Multiple borrowing amongst MFI clients in Myanmar

FINDINGS FROM THE SURVEY CONDUCTED IN 5 DIVISIONS

for Cordaid Netherlands, Myanmar Microfinance Association (MMFA), ADA Luxembourg

data as of June 2018

Micro-Credit Ratings International Limited
542 JMD Megapolis, Sohna Road, Sector 48
Gurgaon 122018 INDIA
Tel: +91 124 491 1939, 491 1942
www.m-cril.com

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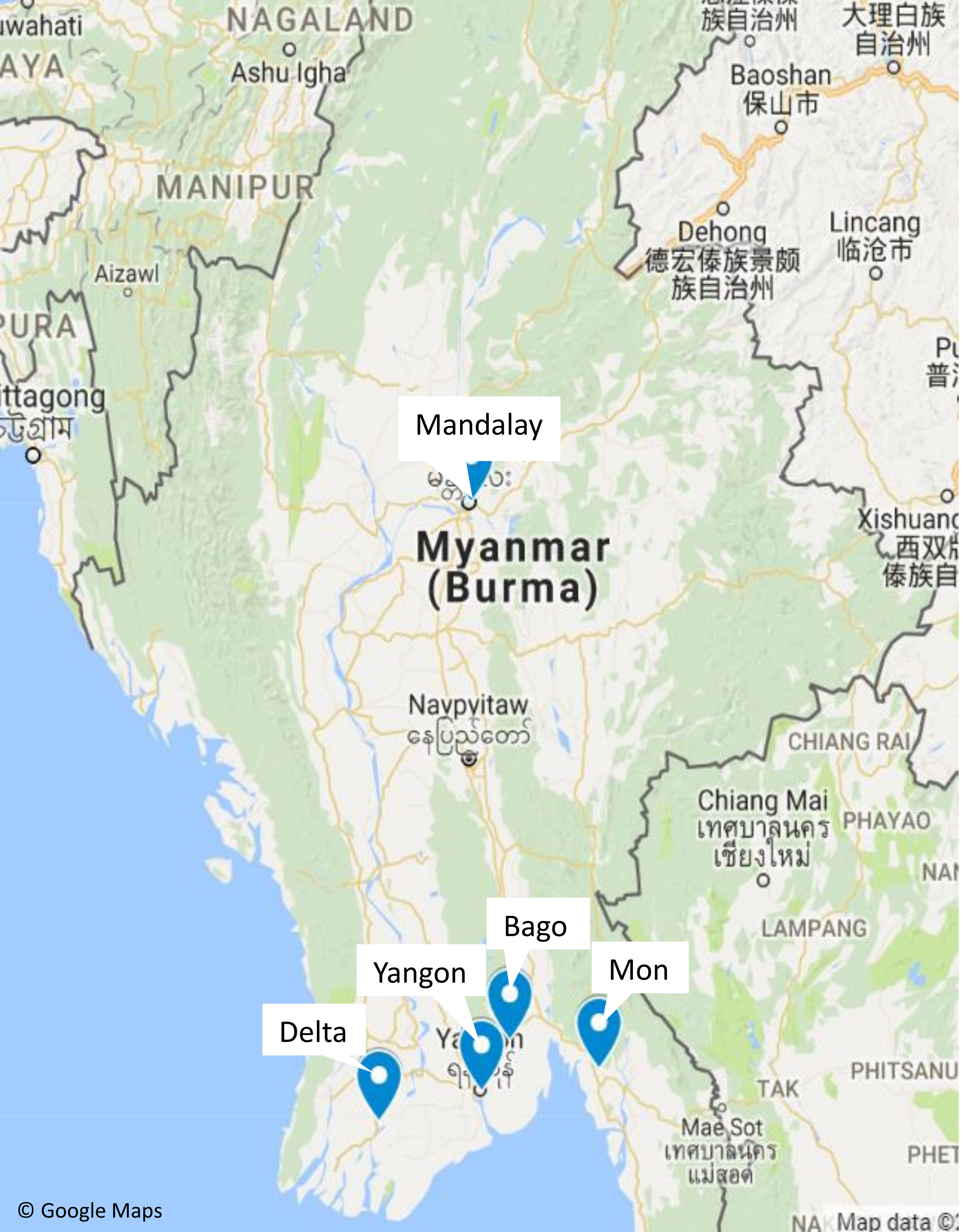

Overview

- Approach & methodology
- Highlights
- Current loans and loan amounts
- Loan purposes
- Difficulties in repayment
- Coping mechanisms
- Division level findings
- Way forward

Approach

- The purpose of this study is to provide an indicative test of the growing concern in Myanmar microfinance that there is emerging payment stress amongst microfinance clients.
- The concerns expressed by microfinance clients and the implications of the data from the survey are the basis for the measures suggested here for keeping the emerging stress under control.
- The sponsors & research team make no claims to academic rigour but assert that the results of the study are, nevertheless, a useful contribution to the understanding of microfinance in Myanmar.

Methodology

- MFI borrowers were randomly interviewed in 10 townships of 5 divisions using a snowball sampling technique
- Townships were selected based on the suggestions of members of MMFA and through informal interactions with divisional offices of the Financial Regulatory Department (FRD), Myanmar
- Ward/village level interviews were undertaken in areas identified as having high levels of competition by MFIs operating in those areas
- The field team met local authorities in these wards/villages to validate the selection
- The team consisted of 4 local researchers – 3 enumerators and 1 supervisor
- The survey was undertaken for about 3 weeks in June 2018

Division	Township	No of interviews
Yangon	Thingangyun	67
	Insein	65
Delta	Mawgyun	65
	Wakema	66
Bago	Bago	65
	Taungoo	65
Mon	Kyaikto	65
	Mawlamyine	65
Mandalay	Amarapura	65
	Patheingyi	66
Total		**654**

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Highlights

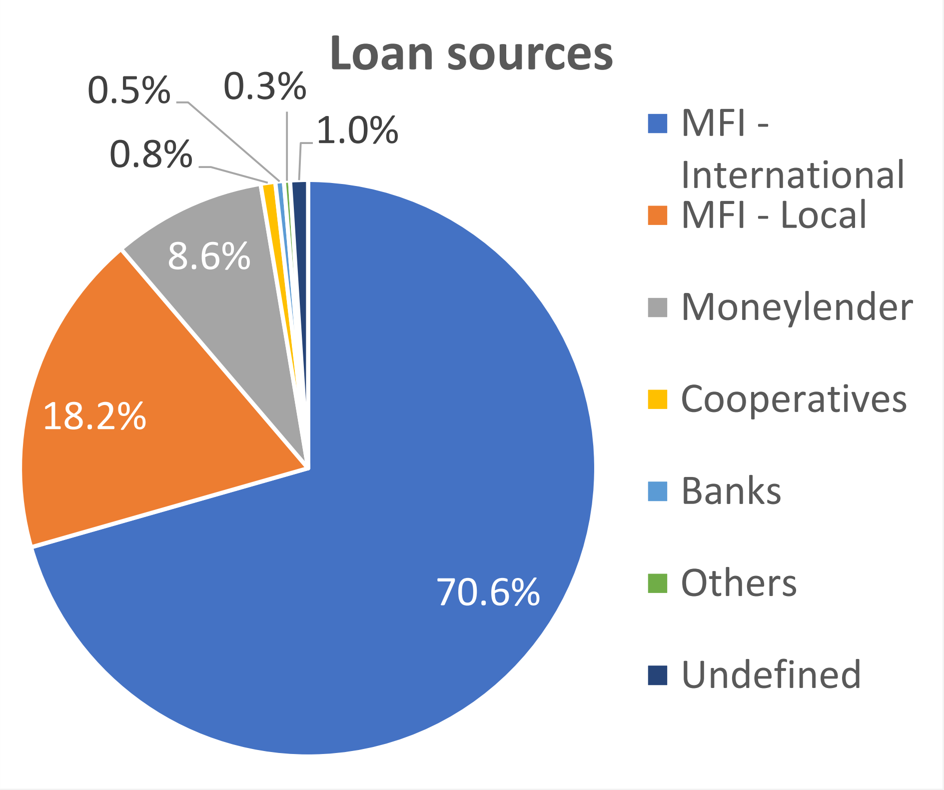
31% respondents with **3 or more loans**

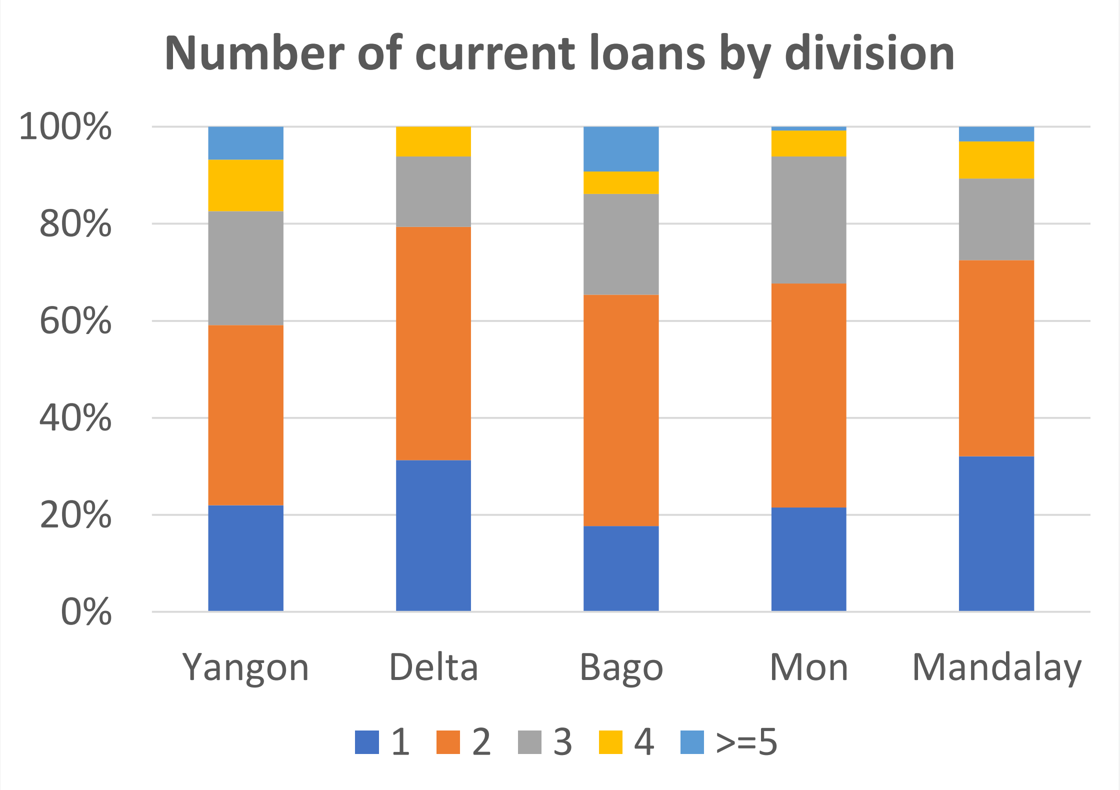
50 number of **MFIs** from whom loans have been taken

9% loans taken from **moneylenders**

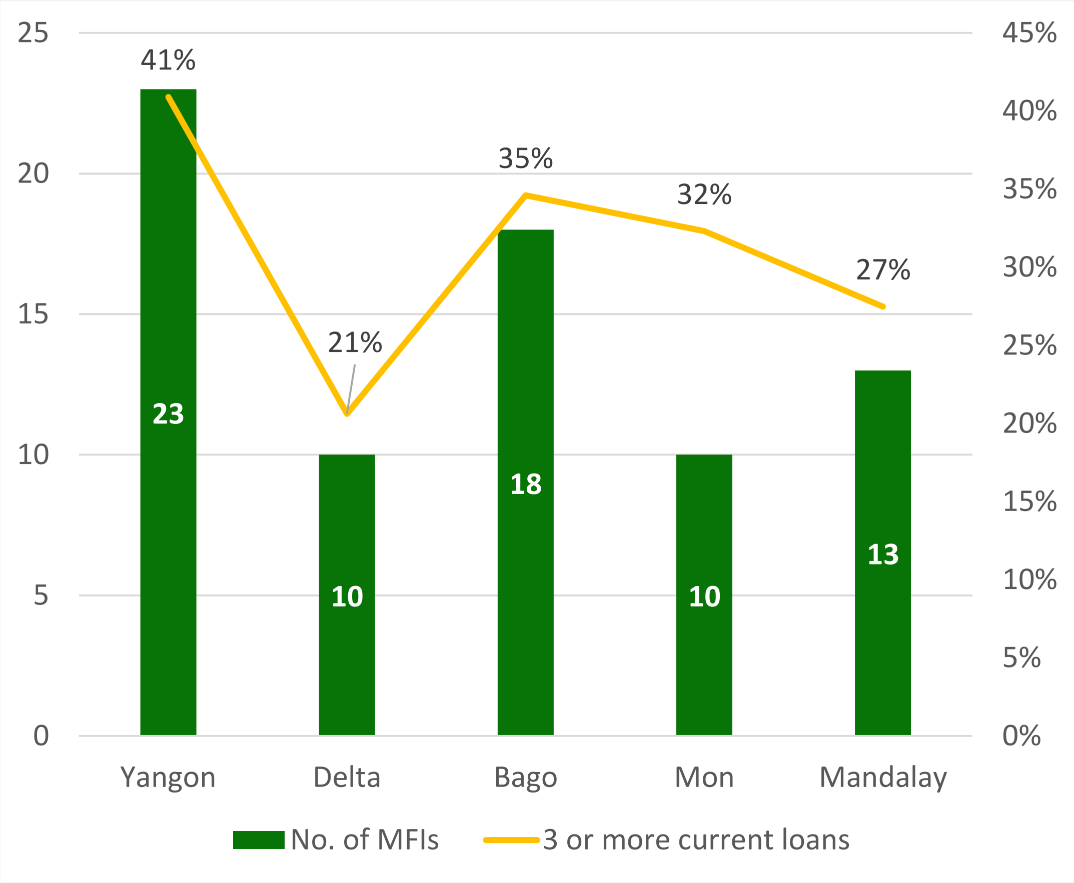
Current loans and loan amounts

- 90% of all the loans were taken from MFIs and 9% loans were taken from moneylenders.
- Although 60% of the MFIs were local, international MFIs make up over 70% of the total loans.
- Almost 1/3rd respondents have 3 or more loans – see graph below for division level findings
- A higher number of current loans was reported by Yangon and Bago respondents, with clients reporting up to 7 or 8 current loans.





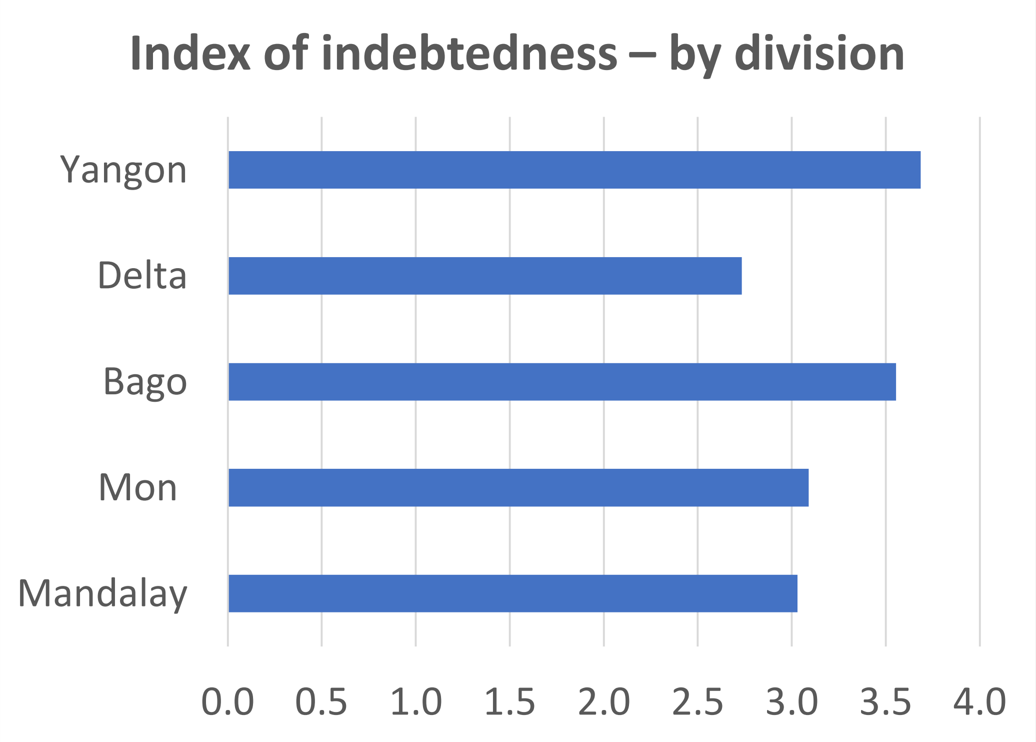
Lending pressure related to number of MFIs

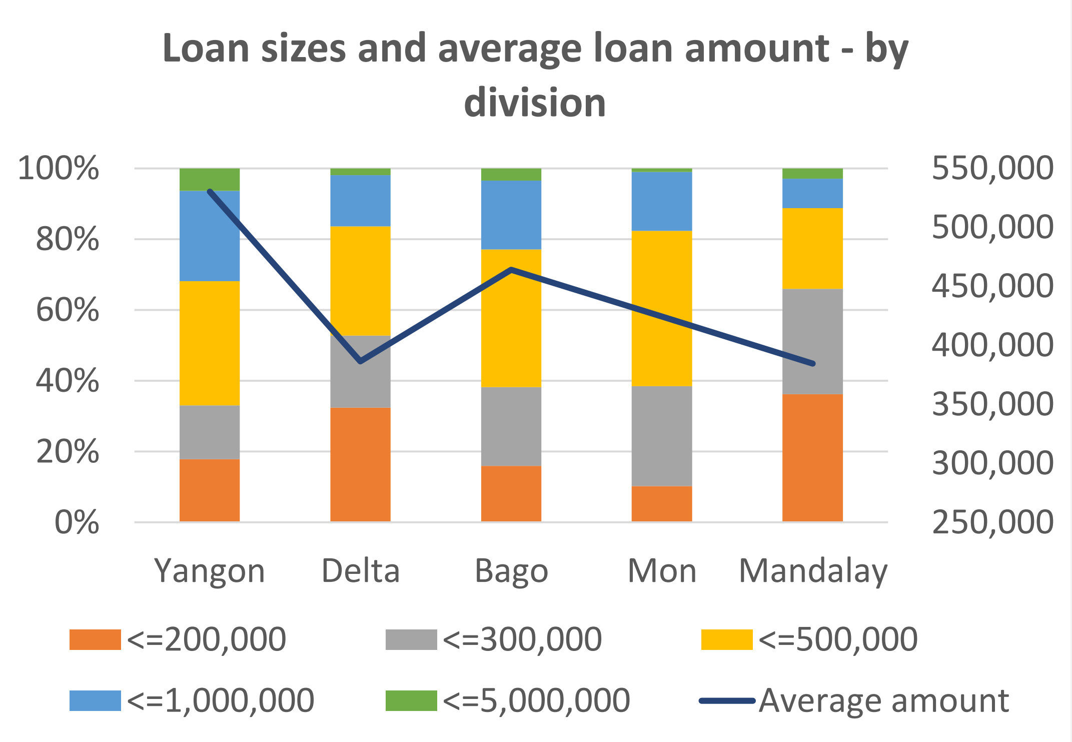


- Broadly, the extent of multiple borrowing is higher in areas with more MFIs operating (large or small). This applies across the Yangon, Bago, Mandalay and Delta divisions.
- Mon State is different; although Delta and Mon both have 10 MFIs, Mon has a higher proportion of respondents with 3 or more loans; this may be related to the greater number of large MFIs operating there compared to the Delta, ***suggesting that large MFIs have more aggressive growth targets.***
- This could suggest the need for the regulator to place more emphasis on the size of MFIs in providing licenses for various regions.

Current loans and loan amounts

- M-CRIL has developed an index of multiple borrowing[1] for the areas covered, based on the number of current loans. The figure below shows that lending pressure is highest in the Yangon and Bago divisions with an average indebtedness score of more than 3.5 each.
- Average loan amounts vary between MMK 350,000 to MMK 550,000. Yangon has the highest average loan amount, with clients reporting loan amounts of up to MMK 5,000,000. Delta has the distinction of the lowest loan sizes as well as the lowest index of multiple borrowing.





[1] See Annex 1

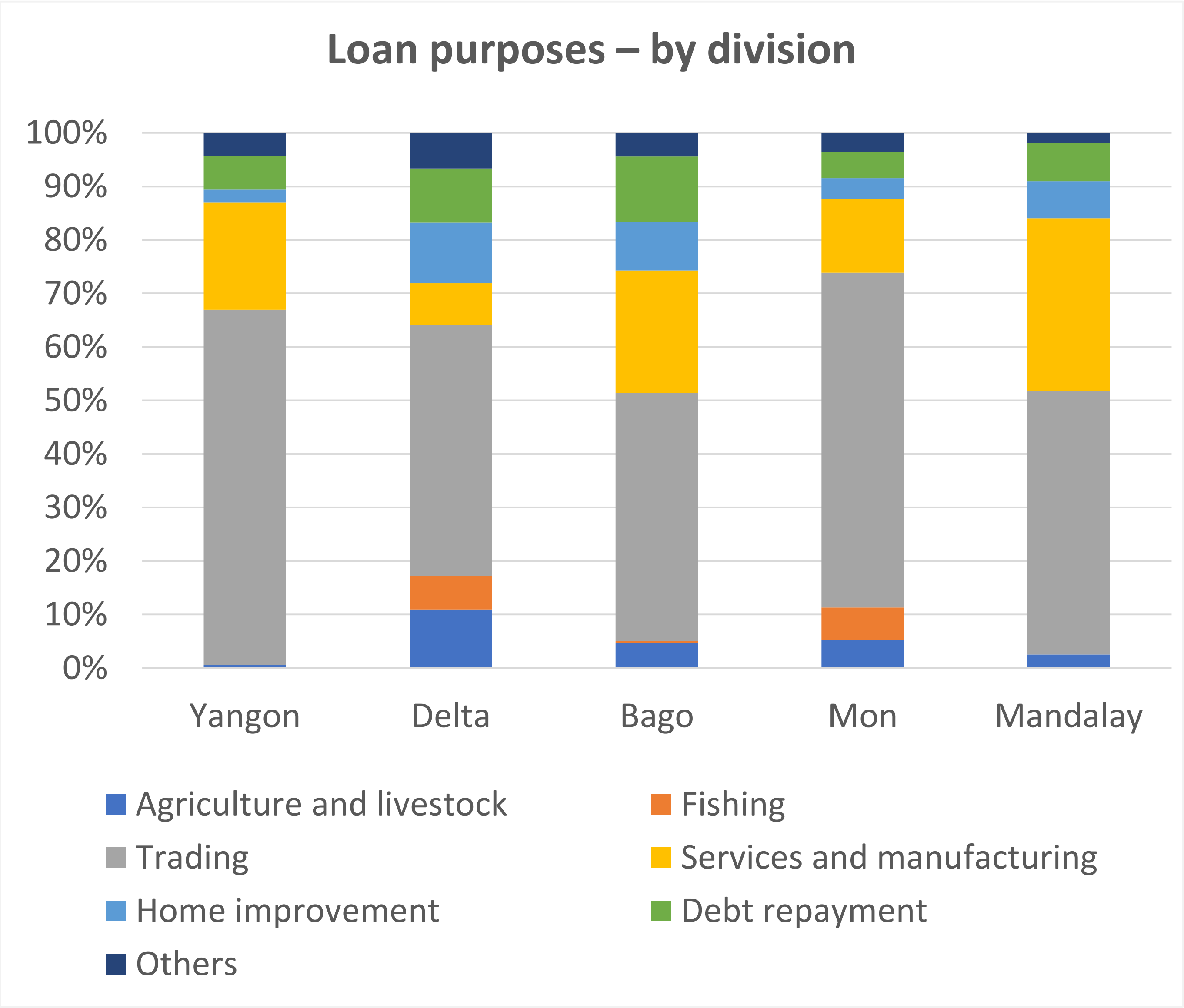
Loan purposes

Trading and services & manufacturing were most commonly reported

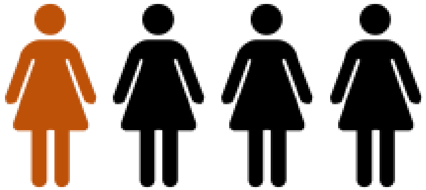
Livestock and **fishing** are important activities in **Delta** and **Mon**

5% or more loans in every division were reported for **debt repayment**

Other purposes reported were mostly travel, education, medical treatment, weddings

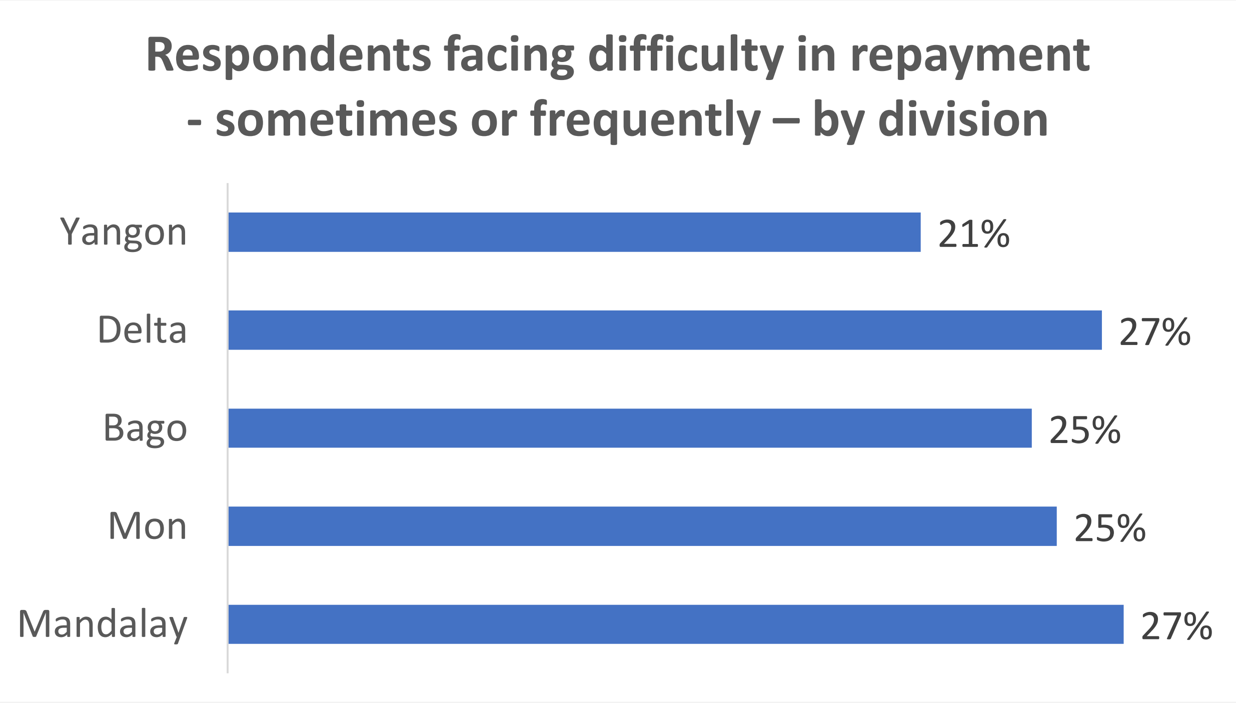


Difficulties in repayment



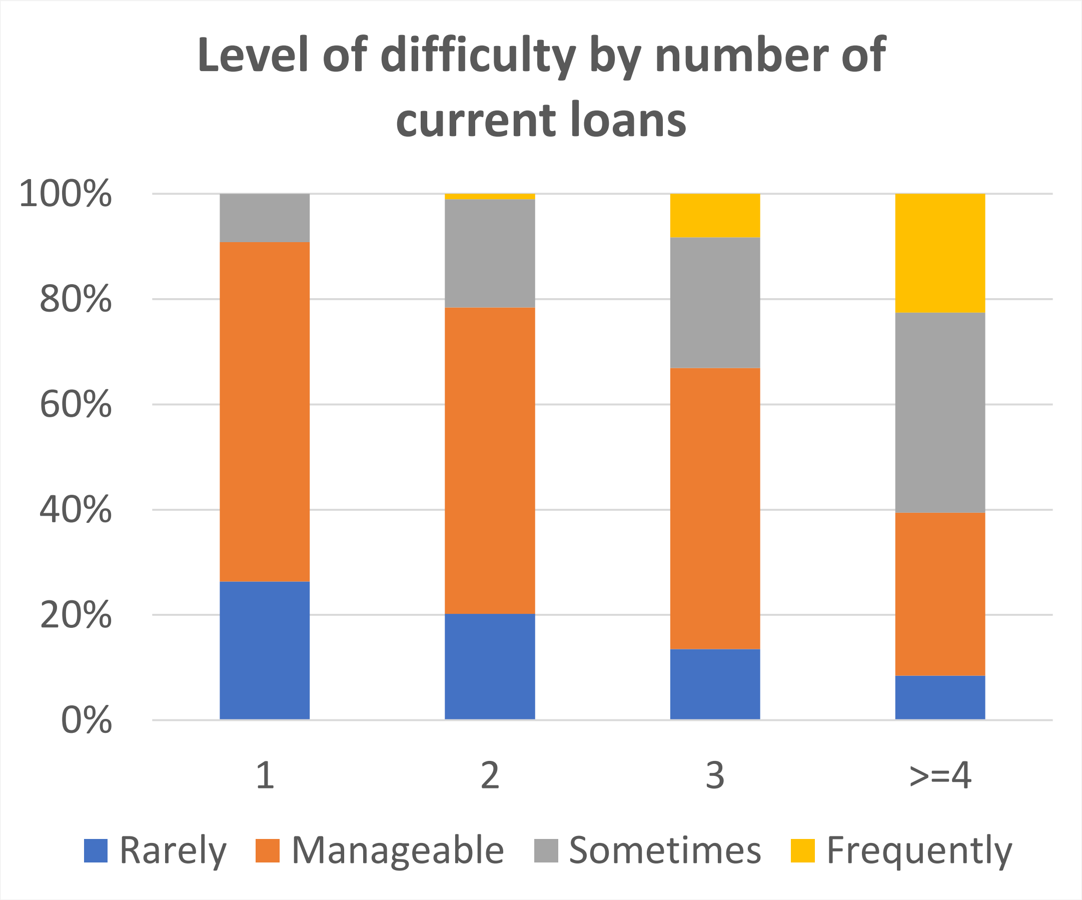
1 in 4 respondents reported that they sometimes or frequently face difficulties in making repayments

- The graph shows the proportion of such respondents by division.
    - Respondents in Delta and Mon most often face difficulties.
- Among the rest, over 50% said that they sometimes face difficulties, but repayments are manageable.



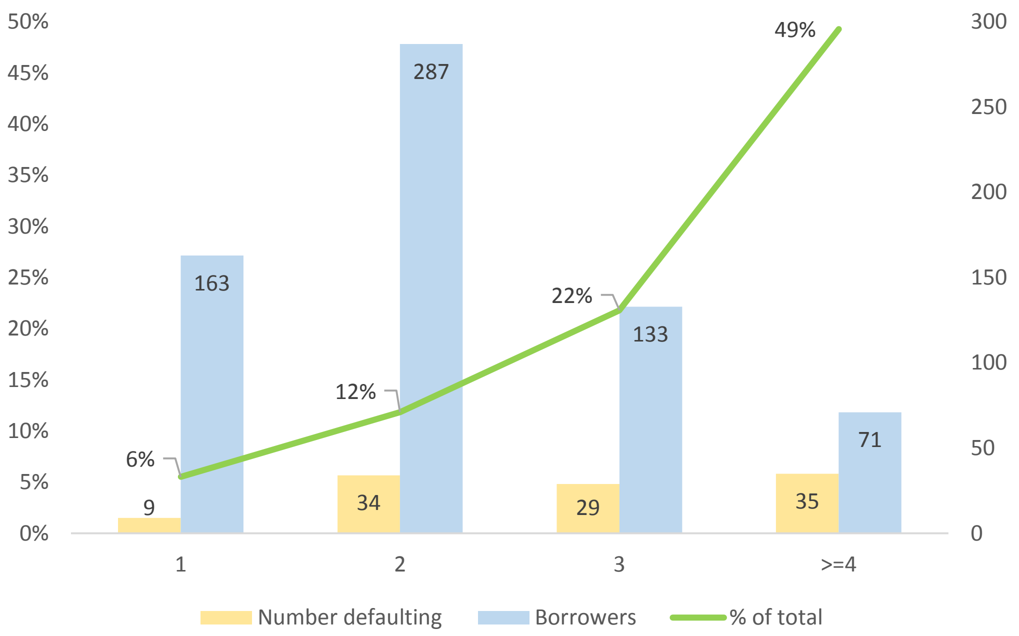
Difficulties in repayment

- The level of difficulty significantly increases as the number of loans increases.
- Respondents with 4 or more loans are three times more likely to face difficulties than those with 2 loans.
- 90% of the respondents who reported facing difficulties frequently, had 3 or more current loans.

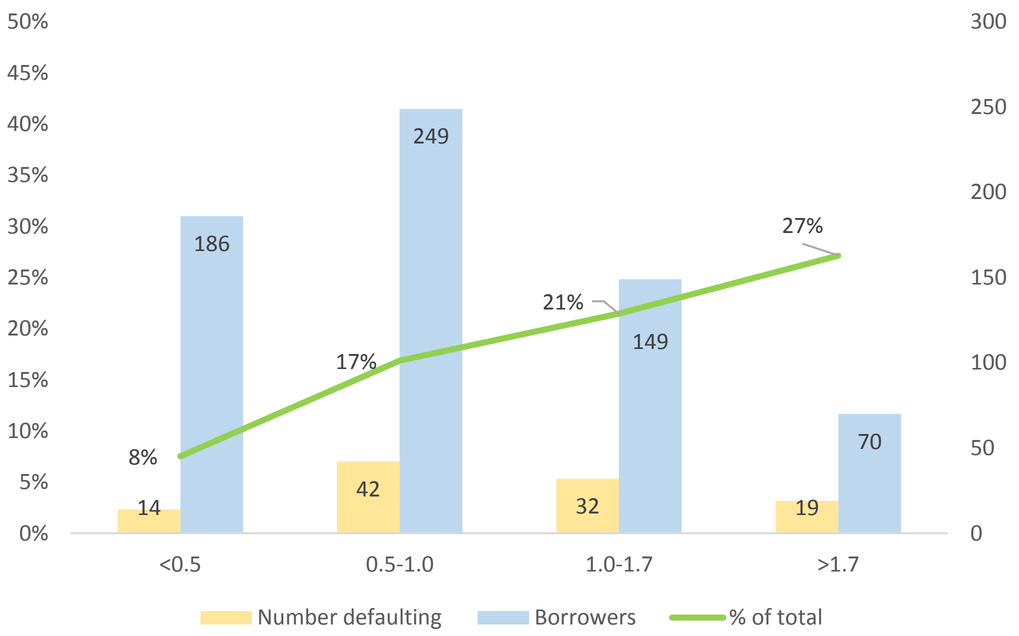


Risk of payment default

by Number of Loans per Borrower



by Amount Outstanding, million MMK



- The risk of payment default is more significantly related to the **number of loans** than to the **outstanding amount** borrowed from MFIs – ***this is a key finding from a regulatory perspective***[1]
- 49% of respondent borrowers with 4 or more loans have missed at least one payment while only 27% of respondents with more than MMK1.7 million (US$1,250) outstanding have missed a payment; at lower levels of borrowing/smaller number of loans, the results are broadly similar

[1] Naturally, this finding applies to loans made within the normal MMK0.5 million to MMK3 million lending range of most MFIs; at higher levels of outstanding, say >MMK5 million this could change but, since there are very few borrowers at that level, this possibility remains to be tested.

Coping mechanisms

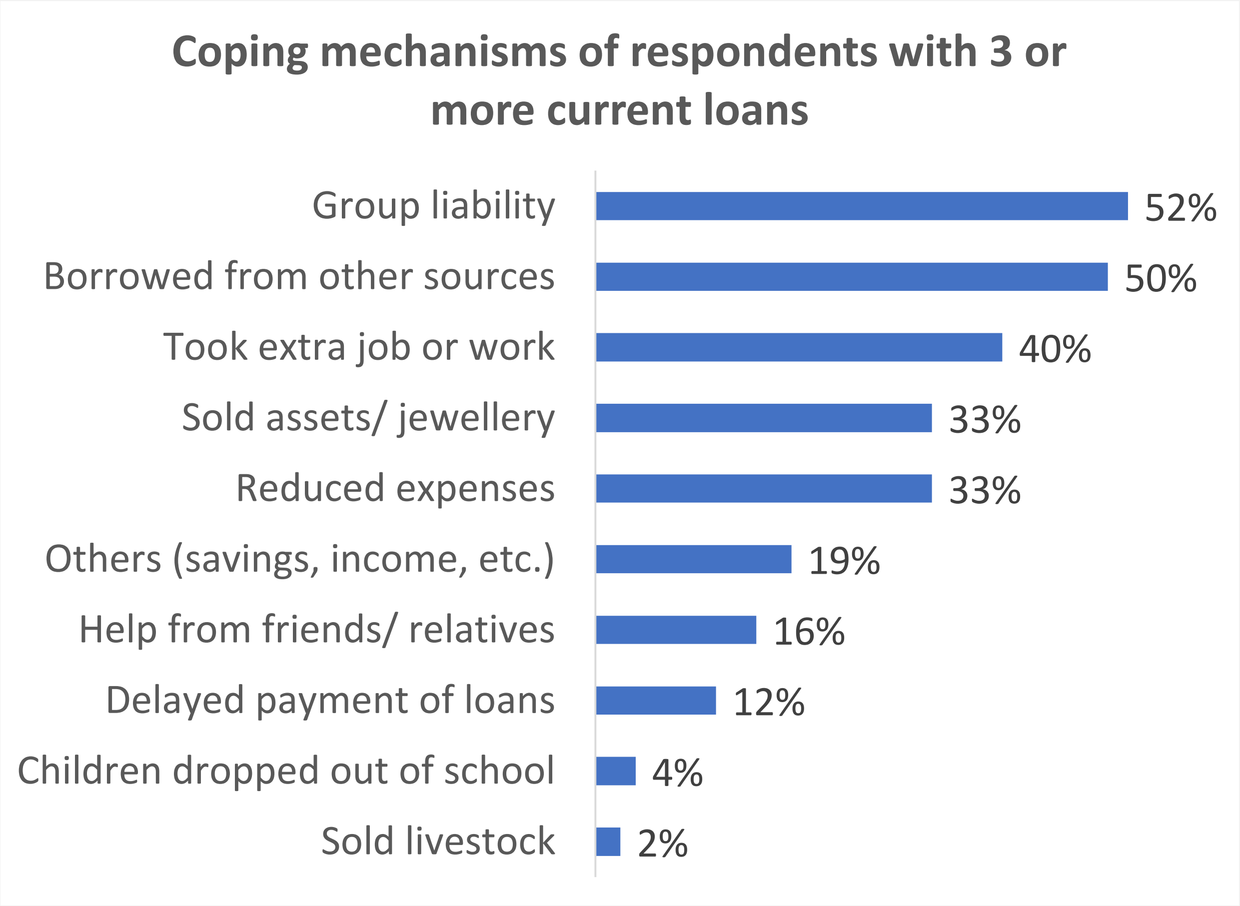
- Coping mechanisms for difficulties in repayment are diverse and depend on the level of difficulty and the number of current loans of the MFI borrower.
- The number of coping mechanisms deployed increases as the level of difficulty increases.

Coping mechanisms by level of difficulty

	Rarely	Manageable	Sometimes	Frequently
% of overall sample	19%	56%	20%	5%
Group liability	51%	44%	61%	50%
Borrowed from other sources	2%	19%	75%	90%
Delayed payment of loans	0%	0.3%	10%	53%
Help from friends/ relatives	2%	10%	14%	23%
Reduced expenses	3%	22%	46%	70%
Sold livestock	0%	0.3%	4%	3%
Sold assets/ jewellery	1%	7%	55%	80%
Took extra job or work	6%	19%	60%	77%
Children dropped out of school	0%	0%	1%	27%
Others (savings, income, etc.)	41%	40%	6%	3%

- The **matter of serious concern** here is the extent to which the 25% of respondents who face difficulty have to resort to **dissaving** (60-80% selling live-stock, assets) or incur other **hardship** (50-70%, reducing expenses, taking children out of school)
- **Borrowing from other sources is very common** (75-90%) as is having to take extra work.

Coping mechanisms by number of loans



- Respondents with 3 or more loans had to rely on several different methods to cope with repayments.
- Group liability, borrowing from other sources, and taking extra work were reported as the most common coping mechanisms.
- Dissaving (selling assets or livestock) was also reported by 1 in 3 respondents.

Division Level Findings

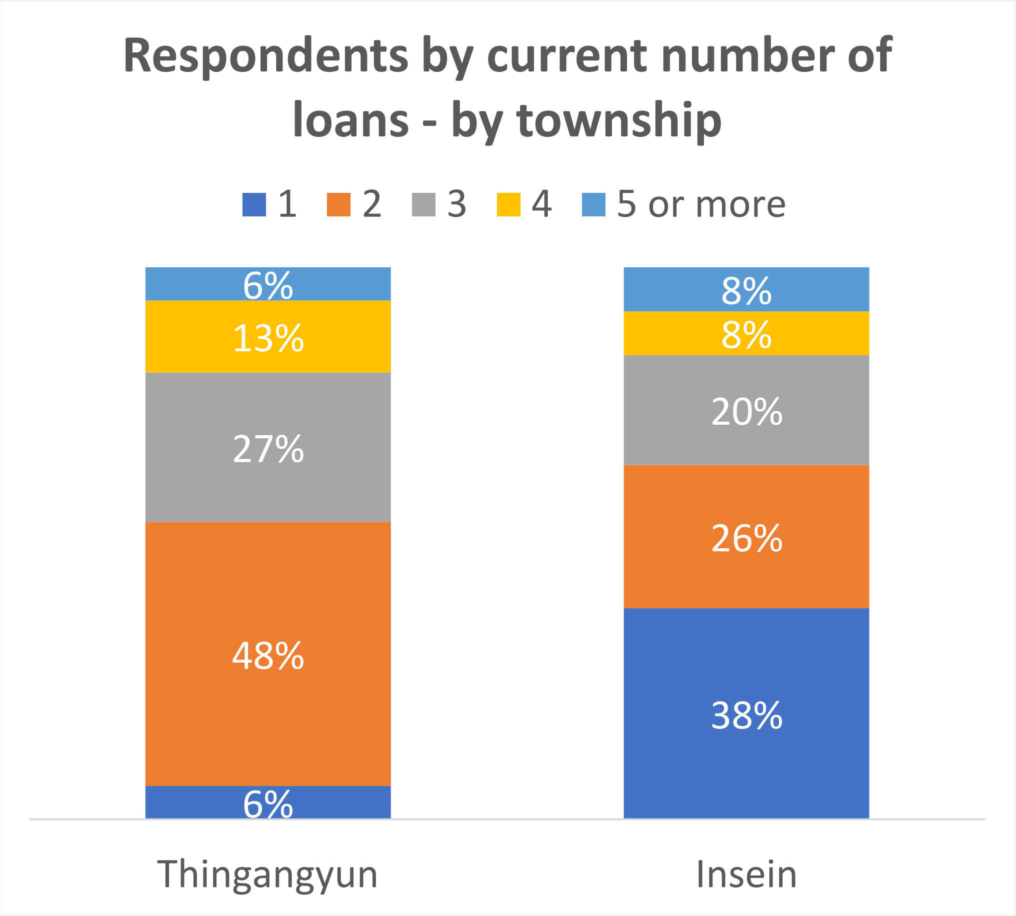
Yangon

Loans taken from 23 different MFIs

Highest index of indebtedness

2 of 3 respondents made repayments for other defaulters

Yangon



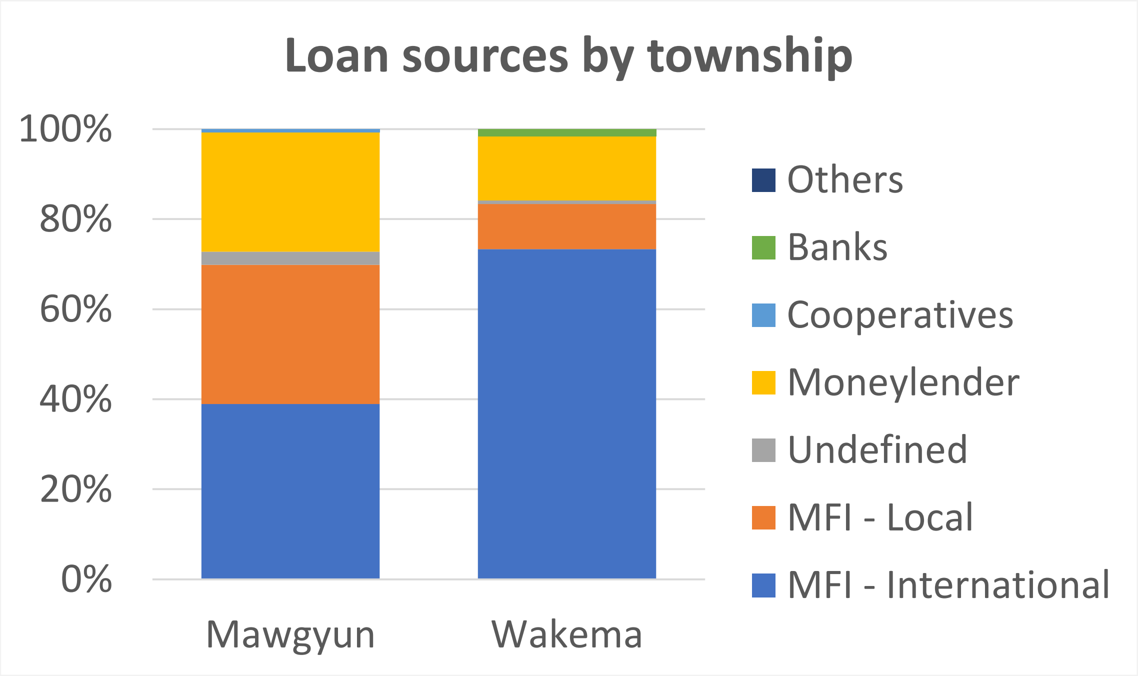
- Loans have been taken from 23 different MFIs – two-thirds of these are international MFIs.
- Clients in Thingangyun generally have a larger number of current loans but higher loan amounts are more common in Insein.
- Payments for other defaulters are more common than other divisions. In most cases, the defaulters had run away.
- Despite these, just over one-fifth respondents reported facing difficulties in repayments, relying mostly on group liability.

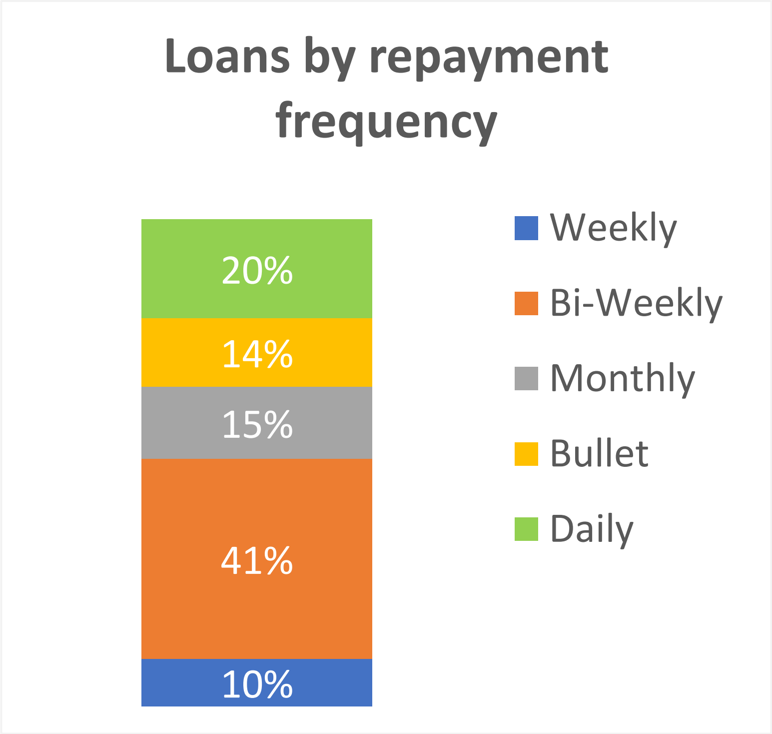
Delta

- 1/5th of all loans were taken from moneylenders
- Daily repayment collections by MFIs – this was not seen in other divisions
- Borrowing from other sources is the most common coping mechanism
- 73% respondents received financial literacy training from PGMF, the dominant MFI in the division

Delta

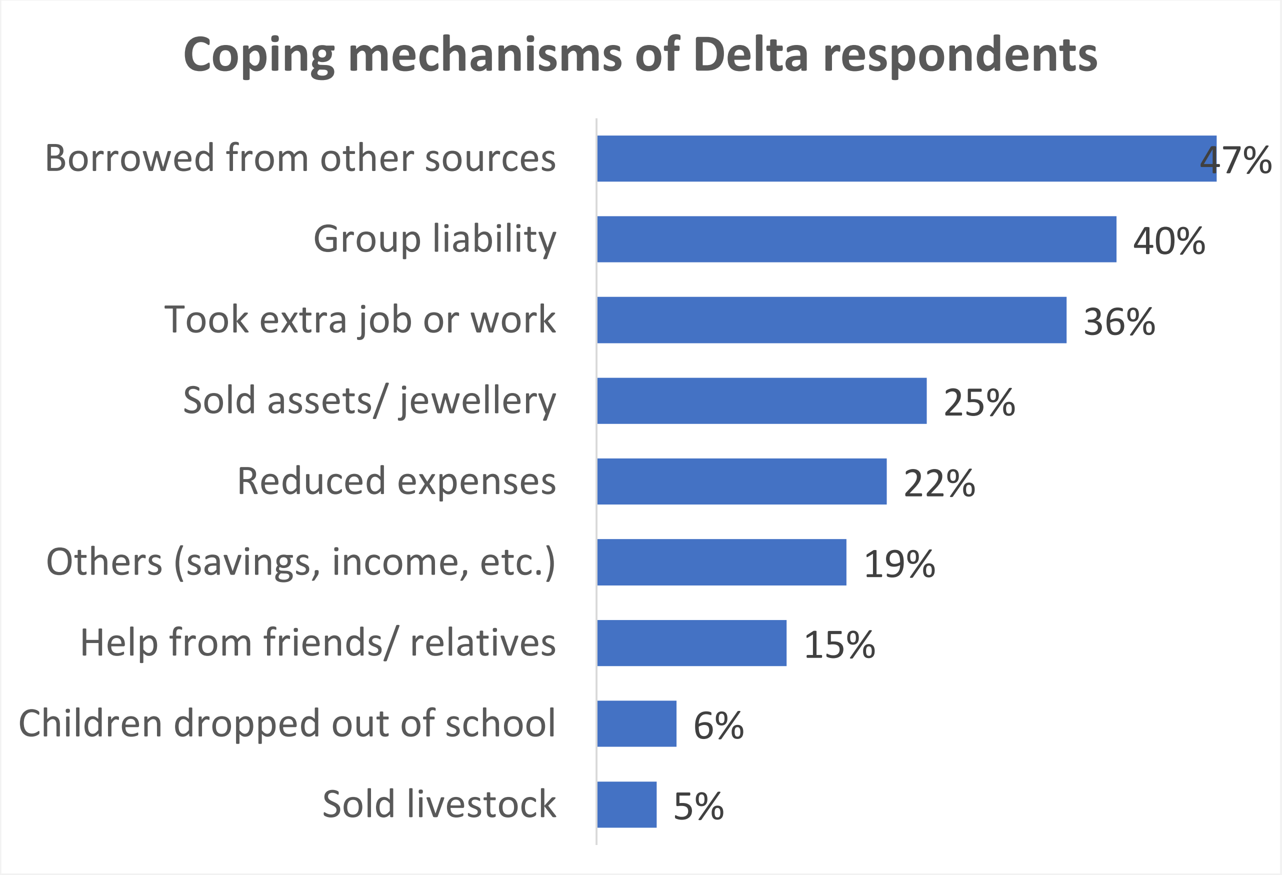
- Respondents have taken a maximum of up to 4 current loans.
- More MFIs are present in Mawgyun - all except one are local.
- Moneylender loans were mainly taken for debt repayments.
- Mawgyun also has a higher proportion of loans taken for non-business purposes in addition to moneylender loans.
- Bullet and daily repayments are fairly common.





Delta

- Over 30% respondents in Mawgyun reported facing difficulties sometimes or frequently in making repayments, compared to 21% in Wakema.
- Moneylender loans taken for debt repayment and daily repayment terms of 3 local MFIs contributed to their difficulties.
- Daily repayment loans have higher interest rates (5% pm) and the instalment is often greater than the clients' daily income
- Borrowing, taking extra work and selling assets as coping mechanisms were reported by more respondents in Delta than other divisions.



Bago

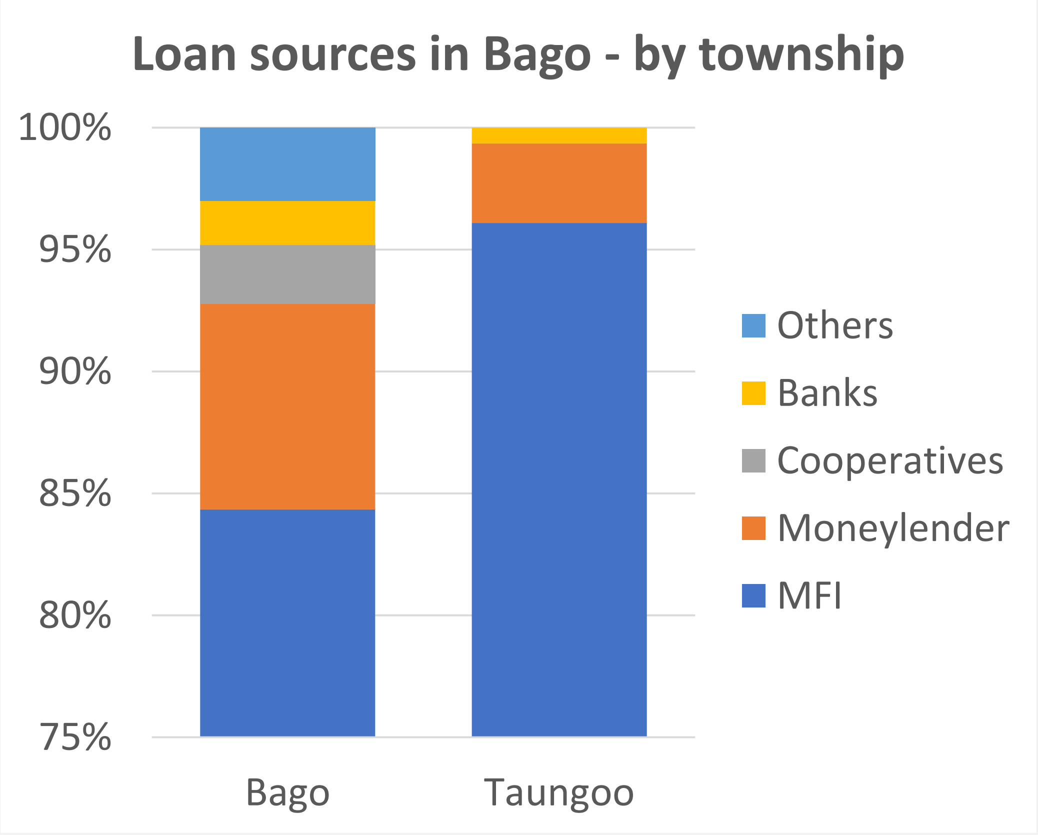
Twice as many MFIs in Bago township as compared to Taungoo

12% of all were loans taken for debt repayment, mainly from MFIs

Rely equally on borrowing from other sources and taking extra work

Bago

- Loans were taken from 18 different MFIs. However, the preferred loan source varied between the two townships.
- Loan sizes in Bago are generally lower than elsewhere with only one loan found in excess of one million kyat
- Home improvement loans were taken in the ratio 3:1 in Taungoo and Bago.



- More than half the clients had made repayments for defaulters, who in most cases had run away.
- Group liability is the most common method for coping with difficulties in repayments.
- Almost one-third of respondents also depend on borrowing from other sources or taking on extra work.

Mon

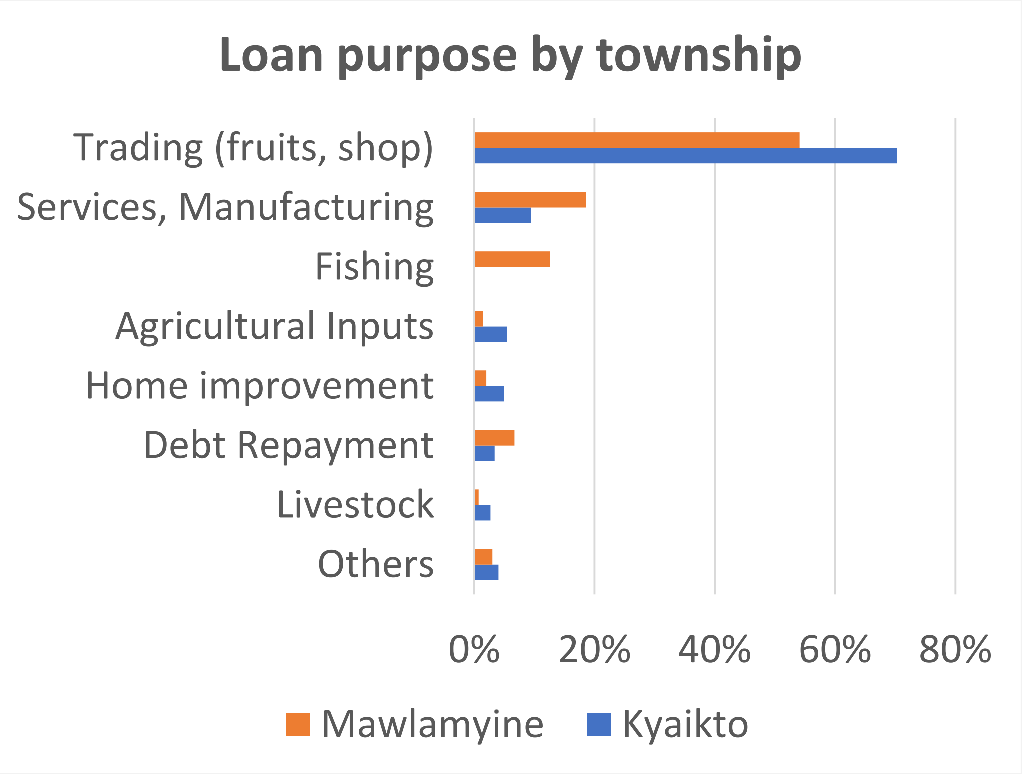
Here also only 2-3 respondents had total loans of more than MMK 1 million

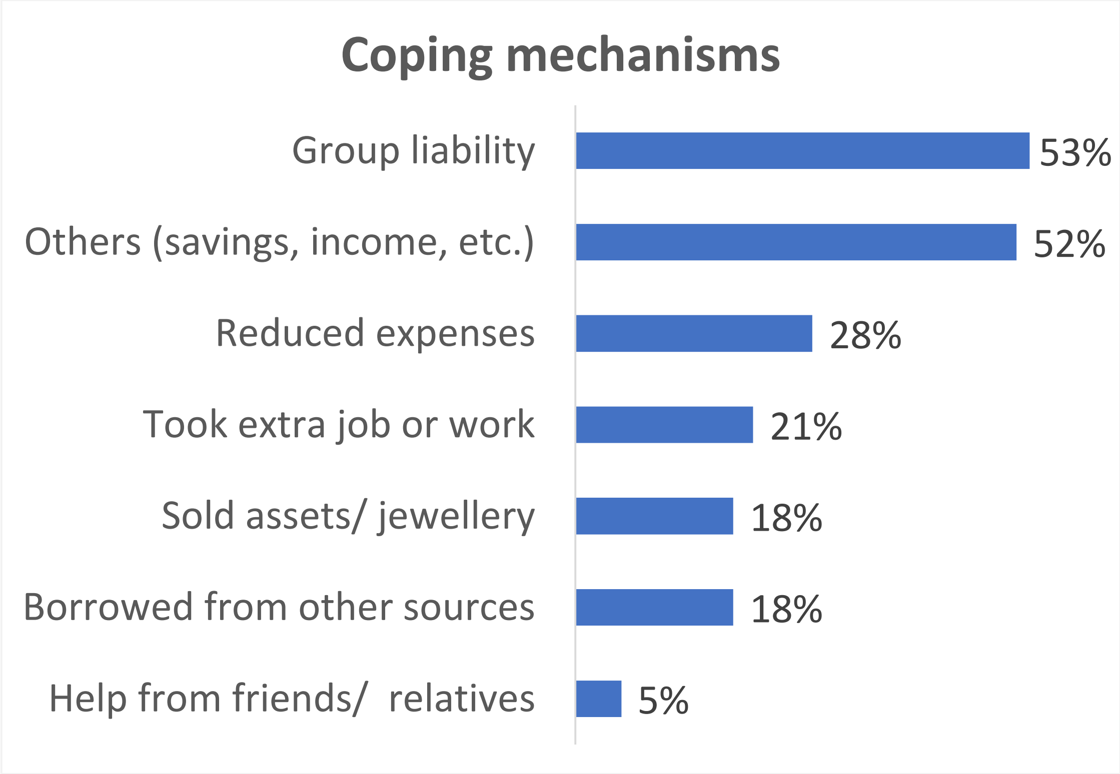
Rely equally on group liability and savings or income in difficulties

Not many respondents received financial literacy training from MFIs

Mon

- Of the 10 MFIs here, just 2 were local organisations.
- Most loans were taken for trading. But other loan purposes vary significantly between the two townships – as shown in he graph.
- Borrowing from other sources as a coping mechanism was reported by a much lower of Mon respondents, compared to other divisions.





Mandalay

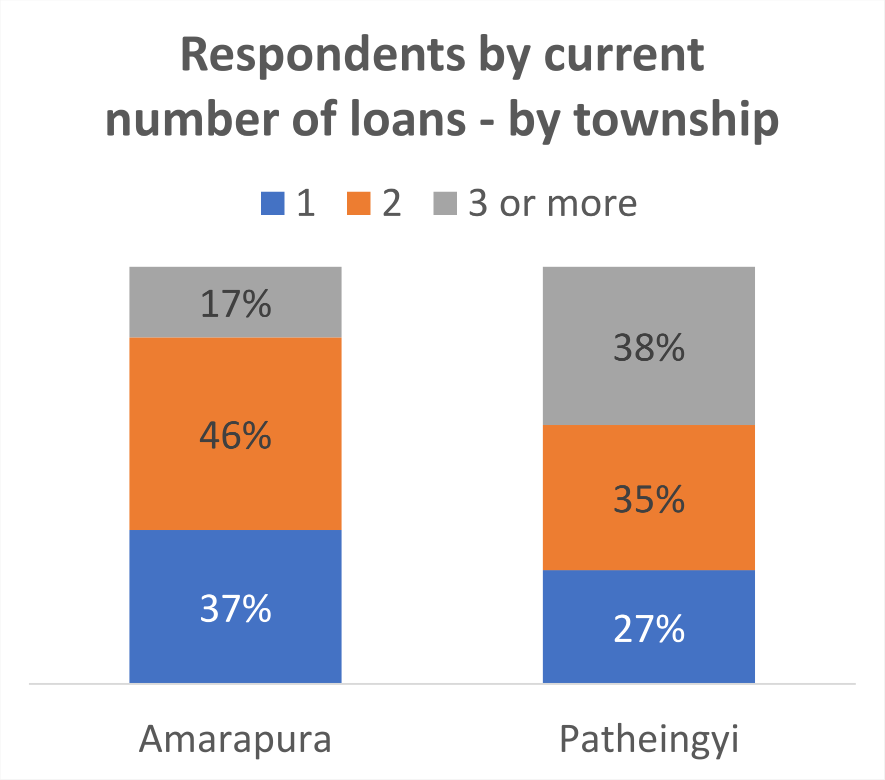
Lowest average loan amount (similar to Delta)

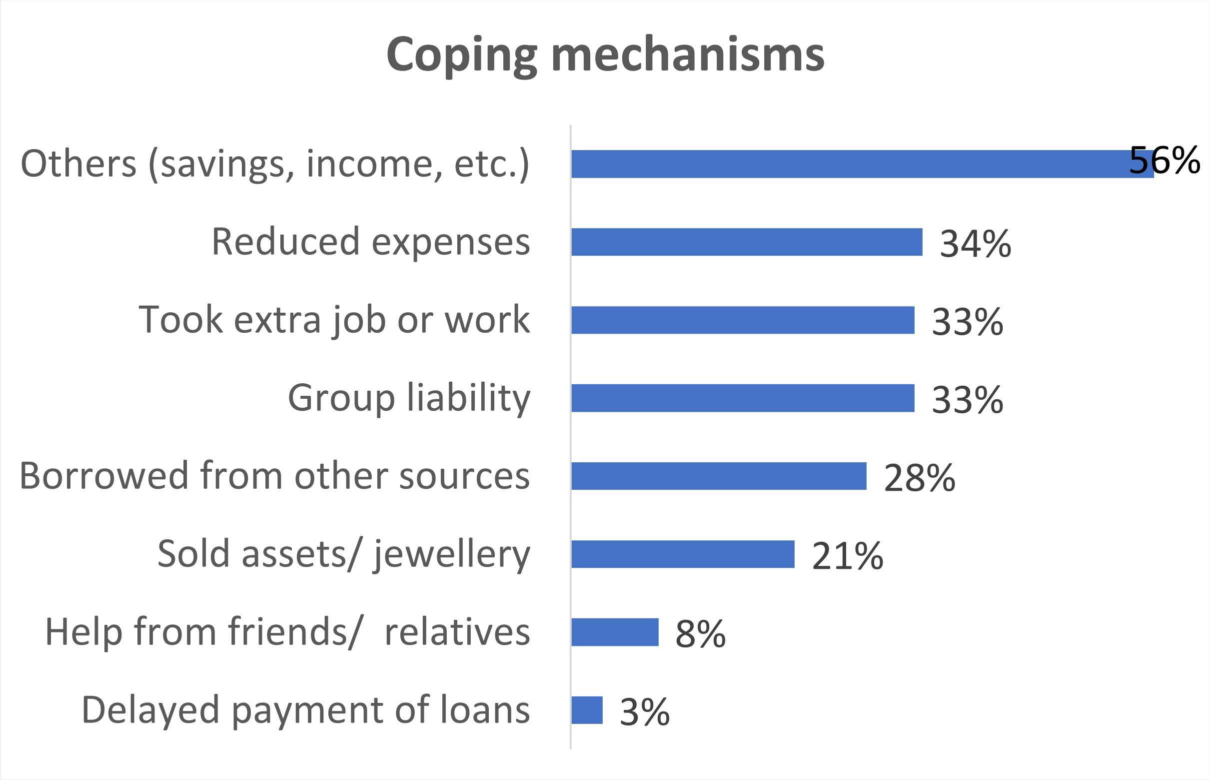
Highest proportion of those reporting difficulty in repayments

Instead of group liability, people rely heavily on savings or income

Mandalay

- Significant differences can be seen between Amarapura and Patheingyi townships.
- Higher number of current loans and presence of local MFIs are more common in Patheingyi. In Amarapura only 1 loan has been taken from a local MFI.
- Mandalay reported the highest level of difficulty *in repayments, especially in Patheingyi.*
- *Unlike other divisions, respondents rely less on group* liability but more on savings and income.





Conclusions & the way forward

Conclusions

While 31% respondents reported 3 or more current loans, 25% said they faced difficulties in repayment. The main factors that contributed to clients' difficulties in making repayments are the **number of loan sources** and the **frequency of repayment** – daily repayment loans (mainly in the Delta) are extremely burdensome for clients. This survey shows that the amount outstanding is less important in determining default.

- On average, **15 MFIs were reported in each division,** Yangon reported 23 MFIs
- Respondents' remarks made during the field survey indicate the presence of group leaders/agents who charge commissions for loan disbursements.
- Clients running away is quite common. Due to these defaulting members, other group members are overburdened with repayments. This appears to be the result of weak appraisal by MFIs.
- Financial literacy training is absent in most places, except in Delta. Accounts from the field suggest that respondents are not only unable to recall MFI names but sometimes even fail to differentiate between formal and informal lending sources.

Conclusions

- Consumption loans are 11% of all loans; there is a need for better loan utilisation checks. Consumption loans are classified as those meant for non-income generation purposes such as travel, marriage, debt repayment. There are about 8% asset building loans for education and housing – not strictly covered by the rules of most MFIs.
- Loans previously taken for debt repayment were reported by 37% of respondents, 5% also had current loans for this purpose. Debt repayment loans were most commonly taken from moneylenders who charge high interest rates, adding to the clients' difficulties in making repayments. Of the reported current loan amounts 8% are debt repayment loans, taken equally from MFIs and moneylenders. Overall, 50% of moneylender loans are for debt repayment.
- Although several clients complained that there are too many MFIs, over 70% also said that they need more loans. Since there is no upper limit on the number of current loans, the proportion of respondents with a high number of current loans can be expected to increase in the immediate future.

Client concerns & suggestions

- **Too many loans being given & too much money lent**: Defaulters cite not having enough money to repay all the loans – 66% of the defaulting respondents cited low or irregular income, 14% reported health issues as affecting their ability to repay and 9% said the default resulted from business failure.

The **number of MFIs** allowed to operate in an area should be limited

The **client identification/appraisal process** needs to be strengthened

- **Defaulters running away leaving other group members responsible for their repayments**: 61% respondents reported paying for defaulters in their groups

Group liability is increasingly becoming a burden – **individual loans** should be given instead

Client concerns & suggestions...continued

Follow-up and action should be taken against defaulters

- **Follow-up action** could include legal action, responsibility for payment being shared by other family members and/or guarantors, seeking the intervention of local authorities, plus…
- **Direct action by MFIs is also needed**: Senior staff visiting the field more often and loans being rescheduled when a group has to pay for other defaulters

- **MFIs enforcing repayment even in difficult circumstances** – about 10% of respondents who failed to make repayments said the MFI forced them to repay through intensive pressure from both MFI and/or village/ward authorities resulting in the sale of assets such as motorbikes and even (in one case, the roof of a house); this issue has not reached serious proportions at present but there are isolated cases and could become a problem if it is not curbed.

Annex

Annex 1

Index of multiple borrowing – this is a simple measure of the number of loans taken by each respondent in a given area multiplied by a weight. The weight multiplier increases significantly as the number of loans per respondent increases. This is on the basis that, beyond two loans, the cost of the loan to the borrower increases not just in terms of the direct costs – interest cost, loan fees, other charges – but also in terms of the

i. Increased pressure on the family budget, and

ii. Time taken to attend MFI meetings

The table below sets out the weights used; the weights increase exponentially as the number of loans increases

Number of loans	Weight
1	1
2	2
3	3.5
4	5
>=5	7

Suggested measures…emerging from the survey

1 **Key measure**: The results of this survey show that **the number of loans is a more significant determinant of default than the amount outstanding with an MFI borrower**. Therefore, limiting the number of loans per borrower is even more important than limiting loan size. No doubt, the overall indebtedness of the borrower is also important so we recommend that

Borrower family indebtedness > MMK1 million; number of loans/family

not > 2

Indebtedness < MMK1 million; number of loans/family

no limit

This will enable small & local MFIs that generally make smaller loans of MMK200,000 to MMK300,000 to grow without a limiting regulatory constraint; large/international MFIs that often lend MMK500,000 and more (and now often give loans in excess of MMK1 million) will be reined in by this regulation and prevented from giving too many of these large loans to any one borrower (or her family).

Suggested measures…emerging from the survey

- **Further research**: The relationship between household indebtedness and the number of loans as well as the loan size be further investigated through more systematic studies such as the **LIFT household tracking survey** currently being commissioned. This will enable this relationship to be tested over a larger sample of 4-5,000 households (those of the cohort of 5,000 households that are MFI clients). Any other large surveys being commissioned should also be encouraged to test this hypothesis.

- This will not only help to test this finding – to validate or contradict it,

  it will also provide additional information enabling the appropriate setting of threshold limits and/or numbers of loans.

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Suggested measures…emerging from the survey

2 **Related issues**: It is increasingly apparent that in the regions where many loan cycles have been rolled out there are concerns amongst MFI clients about **group lending** because MFIs have not taken care to ensure that all borrowers have the same size of loan. As a result there can be borrowers with loans of MMK200,000 having to accept guarantees for borrowers in the same group) with loans of MMK500,000 or more. This is clearly not tenable, therefore,

a. **MFIs could be required to fix the <u>average loan size</u> for each group in each cycle and the loan size variation allowed within the group could be set at "no more than +/- 20% of the average"**

b. **Loans of size > MMK 500,000 should not be made via the group guarantee mechanism**

This will also limit the increasing concern about group leaders acting as agents and receiving rewards or incentives either from the MFI or group members. Such rewards undermine the integrity of the group guarantee mechanism and should be discouraged.

Ideally, these changes would happen via industry consensus rather than regulation – difficult for FRD to implement in the absence of a credit bureau. Application of these norms could be via the medium of MMFA-commissioned independent checks as in India (where such checks are now done regularly).

Suggested measures…emerging from the survey

If microfinance is to give a boost to the economy of low income clients, a more informed entre-preneurial culture will need to be introduced for both MFI risk management and for support to the growth of client enterprises

Individual lending in the range

MMK 500,000 – 5 million

could have individual guarantors <u>who are not relative</u>s

but should not be based on physical collateral

Individual loans > MMK 5 million

could be allowed physical collateral

Suggested measures…emerging from the survey

In order to facilitate this, MFIs should be required to undertake

- **individual due diligence of borrowers and to**
- **introduce appropriate risk exposure limits**.

For this purpose, it will be necessary for MFIs to

develop a cadre of business loan officers

with appropriate training in the specific skills required for such due diligence. This will have to be specifically geared to the needs and requirements of the client's enterprise or other needs and should not be based primarily on the availability of guarantors or even physical collateral.

Effective implementation of such processes will need supporting structures such as **competent and comprehensive internal audit**; a matter that is addressed in the next set of recommendations by Cordaid.