Myanmar Microfinance Money Management: Coping with the Covid Crisis

July 2020: M-CRIL Advisory Note on the liquidity of MFIs in Myanmar

The lockdown in Myanmar ordered by the government of the country in response to the Covid-19 crisis has created challenges for the microfinance sector. This Advisory Note estimates the magnitude of the liquidity shortfall for the largest 20 MFIs resulting from the complete shutdown of operations for around 6 weeks in April-May 2020. It shows that even with a near complete bounce back of microloan recovery rates during June 2020 **investors and lenders will need to provide funds of the order of $10-40 million per MFI** (equivalent to 15-30% of overall funds for 15 of the largest 20 MFIs) for the microfinance sector not just to survive but also to revive their businesses and to sustain the enterprises of their micro-borrowers by end-September 2020. We estimate the total **liquidity support necessary for the largest 20 MFIs at $177 million** and up to $190 million for the sector as a whole, covering all MFIs – large and small – in the country. **This is important ultimately to facilitate the livelihoods of the ~4 million low income families they serve**.

Most likely scenario – assumptions

- Client collections (April-September 2020) — average 73.5%
- Wholesale borrowing – repayment of dues to banks and DFIs — ~50%
- Redemption of deposits — ~5%
- Cash required for disbursement, % of normal 6-month disbursements — 73.5%
- Cash buffer, % of total funds — 15%

Analysis sample

10 of largest 20 MFIs

Liquidity shortfall

- **MFIs** – 8 of 10 sample MFIs have shortfalls in excess of 5%, each — **$10-40 million**
  Total: ~$105 million)
  MMK 160 billion
  10 MFIs, active loans = 2.4 million (of 4.3 mn for 20 MFIs); portfolio = $715 mn (of total, $1.2 bn)
- **Total shortfall,** largest 20 MFIs — **~$177 million**
  MMK 265 billion

This note parallels the analysis in M-CRIL's Advisory Note for India – latest version released end-June 2020 – analysing the effects of the Corona virus on the liquidity of micro-lenders (Small Finance Banks and the largest Indian MFIs). **The analysis in this note covers MFIs in Myanmar.**

In **Myanmar, the Microfinance Supervisory Committee ordered a lockdown from early April resulting in the complete closure of all economic activities in the country during 6 April to 30 April 2020**. This took the form of stay at home restrictions which were largely removed at the end of the period but with physical restrictions such as social distancing and an order of FRD requiring branches to have no more than 5 staff working at any one time. In practice, most MFIs were only able to resume operations gradually and normal microfinance operations resumed from the middle of May.

Surviving the pandemic…

This note provides an analysis of the liquidity implications of the Covid-19 restrictions applied in Myanmar; the analysis presented here will be **revised as the situation evolves**. Feedback from the field will enable a more nuanced review of the liquidity issues resulting from the lockdown for MFIs in Myanmar. **This Advisory Note is based on a sample of 10 of the largest 20 MFIs in Myanmar in terms of portfolio size**. Except in one case, this also corresponds with the 10 of the largest 20 MFIs in terms of number of clients served (or number of borrower accounts). The selection of 10 MFIs (from the 20 largest) was determined mainly by the availability of consistent financial information from their operations.

The aim of this note is to facilitate the sustenance of the microfinance ecosystem by creating understanding of the liquidity issue amongst the managements of MFIs, as well as amongst their lenders, equity investors, regulators and policy makers and other observers of the extent of liquidity shortfalls resulting from the crisis under a range of conditions.

Since March 2020 data is not available and even end-September 2019 information is patchy we have used March 2019 data for this analysis. The analysis in this note is based on the following **assumptions**

- The contours of the March 2019 balance sheets/financial statements remain largely unchanged in March 2020; we recognise this may not be true but the objective here is to indicate the dimensions of the liquidity problem rather than to provide accurate information. In order to make a realistic estimate of orders of magnitude a 56% average growth rate to March 2020 has been assumed (based on aggregate numbers available for the quantum of portfolio outstanding in March 2019 and March 2020).

- Nearly 100% of these MFI portfolios are with micro-borrowers with no collateral. Due to lockdown regulations there was almost no recovery of dues in April and up to mid-May 2020. When operations resumed in the second half of May collections picked up rapidly and some MFIs report about 90% of amounts due in the second half of May were collected. As June 2020 came around repayment levels improved to the normal 98-99% level with normal operations of all branches. For the six-month period of this analysis we calculate, on this basis, an average recovery of 73.5% of expected collections. However, this is for some MFIs and may not be true for all, so we have undertaken a sensitivity analysis with recovery rates ranging from 60% to 90% (see **Table 1** and **Figure 1**).

- There is no moratorium or any other relief to MFIs from their lenders though there may be some negotiation to delay a few repayments to them.
- **Compulsory deposits** with MFIs (5% of disbursements) are repaid at the end of the loan term or adjusted against fresh disbursements. Voluntary deposits of the order of 2-3% of disbursements remain steady.
- There will be no default on MFI **receivables** from debtors on non-operational transactions
- **Other income** (commissions & miscellaneous) do not decline significantly.

…beyond survival, reviving operations is the key to sustainability

The challenge of the pandemic and its associated economic disruption goes much further than surviving the liquidity challenges of the lockdown. **What does survival mean if a financial institution meets its immediate cash needs but has no money to lend?** The microfinance operation depends on customers being able to borrow to finance their lives as well as their livelihoods. Like many leveraged large enterprises, microenterprises too need to roll over their finances; in order to rebuild their enterprises some may even need bridging loans; if their lender (the MFI) has no money to lend, its outstanding portfolio could start to go bad and result in insolvency.

The issue, therefore, is not just to survive the pandemic but also to be in a position to support the livelihoods of borrowers from MFIs. We assume, therefore, a need to maintain disbursements to enable micro-borrowers to revive their livelihoods after lockdown as well as to re-start the motor of normal MFI operations. For this purpose, we have included in the calculation that **MFIs need to be prepared with adequate volumes of cash for disbursement**. Since disbursements happen as part of the normal operations of MFIs, and usually follow the completion of loan tenures for microfinance borrowers, we assume that there were no disbursements during the lockdown period and that further disbursements after that period are likely to follow closely the pattern of collection of dues. Hence, the collection rate and disbursement rate (as a proportion of annual totals) are likely to be the same – average rate of 73.5% <u>in the most likely case</u>. However, some MFI managements may decide to limit disbursements (temporarily) in order to preserve cash so we have used a range of disbursement levels from 60% to 90% of the normal level expected during the six month period.

The liquidity challenge for Myanmar MFIs

For clarity, the liquidity assessment below is for a six month period (April-September 2020) on the assumption that the liquidity challenge is for the short term and it is during this period that some additional liquidity support may be necessary. Specifically, we have used the following

Inflows over 6 months (April to September) =
+ **opening balances** (cash + cash equivalents on 1 April)
+ **portfolio** (repayment) **collections**
+ **interest income on loan portfolio** collected during the period
+ **deposits collected** (as discussed above)
+ **other income** (50% of total for the year)

Outflows over 6 months (April to September) =
+ **borrowings repaid** during the period (assumes two-year tenure for wholesale loans)
+ **interest paid on borrowings** over 6 months
+ **deposits matured** during the period (as discussed above)
+ **interest paid on deposits** (50% of total for the year)
+ **operating expenses** (staff salaries, establishment expenses, travel (minimal in lockdown)) –will be 45% (rather than 50%) of the expected total for the year due to reduced expenses (other than staff remuneration) resulting from the low level of activity during lockdown.

The results are presented in **Table 1** which shows the number of our sample MFIs (10 of the largest 20 in Myanmar) with negative cash flow or liquidity shortfalls **greater than 5% of total funds** over the 6 month period. [Deficits less than 5% are assumed to be within a margin of error since our calculations are necessarily indicative rather than precise]. The variables in the table are

- On the **x-axis**, disbursement as a proportion of normal levels as determined by MFI managements
- On the **y-axis**, the proportion of repayments due (recoveries) during the six month period of the analysis.

Table 1 and **Figure 1** show significant liquidity issues arising for MFIs in the following conditions

- **Most likely**: With 73.5% of amounts due during the analysis period recovered, and (in keeping with normal MFI practice) roughly the same proportion (73.5%) of expected disbursements paid out, as many as 8 of the 10 MFIs in our sample have significant liquidity shortfalls resulting in the need for a **liquidity fund** amounting to **$177 million** (for all 20 MFIs) to tide over the crisis.

- **Maintaining disbursements at the same level as recoveries** whether it is 60% or 90% does not solve the liquidity problem – there are still 8 (of 10) MFIs in trouble with the crisis fund ranging from $191 million to $160 million. The fund is greater for lower recovery rates as might be expected.

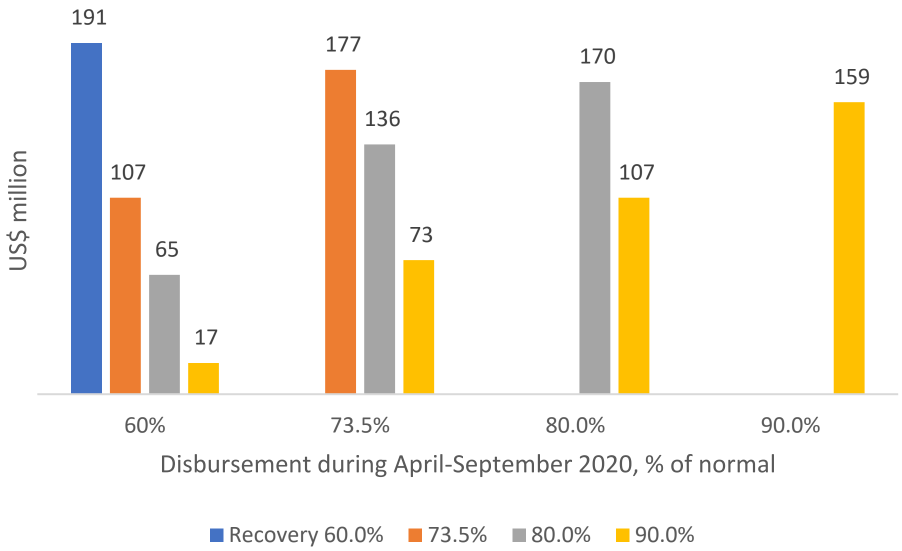
- **Suppressing proportionate disbursement below the level of the recovery rate** is the only way of bringing some relief to MFIs in terms of the liquidity shortfall. Thus, reducing the disbursement to 60% of the expected level with a recovery of 90% naturally is the best scenario in our analysis with only 3 MFIs with significant difficulties and the necessary liquidity fund down to just $17 million. However, this is most unlikely to happen – the recovery rate is unlikely to reach 90% by September 2020 and at such a high recovery rate it would be difficult for MFIs to limit disbursements to 60%.

- **The best that can be expected** is that the recovery rate until September is 73.5% and MFIs are able to limit their disbursements to 60% resulting in the need for a crisis fund of the order of **$107 million**. However, this too would create difficulties in reducing the overall business of each MFI over the next 12 to 18 months; the most likely scenario above is therefore the only realistic possibility.

Table 1: # MFIs in sample of 10 (of 20 largest MFIs) facing significant liquidity deficits

Disbursement, % of normal	**60.0%**	**73.5%**	**80.0%**	**90.0%**
Recovery, % of expected	Number of MFIs in crisis			
60.0%	8			
73.5%	7	8		
80.0%	7	8	8	
90.0%	3	7	8	8

Figure 1: Amount of liquidity support necessary to ensure survival of the largest 20 MFIs (US$ millions)



The covid liquidity paradox…

Based on the above analysis, **the key pre-existing factors that enable institutions to manage Covid conditions** are

1 While commercial logic dictates that a high proportion of assets should be in portfolio since that is what generates income for the MFI (and has higher interest yields than any bank deposits are likely to provide), at a time like this a higher proportion of assets in cash (and equivalents) is beneficial. In our sample the only two (of 10) MFIs that are able to cope with the liquidity stress are **those that received large inflows of funds in the January-March quarter** and had not yet disbursed the funds when the lockdown occurred. Their portfolio-to-assets ratios are in the 65-70% range.

2 **A high maturity period of borrowings is also helpful** at a time like this since the pressure on liquidity of repaying wholesale lenders is reduced. We have assumed a standard two-year tenure of all borrowings by MFIs but, naturally, those that have some if not all their borrowings with three year tenures face less immediate liquidity pressure. With borrowing ratios rising in Myanmar to around 50% of total funds, loan tenure is increasingly important in managing liquidity. MFIs with lower borrowing levels are those with very substantial current or historical donor support.

The numbers in this analysis indicate the **additional** funds from investors or wholesale lenders (domestic banks or foreign lenders) that the MFIs will need to generate **in order to survive**. Others have also written about this;[1] both creditors/lenders to SFBs & MFIs (and other micro-lending institutions) as well as investors should refrain from putting pressure on MFIs since it will result in the very outcome they fear – the collapse of the institution – **losing many millions of dollars**.

To conclude, both loan funds and equity infusions are needed

This analysis shows that the liquidity support required by Myanmar MFIs could be between $100-180 million. If support of this order of magnitude is not provided in the near future, a sector with a total portfolio of around $1.35 billion and overall funds of around $1.6 billion, the potential financial loss from the collapse of at least a few MFIs could be $300-400 million; a far worse outcome than the funds needed now.

Most alarmingly, the lack of such support could result in the collapse of financial arrangements that currently help around 4 million low income families in Myanmar to manage their lives and livelihoods.[2] ***This should not be allowed to happen.*** All stakeholders, including equity investors, banks/other lenders and regulators need to pull together to move the needle forward and support those who are suffering the most from the pandemic

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See disclaimer and credits on the following page…

[1] Dan Rozas, 2020. "Liquidity before Solvency: A Guide for Microfinance Investors in the Time of COVID-19" **Next Billion**, Guest Articles, April 14.

[2] We estimate 4 million plus families as opposed to the 5.6 million active loan accounts reported by MMFA for end-March 2020. The difference allows for multiple borrowing by a significant number of families.

A disclaimer for readers…

These findings provide a guide for the managements of micro-lending institutions, for wholesale lenders to them and for investors in such institutions to understand the liquidity challenges of the lockdown. As indicated by the qualifying statement earlier in this note, the analysis here is based largely on the March 2019 balance sheets of the MFIs in the sample; as the March 2020 financial information becomes available, this advisory will be updated but we believe that the overall pattern will stay the same. This document does not purport to set out rules of operation for MFIs in normal times, it is meant mainly as an indicator for all stakeholders in the microfinance sector of the challenges involved and the orders of magnitude of funds of additional investment or lending to be considered. ***However, actions taken by stakeholders are at their own risk and M-CRIL will not be responsible for decisions based on the contents of this note***.

…and a thank you to commentators
To Frances Sinha, co-Founder, M-CRIL and Tanmay Chetan, CEO Agora Microfinance for their insightful suggestions during the conceptualisation and writing of the original note on India out of which this document has evolved.

M-CRIL is a responsible development research and analytics firm with a concern for **inclusive microeconomics**. Along with its parent firm, EDA Rural Systems, M-CRIL has over 40 years of experience of international issues in microenterprise promotion and financial inclusion through a substantial record of analytics in this field including microfinance ratings, programme evaluations and focused management training and capacity building support for MFIs. Its work in support of smallholder farmers and with agricultural value chains in South and Southeast Asia also emphasises its commitment to supporting the lives and livelihoods of low income families.