



Market Development Facility Brief

Expanding Financial Inclusion to Myanmar's Marginalised through Sustainable Market Initiatives



The Problem

Since 2011, wide-reaching reforms have galvanised the Myanmar financial sector, leading to rapid expansion and significant progress. Alongside the transformation at a regulatory level, the demand for capital has grown, without being satisfied by the existing financial system. Myanmar still lacks a capital base sufficient to sustain high-levels of economic growth. Credit demand is only partially covered: Myanmar domestic credit provided by the banks to the private sector (amounting to 33.2% of GDP in 2015) is among the lowest of ASEAN countries¹.

Amongst a number of other structural issues, constraints on the mobilisation of savings (a traditional source of funding in other countries), particularly compromises the ability of the financial sector to provide a long-term bolster for economic development. Banks are also unwilling to lend to microfinance institutions (MFIs), which are perceived as too risky due to their poorer, more vulnerable client bases. As a result, the microfinance sector tends to be overwhelmingly reliant on grants instead of funding driven by market forces, and starved of local-currency financing to scale up operations.

The microfinance sector in Myanmar is still new and developing. To expand financial services access, there is a great need to set up market transformational mechanisms that enable MFIs to be more robust and sustainable. Experience shows that the provision of performance based loans, grants and technical assistance will help to professionalise the microfinance sector and address systemic failures associated with undercapitalisation, especially for MFIs focusing on last-mile clients.

The Intervention

In 2016 UNCDF Myanmar initiated a strategic financial market initiative that seeks to **address systemic market failures** in a number of thematic areas through targeted funding solutions, known as the Market Development Facility (MDF).

MDF is an investment vehicle that aims to facilitate financial service expansion to marginalised areas, strengthen the capacity of emerging MFIs, and encourage sustainable market linkages. The MDF functions as a catalytic wholesale financial agent able to take-on risk and leverage outside sources of capital to boost funding to undercapitalised MFIs operating in Myanmar.

It will address the critical market failure of MFI undercapitalisation through the provision of performance-based **local currency loans**, loan **guarantees** and **technical support**, preparing selected MFIs to become investment-ready. As one of the two UN agencies and few institutions in the country able to provide such financing, the platform will catalyse expansion of MFI outreach and crowding-in of additional lenders to the sector, including integration with local commercial funding markets. UNCDF will use its unique public-private partnership role and capital mandate to leverage maximum donor and impact investment.

The Impact

The Market Development Facility aims to impact a total of 100,000 clients. As of October 2017 two direct loans have been provided: to local MFI Pyae Mahar Services Co. Ltd; and the Myanmar offshoot of French INGO Entrepreneurs du Monde (EdM), known as SOO in Myanmar language. More financing facilities for promising undercapitalised MFIs, in the form of both direct loan and loan guarantee instruments, are in the pipeline. Technical assistance grants will support the development of new products for microfinance clients, especially savings instruments.

The fundamental purpose of the facility is to help 'open up' what is essentially a donor-driven microfinance sector and support a transition to a market-driven sector. This will involve the inclusion of new sources of capital in the form of loans and investments. The long term objective of the facility is to develop sustainable and scalable models, especially for FSPs, in order to build a healthy and sustainable market, and hence bring about lasting change to the lives of the poor, especially women and other marginalised groups.

The MDF will also contribute to achieving the Government policy goals of poverty alleviation, increased agricultural productivity, development of cottage industry sectors and fulfilment of Financial Inclusion Roadmap outcomes. This in turn will contribute to a number of Sustainable Development Goals (SDGs) particularly SDG 1 on poverty; 5 on gender equality; 8 on economic growth; and 17 on means of implementation.

¹ World Bank (2016). World Bank Development Indicators.