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Powering Financial Inclusion

MCIX
Microfinance Credit Information Exchange

Myanmar Microfinance Sector Evolution

MFI Health Check Survey Results Phase II

November 2022

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Foreword Message from MMFA Chairman

Due to the global pandemic and recent seismic shifts in the political landscape, Myanmar's microfinance sector has been facing significant challenges. In the hope of understanding the impact of the changes and impacts on the sector, MMFA has conducted this second MFI Health Check Survey by collecting data and holding focus group discussions with local and foreign MFIs. The survey is a collaboration between MMFA, ADA, ThitsaWorks and Dave Grace & Associates to design the methodology of the study of data, data collection process and data analysis in order to publish the final report that is insightful for stakeholders of the sector. The survey findings will benefit the MFIs, investors, regulators and stakeholders through understanding the trends in the sector, impact on the demand for micro-loans, impact on MFIs' outreach, portfolio quality, operations on the ground and financials which are a result of massive changes taking place in the country.

We believe that the survey findings will contribute in developing policy recommendation to regulators.

Since advocacy and lobbying are some of the key activities of MMFA, we believe that the survey findings will contribute in developing policy recommendation to regulators. The main purpose of this survey is to call attention to the hardship faced by MFIs and their clients during unprecedented times so that the authorities and concerned parties are aware of the situation. Nonetheless, this survey is another milestone for MMFA and for this we thank our partners, supporters and member organizations who have contributed to the survey.

I. Introduction

As most countries and economies have been emerging from the COVID-19 pandemic Myanmar is still struggling with its on-going political crisis and coup from February 2021. Before the pandemic Myanmar was averaging 6%-7% GDP growth between 2015 and 2019. Inflation had stabilized to 4%-8% from the 20%-30% earlier in 2006-09 and there was significant foreign investment that was starting to come in. In October, 2022 the International Monetary Fund projected Myanmar's GDP at 2% and inflation at 16.2% for 2022. The purpose of this study is to understand the impact these crises have had on lower-income clients, and especially women who comprise 76% of clients in microfinance institutions (MFI) in Myanmar. The Myanmar Microfinance Association (MMFA) with support from Appui au Développement Autonome (ADA) in collaboration with Dave Grace & Associates (DGA) and ThitsaWorks have conducted this second detailed survey of the MFI sector to understand how the situation in Myanmar has been changing. The initial assessment was completed in November 2021 with data from May 2021. This study collected data from 53 MFIs as of June 30, 2022.

To augment the data collected in the survey, comprehensive focus groups with local and foreign MFIs were held and data from the MFI sector's quasi credit bureau, the Microfinance Credit Information Exchange (MCIX), was analyzed[1]. While the initial study from November 2021 showed significant resilience by the sector, this study shows the on-going negative impact on MFIs from the on-going political unrest and misguided policies. The World Bank reports that "poverty is estimated to have doubled compared to March 2020, and with about 40 percent of the population living below the national poverty line in 2022, nearly a decade of progress on poverty reduction has been undone." Were it not for the MFI sector the impact from the political crisis and banking crisis would be much worse for Myanmar's citizens.

This study shows the negative impact on MFIs & their clients from the on-going political unrest and misguided policies.

[1] *MCIX collects data from 56 MFIs and has information on approximately 3 million unique borrowers. During these trying times some MFIs have not consistently contributed data and/or some optional fields have not been completed which could explain dips in some data.*

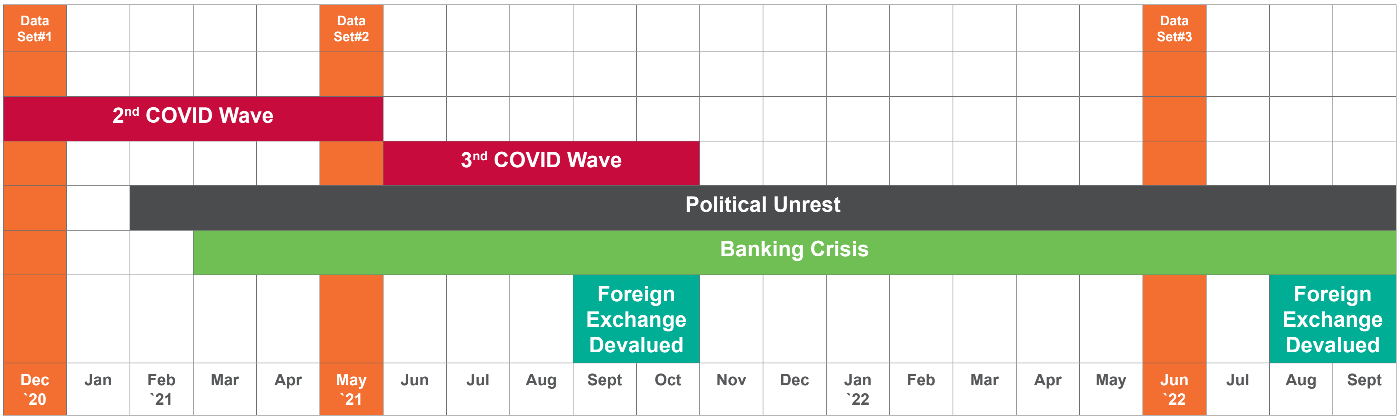
II. Methodology

To assess the financial impact of the pandemic, economic crisis and political unrest, in August 2022 a comprehensive on-line survey titled MFI Health Check Survey was distributed for completion to all MMFA members and non-members for which contact information was available (140 of 183 MFIs). The survey was available in English and Myanmar and was completed by 53 local and foreign-owned MFIs from August – September 2022. Together these 53 respondents serve over 3.55 million clients across 12 regions of the country. They had 940 branches and their total assets were 2.4 trillion kyat (US$1.3 billion)[2].

While the 53 respondent MFIs represent only 29% of the licensed MFIs, all of the largest MFIs responded, and together this group represents 65% of the total assets and 65% of the members in the sector. As such, we believe the survey data presents an accurate picture of the overall sector.[3]

To understand how things have changed for both clients and MFIs, we have now collected data for three dates: December 31, 2020, May 31, 2021 and June 30, 2022 as highlighted in yellow in Figure 1.

Figure 1: Evolution of Events in Myanmar



Gender disaggregated data was gathered on active clients, their outstanding loans and voluntary savings, to understand how events have affected men and women differently. Data was also gathered for the MFIs: number of branches, total assets, total equity, net income, non-performing loans, loan loss provisions, MFI borrowings, equity investments received, and MFIs' own abilities to repay their loans to creditors. Additional survey questions included the greatest challenges MFIs face and where they need actions from, MMFA, FRD, development partners. See Annex 1 for a summary of the survey findings.

The survey data was supplemented with information from the MCIX on the number and gender of active borrowers, the aging, delinquent and write-off of loans for approximately 44 MFIs that consistently contribute data. Monthly data from MCIX was reviewed for December 2020 through June 2022.

Two separate 90-minute focus groups were held with 15 (6 foreign-owned and 9 locally-owned) MFIs via virtual video calls in mid-October 2022 to obtain additional qualitative insights. See Annex 2 for a list of questions discussed during the focus groups. Only summary findings are presented in this report to ensure confidentiality.

Lastly, the MFI survey data analysis was done through the lens of three peer groups based on their total assets. Tier 1 includes 9 MFIs each with at least 100 billion MMK (US$74 million) in total assets. Tier 2 includes 8 MFIs each with total assets between 100 Billion MMK and 10 Billion MMK (US$74 million - $7.4 million) in assets. And Tier 3 includes 36 MFIs with assets below 10 Billion MMK.

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[2] *By comparison, private banks had total loans outstanding as of September 2020 of MMK 27 trillion and state-owned banks had MMK 4.2 trillion in loans outstanding per Central Bank of Myanmar Statistics. However, 77% of these loans by private banks were located in Yangon and only 2% of the bank loans are unsecured compared to 100% of MFI loans. MFIs also had 38% of all private sector bank and non-bank branches.*

[3] *Source: MFI Health Check Survey 2022 and Central Bank of Myanmar's Quarterly Financial Statistics, October 2022.*


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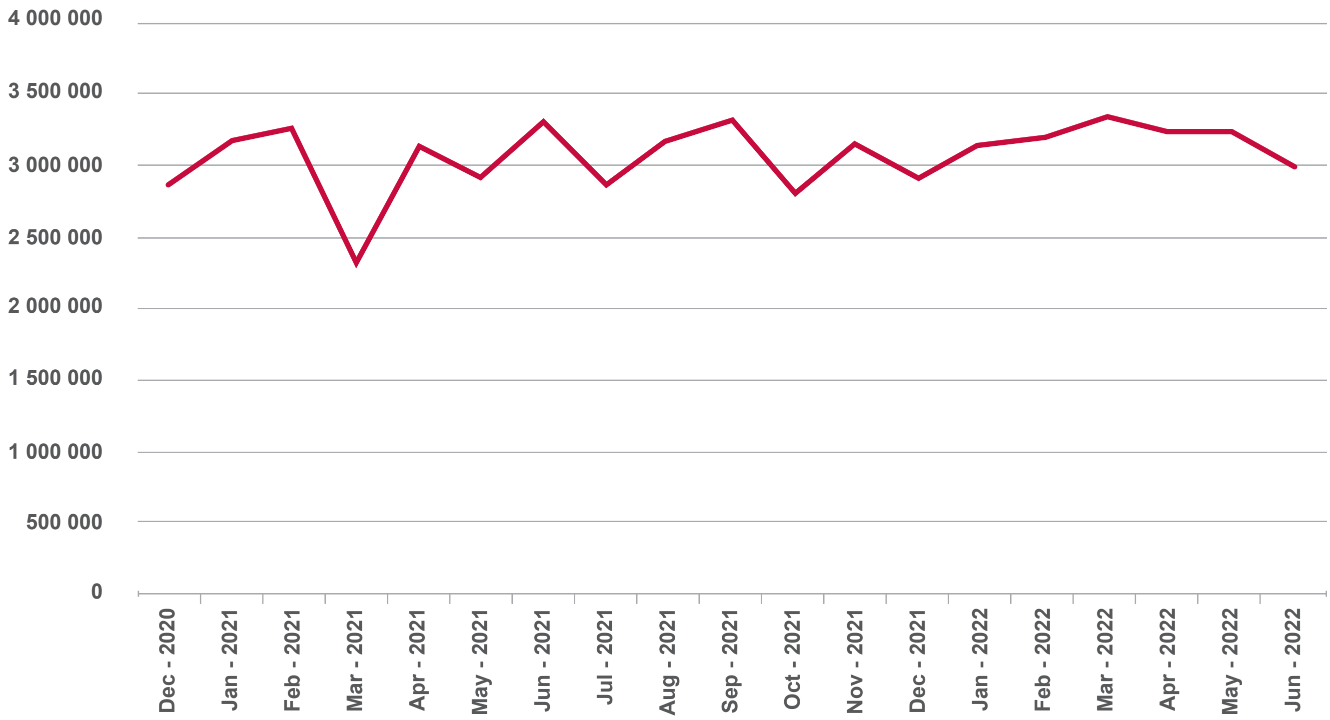
III. MFI Health Overview

While the first MFI Health Check Survey showed the sector had performed remarkably well, the prolonged nature of the political and economic instability is now affecting the sector more significantly. After the first wave of the pandemic in Myanmar, non-performing loans (NPLs) increased but were still manageable at 3% to 4% of total loans. However, by December 2020 NPLs had spiked to 9.6% -- a historic high point in the sector -- and then nearly tripled within the following 5-months as a result of the political unrest, to 25.3% in May 2021. As of June 2022, NPLs in the sector further increased to 28%. High solvency levels (33% for the sector) have enabled MFIs to weather the storms so far, but MFIs are significantly under provisioning for loans losses - in part because of a mis-guided directive from FRD and because of the higher NPLs. A worst-case scenario, for this point in time, is if all of the non-performing loans had to be written off immediately. Under this scenario the solvency ratio for the sector would utilize all of the existing loan loss reserves and reduce the solvency ratio to 13.9%. Thus, if NPLs remain at this level for a prolonged period of time solvency of the sector could be called into question.

Figure 2 shows that the total number of loans outstanding have remained relatively stable throughout the crisis per data from MCIX.

Figure 2: Number of Loans Outstanding by MCIX Members



Source: MCIX data 2020-2022.

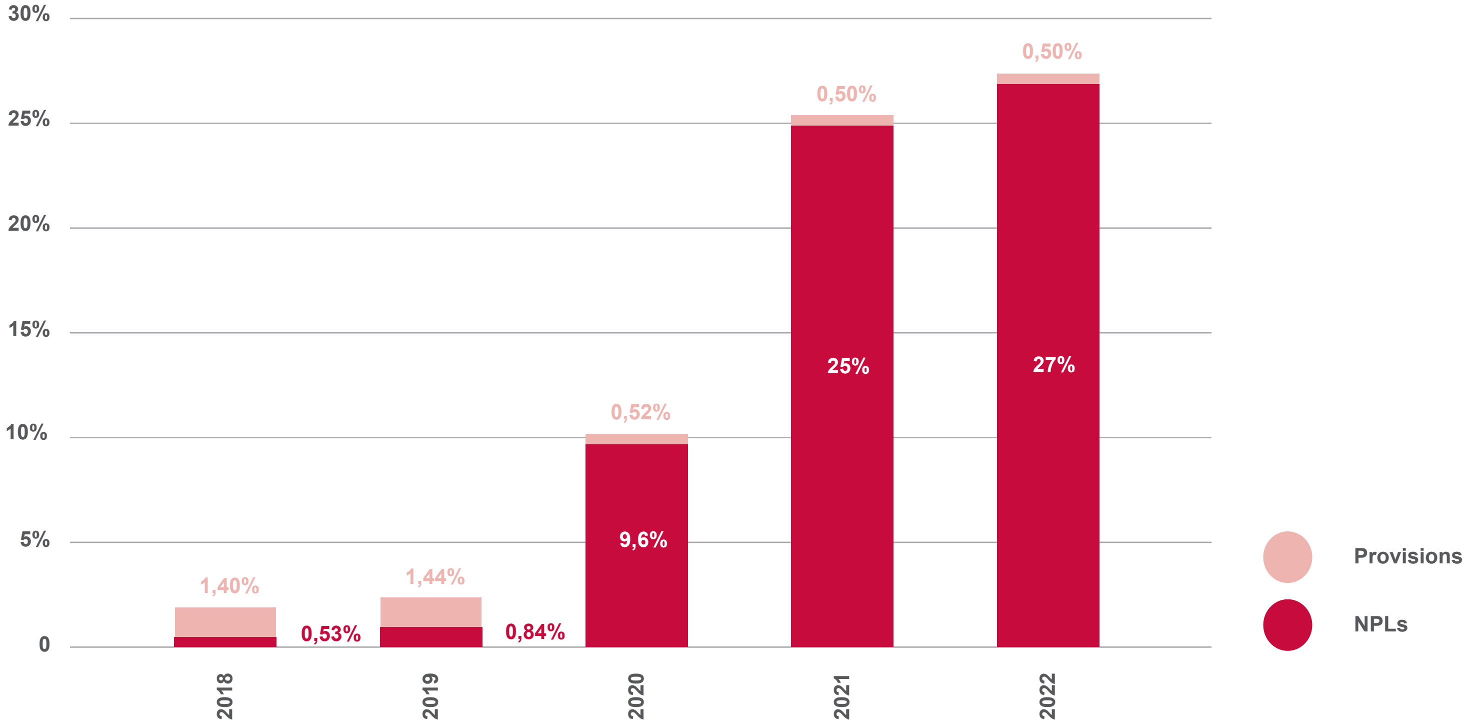
The rest of this section looks at what has occurred in MFIs in terms of credit risk, savings, assets and equity. This is followed by an analysis of the potential impact of MFI activities on clients, with a particular focus on women.

A. Credit Risk

The single largest impact of the on-going political unrest on MFIs and their clients is through the substantial increase in non-performing loans which was observed across all three peer groups of MFIs. There is significant homogeneity in loan portfolios among MFIs in part because of the regulatory limits on maximum loan size (10 million MMK or US$4,800) and MFIs' inability to take physical collateral per FRD regulations. As such, most MFIs pre-pandemic and still predominately make group-guaranteed loans for 6 to 12 months for 400,000 to 600,000 MMK (US$200-$300) which are amounts and terms that other group members are willing to provide group guarantees for. As a result of this homogeneity most MFI loan portfolios were affected in a similar manner.

By historical standards, the December 2020 level of NPLs of 9.6% was a major blow to the credit quality of Myanmar MFIs. For example, throughout 2018 and 2019 NPLs in the sector averaged less than 1% and loan loss reserves stood at 1.6% of total loans. This was due to a large demand from clients, very little leverage by clients and strong economic growth. The first wave of the pandemic had a limited impact on NPLs: once the lockdown ceased clients were eager to repay their MFI loans and maintain their access to credit from MFIs that were eager to keep lending. The second wave of the pandemic was more troubling, and by December 2020 NPLs reached a historic high, but did not stop there. As shown in Figure 3, over the past five years as NPLs have increased the provisions to cover these loans has decreased.

Figure 3: Evolution of Non-Performing Loans (NPLs) and Loan Loss Reserves



Source: MFI Heath Check Survey 2022 and FRD Data

As shown in Figure 4, Tier 1 MFIs generally had lower NPLs among the three groups as these larger MFIs have more resources to collect and monitor NPLs than mid-sized and smaller MFIs. However, for all three Tiers the level of NPLs is unsustainable for the long-term solvency of the sector. During focus group discussions some MFIs discussed regional variations that they are seeing in non-performing loans where rural areas are performing better than urban areas, but other MFIs saw different patterns if they were operating in a region where there has been significant on-going political conflict (e.g., Sagaing).

Figure 4: Non-Performing Loans in the Sector

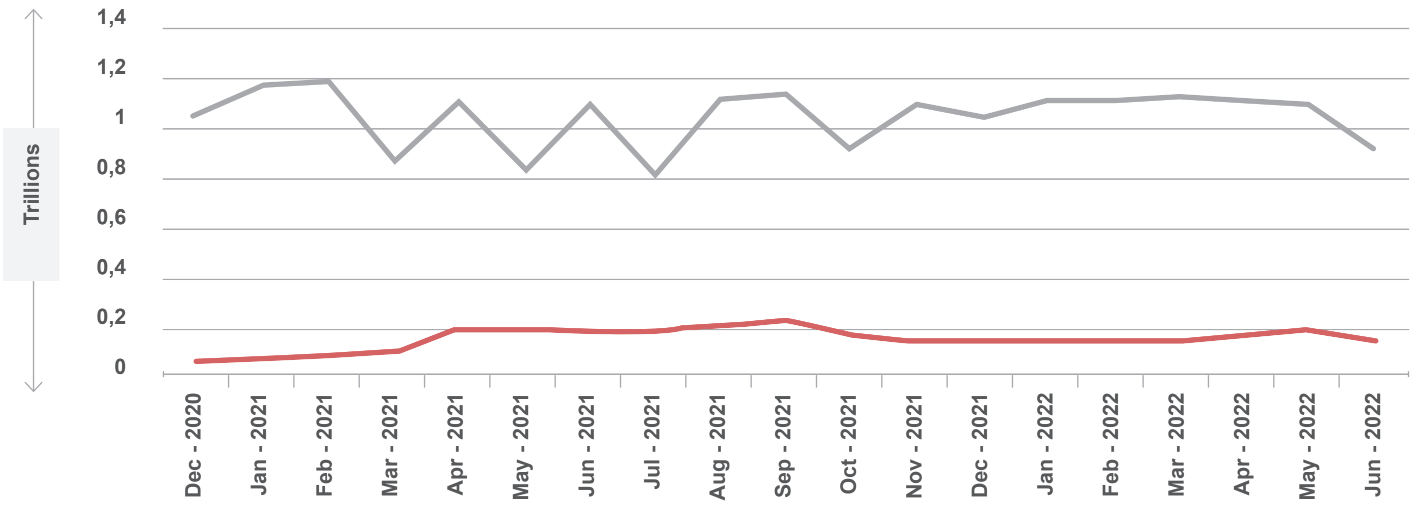
Tier	NPLs December 2020	NPLs May 2021	NPLs June 2022
Tier 1	8.6%	22%	27%
Tier 2	12.5%	37%	34%
Tier 3	15.2%	38%	26%
Sector Average	9.6%	25%	27%

Source: MFI Heath Check Survey 2022.

In addition to these high levels of NPLs, 4% of the loan portfolio had been restructured in December 2020, compared to 3.6% in May 2021 and 12% in June 2022. Overall, the total loan portfolio for the sector declined by 216 billion MMK (US$118 million) or 10.2% between December 2020 and June 2022. Lenders struggled with having sufficient liquidity to make new loans, demand decreased and the cash coming in from outstanding loans has dwindled as well. Data from MCIX in Figure 5 shows the steep upward trend throughout 2021 in overdue loans and only a moderate reduction in 2022.

Between May 2021 and June 2022, NPLs have increased moderately, restructured loans increased three times and the provisions available to cover NPLs (i.e., NPL coverage ratio) decrease from 6% in December 2020 to 1.8% in June 2022 – a troubling sign. However, during focus group discussions MFIs indicated the worst seems to be behind them.

Figure 5: Growth in Overdue Loans in 2021 for MCIX Membersa



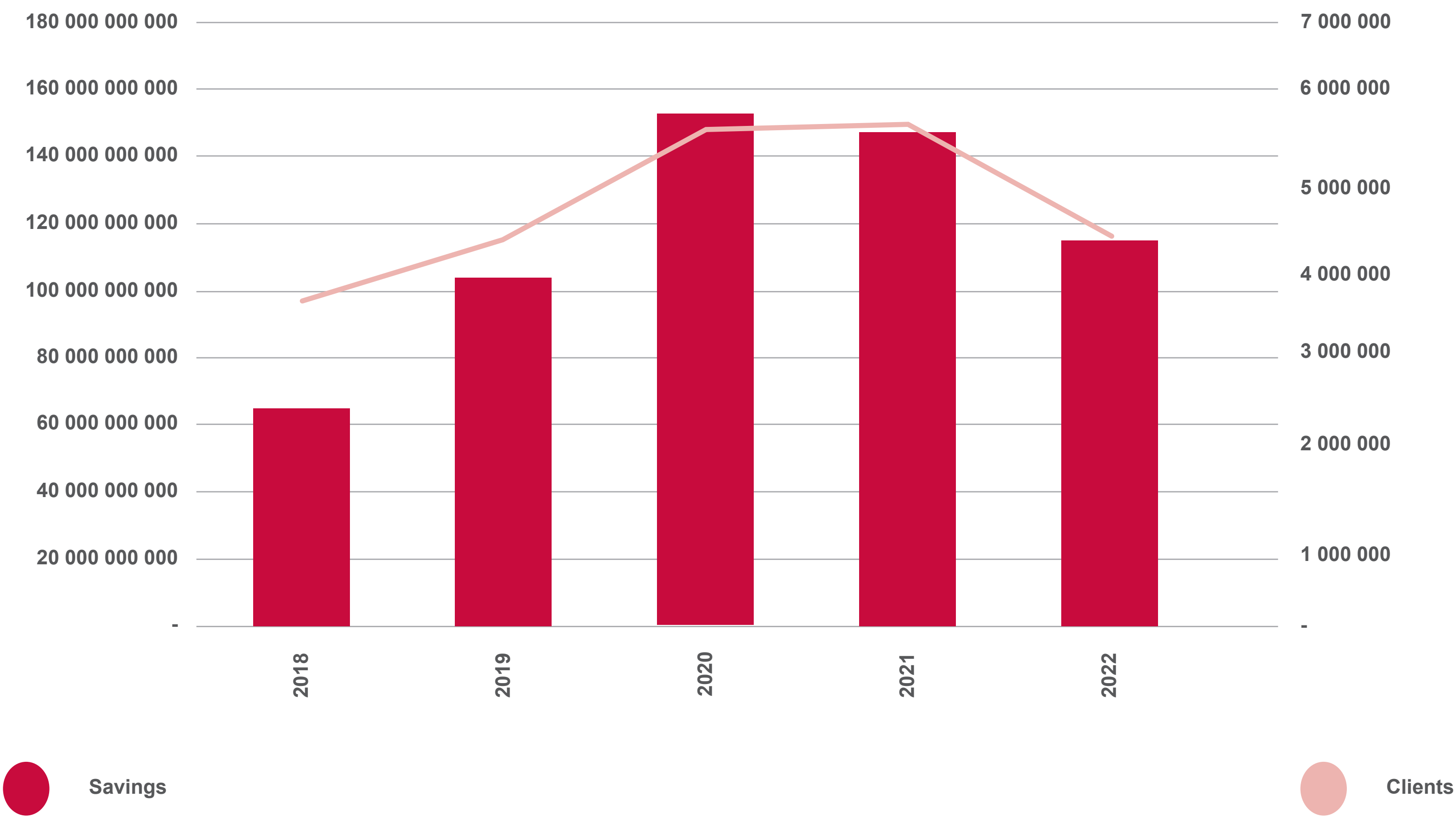
Source: MCIX data 2020-2022.

B. Savings and Liquidity

Voluntary savings still make up a small and dwindling share (6%) of the sources MFIs rely on to fund their loan portfolios. While in May 2021 voluntary savings had only decreased 2.2% since December 2020, as of June 2022 voluntary saving decreased 25% in MFIs which was 37 Billion MMK (US$20 million). While, 6 of 23 deposit-taking MFIs saw their deposits increase (in some cases significantly) as clients withdrew their savings from banks and placed them with MFIs, many more members used their savings to pay off non-performing loans and to assist households in smoothing consumption.

However, Figure 6 shows that the broad trends over the past 5 years have been a strong growth of the sector in 2018 and 2019 followed by significant declines since the coup in 2021.

Figure 6: Evolution of Savings and Clients in MFIs



Source: MFI Heath Check Survey 2022, Central Bank of Myanmar Quarterly Financial Statistics Bulletin.

Dissimilar to banks[4], of the 23 MFIs authorized to take voluntary savings 76% did not institute limits on withdrawals. MFIs that did experience a decrease in deposits report that it was a result of either a loss of clients or new deposits not coming in as economic activity for clients slowed, as opposed to large withdrawals as seen by panicked bank clients. Unlike May 2021 when some smaller MFIs were gaining deposits or holding steady, Figure 7 now shows that all Tiers of MFIs saw a savings decrease between December 2020 and June 2022.

[4] *Most banks in Myanmar set daily withdraw limits set at 200,000 kyat (US$128) to 300,000 kyat (US$192) per day.*

Figure 7: Growth or Decline in Voluntary Savings by Tier

Tier	December 2020 to May 2021 Growth or Decline in Vol. Savings in MMK	December 2020 to June 2022 Growth or Decline in Vol. Savings in MMK
Tier 1	-9.1 billion (-6.5%)	-36.2 billion (-25%)
Tier 2	5.8 billion (40%)	-85 million (-9%)[5]
Tier 3	1.4 million (0.2%)	-1.4 billion (-32%)
Sector Average	-3.2 billion (-2.2%)	-37.8 billion (-25%)

Source: MFI Heath Check Survey 2022.

MFIs, like most formal businesses, have been adversely affected by both the cash withdrawal limits at banks and the more recently the foreign exchange controls which have affected their ability to pay back loans in US dollars or euros to foreign lenders. Repayments of foreign loans has been much harder for MFIs which reported 4-6 weeks delays before international wires can be sent from banks given the difficulties in sourcing foreign currency. Only one MFI received a foreign loan (from its parent organization) since February 2021 and only 4 MFIs have received foreign equity investments during this time. This is in stark contracts to the period pre-coup when 45% of the respondents had received foreign investments.

C. Net Income and Solvency

The MFI sector as a whole saw a modest decrease in total assets (-1.1%) between December 2020 and June 2022, primarily as a result of the decreases in the loan portfolios. MFI loan officers were hesitant to issue new loans and MFIs have increased cash reserves. With less money allocated to the higher yielding loan portfolios compared to cash reserves, and increases in NPLs, the sector's profitability, while still positive with 8.4 billion MMK earned in the first fiscal quarter of the year, is still less than May 2021 with a return on assets of 0.3%.

Because most MFIs rely on their equity as the primary source of funds for lending (especially the smallest MFIs which are less able to borrow), they had very strong solvency ratios coming into the pandemic and through the political unrest – see Figure 8 below. The strong return on assets in the smallest MFIs may be explained by their much lower operating costs with further cost cutting measures, less provisioning for potential loan losses and/or accrual of income from loans that aren't being repaid.

While these consolidated figures appear healthy for the sector, 17 of the 53 MFIs in the survey (i.e., 32%) had negative net income during the first quarter. As seen in Figure 8, similar to May 2021 the net income for tier 1 and 3 MFIs was positive while tier 2 MFIs lost money. However, this data in Figure 8 overstates the true position in the sector in two ways. First, most MFIs are only provisioning 1% of NPLs as opposed to 1% of the total loan portfolio. Secondly, focus group discussions indicated that most MFIs feel that approximately 40%-50% of their current NPLs will not be recovered and will have to be written off given their current rate of write offs. This is also supported by data from MCIX as described below. As such, much higher provisions are required and this will reduce profits and equity.

[5] *The low decline in savings of Tier 2 MFIs may be the result of only 1 MFI being classified as a tier 2 deposit-taking MFI and as such there is narrow sample of experiences.*

Figure 8: Profitability and Solvency Based on Current Provisioning Requirements*

Tier	Return on Assets May 2021	Return on Assets June 2022	Solvency Ratios May 2021	Solvency Ratios June 2022
Tier 1	0.7%	0.2%	42%	32%
Tier 2	-0.8%	-0.3%	40%	41%
Tier 3	8.4%	6.8%	71%	74%
Sector Average	0.7%	0.3%	42%	34%

*Based on FRD Directive to provision only 1%.

Source: MFI Heath Check Survey 2022.

Figure 9 provides a more realistic adjusted return on assets and solvency ratios for the sector based on the assumptions of either a 50% write-off of existing NPLs as of June 2022 or a more extreme 100% write-off. Most MFIs have indicated that they feel they are through the worst of it and new loans are performing, and as such future projections are not provided. Even with the worst-case scenario of 100% write-off of June 2022 NPLs all three Tiers of the MFIs are still solvent with an overall solvency ratio of 13.9%.

At a 50% write-off 3 deposit-taking MFIs would be under-capitalized including 2 of the large tier 1 MFIs. At a 100% write-off required of existing NPLs 3 tier 1 deposit-taking MFIs would become insolvent, and 2 MFIs that are smaller (one of which is a deposit-taking MFI) would become insolvent. While this may appear the worst-case scenario, it is possible to get worse as the political instability shows no signs of resolution in the near-term, most foreign investors are still avoiding Myanmar, and the global economy may be headed towards a recession.

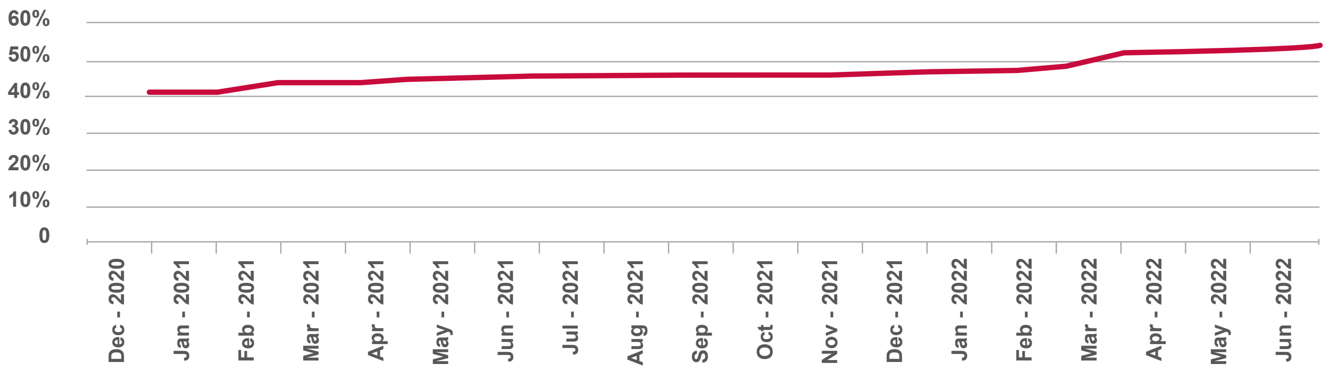
Figure 9: Adjusted Profitability and Solvency

Tier	Reported Return on Assets June 2022	Adjusted Return on Assets June 2022: 50% Write off Scenario	Adjusted Return on Assets June 2022: 100% Write off Scenario	Reported Solvency Ratios June 2022	Adjusted Solvency Ratios June 2022: 50% Write off Scenario	Adjusted Solvency Ratios June 2022: 100% Write off Scenario
Tier 1	0.2%	-9.6%	-20.5%	32%	22%	12%
Tier 2	-0.3%	-11%	-22.8%	41%	30%	19.4%
Tier 3	6.8%	-2.9%	-13.7%	74%	63%	53%
Sector Average	0.3%	-9.6%	-20.6%	34%	24%	13.9%

Source: MFI Heath Check Survey 2022.Bulletin.

Figure 10 provides a recap of the monthly write-off of loans relatively to monthly disbursements of new loans as reported by only 25 MCIX members that regularly reported this data. However, loan write-off data (like many data fields reported to MCIX) is a voluntary field and some MFIs did not upload data for certain months. Efforts have been made to adjust for this inconsistency. Nonetheless, it's a troubling picture that MFIs are writing-off approximately half of their amount of their current disbursements.

Figure 10: Monthly write-off as percentage of new monthly loan disbursements



Source: MCIX data 2020-2022.

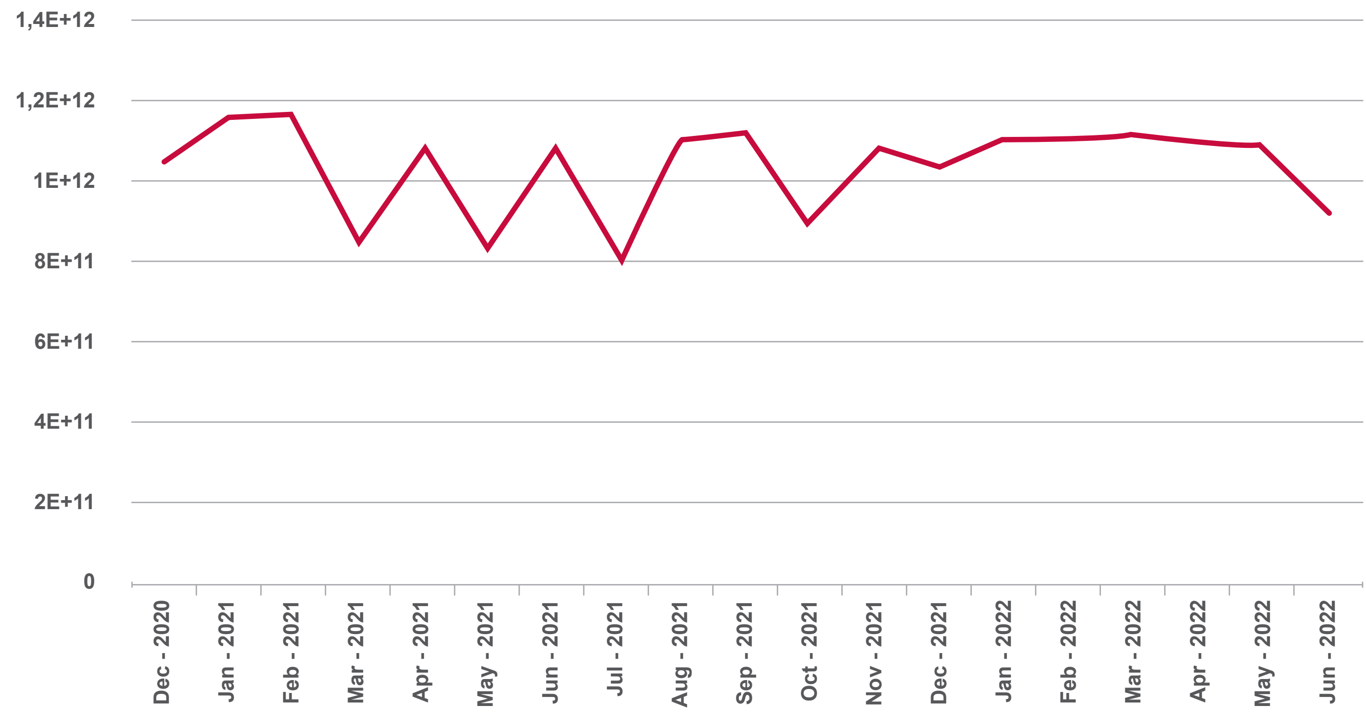
IV. Client Financial Health and Impact on Women

Although our survey did not focus directly on the clients themselves, focus group discussions with MFIs did reveal information about their clients' financial health. At the start of the pandemic the surveyed MFIs served approximately 3.9 million clients compared to an estimated 2.2. million clients in the banking sector.

However, as of June 2022 74% of MFIs had experienced declines in membership compared to December 2020. The MFI sector as a whole lost 315,000 clients or -8.1% of total clients as of June 2022. This is a significant change over the past as year since as of May 2021, the sector had lost only 22,000 clients. Given that the sector had been accustomed to 15-20% annual growth in clients, this is a dramatic turn of events. Unlike May 2021 when the decline in clients was predominantly driven by women leaving, in June 2022 the decrease by men was double the percentage decrease of women (i.e., 22% for men and 10.2% for women)[6]. The loss in clients is the result of MFIs and clients being more conservative with their desires for obtaining loans given the instability in the country. Overall, MFIs report little to no growth in new clients as existing clients repaid their loans. While 76% of all clients are still women, MFIs pre-pandemic and throughout have shifted more toward individual loans and less on group guarantee loans with this shift more men have entered the sector as anticipated.

Likewise, the decrease in loan portfolios is reflected in gender differences. Women decreased their loans by 114 billion MMK (US$62 million) or -23% from December 2020 to June 2022, and men increased their borrowing by 100 billion MMK (US$53 million) or 70% of their share of the loan portfolio. Between December 2020 and June 2022, the average loan size increased 28,000 MMK to 508,000 MMK (US$272). Data from MCIX in Figure 11 shows some variability in the outstanding loan portfolios among MFIs reporting to MCIX, albeit with a relatively flat trendline which has continued and a recent downturn.

Figure 11: Outstanding Loan Amounts in 2021 and 2022 as Reported to MCIX



Source: MCIX data 2020-2022.

6 *Some MFIs did not report the gender of their clients, which accounts for why the overall decrease was 8.1% for the sector, yet female decrease was 10.2% and male decrease of 22%.*

Similar to the lending side, there has been a dramatic reduction of savings balances by 25% (38 billion MMK or US$20 million) between December 2022 and June 2022 as clients needed to rely on their savings as a shock absorber during an economic slowdown. Most of this decrease has occurred during the past year given that during the first MFI Health Check Survey savings balances had decreased only 2.2% between December 2020 and May 2021. Of the MFIs that are licensed to accept voluntary savings, 58% saw a decrease in savings and 42% saw an increase. Most of the decrease in the sector occurred because a large MFI was using client savings to off-set non-performing loans of clients. While this indicates clients' financial stress, it does not indicate a loss of confidence by savers in MFIs and few large MFIs have instituted any cash withdrawal limits for clients.

The dramatic and still increasing level of NPLs and the reduction in the amount saved by clients, especially women, as they are the primary clients of MFIs, and their role in household nutrition and child care, paints a concerning picture for families and children in Myanmar. To compensate for this crisis, clients have tried to deleveraged by borrowing less and have kept their savings at the MFIs as opposed to storing it at home or in gold to ensure they will have access to credit, if needed. However, a restrictive policy does not allow non-borrowers to save at MFIs licensed to take voluntary savings. This is hurting clients' financial well-being and should be changed as contemplated in the 2020 amendments to the Microfinance Business Law.

V. Concerns for the Future and Where Support is Needed

Unlike banks which rely on deposits to generate loans, MFIs in Myanmar have relatively few deposits (6% of loans) and are accustomed to borrowing to fund their loans and/or relying on their equity as their source of funds. During the last survey period only 25% of the surveyed MFIs had loans outstanding from local or international entities to help fund their loan portfolios, compared to 75% in the previous survey period. This has changed since the onset of the pandemic and political unrest. Since February 2021, 13 MFIs received loans from local sources (these have all been disbursements from existing lines with banks and in 3 cases loans from government for pandemic related support). Only 1 MFI was able to obtain a new loan from a foreign source (its parent organization) in the last year. Also, since February 2021, 3 MFIs were able to obtain local equity investments and 4 MFIs received foreign equity (primarily from parent organizations).

MFIs also report that there were limited opportunities for them to take new loans both domestically and from foreign entities and only one MFI reported receiving a new loan in 2022 from a local bank. In addition, approvals from the Financial Regulatory Department have not been forthcoming and strong advocacy in this area is needed.

Within the survey and during focus group discussions MFIs indicated that both local and foreign lenders have been accommodating with additional time to make payments. Since February 2021, 20 of the 53 surveyed MFIs (37%) asked to reschedule their loans and 15 of the MFIs (28%) were permitted to reschedule their loans. Of this same group of MFIs, 12 of them were late on payments to their lenders and 4 MFIs (including one large deposit-taker and one small deposit-taker) have defaulted on loans to their lenders – this is similar to the situation in May 2021, except a large MFI is now also in default.

The 58% devaluation of the Kyat versus the US dollar since December 2020 has made repayment of dollar denominated loans especially difficult and is compounding profitability challenges for MFIs. The foreign exchange costs and risks are now a major concern for several large MFIs and local borrowing is more attractive even at higher interest rates. This rapid depreciation over the past 18 months highlights the problems of funding MFI loan portfolios in foreign currency – even with foreign exchange hedges.

As part of the MFI Health Check Survey, MFIs were asked about their greatest concerns going forward. The top concerns for MFIs are the high level of non-performing loans (28 MFIs) – same as in May 2021, the second top concern is the security in branches (25 MFIs) and next is the level of profitability (24 MFIs).

MFIs across all three tiers expressed the following needs for support in order of importance: 1) need for funding (37 MFIs), 2) needs for loans (22 MFIs), and 3) need for grants (22 MFIs). MFIs indicated that the recent black-listing of Myanmar by the Financial Action Task Force for anti-money laundering concerns highlights the even larger challenges they will have in securing external loans and equity investments. The MFIs also expressed the need for development partners to recognize the difference between supporting MFIs and their clients, versus supporting the current un-elected administration.

VI. Recommendations

The following recommendations were developed for MFIs and their partners. Recommendations are broken down by organization(s) as each stakeholder plays an important role in supporting clients and maintaining the resiliency of the micro-finance sector.

MFI Recommendations

• Review provisions for loans losses and allocate additional provisions based on expected losses. Loans that cannot be recovered or have been non-performing for over one-year should be written off. In instances where there are very high-levels of older NPLs existing and insufficient loan loss reserve exist, but capital is available to absorb the losses, MFIs should make the large provision allow capital to fall and write off the loans. Where there is insufficient capital to absorb the losses, the MFIs should seek a merger and acquisition partner.

• Continue to make new loans for borrowers that have the capacity to repay and reschedule existing loans for members that are struggling to repay.

• To the extent possible, deposit-taking MFIs should eliminate withdrawal limits for clients and seek to establish domestic backup lines of liquidity. Deposit-taking MFIs with low-levels of equity based on more realistic provisioning needs should consider potential mergers before weaknesses manifest further.

• In order to reduce credit risk individually and collectively MFIs should join a credit information exchange, such as MCIX, and expand the type of data reported to make the system more useful.

• While MFIs need to keep lending to generate income, savings-based MFIs can tighten underwriting requirements by utilizing cash collateral. Credit-only MFIs can also tighten underwriting by collecting on group guarantees and/or reducing exposures to groups with high-levels of NPLs.

• MFIs should seek to implement digital payment solutions to aid disbursements, collections and broaden fee-based services.

MMFA Recommendations

• Focus on re-establishing a strong advocacy position with the Financial Regulatory Department (FRD).

• Improve data collection and analysis so that it can be a credible advocate for the sector. This includes further promotion of additional mandatory fields in MCIX to improve sector-wide credit analysis.

FRD Recommendations

• Improve communication with the sector and ensure that requests for loan approvals from well-performing MFIs are acted upon promptly.

• Remove additional barriers/approvals to enable loans from local banks to MFIs.

• Allow MFIs to increase their provisions for loans losses based on expected losses.

• Allow non-borrowers to save in MFIs approved to accept savings.

• Monitor the financial performance of the sector closely but allow for regulatory forbearance until the situation improves.

• Work with CBM to enable banks to make additional liquidity available to MFIs.

• Require all MFIs to participate in a credit information exchange whose governing board includes representation from the MFI sector. Credit information should include at a minimum mandatory reporting on borrower level data by gender, amount and date of original loan(s), amount outstanding, amount past due, days past due, write-off amount and write-off date.

MFI Creditor Recommendations

• Continue to work with MFIs on loan rescheduling and/or deferment of payments. To the extent possible this should be done on a collaborative basis among common creditors of an MFI.

Development Partner and Development Finance Institution Recommendations

• As female clients dominate the MFI sector and global experience shows that women who earn income invest more of their incomes into the health and education of families, development partners should re-engage with the microfinance sector focusing on humanitarian support. Two-thirds of the clients indicated their MFI is their only source of formal credit[7]. The MFI sector is the primary private-sector economic engine for low-income communities (especially women) nationwide, and remains independent of government.

• Principal areas of re-engagement should be through:

o Provision of concessional loans/grants and/or provisions for loan losses to MFIs.

o Technical support related to institutional strengthening to ensure this critical segment of the financial sector remains resilient.

o Technical support and grant funding to aid MFIs in digital delivery of services.

o Create a partial credit guarantee fund to support local banks lending to MFIs.

[7] *Gender and Microfinance in Myanmar: A Business Case for Action. International Finance Corp. 2020.*

Annex 1: Summary MFI Health Check Survey Results

Tier	Clients Dec 2020	Clients June 2022	Biggest Change since Feb 2021: High NPLs	Biggest Change since Feb 2022: Strained comm. w/clients	Biggest Change since Feb 2021: Lower Profits	Gross loans Dec 2020	Gross loans June 2022	Vol. Savings Dec 2020
Tier 1> 100 billion MMK	3,046,223	2,850,536	8	9	8	12%	1,728,493,148,392	1,568,755,679,168
Tier 2> 10 billion MMK	611,875	503,324	8	7	5	19.4%	246,996,727,333	193,763,548,291
Tier 3 <10 billion MMK	216,269	204,810	22	20	27	53%	50,266,419,022	46,605,495,894
TOTALS	3,874,367	3,558,670	38	36	40	13.9%	2,025,756,294,747	1,809,124,723,353

Tier	Vol. Savings June 2022	NPLs Dec 2020	NPLs June 2022	Loan Loss Reserves Dec 2020	Loan Loss Reserves Dec 2020	Loan Loss Reserves Jun 2022
Tier 1> 100 billion MMK	147,248,721,489	110,991,500,566	158,147,308,832	418,706,406,641	8,311,071,566	7,789,439,645
Tier 2> 10 billion MMK	918,590,258	833,259,715	18,693,459,334	65,319,494,400	1,934,752,619	1,121,787,824
Tier 3 <10 billion MMK	4,300,233,552	2,903,578,238	1,322,372	12,029,116,909	382,885,352	201,733,775
TOTALS	152,467,545,299	114,728,338,519	176,842,090,538	496,055,017,950	10,628,709,537	9,112,961,244

Tier	Total Assets Dec 2020	Total Assets Jun 2022	Total Equity Dec 2020	Total Equity Jun 2022	ROA Dec 2020	ROA Jun 2022
Tier 1	2,018,581,538,178	2,055,939,024,429	515,998,850,794	656,982,957,191	1.2%	0.2%
Tier 2	355,536,387,954	295,267,728,779	147,880,095,607	121,465,250,898	0.5%	-0.3%
Tier 3	63,315,494,326	59,803,444,825	44,092,785,154	43,819,476,506	5.3%	6.8%
TOTALS	2,437,433,420,458	2,411,010,198,033	707,971,731,555	822,267,684,595	1.2%	0.3%

Annex 2: Focus Group Questions

1. Some MFIs have lost clients between December 2020 and June 2022 the MFI sector has lost over 315,000 clients or approximately 16%. Most of this loss has occurrent between May 2021 and June 2022. Why have so many clients left MFIs?

2. The loan portfolio of the MFI sector has reduced 10.7% between December 2020 and June 2022. Has it been less demand from clients, less willingness to lend by the MFI and/or inability to access liquidity in banks/general lack of funding available?

3. While the loan portfolio has decreased 10.7% total assets have decreased only 1.1%. What are MFIs doing with their excess liquidity?

4. Do you think the liquidity in banks is at risk of loss?

5. Compared to the earlier survey where Voluntary savings had dropped only 5.5% in the sector between December 2020 and May 2021, savings has taken the biggest percentage hit of a 25% decrease between December 2020 and June 2022. What is this occurring?

6. What has been your experience with foreign lenders during the crisis? Is this still a viable source of funds? Is it possible for MFIs to repay their existing funds?

7. How about local banks, what is needed to increase lending between banks and MFIs or is it already happening?

8. Data indicates NPLs have gone from 9.6% in December 2020 to 24.4% in May 2021 to 27% in June 2022. Do you think they have leveled off or will they keep growing? How much is recoverable and how much will have to be written off?

9. In this survey we obtained data for the first time on loan loss provisions. For the sector as a whole they are at about 0.5% of total loans and this has stayed constant between December 2020 and June 2022. However, as a percentage of NPLs, provisions represented 6% in December 2020 and only 1.8% in June 2022. It appears many MFI are decreasing provisions to still show positive net income. Do you think this is the case?

10. While solvency in the sector still appears healthy at 34% in June 2022, actually up from December 2020 at 29%. The “net solvency” which takes a worst-case scenario of NPLs less provisions and equity show solvency in the sector at 13.9% and 4 MFIs with negative equity. Do you think this worst-case scenario is possible?

11. What should be the top priority for MMFA in the next 12 months?

12. What should be the top priority for Development Partners in the next 12 months?

13. What should be the top priority for FRD in the 12 months?

14. Do you forecast any equity needs / capital injections in the near future?

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