floor on savings would accommodate the economic growth of Myanmar far better by boosting savings mobilization if it were reduced to a similar level of Myanmar banks at 8 percent.

- *Myanmar: A new Kenya? Mobile money revolution*

A mobile revolution has arrived in Myanmar. By June 2015, there were an estimated 28.1 million mobile phone subscribers (MPT had 18.4 million SIMs in the market, while Ooredoo had 3.3 million and Telenor had 6.4 million).[25] The mobile phone penetration rate increased from 15 percent of the total population in 2013[26] to nearly 55 percent in June 2014.[27] The two licensed international telcos—Ooredoo and Telenor—have committed to reaching 90-percent population coverage and 80-percent geographic coverage by 2019.[28] The 2011 Microfinance Law provisions MFIs to apply a mobile payment system. The 2013 Mobile Banking Directive[29] allows banks to issue accounts over a mobile phone. The extent of the impact that mobile money will have on savings is impossible to calculate. Innovation at this technological level comes along rarely and often results in behaviour patterns that cannot be foreseen. Whatever mobile money brings, it is not going to change the need for households to have systems of financial self-reliance, and saving is always going to be part of that self-reliance. What is exciting is the potential of how mobile money and savings can synergize to bring down costs, to connect remote areas with formal service providers, and to educate and inform. FSPs across the sector would do well to investigate the potential of mobile money to boost savings. The regulatory environment likewise needs a nimble turn of foot so as not to hamper technological progress when economic benefits can be so lucrative.

25. Htoo Thant, 'Mobile penetration reaches half the country,' 2 June 2015. Available from http://www.mmtimes.com/index.php/business/technology/14815-mobile-penetration-reaches-half-the-country.html
26. Chamberlain and others, 'Myanmar: Demand, Supply, Policy and Regulatory,' p.19.
27. Htoo Thant, 'Mobile penetration reaches half the country.'
28. Chamberlain and others, 'Myanmar: Demand, Supply, Policy and Regulatory,' p. 20.
29. Central Bank of Myanmar, Mobile Banking Directive, No. 4 of 3 December 2013.

January 2016.