SCBF **SWISS CAPACITY BUILDING FACILITY**
Association for Income and Employment Generation

SCBF 2015-07 **September 2017**

Building Capacities to develop a Small Business Loan Portfolio of Alliance for Microfinance in Myanmar

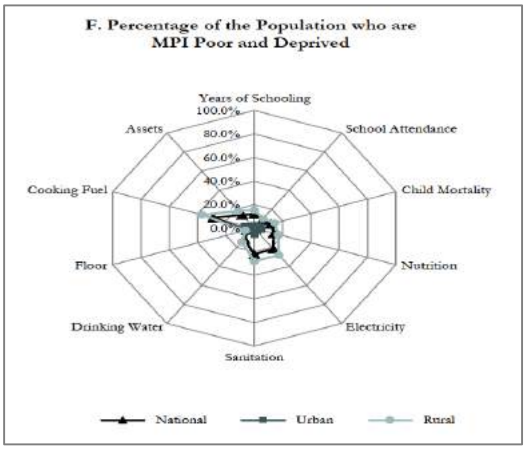
1. DEVELOPMENT RELEVANCE

Economic and poverty context

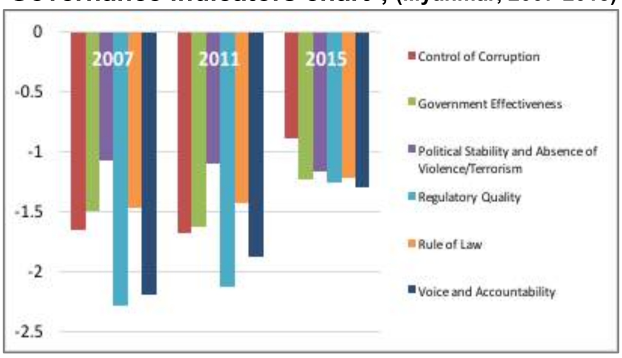
Myanmar is one of the poorest countries in Southeast Asia after years of isolation and stagnation. Over the past decade a process of political reforms and democratization have been accompanied by economic liberalization and the easing of international sanctions. Foreign direct investment, tourism and the telecommunications sector have grown rapidly as the country has opened. GDP growth has ranged from 6 to 8% annually in recent years. However, the country still faces a number of challenges. Infrastructure is lacking with low road density and only one third of the population connected to the electricity grid.[iii] 26% of the population is in poverty, a rate that is twice as high in rural areas where subsistence farming is common.[iv] Life expectancy remains the lowest in Southeast Asia and human capital is under-developed. Civil conflicts have continued in border regions and ethnic enclaves since independence in the 1940s. It is a time of great opportunity with Myanmar's new civilian government and reengagement with the world, but the processes of government reform, political reconciliation and rural development can still present many pitfalls for the nation and its people.

Table 1[i]: Population and economic indicators	
Population in million (2016)	**52.9**
GDP growth (2016)	**6.5%**
Inflation (2015)	**10.8%**
Trade balance (% of GDP) (2016)	**-9.96%**
Foreign direct investment (net) (% of GDP) (2015)	**6.52%**
Net ODA received (% of GNI) (2015)	**1.99%**
Remittances received (% of GDP) (2016)	**4.91%**
Economic Freedom Index[ii] (Rank among 186 countries) (2017)	**146**
Poverty indicators	
GDP per capita (USD) (2016)	**1,275**
Gini Index (0= equality 100= inequality)	**Not available**
International poverty rate (at 1.90 USD/day)	**Not available**
National poverty rate	**Not available**
National rural poverty headcount rate	**Not available**

Multidimensional poverty index chart[v], (Myanmar, 2017)



Governance indicators chart[vi], (Myanmar, 2007-2015)



Financial sector context

The financial sector remains under-developed and financial inclusion is limited in Myanmar. While 43% of adults reported borrowing money in a 2014 study, only 16% of adults were borrowing from the formal financial sector. Similarly, 47% reported saving money, but only 13% were savings with formal financial institutions.[vii] The estimated unmet demand for formal credit is USD 1 billion. Regulation of the microfinance sector was legally established in 2011. Since then, there has been some liberalization with limits easing on debt funding, savings mobilization and loan amounts. However, the sector remains tightly controlled with interest rate ceilings and floors, severe limits on the use of collateral, and close bureaucratic oversight of funding and institutional expansion. Financial infrastructure is in early stages of development with no credit bureaus and limited support services. The banking sector is growing quickly but the participation of foreign banks is restricted. The insurance industry has been slower to reform, reflected in limited products and coverage in the market. Mobile wallets and payments have begun to appear in the past year.

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Partner financial institution

Alliance was founded in 2014 to be a leader in the newly developing microfinance sector of Myanmar. The institution began as a partnership between FIDES of Switzerland BASIX of India, two leaders in the field who saw the opportunity to contribute to poverty alleviation and economic growth in the country. Alliance is a double-bottom-line institution with a clear social mission to improve the businesses and family welfare of unbanked entrepreneurs. The institution has grown rapidly and now serves 70,000 clients with a GLP of USD 10.8 million and USD 2 million in deposits. Prior to this project, Alliance only offered group-based microloans. Now the institution offers a suite of group and individual loans from USD 80 to 8,000 as well as a range of savings accounts. The growth and success of Alliance has been backed by its investors BOPA (Base of the Pyramid Asia), Insitor Impact Fund, IFU (Danish Investment Fund for Developing Countries), Asia Impact Investment Fund I, SMH (Swiss Microfinance Holding) and FIDES as well major partners UNCDF (United Nations Capital Development Fund) and LIFT (Livelihoods and Food Security Trust Fund).

Photo of the branch network map

Alliance's network has grown to 14 offices across the Mandalay and Sagaing Divisions of upper Myanmar.

2. INTERVENTION APPROACH

The project with FIDES and Alliance was the development, piloting and roll out of a Small Enterprise Loan product. In Myanmar's limited experience with microfinance, almost all microloans have been delivered in group methodologies based on the Grameen model. The strategy of Alliance called for a broader range of products that would include individual loan methodologies catering to the needs of small businesses that still lack access to formal financial services. The project started in November 2015 and brought in external expertise for the two-year development and implementation of the new product.

The product developed is a versatile loan intended for investment in the working capital or fixed assets of small businesses. There are no graduation mechanisms so clients have access to the amounts and tenures they need from the first cycle. Amounts ranged from USD 370 to 3,700 at product launch, and the maximum has been increased to USD 7,350 as microfinance regulations have changed. Loan tenures go from six months to two years. The risk management of the product relies heavily on the detailed appraisal of the client's cash flows, assets and liabilities. A strong guarantor for the loan is required as collateral cannot be used by MFIs in Myanmar.

Capacity building needs

With a nascent microfinance sector and individual loan methodologies new to the country, capacity building was a major focus of the project. This began with redesigning the recruitment process to bring on new field staff who would specialize in the product, and carried on through extensive training and coaching in the field. Finding managers with appropriate experience was particularly difficult, which led to an important program of training and developing managers internally to properly supervise the new product.

Main activity areas (goals, targets, resources & timeframe) and outputs

The goals of the project centred around the preparation, piloting and roll out of a new Small Enterprise Loan over the course of two years. Thorough market research was conducted, the product was designed, appraisal tools were developed, and staff were recruited and trained in the first three months. After a closely controlled pilot phase with 11 loan officers, the roll out of the product continued with the training of managers and recruitment of new staff. Branch by branch, the program was expanded and is now an integral part of the MFIs operations. Recruiting a specialized manager for the product proved particularly difficult and it took one year to install a local counterpart to the project lead.

As of the writing of this report, over 100 staff have been trained on the new product. 77 loan officers are currently working exclusively with the product, supervised by 17 specialized team leaders. An additional 22 managers (branch, regional and head office) have been trained on the product and are actively involved in the oversight of the portfolio. In total, 10,713 loans have been disbursed for USD 11.1 million. The current number of active borrowers is 5,962 with a GLP of USD 4.4 million. The only goal of the project yet to be achieved is a GLP of USD 5 million. This is because the average loan size of USD 1,037 was lower than the original projections. The lower loan sizes reflect a combination of client demand, cautious risk management and regulatory restrictions. With current clients renewing for larger loan amounts this target will be easily achieved by the end of 2017. The growth of the product and its portfolio was also made possible by the support of Alliance's owners, whose investments have made the rapid pace of growth possible.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

Client response and satisfaction for the new product have been high. Prior to the launch of this product, there was little available in the region comparable to the Small Enterprise Loan. Only one MFI was offering a small business loan to individual clients, available only in a portion of urban Mandalay. Given the novelty of the product, interest at launch was high, although the financial education necessary to make clients comfortable with detailed cash flow appraisal and signing on loan guarantors was an early challenge.

In research conducted one year into the project, 88% of clients were satisfied or very satisfied with the product and 77% would recommend it to others. They appreciated the price of the product (much cheaper than informal sector borrowing), as well as the quality and speed of service. A number of clients wanted to see larger loan amounts and longer tenures, but overall satisfaction with product processes and the level of service were strong. These satisfaction figures closely track loan renewal rates, which have averaged 86% in 2017. A separate study looked at outcomes for repeat clients. 95% of clients reported an increase in household assets. The average client increased business assets by 61%, although this number is likely inflated by previously undeclared fixed assets. The average business with increased its workforce by 8%.

Client profiles

Ngu Wa Htwe is from Mandalay. She runs a traditional slipper making workshop that her parents founded. When she was younger she did not enjoy the family businesses, but now she's become passionate about slipper design. It used to be difficult for her manage multiple orders at a time because she didn't have the working capital to finance production. She would turn to local money lenders who charged 20% per month for their loans. She started at Alliance with a USD 110 group loan but then moved on to a USD 735 Small Enterprise Loan that better fit her needs. She finds the loan process easy and user friendly. She has begun saving with Alliance and sets aside what she can from her business profits. Ngu Wa Htwe has also attended free financial education workshops and appreciates learning ways to better manage her money. With the help of Alliance's services, she can produce high-quality slippers that keep her customers coming back.

Myint Myint Swe runs a small neighbourhood grocery store with the help of her niece. She has been a long-time business owner but has suffered a lot of setbacks over the years, including losing all her assets when her shop burnt down in a market fire. She has been able to build her way back more than once, and now proudly runs a store that has been able to support her family and has allowed her to care for aging relatives. Myint Myint Swe was an early client of the Small Enterprise Loan, which has helped her expand her product offering and better serve her customers. She is now on her third loan for USD 1,470 and has also started setting money aside with a term deposit account. She has been a big fan of Alliance since her first loan, and appreciates regular visits with her Client Officer.

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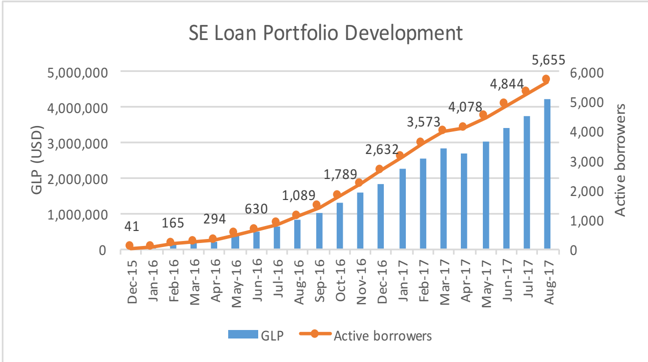
Partner financial institution level



The Small Enterprise Loan has been a critical part of the successful development of the institution. When the product was launched, Alliance had just completed one year of operations with 6,500 clients and a GLP of USD 500,000. Over the past two years the institution has expanded rapidly and now has over 70,000 active borrowers and a GLP of USD 10.8 million while maintaining a PAR of 0%. The Small Enterprise Loan has fuelled a large portion of that growth. The product now accounts for 41% of the loan portfolio, a ratio that rose quickly in 2016 then stabilized in 2017.

Loan officers for the product represent 37% of field staff. The product has pushed up the average portfolio per loan officer. The average Small Enterprise Loan Officer has a portfolio of USD 58,428, 22% higher than their counterparts for other products. These numbers are still relatively low given large portion of new staff at the institution, but in mature branches the figure has reached USD 75,000 and will continue to rise. Over the life of the project staff turnover rates have fallen from 43% to 13%

Clients for the new product have also mobilized savings with Alliance. Voluntary deposits from Small Enterprise clients are worth USD 340,000, or 7.7% of the Small Enterprise GLP and 30% of total voluntary savings. These ratios can still be improved but are limited by regulatory restrictions that should be lifted in 2018.

65% of clients for the product are women and the Small Enterprise Loan portfolio is expanding into rural areas. However, Alliance's group loans perform better on these social measures, driving the institution's average's to 83% female borrowers and 49% rural clients.

The introduction of the Small Enterprise Loan has had wider impacts on the capabilities of Alliance staff. Training loan officers and managers on the more rigorous appraisal techniques of the product has increased skills across the institution. Managers in particular have improved in financial analysis and risk management, skills that have enhanced the oversight of other products. Several of the early recruits for the project have developed quickly into supervisor and manager roles. One of the first loan officers for the product will manage Alliance's newest branch in October with a staff of 22.

Over the two years of the project Alliance became a profitable institution. The Small Enterprise Loan has accounted for 40% of the institution's income so far this year.

Financial sector level

The product developed was an important innovation for the local microfinance market that has sparked imitators and brought financial services to a target population that previously fell outside the scope of banks and MFIs. As previously mentioned, there was little comparable to the Small Enterprise Loan in the local market when the product was launched. It's target clients, individual methodology, flexible terms, and larger amounts were different from the Grameen-style group loans on offer. The product is not particularly innovative when compared to offerings in other countries, but given the early stage of development of microfinance in Myanmar, it allowed Alliance to show significant market leadership.

In the intervening two years the local microfinance market has changed and developed rapidly. Several MFIs have developed an answer to the Small Enterprise Loan and new competitors have entered the market with comparable offers. Vision Fund, Fullerton, Sathapana and smaller local MFIs are now competing in the same space in the Mandalay area. Other MFIs operating in different regions of Myanmar are also now using similar products, particularly ACLEDA in the south of country. Alliance's early adoption of the Small Enterprise Loan provided a first mover advantage and will allow the institution to remain a leader in this area.

4. LESSONS LEARNT

The project should be considered a success for Alliance, FIDES and SCBF. The approach to research, product development, capacity building and implementation have born great results for clients, the institution, and the financial services sector as a whole. The intervention followed it's plan and achieved its goals. The Small Enterprise Loan is now a major part of Alliance's operations and a pillar of its strategy for further growth and success in Myanmar. The loan is well designed to meet the financing needs of a target segment that remains underserved in many regions of the country.

Regulatory restrictions limited some potential for the product and the funding of portfolio growth, but the institution and the project team were able to overcome these difficulties. The greatest challenge was and remains the development of capacity. Intensive classroom training and field-based coaching have been critical for the success of the project. Difficulties finding outside local talent have forced the institution to rely on the internal development of the managerial skills necessary to oversee the product.

A recommendation for future projects in a similar context would be to have a strong focus on the development of mid-level management capacity as early as possible in the project cycle. The integration of a product into overall operations and its future sustainability relies heavily on the team supervisors and branch managers who will oversee day-to-day work in the field. Well-structured plans for this mid-level capacity building must already begin during the pilot phase and are key to the successful implementation of the product.

Another important factor for the success of this project that should be replicated is the focus on the local context and needs of clients and staff. Products like the Small Enterprise Loan must be designed for the local client and not attempt to blindly copy products and processes from other markets. A focus on local clients and their demands is the starting point for success. Adapting processes, training and human resource management to the local culture is also critical for working with staff and building capacity with the partner institution.

Being a leader in the development of financial products for the microfinance sector in Myanmar comes with its challenges and rewards. Developing the skills and capacities to implement and manage new products is challenging in a less developed microfinance market, but the impact of this work and the potential for success are all that much greater. The Small Enterprise Loan program will continue to grow with Alliance's ambitious expansion plans and has the potential to help hundreds of thousands of entrepreneurs develop their businesses and improve their livelihoods.

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[i] The World Bank Group (2017). World Development Indicators database. Washington, DC. http://data.worldbank.org. Accessed (21 September 2017)
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