UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)

Executive Summary

Access to finance for youth and women entrepreneurs in Myanmar

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Introduction

*The information presented here was compiled between September and November 2015 as part of an IPC assignment for the United Nations Industrial Development Organization, in the context of the project '*Fostering pro-poor and inclusive MSME development in Myanmar'*.*

Data and information were mainly collected in September and October 2015 by reviewing more than 40 documents and conducting over 20 interviews with financial institutions, associations, international organizations, and non-governmental organizations (NGOs). Documents reviewed included different types of publications as well as policy documents and laws on topics related to access to finance in Myanmar, women and youth entrepreneurs, MSMEs development, and (as far as available) existing financial mechanisms for women and youth in Myanmar.

*The project '*Fostering pro-poor and inclusive MSME development in Myanmar' *is composed of two pillars, a cluster development pillar and an entrepreneurship pillar which particularly focuses on youth and women. This project component aims at increasing financial opportunities for new or existing women- and youth-led businesses in Myanmar. In this context, UNIDO is strengthening the capacity of business support structures (public and private) to increase the quality of services offered to youth and women, which is to result in increased competitiveness and resilience of Myanmar MSMEs.*

Initial findings

It is globally recognized that investing in youth and women has tremendous beneficial effects, and projections show that an increase in participation of youth and women in the economic development of a country can spark innovation and technology development. In fact, young people are naturally more prone to apply new technologies to business ventures, they are generally more inclined to take risks, and invest in education and skill development of their peers. Likewise, women, compared to male counterparts, have a relatively better loan repayment rate, they tend to invest more in skills development training for their employees, and generally are more attentive to the well-being of their employees. Finally, it has been demonstrated that both youth- and women-led enterprises are comparatively more attentive to social and environmental concerns.

According to McKinsey estimations, Myanmar's GDP is likely to quadruple by 2030 (estimation basis 2013) and create an additional 10 million non-agricultural jobs over the same period.[1] Myanmar's women and young people are of key importance for taking advantage of this economic development potential: women account for 52% of the total population, women head about a quarter of Myanmar's households and own about a quarter of Myanmar MSMEs.[2] At the same time, women are currently three times more likely than men to remain economically inactive and stay at home.

[1] McKinsey Global Institute (2013): Myanmar's moment. Unique opportunities, major challenges.

[2] DEval – German Institute for Development Evaluation (2015): Small and Medium Enterprise Survey Myanmar 2015, page 37; Republic of the Union of Myanmar (2015): The 2014 Myanmar Population and Housing Census. The Union Report. Census Report Volume 2 page 47. Note: The population is ethnically highly diverse with 135 recognized ethnic minorities although the majority (about two thirds) of the population belong to the Bamar ethnicity. 70% of the population lives in rural areas where agricultural production represents the major source of income.

Furthermore, 46% of Myanmar's population of 51.5 million people is under the age of 25.[3] For this large group of young Myanmar people (aged 15 to 24 years), unemployment is the highest (9.4% as compared to 4% for the entire working-age population). While a recent ILO survey for Yangon and Bagan estimates that nearly half of small businesses are owned by - comparatively speaking - young people, i.e. owners below the age of 40 (the share of very young owners (age 19-30) stood at 17%), representative data for the national level is not available.[4]

Women entrepreneurs and young entrepreneurs are not per se excluded from Myanmar's financial sector, but they often have difficulties to meet collateral requirements for formal loans. Often they are also influenced by their families with regard to how they run their businesses, use property or loans.

Nevertheless, one of the major barriers for Myanmar MSMEs is access to finance.[5] Given the restrictions women and young people face with regard to using property they own and having actual full decision-making power regarding their businesses, etc., this potentially impacts women entrepreneurs and young entrepreneurs stronger than MSMEs in general. Despite these challenges, it should be noted that MSMEs led by women or young entrepreneurs exist and, as stated above, account for noteworthy shares of all MSMEs. While clearly still underrepresented, this indicates that women and young entrepreneurs can operate successful businesses in Myanmar. We view this as a basis from which to build.

According to the 2013 FinScope survey, women and men in Myanmar are basically equally served by financial service providers, respectively equally financially excluded, although it should be noted that the share of women is somewhat higher when it comes to tapping into informal finance or 'formal non-bank' finance, such as MFIs, cooperatives, pawnshops etc.[6] Savings and borrowing habits of young people also do not seem to deviate much from other age groups.[7]

Nevertheless, there is evidence that traditional views and customs, especially in rural areas, still determine daily life and result in inequality of women.[8] Furthermore, gender-inequality is also still embedded in statutory laws, e.g. in the 2015 Buddhist Women's Special Marriage Law, also known as interfaith marriage law, which limits the right of Buddhist women to marry non-Buddhist men.[9]

[3] Census (2015): page 93.
[4] ILO (2014): Assessment of the business service and training market in Myanmar, page 16.
[5] UNESCAP/OECD (2014): Myanmar Business Survey 2014, page 6.
[6] UNCDF/Finmark trust (2013): Survey Highlights. FinScope Myanmar 2013.
[7] It should be emphasized that this and other available data do not provide a high degree of detail regarding the actual loan use and amount, and furthermore lack detailed information about the funding situation of MSMEs led by women and/or young entrepreneurs. Additionally, data for Myanmar is not always consistent and reliable in general.
[8] OECD (2014): Social Institutions and Gender Index, see: http://www.genderindex.org/country/myanmar.
[9] See e.g.: https://www.washingtonpost.com/national/religion/myanmar-women-object-to-proposed-restrictions-on-interfaith-marriage/2014/12/18/36fc82e6-86f6-11e4-abcf-5a3d7b3b20b8_story.html.

It would seem that young people face restrictions as well.[10] Among others, women and young people often have limited access to property and it is usually men (husbands or fathers) who make decisions regarding family, property, etc. It would furthermore seem that, in some cases, young entrepreneurs, male and female, have to deal with expectations of their extended family to receive parts of business profits.

Awareness of gender and young people-related issues seems relatively low in the public and private spheres. All of this also has implications for MSMEs led by women or young people and their access to finance as women entrepreneurs and young entrepreneurs often depend on others for the provision of collateral or cannot freely use their property or run their businesses as they would want to.

In terms of dedicated financial services, available offers are limited. It is mainly MFIs offering uncollateralized group loans that have a dedicated focus on women and/or young people. Generally, banks do not seem to have recognised women entrepreneurs and/or young entrepreneurs as potentially promising target groups.

Of the four loan types currently offered by different types of financial institutions, group loans seem suitable for serving start-ups or very small business operations while individual loans seem suitable to serve growing MSMEs led by women entrepreneurs and young entrepreneurs in Myanmar on a broad base. In terms of products, individual loans (collateralized and uncollateralized), group loans and leasing seem most indicated to support MSMEs led by women or young people although each have advantages and disadvantages from the point of view of improving access to finance for women-led MSMEs and MSMEs led by young people. For instance, while group loans and leasing do not require collateral, (collateralized) individual loans have the advantage of potentially allowing for higher loan amounts that could be required for effective further business development.

In principle, all types of financial institutions could offer products aimed at supporting the development of MSMEs led by women or young people. However, three types of financial institutions (banks, finance companies and MFIs) seem more suitable to offer respective products in terms of permitted activities under current regulations, technical know-how, potential outreach and scale, etc., although not all three types of institutions are equally permitted or equally suited to offer each product.[11] The following table summarizes major challenges and opportunities.

[10] USAID/ProjectHub (2015): Mapping Yangon's Emerging Start-up Ecosystem, page 49.

[11] Cooperatives have been excluded from this list despite having a large outreach potential, particularly in remote areas, as they reportedly face a lack of trust issue after the 1980s cooperative crisis which in turn could potentially limit member funds for on-lending to MSMEs led by women and young people. In addition to this, available information indicates that regulatory and supervisory functions for cooperatives still seem lacking in coherency and transparency.

Table 1. Overview of loan products and their potential providers

Product / Financial institution	*Bank*	*Finance company*	*MFI*
Individual loan (collateralized)	• Possible under the current legal and regulatory framework • Banks seem to be equally accessible for men and women, although in practice they are accessible to those who can provide collateral, i.e. foremost land and buildings, which are usually registered in the name of the head of the household (usually the husband or father) • Banks prefer collateral but expect to be more flexible regarding collateral items in the future (e.g. include movable assets) • Loan amounts currently mainly depend on the value of collateral pledged • MSME clients seem to prefer borrowing from a commercial or development bank (DEval 2015) • Potentially large client outreach if substantial branch network	• Possible under the current legal and regulatory framework • Usually similar collateralization situation as with banks • Loan amount currently mainly depends on value of collateral pledged • Limited outreach opportunity due to limited branch network	• Impossible under the current legal and regulatory framework
Individual loan (uncollateralized)	• Generally not possible under the current legal and regulatory framework, though some banks are somewhat flexible with regard to the collateral-to-loan ratio • Most banks lack the capacity to engage in uncollateralized lending or of being more flexible regarding collateral coverage of a loan • MSME clients seem to prefer borrowing from a commercial or development bank (DEval 2015) • Potentially large outreach if substantial branch network	• Possible under the current legal and regulatory framework • Limited outreach opportunity due to limited branch network • Apparently offered by some finance companies; however detailed information on this was not made available	• Possible under the current legal and regulatory framework • Most clients borrow small group loans • Most MFIs lack the capacity to assess individual credit risk in detail and tailor loans to the business needs of the individual borrower • Potentially large outreach, if substantial network • Loan ceiling is currently set at MMK 5 million, which may be insufficient to effectively support a developing business
Group guarantee loan	• Possible under the current legal and regulatory framework; a number of banks are currently considering working with credit guarantee groups • Banks, depending on rules and regulations, could issue loans to groups of entrepreneurs (against collateral from the members of the group)	• More information on legal and regulatory situation required	• Possible under the current legal and regulatory framework; while a group loan can support starting a business or maintaining an existing small business, it may not be the most suitable product to support development of a business from a certain point on

Product / Financial institution	*Bank*	*Finance company*	*MFI*
Leasing	• Possible under the current legal and regulatory framework • Offered by a number of banks • Does not seem most suited to MSMEs, especially very small MSMEs (down payment; restrictions regarding type and source of leased item, etc.) • Can complement but not replace other forms of financing (e.g. working capital)	• Possible under the current legal and regulatory framework • Offered by all finance companies • Does not seem most suited to MSMEs (down payment; restrictions regarding type and source of leased item, etc.) • Can complement but not replace other forms of financing (e.g. working capital)	• Possible under the current legal and regulatory framework if used for/invested in productive purposes that support alleviating poverty (though at this time only offered by one MFI) • Can complement but not replace other forms of financing (e.g. loans for working capital) • Does not seem most suited to MSMEs, especially very small MSMEs (down payment; restrictions regarding type and source of leased item, etc.)

The advantages and disadvantages of different financing mechanisms should be seen against the following background:

Group loans allow for comparatively easy access to finance. Hardly any bureaucracy, no collateral and fast access. The group can also be used as support-group to increase bargaining power in dealing with suppliers or clients, as a vehicle for teaming up with likeminded individuals or as forum to build other essential skills.
However, group loans, per definition, also mean dependence on the group. This may actually slow down business development for the individual member of the group as the members of the group may have differing needs, respectively differing goals with regard to business development, the operations of the members may have differing growth potential and the loan amounts actually needed may differ. Especially for successfully growing businesses, needed amounts may exceed the guarantee capacities of the other members (or the guarantee willingness of the other members; aside of issues related to the financing capacities of the providers of group loans themselves).
Furthermore, as individual businesses thrive and others do not, group cohesiveness may come under pressure.

In conjunction with these points the importance of the motivation for operating a business should not be underestimated: especially very small businesses are often operated as a means of ensuring daily survival, i.e. as a means to the end of feeding the family. As opposed to this, there are MSMEs that are set up or operated with the aim of further developing and growing the business, i.e. the business, its successful growth and development are the goal. This difference has consequences with regard to the needs of the individuals operating respective businesses. This also includes financing requirements, which can be quite specific to the respective business and its effective further development.

It is against this background that individual loans provided by formal financial institutions can be seen as potentially more conducive to actual MSME business development as loan amounts and repayment conditions can be tailored to the respective borrower's repayment capacity and specific business needs in addition to making the borrower less dependent on business-outsiders, including having to rely on other group members for a guarantee.

Overall, however, current regulations limit the possibilities of formal and semi-formal financial service providers with regard to loan amounts, loan conditions, interest rates, etc. which makes sustainable lending to MSMEs challenging in principle and limits the possibilities of financial service providers to provide tailored financing solutions aimed at supporting the business development of respective MSMEs.

In addition, and partially as a result of the regulatory environment, many financial service providers also do not have the capacities or structures in place to adequately assess and manage credit risk, so that financial service providers frequently rely on hard collateral or guarantees in lieu of assessing the respective business and related risks. This, in turn, again limits access to finance for those clients who cannot fulfil respective conditions, including MSMEs led or owned by women or young people.

Recommendations

Finally, four recommendations were identified which may support promoting and improving access to finance for MSMEs led by women entrepreneurs and young entrepreneurs in Myanmar:

1. ***Further research and encouragement of impact data collection***
   Clearly, better data availability will allow for a more concrete and meaningful understanding of key issues and, consequently, also for developing effective and targeted recommendations, action plans and measures to address issues related to the enhancement of gender equality and the support of young people in Myanmar (as well as to MSME support and the financial sector in principle). In addition to data tracking by the government, international organizations, etc. this also includes data tracking by financial institutions, including tracking data related on the impact their services have both economically and socially on the selected target beneficiaries. In fact, women and young people/women entrepreneurs and young entrepreneurs can be promising target segments for financial institutions, which can play a beneficial role in the development of the financial institutions themselves. At the same time, financial institutions in Myanmar play an important role in developing the economy overall. As indicated above, women and young people clearly have an important potential role in Myanmar's overall economic development.

In addition, the government should ensure that impact data are collected and analyzed on an on-going basis and shared with stakeholders for effective implementation of future measures.

2. ***Measures to reform laws, rules and regulations pertaining to access to finance for women and youth***

Increasing awareness and availability of more ‘hard’ data will provide the information and arguments needed to create the sensitivity and understanding with respective stakeholders on which changes should be made and why. This primarily concerns issues related to interest rate caps, permissible spreads and similar items that constitute disincentives for financial service providers to build the needed capacities and make the organizational changes, etc. required to effectively serve MSMEs in principle and women entrepreneurs and young entrepreneurs in particular.

3. ***Offering training opportunities for improving business-management and financial literacy to women and youth***

Accessing finance is not only a matter of improving supply but also a matter of increasing and improving demand. Potential clients should make informed decisions and choices regarding the financial services and providers they use. Not least, this should depend on their actual funding needs. Training can be one tool to strengthen the knowledge and capacities of potential borrowers and savers to make these informed choices. This can also help prevent over-indebtedness. Additionally, financial literacy and business management-related training may support strengthening the development of an entrepreneur’s business by building or improving skills needed for successful business growth and development (book-keeping, compiling financial statements, financial planning, etc.).

4. ***Individual loans generally seem more conducive to support youth- and women-led MSME development on a broader scale, while group loans can serve to assist women and young entrepreneurs in starting up businesses***

For the initial start of a business activity designed to supplement household income, the amounts and repayment options offered by group lending schemes usually suffice, respectively, have the advantage of accustoming borrowers to financial planning and the discipline of having to meet payments on time. However, once the business is operational and growing and starts becoming a main source of income, individual loans tailored to the actual needs of the concrete business allow for faster and more effective business development. Hence loan products offered by financial institutions and aimed at women and young entrepreneurs should be designed based on the needs of these target groups. Moreover, the financial delivery mechanism(s) should be set up in such a manner that it (they) permits for comparatively broad outreach (through network and/or replicability) at acceptable costs.

Good practice MSME lending aimed at the further development of MSMEs involves building capacities and setting up structures that group lending does not require. This is a potential challenge. The set-up of the mechanism should aim for standardization and streamlining wherever possible while allowing for an individual credit risk assessment of borrowers and for tailoring the concrete loan to the borrower's needs as well as ensuring sound internal control. In this way costs and risks can be controlled while allowing for broader outreach. The financial delivery mechanism(s) should be set up in a sustainable manner to allow for reliable access to finance over time; this means that the mechanism(s) has (have) to generate sufficient income to cover costs and allow for the further development of the mechanism(s) while safeguarding the quality of lending operations, foremost by building needed capacities at partner financial institution(s). Current regulations are not designed for the sustainable provision of tailored finance to MSMEs in the absence of either collateral or group guarantees. Permitted spreads are too small to justify the additional costs financial institutions would incur for building up the capacities and structures needed to adequately assess and manage credit risks (and allow for becoming more flexible with regard to collateral/loan security). Product design needs to take into due account the specifics of women and young entrepreneurs, in particular the types of loan security women entrepreneurs and young entrepreneurs can realistically provide. Whereas personal guarantees (or cross-guarantees in the case of group lending) can initially suffice, later on, as the business grows and the household-business unit builds up assets, these assets should be considered as possible loan security.