Mid-Term Evaluation of the Expanding Financial Access programme
Annex 1 - Case Study

Market Development Facility of EFA

The Market Development Facility (MDF) was selected for case study as it represents a key component of EFA's planned programme, core to UNCDF's strategy to unlock public and private sector capital for market systems development to enable financial inclusion. This case study examines the tasks, processes and results of the MDF, its partnership with the Least Developing Countries Investment Platform (LDCIP) and its contribution to the achievement of EFA's objectives. It is based on in-depth reviews of project documents (listed in Annex 1) and virtual interviews with key stakeholders (listed in Annex 2). Conclusions with reference to relevant evaluation questions are summarised in Section 7.

1 Objectives and rationale of MDF

As set out in the Prodoc, Output 2 of the programme is to strengthen the capacity of market participants "through a Market Development Facility and targeted technical assistance to increase their capacity to deliver financial services according to global standards; the Market interventions will help develop sustainable practices for FSPs targeting the low income segments in Myanmar."[1]

This evolved as the programme was rolled out. In the Prodoc (page 21) FSPs are described as "banks, non-bank financial institutions and cooperatives" and elsewhere (page 25) FSPs include MNOs, INGOs and savings groups but in the project brief produced by the implementation team in October 2017:[2]

> *"MDF is an investment vehicle that aims to facilitate financial service expansion to marginalised areas, strengthen the capacity of emerging MFIs, and encourage sustainable market linkages. The MDF functions as a catalytic wholesale financial agent able to take-on risk and leverage outside sources of capital to boost funding to undercapitalised MFIs operating in Myanmar."*

So, the focus was by then on "emerging microfinance institutions (MFIs)"[3] – rather than a range of FSPs and cooperatives and to address their capital needs via an expanded range of financial instruments but, while the Prodoc repeatedly mentions "risk capital grants" as one of these instruments (see page 32 of the Prodoc), the MDF brief does not. The rationale for the facility is articulated in the brief as follows:

> "*It will address the critical market failure of MFI undercapitalisation through the provision of performance-based **local currency loans**, loan **guarantees** and **technical support**, preparing selected MFIs to become investment-ready. As one of the two UN agencies and few institutions in the country able to provide such financing, the platform will catalyse expansion of MFI outreach and crowding-in of additional lenders to the sector, including integration with local commercial funding markets. UNCDF will use its unique public-private partnership role and capital mandate to leverage maximum donor and impact investment*."

1 UNCDF Project Document, 2014. 'Expanding Financial Access in Myanmar 2015-2020', page 1

2 UNCDF, (updated) October 2017. 'Market Development Facility Brief: Expanding Financial Inclusion to Myanmar's Marginalised through Sustainable Market Initiatives'

3 This fits with what are internationally understood as Tier 2 and Tier 3 MFIs as follows: **Tier 1 MFIs**: Mature, financially sustainable, and large MFIs that are highly transparent; **Tier 2 MFIs**: Small or medium sized, slightly less mature MFIs that are, or are approaching, profitability, **Tier 3 MFIs**: Start-up MFIs or small NGOs that are immature and unsustainable. See more detailed definitions in http://www.microrate.com/media/downloads/2013/04/MicroRate-White-paper-Microfinance-Institution-Tier-Definitions.pdf

As set out in the brief, the facility is intended to overcome the classical constraints of financial inclusion including:

- Very limited outreach of financial services to marginalized sections of the community due to the inability or unwillingness of traditional commercial banks to lend to people who can productively use small sums of money, and
- Overwhelming reliance of MFIs on grant funding and the lack of capacities and experience of the managers of MFIs both in enabling outreach to large numbers of low income and marginalized people – including women and minorities – unserved by the banking sector in relatively remote areas and in designing suitable micro-products to serve the needs of such people.

Thus the facility was conceptualised to develop "*market transformational mechanisms that enable MFIs to be more robust and sustainable. Experience shows that the provision of performance-based loans, grants and technical assistance will help to professionalise the microfinance sector and address systemic failures associated with undercapitalisation, especially for MFIs focusing on last-mile clients*."

The MDF target in the ProDoc was '100,000' direct beneficiaries with at least 7 FSPs provided with loans or risk capital grants and/or technical assistance along with 3 new gender sensitive financial products and 3 successful partnerships between FSPs and organizations working in the country in the areas of sustainable agriculture, renewable technologies, and entrepreneurs' development.[4] The target outreach was reduced to 35,000 in proportion to available funds for MDF in 2017.[5]

2 Resource inputs available to MDF

The MDF budget is about USD 3.3 million, most of which (over 98%) is composed of the reimbursement of shared revenue from a 2014 UNOPS grant to PACT Myanmar for microfinance operations. Financial resources available for and used (deployed in loans) by the Market Development Facility including parallel funds for TA by Cordaid are presented in **Table 1**. The facility had used about USD 1.9 million, or 60% of total funds from UNCDF resources available to it, by end-June 2020. Including new loans approved and still to be disbursed, this increases to just over USD2.4 mn, 75% of funds available.

Table 1 Funds deployed in the Market Development Facility, 1 January 2015 to 2020[a]

Source of funds	Budget, USD	Expenses, USD	% of budget utilisation
UNCDF core funds	50,500	50,500	100.0%
Reimbursement of shared revenue from 2014 UNOPS grant to PACT Myanmar	3,208,104	2,397,588	74.7%
Sub-total, EFA MDF	**3,258,604**	**2,447,588**	**75.1%**
Cordaid			
Parallel funding for TA - Cordaid		53,950[b]	
Total EFA + parallel funding		**2,501,538**	

[Compiled from ATLAS Financials EFA in Myanmar, latest available up to 30 June 2020: PMGF funds allocated to the market development facility. Plus information for new loans approved this year]

[a]1,916,588 shown in the ATLAS financials. Adding 2 loans approved this year: MMK150 million (USD 111,000) approved for ECLOF Myanmar in May 2020, currently awaiting FRD approval and MMK500 mn (USD 370,000) for five MFIs with very small portfolios approved by the LDCIP Investment Committee on 27 August 2020.

[b] Information provided by Cordaid to the ET

[4] ProDoc page 28, footnote 21: anticipating 50,000 loans of approximately USD 140 recycled 2 times. It is not clear whether this means 50,000 new borrowers of the first MFIs to receive loans that are then repaid to MDF and then provided to a second MFI or whether it is the same MFI providing the loans to the same borrowers through two lending cycles. The latter definition is what is customary in microfinance when referring to loan recycling. ProDoc page 32 for FSP targets.

[5] Revised project targets – UNCDF internal mission, 2017

These resources were used for

- Allocation (and disbursement) of loans to selected MFIs that applied for support – classified in the ProDoc as performance-based loans
- The services of a consultant to support the programme team in operating the facility – full time over 4 years.
- A contribution to the expenses of the EFA programme team in Yangon

So far, none of the MDF budget has been used for the other instruments originally envisaged for the facility

- Risk capital grants for FSPs,
- Bank deposits as security for loan guarantees,[6]
- Technical assistance (TA) – including support to high potential FSPs for strategy and business plan development to expand their services in the target market, support to pilots that have the potential to be highly scalable and market research in developing products and delivery channels that are appropriate and sustainable.

While none of the MDF budget has been used for TA, the programme team worked with Cordaid Investment Management to identify TA activities amongst its investee partners for the latter to provide support. Cordaid's contribution of resources to TA for MDF partners amounts to about USD 54,000 – and represents a small amount of "parallel funding" to the MDF.[7]

3 Activities undertaken, support provided to FSPs

In order to put in place ""market transformational mechanisms that enable MFIs to be more robust and sustainable"[8] the MDF has, in practice, provided the following types of support:

- Loans for on-lending by selected under-capitalised and scalable MFIs to low income (& marginalized) clients, and
- Parallel technical assistance (TA) in transforming, with appropriate capital structures and governance mechanisms, from NGOs to limited companies and in the establishment of more robust operational processes and risk management mechanisms. TA to investees for designing appropriate products for marginalized clients was not provided.

Support proposed but not provided includes

- Loan guarantees for leveraging debt from local banks.

3.1 **Loans for on-lending**

Up to 30 June 2020, loans for on-lending had been provided to five MFIs as set out in **Table 2**. Two of these MFIs are purely local companies, one is an NGO that has evolved from and is affiliated with an international NGO and two are INGO transformations to limited companies (one still in the process of transformation).

[6] Bank deposits as security for loan guarantees are not specifically mentioned in the Prodoc but these could be seen as following directly from the "provision of loan guarantees" as one of the instruments of the facility. These were proposed by UNCDF Myanmar but despite the fact that page 12 (General Provisions) of the LDCIP loan and guarantee policy manual (approved by UNDP) states the need for bank accounts, UNDP would not authorize one for UNCDF Myanmar.

[7] Cordaid used surplus funds from another LIFT-funded microfinance TA project for TA to MDF investees. The nature of the TA support is discussed in the next section.

[8] UNCDF 2017. MDF Brief, *op cit*

Table 2 MDF Investees – location and size

Name of MFI	Area(s) of operation – urban/rural	At disbursement		
		Number of clients	Portfolio,	
			mn MMK	mn USD
Pyae Mahar	5 townships Ayeyarwaddy Division – all rural	23,859	1,383	1.02
EdM – Sont Oo Tehtwin	Dala Township, Yangon Division – peri-urban	8,125	2,194	1.63
Thitsar Ooyin	5 townships (northern Chin State); 3 townships (Sagaing) – all rural	20,552	5,031	3.73
Unique Quality	6 townships (Yangon) - urban; Kalaw & Pintaya, (southern Shan State) – rural	9,359	1,631	1.21
ECLOF Myanmar	Kyone Pyaw (Ayeyarwaddy), Seik Phyu (Magway) – rural; Kaw Hmu (Yangon) – peri-urban	7.319	1,664	1.23
		69,214	**11,903**	**8.82**

Loan amounts – set out in **Table 3**, next page – have been determined by the (UNCDF Yangon) Transaction Team's assessment of the financing needs for the specific regions and activities for which investee MFIs have proposed to borrow. Thus,

- The MDF loan to **Pyae Mahar** was intended to enable a significant increase in average outstanding loan size to move the MFI towards sustainability both in terms of profitability and for crowding in additional lenders. The average loan size of this MFI (less than MMK60,000/USD 45) was, at application for MDF support, less than one-sixth the USD 280 average for the largest 20 MFIs on 31 March 2020.[9]
- **EdM**'s MMK400 million loan, on the other hand, was intended to move the MFI from a small lender for subsistence activities (average loan outstanding MMK270,000/USD 200) to a more serious financier in a peri-urban area (the outskirts of Yangon city) where demand for micro-enterprise finance is high.

Table 3 MDF Investees – types of institution and MDF loans provided

Name of MFI	Type of institution	Date of application	Amount of loan		Date of first disbursement
			MMK mn	'000 USD	
Pyae Mahar	Limited company – local	May 2016	300	220	Feb 2017
Entrepreneurs du Monde (EdM) – Sont Oo Tehtwin	INGO (transforming to limited company)	May 2016	400	300	Jun 2018
Thitsar Ooyin (previously GRET)	Limited company (previously INGO)	April 2017	350	261	Sep 2018
Unique Quality	Limited company – local	June 2017	300	220	Oct 2018
ECLOF Myanmar	NGO – local (historically INGO)	May 2016	250	180	Dec 2018
Total loan initial support up to June 2020			**1,600**	**1,181**	
ECLOF	*COVID-19 Liquidity support*		150[a]	111	
5 MFIs under the LIFT MARC project			500[b]	370	
	Loans sanctioned		**1,750**		

[a] Approved by LDCIP May 2020, awaiting FRD approval at end-June 2020. [b] Approved by LDCIP in late 2020

[9] Based on MMFA data that is shared amongst all the members of the association.

- **Thitsar Ooyin**'s MMK350 million loan was intended to seed operations in a new expansion area (Kalaymyo township) while providing the MFI with the lending experience that would stimulate crowding in by other lenders.
- **Unique Quality**'s MMK300 million loan was to finance the establishment and operations of a new branch in southern Shan state thereby serving a relatively neglected minority community until then served by the MFI in small numbers and in an informal manner.
- **ECLOF**'s funding of MMK250 million was for expanding operations in the less well served Seik Phyu township in Magway division.

3.2 **Technical Assistance**

Based on the original design of the MDF, loans were to be supported by Technical Assistance (TA) grants to investees. In practice, while discussions took place with all five investees, the management of **only two investees requested TA** with a focus on organisational transformation. There was no request for TA for product design or client protection. The status of the investees vis-à-vis TA was as follows:

- **Pyae Mahar**: Did not see the need for TA since they felt their operations were already well established. The promoter asserted that the purpose of increasing loan size was to establish and enhance sustainability and demonstrating the ability to manage loan funds was well served by the MDF loan without any other support. He was confident of his approach to client protection issues and did not feel UNCDF TA would be useful for this purpose.
- **EdM**: Due to its international links EdM did not need systems support to grow its operations but TA (funded separately by Cordaid, Netherlands) was used to pay consultants who facilitated its transformation to a company from an NGO. Such transformations are now mandated by the regulator (FRD) for MFIs that were originally NGOs to retain their operating licences. The management felt it had sufficient exposure to client protection issues, nor was there much scope for product development given the small size of their operations.
- **Thitsar Ooyin** also has extensive international links and adequate systems support from GRET (a French NGO operating internationally). Thitsar Ooyin already had support from LIFT to finance the upgrading of its operating systems and for transforming to a company. The MDF loan enhanced its operating capital and demonstrated its willingness to take and manage borrowed funds; it did not need any additional TA. It had already developed a new Investment Loan product from the experience of its many years of operation in Chin State.
- **Unique Quality** was the one investee that received the full support of loan funds and TA linked to the programme. While the MFI was already a company when it applied for MDF support, its local promoter and CEO – with relatively recent experience of microfinance[10] – needed substantial support in establishing operating systems to facilitate its growth. Consultants paid by Cordaid (in consultation with UNCDF Myanmar) helped Unique Quality to develop operational and financial manuals for the purpose. Some of the TA support was also used to finance the full establishment of its otherwise informal branch in southern Shan state. He also felt he had sufficient exposure to Client Protection issues based on trainings organized by MMFA (Myanmar Microfinance Association) & M-CRIL under the programme funded by LIFT (Livelihoods and Food Security Fund, Myanmar) and contracted by IFC (International Finance Corporation of the World Bank group).
- **ECLOF** is (loosely) affiliated with an international NGO movement though, on account of its decades' old engagement in Myanmar its governance is reported to be now locally rooted. It received TA and revolving fund grants under the LIFT-funded MARC project which closed in 2018. This grant enabled it to develop its operational and financial systems. The TA from PACT Myanmar included support in developing its governance, preparing operational policies & manuals, product

[10] As reported by the TA consultants and known from previous contacts to the evaluator.

development and strategic as well as business planning. ECLOF is currently completing the asset transfer process from the NGO to its new company. As a result of the extensive TA received from LIFT through PACT and additional support from another international aid organisation no MDF-linked TA was thought to be necessary.

3.3 Loan guarantees

As indicated by the rationale for the MDF, the possibility of loan guarantees was seen as part of the process of market development and involvement in financial inclusion of participants from the broader financial system in Myanmar. The risk sharing entailed in a guarantee was expected to encourage commercial banks to engage with MFIs and become familiar, over time, with their operational processes and risk profiles as borrowers from the banks.

In the initial stages, senior management in New York sent one analyst (funded by SIDA) to evaluate UNCDF's lending strategy and establish professional standards. As part of this process, the analyst visited Myanmar in November 2016, met potential investees as well as local banks to discuss the possibility of releasing lending funds to MFIs through risk participation by UNCDFA local legal firm was hired to prepare loan documentation to facilitate the process.

Over the next few months, the MDF supported both EdM and Thitsar Ooyin to work with the local CB Bank on the possibility of a guarantee for loans to them of the order of MMK0.5-1.0 billion. While the operational team of the bank was interested to begin with, its Risk Department was not interested in the 50% guarantee offered by UNCDF.[11] Though this offer was later informally revised to 75% risk participation during June-September 2017, there were substantial delays in getting approval for the guarantee process from UNDP who were not aware of the need for their involvement in a financial lending and guarantee programme.[12] By the time UNDP approval was forthcoming in September 2017, the CB Bank "champion" of lending to MFIs had moved on to another bank and CB Bank's management declared it was not interested unless a 100% guarantee was provided. With this experience the guarantee initiative effectively came to a halt. Both candidates for guarantee-based funding by banks were then included in the direct loan programme of MDF.

4 The lending process

Whereas the MDF started from 2016, decision making processes became linked to the LDCIP that was newly set up in 2017 as a separate entity institutionally within UNCDF to provide an 'investment instrument' service that would standardise risk assessment across different sectors and programmes. Under this arrangement, the country programme was responsible for origination, initial due diligence, drafting and then negotiating the terms and condition agreement, and follow up financial and development monitoring; LDCIP was responsible for the credit opinion risk analysis and making the credit recommendation through an Impact Investment Committee set up by LDCIP in New York with a global mandate.[13]

[11] The fact that these were still NGOs at the time without an ownership structure was another obstacle.

[12] UNCDF does not have its own bank account in Myanmar and based on customary UN processes must rely on UNDP for day-to-day financial operations and approvals.

[13] Roles and responsibilities are set out in UNCDF, 2017 'Loan and Guarantee Policy'. Whilst LDCIP planning started in 2015, around the same time the MDF had been planned and prepared for as a largely independent function. Significant amount of attention was applied during 2016 toward developing operations procedures, hiring of a Myanmar legal advisor to review the loan contract template, and selection of IC members. The emergence of the new platform and subsequent viist by the LDCIP technical team in the final quarter of 2016 came as a surprise to the local team.

Accordingly, whilst the first MDF application was processed and completed by early 2017, the remaining four applications involved LDCIP.

The EFA 'local transaction team' consisted of a consultant hired for the purpose along with the Country Manager and national Programme Officer supported by interns.

4.1 The process of selection and approval of investees

Activities and timeline are summarised in Table 4 and detailed below the Table.

Table 4 MDF Investment Process

Milestone	Description
Applications solicited	Announcement by Myanmar Microfinance Association (MMFA) March 2016 or (later) reference by mailer banks or LIFT: only MFIs invited to apply
Submission of Expressions of Interest	Submission by applicant MFIs – 18 applications received (9 local MFIs, 9 foreign MFIs)
Yangon Investment Committee	A local IC set up informally with project team and independent experts.
Screening of Expressions of Interest	Discussions with 14 applicant MFIs, 4 large MFIs screened out
Credit appraisal	Appraisal of 3 shortlisted MFIs & of two investees identified later
Credit Opinion	Opinion based on risk analysis and due diligence by LDCIP of 4 of the 5 investees
New York Impact Investment Committee	Discussion on potential investment, loan schedules and lending covenants to strengthen gaps identified during due diligence
	Minutes prepared and signed off by LDCIP followed by Loan Agreement drafted by them and reviewed by Myanmar team
Establishment of Covenants	Establishment of Covenants & disbursement schedule followed by loan agreement sign off by the UNCDF Executive Secretary and Investee
Disbursement	Disbursement after FRD loan approval; based on the final loan payment schedule conforming to the payment covenants; sign off by UNCDF HQ
Monitoring	Monthly reporting by investee; occasional field visits by UNCDF Myanmar; Regular loan payment tracking and reminders to investees

- Expressions of Interest in loans under MDF were solicited from MFIs through a mailer sent out in March 2016 by the Myanmar MicroFinance Association (MMFA) to all its members. By the deadline in mid-May 2016, 18 applications were received from MFIs large and small.
- Four applications were screened out initially as being from MFIs with substantial financial backing and considerable management capabilities and with their own resources that far exceeded the ability of MDF to make a difference.[14]
- All the remaining 14 applicants were met by the UNCDF Yangon transaction team as part of the screening process. Out of these, 3 were selected for appraisal and Credit Appraisal reports prepared for presentation to a locally constituted Investment Committee (IC) consisting of the UNCDF Senior Regional Technical Advisor, a UNDP representative and 4 Myanmar-based persons with extensive knowledge of Myanmar microfinance. This Yangon IC was also part of the initial screening process.

[14] The largest MFI in Myanmar had a portfolio in excess of USD300 million on 31 March 2020 while even the 20th largest MFI had a portfolio of USD16 million (MMFA data cited above); MDF's total budget is around 20% of the portfolio of Myanmar's 20th largest MFI. Loans of the order of USD200,000 to USD300,000 would make a minuscule contribution to MFIs of this size.

- The first loan proposal to reach the Investment Committee for approval was Pyae Mahar in February 2017.
- Subsequent Credit Appraisals of shortlisted applicants were sent to LDCIP in New York which conducted a due diligence trip to Myanmar to meet with the investees and customers, and then prepared Credit Opinions on the applications for presentation to the Impact Investment Committee (IIC) in New York.
- Disbursement and repayment schedules were drafted by the local transaction team of UNCDF in discussion with investees. These were finalised by the IIC, and some changes made to the repayment schedules.
- The transaction team's MMK300 million loan recommendation for ECLOF was initially rejected by the New York IIC on the grounds that the MFI was administratively and managerially weak and the LDCIP Credit Opinion (based on the transaction team's loan appraisal) raised doubts about its ability to service the debt based on its earnings before interest and taxes. A reduction in loan size with a portion of the proposed support allocated to a grant to support operational expenses was suggested. A reduced loan amount of MMK250 million was later approved with an 18 month grace period, a "prudent" disbursement schedule spread over one year and subject to strict covenants.
- Disbursement took place after approval by FRD (as required by the regulator for all borrowings by Myanmar MFIs). The two-step process requires FRD regional offices to approve the loan before final approval by the Nay Pyi Taw head office, a process that introduced a time lag of 4-6 months.[15]
- Monitoring is through monthly reporting of operational parameters by the investee to EFA using a format that conforms with FRD's monthly reporting format. Semi-annual field visits by the EFA team are part of the monitoring plan.

4.2 Investment appraisal

As in any activity involving financial transactions, and more so in the case of lending, the institution of effective and efficient due diligence, appraisal and monitoring processes is essential. In the context of MDF loans to MFI investees the following activities were undertaken:

Due diligence - the establishment of the facts about the organization and collation of data on the historical performance of investee MFIs. This has been undertaken by the EFA transaction team. This stage of the investment process appears to have worked smoothly. The Consultant hired for the Market Development Facility is a former CEO of Vision Fund Myanmar one of the major MFIs operating in the country and has considerable experience in the matter of MFI operations. The Country Programme Manager also has direct MFI experience in Cambodia and has considerable experience of microfinance practice in the region.

Appraisal followed by approval by an Investment Committee - analysis of the financial and operational performance of shortlisted investees to determine their capacity to be (or become) solvent, profitable and sustainable institutions able to support and grow financial inclusion amongst low income borrowers well into the future. For the first transaction the Credit Appraisal report was completed by the transaction team and approved by the local IC. For the subsequent transactions, the Credit Appraisal report by the local transaction team was supplemented by a Credit Opinion provided by the newly formed LDCIP and then recommended by the New York IIC, drawing on the local experience and knowledge of the Myanmar transaction team.

[15] These delays of 4-6 months added to the risk in the programme since the financial environment evolves during the time lag between appraisal and disbursement resulting in loans not adequately serving the purpose for which they were designed as not only do capital requirements grow in a growing market like that of Myanmar but also the level of competition in the partner MFIs' target markets increases.

Whilst recognising the broader objectives and new mandate of LDCIP, issues arise in how a new centralised approach fits best with established expertise and contextual knowledge and an existing in-country mechanism already in place:

a) Understanding nuances in the local environment for informed credit analysis: with the MDF focusing on emerging MFIs operating in relatively remote regions, informed credit analysis depends on local knowledge and experience of micro-economic conditions, including human resource constraints and the level of competition risk in areas outside the main urban centres, For this, the experience of the local transaction team is vital to provide the necessary context. In addition, the LDCIP supplements the expertise of the local team through its own field mission on the basis of which it builds its risk assessment. This approach appears expensive and duplicatory, and has involved some surprising inaccuracies in the Credit Opinion.[16]

b) financial analysis needs to be appropriately contextualised: for example, LDCIP's Credit Opinion indicates for Unique Quality MFI (UQ) that an Operating Expense Ratio (OER) above 22% constitutes efficient operations. An OER of 22% may be good for a Tier 3 MFI but in a country with a 28% limit on the interest rate charged to clients (set by the regulator), it cannot be described as efficient.[17]

c) Local recommendation vs centralised: whilst recognising the rationale for a central standardised approach to risk appraisal that would be valid across countries and sectors, the LDCIP mechanism was introduced when a local and experienced investment committee was already in place. Whilst the local IC could in theory have continued, its role appeared duplicatory and ultimately redundant.

Oikocredit – and several Microfinance Investment Vehicles – headquartered in Europe with investments across the world in numerous countries, have adopted the following approach for appraisals and approval: local designated staff carry out the investee appraisal based on a pre-set format; a recommendation for amount and terms of lending along with the appraisal details is sent to the IC in HQ which takes the final decision, in discussion with the in-country staff. (In the case of Oikocredit the final decision is also local). Whilst this is the approach envisaged under LDCIP, in practice the engagement was seen to be 'top-down' and somewhat repetitive, particularly for a country and sector with substantial relevant expertise such as for MFIs in Myanmar.

4.3 Monitoring

Monitoring – a systematic check of the progress of the investee after loan disbursement to ensure that all loan covenants, both financial and non-financial, are adhered to during the loan period: Monitoring and follow up is the responsibility of the Yangon transaction team. Reminders of loan payments due and tracking of payments is regular and up-to-date. Until recently, monthly reports were systematically compiled by UNCDF Myanmar but the process appears to have waned during 2020 due to a high turnover of interns and reduction in staff resources in Yangon. The departure of

[16] Reference to Ms Aung San Suu Kyi as Myanmar's Prime Minister when she is the State Counsellor, in a government not independent of the military; referring to Sri Lanka as belonging to the same economic bloc as Myanmar. A more collaborative approach in which the Credit Opinion was reviewed by the local transaction team before presenation to the IIC, was introduced later.

[17] By comparison, CGAP, 2013. Microcredit Interest Rates and their determinants, 2004-2011. Figure 12 (page 13) shows the average OER for East Asia in 2011 at 15% with a downward long term trend across MFIs and regions. More recent regional data is not publicly available, but published data by individual MFIs confirms this as a continuing trend, particularly as regulators seek to minimize the margin that MFIs can charge to clients.

the MDF consultant during the COVID-19 pandemic appears to have resulted in oversight of this process falling away and updating of the monitoring formats has become irregular.

Field visits to investees were intended to be semi-annual but have, in practice, been sporadic due to limited staff resources at UNCDF Yangon. Visits that have taken place have been undertaken by junior persons with limited experience and understanding of microfinance operations and indicators. The visit reports available are more by way of scattered observations than monitoring reports, covering neither reviews of investee performance indicators nor of adherence to covenants. UNCDF does not have monthly or even quarterly review memos on the performance of the investees after loan disbursement, only tables of compiled monthly reports which are not always completed correctly (with a conflation of monthly and cumulative data). The annual financial statements of the investee companies (since investment) are also not available.

4.4 **Financials**

The loan support programme is expensive. Total expenses on the MDF up to June 2020 amounted to USD 1.67 mn from EFA's programme budget. Of this, USD 1.2 mn was disbursed as loans leaving USD 0.47 mn as the local expenses, including USD 200,000 as the fees of the international consultant to support the programme. MDF activities included other activities – such as working with the commercial banks on loan guarantees – and these are included in the overall expense figure. Spread over a four year period the local expenses incurred on MDF then amounted to an average of just under USD 120,000 a year;[18] this results in an operating expense ratio (OER) in relation to the investment portfolio of the order of 10%.[19] Expenses incurred by LDCIP would be additional to this.

A higher cost ratio may be expected given UNCDF's mandate to provide credit to institutions that would otherwise not access credit from the market, being smaller more risky institutions. 2. Moreover, for UNCDF the provision of credit that revolves (assuming repayments) represents an efficient use of available funds for development, in comparison with grant funding.

One persistent challenge has been the lack of clarity surrounding the exact financial position and annual budget contributions to fund MDF. UNCDF's funds are accounted for in USD with MDF funds disbursed in MMK. There are transactional losses in the form of disbursements and gains as funds are then repaid in the form of interest and principal. Yet these are not accounted for as MDF funds but rather as EFA budgetary flows. Hence the Fund's financial position has never been clear. Since the funds are not segregated, principal repaid and earnings from MDF are exposed to the potential risk of depletion to cover funding shortfalls in other UNCDF initiatives or administration. In short, the resources of a financial support facility like MDF need to be ring-fenced and managed professionally to allow for multi-year budgeting and strategic planning.

[18] USD 470,000 spread over four years = USD 470,000/4 = USD 117,500 annual average

[19] This compares with OERs of 3-3.5% for other (now established) funds with high social orientations (e.g. Oikocredit, Incofin based on published accounts in their annual reports for 2019).

5 Effectiveness

Growth of outreach - limited: The programme target of 100,000 direct beneficiaries of the MDF over the period of the project was revised downwards in 2017, proportionately to the actual budget, to 35,000. Table 4 sets out the number of borrowers served by the five investees supported by March 2020.[20] The total number of borrowers served by the five MFIs is 82,500 representing an increase of 13,320 since the date of MDF loan disbursement to each MFI. Of this, we estimate that the contribution of MDF to the growth of the five investees so far is 9,800.[21]

Table 4 Growth of investees since disbursement of MDF loans

MDF Investees	Date of disburse-ment	March 2020			Growth rate, % pa*		
		No. of borrowers	Portfolio, mn MMK	Loan size MMK	Borrower	Portfolio	Loan size MMK
Pyae Mahar	Feb 2017	26,325	2,381	90,446	3.3%	19.9%	22.5%
EdM	Jun 2018	6,620	2,286	345,317	-11.0%	2.4%	15.1%
Thitsar Ooyin	Sep 2018	32,293	11,456	354,752	35.2%	73.1%	28.1%
Unique Quality	Oct 2018	9,896	2,615	264,248	4.0%	39.5%	34.1%
ECLOF	Dec 2018	7,400	1,775	239,865	0.9%	5.3%	4.4%
Total or weighted average		**82,534**	**20,513**	**248,540**	**9.2%**	**31.1%**	**21.2%**

* This is calculated by computing the number of months since disbursement, up to March 2020, converting to years since disbursement and applying the compound growth rate formula.

Except in the case of the largest investee, Thitsar Ooyin, the annualised growth rate of borrower numbers (since disbursement) has been low by microfinance standards; MMFA data shows that the leading MFIs in Myanmar have reported average growth rates of borrower numbers of the order of 30% per annum over the past 3 years and portfolio growth rates of around 55% per annum.[22] The MDF investees' comparable weighted average growth rates are 9% and 31% respectively.

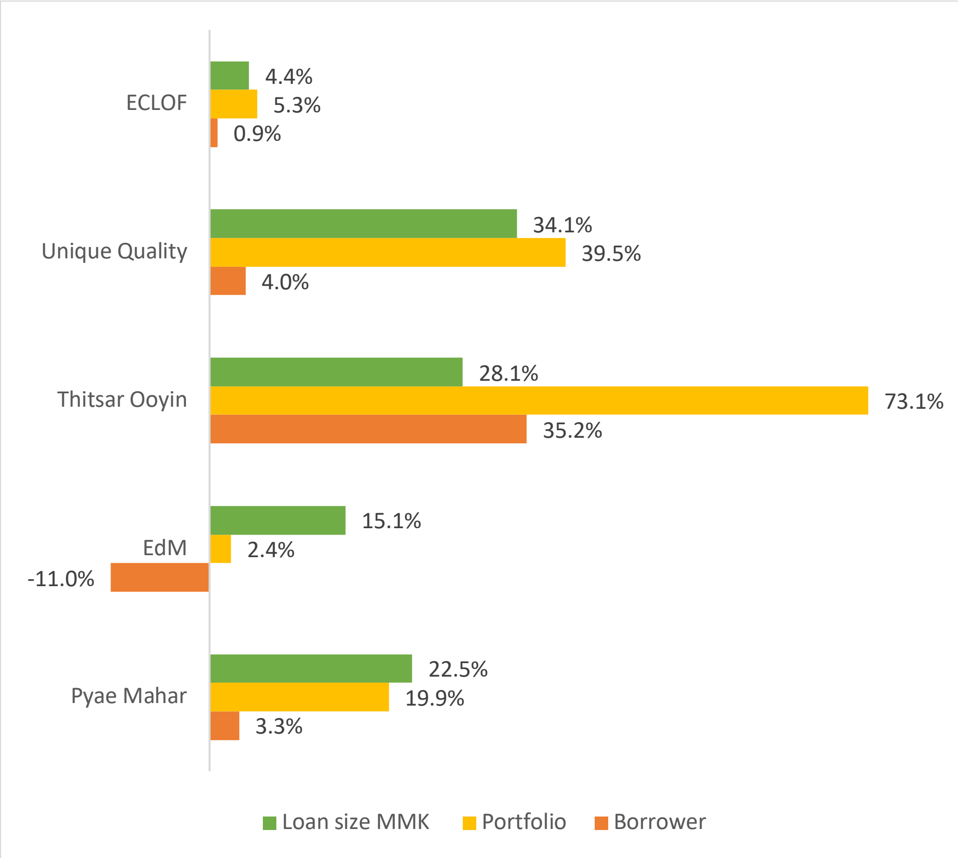
- The average growth rates for MDF investees together are greatly enhanced by Thitsar Ooyin's (TO's) performance; without TO the growth rates are just 1.4% and 13.2% respectively – not a substantial change in the financial inclusion landscape.
- Excluding Thitsar Ooyin, Unique Quality can claim a respectable portfolio growth rate in the Myanmar context.
- Pyae Mahar indicated at the start that its objective was to increase loan size rather than numbers of borrowers and its average loan size has increased by a reasonable 22% per annum.
- ECLOF has been stagnant while EdM borrower numbers have actually declined even before the pandemic – the reasons are part of the discussion of sustainability below.

[20] At the time of writing (October 2020) data for August 2020 is available but it would not be appropriate to use those (lower) numbers which result from the destabilisation caused by the pandemic.

[21] Two methods can be used to estimate the number of direct beneficiaries of the MDF: (i) Partially applying the ProDoc method, that is by dividing loan disbursed by average loan size for each investee, the number of borrowers served by the MDF loans works out to 9,200. As in footnote 3 earlier, but not recycled twice, since the money is effectively recycled to the same borrowers. (ii) calculating the share of additional funds provided by MDF to the total investees' portfolio, and then by applying the same share to the total investees' outreach. By following this method, MDF has contributed an incremental MMK1.6 billion or 11.8% of the portfolio of MMK13.5 billion of these five investees taken together immediately after disbursement. The contribution of MDF to overall outreach in March 2020 can then be calculated as 11.8% of their total outreach, or 9,800 clients (so far) with potential further growth until MDF's exit.

[22] According to the available information, on 31 March 2020, Thitsar Ooyin's MMK11 bn portfolio and 32,000 borrowers meant it was less than half the size of the 20th ranked MFI with a portfolio of MMK24 bn and 82,000 borrowers.

Figure 1 MDF Investees' annual growth rates, %



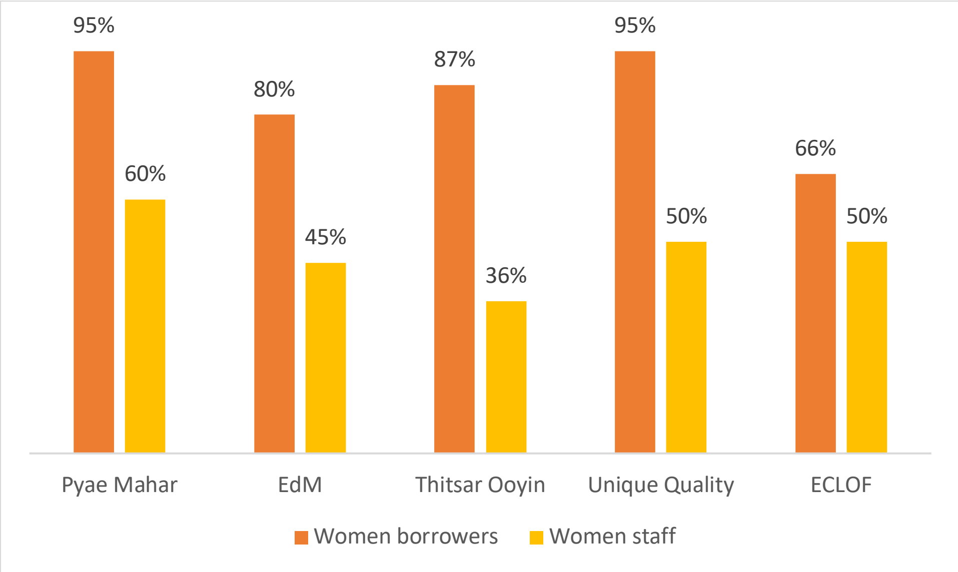
[Table 4]

Client mapping and its effect on depth of outreach – significant development impact: The information in Table 5 shows that all the MFIs operate in relatively econmically poor areas of Myanmar. The expansion of Thitsar Ooyin in Kalaymyo district of Sagaing Division; establishment of a branch by Unique Quality in Kalaw and Pindaya townships rather than the earlier limited/informal operations in the moderately served southern Shan State; Pyae Mahar's operations in the low income Delta area and EdM in the slum localities of peri-urban Dala township (albeit in Yangon division) all represent the provision of services in areas populated by people with very low incomes. In addition, all the investee MFIs work with significant, if not substantial, proportions of minority communities (see table) and all count 80% to >95% of women borrowers. Amongst staff the percentage of women ranges from 36% for Thitsar Ooyin to 60% for Pyae Mahar, roughly in line with the expectation of 50%.

Table 5 Depth of outreach

MDF Investees	For expansion of operations in…	Client characteristics
Pyae Mahar	All areas of operation – 5 townships in Delta	30% Kayin people, rest Bamar (majority)
EdM	Current area of operation, Dala township	Minority Muslim and Hindu populations of this peri-urban area
Thitsar Ooyin	New area of operation: Kalaymyo district of Sagaing Division	50:50 Chin and Bamar people in Kalay
Unique Quality	Kalaw & Pindaya townships of S Shan state	Tribal populations of southern Shan State
ECLOF	Seik Phyu township of Magway Division	ECLOF overall non-Bamar clients, 78%

Figure 2 Women borrowers and staff ratios of MDF investees, %



Product suitability – limited innovation: It is in the matter of providing "a full range of affordable, quality, effective financial services" that there has been limited progress with or without MDF support. MDF borrowing has clearly enabled Pyae Mahar to achieve its aim of providing more loans of larger size than its original average offering of the order of MMK 50,000 (USD 36) but, even so, the current loans of MMK 90,000 (USD 67) even in an extremely poor region like the Ayeyarwaddy Delta does not represent the provision of effective financial services enabling the conduct, by itself, of any useful economic activity. In addition, Thitsar Ooyin has been able to finance its hitherto experimental Investment Loan with a larger size (around MMK 500,000, USD 350) but the outreach through these is still low. Other MDF investees cannot claim much in this matter. The issue of affordability is influenced by the FRD's 28% cap on interest charged by MFIs from their borrowers and relatively little room for manoeuvre.

6 Impact and SustainabilitySustainability – reasonable performance: Some indicators of sustainability for MDF investees are summarized in Table 6. In terms of sustainability from an operational perspective, Thitsar Ooyin does exceptionally well and Unique Quality does well too. However, the marginal performance of EdM and ECLOF as shown by the available monitoring data as well as the just acceptable levels of Pyae Mahar indicate that their managements need to make more effort to stabilize their operations for the future. Both EdM and ECLOF are managed by women CEOs (which is positive) but their longstanding NGO backgrounds may not be the most appropriate for achieving stable growth and commercially sustainable operations.

Table 6 Sustainability indicators

MDF Investees	OSS - baseline & current (Apr 2019 to March 2020)*	Long term financing of growth – follow on loans	Management sustainability
Pyae Mahar	2015: 107% Apr 19-Feb 20: 110%	Loan from A Bank – declined to give details	Promoter is a former MFI manager with many years of experience
EdM	2016: 48% Current: 107%	No new loan sought; has debt support from Microfinance Solidaridad	CEO is relatively new but is experienced in NGO man-agement and has support of EdM international network

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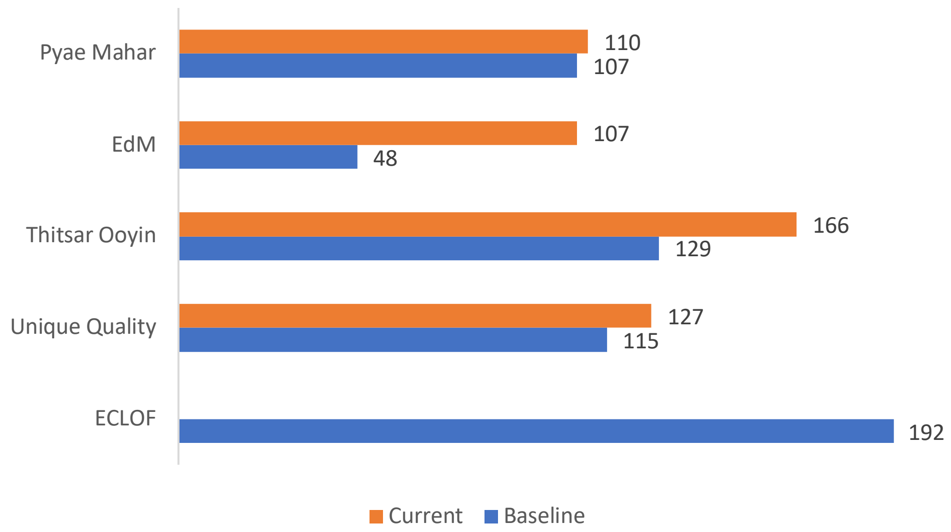
MDF Investees	OSS - baseline & current (Apr 2019 to March 2020)*	Long term financing of growth – follow on loans	Management sustainability
Thitsar Ooyin	2017: 129% Current: 166%	New loans from FMO, Cordaid Invst Mgt & Credit Agricole	CEO has deep knowledge of MFI operations and has intensive support from GRET
Unique Quality	2016: 115% Current: 127%	Approached AGD Bank and Aya Bank but declined LIFT-funded loans on account of due diligence requirements	Promoter is relatively inexperienced but has relevant education, is alert and a fast learner
ECLOF	2015: 192% Current: numbers variable	No plans for additional borrowing for now	CEO has many years of NGO management experience and support of PACT and ECLOF international network

Figure 3 Operational Self Sufficiency of MDF investees, baseline-current, %



* Operational sustainability ratio = total revenue over the period/total expenses over the period; baseline numbers from calculated from Income and Expense numbers provided in Expressions of Interest submitted by each applicant for the year preceding their application; 2019-20 numbers calculated by this evaluation team from Loan Monitoring Sheets provided by UNCDF, Yangon after making corrections where necessary (and where possible).

While the OSS indicator may **confirm the ability to continue operations**, the Operating Expense Ratios (OERs) of these MFIs bear examination. The two most professional of the investee MFIs – Thitsar Ooyin and Unique Quality – both have OERs of the order of 22-23%. The only way for these MFI's to cover such high OERs as well as their cost of borrowing, and their loan loss provisioning while earning a reasonable margin on equity (10-12%) within the interest cap of 28%, is to structure loan fees in a manner that results in the portfolio yield rising to 30-32%. This is a high cost to clients but MFIs in Myanmar have been doing this in recent years. In the long term, the only way to reduce the cost to clients is to enhance equity, grow the MFI and bring the OER down at least to the 12-16% levels of Tier 1 MFIs.[23]

The 5 loans are being well serviced with adaptations responding to varying needs under the pandemic this year. In May 2020, UNCDF and LDCIP performed a review of the 4 MDF investees to determine

[23] M-CRIL research based on financial statements of Tier 1 MFIs in Myanmar collected privately or historical data from the MIX shows that OERs of Tier 1 MFIs are in this range. Investee annual financial statements are not available.

the need for liquidity support and/or loan restructuring. Liquidity support was offered to ECLOF and UQ with UQ declining the offer. Loan repayments were deferred by at least six months for EdM, Thitsar Ooyin, and ECLOF. Covenant compliance was deferred for all investees. With the exception of UQ all of the investees requested support to defer loan payments. , p

The pipeline of fresh applications to the MDF appears to have dried up since mid-2018. The new sanction under the LNB project in August 2020 is for five very small MFIs that were already on the radar since 2016 but are (with intensive TA from PACT over several years) now deemed to be ready to benefit from the support of performance-based loans. These also could not borrow earlier since LIFT under its Myanmar Access to Rural Credit (MARC) project only released its donated capital to their ownership in April-June 2020. Four large MFIs that were part of the initial round of applications were never considered for support since the MDF funds available were too limited to make a difference to them.

In the context of the evolution of Myanmar's microfinance sector, though MDF was a need at the time of its planning in 2014, by mid-2018 that need had already dissipated with external lenders actively engaged with the larger MFIs in the country. While MDF did reach some of the smaller FSPs (and has now – this year, in 2020 – supported some very small ones) there is doubt about the number of small MFIs in Myanmar that would have the governance or management strength to qualify for MDF loans. There are over one hundred small MFIs with FRD licenses but these are mostly tiny operations with proprietorial structures. Such MFIs could only be candidates for an extensive TA effort and not immediately for performance-based loans. The experience from LIFT's MARC project (implemented by PGMF) shows that preparing investment-ready MFIs needs 5 to 6 years of effort, beyond the timeline of UNCDF's country programme. The possibility of identifying credit-worthy cooperatives did not receive serious attention from the MDF team so that sub-sector remains unexplored.

7 Summary of conclusions on the Evaluation Questions

EQ1.2 Relevance, quality of design and coherence: How relevant is the mix of EFA-designed financial instruments to supporting UNCDF's financial inclusion market development objectives?

The EFA-designed financial instruments that were expected to be deployed by MDF – loans, bank guarantees, operational grants and TA – were highly relevant to supporting UNCDF's financial inclusion market development objectives; loans increase on-lending resources and financial guarantees can be leveraged to mobilise further resources to promote outreach; operational grants can enhance sustainability in the short term for serving excluded geographies and target groups pending the achievement of scale economies and TA can be used to strengthen management capacity and facilitate growth of outreach.

EQ2.1 Efficiency: How well has EFA delivered its expected results to date, including in terms of budget allocation and cost-effectiveness of activities? How well has EFA partnered with other UNCDF initiatives, including the LDCIP, in support of UNCDF's new approach to mobilizing finance across the organization?

MDF was able to identify a set of "emerging" MFIs in Myanmar – most of them locally managed and governed for financial support that has helped to deepen outreach of micro-lending services in regions of Myanmar previously not well served by MFIs. Five of these had received MDF loans before June 2020, loans for another five small MFIs was approved at end-August 2020 The (ProDoc) target of 7 FSPs will be exceeded.

The partnership with LDCIP contributed to the LDCIP being able to test and apply a standardised global approach to risk appraisal, but the management of the process was inefficient for MDF. MDF costs have been high relative to the investment portfolio achieved, even without adding in the centralised costs for LDCIP. Nevetheless, development funding through lending represents an efficient use of available funds in comparison with relying only on a grant approach.

EQ3.2 Effectiveness: To what extent is EFA contributing to strengthening the capacity of selected market participants to create and increase the range of new affordable financial services to the unbanked/underbanked…? What has been the relative contribution of loans, grants and TA to achieving this?

Loans to 5 emerging MFIs have been supplemented for the provision of TA to a couple of MDF partners by a small amount of parallel funding from a LIFT grant to Cordaid. Neither risk capital nor operational grants have been provided directly by the MDF. Thus, the TA option was not used for product development despite a specific indication in the ProDoc that support could be provided for market research with the resultant development of appropriate products for clients. No such support was needed (or requested) by the investees. There has neither been any work on customised loan products nor on engaging any insurance service providers to offer micro-insurance products for clients. The development of deposit products could not be taken up due to the exclusion of investee MFIs from voluntary deposit taking by the regulator's high minimum capital requirement for a deposit taking licence. The request from MDF investees was for capital to support geographic expansion to new or existing areas as well as to resource the MFI to increase loan sizes for legacy clients.

The possibility of providing loan guarantees for commercial bank lending to partners was explored but fell by the wayside for reasons related to the complexities of in-country operations of UNDP related entities as well as the time it takes to enable established institutions like banks to engage with previously untried mechanisms such as guarantees.

With five medium to small investee partners, the MDF has substantially contributed to depth of outreach to the unbanked amongst the new borrowers reached. So far, the number of additonal end borrowers primarily by three of the investees, is less than 10,000, relative to a revised target of 35,000. It has, however, enabled these MFIs to increase the size of loans to substantially reaching a more feasible (but still small) level of financial support averaging USD 160 per loan outstanding.

The possibility of working with other types of FSPs or potentially larger MFIs as well for product development, has not been explored under the MDF.

EQ4.1 Likely impact: What difference does the programme make? To what extent are programme results likely to contribute to accelerated market development for financial inclusion in Myanmar?

Two of the investees – Pyae Mahar and Unique Quality – have created linkages (or are in the process of creating these) with local commercial funders (banks) which can be described as a positive outcome of MDF; TO and EdM have access to international loans with the help of their sponsor networks so that cannot strictly be described as outcomes of the facility, though undoubtedly their MDF experience played an enabling role in the process. Neither ECLOF nor EdM have short to medium-term prospects of becoming sufficiently strong to be commercial borrowers though EdM has plans to attract additional equity once its microfinance company is fully launched.

Thus, though there is some evidence of crowding in of funders to the three more dynamic investees it is substantial only in one case. MDF's overall contribution to the Myanmar inclusive finance market is, so far, quite limited.

EQ5.1 Sustainabiity: Will the benefit last? To what extent are changes in capacity at the level of market participants likely to continue over time? To what extent were national and local partners involved in different aspects of EFA's implementation?

Two of the local investees and one international investee are on the path to achieving sustainability of the benefits of MDF support. The other two need additional time to reach this level.

In terms of the continuation of MDF, the scope for continuing withi its present focus on small MFIs is limited. While acknowledging the lacklustre performance of the cooperative sector in Myanmar, MDF has, so far, not engaged with financial cooperatives in any meaningful way and the possibility of engaging with other development partners active in this field is yet to be explored.

8 Lessons

- The process of introducing LDCIP as a global credit risk assessment could have been better managed in terms of timing and consultation with the local transaction team. It seems there was no time for collaboration before finalising the LDCIP policy guidelines, and no information provided to the local team before the LDCIP was launched, by which time considerable work had already been completed by the local team to put local mechanisms in place.

- TheLDCIP appraisal process requires the transaction team to provide data as well as engage in discussions and explanations to a team based in New York with very little knowledge of Asia and indeed of Myanmar conditions. This required a high input of energy which appeared to be a duplication and resulted in loss of motivation on the part of the transaction team for making the considerable effort needed to identify more prospective investee MFIs (or other institutions). The role of LDCIP may be reconsidered in terms of setting the standards and acting as a quality assurance mechanism for appraisals by local specialised, independent consultants engaged by UNCDF country teams. [24]

- In a situation where MDF funds are under-utilised it is not clear why a Request for Applications for TA support has not been launched. The opportunity could be used for supporting product related research and pilots of new loan or deposit products by MFIs and/or cooperatives, large or small. In addition, it could be used to provide operational grants even to relatively large MFIs willing to extend their operations to under-served areas – Kachin, Northern Shan, Kayah, Tanintharyi, Rakhine, southern Chin and northern parts of Sagaing division – but unwilling otherwise to do so under the pricing restrictions applied by FRD.

- Whilst repayments are well tracked, an area which requires standard setting is the organisational and developmental monitoring, following loan disbursement.

[24] Though, we note that the current UNCDF system of identifying local consultants borders on the informal with too much discretionary decision making rather than by properly constituted selection committees backed by regional UNCDF coordinators. The system needs to be tightened all around to ensure that the selection of specialised consultants is efficient and transparent.

Annex 1 Documents reviewed

- Credit Appraisals by transaction team of UNCDF, Yangon – all five investees
- Expressions of Interest submitted by each of the first five investees – Pyae Mahar, EdM and ECLOF, May 2016; Thitsar Ooyin, April 2017 and Unique Quality, June 2017.
- LDCIP – PFIP retreat, presentation April 2019.
- LDCIP Credit Opinions for all five of the investees in 2017 & 2018 – Pyae Mahar, EdM, Thitsar Ooyin, ECLOF and Unique Quality
- Investment Committee meeting minutes –
- Investment Committee meeting minutes
  – Pyae Mahar, 26 November 2016
  – Entrepreurs du Monde (EdM), 13 November 2017
  – Thitsar Ooyin, 26 January 2018
  – ECLOF, 28 February 2018 & 25 April 2018
  – Unique Quality, 16 March 2018 (Yangon) & 30 April 2018 (New York)
  – LNB Myanmar Multi-Borrower E-Loan Facility, 15 September, 2020
- MDF Field Visit reports, various
- MDF Loan Monitoring Spreadsheets – all five investees
- UNCDF Project Document, 2014. 'Expanding Financial Access in Myanmar 2015-2020', page 1
- UNCDF, (updated) October 2017. 'Market Development Facility Brief: Expanding Financial Inclusion to Myanmar's Marginalised through Sustainable Market Initiatives'

Annex 2 Stakeholders interviewed

- Abdul-Rahman Lediju, Risk Lead, LDCIP, UNCDF
- Anders Berlin, Unit Head, LDCIP, UNCDF
- Baptiste Larnaudie, GRET Project Manager for Sagaing project of Thitsar Ooyin
- Dino Ku, previously CB Bank and Aya Bank, currently consultant to the World Bank on the MEB-MADB merger project
- Fahmid Bhuiyan & Jason Meikle, PACT Global Microfinance Funds
- Jan Postmus, Cordaid Investment Management
- Judith Karl, Executive Secretary, UNCDF
- Lai Uk Nawl, CEO, Thitsar Ooyin
- May Aye Shwe, CEO, ECLOF, Myanmar
- Minn Aung, Founder and CEO, Pyae Mahar MFI
- Nazim Khizar, Head of Management Support, UNCDF, New York
- Neal Youngquist, MDF Consultant
- Paul Luchtenburg, Country Coordinator, UNCDF Myanmar
- Sandar Kyaw, CEO, Entrepreneurs du Monde, Myanmar
- Sophie Waldschmidt, Delegation of German Industry and Commerce, Myanmar – member of UNCDF Yangon Investment Committee
- Thurein Htoo, Cordaid TA consultant and member of the IIC for Pyae Mahar and Unique Quality
- William Naing, National Programme Officer, UNCDF Myanmar
- Win Htet Maung Maung, co-Founder and CEO, Unique Quality MFI
- Xavier Michon, Deputy Executive Secretary, UNCDF