Access to finance for farmers and SMEs within the framework of the S.A.F.E.C.R.O.P.S. project (Myanmar)

S.A.F.E C.R.O.P.S.: Sesame, Peanut, Bean: Resilient Community Economies and Sustainable Production Organization in the Dry Zone of Myanmar

Financial inclusion: key data and contraints

- With a **55.05 million population** of which **69% living in rural areas**, agriculture represents the key source of income. According to the latest Finscope data (2019), **70% of the people are financially excluded** and people are used to mix different financial tools provided by several financial institutions. 17% of the people are served by Banks, 13% by formal non-bank institutions, 31% by the informal sector and 39% are completely excluded.

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Financial inclusion in the local context: pandemic, political and economic instability 2020-2021

- The **pandemic created a first important interruption on the banking and credit systems**. After the declaration of pandemic by the WHO, the Myanmar government announced several restrictions, which, among others blocked several economic sectors of the country and therefore the flow of the money. **Many (M)FI decided to halt the credit activity in favor of restructuring the existing portfolio**.
- **The military coup in February 2021 strongly impacted the economy** of the country already weakened by Covid-19 pandemic.
- **The crisis has further aggravated access to finance for farmers and rural enterprises**. Main problems are related to:
    - Lack of working capital mainly during planting season
    - Lack of liquidity
    - Rising input prices
    - Logistics disruptions
    - Cash constraints for small farmers

Access to finance: main findings for an inclusive scheme

S.A.F.E.C.R.O.P.S. project focuses on the improvement of the overall marketing system (commercial side) to stimulate agricultural production in terms of quality and quantity of local products that can be sold on the national and international markets. The different components of the project- capacity building, provision of inputs for farmers, group cohesion among farmers, technical support and financial inclusion – **are strongly integrated and reinforce each other**.

Who are we targeting with financial inclusion activities?

SMEs enterprises: supply chain actors, and groups of entrepreneurs active in Magway region offering services to small farmers for the supply of products and services as needed. Nowadays SMEs are facing several problems in running their activities such as lack of finance, low technology and market constraints. A Scheme of **100,000 EURO** for SMEs

Farmers: farmers involved in the project are those working on 3 main crops: peanuts, sesame and green mung bean. Main problems faced are related to lack of capital money, Labor shortages, No Seed germination, late payment from traders, commission fees to be paid, low prices from buyers. A Scheme of **190,000 EURO** for farmers

Guiding principles

- **Facilitate access to credit** for those enterprises and producers working on the three project target supply chains (groundnut, sesame, green bean)
- Fostering **collaboration with local financial institutions**, which are responsible for carrying out credit activities in compliance with the country's regulatory framework
- Facilitate the **involvement of the local partnership** in the scheme with a view to institutional **strengthening and future sustainability** of the scheme by encouraging constant transfer of expertise
- Identify **specific mechanisms/schemes** that address identified rural development and finance needs
- **Reduce the risk profile** of enterprises and producers and accompany their path to financial inclusion by also working on non-financial services (technical assistance, training etc.)
- **Promote risk-sharing** (partly taken on by the project and partly by the financial institution)
- **Seek leverage** in order to activate additional and complementary resources from the financial institution
- Comply with the **partner institution's lending procedures** without interfering with the institution's decisions
- Contribute to the preparation of **sustainable agricultural projects** for submission to the financial institution for credit application by fostering financial inclusion

First Option (implemented)
Cash Collaterals deposit scheme for SMEs (A-Bank)

Deposit Cash collateral (guarantees): a hybrid mechanism which in a simpler way than a guarantee fund makes it possible to reduce the risk profile of the agricultural enterprise by securing part of the loan.
Cash Collateral (is a mandatory deposit required by the financial institution from the SME applying for a loan; this practice involves the 'captive lock' of an amount corresponding to 65 percent of the loan disbursed that the institution retains as collateral and to repay any debt in case of default. The mandatory deposit is usually a challange for the firm who is required to lock in its liquidity (assuming it is available).

Results of first option:
Cash Collaterals deposit scheme for SMEs (A-Bank)

- Mapping of all the existing SMEs in Magway Region through a participatory approach in collaboration (before the coup) with DoA of Magway, SMEs Dept of Magway, NAG and Regional Farmers Development Association
- Assessment of financial and economic indicators for more than 1000 SMEs. 179 SMEs assessed in-depth
- Design of mechanism with A-Bank at very favourable conditions for SMEs (risk-sharing partly taken on by the project and partly by the financial institution)
- 22 SMEs supported to elaborate investment and business plans and endorsed to A-Bank for loan appraisal
- 5 SMEs funded by A-Bank
- 12 SMEs in pipeline to be funded by A-Bank for post-harvest activities
- Deeper integration among value-chain actors. All the funded SMEs signed contract farming agreement with RFDA (direct beneficiaries association of the project)

Main terms and conditions

- Interest rate of 11,5% per annum. 1% up-front service on loan amount
- Ceiling amount: 10,000 USD
- Risk sharing 35:65

Second Option (implemented)
Agri-Loan: Cash Collaterals deposit scheme for farmers (A-Bank)

Given the high number of farmers who are unable to access finance, the **agri-loan** system is increasingly being developed.

It involves **intermediation by a third party** between farmer and financial institution. In the case of Myanmar, both suppliers of technical inputs (seeds, machinery, etc.) and umbrella associations such as is the case with partner RDFA play an intermediary role. The latter, as a farmer's association, acts as a local interlocutor able to obtain a loan from a bank; the loan obtained from the bank will be disbursed later to the smallholder farmers

Results of second option:
Agri-Loan: Cash Collaterals deposit scheme for farmers (A-Bank)

- Design of mechanism with A-Bank at very favourable conditions for RFDA farmer members (risk-sharing partly taken on by the project and partly by the financial institution)
- 1572 farmers get access to A-Bank agri-loan through to the mechanism
- 470,500,000 MMK of total loan disbursed to marginal, small and medium farmers by A-Bank (through the RFDA)
- 45 villages benefitted from the scheme for production of sesame, peanut, green mung bean and pigeon pee

Main terms and conditions

- Interest rate of 11% per annum (declining for monthly repayments, or flat for end of period repayments). 1% up-front service on loan amount
- Ceiling amount: 300,000 MMK
- Risk sharing 40:60

Third Option (implemented)
Credit Line (Zega Finance)

- The scheme is implemented in partnership with Zega Finance and RDFA
- Under this scheme, farmers supported within the S.A.F.E C.R.O.P.S project can be provided with small loans (up to a maximum of 500 USD according to the MFI lending procedures)
- The repayment period is defined according to Zega Products and lending procedures – that can be adapted according to the different crops.
- Interest rate for farmers / beneficiaries 1.5% per month
- An up front fee of 1.5% of the Ownership of the scheme: S.A.F.E.C.R.O.P.S will transfer to local partners the ownership of the process at the end of the project (according to an ongoing and final evaluation)
- amount of the Loan
- Additionality: the scheme focusing on 5 townships and 10 villages can be further extended in other areas and serves more clients/farmers

Results of third option:
Credit Line (Zega Finance)

- Design of mechanism with Zega Finance at very favourable conditions for new RFDA farmer members (with higher-risk profile than the ones financed by A-Bank)
- 1027 farmers get access to Zega Finance agri-loan through to the mechanism
- 307,400,000 MMK of total loan disbursed to marginal, small and medium farmers by A-Bank
- 37 villages benefitted from the scheme for the production of sesame, peanut, green mung bean and pigeon pee

Main terms and conditions

- Overall leverage for the Credit Line 1:1 (200,000 Euro)
- Interest rate of 1.5% month (declining for monthly repayments, or flat for end of period repayments). 1,5% up-front service at disbursement
- Ceiling amount: 300,000 MMK
- Risk shaing 50:50

Likely impact of the three schemes

- **Increased access to finance** for farmers– members of the RDFA with a specific focus on the three value chains- and SMEs
- **Increased of productive processes**
- **Increased integration** among actors working in the rural & access to finance ecosystems
- **Productive diversification**
- **Increased stability in productions and their management** through increased stability in access to credit
- **Improvement of farmers incomes**
- **Improved living conditions**

Lessons learnt

- Necessity to involve **local financial advisors** in order to speed up the process of knowledge of the country-specific regulatory framework and network.
- In phase of proposal development, it is recommendable to **formalize pre-agreements with financial institutions and to map all the existing initiatives and schemes in the field of blended financial and financial inclusion.**
- **Valorise the existing financial inclusion schemes and mechanisms** (already familiar and implemented by other institutions and organizations).
- **Size of the fund: Too small a fund makes no difference in the sector**. Negotiation with very experienced CEOs. Knowledge and power unbalance between NGOs and Financial Institutions.
- Avoid Moral Hazard. The schemes must be discrete and silent. Involve beneficiaries in the risk sharing mechanism.

FINANCIAL INCLUSION ACTIVITIES ARE AMONG THE FEW FULLY VIABLE ONES UNDER THE CURRENT CIRCUMSTANCES: PRIVATE FINANCIAL INSTITUTIONS ARE STILL ABLE TO MOBILIZE FUNDS AND DELIVER TO THE BENEFICIARIES.

Thank you

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