AGRICULTURE FINANCE IN MYANMAR AND MYANMA
AGRICULTURE DEVELOPMENT BANK REFORM

Om Ki

SUMMARY

Notwithstanding enormous increases in agricultural loans to smallholder farmers by successive governments of Myanmar over the past decade, the cost of cultivating crops still significantly exceeds the subsidised loans granted by the State, and to which less than half of farm households have access. Exacerbating this State financing gap, is the lack of access to timely, affordable and dependable credit from formal financial institutions broadly, including private banks and microfinance institutions. As a consequence, Myanmar’s farmers are forced into borrowing (supplemental) loans from informal moneylenders at exorbitant rates of interest that range from 60 to 200 percent per annum, which (unsurprisingly) also chronically undermines the profitability, viability and sustainability of farm households.

This study presents a short contextual background and concise investigation into agricultural finance in Myanmar through a historical perspective, followed by a brief analysis of lessons learned from international experience in reforming agricultural banks in Asia and Latin America. The policy recommendations derived include restructuring, rehabilitating and reforming the Myanma Agricultural Development Bank (MADB), regulating it as a fully-fledged commercial/development bank under the 2016 Financial Institutions Law, transferring the supervision and regulation of the MADB to the Central Bank of Myanmar (CBM), and synchronising the MADB reform measures with the overall financial and agricultural sector reforms. The aim is to encourage the ‘crowding in’ of private sector intermediation and participation in facilitating, financing, and accelerating agricultural sector development in Myanmar.

Key words

Agriculture finance, Myanma Agricultural Development Bank, MADB reform

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3.1 CONTEXTUAL BACKGROUND

According to the 2014 Myanmar Population and Housing Census, the total population of Myanmar was 51.5 million with an annual population growth rate of 0.89 percent. With 70 percent of the population residing in rural regions and engaged primarily in agriculture-related livelihoods, Myanmar is an agri-based economy, with the agricultural sector generating 29 percent of gross domestic product (GDP), employing 50 percent of total labour force and contributing to 30 percent of total exports by value in the fiscal year (FY) of 2015-2016. Successive governments of Myanmar have emphasised and prioritised agricultural sector development as one of the key engines of economic growth generation and the foundation for broad-based socio-economic development. The current National League for Democracy (NLD)-led government also envisions, in its 2018 Myanmar Agriculture Development Strategy and Investment Plan, that Myanmar will achieve “An inclusive, competitive, food and nutrition secure and sustainable agricultural system contributing to the socio-economic well-being of farmers and rural people and further development of the national economy”. Fostering climate-smart agriculture, augmenting farm productivity and profitability, and ensuring an enabling economic ecosystem that facilitates sustainable agricultural development are thus among the top priorities of the government.

Nevertheless, agricultural growth in Myanmar lags drastically behind that of comparator countries at similar stages of their development. For instance, the yields of rice, the staple food of Myanmar people as well as the dominant and crucial cash crop of most agricultural households, are among the lowest in Asia, both in average and among the best farms. Labour productivity in paddy production in the commercial parts of the Ayeyarwaddy Delta is only a fraction of the labour productivity achieved in other paddy production bowls of Asia. Low labour and land productivity results in low farm profitability in Myanmar, which is three times below the average generated in other countries.

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8 Ibid.p17.
12 Ibid.p3.
13 Ibid.p3.
multifaceted and comprehensive approach is necessary, but the most critical challenge will be ensuring and enhancing reliable and affordable access to farmer-friendly finance.

Figure 3.1: Comparison of annual income of agriculturalists in Myanmar and selected countries

![Comparison of annual income](image)


### 3.2 AGRICULTURE FINANCE THROUGH A HISTORICAL PERSPECTIVE

Throughout the British colonial era (conclusively from 1886 to 1948) in Myanmar, the *Chettiar*, a money-lending caste from Tamil Nadu province of today’s India, were the chief providers of agricultural credit to the cultivators. The two key aspects of the predominance of agriculture finance by the *Chettiar* were the speed of their services: the time elapsing from the application for a loan to the credit paid over upon execution of necessary documents was often not longer than an hour; and the interest rate charged (ranging from 9 to 24 percent per annum depending on the type of collateral). During the parliamentary...

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democracy years after independence (1948-1962), the State Agricultural Bank (SAB) was established which provided agricultural finance with a 7 percent annual interest rate, but in the absence of adequate rural finance (the SAB did not have sufficient resources to cover all of Myanmar’s rural credit needs), informal moneylenders provided around two-thirds of credit to the farmers, with a yearly interest rate of around 50 percent\textsuperscript{16}.

Following this, during the regimes of the Revolutionary Council and the Burma Socialist Programme Party (1962-1988), all the domestic and foreign banks were nationalised to establish the monolithic People’s Bank of the Union of Burma. Despite the rural finance provided by the government during these eras, three-quarters of credit provided to agriculturalists continued to be supplied by informal lenders, whose annual interest rates ranged from 27 to 314 percent per annum.\textsuperscript{17} By 1990 during the period of the State Peace and Development Council (SPDC) (1988-2010), the Myanma Agriculture and Rural Development Bank Law was promulgated with the objective of addressing the protracted deficiencies of rural credit, but the loans disbursed by this state-owned agriculture bank were chronically not sufficient to meet farming expenditures for crop production. Though the current government has raised the amount of seasonal crop loans available at an annual interest rate of 8 percent in three consecutive years of 2016, 2017 and 2018, studies suggest that these loans only cover approximately half of total production costs.\textsuperscript{18}

\textsuperscript{16} Ibid.p201.  
\textsuperscript{17} Ibid.p247.  
Table 3.1: History and supervision of MADB over the past 66 years (1953-2018)

<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>Supervising Ministry</th>
<th>Government led by</th>
<th>Legal Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>State Agricultural Bank</td>
<td>Ministry of Agriculture and Forestry</td>
<td>Anti-Fascist People’s Freedom League</td>
<td>State Agricultural Bank Act (1953)</td>
</tr>
<tr>
<td>1967</td>
<td>Agricultural Finance Division, People’s Bank of the Union of Burma</td>
<td>Ministry of Planning and Finance</td>
<td>Revolutionary Council</td>
<td>People’s Bank of the Union of Burma Act (1967)</td>
</tr>
</tbody>
</table>


3.3 CALLS FOR MADB REFORM

Established on June 1, 1953 under the name of State Agricultural Bank by the UN Nu Administration, and with a view to supporting and advancing the development of agriculture, livestock and rural enterprises, the MADB has for much of its history played an important economic role by channelling state-subsidised capital to a large segment of low-income households involved in agricultural activities.¹⁹ Currently, through its extensive network of 229 branches operating

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all over the country with approximately 2,800 personnel working under its three key departments (Loan Department, Internal Audit Department and Administrative Department), the MADB is providing a limited range of financial services, mainly seasonal crop loans (96% of total loan portfolio) and term loans for farm machinery and others (4% of total loans) as illustrated in Figure 3.2. The MADB has around 1.9 million customers, mostly small-scale farmers, whilst it is estimated that over 3.5 million farmers are not yet served by the MADB. Each eligible farmer can borrow a loan for a maximum of 10 acres.

Table 3.2: Overview of seasonal crop loans (Maturity of less than 12 months)

<table>
<thead>
<tr>
<th>Type of seasonal crop loan</th>
<th>Eligible crops</th>
<th>Disbursal period</th>
<th>Deadline for repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-monsoon Loan</td>
<td>Paddy and long staple cotton</td>
<td>January - March</td>
<td>February 28 (Following year)</td>
</tr>
<tr>
<td>Monsoon Loan</td>
<td>Paddy, groundnut, sesame, beans, long staple cotton and corn</td>
<td>May - September</td>
<td>April 15 (Following year)</td>
</tr>
<tr>
<td>Winter Loan</td>
<td>Paddy, groundnut, sesame, beans, long staple cotton, corn and mustard</td>
<td>October - December</td>
<td>June 30 (Following year)</td>
</tr>
</tbody>
</table>


Figure 3.2: Composition of MADB’s loan portfolio (FY 2011-2012)

![Pie chart showing composition of MADB's loan portfolio](image)

- Monsoon Loan
- Winter Loan
- Term Loan


Table 3.3: Summary of subsidised loan portfolio over the past decade (2009-2018)

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Credit per acre of paddy (Kyat)</th>
<th>Credit per acre of other crops (Kyat)</th>
<th>Total credit disbursed (Kyat billion)</th>
<th>Subsidised lending rate(% p.a.)</th>
<th>Commercial lending rate(% p.a.)</th>
<th>Government subsidy (Kyat billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-2010</td>
<td>10,000</td>
<td>6,000</td>
<td>93</td>
<td>17</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>2010-2011</td>
<td>20,000</td>
<td>10,000</td>
<td>191</td>
<td>17</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>2011-2012</td>
<td>40,000</td>
<td>10,000</td>
<td>353</td>
<td>17, 15 &amp; 13</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>2012-2013</td>
<td>80,000</td>
<td>10,000</td>
<td>558</td>
<td>8.5</td>
<td>13</td>
<td>25.11</td>
</tr>
<tr>
<td>2013-2014</td>
<td>100,000</td>
<td>20,000</td>
<td>1159</td>
<td>8.5</td>
<td>13</td>
<td>52.16</td>
</tr>
<tr>
<td>2014-2015</td>
<td>100,000</td>
<td>20,000</td>
<td>1167</td>
<td>5</td>
<td>13</td>
<td>93.36</td>
</tr>
<tr>
<td>2015-2016</td>
<td>100,000</td>
<td>20,000</td>
<td>1091</td>
<td>5</td>
<td>13</td>
<td>87.28</td>
</tr>
<tr>
<td>2016-2017</td>
<td>150,000</td>
<td>20,000</td>
<td>1631</td>
<td>8</td>
<td>13</td>
<td>81.55</td>
</tr>
<tr>
<td>2017-2018</td>
<td>150,000</td>
<td>50,000</td>
<td>1707</td>
<td>8</td>
<td>13</td>
<td>85.35</td>
</tr>
<tr>
<td>2018 (6 months)</td>
<td>150,000</td>
<td>50,000</td>
<td>1416 (projected)</td>
<td>8</td>
<td>13</td>
<td>70.80</td>
</tr>
<tr>
<td>2018-2019</td>
<td>150,000</td>
<td>100,000</td>
<td>-</td>
<td>8</td>
<td>13</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: CBM (2012-2016), Foerch et al. (2016), MADB (2018), World Bank (2014) and Own Calculation
Despite its endeavours to achieve its objectives and accomplish its policy mandate, the MADB is currently confronting a myriad of major obstacles, including the following: 22

- Unsustainable financing mechanisms and sources, with infinitesimal savings mobilisation and accumulation (total deposits are just over one percent of total loan portfolio in 2018), and thus near-total dependence on government subsidies channelled through its state-owned sibling, the Myanma Economic Bank

- Lack of diversification of its loan portfolio, with substantial concentration in small-scale farmers and paddy production, and with the interest rate determined by its supervising ministry

- Under-capitalisation, with paid-up capital of just 1 billion Kyat 23

- Poor corporate governance arrangements with no independent director on its board; no functioning committees on credit, audit, risk management and assets-liabilities management; accounts not prepared in compliance with International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS), and no independent audit; no legal obligation to meet prudential standards imposed on other banks; and no supervision by the Central Bank of Myanmar

- Weak risk management strategy and architecture, with no credit analysis or other assessments of its borrowers by MADB staff, compounding the challenge of their constrained capabilities and competencies to monitor, measure, mitigate and manage credit and other important risks

- Rudimentary operational autonomy of senior management, hamstringing their professional performance and compromising their motivation

- Obsolete and inadequate information technology and operations infrastructure for data retention and analysis, with no core banking system for real-time data updating, processing and analysis, and with no website to facilitate rapid and timely dissemination of information on its services and products as well as for official announcements and notifications

- An extremely limited range of financial instruments to cater to the financing needs of farmers and other stakeholders engaged in agricultural value chains

23 The equity base of the MADB might be gradually increasing, but its audited financial statements are inaccessible.
A legal requirement of an annual transfer of 75 percent of its profit to the government, aggravating its financial sustainability and viability.

Given a broad array of the challenges presented above, the MADB is in urgent need of both financial and organisational restructuring, reinforced by strong political will and freedom from (undue) political interference. Before specific policy recommendations are proposed, lessons learned from reforming agricultural banks in different countries of Asia and Latin America will be briefly presented below so that these can be taken into careful consideration and contextualised when revamping and reforming the MADB.

3.4 LESSONS FROM GLOBAL EXPERIENCE

The majority of the challenges associated with state-owned agricultural bank transformation being encountered by Myanmar’s policymakers have already been faced, and addressed, by their counterparts from different countries at different times. The Government of Myanmar is hence, as a latecomer, granted the opportunity of strategizing, systematising and speeding up the MADB reform process by contextualising and incorporating the relevant lessons learned from these countries. This section discusses a couple of successful case studies of agricultural bank reform from two countries from two continents: the Bank for Agriculture and Agricultural Cooperatives of Thailand, and the Financiera Rural of Mexico.

3.5 THAILAND: BANK FOR AGRICULTURE AND AGRICULTURAL COOPERATIVES (BAAC)24

Established in 1966 by the Thai Government with the policy mandate of delivering credit to rural agricultural households, the BAAC underwent a series of transformations to move from a specialised agricultural lender only, to become a diversified rural development bank. In terms of its sources of funds, the BAAC previously relied heavily on the government budget, overseas borrowings and forced savings from commercial banks. Gradually, rural savings mobilisation was commenced and scaled up, and these are now the key source of BAAC funds (accounting for 87 percent of the total funding). In terms of lending operations, the BAAC’s loan portfolio generally consists of retail credit to individual farmers.

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(80 percent), and wholesale credit to farmer institutions including agricultural cooperatives, farmer associations and others (20 percent). Additionally, the BAAC provides a broad spectrum of farmer-friendly financial services such as remittance, credit cards, ATM networks, some insurance services and so on. Above all, from 1997 onwards, the BAAC has been extending non-agricultural credit and thus diversifying its loan portfolio. In 1998, the BAAC came under the supervision of the Bank of Thailand, the country’s central bank, and became fully subject to prudential regulations and standards.

Having gone through these key phases of reform over the past five decades, the BAAC has now achieved impressive accomplishments in terms of outreach, institutional viability and financial sustainability. With total employment of 22765, the BAAC has been providing a diversified range of financial services to over 7 million farm households (95 percent of total farm households) through its extensive network of 1275 branches. As at March 2016, the BAAC had total assets of 1.62 trillion baht (US$ 48.9 billion), loans outstanding of 1.28 trillion baht (US$ 38.6 billion), deposits of 1.41 trillion baht (US$ 42.4 billion), net profit of 9.5 million baht (US$ 0.29 million), a loan-to-deposit ratio of 91 percent and non-performing loans of 4 percent of the portfolio.

Among the principal elements that have ensured the success of the BAAC’s transformation into an operationally autonomous and financially sustainable agricultural bank is the Thai government’s respect for its considerable operational autonomy and freedom from political interferences; the radical shift to rural deposits mobilisation as the key source of funding; the strengthened corporate governance architecture and corporate culture emphasising cost-effectiveness, efficiency and productivity, and a strong human resources strategy focusing on promoting personnel productivity, the decentralisation and expansion of branch networks as the profit centres, and dramatic enhancements in loan portfolio quality.

3.6 MEXICO: FINANCIERA RURAL (FND)25

By the end of 2002, the Government of Mexico wound up the National Bank of Rural Credit (Banrural), which was established in 1975 with the objective of financing the agricultural and rural sector. This was due to the Bank’s insolvency resulting from increasing losses, substantial non-performing loans, clientele capture and unsuccessful endeavours at recapitalising and rehabilitation.

25 Its official name “Financiera Rural” was changed to “Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero (FND)” by the end of 2013.
Following this dissolution and liquidation, and with the technical and financial assistance of the World Bank, the government founded a new agricultural bank called *Financiera Rural (FND)* with a totally different set of characteristics in the field of agricultural and rural finance, including the legal requirement of the Bank’s capital preservation by the board and management, a prohibition to accepting deposits and borrowings from other financial institutions; legal provisions that banned the government from recapitalising and bailing it out in case of failure; a policy mandate to focus on the rural sector and agricultural activities only; and full compliance with the banking rules and regulations set by the banking supervisor, the National Banking and Securities Commission. Today *Financiera Rural (FND)* has become a profitable retail and wholesale financial institution with an increasing capacity to serve the market and crowd in other private financial sector intermediaries.\(^{26}\)

Of high importance and significance to the successful reform of *Financiera Rural (FND)* has also been a vast array of reform measures undertaken by the bank’s senior management: Recruitment of seasoned banking professionals from the private sector; substantial investments in risk management and market intelligence; stringent limits on loan exposures in terms of customers, sectors and regions; the adoption of conservative collateral appraisal criteria and a maximum loan-to-collateral value ratio of 80 percent; a prohibition on lending to local governments and state-owned enterprises; compulsory utilization of insurance instruments for borrowers, and the creation of a wide variety of innovative financial products tailored to rural residents.

### 3.7 POLICY RECOMMENDATIONS AND CONCLUDING REMARKS

Based on the key challenges faced by the MADB, and the lessons learned from international experiences elaborated above, the following policy recommendations are suggested to be taken into account in transforming the MADB into a profitable and viable financial institution:

- Introduce and operationalise market-based interest rates gradually for the most dominant lending products to cover overheads and operating expenses, to cushion and absorb potential agriculturally-inherent losses, and to incentivise and generate private financial sector intermediation, thereby eliminating the market distortions induced by subsidised loans.

\(^{26}\) The more updated annual reports of FND are not available.
➢ Diversify the loan portfolio by servicing a wider spectrum of stakeholders engaged in agricultural value chains and rural activities broadly

➢ Mobilise and expand independent sources of funding, and reduce state-funded subsidies step by step

➢ Raise the paid-up capital substantially to an amount at least equivalent to the minimum capital of licensed domestic banks, in order to finance its own modernisation and expansion

➢ License the MADB as a fully-fledged commercial/development bank under the 2016 Financial Institutions Law, and transfer supervision and regulation responsibilities to the Central Bank of Myanmar. In so doing, undertake strategic steps progressively to comply with prudential standards and requirements – on capital adequacy, liquidity, reserves, loan classification and provisioning, accounting rules and so on – as applicable to private counterparts

➢ Establish a robust corporate governance mechanism with independent directors and other members on the MADB’s board who meet strict fit-and-proper personnel criteria, professionalise the management team, appoint competent and committed banking professionals, while granting them sufficient operational autonomy and decision-making authority coupled with associated accountability and responsibility

➢ Prepare and produce MADB financial statements in compliance with the IAS and IFRS, and execute an external audit by hiring an independent auditing firm

➢ Disclose and publish annual reports and audited financial statements in a timely and adequate manner, exercising the high standards of transparency and accountability

➢ Launch an official website of MADB with regular updates of non-confidential information in order to nurture a culture of transparency and accountability

➢ Formulate and materialise a strong and independent internal control system

➢ Set up and institutionalise specific committees on credit, audit, risk management and assets-liabilities management, with each consisting of

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27 All the banks in Myanmar, including the MADB, are required to comply with IFRS starting from FY 2022-2023 pursuant to the notification released by the Myanmar Accountancy Council on July 4, 2018.
independent members, to develop written policies, strategies and standard operation procedures that are in line with international best practices, and to oversee their implementation

- Install and capitalise on modern information technology infrastructure to facilitate management information systems and advance operations, digitising all paper-based lending and other documentations vulnerable to unexpected losses and disasters

- Develop and implement a comprehensive human resources framework in order to attract, motivate, train and retain staff

- Enact a new comprehensive MADB Law that is in line with the 2016 Financial Institutions Law, revoking the two old laws promulgated in 1990 (Myanma Agriculture and Rural Development Bank Law) and 1997 (The Law amending Myanma Agriculture and Rural Development Bank Law)

- Set and march towards an ultimate reform goal (e.g. corporatisation and going public)

- Synchronise all the MADB reform measures with the overall banking and financial sector development reform agenda so as to avoid crowding out of private financial intermediaries in financing the agricultural sector, as well as with agricultural reform process as formulated in the “2018 Myanmar Agriculture Development Strategy and Investment Plan”

To conclude, what matters most in translating the MADB into an operationally sustainable and economically viable provider of financial services to different segments of agriculture, and the rural population in Myanmar broadly is the authentic and strong political will of the government that guarantees freedom from (undue) political interference into the MADB’s operational autonomy. With this commitment in place, and in collaboration with international institutions equipped with relevant expertise and experience (such as the World Bank and International Fund for Agricultural Development), a carefully-orchestrated and strategically-sequenced reform agenda should be developed and implemented in order to transform the MADB into a successful and sustainable agricultural development bank.
References


