Effect of Microfinance on Socio-Economic Development of Rural Community in Myanmar

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Abstract

Microfinance plays a vital role in the socio-economic development of Rural Community. Its role is to improve financial access of the poor and small economic players by supporting in building their assets. Microfinancing is based on the philosophy that even small amounts of credit can help end the cycle of poverty. Microfinance introduces rural families to the formal financial sector by contribution to poverty alleviation. As a developing country, Myanmar needs to extend micro-credit to the grass root people so that they can grow their small family businesses. Microfinance always responds to community needs especially farmers, widows and foster families. They are vulnerable due to their incapability to borrow from banks the highly needed working capital for their income-generating activities as they do not have creditworthiness. Microfinance institution serves in the form of micro-credit and micro-finance became an instrument in favor of the poor mainly in the rural community. This paper provides an overview of microfinance development in Myanmar’s Rural Community. The study is focused on finding out the effect of microfinance on socio-economic development of the rural community in Myanmar.

Keywords: Microfinance, Socio-Economic Development; Rural Community; Financial Inclusion; Myanmar.

1. Introduction

The role of Microfinance in Myanmar has become a significant phenomenon due to the impact on Socio-Economic Development of rural community. The aims of Microfinance institutions (MFIs) are to provide financial services to the grass root people, to reduce the poverty of the poor and to improve their socio-economic life. Generally, the grass root people do not have the chance to access the formal financial services from the financial institutions such as bank. MFIs assist the poor people in gaining access for the large sums of money which they need for different purposes.

The underserved population requires a broad range of financial services; not merely savings and credit. In recent years, Microfinance enables them to conduct their financial lives more efficiently. On the other hand Microfinance supports the rural community to participate more in Financial by using many ways for instance innovations in loan contracts and without requiring collateral as security. Public finance aims to enable increasing economic growth and to end poverty, however, the corruption, reduces revenue and it increases illegal public expenditure. More and more countries have focused on the use of ICT in its activities to strengthen its reform process with transparency as a necessary ingredient of good financial governance (Ameen and Ahmad, 2017, 2013, 2011; Baharudien et al., 2019). The main mechanism MFIs use for lending is “Solidarity Lending Methodology”. It is a "group lending" used to apply social pressure for contract enforcement.

In Myanmar, Microfinance Institutions have developed rapidly since Microfinance Law is enacted in November 2011. According to the act, “Microfinance means extending micro-credit to the grass root people, accepting deposits from them, carrying out remittance, carrying out insurance business, borrowing money from local and abroad and carrying out other financial activities.” In order to operate microfinance business, it is need to fund by own capital, charity and grant, and receive license to operate microfinance business.

Microfinance Institutions have much effect on the empowerment of women by mean of increasing ownership of assets and an enhancement of their status in the household and at the community level. Although there may have some challenges, women have the ability to face and bear the responsibility for their taken loan repayment. It is claimed that microfinance improves the status of women through an alleviation of poverty. Many microfinance initiatives require a large amount of social capital or trust in order to work effectively.

According to USAID, the rural usage of financial services (53%) exceeds the urban usage which is a reversal of the normal global pattern. In some remote areas, landless farmers both men and women need to take on seasonal construction jobs or migrate to nearby cities and neighboring countries. That is why the support of Microfinance becomes crucial on socio-economic life of rural areas. Therefore, most of the MFIs focus on the rural areas in order to assist on socio-economic development of rural community.
2. Literature Review

2.1 Microfinance institutions (MFIs)

Microfinance institutions (MFIs) are the organizations that provide financial services to low-income operation. MFIs offer micro-credit and only small amount of savings are taken back from their borrowers; not from the general public. In microfinance industry, microfinance refers to a wide range of organizations dedicated to provide financial services. Various global indicators have created a clear image that help in understanding the position of country level according to a set of measures that are recognized internationally. (Al-Ali et al., 2018; Al-Obthani et al., 2018; AlShamsi et al., 2018; Haddad et al., 2018). Microfinance provides financial and non-financial services to low-income people who need to access money for developing an income generation activity or for starting a small business. Actually, Microfinance supports the poor client small amount of money as an individual loan. Moreover, Microfinance provides the fund to the micro-entrepreneurs as an SME loan.

According to Thornton, the microfinance phenomenon significantly expanded a few years ago. Microfinance plays role in many domains towards the improvement of living standards of the poor, by facilitating access to financial services and job creation until the procurement of investors. Microfinance operates as an industry of its own regarding microfinance evolution start from the 1990’s until now. Commercial microfinance was no long limited to a small group of scattered institutions by the late 1990. Today, objectives of microfinance institutions are to reduce the poverty by addressing the multiple dimension of poverty with the aim of reaching specific Goals in education, women's empowerment, and health and so on.

On the other hand, Microfinance is an emerging important financial subsector and its role is to improve financial access of the poor and help them to build assets. It is a kind of contribution to poverty alleviation. In 1997, the first significant international support for rural microfinance was launched under the UNDP Human Development Initiative (HDI). This program, established through a Memorandum. The World Bank funded Financial Inclusion for National Development (FINDE) in 2012. It was founded with the aim of strengthening the Myanmar Microfinance Supervision Entity (MMSE) and responsible for overseeing institutions registered under the new Microfinance Law.

According to Barr Michael, Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor. Most people think of microfinance which provides micro-credit such as lending small amounts of money to the poor. Actually, Microfinance has a broader perspective that includes transactional services, insurance and essentially, savings. According to James Roth, Microfinance is a bit of a catch all-term. Very broadly, it refers to the provision of financial products targeted at low-income groups. These financial services include credit, savings and insurance products.

2.2 The characteristics of microfinance products

The characteristics of microfinance products are as follows:

- Little amounts of loans and savings
- Higher interest rates on credit (higher than commercial banks rates but lower than loan-shark rates)
- Application procedures are simple
- Short processing periods (between the completion of the application and the disbursement of the loan).
- Short-term loan (usually up to the term of one year).
- Payment schedules attribute frequent installments (or frequent deposits).
- Installments made up from both principal and interest which amortized in course of time.

2.3 Myanmar Microfinance Association

The Myanmar Microfinance Association, an industry body, has proposed a range of policy reforms in order to accelerate growth in Myanmar. In March 2016, the association stated to the Financial Regulatory Department under Ministry of Finance outlining its desired changes as Financial Regulatory Department oversees the microfinance sector. The statements include the following:

- phasing out restrictions on customer deposits
- access to finance for MFIs
- reducing liquidity ratios and
- minimum interest rates on deposits.

The Myanmar Microfinance Association also urged regulators to ensure transparency in policymaking and enforcement. Moreover, the association urged to allow MFIs in order to expand the range of services that they can provide. The more develop the microfinance sector will be, the more capital, human resources and financial education for clients will be provided.

2.4 Myanmar Financial Sector and Rural Community

In recent year, the Myanmar financial sector has received significant attention due to its development during the lengthy period of economic and political isolation extended from the 1960s until 2012. During this period, formal banking sector operations in rural areas were limited and only two banks, the state-owned
Myanmar Agricultural Development Bank (MADB) and Myanmar Agricultural and Rural Development Bank are being provided financial services to rural community.

According to the Julie Earne (a microfinance expert at the International Finance Corporation’s Yangon office), there was “exceptional demand” for loans from MFIs, but that the regulatory framework was holding them back. Existing MFIs reach maybe one million people, while MADB serves more people in rural areas but only through very small loans to rice farmers. She said that “There are a large number of under-served people in this market. People need financial services for lots of different reasons. Various global indicators have created a clear image that help in understanding the position of country level according to a set of measures that are recognized internationally. (Al-Ali et al., 2018; Al-Obthani et al., 2018; AlShamsi et al., 2018; Haddad et al., 2018). They need education loans to send their kids to school. They need secure savings.”

People need to go to the informal sector such as money lenders and pawnbrokers if they do not have the chance to access to the formal sector. People do not have access to the formal sector and they have to pay much higher interest rates at the end. It is crucial to be able to provide regulated, formal services that can be accessed easily. The aim of Microfinance is to grow their clients and to develop social life especially in rural community.

3. Research Methodology

The study is based on the literature review related conference, website, journal, books of MFIs in Myanmar. All the secondary data is taken from various sources. Hence, there will need to be made follow-up survey and field data collection to ensure literature finding. As one of the transition countries, Myanmar is focusing on the institutional evolution and the interrelation between policies and institutions. As a priority, the government has visibly recognized microfinance reform to support poverty alleviation in rural areas and growth in the agriculture sector. This paper attempts to find the Socio-economic development of rural community in Myanmar during transition period.

4. Results and Discussion

4.1 Microfinance Institutions in Myanmar

Since Microfinance Law is enacted in November 2011, the number Microfinance Institutions dramatically increased due to the greater security and enabling private operators into the sector. According to data from the Financial Regulatory Department in the Ministry of Finance and Planning, there were 126 MFIs servicing 574,085 clients in 2012-13. Three years later in Myanmar, this had risen to 167 MFIs and 1,874,387 clients in Myanmar. The institutions included five international and 24 national NGOs, 112 local companies, 22 foreign companies and four joint ventures.

Myanmar Agricultural Development Bank (MADB) is excluded in the above mentioned figures. Myanmar Agricultural Development Bank, one of the state-owned banks, is also lending to the farmers at concessional rates as it is a bank rather than a microfinance provider. Apart from MADB, the Myanmar Maternal and Child Welfare Association (MMWCA) was the only national organization with a widespread presence in rural areas. MMWCA has many branches in all 324 Townships which initiated micro-lending since 1996.

Myanmar is greatly in need of the benefits promised by microfinance. In collaboration with the United Nations Office for Project Services (UNOPS), the United Nations Development Program (UNDP) has operated important microfinance schemes in Myanmar since 1997. These schemes have been organised under the UNDP’s Human Development Initiative (HDI). The HDI has been established to implement basic development and assistance programs to the poor people particularly grass roots level. UNDP is the only other microfinance institution offering loans in Ayeyarwady Region’s Pantanaw Township.

According to the United Nations Capital Development Fund recently estimated the total micro-credit demand in Myanmar to be close to a billion US dollars while supply is only around $238 million. In recent years, the country has made certain faltering steps in the direction of financial reform particularly in rural areas. Many International and national nongovernment organizations (NGOs) such as Vision Fund of World Vision, Partner Agencies Collaborating Together (PACT), and Proximity have pioneered microfinance methodologies since the mid-1990s with some success.

There is another interesting statistic that makes Myanmar unique is the fact that there are currently over 45 million active sims in the country and between 60-80% of cellphones are smartphones. Over 55% of cellphone users are active data users opens up a new opportunity for reaching the unbanked of Myanmar and closing the 75% gap that exists between micro-credit supply and demand. In Myanmar, the future of microfinance is digital and the future will be brighter.

4.2 Importance of Financing in Rural Area

For monsoon paddy, Myanmar Agricultural Development Bank (MADB) lends up to K200,000 per acre but the estimated cost of cultivation is more than K300,000. Each monsoon season farmers grow paddy on their
and in summer they used to grow beans. Therefore, the proposed loan amount of the farmers are from MFIs are 1 million or 1.5 million. ACLEDA MFI Myanmar, one of the new entrants into the sector, provide MMK100,000 to MMK500,000 for the first-time borrowers and for returning customers the limit will be MMK1.5 Million. Acleda is a subsidiary of Cambodia’s largest private bank. The borrowers need to have official identity documents such as National Registration Card and Household Registration List.

According to the regional lender, only 18 percent of the country’s total land area of 68 million is cultivated and of which 18.5 percent is irrigated for crops ranging from beans, rice and sesame seed to vegetables. Coverage of rice coverage is estimated at close to eight million and dominates the agriculture land.

Rommel Caringal, Chief Executive Officer of VisionFund Myanmar, said that they are going to collaborate with BlueOrchard and this cooperation will enable to expand services and bring greater financial inclusion to families of Myanmar. Currently, Vision Fund Myanmar has grown its total portfolio to over US$25 million and serves more than 152,000 active borrowers, 87 per cent of borrowers are women. It is estimated that over 330,000 children have been positively impacted as a result of the small loans taken out by their parents.

4.3 The Rural Financial System in Myanmar

According to the Sean Turnell (Myanmar expert at the Sydney-based Macquarie University), the success of the government’s reforms will be tested in the rural areas. It is so obvious an area of reform and part of that should require strengthening the rural financial sector. The author of ‘Fiery Dragons: Banks, Moneylenders and Microfinance in Burma’ said that the benefits will be profound and given the extent of rural poverty.

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<td>Microfinance Business Supervisory Committee</td>
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<tr>
<td>Myanmar Microfinance Supervisory Enterprise</td>
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<tr>
<td>Implementation of Policy</td>
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<tr>
<td>Region/State and Nay Pyi Taw Council</td>
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Source: Myanmar Microfinance Supervisory Enterprise, June 2011

Figure 1: Overview of the Regulation and Supervision Structure

Many MFIs has been entered into the Microfinance industry of Myanmar such as BNK Capital, IBK Capital and KB Microfinance. Some of the MFIs lend to low-income households in both rural and urban areas. A numerous models and methodologies have been engaged in MFIs but certain key principles stand out. The access to credit is more important to the poor than the price of that credit.

Some policy implications are needed to draw so that the effective rural financial systems will be developed such as development of retail capacities of microfinance institutions, adoption of market-based policy framework, progressive establishment of legal and regulatory framework for microfinance, improvement in governance of indigenous financial systems, and importance of savings mobilization.
One of the main supporting MFIs in rural areas is Proximity Finance. It serves smallholder farmers not only with access to finance but also access to technology and knowledge. It currently operates 14 branches in three different areas of Myanmar. In September 2017, MCE Social Capital disbursed $1,500,000 to Proximity Finance. The organization currently reaches more than 60,000 clients, 100% in rural areas and with an equal split between men and women. As Proximity Finance is Myanmar’s only major microfinance player dedicated to agriculture, it is essential to the advancement of financial inclusion in Myanmar and shares MCE’s strong commitment to social impact and sustainable rural development.

Proximity Finance provides four types of loan products, all in MMK and with declining interest rates: the Crop Loan, Livestock Loan, Migration Loan, and Enterprise Loan. The methodology applies by Proximity Finance is a collective group responsibility methodology, forming Small Lending Groups (SLG) of four to eight borrowers who co-guarantee each other’s loans. In one village, the overall Village Lending Group (VLG) is made by Five to seven SLG, consisting of up to 35 borrowers. There is more than one VLG for villages with more than 35 borrowers. The Committee of the VLG consists of the leaders of each SLG and this Committee is the main interface between Proximity staff and borrowers.

Proximity Finance uses a “human-centered design thinking” approach to the development of its products. This approach involves extensive field research such as questionnaires and in-depth interviews which are conducted before new products are introduced. Each product is designed to provide to the specific needs of individual farmers, depending on the crop (for example: rice vs. cassava), the season (for example: summer paddy vs. monsoon paddy), the livestock (for example: duck vs. goat). Loan structures match as much as possible the cash flows of the farmers as a result.

4.4 The Positive Effect on Socio-Economic Development of Rural Community

Microfinance has great potential to support alleviate poverty in Myanmar. According to the Myanmar Microfinance Law, MFIs need to operate particularly in rural areas. It is mandated that 50 percent of a MFIs’ customers must be in rural areas. To do so, Microfinance will become more valuable tool to address poverty in Myanmar.

Earn from the IFC said that, microfinance would be “a very important tool” for supporting economic growth in a country as credit-starved as Myanmar. In rural areas, most of the people do their own small businesses and those small businesses need financial services. They need access to capital, they need a safe place to save money, they need insurance, and so the more micro, small and medium businesses that have access to financial services the better the economy will be able to grow.

There is evidence of the benefits in Myanmar as per Pact Global Microfinance Fund (PGMF) which has been operating in Myanmar since 1997. Jason Meikle (Deputy Director of PGMF) said that improved housing, improved nutrition, improved investment and education, improved governance and improved standing for the women in the house and village in the areas where PGMF is present. The effect is likely influenced by PGMF’s engagement with the community where they operate.

Moreover, MFIs provide business training course to the potential customers so that they aware what kind of business they should do (Morsy, Ahmed, & Ali, 2016; Badran & Khalifa, 2016). MFIs cannot expect to distribute loans indiscriminately and reap the rewards by Building up a relationship with the community where they operate is also important. Sean Turnell said that “With good regulation microfinance institutions could meet much of the demand for financial services in Myanmar”. According to Turnell, Ninety percent of Myanmar’s population do not have a bank account and cannot access affordable credit. Hawence, Microfinance can bring all of these things to the poor especially in rural area.

5. Conclusion

Organizations should increase spending on research and development in order to increase the organizational and community effectiveness (Isaac, Aldholay, Abdullah, & Ramayah, 2019; Isaac, Abdullah, Ramayah, & Mutahar, 2017; Isaac, Abdullah, Ramayah, Mutahar, & Alrajawy, 2017) (Bandar Abdulla F. H. Alharthi et al., 2019; Bandar Abdulla F. H. Alharthi et al., 2019; Alharthi and Khalifa, 2019). Microfinance can be considered the silver bullet to alleviating poverty. In Myanmar, MFIs currently operating are at a tipping point. Access to microcredit has a positive effect at all on either poverty or growth of small businesses and support to socio-economic development of rural community in Myanmar. McCarty (Chief Economist at Mekong Economics) said that Microfinance is vitally important. The emergence of microfinance can be said bringing device for poverty alleviation and economic development.

In rural community, Microfinance creates the greater employment and income-generation, encourages schooling and empowers the marginalized by facilitating university enrollment (Aldholay et al., 2019, 2018), meet social, religious and other obligations, offers financial protection from crises and disasters. Microfinance work to ensure the wellbeing of children in rural community through its microfinance activities such as providing small and affordable loans, insurance and repayment services. Moreover, Microfinance provide social inter mediation services for instance management capabilities and training of financial literacy.
Microfinance aims to provide financial services to vulnerable communities with a special focus on empowering women and smallholder farmers in rural settings by bringing the brighter futures for children, empowering families to create incomes and unlocking economic potential for rural communities to thrive. MFI work empowers clients to grow successful businesses that lead to greater opportunities for rural community such as to have access to a better life in terms of housing, education, nutrition, and healthcare.

References


