

**Experiences of Myanmar Agricultural Development Bank Program
on Value Chain Finance on Agriculture**

Country Report of Myanmar

Presented by

NILAR WIN
Assistant Manager
Myanma Agricultural Development Bank
26/42 Pansodan Street, Kyaukdatar Township
Yangon, Myanmar

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1. Country Profile of the Union of Myanmar

Union of Myanmar is the second largest country in South-east Asia in size (behind Indonesia). It is situated in the main land of South-East Asia and West of the Indo-China Peninsula. To the north and east of Myanmar lies the People's Republic of China, and to the east and southeast, Laos and Thailand. To the south, lies the Andaman Sea and Bay of Bengal, and to the west Bangladesh and India.

The country covers an area of (677,000 square kilometer) ranging 581 miles (936 kilometer) from East to West and 1275 miles (2051 kilo -meter) from North to South. Myanmar is a land of hills, valleys and is bordered in the Northeast and West by mountain ranges. Enclosed within the mountain barriers are the flat and fertile lands of Ayeyarwaddy, Chindwin and Sittaung River valleys. The climate of Myanmar is roughly divided into three seasons, namely; Summer, Rainy and Winter.

The administrative structure of the country comprises of seven States and seven Regions. It consists of 66 districts, 325 townships, 60 sub-townships, 2 781 wards, 13 714 village's tracts and 64 910 villages.

The main national races are Kachin, Kayah, Kayin, Chin, Bamar, Mon, Rachine, and Shan. The population of Myanmar (in 2009) is (estimated) at present about 58.38 millions with the annual growth rate of 1.52 percent. Of which about 40.88 million accounting for 70% of the population resides in the rural areas and the remaining are urban dwellers. Male constitute 29.20 million and female constitute 29.10 million. The country is sparsely populated with approximately 77 persons per square kilometers and range from 595 per square kilometers in Yangon Division to 14 per square kilometers in Chin State, the western part of the country. Over 80 % of the Myanmar people are Buddhists.

2. General Condition of the Socio-Economic Background

Myanmar has good fertile land and rich natural resources: natural gas, metals, wood and precious stones. However, the country is underdeveloped because of the decade of isolation.

Under the leadership of the new President U Thein Sein, Myanmar has tried to make a series of economic reforms. National Comprehensive development Plan (NCDP) such as passage of the new Financial Institutions Law, Foreign Investment Law, Microfinance Law, Farm Land Act and so on. These reforms are necessary for Myanmar to join the ASEAN Economic Community (AEC) in 2015 which aim to be a single market and production base with the free flow of investment, capital, goods and services and laborers among ASEAN countries.

The new Foreign Investment Law provides incentives and protection for foreign investment into Myanmar. New by-laws for agriculture sector will provide more confidence for the foreign investors so that more investment in post-harvest activities, better quality rice with competitive prices will be exported. To get improved and efficient productivity, United States, Japan, India and Korea have endeavored to transfer farm and agriculture technologies to Myanmar.

4. The role of Agriculture Sector

Myanmar is an agricultural country, and agriculture sector is the back bone of its economy, Agriculture sector contributes 30% (2010-11) of GDP; 13.7% of total export earnings; and employs 61.2% of the labour force. Agriculture development leads the development of Myanmar's economy. The government of the Union of Myanmar pay attention to greater emphasize on agriculture mechanization and modernization in its main economic objectives. 70% of the population lives in rural areas relying on agriculture and related businesses.

Present status of land utilization in Myanmar can be observed; the area 44.68 million acres of cultivable land comprise of 22.34 million acres is net sown area, 2.74 million acres is fallow land area and 19.60 million acres is cultivable waste land area respectively.

Ministry of Agriculture and Irrigation pays continual attention to reclamation of fallow and waste land and utilization of those for the improvement in crop production undertaking the activities by not only state sector but cooperation and private sectors also under the long-term and short-term plan.

Hence, the fallow and waste land are being reclaimed throughout the country and the arrangements are being made to allocate the land to state organizations as well as private entrepreneurs not only for the purpose of agriculture but for agriculture-related activity in accordance with the laws and regulations enacted.

Key Factors for development of agricultural production are as follows:

- Creating profitable and sustainable market for farmers
- Utilization of good quality seeds to produce quality products with higher prices
- Adoption of Good Agricultural Practices
- Application of agricultural inputs such as irrigation, water, chemical and natural fertilizers efficiently and timely
- Reduction of transactional costs along the supply chain.

Currently, new Farm land Act has been promulgated and it allows agricultural land to be leased for up to 60 years. According to this law, cultivators could have the right to transfer their leased land.

Farmers in rural areas play very important role to provide food supplies, qualified and safety products demanded by traders, agro-processors and agri-businesses, retailers and exporters who are participating in moving the agri-products from farm to the final market.

Due to insufficiency of finance, small and medium-scale farmers cannot expand the cultivable land and cannot use agro-inputs. As a result, level of yield is low.

5. Importance of Value Chain Finance in Agriculture

Financing is very important for the development of agriculture Value Chain. In Agriculture value Chain Financing, input suppliers, traders, agro-processors and agribusinesses play very important role of financing to farmers and they need to work together.

Value Chain is defined as a series of activities that add value to a final product, beginning with the production, continuing with the processing or elaborating of the final product, and ending with the marketing and sale to the consumer or end user (FAO). Each step or activity in the chain is composed of processes undertaken by consecutive enterprises, adding value to the product (Agricultural Productivity Organization <APO> definition).

When credit or other financial services flows through actors along these chains, it is called value chain finance, and may or may not include support from formal financial institutions (RAFI, 2005).¹

The Value Chain reduces commercial risks by providing an assured market for the produce, thus making it easier for chain actors to obtain financing from banks and other formal sources. Efficient value chain financing is critical in agriculture since it enables small- to – medium scale farmers, traders, and processors along the chain to optimize financial investment, resource allocation, and capacity expansion. Hence, small producers can become and remain competitive if they are part of dynamic and well-organized chains with access to sustainable financial services.

Value Chain Financing offers banks less costly, less risky and more efficient alternative. Due to lack and insufficiency of financing, low of yield and low crops prices, Myanmar farmers' interest in agriculture sector is decreasing and they changed their life style as industrial workers. To overcome this, Value Chain Financing is necessary.

By using efficient and effective Value Chain Financing, poor farmers could be able to access the financial services so that they could participate in the emerging agricultural products market and could obtain additional income which will lead to foster economic growth of Myanmar.

Though the government of Myanmar has supported some Value Chain Finance Schemes, it appears limited by lack of access to sufficient credit on most levels of the chain and not well linked between lenders and borrowers.

Therefore, more effective and efficient Value Chain Finance Schemes for local small and medium scale farmers is necessary.

This paper is presented as a partial assistance for development of Value Chain Finance in Myanmar.

6. The formal and informal institutions that provide finance in agriculture

In Myanmar poor people do not have landed properties to be placed with bank as collateral. Moreover, many people in rural areas do not know how to used banks and what the bank facilities are. Most of them have to get loans from informal sectors at high rates of interest. And thus, provision of effective microfinance with interest rates lower than informal sector rates becomes a powerful tool for poverty reduction in the country. Therefore, microfinance is among the eight priority of the National Development Strategy of Myanmar.

¹ APRACA FinPower Publication: 2011/2

In November 2011, the government adopted a new microfinance law which allows local and foreign investment to establish private microfinance institutions. It provides legal framework for existing microfinance providers.

Microfinance Supervising Enterprise is responsible to supervise for microfinance sector. It was newly established and formerly known as Myanmar Small Loan Enterprise.

There are five state-owned banks (the Central Bank of Myanmar, Myanmar Economic bank, Myanmar Investment and Commercial Bank, Myanmar Foreign Trade Bank and Myanmar Agricultural Development Bank) and twenty semi-government and private banks in Myanmar. Among all banks, MADB is the second largest number of branches. Apart from MADB, other banks operate commercial banks services rather than microfinance services in agriculture and rural area.

The domestic and external institutions that implement microfinance activities are as follows;

Government Organizations (GOs)

- 1) Myanmar Agricultural Development Bank (MADB)
- 2) Myanmar Small Loan Enterprise (MSLE)

Non-Government Organizations (NGOs)

- 1) Union Solidarity and Development Association (USDA)
- 2) Myanmar Women Affairs Federation
- 3) Yangon City Development Committee (YCDC)
- 4) Central Co-operative Association
- 5) Licensed pawn shops

International Non-Government Organizations (INGOs)

- 1) Grameen Bank (Bangladesh)
- 2) Economic Development Association (EDA)
- 3) Group de rechercheet d' charger Technologies (France) (GRET)
- 4) Private Agency Collaboration Together (PACT)
- 5) Save the Children

The rural and Agricultural credit in Myanmar is provided by formal financial institutions ; Myanmar Agricultural development bank, Myanmar Livestock and Fishery Development Bank, The Central Cooperatives Association) and semi-formal financial institutions (NGO-MFIs and local MFIs).

Among the formal financial institutions, **Myanmar Agricultural Development Bank (MADB)** is the largest in terms of both the number of clients and the amount of loan

disbursed in rural areas. It has 1.59 million client farmers . It has 220 branch banks all over the country, running with nearly (3000) staff. Its interest rate 8.5% per annum is very low compared to that of other formal and informal institutions' (from 24% to 36%). In 2012-13 Financial year, the loan amount disbursed by MADB is 570 billion Kyat (US \$ million 5700). MADB is sole state-owned bank and it was established in 1953 and it is now (59) years old. It was formed by specialized law for the development of agriculture in Myanmar. Formerly, it was under the control of Ministry of Finance and Revenue and was transferred to the guidance of Ministry of Agriculture and Irrigation in 1996.

In the past, MADB has grown a country-wide network with 11200 village banks established in the villages in accordance with **MADB Rule (1990)**. Its outreach was excellent and MADB could train good practices and give knowledge concerned with financing to members of village banks. However, in (1993) the government substituted Branch banks system in place of Village Banks and its outreach is very limited. At present, only township branches offer loans and saving deposits. Hence, all the client farmers need to travel quite far to reach MADB's branches.

According to existing MADB law (1990), the aim of MADB is to effectively support development of agricultural, livestock and rural socio-economic enterprises in the country by providing banking services. It is given a wide mandate to provide bank loans to state-owned agriculture and livestock organizations, co-operatives, private persons and entrepreneurs in simple procedures. However, due to insufficiency of Bank's capital, it has to borrow loan from Myanma Economic Bank and it can provide only Seasonal loans (especially for Paddy) and Terms loans to rural farmers. According to MADB Law, it has to contribute 75% of its net profit to the state. It recovered all the loans disbursed annually and NPL is 0.02% in 2012-13 FinancialYear.

Seasonal Loans for production of 8 main crops such as paddy, groundnut, pulses, sesame, cotton, jute, maize and mustard are disbursed in three separate seasons; Monsoon, Winter and Pre-monsoon. For Seasonal Loan, farmers have to be grouped into 5 to 10 members and they must accept liability of individual loan and of other group members' loan. No other collateral is necessary.

Table.1 Disbursement of Seasonal Loan made by MADB²

Financial Year	Townships	Village Tracts	No of Borrowers (Million)	Acres	Amount (Kyat in Million)
2000-2001	204	8692	1.16	8680052	12149.19
2001-2002	205	8688	1.12	8950734	12740.81
2002-2003	205	8375	1.01	7628670	12015.31
2003-2004	205	8652	1.07	7146104	20416.25
2004-2005	205	8738	1.10	7285598	27382.18
2005-2006	205	8861	1.14	7749371	34390.26
2006-2007	205	8997	1.18	8385619	44875.80
2007-2008	205	9198	1.26	9482721	59627.84
2008-2009	205	9206	1.27	10002802	68970.07
2009-2010	205	9313	1.31	10514100	93489.29
2010-2011	205	9450	1.37	11257966	190679.89
2011-2012	205	9533	1.42	12462876	352721.75
2012-2013	206	9810	1.59	14390951	557846.54

Terms Loans are disbursed for the purchase of farm machineries such as pump sets, power tillers, tractors and so on and for the coffee plantation, green tea plantation, sugarcane plantation and solar salt production.

Though MADB can support financing to farmers in cash or in kind or both in accordance with Law, it can disburse only credit in cash to rural farmers.

With the assignment by Government, MADB has an experience in providing loans for Value Chain Finance in agriculture. In order to decrease Palm oil import, government encouraged local entrepreneurs to grow oil palm trees and produce Palm oil. The government supported necessary assistance to entrepreneurs who were working in oil palm plantation and palm oil refineries. By issuing permission for land use right, the entrepreneurs extended their oil palm plantation. The State also provided necessary supports for import of equipment from abroad for building palm oil refineries. Since the oil palm plantations are located in the remote areas of the southern part of Myanmar, roads were constructed for smooth transportation and communication. MADB disbursed long term Loan **for oil palm plantation and palm oil refineries** to entrepreneurs depending on the achievement of completing their works targets with 3 installments within 3 years. Disbursement period was grace period. It recollected the loans with 3 installments within next 3 years. MADB gave out the amount of 4973.8 million Kyat (US \$ 4973800)for oil palm plantation and palm oil refineries during 2004-2005 to 2008-2009 Financial Year and was able to recover all loans.

MADB also provided loans for Coffee plantation, Green Tea plantation and Tea processing depending on the completion of business steps respectively.

² Myanma Agricultural Development Bank, Development Loan Department

Coffee plantation loan was disbursed to the cultivators who were doing the coffee plantation and they could not continue their businesses due to insufficiency of capital. However, the borrowers had to tender their immovable properties of their own or guarantees of two reliable persons as well as their cultivated plantations.

MADB gave out the loans for coffee plantation to some townships of Shan State, Pago Region and Mandalay Region. These loans were disbursed with 3 installments within 3 years and recollected with 3 installments within 3 years. The disbursement period was assumed as grace period.

Table 2. Disbursement of Coffee plantation loan by MADB³

Financial Year	Townships	Village Tracts	No of borrowers	Acres	Loan Amount (Kyat)
2001-2002	4	6	9	32	800000
2002-2003	3	10	34	95	1955000
2003-2004	5	28	131	697	33895000
2004-2005	5	29	245	1062	37890000
2005-2006	5	47	853	2234	82415000
2006-2007	5	58	1043	3049	83990000
2007-2008	4	51	1095	3897	135520000

Green Tea Plantation loan was disbursed for the cultivators who could not continue their works due to lack of their own money. MADB financed the loans depending on the performance of their plantation with 3 installments within 3 years. The first 3 years was assumed as grace period. It recollected the loans with 3 installments within next 3 years. Tea plantation loans were given out to the farmers from some townships of Chin state, Shan State, Pago Region and Mandalay Region.

Table 3. Disbursement of Green Tea Plantation loan by MADB⁴

Financial Year	Townships	Village Tracts	No of Borrowers	Acres	Amount (Kyat)
2002-2003	8	85	1288	8132	403410000
2003-2004	8	104	1399	8866	49270000
2004-2005	8	104	1426	9217	48585000
2005-2006	11	20	198	1532	8410000
2006-2007	4	20	245	1634	13515000

³ Myanma Agricultural Development Bank, Development Loan Department

⁴ Myanma Agricultural Development Bank, Development Loan Department

MADB also gave out **Tea Processing and Production loan** to farmers who had successfully cultivated tea plantation and needed working capital to process their tea products. These loans were disbursed in some townships of Shan State (South), Shan State (North) and Mandalay Region.

Table.4 Disbursement of Tea Processing and Production loan made by MADB⁵

Financial Year	Townships	Village Tracts	No of Borrowers	Acres	Amount (Kyat)
2004-2005	5	16	176	1465	4650000
2005-2006	5	24	481	4390	43900000
2006-2007	4	27	909	8600	86000000
2007-2008	4	38	1615	15978	159780000
2008-2009	4	57	2667	25527	255270000
2009-2010	4	60	2428	31900	319000000
2010-2011	5	61	3573	35310	706200000
2011-2012	5	70	4246	4000	800000000
2012-2013	6	66	4347	41320	826400000

MADB launched a voluntary savings mobilization scheme in 1993 and farmers and rural population are encouraged to save their surplus income at the branch banks. The number of rural savers is 1.95 million farmers in 2011-12 Financial Year.

Myanmar Livestock and Fisheries Development Bank (MLFDB) is a semi-private bank . It was established in 1996, but control of the operation was transferred to the Ministry of Livestock and Fisheries from the Ministry of Trade in 1999. It provides small scale loans to microenterprises. It has 60 branch banks and 55% of its loans are to the agriculture sector.

Last financial year (2012-2013) the bank's deposits was Kyat 367 billion, up from Kyat 2.3 billion 12 years ago.

The Central Co-operatives Association which is under the supervision of the Ministry of Co-operatives. It received a Microfinance license recently and it is operating 46 MFIs that function as village banks in States and Regions. Co-operatives focus primarily on deposit mobilization and micro loans, especially in urban areas. As of May 2012, its total membership is 32851.

Sixty Specialized Agricultural Development Companies provide Value Chain Finance for rice production. They can support seasonal loans by providing seeds, inputs, fertilizers, etc. As Yangon is the center of Rice Production Distribution, there is one Agricultural

⁵ Myanma Agricultural Development Bank, Development Loan Department

Development Company (ADC) in each township of Yangon. But these companies have not license yet under the new Microfinance law. These companies can support 40 billion kyat to 60 billion kyat in each harvest season to about 200,000 farmers.

Rice Industry Association is a sole private one and non-profit association. The Rice Industry Association and Specialized Agricultural Development Companies were formed to coordinate among farmers, millers, traders on the supply chain. It provides farmers not only in cash but also in technical assistance, capacity building services, seeds rice milling and fertilizers.

7. Lessons learned

Value Chain Financing is underdeveloped in Myanmar. Though there are financial institutions that provide finance to small and medium scale farmers and agri-related businesses, there are not linkages among the institutions.

Financing to agriculture has been carried out mainly by Myanmar Agricultural Development bank.

Currently, financial institutions are not being able to finance or developed products in the agricultural value chain effectively. Due to lack of financing to all levels of Value Chain, rural farmers' interest in agriculture is dramatically decreased.

Only if there were support programmes and technical assistance for the market development and financial institutions strengthening, Value Chain Finance in Myanmar could be efficiently and effectively encouraged. A good value Chain Financing approach should be better adopted by financial institutions.

8. Issues and Concerned including constraints

Though Myanmar has had some experience in Value Chain Finance, all institutions have supported by themselves and there are not linkages among them and there is not sustainable development.

Rural farmers are undertaking their farms' needs at their own expense and using traditional way in pre harvesting and post harvesting times. As a result, the yield per acre is low and there is a lot of waste.

To get opportunity for export, local exporters and companies are providing loans to farmers and they take advantages. But, farmers could not direct dealing with the market and have to sell their products at lower prices than market prices.

Farmers can be ownership of their farmland in accordance with the new Farm Land Act, farmers might be landless farmers by tendering their farmlands as collaterals to get financing.

According to Myanmar Agricultural Development Bank Law, it has mandate to provide loans in cash or in kind or both. However, currently, it can support loans in cash only; cannot provide raw materials, seeds, inputs, fertilizers and warehouse facilities. Though it

can expand more financial services of microfinance and micro credit, it is facing significant challenges in carrying out its mandate.

9. Recommendation and Conclusion

Ministry of Finance and Revenue, Ministry of Agriculture and Irrigation, the Central Bank of Myanmar, Myanmar Agricultural Development Bank, Myanmar Livestock and Fisheries Development Bank and other formal financial institutions should cooperate and coordinate in value chain finance in agriculture and these institutions should be supported to have technology and technical advice, market information and institutional linkages. It is required to gain government support and help for the existing agricultural financial institutions to obtain knowledge sharing concerned with Value Chain Financing System by means of participating in regional and international forums, workshops, seminars and trainings.

As Myanmar Agricultural Development Bank is the largest and leading provider of formal finance in rural areas in Myanmar with the large branch network across the country and it has the potential to play a key role in providing broad-based, market oriented rural financial services, it should be encouraged by the government and other international organizations to expand efficient financial services like Value Chain Financing in accordance with its mandate. Value Chain Finance for a selected crop (for instance; sesame crop) for small scale farmers should be pilot tested. MADB should be reformed into a viable, autonomous and effective one in rural area and its branch banks should be opened in every townships and their outreach should cover to all the villages.

As local farmers have not sufficient working capital and have to borrow loans from informal sources at high interest rates, they should access easily and less costly financial products. Value Chain Financing for farmers should not be collateral base.

It is necessary to educate farmers how to access financial facilities and what are the requirements to get finance from the financial institutions. Small and medium scale farmers should obtain market information timely and let them to sell their products freely in the market and they should have better bargaining power.

There might be misappropriations because of ineffective financing if there are not inputs and technological supports to farmers and financing knowledge sharing and technical supports to the staff concerned.

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