

# Outline Description of the Credit Cooperative movement in Myanmar

## 1. Abstract

There are approx 400,000 members of credit cooperatives in Myanmar. Most members are public servants, but the movement is becoming increasingly strong among traders and entrepreneurs, and national representatives plan to increase micro-finance activities. This brief paper provides an outline description of the movement and opportunities for development.

## 2. Background to the cooperative movement

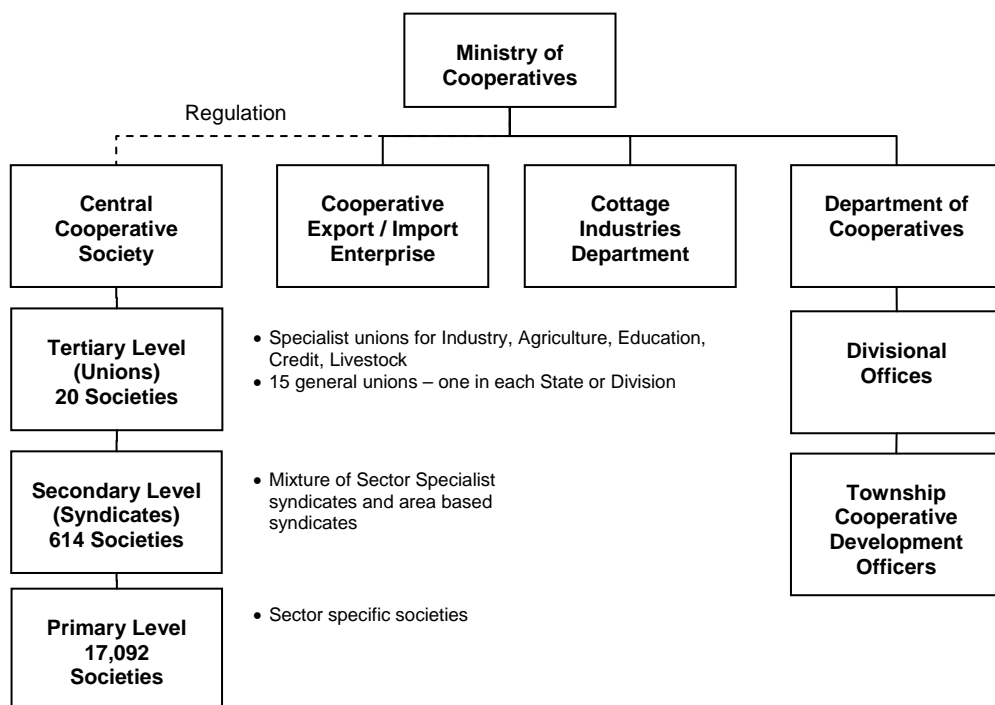
Cooperative societies have a long history in Myanmar. The first cooperative societies were founded in 1904 to provide savings and credit services, similar to the model applied in other South Asian British colonies.

Under the Cooperative Law of 1970, cooperatives were closely controlled and monitored by the national Government – along socialist principles. With the change to an open-market economic system, a new law was passed in 1992 – one of the most liberal cooperative laws. Since then, the Government has reduced its influence in the day to day operations of cooperatives.

## 3. The Cooperative Movement

There are 17,092 primary societies based in villages, towns, factories and government institutions. They range from 15 members to over 1000. Primary Societies can be Agricultural Societies, Industrial Societies, General Trading Societies, Education Employee Societies or Credit Cooperatives.

There is a national support structure, led by the Ministry of Cooperatives.



The Cooperative movement has four levels in a classical hierarchical ownership structure. Each level conducts commercial activities, which may include trading, service provision, inter-lending, etc. Each level primarily offers services to its owners, but may also work with other parts of the movement (e.g. the Tertiary Credit Union serves the Secondary level Syndicates, but also Primary Societies).

The Cooperative movement has founded a commercial bank – the Cooperative Bank, founded under the commercial banking legislation. It is the result of the merger between the previous Cooperative Bank, Cooperative Promoter's Bank and Cooperative Farmer's Bank. It currently has 15 branches (5 in Yangon Division, 5 in Mandalay Division, 3 in Pego Division, one in Shan State). The Cooperative Bank is owned by the cooperative movement societies and private shareholders. It offers normal commercial saving and loan products, lending with collateral, both to the cooperative movement and other customers. It is said to focus on larger, commercial operations.

The Central Cooperative Society (CCS) is the Apex level body of the Cooperative Movement. CCS is based in Yangon and recently moved to offices separate to the Ministry of Cooperatives, although it still works in partnership with the Department of Cooperatives and with the approval of the Ministry of Cooperatives. It is responsible for mobilising and supporting the whole cooperative movement and is currently expanding its activities. CCS is developing more independent support activities.

CCS has had a new organisation structure since mid 2006, with departments responsible for Research and Planning (research into activities of cooperatives and planning CCS's future activities), Business Development (export promotion – initially rubber and beans to the cooperative movement in India), Education and Training (initially focusing on CCS staff), International Relations (relationship with ICA Asia Pacific Office and ASEAN associations), Budget and Admin. Additionally, the CCS plans to develop a micro-finance capability – potentially in a separate department.

The Department of Cooperatives is responsible for regulation, training, organisation, supervision, planning, inspection and liquidation of cooperatives. The head-offices of the department are in Naypyidaw. There are Divisional Offices in the major towns and Township Cooperative Development Officers in each Township who support individual cooperatives.

The Cooperative Export and Import Enterprise, reporting to the Ministry of Cooperatives, provides market information and expertise in exporting, and helps cooperatives form joint ventures with foreign companies. The Enterprise acts as a trader – earning revenue from exports and importing inputs required by cooperatives that are then sold to cooperatives.

The Cottage Industries Department promotes handicraft manufacture in rural areas with training, marketing and micro-credit. The department has worked with JETRO (Japan External Trade Organisation) to arrange a trade fair in Mandalay.

There are a number of cooperative training institutions: the Co-operative Degree College, the Co-operative College, four Co-operative Regional Colleges, four State/Division Co-operative Training Schools and three Commercial Training Schools.

#### 4. Savings and Credit Cooperatives

There are 2058 Primary Credit Cooperatives, with approximately 400,000 members and 8500 million kyat<sup>1</sup> total outstanding savings and shares. There are two main types: Department Credit Cooperatives and Bazaar Credit Cooperatives.

There are 1840 'Department Credit Cooperatives' which typically range in size from 50 to 500 members. They were typically set up in the 1970s, for government employees. CCS estimates that approximately 85% of members of the Credit Cooperatives are government employees and there are more 'Department' societies in urban areas. Most societies are based in a government department, factory, school, etc. In more remote areas one society will serve a number of different offices. Members are normally made up of the 'middle officials' of the institution. They only serve members. The number of members has been falling, especially from 1988 to 1996.

There are 184 Bazaar Credit Cooperatives. Typically they have 100 members, but some have 500 members. Membership is normally restricted to traders in a particular bazaar, but some societies have started to offer services to other local businesses and some allow non-members to have accounts. Religious institutions are said to often leave large deposits with the societies. Lending is normally provided for business expansion, although some offer consumer loans, education loans, etc. Some Bazaar Societies already have products specially designed for poor traders – providing 48,000 Kyat loans. Many Bazaar Societies are growing fast.

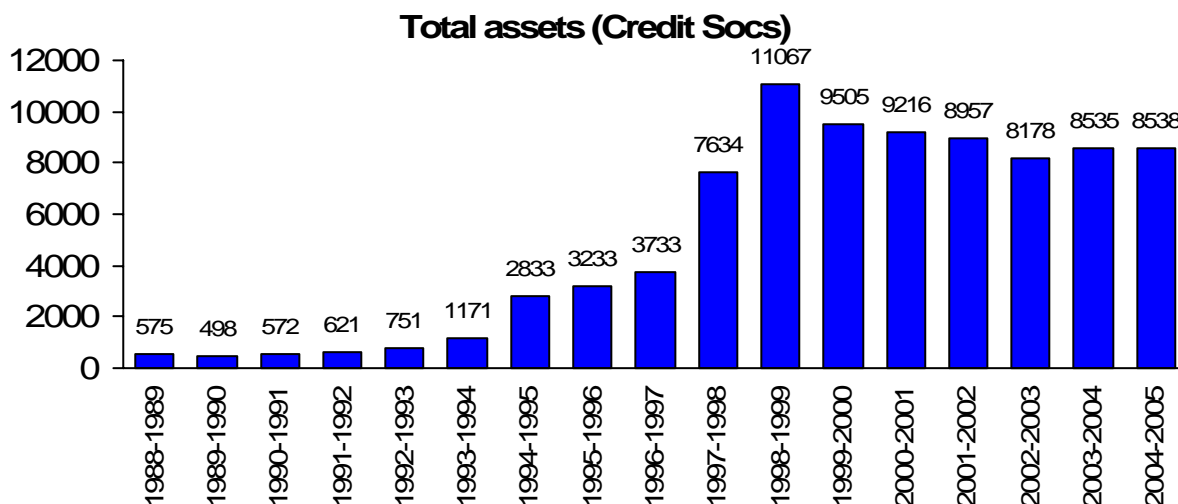
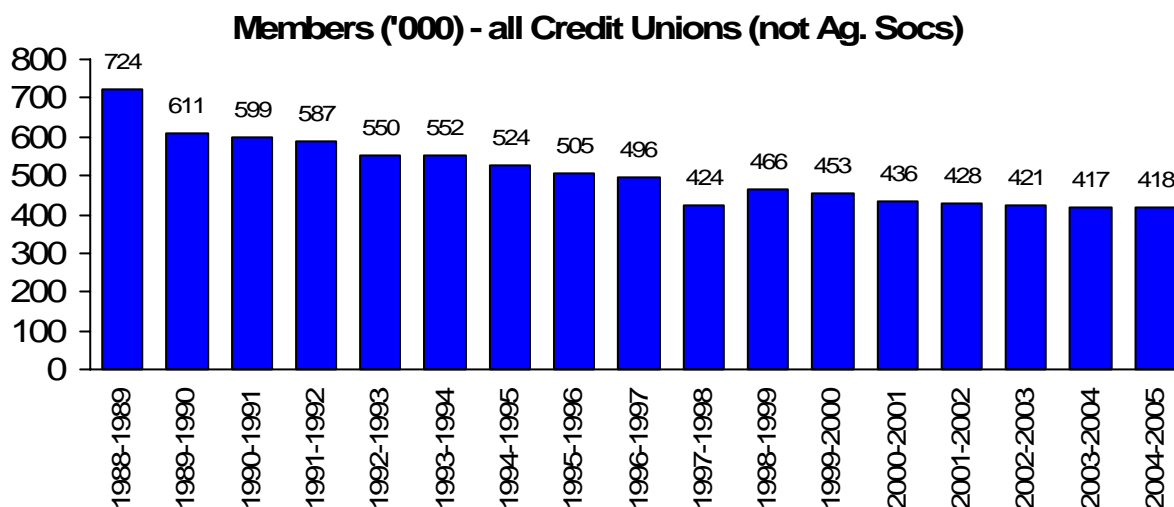
A third type of credit cooperative – Financial Societies – flourished in the late 1990s and early 2000s. These societies often had only a few members and offered financial services to a large number of non-members. Since they were regulated by the Cooperative Law (rather than the Central Bank Law) they were free to set interest rates, which were typically considerably higher than commercial bank rates. As a result of the high interest rates they also suffered from high levels of bad debt. These societies had their regulatory approval removed in the mid 2000s.

All types of Credit Union have a board of Directors with 5 full-time members: Chairman, Vice Chairman, Secretary, Vice Secretary and Director. There may also be part-time members. The Board of Directors has a 4 year tenure. Full member meetings typically occur once a year – but may be more often.

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<sup>1</sup> Assuming each share in the cooperatives are valued at 5,000Kyat each

Current official exchange rate is \$1 to 450 Kyat. Unofficial exchange rates are approximately \$1 to 1,300 Kyat



Members are also able to borrow up on 3 times their savings and shares. Given that the average member has approx 20,000 Kyat as savings and shares, this implies an average loan of 60,000 Kyat – however, since societies cover a wide range of different income groups there is a significant variation in this amount. Emergency loans are given for 1 month, typical loans are for 4-5 months and sometimes loans of up to one year are available. Typically, interest rates are now 1% per month for deposits (12.7% pa) and 1.5% for loans (19.6% pa), although higher interest rates are offered for higher risk loans.

Credit Cooperatives do not undertake non-financial operations.

Primary Societies are said to normally lend almost all of their deposits and shares – so are not in need of an external organisation to take their excess liquidity. However, Secondary and Tertiary level Credit Unions borrow from the societies and the Cooperative Bank and on-lend to Primary Societies to support their liquidity. Some of these loans require collateral, some are extended on a trust basis.

Large Credit Unions have staff, of up to 4 people. Smaller societies do not have staff – operations are completed by the Board of Directors who may or may not have a daily reimbursement.

Staff and directors receive occasional training from the Cooperative Department branch offices, which are located in every Township. Primary Societies are also audited by the Auditor General annually, which also has branch offices in each township.

In addition, in some areas the Agricultural Societies provide some savings and loan services, although there is no data to indicate how often this takes place.

#### 5. Mini case study 1: No. 3 State High-School Cooperative Society - 'Departmental Credit Cooperative'

- **Society background:** Members are teachers and other staff at 5 High Schools, 1 Middle School and 12 Primary Schools – total 420 members. The society started in 1974 so has more than 30 years experience.
- **Shares and savings:** Members buy shares of 6,000 kyat each, so there is a total 2.5m kyat in shares. The society has total savings of 14.55m kyat, i.e. 34.5k Kyat per person average. Savings are paid 1% per month (12.7% pa). The society keeps excess savings in the State Bank – but only 300k kyat (2% of assets).
- **Loans:** Members can get loans of 20 months – paid back monthly. Loans are limited to 140k Kyat for High School teachers, 120k Kyat for middle school teachers and 100k Kyat for Primary School. Loans pay 1% per month interest – i.e. there is no net interest income.
- **Operations:** Savings and loan re-payments are made during general meetings and registered in the manual ledger – which is kept at one of the high-schools. Meetings are always held in one of the high-school class-rooms
- **Leadership and support:** There are 5 members on the board, all voluntary. The President is one of the high-school head-masters, the rest are teachers. All members meet once per month to decide who get the loans – members alone decide, there is no external influence. The Department of Cooperatives Local Cooperative Township Officer checks accounts once per quarter and audits annually – but provides no other support.
- **Membership characteristics:** All teachers at these schools are members – it used to be obligatory but not any more. Services are only offered to members. Members would not use other banks, as they do not understand them 'we are teachers, not economists'. Not every school has this type of society. It depends on having leaders who want to create the society.
- **Future - Appears to be stable:** No members are leaving as there are few competitor banks. While membership carries a cost of saving at negative real interest rates, there are no other places to keep savings and members get value from protection against unexpected expenditure needs.

Saving may become more attractive as inflation falls and real interest rates rise.

The society would be able to increase lending if it had more liquidity – although this would have to be provided at a low interest rate to allow lending at 1% per month.

Given the range of services that the society offers at the moment, there appear to be few needs to improve operations or increase the professionalism of the membership. However, if the society were to expand to offer more services or to link to a larger network, more professional operations would be required.

## 6. Mini case study 2: Shipaw Bazaar Credit Cooperative

- **Society background:** Members are mostly traders at the Shiplaw township bazaar. There are 370 members, 56 of whom are 'micro-finance' customers. Some members have established businesses in the local area. The society started 10 years ago.
- **Shares and savings:** Each normal member pays 48,000 in shares, although the 'micro-finance' customers do not pay this amount. There were 240m kyat in shares and 258 m kyat in savings at the end of 2006 – a total of 489 m kyat. At the end of 2005 the total was 280m kyat – a growth of 77% in one year.
- **Loans:** There are a number of different types of loans – ranging from 48,000 Kyat to 270,000 Kyat. Most loans are for 3 months, with a total interest of 6% (e.g. 1% interest rate per month plus 3% 'operational cost' set up charge). Members need to have 2% of their loan in a savings account. Loans are typically given for business development, to existing traders. Loan repayments are made daily. There is excess demand for loans – loans are given to members in rotation. There have not been any cases of bad-debt.
- **Operations:** The society has a staff of 7 and an office in the Bazaar. All operations are manual.
- **Leadership and support:** There are 5 members on the board, all voluntary.
- **Future – Opportunities for Growth:** The society plans to expand its lending operations with new products. If it had additional funds it could lend more, but it does not know where these funds can be sourced. The society plans to increase its micro-finance activities, which started two years ago.

## 7. Sustainability and projections

The existing departmental cooperatives appear to be viable and sustainable. They are financially viable on on-going operations, since they have low costs from using volunteers and very simple operations. They do not face competition and are reported to have no bad-debt issues. They are likely to continue, although may well continue to slowly decline without external support and mobilisation. While membership is officially not limited to employees, it is likely that few are planning to expand their operations.

The 'Community/Bazaar' cooperatives are more volatile. Some are growing fast and membership is likely to grow beyond the boundaries of their bazaar. They may be able to increase their traditional savings and credit activities, and conduct more micro-finance businesses.

## 8. Issues / opportunities facing Cooperatives

- Stagnation of membership and assets

The number of members of the credit cooperatives is falling and given the high inflation rates in Myanmar the total assets are also falling. A program of support should initially address this issue.

- Limited reach

Societies are not reaching to rural areas. There is considerable opportunity for geographic growth, given mobilisation. Additionally, societies are typically focused on 'middle-class' customers. There should be opportunities to expand to poorer people.

- Negative real interest rates on deposits

Central bank requests credit cooperatives to keep interest rates close to the official interest rates, which create a negative real interest rate and so a strong disincentive to save, but a strong incentive to borrow. This has reduced the liquidity in the market and hence societies are not able to increase their lending. This situation will ease as inflation falls or interest rates are liberalised

- Limited inter-lending

There is little inter-lending at the moment – the Union of Credit Cooperatives only has 12 outstanding loans to Syndicates and Primary Societies and Syndicates are said to not lend directly to Primary Societies. However, there also appears to be little excess liquidity at present, since interest rates are kept low and hence all funds are given out as loans.

- Lack of support for training and development

Little in-society training or support is provided by the different levels of the movement or the Department of Cooperatives – although there are 4 training colleges and 4 training schools. While the training needs of Department Societies may be limited due to the limited range of activities undertaken, Bazaar Societies may need additional training to extend their activities

- Lack of standard operations or IT

Although there is a standard credit manual created by the Department of Cooperatives, there appears to be variation in how operations are conducted. While in smaller departmental credit cooperatives this is not likely to be a problem, in larger societies which are operating on more commercial basis, there is a risk that inadequate risk control and low margins undermine sustainability. Similarly, there appears to be no IT used in any of the societies. In larger societies IT could reduce risk and impose better controls.

## **9. Options for development:**

- More detailed study

There is little central data on the operations of the Credit Cooperatives and their development needs. In particular, more should be known about the credit operations of agricultural societies, the size and issues faced in Bazaar societies, other credit institutions serving rural areas.

- Development of micro-finance

There is considerable interest from staff at the CCS and the Department of Cooperatives to develop micro-finance through the credit cooperatives currently in operation in Myanmar, focused on low-income entrepreneurs. A 3 day training course was held in January 2007, facilitated by the Association of Asian Confederation of Credit Unions (ACCU). There are plans to follow this up with additional training courses at the cooperative training institutes. In addition, CCS and the Department of Cooperatives could support development of micro-finance by developing appropriate policies, standards and processes, and by more out-bound motivation and mobilisation with the societies to explain the details of how to set up micro-finance operations.

- Develop a comprehensive policy for credit cooperative development

While there are a number of central institutions supporting credit cooperatives, there is no single policy document that outlines the future of the movement. Such a policy document should be prepared in cooperation with the movement, CCS and the Department of Cooperatives, and could cover issues such as current barriers to development and resolution of these barriers, geographic and market segment opportunity areas, policy changes required, responsibilities for standards development and support.

- Increase activities in rural areas

Rural areas are not served by Credit Cooperatives. While some Agricultural Cooperatives may conduct some savings and loans operations, these are reported to be limited. There should be considerable opportunity to increase the level of activity to rural areas. There may be dangers in adding savings and credit activities to the existing agricultural cooperatives, so it may be more appropriate to starting up new Credit Cooperatives in rural areas – although more study is needed to confirm this.

- Service provision to existing cooperatives

The large number of existing cooperatives are not well supported with inter-lending, IT, standard processes. As the needs of these cooperatives develop, there may be an opportunity to provide them increased support, through either the Cooperative Department, CCS or a third party. The Bazaar cooperatives are likely to have more needs.