Myanmar Microfinance Regulatory Benchmarking Survey

MYA-02: Support for Commercial Microfinance Industry in Myanmar under the Mekong Business Initiative

September 2016

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Foreword

Abbreviations and Acronyms

ADB – Asian Development Bank

ASEAN – Association of Southeast Asian Nations

CAMEL – The abbreviation for a supervisory methodology used to assess: capital, assets, management, earnings, and liquidity

CBM – Central Bank of Myanmar

FRD – Financial Regulatory Department

MBI – Mekong Business Initiative (of the Asian Development Bank)

MFI – microfinance institution

MMFA – Myanmar Microfinance Association

MOF – Ministry of Finance

NA – not applicable

NBC – National Bank of Cambodia

NGO – non-government organization

SME – small and medium-sized enterprise

In this report, "$" refers to US dollars.

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Dave Grace and Associates (DGA), LLC is a financial inclusion and cooperative development consulting firm whose clients include the Asian Development Bank, World Bank, International Monetary Fund, United Nations, CGAP and Center for Financial Inclusion. DGA also serves as the Secretariat for the International Credit Union Regulators' Network (ICURN).

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I. Executive Summary

This report summarizes a study undertaken in Myanmar between February and April 2016 to provide the Financial Regulatory Department (FRD) of the Ministry of Finance (MOF) and Myanmar's microfinance (MF) industry with insights for improving the country's microfinance framework. The goal of this study was to benchmark Myanmar's microfinance regulations against those of several exemplary countries (Cambodia, Indonesia, and the Philippines), and give the FRD and the MF industry useful comparisons for their dialogue on new regulations. Immediately before formal publication of this paper, the FRD issued several new directives to improve the environment for commercial microfinance—and financial inclusion—in Myanmar. The authors hope that this paper will also contribute to greater financial inclusion, while at the same time adequately protect consumers.

Mekong Business Initiative, a joint advisory facility of the Asian Development Bank and the Government of Australia, is committed to helping small and medium-sized enterprises (SMEs)—and particularly those owned by women—to access affordable financing from the formal financial sector. Given the strict business registration and collateral requirements to borrow from banks in Myanmar, SMEs have few options for formal sector borrowing except for credit-constrained cooperatives and microfinance institutions (MFIs).

Toward the end of 2015, the MBI was asked by several MFIs in Myanmar to aid in improving the sector's regulatory environment. The MBI agreed, as this activity could complement the technical assistance ADB was already providing to the FRD, the Central Bank of Myanmar (CBM), and the Myanmar Microfinance Association (MMFA) in the areas of financial literacy, consumer protection, and supervisory capacity development. ADB, as well as other development partners, have been providing such assistance to help the FRD improve its internal operations.

As Myanmar's Microfinance Business Law was only enacted in 2011, Myanmar's legal and regulatory environment for microfinance is relatively new and quite restrictive. Each year, *The*

Economist magazine's Intelligence Unit ranks more than 50 countries worldwide on their legal and regulatory environment for microfinance/financial inclusion. Although Myanmar was not included in the 54 countries ranked by *The Economist* in 2015, the country would likely score quite low, given the restrictions on deposits, access to capital, interest rates, loan size, and geographic coverage (i.e., 50% of clients must be in "rural areas").

This study benchmarks Myanmar against three Association of Southeast Asian Nations (ASEAN) countries that have dynamic, highly successful microfinance sectors. According to *The Economist* in 2015, the Philippines had the 3rd best MFI environment out of 54 countries, Cambodia ranked 9th best, and Indonesia ranked 11th. As shown below in the MFI Regulatory Comparison Table, the microfinance frameworks in these three countries share common features, but differ from Myanmar.

Approximately 168 MFIs operate in Myanmar, serve an estimated 1.45 million clients, and have a total loan portfolio of approximately $200 million. The sector includes several prominent international non-government organizations (NGOs) and commercial MFIs, approximately 75 financial cooperatives that have re-licensed as MFIs, several local NGOs that provide microfinance, and approximately 100 local commercial MFIs. Since 2015, there has been an informal "Microfinance Working Group" comprised primarily of international NGOs that have microfinance activities in Myanmar. To help formalize the sector and strengthen the voice of local MFIs, in 2014, the Myanmar Microfinance Supervision Enterprise (the FRD's predecessor) began organizing the Myanmar Microfinance Association (MMFA). Although not yet formally registered, the MMFA has set up an office, its executive committee meets monthly, it conducts training for the sector, and collects data from approximately 175 MFIs that want to join the association.

Table 1: Comparison of Key Microfinance Regulations in Myanmar against Three ASEAN Countries and International Practice

GENERALLY REFLECTS INTERNATIONAL PRACTICE	MORE RESTRICTIVE THAN INTERNATIONAL PRACTICE	SIGNIFICANTLY DIVERGES FROM INTERNATIONAL PRACTICE
Capital requirements for deposit-taking MFIs	FRD has set stricter requirements for loan loss provisioning	Strict limits on the amount of voluntary savings
Maximum limit on compulsory savings	Requirements include: a minimum percentage of rural clients, restrictions on the number of loan recipients per household, and barring the use of loans for purchasing luxury goods	No difference in capital requirements for different types of MFIs, whereas in the 3 ASEAN countries compared to Myanmar in this study, capital requirements vary by the type of institution (lower for non-deposit-taking), and the geographic area (lower for smaller institutions serving rural areas)

	Myanmar’s MFIs must meet social performance requirements	FRD sets allowable debt-to-equity ratios for MFIs; whereas in the 3 ASEAN countries in this study, capital adequacy minimums are set via a capital adequacy ratio (CAR)
		High liquidity requirements for credit-only MFIs (30% in Myanmar, compared to 3-5% for the 3 ASEAN countries in this study)
	Minimum deposit/maximum loan interest rates caps	The FRD prevents foreign funding sources, while the 3 ASEAN countries in this study regulate the percentage of foreign ownership
	The FRD currently restricts MFIs to only providing credit and taking small deposits. In other countries, depending on the MFI’s license, in addition to credit and savings, MFI services may include remittances, insurance, and making electronic payments	
	In the 3 ASEAN countries in this study, the maximum loan size is higher, and is determined as a percentage of the MFI’s capital-at-risk concentration ratio, rather than as a fixed amount	

As new leaders take over in Myanmar, now is the time to improve policy on financial inclusion by providing the FRD with information on MFI regulatory frameworks in three ASEAN countries where microfinance is thriving under well-structured and effective regulatory and supervisory regimes. While Myanmar’s MFI regulator must “learn by doing”, there is broad scope to learn—and selectively apply—valuable lessons from microfinance regulators in the ASEAN region.

Recommendations to Align MF Regulation with Regional/International Practice

The authors' recommendations for microfinance regulatory reform are based on: 1) several years work with the MMFA; 2) intensive engagement with the FRD in conducting the first on-site examinations of some Myanmar MFIs; 3) two decades of experience working with MFIs in emerging markets; and 4) the results from this benchmarking survey. The authors believe that with the support that ADB and other development partners (e.g., the United Nations and the multi-donor Livelihoods and Food Security Trust [LIFT] Fund) are providing to the FRD, the department has the capacity to undertake the near-term recommendations listed below. Through continuing to develop its capacity and systems, the FRD should also be able to implement the medium- and long-term recommendations listed below. For more details on the rationale for all of these recommendations, see Section V of this report.

Near Term (within 9 months):

To immediately improve the microfinance environment in Myanmar without exposing consumers to undue risk, the recommendations from this study are:

- Maintain the current solvency (i.e., capital adequacy) ratio of 15% of capital-to-total assets.

- Remove the minimum interest rate of 15% required on all deposits.

- Develop a different licensing regime for deposit-taking and non-deposit-taking MFIs, including a higher minimum capital base (e.g., Myanmar kyat [MMK] 600 million [$500,000]) for deposit-taking MFIs, and continuing to require the current solvency and liquidity requirements for deposit-takers. Increase the minimum capital required for non-deposit taking MFIs (e.g., to MMK250 million [$200,000]).

- Allow specially licensed deposit-taking MFIs to take deposits from customers as originally envisioned in the regulations—thereby allowing women, who are by far the largest percentage of MFI clients, to save.

- Move from prudential to market conduct supervision for non-deposit taking MFIs. Non-deposit taking MFIs do not require prudential oversight.

- When MFIs offer services in remote areas, to compensate for their likely higher costs, allow them to increase their maximum loan interest rates up to 3.5% per month for their first 2 years of operation.

Medium Term (within 18 months):

Over the medium-term, as the FRD and MFIs continue to implement better supervisory and risk management systems, the recommendations from this study are:

- To limit the risk of any one loan going bad, remove the debt-to-equity ratio and fixed loan size cap, and replace them with a single exposure cap of 5% of total equity.

- Replace the directives related to providing service in rural areas, achieving social performance indicators, and barring loans for luxury items. Instead, use a system of industry-based monitoring, measuring, and reporting on the social impact of microfinance.

- Require all MFIs to implement an internal code of conduct similar to what has been adopted by the Myanmar Microfinance Association as part of its membership requirements.

- Allow MFIs to enter into foreign exchange hedging[1] contracts related to the liabilities they hold in foreign currencies. All hedges would require pre-approval from the FRD and could not be used for speculative purposes.

- Modify the Microfinance Business Law of 2011 to allow MFIs to take collateral against loans—particularly for loans to individuals and enterprises.

- Subject to the leverage limit, allow MFIs to take loans from any bank, whether foreign or locally owned, and allow MFIs to pledge part of their loan portfolio as security for their bank loan.

Long Term (within 36 months):

Over the next 36 months, the recommendations from this study are to:

- Work with the Central Bank of Myanmar and Ministry of Cooperatives to implement a common "total cost of credit" methodology that all MFIs, banks, cooperatives, and other lenders must use in disclosing the interest rate to all borrowers, and in providing them with a statement of key facts about their loans.

- Remove the interest rate cap on loans made by MFIs.

[1] A hedging contract is an agreement to purchase a fixed amount of a commodity or currency in the future at a fixed price in order to reduce the risk of adverse movement in the price of the commodity or currency.

What this report covers

The remainder of this report is organized into three major sections covering: 1) the objectives and methodology used in conducting the survey summarized in this report, 2) findings from this study's review and analysis of the legal and regulatory environment for MFIs in Cambodia, Indonesia, and the Philippines, and how these compare with the legal and regulatory environment in Myanmar, and 3) recommendations for the reform of MFI regulations in Myanmar, while keeping consumer protection as a key objective.

II. Purpose of the Survey and the Methodology Used

Purpose

This report summarizes a study undertaken in Myanmar between February and April 2016 to provide the Financial Regulatory Department (FRD) of the Ministry of Finance (MOF) and the microfinance (MF) industry with insights for improving the country's regulatory framework for microfinance institutions (MFIs). The goal of this study was to benchmark Myanmar's MFI regulations against three exemplary Association of Southeast Asian Nations (ASEAN) countries—Cambodia, Indonesia, and the Philippines. This paper is intended for use in dialogue between the FRD and the MFI industry, and the authors hope it will contribute to greater financial inclusion, while at the same time adequately protecting consumers.

This study provides policymakers with examples of best practice in expanding MFI outreach, commercialization, and improving MFI products/services. However, the intention is *not* to mindlessly "cut and paste" the regulatory frameworks of other ASEAN countries. This would be a mistake as the three countries examined in this study are at different levels of economic, as well as MFI development, and their supervisory capacity is also more developed than is the case in Myanmar. Instead, the authors' intention was to use the regulations from the three ASEAN peers for guidance in helping to bring about a prudent and gradual transition in Myanmar's MFI regulations. As is already the case in Cambodia, Indonesia, and the Philippines, Myanmar's MFIs have considerable potential to provide financing for micro, small, and medium-sized enterprises that in countries around the world are significant engines for job creation and economic growth.

Methodology

Based on their previous work with the FRD, the authors have condensed the current laws and regulations in Myanmar into a succinct table with 33 key categories of MFI compliance. Using this table, the principal laws, regulations, and decrees affecting MFIs in Cambodia, Indonesia, and the Philippines have been analyzed and compared with the legal framework in Myanmar. To ensure the accuracy of this analysis, it has been verified with technical experts and MFI executives in each of the four countries.

III. Benchmarking of MFI Laws and Regulations in Myanmar, with those of Cambodia, Indonesia, and the Philippines

A. Overview of MFIs and financial inclusion in Myanmar

Table 2: The MFI Sector in Myanmar, 2016

Number of MFIs	168
Number of borrowers	1.45 million
Total loan portfolio	$200 million
Average loan size	$677
Total deposits	$37 million
Number of depositors	0.738 million
Average deposit size	$50

Source: Mix Market and the Financial Regulatory Department, Ministry of Finance, Myanmar, 2016

A total of 168 MFIs have been issued licenses in Myanmar to provide microfinance services, and they serve approximately 1.45 million clients, over 85% of whom are women. To date (mid 2016), only one type of MFI license had been issued in Myanmar, and this allows MFIs to take savings, provide credit, accept remittances, and sell insurance. However, the only services currently permitted are loans and savings, and savings must be limited to no more than 5% of the amount borrowed.

The microfinance sector in Myanmar is still dominated by the oldest and largest MFI, PACT Global, which serves approximately 50% of all MFI clients and also has approximately 50% of all MFI assets. Despite PACT Global's domination of the market, other MFIs are growing rapidly, and so far, in a healthy manner. For example, the MFI rate for non-performing loans (NPLs) continues to be extraordinarily low. This appears to be because most loans are made to groups rather than individuals, and consequently, there is strong social pressure to repay. Cultural factors, such as people not wanting to be in debt in the future, or burden their families with debt when they die, also likely play a role. So may the knowledge that if a loan is not repaid, the only alternative for future borrowing will be much higher-priced moneylenders who charge up to 20% per month—far more than the MFI average rate charged by MFIs, 2.5% per month.

The MFI sector in Myanmar varies significantly: some MFI licensees are not using their licenses; some of the newer start-ups have limited operational capacity; and several of the foreign-owned MFIs have significantly more resources and operating experience than domestic providers.

Despite these factors, MFI lending remains relatively constrained as financial institutions have been prevented from using voluntary deposits as a source for financing loans. Foreign-owned MFIs can only borrow from foreign lenders, and these prefer to lend in US dollars.[2] Local MFIs can only borrow from local banks, which lend in kyat. These banks demand physical collateral (namely, land) to secure a loan, and few MFIs have any land to pledge for a loan. As a result, the MFI sector in Myanmar is growing slowly, and demand remains largely unmet.

A final deterrent to MFI growth in Myanmar was the FRD's sudden, swift action in 2015 to significantly curb deposit taking by MFIs, and this is likely to have an impact on MFI effectiveness in helping to reduce poverty. Academic studies using rigorous "double blind" methodologies[3] have found that the greatest impact of microfinance is helping the poor to safeguard their savings. For this to succeed in Myanmar, MFIs should be allowed to take savings.

The Myanmar Microfinance Association (MMFA) is in the process of formalizing its operations with assistance from ADB and other development partners. It has an executive committee, and held its first annual meeting in March 2016, but as of July 2016, it did not have full time staff. Despite not being fully licensed yet, approximately 175 MFIs have indicated their willingness to join the MMFA, and to report financial and outreach data to the organization.

B. Overview of MFIs and financial inclusion in the Philippines

Table 3: The MFI Sector in the Philippines, 2016

Number of MFIs	120
Number of borrowers	5.1 million
Total loan portfolio	$1.4 billion
Average loan size	$274

[2] As the kyat depreciated 18% between April 2015 and April 2016, many foreign MFIs have had to absorb these losses, and thus are hesitant to take on more foreign exchange risk.

[3] *What we Know so far: 15 Randomized Control Trials on Microsavings.* Financial Access Initiative. March 2015. http://www.financialaccess.org/publications-index/2015/graphicsavings; *Latest Findings from Randomized Evaluations of Microfinance.* Jonathan Bauchet, Cristobal Marshall, Laura Starita, Jeanette Thomas, and Anna Yalouris. December 2011. https://www.cgap.org/publications/latest-findings-randomized-evaluations-microfinance

Total deposits	$923 million
Number of depositors	7.2 million
Average deposit size	$128

Source: Mix Market 2016

According to a worldwide survey on financial inclusion, which the Intelligence Unit of *The Economist* magazine conducts every year, in 2014, out of 54 countries, the Philippines ranked first in Asia, and among the top three in the world for supporting financial inclusion. The financial sector in Philippines comprises a variety of regulated and non-regulated providers, including banks, credit cooperatives, microfinance NGOs, pawnshops, and e-money agents who enable those with mobile phones to save, pay, and transfer money using their phone. However, in the Philippines, only banks and credit cooperatives are allowed to accept deposits. As of December 2014, there were 51 universal and commercial banks, 69 thrift banks, and 543 rural banks licensed with the Bangko Sentral ng Pilipinas (BSP)—the central bank of the Philippines.[4] The Magna Carta for Micro, Small, and Medium Enterprises, a law passed by the Philippine Congress in 1991 and amended in 1997 and 2008, mandated most recently that from June 2008 to June 2018, at least 8% of a bank's loans must be to micro and small enterprises, and at least 2% of the portfolio must be to medium enterprises. However, between 2008 and 2014, only the rural banks consistently complied with the 8% requirement.

According to the Mix Market in 2016, the microfinance loan portfolio in the Philippines was $1.4 billion and MFI deposits totaled $923 million. Despite these figures, many rural areas are still underserved or not served at all. The country is an archipelago of more than 7,000 islands and this geography imposes physical barriers to accessing financial services through traditional banking channels. Fortunately, e-money accounts and transactions have grown significantly in the past few years, and throughout the country, 10,620 active e-money agents perform cash-in/cash-out transactions for 26.7 million accounts.

The National Strategy for Financial Inclusion was signed on July 1, 2015. The central bank, BSP, promotes an enabling environment for financial inclusion through regulations and circulars that encourage new financial-service providers and products that serve poor people, while also ensuring that consumers are well protected. The wide variety of financial services providers such as pawnshops, remittance agents, money changers/foreign exchange dealers, e-money agents, mobile banking agents, and credit cooperatives, helps to significantly increase access to financial products and services for the unbanked.

The presence of these many financial services providers across the Philippines has created more than 50,000 access points, in addition to banks. This has reduced the percentage of

[4] These different types of banks have specific licensing requirements and powers as defined in the General Banking Act of 2000, Rural Act of 1992, and Thrift Banking Act of 1995.

unserved municipalities to 36%. Between 2004 and 2014, the number of ATMs increased significantly to 15,562.

The Credit Information Corporation, established under the Credit Information System Act in 2008, enables financial institutions to check whether would-be borrowers have outstanding loans and other unpaid accounts.

A 2015 National Baseline Survey on Financial Inclusion conducted by the Bangko Sentral ng Philippines (the central bank), showed that 47% of Filipino adults were borrowing. Most loans come from informal sources such as family and friends (62%) and 10% from informal lenders. Only a few people obtained credit from formal institutions such as lending/financing companies (12%), cooperatives (10.5%), microfinance NGOs (9.9%), and banks (4.4%). Four out of 10 Filipino adults put money aside to save, and 68% of them keep their savings at home. Of those who saved in an institution, 33% saved in banks, 7.5% saved in cooperatives, and 2.6% used group savings (*paluwagan*). The survey also showed that 38% of Filipino adults were receiving remittances from a family member abroad, and of these, around 40% of households allocated a portion of remittances to savings.

While the country's insurance penetration increased from 1% in 2009 to 1.8% in 2013, the volume of premiums as a percentage of the country's GDP is still relatively low in absolute and relative terms compared to peer jurisdictions such as Malaysia and Brazil, which have insurance penetration rates of 5% and 3%, respectively.

The Microfinance Council of the Philippines (MCP) was launched in 1999 by a group of MFIs that were part of a USAID-funded project. They registered the association with the Securities and Exchange Commission as a non-stock corporation. In 2004, the MCP merged with the Philippine Network for Helping the Hardcore Poor, and since then, membership has grown to 57 institutions that account for at least 75% of total active MFIs in the Philippines. The network's secretariat has 10 staff, conducts training, undertakes research, disseminates information, and advocates with government on behalf of the sector.

C. Overview of MFIs and financial inclusion in Indonesia

Table 4: The MFI Sector in Indonesia, 2016

Number of MFIs	76
Number of borrowers	1.3 million
Total loan portfolio	$11.3 billion
Average loan size	$8,692

Total deposits	$13.1 billion
Number of depositors	1.1 million
Average deposit size	$11,909

Source: Mix Market 2016

Microfinance started in Indonesia in the 19th century, and is now renowned for its large scale. MFI services are provided by 118 commercial banks, 1,643 people's credit banks (BPRs), and 188,181 non-bank finance institutions (NBFIs) such as cooperatives, NGOs, and village-owned credit organizations (BKDs and LPDs). Commercial banks and BPRs tend to serve the upper levels of the microfinance market in district and sub-district towns. NGOs, co-operatives, and village-based institutions (BKDs) reach the lower end of the market, including remote rural areas. In terms of access, as of December 2014, it was estimated that for every 100,000 adults, there were 22 bank branches and 50 ATMs.

Micro-insurance is still at an early stage of development in Indonesia. There are 52 life-insurance companies, and 82 property and casualty insurance companies.

In 2014, a World Bank Findex survey found that 36% of all adults (age 15 and older) had accounts in formal financial institutions, including MFIs. This is a significant increase from 2012 when the figure was 20%. However, many of the 56.5 million micro, small, and medium-sized enterprises (MSMEs), which contributed to more than half of Indonesia's GDP in 2014, still lacked adequate access to the bank financing necessary to upgrade and/or expand their business.

As many people continue to lack adequate access to bank financing, Bank Indonesia (the central bank) issued a rule requiring that by 2018, banks make at least 20% of their loans to microenterprises. In addition, Law Act No.1 of 2013 on Microfinance Institutions provides the legal requirements for MFI operations. This law gives full authority to Otoritas Jasa Keuangan (OJK), which is the financial services regulator for both banks and NBFIs, to regulate, license, and supervise MFIs. By 2016, any institution intending to operate an MFI must obtain a business license from OJK.

In 2015, the OJK enacted the Microfinance Law and branchless banking regulations. Three distribution models for digital financial services are allowed, including those of banks, telecommunications companies, and hybrid models with technology companies. Some banks have deployed networked agents who, in communities with no branch of the bank, enable clients to make deposits and withdrawals. Telecom companies offer what in Indonesia are called "e-wallets"; these enable mobile phone owners to save money and make payments by buying vouchers to use in putting money in an electronic wallet on their phone. Currently, there are about 165 million mobile subscribers in Indonesia, and telecom operators sell phone vouchers in more than 300,000 locations. These bank and telecom networks enable the poorest people to safely save and spend money.

Bank Rakyat Indonesia (BRI), which opened in 1896, is a major microfinance provider, and one of the largest and oldest banks in the country. It specializes in offering micro and small loans and taking the savings of approximately 30 million clients. BRI, which is 70% government owned, offers services via over 4,000 branches, smaller units, and rural service outlets.

The Indonesia Microfinance Association, an independent national network of MFIs, was established in 2008. Its members include approximately 200 MFIs such as people's credit banks (BPRs), BPR-s (BPRs that practice Sharia finance), cooperatives, foundations, commercial banks, and others. The association has no full-time staff, and consequently its operations are limited.

D. Overview of MFIs and financial inclusion in Cambodia

Table 5: The MFI Sector in Cambodia, 2016

Number of MFIs	41
Number of borrowers	1.8 million
Total loan portfolio	$2.4 billion
Average loan size	$1,333
Total deposits	$880 million
Number of depositors	NA
Average deposit size	NA

Source: National Bank of Cambodia, 2016

Financial inclusion in Cambodia lags slightly behind other low-income countries. According to the World Bank's Findex data in 2014, 22.2% of adults in Cambodia have an account at a financial institution, compared to 27.5% in other low-income countries.

Microfinance in Cambodia began in the early 1990s when a small group of non-profit institutions started providing loans to the poor. MFIs began to formalize in 1999 when they were brought under the coverage of the Banks and Financial Institutions Act, which is administered by the National Bank of Cambodia (NBC). Shortly after that, regulations (called *prakas*) were issued specifically for MFIs.

As of February 2016, there were 34 licensed credit-only MFIs in Cambodia and seven MFIs licensed to take deposits. These MFIs employ nearly 20,000 people who serve approximately 1.8 million borrowers.[5] At year-end in 2014, the assets of all of Cambodia's licensed MFIs totaled $2.4 billion and the seven deposit-taking MFIs had 85% of all of the sector's assets. On average, almost 90% of each of the seven deposit-taking MFIs are foreign owned, whereas on average, the credit-only MFIs are 55% foreign owned.

Most MFI loans are for agriculture (38%), household consumption (22%), trading/services (21%), and services (10%). Despite the volume of loans growing at approximately 50% per year in 2013 and 2014, at the end of 2014, MFIs' non-performing loans were only 0.6% of all loans.

At the end of 2014, Cambodia's seven deposit-taking MFIs had a total of $880 million in deposits and these comprised 38% of their liabilities. Thus, Cambodia's MFIs still rely to a greater extent on external borrowing to fund their loan portfolios than they do on deposits (42% of their total liabilities). In contrast, commercial banks fund their loans almost entirely from deposits.

In 2014, the MFI sector had a return on assets of 3.6% and a return on equity of 19%, which are considered to be very healthy returns, relatively speaking, though not extraordinarily high. In addition, 85% of all MFIs generated a profit in 2014.

Eleven NBC regulations have been issued specifically to cover MFI operations. However, more than 30 other regulations apply to all types of financial institutions, including MFIs. For this study, the focus was on the key regulations that cover similar subjects to those addressed in Myanmar.

In 2007, the NBC revamped its approach towards MFI supervision by separating deposit-taking MFIs from those that do not take deposits. As part of this regulatory change, minimum capital requirements for deposit-taking MFIs were increased significantly. As a result, the majority of MFIs chose to become non-deposit taking MFIs as these are subject to much lighter, "market conduct" supervision, and thus fewer MFIs now require prudential supervision and regulation. This change has significantly reduced the workload of prudential supervisors.

Cambodia has no specific regulations that require financial institutions to have internal mechanisms to deal with consumer complaints, nor do regulations prevent aggressive sales or

[5] These data were drawn from the Annual Report of the Supervision Department of the National Bank of Cambodia. This report is based on the significant amount of information that is published at the institutional level, and which the NBC aggregates for the whole industry and publishes.

unreasonable collection practices. An institution may describe acceptable practices in its internal code of ethics, but compliance varies, depending on each institution's capacity to enforce its own rules. However, despite this, more Cambodian MFIs have been certified as meeting the global standards of the Smart Campaign's[6] consumer protection practices for MFIs than is the case with any other country in the world.

The Cambodia Microfinance Association (CMA), a sub-division of the Association of Banks, was started in 2002 by seven MFIs, and today it has 45 members, including 39 of the 41 registered MFIs, plus six rural credit operators. The CMA has 10 staff, and it provides training, advocacy, research, and communication activities for MFIs. Over a number of years, the association has received considerable donor support.

IV. MFI Regulatory Comparison Table

The MFI Regulatory Comparison Table below provides a detailed comparison of the microfinance requirements in Myanmar with those of MFIs in the Philippines, Indonesia, and Cambodia. The authors have categorized the current legislative and regulatory framework in Myanmar based on the CAMEL supervisory methodology,[7] along with 33 key points for MFI compliance. This information is based on a review of MFI laws and regulations in Myanmar and the three comparator countries. Sources for most of the laws/regulations cited in the table have been provided so that readers can request these from the countries concerned. The authors hope that this comparison of Myanmar against three countries with among the best environments for microfinance in the world, will provide useful guidance for Myanmar's Financial Regulatory Department as it seeks to improve the regulatory environment for MFIs.

[6] The Smart Campaign is an industry-driven initiative to instill and improve financial institutions' consumer protection practices.

[7] The CAMEL system is an internationally practiced methodology for conducting prudential supervision of the key operations of deposit-taking institutions. The system's areas of focus match the acronym, CAMEL: Capital, Assets, Management, Earnings, and Liquidity.

Legislative/Regulatory Requirement	**Myanmar**	**Cambodia**	**Indonesia**	**Philippines**
Supervisor				
Entity responsible for supervision of deposit-taking and non-deposit-taking MFIs	The Financial Regulatory Department in the Ministry of Finance is responsible for all non-bank supervision, with the exception of some financial cooperatives that are supervised by the Ministry of Cooperatives.	The National Bank of Cambodia (NBC) supervises all banks, MFIs, and financial cooperatives.	The Financial Services Authority (OJK) is the bank and non-bank supervisor for prudential and market conduct supervision.	In the Philippines, microfinance services are provided mainly by rural and thrift banks, non-government organizations (NGOs), and cooperatives. – Bangko Sentral ng Pilipinas (BSP), the central bank, supervises all banks, including those with microfinance operations. (BSP oversees both bank and non-bank operations) – Microfinance NGOs are registered with the Securities and Exchange Commission. The Microfinance Council of the Philippines accredits MFIs and is a repository of information for microfinance NGOs. – The Cooperative Development Authority supervises all cooperatives, including those providing loans
Capital	**Myanmar**	**Cambodia**	**Indonesia**	**Philippines**
Minimum paid up capital	$12,000 for non-deposit-taking MFIs and $24,000 for deposit-taking MFIs. *Source: FRD Directive 2011/1 Section 2(a)*	$2.5 million for deposit-taking MFIs. *Source: Prakas B7-07-163, Dec 2007.* $60,000 for non-deposit-taking MFIs. *Source: Prakas B7-00-06, Jan 2000* A percentage of an MFI's registered capital must be kept in	a. $3,700 for an MFI covering a village. b. $7,400 for an MFI covering a sub-district. c. $37,000 for an MFI covering a regency/city *Source: OJK Regulation 13/POJK.05/2014*	For microfinance NGOs: $3,100 *Source: BSP Rules and Regulations on Microfinance NGOs, 2013* For universal banks: $104 million; Commercial banks: $50 million; Thrift banks, with a head office in (a) Metro Manila: $6.8 million; (b) outside Metro Manila: $1 million; Rural banks with a head office in

		a reserve account at the NBC. For a deposit-taking MFI, the percentage of registered capital kept at NBC must be a minimum 10%, and for all other MFIs, the percentage must be a minimum of 5%. *Source: NBC Prakas B7-07-163 Dec 2007.*		(a) Metro Manila: $2 million; (b) Outside Metro Manila: from $104,000 to $1 million, depending on the geographic area. Cooperative banks: $209,000. *Source: BSP circular no. 696/2010* For microfinance providers with SME and microfinance portfolios that meet prudential standards, the risk weight reduces to 75%. *Source:* BSP Circular 364, 2003
Yearly license fee	0.1% of paid up capital *Source: FRD Directive 2011/1 Section 2(c)*	License fee for deposit-taking MFIs: - Head office: $17,500 - From 1st to 7th provincial branch: $10,000 per branch - From the 8th branch, or more: $5,000 per branch - District branch: $1,250 per branch - Service post: $125 *Source: NBC Prakas B7-013-122* To apply for a deposit institution license, an MFI needs to have been carrying out microfinance for at least 3 years. The microfinance license needs to be renewed every year. *Source: NBC Prakas B7-07-163 from Dec 2007.*	MFIs must have a business license from the Financial Services Authority (OJK). *Source: Law No. 1 of 2013 on Microfinance Institutions*	The license fee for the head office and each branch: 0.1% of the microfinance NGO's capital. The annual fee for the head office and each branch: 0.8% of the capital. *Source: BSP Rules and Regulations on Microfinance NGOs, 2013*
Capital adequacy (total equity/total assets)	Total equity/total assets >=15%	> = 15% of risk weighted assets.	MFIs must maintain a solvency ratio of at least 10%.	Savings and credit cooperatives must maintain 8% capital-to-risk-

	Source: FRD Directive 2014/1	*Prakas: NBC B7-07-133, Aug 2007*	*Source: OJK Regulation 13/POJK.05/2014*	weighted assets. *Source: Manual for Rules and Regulations for Cooperatives with Savings and Credit Services in the Philippines. 2007* 10% capital adequacy for rural banks and thrift banks. *Source: BSP Rules and Regulations on Microfinance NGOs, 2013*
Debt/equity ratio: the amount of borrowing relative to equity	5:1 or less. *Source: 2014/3 Section 2(b)*	NA	NA	NA
Asset Quality	**Myanmar**	**Cambodia**	**Indonesia**	**Philippines**
Loan loss provisions	For loans with repayment that is less than monthly: General Portfolio Provision = 2% of the portfolio <u>Days Past Due</u> <u>Provision Amount</u> 15 days = 10% 16-30 days = 50% 31-45 days = 75% 46+ days = 100% Monthly Repayment General Provision = 2% of the portfolio <u>Days Past Due</u> <u>Provision Amount</u>	General provision for the portfolio = not applicable (NA) 30 day loans = 10% 60 day loans <1 yr. = 30% 180 day loans =/>1 yr. = 30% Provision may be reduced, depending on the cash value of the collateral. *90 day loans <1 yr. = 100% *360 day loans >1 yr.= 100% *Provision may be reduced, depending on the cash and non-cash value of the collateral. Decisions are made through a	General provision for portfolio = NA Allowance for doubtful loans: 180 days = 50% Allowance for compromised loans: 365 days = 100% *Source: OJK Regulation 13/POJK.05/2014*	General provision = 1% of portfolio 1-30 days = 2% 31-60 days and/or loans restructured once = 20% 61-90 days = 50% 91+ days and/or loans restructured twice = 100% *Source: BSP circular no. 409/2003*

	30 days = 10% 31-60 days = 50% 61-90 days = 75% 91+ days = 100% *Source: FRD 2014/1 Section 2(c)*	case-by-case analysis, and must receive NBC approval. *Source: NBC Prakas B7-02-186, Sept 2002*		
Management	**Myanmar**	**Cambodia**	**Indonesia**	**Philippines**
Permitted services	While savings, credit, remittances, and insurance were envisioned in the original Microfinance Act, the only financial services currently permitted are savings and credit. *Source: FRD Directive 2011/2*	Savings and credit are permitted but not leasing, derivatives, dealing in gold, swaps or forward dealing in foreign exchange, insurance, or offering checking accounts. *Source: NBC Law on Banking and Financial Institutions 1999* To collect savings from the public, a special license from NBC is required. To obtain this license, an MFI must have had 3 years experience operating a management information system (MIS), 2 consecutive years of profitability, paid-up capital of $2.5 million, and a standard chart of accounts. *Source: NBC Law on Banking and Financial Institutions 1999*	Loans or financing to micro enterprises and community members, the management of deposits, as well as the provision of business development consulting services are all permitted. MFIs are prohibited from receiving demand deposits, participating in payment transactions, conducting business in foreign currencies, conducting business as an insurer, acting as guarantor, and lending to other MFIs unless this is to help the MFI overcome liquidity problems. *Source: Law No. 1 of 2013 on Microfinance Institutions*	Permitted services: agricultural microfinance; housing microfinance; micro-insurance in partnership with authorized micro-insurance companies; electronic payments; money transfers and other remittance services, in partnership with authorized agents. Microfinance NGOs cannot collect deposits other than the compulsory savings required from their loan clients in order to maintain the compensating balance for the client's loan. *Source: Microfinance NGOs Act or Republic Act No. 10693, 2015*
Authorization to expand	MFIs seeking to work in more than one region of the country must apply to the FRD for permission. *Source: FRD 2011/2*	NA	MFIs cannot conduct business outside of their licensed geographic area (village, district or regency/city). An MFI that wants to engage in business across different regions must transform into a bank. *Source: Law No. 1 of 2013 on*	Microfinance NGOs can establish a branch, extension office, or satellite office if they get approval first from the Securities and Exchange Commission. *Source: Rules and Regulations on Microfinance NGOs, 2013*

			Microfinance Institutions	Capital requirements for bank branches: $410,000 for universal banks & commercial banks; $102,000 for thrift banks & national cooperative banks; $51,000 for rural banks & local cooperative banks. The bank's risk-based capital adequacy ratio cannot be lower than 12%. Rural banks or local cooperative banks with unimpaired capital accounts of less than $205,000 are not allowed to establish branches. *Source: BSP circular no. 340/2002* At least 70% of the deposits generated by the branch need to be loaned to microfinance borrowers and the microfinance loans should be at least 50% of the branch's gross loan portfolio. *Source: BSP circular no. 624/2008*
Chart of accounts	MFIs must utilize a standard chart of accounts. *Source: FRD Directive 2013/1*	MFIs must use the NBC's chart of accounts. *Source: NBC Prakas B7-02-219, Dec 2002*	MFIs must maintain financial records and follow accounting practices that are in accord with financial accounting standards. *Source: Law No. 1 of 2013 on Microfinance Institutions*	Microfinance NGOs are required to maintain account books. *Source: Rules and Regulations on Microfinance NGOs, 2013*
Internal audit	The MFI must have an internal auditor with college education. *Source: FRD Directive 2014/1*	The MFI must employ a compliance officer who reports to an independent board member. However, internal auditing can be	NA A statutory audit by a qualified auditor is mandatory for companies involved in	Microfinance NGOs are required to prepare and disclose audited accounts at the end of every financial year.

	Section 2(d)	outsourced. 'Whistleblowing' provisions (reporting on illegal or unethical procedures) should also be in place. *Source: NBC Prakas B7-10-172, Sept 2010*	accumulating funds from the public (such as banks and insurance companies).	*Source: Microfinance NGOs Act or Republic Act No. 10693, 2015*
Maximum loan size	$4,000 *Source: FRD Directive2014/3*	No individual loan can represent more than 2% of the MFI's net worth, or more than 3% of the net worth of a group of related clients. *Source: NBC Prakas B7-07-163, Dec 2007*	A group loan cannot exceed 10% of an MFI's capital, and an individual loan cannot exceed 5% of an MFI's capital. *Source: OJK Regulation 13/POJK.05/2014*	$3,000 *Source: BSP circular no. 272/2001* Exceptions: a. $6,100 for house construction or lot acquisition, and b. "microfinance plus" loans ranging from $3,000 to $6,100 for borrowers who have repaid at least 2 loans under $3,000, and have a growing business *Source: BSP circular no. 744 /2011*
Loan restrictions	At least 50% clients must be from a rural area; no loans are allowed for luxury goods; and a loan cannot be provided to more than one member of the household. *Source: FRD Directive 2014/3 Section 2(a)*	NA	NA	Microfinance NGOs are required to loan at least 70% of their funds to their intended beneficiaries. *Source: BSP Rules and Regulations on Microfinance NGOs, 2013* At least 50% of the bank's gross loan portfolio should consist of microfinance loans. *Source: BSP circular no. 273/2001*
Acceptable collateral (credit risk management)	MFIs cannot secure loans with collateral. *Source: Microfinance Business Law 2011 Chapters 1 and 9.*	There are no limitations on the collateral that MFIs take for loans.	Loan-to-value (LTV) and financing-to-value (FTV) ratios for property credit and property-backed consumer loans. The LTV and FTV ratios	BSP regulations focus on cash flow and ability to pay, with collateral playing a supporting role in credit decisions. Start-up, micro, and small enterprises and borrowers

			are determined by the type, size of property, and the number of credits, and vary from 50-90%. *Source: OJK Circular No. 15/40/DKMP, 2013*	with loans under $63,800 are exempt from submitting income tax returns or audited financial statements during the first 3 years of their operations or banking relationship. For a mortgage with real estate as collateral, the maximum loan is capped at 60% of the estimated value of the property. The minimum requirement for borrower equity is determined by the bank's internal policy. Current industry practice is a minimum equity requirement of around 20%. *Source: BSP circular no. 855/2014*
Restrictions on MFIs borrowing from foreign sources	Foreign MFIs can only borrow from foreign lenders and no single loan can exceed $3 million. Foreign MFIs need Central Bank of Myanmar approval for all loans. Local MFIs can only borrow from the Myanmar Economic Bank or Myanmar Microfinance Bank *Source: FRD Directive 2014/3 Section 2(b)*	NA	Foreign nationals cannot own an MFI. *Source: Law No. 1 of 2013 on Microfinance Institutions*	Microfinance NGOs can borrow funds for the purpose of relending to microfinance borrowers. Microfinance NGOs will not be considered to be engaged in quasi-banking activities if the funds they borrow are used exclusively for microfinance loans. *Source: Microfinance NGOs Act or Republic Act No. 10693, 2015* Microfinance NGOs cannot accept investments, other than loans, from more than 19 persons. *Source: BSP Rules and Regulations on Microfinance NGOs, 2013* Non-bank MFIs that receive loans from universal banks and

				commercial banks, including local branches of foreign banks, are required to allocate a percentage of their loans to small enterprises. *Source: BSP circular no. 570/2007*
Mobile phone payments	Mobile phone payments are allowed. *Source: FRD Directive 2014/3 Section 2(c)*	NA		Non-bank financial institutions, supervised by the BSP (the central bank), can sell vouchers which mobile phone users can buy to put cash on their phone for making payments. *Source: BSP circular no. 649/2009*
Equity financing	Lenders can take equity in MFIs *Source: FRD Directive 2014/3 Section 2(d)*	NA	If an MFI has difficulty with liquidity and solvency, the Financial Services Authority may allow the MFI to raise additional capital by selling equity to its lenders. *Source: Law No. 1 of 2013 on Microfinance Institutions*	Equity financing is allowed. *Source: BSP Rules and Regulations on Microfinance NGOs, 2013*
Customer redress mechanism	MFIs must have a dispute resolution unit. If problems cannot be resolved with the MFI, they can be referred to the Microfinance Working Committee or Microfinance Supervisory Committee, which operate at the state/region level, and are comprised of representatives from the FRD and the Ministry of Finance. *Source: FRD Directive 2015/1 Section 1*	NA	The Financial Services Authority has set up a mechanism for settlements of complaints against MFIs. *Source: Law No. 1 of 2013 on Microfinance Institutions*	Alternative dispute resolution mechanisms are available to resolve claims and disputes between clients and the entities serving them. *Source: Philippine Regulatory Framework for Microinsurance and Insurance Memorandum Circular 2010-1*

Anti-money laundering Anti-money laundering related to donations Anti-money laundering	MFIs may not accept donations from terrorist groups or money launderers. MFIs must apply to FRD two months in advance to accept donations and have documentation to prove the legitimacy of the money. *Source: FRD Directive 2015/1 Section 2* MFIs must comply with all laws on money laundering. *Source: FRD Directive 2015/4*	MFIs are required to have a know-your-customer (KYC) due diligence program similar to banks. Transactions of $10,000 or more, or wire transfers of more than $1,000, require additional scrutiny. To open an account, the customer must meet the minimum identification (ID) requirements. *Source: NBC Prakas B7-08-089, March 2008*		Anti-money laundering (AML) regulations apply to all the institutions that are supervised and regulated by the BSP. *Source: BSP circular no. 706, 2011*
Social performance requirements	MFIs must collect baseline data from all customers to be able to evaluate the effectiveness and impact of the MFI's social development activities. *Source: FRD Directive 2015/3*	NA	NA	The Microfinance Council of the Philippines is required to establish a set of parameters for assessing the social performance of microfinance NGOs such as their social objectives; governance and accountability mechanisms; transparency; product design; services; delivery channels; and ethical treatment of clients. *Source: Microfinance NGOs Act or Republic Act No. 10693, 2015*
Consumer protection disclosures	MFIs must disclose to borrowers how much they must repay in each loan installment, how many payments they must make, the terms of their loan, and any penalties related to the loan. *Source: FRD Directive2014/2*	Customers must be given clear information before, during, and after receiving credit, including the terms, conditions, rates, and charges that apply to their loan. Customers must be informed in advance about any change in interest rates, terms, and	MFIs must provide information on the authority and responsibilities of their board of directors, the terms and conditions for deposits and loans, and potential third party risks. *Source: Law No. 1 of 2013 on*	MFIs must disclose: the total amount to be financed; the finance charges; the net charge for the loan; the cost of financing as a percentage the total amount to be repaid for the loan (expressed as a simple annual rate or an effective annual interest rate (EIR). The EIR

	Section 2	conditions. Customer data must remain private and confidential. *Source: NBC Prakas B7-011-243 Dec 2011*	*Microfinance Institutions*	may also be quoted as a monthly rate, in parallel with the quotation for the total contractual rate. Prior to consummation of the transaction, financial institutions are required to furnish each borrower with a copy of the disclosure statement. *Source: BSP circular no. 730/2011*
Consumer disclosure	The MFI must calculate interest rates as an effective interest rate that cannot exceed 2.5% per month. *Source: FRD Directive2014/2 Section 2*	Interest must be calculated based on the declining balance, and an amortization schedule must be included in the loan agreement. *Source: NBC Prakas B7-01-115, Aug 2001*	MFIs must publish their maximum interest rate or the maximum yield on the loan's financing. *Source: OJK Regulation 89/2014*	Banks may only charge interest based on the declining balance. If the principal of the loan is payable in installments, the interest per installment period must be calculated based on the outstanding balance of the loan at the beginning of each installment period. All loan-related documents shall show the repayment schedule. Marketing materials and presentations shall likewise be consistent with this provision. *Source: BSP circular no. 730/2011*
Earnings	**Myanmar**	**Cambodia**	**Indonesia**	**Philippines**
Interest rate ceiling cap Interest rate floor cap	No more than 2.5% per month interest on loans (or 30% annually). No less than 1.25% per month interest on savings (or 15% per year). *Source: FRD Directive 2011/1*	NA	MFIs must report to the OJK, the maximum interest rate or yield on the maximum loan financing. *Source: OJK Regulation 89/2014*	Loans are subject to reasonable and conscionable interest rates such as may be agreed on between the microfinance NGO and the debtor. *Source: BSP Rules and Regulations on Microfinance NGOs, 2013* The interest rate shall not be lower

	Section 2(b)			than the prevailing market rate in order to enable the lending institution to recover the financial and operational costs incurred for this type of microfinance lending. *Source: BSP circular no. 272/2001*
Liquidity	**Myanmar**	**Cambodia**	**Indonesia**	**Philippines**
Compulsory savings	Compulsory savings may not exceed 5% of the loan balance. *Source: FRD Directive 2015/2 Section 2(1)*	NA	The minimum amount for compulsory savings is $0.37 *Source: OJK Regulation 13/POJK.05/2014*	Microfinance NGOs may only collect compulsory savings from their clients for the purposes of maintaining a compensating balance in relation to the client's loan. *Source: Microfinance NGOs Act or Republic Act No. 10693, 2015*
Voluntary savings restrictions	For deposit taking MFIs, voluntary savings may not exceed 5% of the loan balance. *Source: FRD Directive 2015/2 Section 2(2)*	No individual can have savings worth more than 3% of the net worth of the institution. *Source: NBC Prakas B7-07-163, Dec 2007*	The management of an MFI's deposits must abide by Islamic principles—but this applies only to Shariah institutions, and not to all MFIs or banks. *Source: Law No. 1 of 2013 on Microfinance Institutions*	A microfinance NGO cannot undertake deposit-taking activities. *Source: Microfinance NGOs Act or Republic Act No. 10693, 2015* Credit cooperatives and microfinance banks may take deposits. *Manual for Rules and Regulations for Cooperatives with Savings and Credit Services in the Philippines. 2007*
Liquidity requirements	For deposit taking MFIs: liquidity requirements are 30% or greater, which is defined as: Liquidity = (cash in hand + cash in the bank)/voluntary savings.	5% of an MFI's voluntary savings must be held in a reserve account at the NBC. *Source: NBC Prakas B7-02-45, Feb 2002* For bank and deposit-taking MFIs,	MFIs must maintain a liquidity ratio of at least 3%. *Source: OJK Regulation 13/POJK.05/2014*	NA

	Source: FRD Directive 2014/1	the minimum liquidity coverage ratio required is based on the year: 2016: 60%; 2017: 70%, 2018: 80%; 2019: 90%; 2020: 100%. The liquidity coverage ratio is calculated as: Total liquid assets/total net expected cash outflow in the next 30 days. *Source: NBC Prakas B7-015-349*		
Other/Notes:	**Myanmar**	**Cambodia**	**Indonesia**	**Philippines**
Loan Diversification Policies Past due ratios	NA NA	Loan policies and procedures are required. *NBC Prakas B7-07-163, Dec 2007*	NA	For the SME and microfinance loan portfolio: a. It must be a highly diversified portfolio, i.e., it must have at least 500 borrowers that are distributed over a number of industries; and b. The past due ratios of the SME and microfinance loan portfolios for each of the immediately preceding 3 years must not exceed 5%. *Source: BSP circular no. 364/2003*
Rediscounting facility	NA		NA	A rediscounting facility for rural banks/cooperative banks engaged in microfinance is available. *Source: BSP circular no. 282/2001*
Reporting requirements	MFIs are required to provide a monthly income statement and balance sheet to the FRD.	Monthly reporting to the NBC: loan and deposit numbers and values, NPL ratio, capital ratio, liquidity ratio, list of related parties and large exposures, off balance sheet accounts, balance sheet, and income statement.	MFIs are obligated to submit a financial report to OJK every 4 months. *Source: OJK Regulation 13/POJK.05/2014*	All banks engaged in retail microfinance operations must submit a monthly report on their microfinance loans, and a quarterly income statement on their microfinance operations. *Source: BSP circular no. 607/2008*

		Quarterly reporting to the NBC: loan and deposit breakdowns, NPL ratio, capital ratio, liquidity ratio, branch and office locations, balance sheet, and income statement. Annual reporting to the NBC: an audited financial statement, annual report, staff and salaries, and an organizational chart. *Source: NBC Prakas B7-02-47, Feb 2002*		
Investment in real estate	NA	NA	NA	Real estate investments cannot exceed 25% of the microfinance NGO's worth. *Source: BSP Rules and Regulations on Microfinance NGOs, 2013*
Taxation of microfinance NGOs	MFI are exempt from income taxes.	MFIs pay taxes.	MFIs pay taxes. *Source: Law No. 1 of 2013 on Microfinance Institutions*	Microfinance NGOs must pay a 2% tax based on their gross receipts from microfinance operations in lieu of all national taxes. Non-microfinance activities are subject to all applicable regular taxes. *Source: Microfinance NGOs Act or Republic Act No. 10693, 2015*
Deposit insurance	NA	NA	To guarantee savings, the MFI community, local government and/or MFIs can form an MFI deposit insurance agency. *Source: Law No. 1 of 2013 on Microfinance Institutions*	NA
Credit Reporting	NA	MFIs are required to report to the		

		credit reporting service on a monthly basis, both positive and negative data on their borrowers. *Source: NBC Prakas B7-11-145, May 2011*		
MFI Association	An association is being formed The association is advocating for MFIs and collecting data. One informal working group represents 5% of MFIs. There is no association of cooperatives.	In total, 95% of registered MFIs, plus 6 rural credit operators are members of the association. The association has 10 staff and conducts training, undertakes research, disseminates information, and advocates for the sector. There is one association of credit cooperatives.	There is an MFI association, plus 2 associations for credit cooperatives. The MFI association has 10 staff that conduct training, undertake research, disseminate information, and advocate for the sector.	An MFI association serves 11% of MFIs, cooperatives, and sharia microfinance banks. The association does not have full time staff and coordinates with various development partners to implement projects.

V. Recommendations for Regulatory Reforms in Myanmar

The authors developed the following recommendations for microfinance regulatory reform based on: 1) working with the MMFA since 2015, 2) working intensively with the FRD to conduct the first on-site examinations of some MFIs in Myanmar, 3) two decades of experience with MFIs in emerging markets, and 4) the results from this benchmarking survey. The authors believe that the FRD and MFIs have the capacity to carry out the near-term recommendations below with the support they are receiving from ADB and other development partners (e.g., LIFT and World Bank). Implementation of the medium and long-term recommendations will entail continued capacity and systems development within the FRD and MFI sector.

Near Term (within 9 months):

To immediately improve the microfinance environment in Myanmar without exposing consumers to undue risk, the following changes are recommended:

- **Maintain the solvency (i.e., capital adequacy) ratio of 15% for deposit-taking MFIs.** *Rationale: Ensuring strong solvency in deposit-taking MFIs is paramount for protecting depositors.*

- **Remove the interest rate minimum of 15% on all deposits.** *Rationale: Requiring above-market rates may attract deposits that are very rate sensitive and could flow out quickly if better rates are offered elsewhere. This 15% minimum interest rate discourages MFIs from mobilizing savings, and also dictates an MFI's interest margin and operating structure.*

- **Develop a differentiated licensing regime for depository and non-depository MFIs, including a higher minimum capital base (e.g., MMK600,000,000 [$500,000]) and keeping the same solvency and liquidity requirement for deposit takers. Increase the minimum capital required for non-deposit taking MFIs (e.g., MMK250,000,000 [$200,000]) but lower the solvency (i.e., capital adequacy) requirement.** *Rationale: This is perhaps the most important recommendation as it would establish two types of MFIs: a) deposit takers that are subject to market supervision, and b) non-deposit takers that are subject to market conduct supervision as they present less risk to their consumers and the financial system. Higher minimum capital requirements will also encourage some of the dormant, but licensed, MFIs to either utilize or give up their license, while still allowing new market entrants.*

- **As originally envisioned in the regulations, allow specially licensed MFIs to take deposits from customers, and thereby allow women, who are the vast majority of MFI clients, to save.** *Rationale: In country after country, it has been shown that taking savings is the single most important financial service as it helps individuals accumulate assets and move into the middle class. In addition, by monetizing the physical assets that people currently use as a form of savings, financial institutions have a basis for greater intermediation of funds, which deepens the credit market and benefits consumers and micro and small enterprises.*

- **Move from prudential to market conduct supervision for non-deposit-taking MFIs, and implement a much lower solvency requirement (i.e., 4% or 5%) for them.** *Rationale: Credit-only MFIs present limited risk to the financial system as depositors' funds are not at risk. The principal requirement in this case is ensuring that consumers' rights are protected. As such, solvency and liquidity requirements can be minimal and supervisory attention can instead be focused on monitoring and enforcing over-indebtedness standards, transparency, ethical behavior, product design, consumer redress systems, data privacy, and responsible pricing.*

- **To compensate for their potentially higher costs, allow MFIs that are expanding into remote areas to increase their maximum loan interest rates up to 3.5% for their first 2 years of operation in the remote area.** *Rationale: To encourage MFIs to offer services in remote, rural areas, provide incentives and opportunities to offset the higher costs of operating in remote, rural areas. This regulation should also define "remote, rural areas".*

Medium Term (within 18 months):

In the medium term, as the FRD and MFIs continue to implement better supervisory and risk management systems, the following changes are recommended:

- **Remove the debt-to-equity ratio and fixed loan size cap, and replace them with a single, large exposure cap of 5% of total equity.** *Rationale: For both credit-only and deposit-taking MFIs, concentration in the loan portfolio can present risks. Removing the loan cap will allow MFIs to grow. Also this loan concentration limit is the international standard for helping to diversify credit risk.*

- **Replace the directives related to the percentage of service that must be provided in rural areas, the barring loans for luxury items, and requiring social performance indicators. Instead, use a system of industry-based monitoring, measuring, and reporting on the social impact of microfinance.** *Rationale: The existing standards seek to ensure that MFIs are serving low- and moderate-income consumers, but the lack of definition makes it challenging for MFIs to meet the standards, and for the FRD to enforce them. A system of industry-based* *monitoring, and rigorous periodic assessment (i.e., every other year) will likely be more effective in helping the FRD, and the government as a whole, to understand who is being served by MFIs and how well they are being served.*

- **Require all MFIs to implement an internal code of conduct.** *Rationale: Requiring all MFIs to have an internal code of conduct would enable supervisors to hold MFIs accountable for meeting their own standards. Each MFI's code of conduct[8] could be developed in accordance with standards provided by the supervisor.*

- **Allow MFIs to enter into foreign exchange hedging contracts related to the liabilities they hold in foreign currencies. All hedges would require pre-approval from the FRD, could not be used for speculative purposes, and MFIs must also have risk management policies in place.** *Rationale: Today, one of the largest expenses and risks for MFIs that borrow externally is the risk that the currency they have borrowed will rise in value compared to the kyat, and they will have to repay more for their loan. Although mechanisms to manage foreign exchange risk in kyat are very limited today, the foreign exchange market will likely expand as foreign direct investment expands, and hedging contracts would likely become more available which could reduce the risks for MFIs borrowing in foreign currencies. On a case-by-case basis, the FRD should allow MFIs to purchase simple forward currency contracts, which match their external loan exposures so that they know, plan for, and price, their foreign exchange exposure.*

- **Modify the Microfinance Business Law of 2011 to allow MFIs to take collateral against loans, particularly for individual and enterprise loans.** *Rationale: The microfinance sector today is one-dimensional, with nearly all loans made to groups, rather than to individuals, because "social collateral" (social pressure) ensures that all members repay their share of the loan. Relying on an individual borrower's concern about a bad reputation for failing to repay is weak "collateral" as there is no credit reporting bureau, and taking physical (i.e., movable or immovable) collateral is not allowed. Allowing individuals to pledge physical collateral would enable farmers and micro/small businesses to leverage their assets so that they can borrow to expand their business.*

- **Subject to the leverage limit, allow MFIs to take loans from any bank, regardless of whether it is foreign or locally owned, and allow banks to secure their loans to MFIs with a pledge of the MFI's loan portfolio.** *Rationale: As the same borrowing restrictions apply to local banks, implementing this recommendation would have to be scheduled in agreement with the Central Bank of Myanmar (CBM). Allowing MFIs to borrow in kyat and lend in kyat would eliminate the foreign exchange risk and could help expand credit markets as many MFIs today are better equipped to reach further down the income scale with their lending than is the case with banks.*

[8] The MMFA has adopted the **Smart Campaign's** code of conduct, which the global microfinance industry developed, and which has been adopted by thousands of MFIs globally—including the majority of foreign MFIs operating in Myanmar.

Long Term (within 36 months):

Over the next 36 months, the following changes are recommended:

- **Work with the Central Bank of Myanmar and the Ministry of Cooperatives to implement a methodology for disclosing the common total interest rate cost and a statement of keys facts for MFIs, banks, cooperatives, and other lenders to provide to their borrowers.** *Rationale: To ensure transparency across the lending landscape, all lenders should be required to disclose the total cost of credit in a similar format to all consumers. This would ensure that competition is fair, and that consumers would not be mislead into believing that a particular lender is cheaper, when the opposite may be true.*

- **Remove the interest rate cap on loans for MFIs.**
  Rationale: In many markets, interest rate caps have been shown to lead to practices that reduce transparency for consumers. This is already happening today in the banking sector in Myanmar. To avoid Myanmar's interest rate cap and floor, many banks are shifting from lending to operating hire-purchase subsidiaries and providing opaque deposit products.