UNITED NATIONS CAPITAL DEVELOPMENT FUND
Myanmar

Policy Brief

The Need for Formal Financial Sector Savings in Myanmar and Options for Development Partner Engagement

December 2016

Contents

Acronyms

ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
CBM	Central Bank of Myanmar
FRD	Financial Regulatory Department
FSP	Financial Service Provider
IFRI	International Food Policy Research Institution
MADB	Myanmar Agriculture Development Bank
MAP	Making Access Possible
MFI	Microfinance institution
MFS	Mobile Financial Services
MFSC	Microfinance Supervisory Committee
MMK	Myanmar Kyats
MNO	Mobile Network Operator
MSME	Micro Small & Medium Enterprises
UNCDF	United Nations Capital Development Fund
VSLA	Village Savings & Loan Association

1. Objective

This Policy Brief explores the crucial role of formal-financial sector savings in Myanmar for economic growth and socio-economic emancipation, and analyses how development partners can best engage. Key touch points are savings demand, the roles of different financial institutions in mobilising savings. It ends with a discussion of the core regulatory issues for deposit and non-deposit taking MFIs, differentiating voluntary and compulsory savings.

2. Introduction

The most defining characteristic of a poor household is a low-income and asset base, which, combined with irregularity and uncertainty in income, results in higher exposure to socio-economic shocks. This vulnerability is more pronounced in rural areas, which have relatively high levels of systemic and idiosyncratic risks, and has an immediate impact on food security and basic life necessities. Mitigating and managing related risks, irregularities becomes the dominant function of financial management for poor and rural households.

In Myanmar, many are part of both low-income and the rural segments of population: 70% of people live in rural areas and 58% of adults make a primary living from agriculture.[1] On average, farmers and those who make a living working on other people's farms are among the lowest income groups.[2] The two groups also show highest percentages of debt uptake and debt-service to income levels compared against other socio-economic groups.[3] In short, they are financially vulnerable. Any sickness or death of a family member, loss of livestock or crops as a result of bad weather, flooding or pests, or changes in market prices, presents an immediate threat to wellbeing and security.

This all should be seen against a backdrop of Myanmar high exposure to of disaster-related risks. On top of this, income from agriculture fluctuates strongly due to high exchange rate volatility and price volatility in export markets for commonly produced crops, especially rice.[4] [5]

The government's 12-point economic policy places high importance on market-driven inclusive growth and food security, and on enhanced access to financial services in rural areas and for farmers. It seems an appropriate time, therefore, to explore the issue of how financial services can add value to the lives of rural and poor households by focusing on

[1]Making Access to Finance Possible Myanmar 2013-14. See for the diagnostics: http://cenfri.org/making-access-possible/map-myanmar; and for a video summary of results: https://www.youtube.com/watch?v=2k2v0Ii_w2E.

[2] Ibid.

[3] Ibid.

[4] Myanmar ranks 9th out of 191 countries worldwide on the Index of Risk Management and 2nd out of 187 countries on the Global Climate Risk Index. Over the last 10 years, the country has experienced two major earthquakes, three severe cyclones, regular floods and some smaller-scale hazards.

[5] http://www.worldbank.org/en/country/myanmar/publication/rice-price-volatility-and-poverty-reduction-in-myanmar.

their most immediate needs, and suggest possible options for development partner engagement.[6]

3. Background

Insurance Functionality

Poor and rural households often have a foremost need for financial products that provide insurance functionality. This has been well documented. On the poor's financial management needs, research funded by the International Food Policy Research Institute (IFRI) concisely concluded that "many borrow, more save, and all insure", and described insurance as the missing 'third' of microfinance. Regarding the most prominently available financial tool to provide such functionality, the body of work that resulted from the IFRI research concluded that because of difficulties with insurance provision, "precautionary savings can be a valuable insurance substitute, in particular for the poorest".7

Savings for Household Financial Management

Even stronger emphasis on the role of savings for household financial management of the poor resulted from a more recent body research conducted by Stuart Rutherford and others. Answering the question of how the poor manage their money, the researchers concluded that for the poor "managing money well turns out to be a matter of managing [their] capacity to save. Saving is where financial services begin and end".8

Savings Motives and Product Characteristics

Savings perform a critical role as risk management tool. This is reflected in the preference of poorer people to obtain products with characteristics of savings.

First, the importance of the emergency motive is reflected in the fact that more vulnerable, food-insecure households are likely to prioritise quick and easy access to their money over making a return.[9]

Second, it has been observed that for poor households, the impact of volatility in income and expenditure combined with a lack of access to emergency borrowings or savings can be as damaging as persistently low levels of consumption.[10] As a result, the poor aim at bridging large and infrequent incoming cash flows with many smaller outgoing ones, and vice versa.[11]

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[6] Priority no. 5 of the Economic Policy of the government of the Union of Myanmar, issued 29 July 2016.

[7] "Many borrow, more save, and all insure: implications for food and micro-finance policy". Manfred Zeller, Manohar Sharma, International Food Policy Research Institute (IFPRI), 2033 K Street, NW Washington, DC 20006, USA. Elsevier, Food Policy 25 (2000) 143–167.

[8] "The Economics of Poverty: How the Poor Manage their Money", Stuart Rutherford.

[9] The triangle of microfinance: Financial Sustainability, Outreach and Impact", ed. M. Zeller and R.L. Meyer, Published by the IFRI, Johns Hopkins University Press (2002).

[10] "The Analysis of Household Surveys", A. Deaton, World Bank (1997).

[11] The Economics of Poverty: How the Poor Manage their Money", Stuart Rutherford.

Some successful microfinance providers actually charge their customers to save with them (i.e. offering a negative nominal interest rate) reflecting the value of easy access, the ability to bridge or smooth incoming and outgoing cash payments, and the benefit of shielding savings from impulse spending.[12] An often observed phenomenon in village- or communal-based informal savings and loan associations (in which loan funding is based on member-villagers' savings) is that the number of savers is much larger – often twice or three times higher - than the number of loans.[13] When villagers decide on loan-product design, emergency loans are not simply included, but prioritised over productive loans.[14]

Finally, on the issue of successful savings product design related to poor households' relative lack of literacy, simple product portfolios with easy-to-understand concepts and communication can greatly add to success.[15] It has been well observed over time that the main unmet demand for microfinance services is in savings, famously brought to public attention in Nobel laureate Robert Vogel's 1984 article '*Savings mobilization, the forgotten half of microfinance*'. Many scholars and practitioners conclude that little has changed since then.[16]

4. Savings and Myanmar

Quantifying Myanmar's Demand for Savings

A nationally-representative quantitative study on demand for financial services in Myanmar found that in 2013 only 38% of the adult population hold any form of savings.[17] This is striking considering that, at the same time, 56% of adults reported to *want to save* in the coming year. The reason for this profound gap can be found in the fact that people simply don't have money to spare after consumption: the three most important reasons mentioned for not holding any savings were that all money went into household expenses (50%), no money was left after living expenses (28%) and not having enough income (15%).

In Myanmar (and corroborating international findings), people use savings as a primary socio-economic risk management tool: 57% of savers put money aside for times when income is unlikely to be sufficient to buy necessities, 32% for medical expenses and 23% for non-medical emergencies.

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12 Ibid.

13 "The rural and microfinance sector of the Lao People's Democratic Republic", Sector Assessment, Strategy and Roadmap, ADB TA 7500-LAO: Enhancing Financial Sector Supervision, Component 2, by Timo H. Hogenhout.

14 Ibid.

15 "Access to Finance: Ideas and Evidence – the Economics of Savings", Dean Karlan & Jonathan Murdoch, June 2009.

16 "Savings Mobilization and Meeting the Financial Needs of the Rural Poor", Prof. (em.) Dr. Hans Dieter Seibel, University of Cologne, Development Research Center and Katja Kirchstein, Freie Universität Berlin/PlaNet Finance Deutschland e.V. at the 6th University Meets Microfinance Workshop University of Groningen, 17-18 June 2011. "BRINGING THE "FORGOTTEN HALF" OF MICROFINANCE INTO FOCUS: Analysis of Recent Trends and Issues in Deposit Mobilization by Microfinance Banks in Pakistan", Micro Note 19, December 2013. By SHAHBANO HAMEED and ALI BASHARAT, Pakistan Microfinance Network.

17 FinScope 2013, as part of MAP Myanmar.

Financial Diaries research in Myanmar similarly found very strong propensities within the population to save and honour contracts.[18] It also found a strong demand for good-quality, flexible and client-focused savings products services with low-transaction costs, and revealed an almost complete lack in usage of formal savings services.

Making Access Possible (MAP) identified the lack of physical outreach of the formal finance sector, and related high transaction costs for clients, to be a main hurdle for further savings intermediation.

Relevance of Deposit-taking in Myanmar

Myanmar has large stocks of savings held in cash and gold, which hold great potential for enhancing income and economic growth. Currently, these savings remain idle and don't make a return for their owners. Secondly, they don't contribute to financing the debt and equity of economically active rural and urban households and MSMEs – groups which severely lack access to investment and working capital. For MFIs and banks alike, deposits should provide a solid base of low-cost, local currency funding.

Among those who save, informal savings at home are highly dominant, with more than 2 out of 3 saving adults utilising informal means such as holding cash, gold or depositing with friends or family. Of all adults, only 3% saved at a bank and only 1% with an MFI.

Role of Formal Financial Institutions

The MAP study in Myanmar documents that less than one in six of those who did save, used a formal financial institution (either a bank, non-bank or registered financial institution). Of the remaining 84%, two out of three reported to easily be able to live without an account at a bank, or not to need one. This was despite the fact that 40% did see the benefit of receiving interest and 30% recongised the ability for formal savings to secure against theft. The benefits, however, did not outweigh the indirect costs of burdensome formal requirements and incovenience in access (e.g. travel, loss of time, fuel, and opportunity costs from time away from work).

a) Cooperatives

Financial Diaries research in Myanmar similarly found very strong propensities within the population to save and honour contracts.[19] It also found a strong demand for good-quality, flexible and client-focused savings products services with low-transaction costs, and revealed an almost complete lack in usage of formal savings services.Making Access Possible (MAP) identified the lack of physical outreach of the formal finance sector, and related high transaction costs for clients, to be a main hurdle for further savings intermediation.

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[18] Myanmar Financial Diaries (August 2014-July 2015), Microfinance Opportunities and TNS Myanmar, funded and arranged by LIFT and UNCDF.

[19] Myanmar Financial Diaries (August 2014-July 2015), Microfinance Opportunities and TNS Myanmar, funded and arranged by LIFT and UNCDF.

b) Savings and Loan Associations

MAP found that, despite the large demand for savings services, only 7% of adults were part of a semi or informal village-based savings group or village savings and loan association (VSLA). Only 3% of adults were found to be using these groups as a primary deposit service provider. In constrast with Lao PDR and Thailand, there is little practice of building VSLAs in Myanmar. For comparison, in the Lao PDR, VSLAs are by far the largest providers of savings and loan services in terms of number of customers in semi-urban and rural areas, and are present in 50% of all villages. Recent data showed that VSLAs provided four times more savings accounts than formal MFIs.[20]

c) Banks

Over the last half-decade, since the beginning of the reforms of the U Thein Sein government, formal financial sector deposits in Myanmar have been growing rapidly. The deposit-to-GDP ratio grew by 158% from a low base of 12.6% in 2011 to 32.5% in 2015. Over the same period, the number of deposit accounts at banks grew 83% from 119 to 218 deposit accounts per 1,000 adults (though again from a low base).[21] [22]

Despite impressive growth, Myanmar scores lowest in the ASEAN region for its deposit-to-GDP ratio, compared for example with Cambodia (249), Laos (543), the Philippines (560), Vietnam (854) and Thailand (1,537). Though loan-to-deposit ratios are growing, they are still relatively low, making attracting deposits expensive.

In Myanmar, banks are not necessarily the logical counterpart of the low-income people, for whom savings are the most important tool. Only the Myanmar Agriculture Development Bank (MADB) is active in the low-income and rural segments, focused strongly on directing subsidised credit toward agricultural production. However, hire-purchase-based credit provision is offered by Yoma and CB Bank. This situation is expected to remain stable for the foreseeable future, mainly as a consequence of the existing 5% interest-rate spread imposed by the Central Bank of Myanmar (CBM). Market-based interest rates in retail finance markets are expected in the long-run, according to CBM, conditional on the stability of a growing finance sector.

There seems relatively little capacity for banks to actively engage in the market for deposits. This would be particularly true for deposits from the large majority of low-income and rural people, for whom savings opportunities would have significant added value.

d) Microfinance Institutions

MFIs have not participated in the rapid growth of deposit accounts. In 2015 only 13 deposit accounts had been opened per 1,000 adults. The 2011 Microfinance Business Law

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[20] "Microfinance in the Lao PDR", National Economic Research Institute, Bank of Lao PDR and GIZ (2015).

[21] "Demand, Supply, Policy and Regulation", MAP Myanmar Country Diagnostic report 2014; "Golden opportunity: With both high risks and significant opportunities, the government is focusing on stable development", Oxford Business Group; IMF Country Report No. 15/268, September 2015.

[22] IMF Financial Access Surveys.

[23] was specifically enacted to enable establishment of MFIs to "*reduce the poverty and improve the socio-economic life of the public, including low-income peasants, labourers and vendors* [the poor] *in both rural and urban areas*". Why then have MFIs have generated so few savings accounts? Answering this question requires a more in-depth look at the regulatory regime embedded in (and based on) the Microfinance Business Law.

MFIs have only recently been granted more freedom to accept deposit-taking. On the 29th of August 2016 the Microfinance Supervisory Committee (MFSC) issued new Directives on the issue, removing what were considered key obstacles for MFI expansion and success.[24] [25] Still, deposit taking is opermitted from "*members*", something that is stipulated in the Microfinance Business Law.[26] The fact that membership as a requirement for MFIs to accept deposits is embedded in the Law implies that only parliament, after what would likely be a lengthy and politicised decision-making process, can make any changes.

The Law does not define or specify "membership" as a concept, but it can be taken to mean anyone who has taken out a loan. Less clear is the answer to the question of whether or not the loan should still be active (or outstanding). Various state and regional level branch offices of the Financial Regulatory Department (FRD) have given different interpretations of being a "member".

The new regulatory regime for deposit-taking MFIs brings new and great prudential responsibilities for the FRD in the role of supervisor. MFIs could hold significant deposits from large numbers of low-income people. There is a core group of around a dozen foreign-owned MFIs that have already implemented successful activitities in other countries, and have now established subsidiaries in Myanmar - using their capacity and financial strength to achieve rapid growth in outreach. They bring in good-quality credit and risk management systems and have the potential to set new, high standards for the sector and its supervisors. Still, there is a total of 180 licensed MFIs and the newly-allowed scaling-up of activities, (including larger-scale deposit-taking and digital financial service provision for MFIs) will test the competence and capacity of the FRD's MFI Division.

As explained by the Director responsible for MFI supervision, the supervisory capacity of the FRD is low and great investment in staff and support systems is required.[27] The issue is even more urgent now that the main supervisory technical assistance provided by the Asian Development (ADB) has come to an end. A World Bank program for MFI supervisory support has been agreed upon and can build on existing technical support, though this will take time to start up.

23 Ibid.

24 The regulatory change was based on the request made by the Myanmar Microfinance Association (MMFA) after extensive consultation with its MFI constituents, and following careful deliberation by the MFSC and Financial Regulatory Department, technically advised by international organizations such as World Bank, Asian Development Bank, UNOPS and UNCDF.

25 In the meantime, follow-up letter has been issued by the MFSC, further clarifying the Directives of August 2016.

26 For a detailed description of the MFI deposit-taking regime, see below in Annex 1.

27 MicroLead Conference, December 2016, Yangon.

Desposit Insurance System

Myanmar does not have a comprehensive deposit insurance system, nor are there concrete plans to develop such a system. The state-owned Myanmar Insurance Enterprise does offer a deposit insurance product of which few details are known and on which no rules and regulations have been issued. To the extent known, the government will reimburse deposits in case of bankruptcy. However, as an indication of the level of trust in the system, even banks publicly state that clients should not make any assumptions about the availability of full compensation pay-outs.

5. Suggested Interventions

There is huge unmet demand for (and socio-economic potential in) enhanced formal sector savings mobilisation in Myanmar, founded on a strong propensity to save amongst the majority of the population. At the same time, neither formal nor semi-formal financial service providers currently play an important role in offering adequate savings products. This is despite recently issued government policies having placed a high priority on such activities. Looking at possible areas of engagement for development partners, there are a range of potential entry points.

MFI Member Products

The legal mandate, the newly created regulatory space and the composition of the MFI community, all suggest that it is possible for MFIs to provide promising vehicles for enhanced formal sector savings-mobilisation interventions.

Currently, MFIs are only allowed to take deposits from members but not from the public, severely limiting their possibility to access a stable, inexpensive source of funding. Moreover, MFI savings mobilisation precludes foreign currency risk inherent in the uptake of debt financing, and is a source of deepening and broadening client relations as part of a much larger marketing approach.

The definition of a “member” is a notion with which both the FRD and MFIs stuggle. There are no clear rules on how to supervise and deal with outstanding deposits of a borrower where that borrower has repaid his/her loan wholly or partly. As for the FRD it is a politically sensitive issue to enforce a single interpretation of ‘membership’. They seem to remain deliberately vague on the issue.

One option would be to explore “membership” loan products or a “member” profile for MFIs, as an innovation within the prudential requirements of the FRD, and one which could be supported (or at least condoned). Such an intervention should be carried out immediately. Potential “membership” loan products may include:

a) Membership Loan

A membership loan should be introduced in the form of either a single, tiny, long-duration loan or many automatically renewable one-year loans with very-low interest rate. For every new borrower of a “membership loan” paying the required “membership contribution” in the form of small interest rates, the MFI can gain a new “member” that can deposit as much and as often as required.

b) Matched Duration Loan

If needed, the deposit product duration could be matched with the “membership loan” duration and liquid savings products could be created by having an automatically renewed daily loan product.

c) Loan Deposit Agreement

Another option could be to design one large agreement with a client that contains both deposit and loan elements, with either flexible or fixed components depending on agricultural production cycles. For example, a farmer who may need a seasonal loan product could simultaneously and in the same document agree to deposit the returns after the harvest with the same MFI.

d) Current Account

Since MFIs are allowed to request an allowance to provide payments, they could request to carry current (payment) accounts offering positive interest when there is a positive balance, or negative interest rates when there is a deficit.

Support to MFI Prudential Supervision

Now that MFIs can start applying for deposit-taking licenses and will start attracting deposits in non-negligible amounts, there is an immediate need for continuation of the type of supervisory support work done by the ADB. The ideal way to move forward would be simply to hire the previous ADB consultants, and develop a Terms of Reference jointly with them and the FRD in a short period of time.[28]

Deposit Insurance System

Deposit insurance is not controversial and represents a potentially powerful instrument to support trust in the financial sector. The lack of confidence in the financial sector is one of the root causes of low formal sector intermediation in the savings market in Myanmar. Myanmar is one of only two countries in ASEAN which does not yet possess a regulated, broadly based, well-known and accepted deposit insurance system. Within ASEAN, the CBM has technical support available from the Central Bank of Malaysia and Monetary Authority of Singapore ample experience exists worldwide in developing deposit insurance systems. In contrast to regular private insurance products, deposit insurance is a specific type of insurance with specific requirements and modalities.

Now that the insurance sector is undergoing reform and regulatory review, the timing seems right to bring in deposit-insurance experts (e.g. from the International Association of Deposit Insurers, and peers from within ASEAN) to conduct basic feasibility assessments on setting up a deposit insurance system. The need for such an intervention is further highlighted by the fact that MFIs will start taking deposits on a larger scale, and that retail interest rates are moving toward liberalisation (albeit slowly). On MFI involvement in such a deposit insurance system, however, there is demand for additional clarity from the sector on both interpretation of rules and their practicalities, and the FRD should engage with the sector to provide clarification.

[28] The recommended consultant is Mr. Dave Grace of Dave Grace Associates.

Semi or Informal Savings & Loan Associations

Given the combination of high-transaction costs, the size and mostly rural demographic in Myanmar, and a strong inclination to honor contracts, there is high potential in building fully savings-led, village-based savings and loan associations, particularly in more remote areas.[29] As women have a strong role in household financial management, programs are recommended to focus on including women. Semi and informal VSLAs are known to offer basic yet highly sought-after financial services to large numbers of poor and rural households prior to formal sector penetration. Often both semi-formal and formal services are used simultaneously. With successful examples, proven systems, experienced and qualified staff, and a strategy for the attainment of self-sufficiency and linking with the formal sector in neighbouring countries, the piloting of such a system deserves consideration.[30]

Remittance-based Financial Literacy

There is an opportunity for developing savings-oriented financial literacy campaigns aimed at remittance receivers in Myanmar. International remittances play an important role as income source for a large percentage of Myanmar's (mostly rural) households. They also have great potential to stimulate uptake of both savings and credit services, and boost intermediation of the formal financial sector in the recipient country. Developments in mobile payment services create significant opportunity in leveraging remittances for enhanced deposit mobilisation – particularly through financial literacy initiatives focused on recipient households.

Enhancing Savings-oriented Mobile Financial Services

The outreach of mobile network operators (MNOs) and availability of investors and FSPs willing and able to engage in the mobile financial services space, constitutes an opportunity to deepen and broaden their engagement in both channeling and storing funds.

Enhancement of direct MNO engagement in the provision of savings-based services could be stimulated through regulatory permission to receive international remittances and operate with larger maximum daily transaction sizes.

MFS wallets and agent networks can provide low-cost savings vehicles for short-term saving. Emerging retail payments networks and agents can be leveraged to enable convenient storage of value services.

Extension of account-based savings options will require an improvement in transaction functionality and geographic proximity to encourage people to shift savings into the regulated sector. While there is an urban opportunity for bank-based deposits, the modernisation of Myanma Economic Bank's systems also offers an opportunity to strengthen its role as savings mobiliser in both urban and rural areas.

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[29] The formal cooperative sector, with its strong top-down and politicized credit delivery distribution systems and history, seems less good of a counterpart or area of engagement.

[30] GIZ in Laos and Thai organizations CODI and FIAM, supported by ACCU, have developed successful systems that have functioned well since over two decades.

Awareness Raising and Advocacy

There is a strong history, culture and focus on debt-oriented government programs in Myanmar for agricultural production, food security, and poverty reduction through targeted and subsidised productive loans, though little is known about the impact of such programs.

There is a need for awareness-raising and advocacy by the government on the modalities used by the large majority of Myanmar people to manage their money, and on the fundamental role of savings. Related advocacy campaigns, exposure visits and thematic workshops could be organised for that purpose. MFIs (and MNOs and banks) should be provided the regulatory space and encouragement from the financial sector authorities to experiment with low-cost, convenient savings products.

Savings Product Development for FSPs

MFIs (and MNOs and banks) should be supported to better understand the fundamental role of savings for money management for all kinds of households. This could be done, for example, by using existing information from the UNCDF's Financial Diaries research and presentations by their authors in thematic workshops. Based on that research, financial service providers should be technically supported to develop more client-oriented savings products, such as special savings products aimed at peaks in expenditures during festivals.

6. Annex: MFI Deposit-taking Regulatory Environment

One of the key objectives of the Microfinance Business Law is to nurture and cultivate good saving and economic habits amongst the public, with particular focus on low-income farmers, labourers and vendors in rural and urban areas. To facilitate achievement of this objective, the law allows MFIs to receive deposits, following approval by the MFSC. Where the law defines the scope of allowed activities for MFIs, it limits deposit taking to "members" only.

The meaning of a member in the context of the law is poorly defined, but from the interpretation given in MFSC Directives and FRD supervisory practice, it can be taken to mean anyone who has taken out a loan. Less clear is the answer to the question whether or not the loan should still be active, or outstanding, and various State and regional level branch offices of FRD have given different interpretations of what is required to be a "member".

Compulsory Savings

Compulsory saving, as an effective microfinance methodology, was developed as means to screen potential borrowers. If a potential borrower had shown to be able to save a certain amount of money over a certain number of periods, he/she would have been able to pay installments and interest after loan issuance, and had the discipline to do so. Moreover, in the weeks or months leading up to loan issuance, the periodical contact between the prospective borrower and the MFI led to the creation of a bond of mutual trust and understanding.

In Myanmar, MFIs have used what they describe as compulsory savings as a means of creating a loan guarantee and raising effective interest rates. An agreement for a loan of MMK 100 would lead to issuance of an amount of MMK 80 to the borrower and MMK 20 in a frozen savings account in his/her name.

In order to counter that practice, the MFSC has issued the ruling in its latest Directive that compulsory savings may not exceed 5% of the loan size, and the interest rate for compulsory savings shall be no less than 15% per annum. Such regulation, however, reduces the strength of the methodology of compulsory savings and only minimizes negative effects of use of loan guarantees. For the regulator, it would be better to define the compulsory savings methodology explicitly (in a Directive) and allow it, and forbid the use of loan guarantee-like structures. Loan guarantees constitute bad microfinance practice and are in many jurisdictions disallowed explicitly.

Non-deposit taking MFIs

The law has created two different regulatory regimes for deposit-taking and non-deposit-taking MFIs, each with its own distinct set of requirements and permitted activities.

Despite what the name suggests, non-deposit-taking MFIs are actually allowed to take deposits (though are limited in that capacity). They are allowed to take compulsory savings only. Compulsory savings are those directly linked to a loan and part of the credit allocation decision, and represent an elegibility condition for receipt of a loan. As the Microfinance Business Law stipulates, compulsory savings are those that "are collected whenever the members draw micro-credit". By definition, compulsory deposits can only be accepted from borrowers, and not from the broader public.

Deposit-taking MFIs

Deposit-taking MFIs are allowed to accept voluntary deposits above and beyond compulsory savings, but from "*members*" only. This follows from the definition of deposits in the Microfinance Business Law. This definition was reaffirmed in the latest MFSC Directive's stipulations on deposit-taking MFIs which states that "deposits may not be taken from non-members".

The Microfinance Business Law does not specify the concept of voluntary deposits, but does say they can be payable either "*on demand*", or on "*any other condition*". The latter definition implies a blurred line between debt finance (and even quasi-equity) and deposits. An MFI could, theoretically, circumvent the Central Bank of Myanmar rules on maximum lending rates by offering a bonus interest rate to a member depositing a sufficiently large amount. As a reminder: central bank-set lending rates do affect MFI debt finance agreements but don't affect rates on MFI deposit products.

Accepting voluntary deposits is limited to members. The voluntary deposits should receive interest at a rate of at least 10% nominally per year. Acceptable methods of calculating interest have not been specified. In practice, some MFIs abuse this, for example by calculating interest on the lowest value of a member's voluntary deposits in a year.

Regarding the maximum allowed total size of obligations in the form of voluntary deposits, MFIs are bound only by the overall MFI solvency ratio, which requires that the value of the MFI's total equity is at least 12% of the value of total assets.

Requirements for Deposit-taking MFIs

MFIs that request a license to take deposits should have:

- ✓ A minimum of 300 million kyats in paid-up capital and a minimum of 300 million kyats in total equity.
- ✓ A minimum of 3 years experience in carrying out microfinance activities in Myanmar.
- ✓ Made profits for a minimum of 2 consecutive years.
- ✓ A properly operating management information system.
- ✓ Strong internal controls

Those MFIs that received a license to take deposits before the issuance of the latest MFSC Directive on 29 August 2016, have until 28 August 2018 to meet the new requirements, either by merging or partnering with another MFI, or on its own account. Any MFI that would like to keep its license to take deposits should submit an application with the required information mentioned in the bullet list, or the license will be withdrawn.

Sources

Microfinance Business Law (2011), The Pyidaungsu Hluttaw Law No.13/2011), The 5th waxing Day of Nadaw 1373 M.E., (30th November, 2011)

Microfinance Supervisory Committee Notification No. (4/2016) Naypyitaw, The 11th Waning of Wakaung, 1378 ME (29th August, 2016).

Microfinance Supervisory Committee Letter No.KaKa-1/6 (183/2016) Date: 14th December 2016.

UNCDF is the UN's capital investment agency for the world's 47 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. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. www.uncdf.org/myanmar