

Supporting Digital Financial Services in Agricultural Value Chains in Myanmar

Mobile Solutions Technical Assistance and Research (mSTAR)

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After years of isolation, Myanmar is characterized by high levels of poverty, ranking 148 out of 188 countries in the 2014 UNDP Human Development Index. Additionally, there are substantial disparities in living conditions between rural and urban areas, as 36 percent of the rural population lives below the poverty line (compared with the national poverty rate of 26 percent). Financial inclusion is also low, with only 23 percent of adults with an account from a financial institution, compared with 69 percent in the East Asia and Pacific region.

Growth and development of Myanmar's agriculture sector is critical to the structural transformation process that will support broader economic and social development in the country. To accelerate this process, the Government of Myanmar has committed to increasing agricultural production to improve food security and reduce poverty, and to improving rural livelihoods by helping communities harness their physical, natural, and human capital.

Digital financial services (DFS) can play a critical role in supporting achievement of the Government's priority objectives by economically, securely, and transparently delivering financial services that the agriculture sector requires to improve productivity and raise rural incomes. As digital channels can drastically lower the cost and improve the speed at which funds are transferred between individuals, businesses, and organizations, DFS presents an opportunity to improve the efficiency and productivity of agricultural value chains. In turn, adoption and expansion of digital payments products helps to pave the pathway to expand access to credit, savings, and insurance in rural areas, allowing financial services providers to leverage the digital payments infrastructure. As private sector players and donors invest in initiatives to take advantage of untapped opportunities in Myanmar's agriculture sector, DFS can also complement and boost the impact of these initiatives by lowering operating costs and improving the efficiency of working with rural, agricultural segments. Moreover, DFS creates opportunities for new partnerships and business models to emerge, which focus on tailored approaches for serving the agriculture sector and lower-income segments.

In this context, USAID's mSTAR project conducted a study to assess the potential for DFS to contribute to value chain efficiency and improved agricultural productivity, and to map the payment flows in four select agriculture value chains: rice, sesame, pulses (green gram), and aquaculture. The assessment findings shed light on the

Country Snapshot

Capital: Naypyidaw
Population: 53.44 million (2014)
GNI per capita: USD \$1,270 (2014)
Poverty Rate: 26%
Financial Inclusion: 23% (2014)
Mobile Penetration (unique subscribers): 38.44% (Q4 2015)
HDI Rank: 148 out of 188 (2014)



Sources: World Bank, UNDP, GSMA Intelligence



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challenges faced by Myanmar's agriculture sector and its readiness for DFS. Based on these findings, recommendations were proposed on ways in which DFS could contribute to greater agricultural productivity and rural development, as well as areas for stakeholder involvement to further develop DFS in Myanmar. This is particularly of value now that the DFS sector has been opened to both bank and non-bank actors (such as mobile network operators) alike.

The assessment found that DFS has the potential to leverage low cost channels and access points, which would help financial institutions overcome the current infrastructure and network challenges that hinder their ability to scale-up their involvement in the agriculture sector, and rural markets in general. Rural populations would benefit from increased convenience and decreased costs in terms of time and money spent accessing financial services. In this context, growth of the DFS industry in Myanmar would enable the development of strategic partnerships, channels, instruments, and business models to be built, which facilitate the design and delivery of targeted financial products and services for value chain actors. In turn, enhanced access to these financial products and services would boost productivity and improve efficiency along the value chains. The main agriculture sector challenges and potential applications of DFS can be found in the table below:

| Agriculture Sector Challenges & Potential Applications of DFS | | | | |
|---|---|--|---|--|
| | Transfers & Payments | Savings | Credit | Insurance |
| Burma's Agriculture Sector Challenges | <ul style="list-style-type: none"> • Poor Infrastructure - Expensive for FIs to serve rural areas | <ul style="list-style-type: none"> • Market Volatility - Sustaining price/demand fluctuations | <ul style="list-style-type: none"> • Lack of Input Financing - Fertilizer and seeds - Insecticides and sprays | <ul style="list-style-type: none"> • Adverse Weather - Weather fluctuations - Climate change |
| | <ul style="list-style-type: none"> • Limited Footprint of Formal Financial Services - Traveling to branches is inconvenient and expensive | <ul style="list-style-type: none"> • Strong Liquidity Pressures - Farmers sell produce at low rates for immediate liquidity | <ul style="list-style-type: none"> • Lack of Asset Financing - Antiquated farming methods - Labour shortages | <ul style="list-style-type: none"> • Natural Calamities - Floods - Cyclones |
| | | | <ul style="list-style-type: none"> • Lack of Liquidity - Land preparation - Harvest | <ul style="list-style-type: none"> • Infestations & Diseases - Pests - Parasites |
| Potential DFS Applications | <ul style="list-style-type: none"> • Efficient Delivery of Formal Financial Services Through Agents and Digital Accounts | | | |
| | <ul style="list-style-type: none"> e.g. Remote and proximity payments for inputs, receiving payment from sale of produce, etc. | <ul style="list-style-type: none"> e.g. Account opening, deposits, and withdrawals for microsavings | <ul style="list-style-type: none"> e.g. Disbursements and collections of Micro-Loans | <ul style="list-style-type: none"> e.g. Premium pay-outs for micro-insurance |
| Areas to Support DFS Development | <ul style="list-style-type: none"> • Facilitate Product and Model Innovations | | | |
| | | <ul style="list-style-type: none"> Input financing through savings-linked wallets | <ul style="list-style-type: none"> Expansion and development of tailored agri financing products, e.g credit from banks, MFIs, savings and credit cooperatives; input financing; and equipment leasing | <ul style="list-style-type: none"> e.g. Weather index-based insurance products |
| | <ul style="list-style-type: none"> • Promote Development of a Robust DFS Ecosystem - Create an enabling regulatory environment - Develop a strong agent network - Strengthen MFIs and NGOs | | | |
| <ul style="list-style-type: none"> • Develop Customer-Centric Products - Segmentation - Human Centered Design | | | | |
| | | | <ul style="list-style-type: none"> • Mechanisms to assess farmer credit worthiness | <ul style="list-style-type: none"> • Development of indexes and monitoring techniques |

To learn more, download the full report at: <https://www.microlinks.org/library/supporting-digital-financial-services-myanmar-assessment-potential-digital-financial-service>

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