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EFFECTIVENESS OF CREDIT ACCESSIBILITY OF FARMERS

(Kyaiklatt Township, Phya Pone District, Ayeyarwaddy Division)

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(MBF-4th BATCH)

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EFFECTIVENESS OF CREDIT ACCESSIBILITY OF FARMERS

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A thesis submitted as a partial fulfillment towards the requirements for the degree of Master of Banking and Finance (MBF)

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ABSTRACT

This study aim to analyze the Credit Accessibility and Effectiveness of Credit on Farmer in Kyaiklatt township in Irrawaddy division. Descriptive method is used based on primary and secondary data. Random sampling technique is adopted in which 150 were farmers are participated in this research. To understand the effusiveness of agriculture loan on farmer better many variables are identified as collateral literacy, loan utilization and many more. These questionnaires are prepared with 5 points likert scale. Finding reveal that agriculture loan of Kyaiklatt township is effective on farmer. However some farmers utilized the credit from other money lender for increasing the crop production because loan amount is not sufficient. It is found that right utilization of loan, appropriate term of loan and availability of loan information to farmers. Farmers applied the Sources of credit from Government bank, Financial Institution and Non- Financial institution. Thus, credit institutions should consider boosting their credit services to rural farming households in order to guarantee that more households benefit from it and sharing knowledge to farmer utilize of their loan to effectively in their farming. Effectiveness of loan utilization from affordable agricultural credit improve farm productivity and to earn more income from their farm.

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MADB	Myanmar Agricultural Development Bank
MFI	Micro Finance Institution
MMK	Myanmar Kyat
NGO	Non-Government Organization

CHAPTER 1
INTRODUCTION

Myanmar is a large country, with a land area of 676,577 square kilometers (km 2). Its strategic geographic location provides Myanmar the potential to become a land bridge between South and Southeast Asia and to link the People's Republic of China (PRC) to these markets. Agriculture sector accounts for about 30% of GDP, over 50% of total employment and approximately 20% of exports. Cultivated land, covering 12.8 million hectares, has the potential to be increased by nearly 50%. For decades, agricultural production takes place on only about 12.4 million hectares7 (ha), or 18% of Myanmar's total land area of about 68 million ha. Some 5.7 million ha is considered cultivable but is currently unused. The agriculture sector is one of the most important sectors for the country's economy; agricultural goods are Myanmar's second largest export commodity. The agriculture sector contributes 38% of GDP, accounts for 20 to 30% of total export earnings and employs more than 70% of the workforce. 12.8 million hectares out of 67.6 million hectares of land in Myanmar are cultivated land. Rice is the country's primary agricultural product, which accounts for nearly 43% of the total agricultural production value. In Myanmar, 70% of the country's population live in rural areas and their livelihood drives the agriculture sector as an important growth engine of rural development.

The provision of financial services by donors or governments was mainly in the form of subsidized rural credit programs. These often resulted in high loan defaults, high loses and an in ability to reach poor rural household. Poor desired improved access to financial services and products more willing than cheap credit. If a person observes an institution to be unfriendly or uncaring to them they hesitate to move toward it. In July 2016, the Government of Myanmar officially announced a 12-point economic plan targeted at developing a market-oriented economy. The government focuses on a requirement has been experienced for alternative policies, system and procedures saving and loan products which would fulfill the requirement of the poorest and then on strengthening farming production, enhancing food security, increasing exports and improving living standards of the rural population, which depends on farming as their first and key source of income.

1.1 Rationale of the Study

The rural sector plays a pivotal role in the country's economic growth, social and political development. In Myanmar, rural sector is 64.7% and 35.3% is urban sector. Agriculture sector accounted for 36% of GDP. Poverty alleviation is one of the most important objective of developing countries. It is concluded that poor people in rural areas especially in under developing countries are in immense need of credits so microfinance programs must make available this credit needs and motivate the poor people to increase their standard of living. When it comes to rural development, with the growth of the credit infrastructure, credit flow to the poor and especially to poor women, remained near to the ground. Agricultural credit is one of the most important factors to develop rural areas in developing countries. Agricultural finance and credit are strategically important for eradicating extreme poverty and boosting shared prosperity. It is not only for financial credit but also for improving economic well-being and living standard.

Agriculture sector accounted for 36% of GDP and poverty alleviation is one of the most important objectives of Developing countries. Poor people in rural areas are in immense need of credit. 'Credit accessibility' refers to the ease or difficulty of acquiring credit by borrowers for purposes such as to enhance business performance (Salahuddin, 2006). Traditional Banks not interested in issuing small loan and are only interested in business which have access collateral. Risks associate with Agriculture (Weather condition, Diseases, water Availability) are relatively high for traditional bank Most farmer can get loan only from MADB Bank Unbanked customer either have small loan from Micro finance and worst case Money lender with very high interest rate .Seasonal nature of agriculture production always make gap between payment and receipts farmers, Farmers in order to pay ongoing expenditures and capital need the past saving income or external grants (credit). Since farmers saving are small, they cannot invest their saving in the agricultural and do not purchase the advanced and innovative inputs. Supply of required liquidity to farmers by the distribution of credits can lead to better use of factors of production and increase level of production and productivity.

This study examined the Credit Accessibility and Effectiveness of Credit on Farmer. The chosen area for this study is farmers from Kyaik Latt township, Ayeyarwaddy division which area was experiencing the need of agricultural

financing. Delta area's mainly crop is rice and rice is 2/3 of the cultivated area in Myanmar most of the people from this township are farmers.

1.2 Objectives of the Study

The objectives of the study are specific as follow

1. To identify credit accessibility in Kyaiklatt Township of Irrawaddy Division
2. To analyze the effectiveness of credit on farmers

1.3 Scope and Method of the Study

The study is based on four Villages among 87 Group of Villages of Kyaiklatt township , 150 farmers from 2659 households sample clients. This township is chosen for case study due to this is greater portion of farming business and farmers in Myanmar. Even though Kyaiklatt is a smallest township. This study concentrate on farmer with land ownership and paddy cultivation only.

To analyze the main objectives, primary data are collected by using questionnaire method and interviews which were conducted during the month of July 2017. Some of the secondary data are collected from the experience of MADB 'employees and other micro finance businesses, publication, internal sources, previous research paper especially the relationship between credit accessibility and growth of small and micro enterprises, . A two -stage random sampling technique has been applied to collect the data and Linear Regression Analysis is used to know How credit accessibility contribute on farm's performance. Based on the available information from primary data and secondary data of Kyaiklatt Township, this study explored the basic information about the credit accessibility and effectiveness of credit on farmers by using the descriptive analysis.

1.4 Organization of the Study

This paper is organized by five chapters. The first chapter starts with the introduction which include the topic and touch on some of the issues with regards to agricultural contributes to country's GDP and employment, rational of the study, research objectives, scope and method of the research and organization of the study. The second chapter represents theoretical background of agricultural credit, credit

accessibility, effect of financial Accessibility on farmer, determinants of credit accessibility and Conceptual framework.

The third chapter provides on the background information of Kyaiklatt Township including geographical area, lending Operation of Agriculture Financial Institution in Kyaiklatt Township. Then, Chapter four contains the profiles of farmers, credit accessibility of farmers and to analysis the effectiveness of collateral, interest rate, literacy level and number of financial institution affect the growth of farmers such as profitability and wealth of farmer. The Chapter five concludes with a summary and discussion of the researcher's findings, implication of practice and recommendations for future research.

CHAPTER 2
THEORETICAL BACKGROUNG

This chapter presents important of agricultural credit, source of agricultural credit, types of agricultural loan, credit accessibility, effect of credit accessibility on farmers, determinants of credit accessibility and conceptual framework for this study.

2.1 Concept of Agricultural Credit

Agricultural Credit is defined as a type of financing used to provide funding for agricultural producers. Agricultural credit plays an important role in agricultural development. Agricultural household models suggest that farm credit is not only necessitated by the limitations of self-finance, but also by uncertainty pertaining to the level of output and the time lag between inputs and output (De Janvry and Sadoulet, 1995).the growth rate of investment in agriculture is less than other economic sector. Agricultural financing is one of the most important factors to develop rural areas in developing countries. Payment of bank credit is a way of financing. In fact, facilitation of access to credit can raise amount of productive investment. Credit has a crucial role for elimination of farmer`s financial constraints to invest in farm activities, increasing productivity and improving technologies. Generally, credit accessibility is important for improvement of quality and quantity of farm products so, that it can increase farmer`s income and avoid from rural migration. On the other hand, some policy makers believe that payment of credit with low interest rate to farmers can support them against some results of development policies that threat their welfare (Ghorbani, 2005). Therefore, with limited access to credit, the budget balance becomes a constraint, where expenditures have to remain less or equal to the sum of revenues during the period, accumulated savings and credit availability. Hence, credit constraint limits the optimum production or consumption choices (De Janvry and Sadoulet, 1995). In other words, if a producer faces an infinite supply of liquidity at a given price, the production decisions will be independent of consumption decisions. When credit is rationed, some borrowers cannot obtain the amount of credit they desire at the prevailing interest rate, nor can they secure more credit by offering to pay a higher interest rate. In such circumstances, liquidity can become a binding constraint on many farmers` operations. Facing such a situation,

households have to choose how to invest and what inputs to buy, depending on the level of credit they receive.

2.2 Importance of Agricultural Credit

Credit is needed in every type of business and agriculture is no exception. The need for agriculture credit becomes more important when it moves from traditional agriculture to modern agriculture. Agricultural labor is often under-employed. Production suffers from weather risks. The capacity of farmers to save and invest is very low. The agricultural productivity is low due to low use of inputs. The farmers therefore, need credit to increase productivity and efficiency in agriculture. This need is increasing over the years with the rise in use of fertilizers, mechanization and rise in prices. The funds may be used according to the farmer's planting, harvesting and marketing cycles for purchasing farm machinery, payment of labor wages, or for acquiring more land for agricultural purpose, development of irrigation facilities, etc. Purchase of new inputs: The farmers need finance for the purchase of new inputs which include seeds, fertilizers, pesticides, irrigation water etc. If the seed of high yielding varieties and other modern inputs are made available to the farmers they can increase productivity not only of land but also of labor.

Purchase of Implements: Credit is required by the farmers for the purchase of tractors, threshers, harvesters, water pumping sets etc. The use of appropriate machinery in land will increase production by growing more than one crop on the same piece of land at the same time.

Better Management of Risk: Credit enables the farmers to better manage the risks of uncertainties of price, weather etc. They can borrow money during raining days and pay back the loans during peak years of crops. Permanent improvement in land: Credit also helps the farmers to make permanent improvements in land like sinking of wells, land reclamation, horticulture, rotation of crops etc.

Better Marketing of Crops: If timely credit is available to the farmers, they will not sell the produce immediately after the harvest is over. At that time the prices of agricultural goods are low in the market. Credit enables the farmers to withhold the agricultural surplus an sell in the market when prices are high. Facing crises: The credit is required by the farmers to face crisis. The crisis can be caused by failure of crop, draught of floods.

2.3 Sources of Agricultural Credit

Agricultural production is to a large extent dependent on credit to fund inputs and to smooth consumption between harvests. Farmers represent the largest target segment for credit. Specific uses of agricultural financing include financing inputs (seeds, fertilizers, etc) prefunding of outputs and equipment financing. Agricultural credit is the largest regulated credit product. In Myanmar, the financial market may be categorized into three divisions, namely: a formal sector and various segments of an informal sector.

Among the formal financial institutions, Myanma Agricultural Development Bank (MADB) is the single largest regulated provider in terms of number of clients and is the largest individual regulated provider by loan book value. It is owned and supervised by the Ministry of Agriculture and Irrigation (MOAI) and has the mandate to support the development of agriculture, livestock and rural enterprises. MADB is the second largest financial institution in Myanmar by branches (205) and the largest by assets and loans. In the past MADB had grown into a country wide network with 11,200 village banks established in the village tracts. However, in 2007 the village banks were withdrawn and at present only township branches offer loan and savings services. Specialized Agricultural Development Companies: In 2009 agricultural trading, processing and milling firms were encouraged to establish Agricultural Development Companies (ADCs) to lend to farmers. These companies are typically owned by a few Yangon companies with export experiences and by local large traders and millers in the respective townships. They are tasked with providing agriculture input loans that are often tied to supply and buy back arrangements. Microfinance also known as microcredit, is a financial service that offers loans, savings and insurance to entrepreneurs and small business owners who don't have access to traditional sources of capital, like banks or investors. The goal of micro financing is to provide individuals with money to invest in themselves or their business. “Microfinance focuses on meeting the financial needs of populations that are financially underserved," said Tarsava. "These are individuals who usually lack the credit or resources to secure a loan and are unlikely to get approval from traditional banks. Typically, these consumers are seeking small-denomination loan to finance the purchase of a specific equipment, or the capital to start a small business."The main sources of informal agricultural finance has many methods, mainly includes money

lenders, landlords, traders and private borrowings. Moneylenders and landlords: From the very beginning, moneylenders are the main suppliers of short-term and long-terms credits to farmers. They provide the loan to the farmers for productive as well as unproductive purposes. Their loan advancement process is flexible and the loan has fixed repayment. The money lenders are somewhat flexible about the execution of documents and the security to be obtained. Traders and private borrowings: They provide short term loan to the farmers for productive purposes before the harvest is ready on the condition that they (the farmers) will sell their products to them at pre-determined prices, which are usually very low, compared to prevalent market prices at the time of harvest. This type of loan assumes greater significance in the case of food grains like paddy, wheat and cash crops like cotton etc.

2.4 Literature Review of Credit Accessibility

The task providing financial services, especially credit at reasonable cost to small scale farmers who have limited assets has not been easy. Until the 1980 in many developing countries, state-run agriculture development banks took the lead in establishing formal credit markets in rural areas. However, the shortcomings of the banking principles that they are based on – collateralized lending, an organizational setup without any incentive to do business with the poor, excessive dependence on government funding, and pervasive political patronage – severely handicapped their performance (Ledgerwood, 1999:42; Zeller & Sharma, 1998:7). Lack of access to a broader set of financial option represents a potential constraint to entre premiership and the ability to undertake socially and privately profitable investment projects (Asian Development Bank, 2000: 5).

If formal lenders are going to play any role in the delivery of microfinance services the reasons for any early failure must be well understood. The lessons that may thus be drawn would be useful in determining when and where it may be worthwhile to restructure the rural financial systems in order to convert them into viable rural financial markets. Von Pischke (1983: 12-12) argues that a well-functioning rural finance market requires institution that are healthy and expanding and the cost of financial services should fall as a result of financial innovation. The objective of this chapter is to study a range of issue that affect accessibility of credit and the current thinking on these issues. Feature of Rural Credit Market: The major

roles of financial markets are to transfer capital from savers to borrowers, agglomerate capital, select projects, monitor investments, enforce contracts, transfer share and pool risks and to record transactions (run the medium of exchange).

Although an increasing number of private and public agencies are involved in raising the efficiency of financial intermediaries targeting the poorer clientele, their effectiveness in an improving the poor's access to financial services, especially credit, is below expectation. As a result, the majority of small-scale farmers are left out of the rural financial system. Rural financial intermediation is expensive because participants are geographically scattered financial transactions are small and rural income tend to be unstable. Clearly defined collateral is often not available and rural people are usually less well educated than urban people. In addition, it is costly to collect information about rural borrowers. The substantial cost naturally impede financial markets from making contact with rural people, especially the poor.

According to Freeman et al. (1998), farmers' access to credit is also very crucial in the since that it can facilitate the levels of input use closer to their potential levels when capital is not a constraint, consequently leading to higher levels of output per farm and productivity, given fixed resources such as land. This implies that the marginal contribution of credit brings input levels closer to the optimal levels, thereby increasing output and productivity (Feder et al., 1990). Additionally, access to credit is also considered to be an important tool for smoothing consumption and promoting production especially for poor households (e.g. Swain et al., 2008; Conning and Udry, 2005; Armendariz and Morduch, 2005; Robinson, 2001; Zeller et al., 1997). This means that access to credit can significantly increase the ability of households with no or few savings to meet their financial needs for agricultural inputs .especially those that are highly necessary for weed, pest, and disease.

Access to credit and other financial services has the potential to make the difference between grinding poverty and an economically secure life. Access to financial services, especially credit is believed to have a significant impact on various aggregate and household-level outcome including agricultural productivity, technology adoption, food security, nutrition, health and overall household welfare (Diagne & Zeller , 2001 :1; Diagne, 1998). Access to credit affects household welfare outcome though three pathways. The first pathway is though the alleviation of the capital constraints on agriculture household. Access to credit increase the ability of

poor household with little or no saving to acquire agricultural inputs. Furthermore, easing potential capital constraints though the granting of credit reduces the opportunity cost of capital-intensive assets relative to family labor, thus encouraging the adoption of labour-saving, higher –yielding technologies and therefore increasing land and labour productivity, a crucial factor in encouraging development (Diagne & Zeller , 2001: 2; Freeman et al, 1996: 189). Furthermore, credit could significantly includence a farm household's income by helping its member to tap economic opportunities, thereby assisting them to get out of poverty (Adugna & Heidues, 2000: 27; Binswanger & Khandker, 1995: 334).

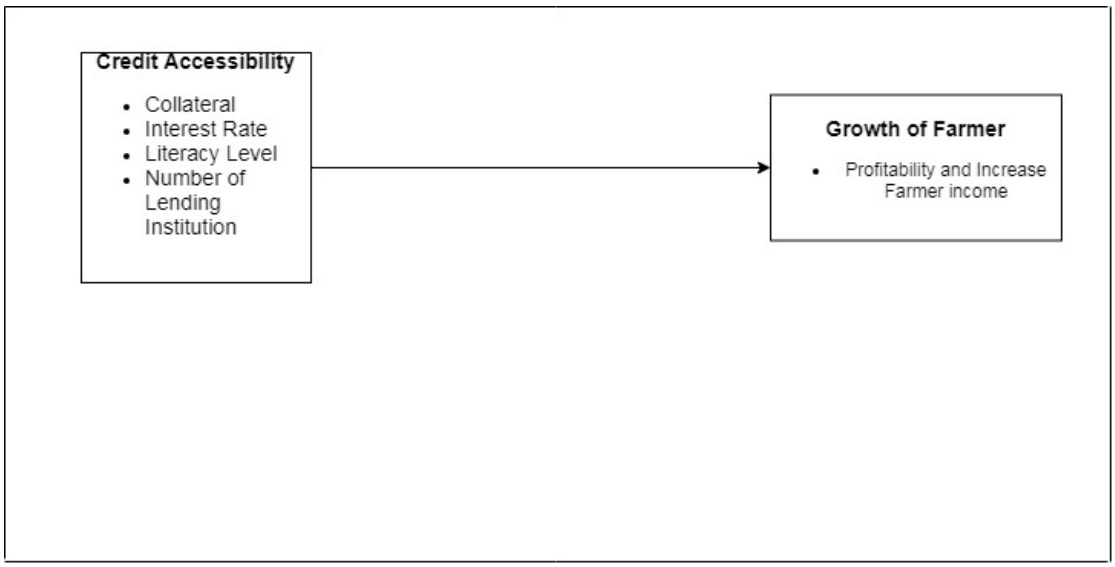
2.5 Conceptual Framework

The conceptual framework shows how the independent variable access to credit which was measured in terms of collateral, literacy level, interest rates and the number of financial institutions influences the growth. The relationship between credit accessibility and growth of small and micro enterprises. Credit accessibility can be determined by collateral, literacy level, interest charged and number of financial institutions. Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses. Since collateral offers some security to the lender should the borrower fail to pay back the loan, loans that are secured by collateral typically have lower interest rates that unsecured loan.

A lender's claim to a borrower's collateral is called a lien. Obvious forms of collateral include houses, cars, stocks, bonds and cash -- all things that are readily convertible into cash to repay the loan. Financial literacy refers to the ability of an individual to understand how money works-how it's earned, manage to invested. It is very important for any business entrepreneur to have knowledge on how to manage the business so that they can oversea its growth. A literate entrepreneur understands on the best time to make certain investment decision such as when to borrow and form whom to borrow and at what cost. Interest Rate refers to the additional amount payable on top of the original amount.

It represents the cost of lending. As much as interest rates may be advantageous to the lender, it may discourage borrowing from customer's view. Interest rate tend to shun a way small scale traders from borrowing the funds from

financial institution since they fear paying back huge penalties on the interest rate if they do not honor the loan obligation terms . The higher the interest rate charged the lower the rate of borrowing the small-scale traders vice versa (Ogolla, 2013). The number of financial institutions offering credit in a economy has an impact on the overall growth of an economy. When number of smalls scale traders is many whilst the financial institution with the services customized to them are few (demand exceeds supply) the price of the loan will be high therefore not affordable.



Source: The Relationship Between Credit Accessibility And Growth Of Small And Micro Enterprise In LANGATA Constituency

CHAPTER 3
BACKGROND INFORMATION OF KYAIKLATTTOWNSHIP

This chapter mainly presented the background information of KyaiklattTownship of Ayeyarwaddy Division. It is included geographic characteristics of KyaiklattTownship, Demographic of Population, Climate of KyaiklattTownship, overview of agricultural sector and role of credit accessibility. Seasonal crop production, term loan and portfolio of loan management are presented in this study.

3.1 Role of Agriculture Finance in Myanmar

Myanmar has been facing daunting challenges. Poverty is the pressing issue of the economy, resulted from low income, mainly generated from agriculture. Myanmar is basically an agricultural country, endowed with a wealth of resources, including fertile land, water resources, forests and remarkably - young population. The development of agricultural sector is crucial to the Government of the Republic of Myanmar for its role in achieving food security and nutrition for the country as well as being a significant contributor to the economic output, export earnings and employment in Myanmar. It is extremely crucial to Myanmar's economy and future sustainable growth. If Myanmar agricultural production makes important contributions to general economic development, it can not only provide employment opportunities and but also give to diversification in such job opportunities especially in rural areas.

It is one of the preconditions which must be established before a take-off into self-sustained economic growth becomes possible. The ability of agriculture to transfer its abundant resources to other sectors actually leads the economic growth. Myanmar is rich in fertile soils and abundant water sources are legendary in South-east Asia. Almost anything can be grown in the country, from fruits to vegetables, from rice to pulses. The satisfactory growth rate of the economy achieved in recent years was primarily attributable to the very good performance of agriculture sector, the predominant sector of the economy and which has been given top priority. Numerous innovative approaches and devices were made to procure inputs for distribution to the farmers, while the government had also heavily invested in building

up dams and irrigation system not only to enable successful harvest but also double and in some cases triple cropping. Farmers have also been greatly enticed to work hard by price incentive following liberalization of price controls and regulations.

The Myanmar Agriculture Development Bank (MADB) is the only major financial institution that operates in rural space for agriculture credit. MADB is the second largest financial institution in Myanmar by branches (205) and the largest by assets and loans. Its maximum credit amount for paddy production is 150000 kyats per acres and is limited to ten acres per farmer. It covers about 25- 50% of the overall financing needs per acre at a rate of 8% p.a. The balance is primarily financed through informal loans carrying an interest rate between 5 to 10% per month. In Myanmar, most of the farmers are usually borrow from MADB and MADB is main Lender of agricultural credit to farmer in Myanmar. The MADB is state owned and the successor to the State Agricultural Bank (SAB) established in 1953, which latterly became the Myanmar Agricultural Development bank in 1976. It has a countrywide network of 14 regional offices, 169 branches and 44 agency offices with 3357 staff providing short term and long terms credit to over two million farmers. MADB lend agricultural credit to farmers total Kyats 1,658,861.75 million in 2017-2018.

Government Bank loan asked to provide collateral as Form 7 and Small and marginal farmer couldn’t provide this collateral due to be difficulty to get from related authority. MADB’s loan disburse to farmer for one hundred fifty thousand per acres and maximum acres is ten acres for each farmer and farmers cannot get loan for their actual need on their actual own acres so that they couldn’t buy sufficient input for farms which over ten acres. Loan amount one hundred fifty thousand for one acre is not sufficient for high cost of farm input such as seeds, fertilizer, labor charges, fuel and pesticides. Government loan need to repay as per repayment schedule which is after harvesting of their crops and farmers have no chance to wait getting the ceiling price of their farm output. Other institutional loan from micro finance farms usually collect the interest two times per month or monthly. Farmers have no sources of fund for their interest during cultivated season. Informal sources of loan from friends, relatives, village shopkeepers, traders, commission agents collect high interest rate from farmers. However most of the farmers are rely on such loan due to lack facility of access to adequate formal credit.

3.2 Background Information of Kyaiklatt Township

Kyaiklatt is on Irrawaddy Delta near Mahubin city and located on the riverside of Irrawaddy river. Kyaiklatt township consist of Kyaiklatt and Daydaye. The Altitude of Kyaiklatt township is 16.35 feet and it is between North 16degree 26 min, East 95 degree 41 min 35 .Area will be 710 square Kilometer and It has temperate climate zone and between (20'C and 37'C). Other city such as Yangon, Phyapone, Bogalay, Maubin, Nyunton are connected through ship. Therefore very good trading business. Kyaiklatt tsp is the smallest township part of Phyapone division. Economy is agriculture base with paddy, coconut and beetle nuts. To and from Kyaiklatt , waterway is the best form of transportation.

3.2.1 Geographic Characteristics

It is bordered by Dedaye township to the east, Bogale township to the west, the Andaman Sea to the south. It is located 16.28 latitude and 95.68longitude and is situated at elevation 8 meters above sea level. Topographically, everywhere in this township is extremely low and flat. Topographically, it is categorized in tidal, coastal area and sand dune. Small tidal creeks are occurred anywhere in the area. Terrestrial forest on the land where is higher ground level are observed. The former is a coastal world of rich ecosystems; the latter is a rather dry area that various sizes of villages, paddy fields, coconut palms, home gardens and others are found.

Figure (3.1) Geography of Kyaiklatt

Source: Myanmar Information Management Unit

3.2.2 Demographic Characteristics of Kyaiklatt

Demographic of Kyaiklatt township: Total population is 193,340, within that 49.1 % is Male and 50.9 % is female and population density is 272.1 person per square Kilometer. Since 5 years, there is significant drop on new born baby rate. From the population graph age 10-14 group is the biggest population Compare with the Country, percentage of working population 15-64 is lower. Percentage of (15-65) working population is 63.4 which is higher than child (under 14) and Older (above 65) age group. In this way dependency on the working population is lesser. Bamar and Karen form the majority of the population, with a small minority of Rakhine in western coastal regions.

3.2.3 Economic Characteristics of Kyaiklatt

The main output product of Kyaiklatt township is paddy, live stock and fisheries, forest related products. There are considerable size mining community. This area is one of the worst affected area by Cyclone Nargis. Most of farmlands were destroyed by the cyclone and the resulting tidal wave. The cyclone destroyed farmers' stored rice and seed stocks, fruit and vegetable crops and around 70% of fishing gear was lost or ruined. Although the production costs have increased, paddy prices have decreased due to the lower paddy quality. According to the information from village administrators in the study area, the paddy yields were with the minimum of 40 Bushels per acre and maximum of 100 Bushels per acre and the farmers sold the paddy 100 Bushels with the minimum of 40 lakhs and maximum of 150 lakhs.

3.3 Role of Agricultural Credit in Kyaiklatt

Paddy dominates the agriculture sector of Myanmar, accounting for around 60 percent of the net sown area and around 80 percent of the total value of sector production (Vokes and Goletti 2013). Other key crops include pulses, oilseeds, and rubber. Livestock currently is a relatively small sector of agriculture, contributing only 7.5 percent of total agricultural GDP. In Kyaiklatt grow acre (nway+ moe) 258043 which produce up to 21012207 (tin). Out of Kyaiklatt total population 193,340, 50.8 % is working on the agriculture and livestock. Among that skilled worker 56.1 % is Male and 40.7 percent is female.

3.4 Lending Operation of Agriculture Credit in Kyaiklatt

Informal credit market includes friends, relatives, village shopkeepers, traders, commission agents. These sources of funds are for short period of time and charge a higher interest rate or can be determined by mutual agreement. According to the research some farmer even paid up to 10 percent interest rate per month .These loans are made available for consumption as well as for the purchase of agricultural inputs and other financial needs. However, the major problem with these kinds of loans is they are inadequate and non- dependable, cause dispute and often make farmer's financial situation even worse. These loans have no proper documentation or others rule and regulations that is why most of the time farmers are facing a tough time in getting these loans. Operational financial institution are in this area are Myanmar Agriculture Development Bank, Mya Sein Yaung, Co-operative and etc. Majority of agriculture financial institutions, offers two types of loans to its customers: the seasonal crop production loan and the term loan, which account for 98 percent and 2 percent of total outstanding loans in 2012, respectively. In Kyaiklatt township, MADB lend agri credit to farmer for paddy cultivation only. The following data are Agricultural credit and Paddy Yield of Kyaiklatt township by MADB.

Table (3.1) Loan Amount and Paddy Yield

Year	Season	Loan Amount (Lakh)	Paddy Acre
2016	Rainy	199,103	132735
2016	Winter	178,650	119100
2017	Rainy	197,019	131346
2017	Winter	186,518	124345

Source: MADB Bank

3.4.1 Procedure of Loan Application

The procedure of MADB loan application is farmer come to MADB to submit loan application, MADB branch need to submit the advisor group of township to disburse of loan. Bank check with Form 7 copy and original when disburse the loan to farmer and keep the original at bank and this policy start from 2018. To disbursement the loan upon type of land as per describe in Form 7. Loan is only given to the official owner that name is stated on the Form 7 which is carefully check by branch manager

of MADB. The branch manager and supervisor record keeping in approved sign attached with Form 7 original. When repayment procedure is finished, farmer need to sign for evidence of Form 7 reissue and also reissue approval sign branch manager and supervisor.

3.5 Types of Agricultural Credit

The Seasonal Crop Production Loan (SCPL) is designed to cover the working capital needs of smallholder farmers at the beginning of the agriculture season. Loans are divided into three categories: monsoon, winter, and premonsoon loans, with the first being the most important type of loan for MADB. Loan maturity is up to one year and full repayment is expected at harvest time. The loan amount varies according to the number of acres owned or leased by the farmer and the intended crop. (See table 6 for all loan types). Term Loan (TL) are classified in three subgroups: Short-term loan, farm machinery loan, and special project loan. Most TLs are collateralized. The short-term loan is provided to finance sugarcane plantations, tea processing, and solar salt production. The farm machinery loan is the only type of loan that requires compulsory savings by the farmer. This type of loan is granted for the purchase of machinery for agricultural purposes and is given with a three-year maturity period. The repayment is divided into three installments, with an option to repay with the compulsory deposit at the end of each year. The last subgroup is the special project loan, which is a loan granted by MADB to finance rubber plantations under the Government’s border area development projects.

Table (3.2) Types of Loan and Term Loan

Type of Loan	Loan disbursement period	Loan Collection period
S1 Monsoon loan	May-August	December-March (following year)
S2 Winter loan	September-January	February-June (following year)
S3 Premonsoon loan	January-February	December (same year)
T1 Short-term loan		
(a) Solar salt production	October-December	August next year
(b) Sugarcane plantation	January-February	February next year
(c) Tea processing	April-Jun	March next year
(d) Coffee plantation	-----	-----
(e) Citronella grass	June-July	May next year

Source: MADB Initial Assessment and Restructuring Options by the World Bank Group

Monsoon loans dominate the lending portfolio. As illustrated the monsoon subtype of loan accounted for 85 percent of the total MADB's lending portfolio in 2012, followed by the winter season loan (11 percent). The remaining part of the loan portfolio is composed of term loans in their different modalities.

CHAPTER 4
ANALYSIS ON EFFECTIVENESS OF CREDITS ON AGRICULTURAL SECTOR IN KYAIKLATT TOWNSHIP

This chapter analyses the effectiveness of credits on agricultural sector in Kyaiklatt Township, Ayeyarwaddy Division. Section one includes Profile of respondents from the villages of Kyaiklatt Township, Section two includes the credit accessibility of farmers at these villages and analysis on the effectiveness of credits according to collateral, literacy level, interest rate and number of financial institutions at Kyaiklatt Township, Ayeyarwaddy Division.

4.1 Research Design

To achieve the objectives of the analysis on effectiveness on credits on agricultural sector in Kyaiklatt Township, Ayeyarwaddy Division. For the present study, primary data have been collected through a survey and administering set of interview schedule to farmers in rural areas of Kyaiklatt Township. A two-stage random sampling technique has been applied to collect the data. Among 87 Villages group, four villages from Kyaiklatt Township (Hlaing Tar, Layein Tan, Ka Tike and Sin Tar) are selected due to diversity of financial institutions and main business for the households. At second stage, proportion of respondents (farmers) have been personally interviewed from four villages. Thus, the total number of respondents came out to be 150.

At finally stage primary data have been collected through a well-designed detailed questionnaire in order to collect characteristics information of the farmers (gender, education level, farming experience, major source of funding and ownership of property and finally analysis on effectiveness of credit accessibility on farm performance of agriculture sectors in Kyaiklatt Township The collected primary data have been analyzed with SPSS software version 2017. As explained in below table, Surveyed total 150 person out of 2659 which is 18% of Village population

Table (4.1) Sample Size of Household

Village	Population of Household	Sample of Household
Hlaing Tar	982	55
Layein Tan	428	24
Ka Tike	661	37
Sin Tar	588	34
Total	**2659**	**150**

Source: Survey Data 2018

4.2 Profile of Respondents

This section presents the profiles of selected 150 respondents from Hlaing Tar, Layein Tan, Ka Tike and Sin Tar from Kyaiklatt Township, Ayeyarwaddy Division. The profiles of respondents cover the Gender, Education Level, Year of Experiences, Main source of funding and Ownership of property. As shown in Table (4.2), the sample consists of 130 males and 20 females. In terms of the percentage, male respondents are 86.7% of the sample while female respondents are 13.3% of the sample. According to education level, many of the farmer are primary level that are 61.3% of total respondents, secondly 24.7% are middle education level and 14% are high education level.

Most of the farmers have working experience is 10 years and above that represents 48% of the total respondents and 21%, 14%, 10% and 7% that represent 8 to 10, 5 to 8, 3 to 5 and 0 to 3 year of experiences, most of the financial institution is willingness to lend small and scale ownership of farmer. According to major source of funding, most of the farmers are borrow from financial institution that represent 84.7% because they offer lower rate of interest and less documentation is required (only Form 7 present, farmer can borrow loan from this financial institutions)

This is one of the major advantages of credit accessibility for farmers. Secondly, 14.6% are financing from friend and relatives and 0.70% is own saving from farmers. According to ownership of property, all of the farmers are possessing farm acre, that represent 100% of the total respondents. Two property (land and) that represent 29.3% and 9.3% that own three property and 0.70% of respondents are possess four property and these percentage is very low for farmers. Available credit loan is only support for use in agriculture sectors and others

Table (4.2) Profile of Respondents of Four Villages in Kyaiklatt Township

Profile	Number of Respondent	Percentage
Gender		
Male	130	86.7
Female	20	13.3
Total	**150**	**100**
Education Level		
Primary	92	61.3
Middle	37	24.7
High	21	14
Total	**150**	**100**
Year of experience		
1 to 3	10	7
3 to 5	15	10
5 to 8	21	14
8 to 10	32	21
10 years and above	72	48
Total	**150**	**100**
Major Sources of Funding		
Own saving	1	0.70
Friends and Relatives	22	14.60
Financial institution	127	84.70
Total	**150**	**100**
Ownership of Property		
Two property	91	60.7
Three property	44	29.3
Four property	14	9.3
Four and above	1	0.70
Total	**150**	**100**

Source: Survey Data (2108)

4.3 Farmer Experience on Loan Credit

Most of the farmers borrow money from financial institution mainly MADB because of low interest and less documentations. 67.30 % of respondents are only borrow form MADB and 30.70% get financed through MADB and MADB.

Table (4.3) Number of Financial Institutions

Number of financial Institutions	Number of Respondent	Percentage
MADB Only	101	67.30
MADB + Micro Finance	46	30.70
MADB + Micro Finance + Others	2	1.3
Total	**150**	**100**

Source: Survey Data (2018)

Credit Services

The respondents were required to rate the credit services offered in their region and the responses are as indicated in Table (4.4). From the results shown, the majority 58% of the respondents accessed credit from financial institutions confirmed that the services offered by credit facilities in their area were good. Approximately 29.3% of the respondents said that they are average while 12.70% rates the services as poor.

Table (4.4) Rate of Credit Service

Rate of Credit Services	Number of Respondent	Percentage
Poor	87	58
Average	44	29.3
Good	19	12.7
Total	**150**	**100**

Source: Survey Data (2018)

4.4 Credit Accessibility of Farmer

In Kyaitlatt Township, credit accessibility of farmers can be determined by number of financial intuitions, rate of credit services, apply of past credit services from financial institutions and offering credit from financial institution improve farm performance.

Collateral Requirement of Credit Accessibility

Credit accessibility for collateral include only three questions because many financial institution focus on form 7 as collateral. Provision of collateral security as a primary lending condition, Focus on collateral rather than repayment of loan.

Table (4.5) Collateral Requirement for Credit Accessibility

Statement	Mean	Standard Deviation
Provision of collateral security as a primary lending condition	4.36	0.648
Focus on collateral rather than repayment of loan	4.41	0.706
Only Form 7 as a collateral is required	4.49	0.663
Overall Mean	4.42	

Source: Survey Data 2018

As a result of Table (4.6), the highest mean score is 4.49 as all of the farmers own paddy land and they have form 7 as a collateral. Each One acre of paddy land apply loan Kyats 150,000 for every farmer and can apply maximum ten acre. Many of the financial institution focus on collateral rather than repayment of loan so some of the farmer rent paddy land from others so they cannot apply loan with lower interest rate. Overall Mean is 4.42 that result is satisfied by farmers as a collateral requirements.

Affordable Interest Rate on Credit Accessibility

Credit accessibility for interest charged includes interest rates charge by institutions are low, lending on short term with lower interest rate to respondents (borrowers), easy to borrow unrealistic credit processing costs and charges are low for respondents, repayment on time interest and principle to financial institution and resolve for failure for repayment of loan when unexpected conditions are occurred.

Table (4.6) Interest Charged and Credit Accessibility

Statement	Mean	Standard Deviation
Interest rates charged by institutions are low	4.36	0.648
Financial institution lends on short term with lower interest rate	4.41	0.706
credit processing costs and charges are low	4.49	0.663
Farmer can pay interest on time principle to financial institution	4.40	0.693
Resolve for failure to repay a loan especially when weather conditions are unfavorable	4.52	0.683
Overall Mean	4.43	

Source: Survey Data 2018

According to Table (4.7), the highest mean score is 4.52 that represent most of the respondents are strongly satisfied for resolve for failure to repayment of loan especially when unfavorable condition are occurred extend their credit terms to next period and also highest mean score is 4.36 that are satisfied by respondents because they are borrow with lower interest rate from financial institutions as a result increase profitability, reinvest in tangible non-current assets and expand their farm acres.

Farmer Literacy Level on Credit Accessibility

Analyzing Literacy level for credit accessibility include year of experience contribute to be more effective in farm performance, educational level helps in making financial decision for farm management, level of education has positive influence on getting loans form financial institutions, provide training secession to farmers to educate concerning with term and condition of loan and due to training, increase farm output such as revenues and profits.

Table (4.7) Literacy Level and Credit Accessibility

Statement	Mean	Standard Deviation
Year of experience contribute to be more effective in farm performance	4.45	0.630
Educational level helps in making financial decision for farm management	4.31	0.604
Level of education has positive influence on getting loans from financial institution	4.22	0.578
Provide training secession to farmers to educate concerning with term and condition of loan	4.39	0.693
Due to training, farm output such as revenues and profits increased	4.35	0.646
Overall Mean	4.34	

Source: Survey Data 2018

According to Table (4.8), the highest mean value is 4.45 that respondents experience contribute to be more effective in farm performance and high yields and also lowest mean value is 4.22 that are level of education has positive influence on getting loans form financial institutions because respondents should need to understand terms and condition of loan. The Overall Mean is 4.34 that present strongly agree from respondents. Therefore, literacy level is one of the main important advantages of credit accessibility.

Number of Financial Institution and Credit Accessibility

Effectiveness of number of financial institution and credit accessibility include to mobilize loan which has resulted to more capital injection, good relationship between financial institution and farmers, present many financial institutions in Kyaiklatt , offer tailor made product that suit farmer needs and offering many financial services to farmers.

Table (4.8) Number of Financial Institution and Credit Accessibility

Statement	Mean	Standard Deviation
To mobilize loan which has resulted to more capital injection	4.49	0.642
Good relationship between Financial institution and farmers	4.40	0.655
There are many Financial Institution Present in Kyaiklatt	4.35	0.646
Many financial institutions have tailor made product that suit farmer needs	4.44	0.670
Offering many types of financial services to farmers	4.43	0.670
Overall Mean	4.42	

Source: Survey Data 2018

As a result of Table (4.9), the highest mean value is 4.49 that to mobilize loan which has result to more capital injection for their respondents. All of the mean scores is over 4 that represent strongly agree from respondents because they can choose favorable financial institutions to get loan according to collateral and interest charged.

Effectiveness of Credit Accessibility on Farmers

Five statements are included in questionnaire whether respondents' profitability and growth on wealth through the Agriculture loan. There are no complete answers for some questions due to difficulty to measure the qualitative degree by respondents.

Table (4.9) Profitability and Growth of Wealth on Farmers

Profitability and Growth of Wealth	Mean
Profit increase per year	4.01
Crop rotation for increasing crop yield	2.91
Farmer improve standard of living	3.12
Reduce grain damage and quality deterioration	3.10
Farmer can start other small new business as other income in the future	3.13
Overall Mean	4.06

Source: Survey Data 2018

As a result of Table (4.10), the highest mean score is 4.3 for repayment of loan on time. All of the farmers are satisfied loan repayment on time and then surplus money can spend on other activities such as standard of living (buying motor cycle, handphone etc.) because paddy yield and profit are increased year by year. But farmers rarely use for start new business and invest in agricultural equipment.

4.5 Regression Analysis on Determinants of Farm Performance (Increase Income)

This section focuses on estimating how the independent variables influence the dependent variable. The coefficient of determination, R2 was used to give the proportion of the variation of one variable that is predictable from the other variables. This measure allowed the study to determine how predictor variables were used to make predictions from a regression model used in the study. Therefore, coefficient of determination was used as a ratio of the explained variation to the total variation

Model Summary show that a linear relationship between the predictor variables which in this case were Collateral Security , Interest Charged , Literacy level and dependent variable which was peroxided by increase income revealed and estimated R2 value of 0.332 and R 0.576 as indicated in model summary table. This could be interpreted that the independent variables used in this study jointly are able to explain 33.2% of the variations in dependent variable. This is an indication that there exist other factors other than those used by this study, which can be included in the model to improve it.

Analysis of Variance presents the results of ANOVA. The estimates of regression gave an ANOVA results with a regression sum square of 13.869 and a model residual's of 27.925 with a mean square of 3.467 for the regression and 0.193 for the residuals. The ANOVA results provided an F-test value of 18.004 and ap < 0.000. This would indicate that the possibility of this regression model giving false prediction is 0.0%. According to Rumsey (2011) a small p – Value (typically $\leq$ 1) indicates strong evidence and a large p-value (>1) indicates weak evidence. In this research finding, apply to use Dependent Variable: Increase Income .Predictors: (Constant), Collateral Security , Interest Charged , Literacy level .Results obtained from linear regression analysis for effect of credit accessibility show positive and significant impacts on agricultural productivity for variables of Collateral Security ,

Interest Charged , Literacy level . An increase of Collateral Security by 0.226 units while 1 unit increase in farmer profit per year will result in s 0.212 units increase in farm productivity. On the other hand, 1 unit increase in Interest Charged will result in 0.156 and 1 unit increase in Literacy level also result in 0.186. They had positive correlation suggesting that increase use of effective loan utilization as well as increasing income will improve farm performance.

Table (4.10) Relationship between Loan Utilization and Farm Performance (Increase Income)

Variables	Unstandardized Coefficient		Standardized Coefficients	T	Sig
	B	Std. Error			
(Constant)	1.269	.433		2.933	0.004
Collateral Security	0.226	0.065	0.278	3.487	0.001***
Interest Charged	0.212	0.070	0.247	3.014	0.003***
Literacy Level	0.186	0.067	0.194	2.770	0.006***

Dependent variable is Increase income

Note: (*** - 1% level of significance)

CHAPTER 5
CONCULSION

This section covers the summary of the study, findings and conclusion made in relation to the findings. The chapter also provides the recommendations based on the findings of the study.

5.1 Findings

Myanmar is an agricultural country. Majority of people live in rural areas and are dependent directly or indirectly on agriculture pursuit. They don't have enough money to run the various production activities related to agricultural production. Seed fertilizer, Irrigation technology to a greater extent has enhanced production cost exporting extra between to the rural poor.

The present study is concerned with the farmers taken credit accessibility from MADB, other microfinance institution and money lender and utilization of agricultural loan. The study area covers farmers from Kyaiklatt township. In concern of Agriculture loan service provided by MADB and other institutions, they provide different interest of agriculture loan by different organizations and terms of loan are defined by each organization. This section covers the summary of the research findings which was done based on the study objective. The study shows older people managing large number of agriculture. The coefficient result indicate that an increase in the number of lending institution has the ability of increasing profit from agriculture output. The results from studied famers' profitability and productivity showed that only a few respondents answered that they made profit from crops, gained better yield and purchased agricultural goods. Most of respondents answered that they could start up new business.

The main intention of this research was to examine the relation between credit accessibility and profitability and wealth of small farmer. Base on the finding of this research business growth was found to be caused by three factors namely number of lending institution, interest charged and literacy level.

5.2 Recommendation of the Study

From the findings provided by this result. It can recommend that there should be policy put in place to enable farmer to have easy credit less complication on requirement. The government should come up with ways reducing and regulation interest rate in this ways. The other things are loan tenor should be adjustable in case of any natural calamity or failure of crop, the period of repayment should be extended at the convenience of borrower and also the procedure for obtaining loan should be made simple in terms of time, acceptance of security, documentation and disbursement of loan so that farmers feel easy and may avail it. Currently very few private bank can offer agriculture loan due to unpredictable nature of weather and other challenges. We need new insurance program that support agriculture. In this way risk factor for bank will be significantly drop and credit will be more accessible for farmer.

The MADB is only able to provide loans to cover the cost of some crops and is insufficient to support the entire industry. Therefore, the government will encourage private banks' involvement for the development of the sector. MADB carries out no credit analysis on existing or prospective borrowers. Credits are approved automatically after proper documentation has been reviewed by village credit committees, which are composed of representatives of local authorities, MAI staff, and farmers' review of loan applications, and does not take part in the appraisal and credit decision-making process. Although MABD does not support medium and large holder farmers, the farmers who owns many farm acres also take the credit from MADB. So MADB should be involved in credit committee and analyzed the farm size. Farmers expected for longer-term credit facility with no limitation on acreage.

5.3 Need for Further Study

This study only focuses on the Kyaiklatt township Farmer. The respondents involve only 150 because of time and other resources. As a result it is recommended that it should collect data based on wider scope to have more accurate data in future studies .

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Township Data of Kyaiklatt, Myaung Mya District by Department of Township Administration

Section 1 Profiles of Respondents

1. Name ----------
2. Male/Female ----------
3. Single /Married ----------
4. Age

18-25	
26-45	
46-65	
65-85	

5. Education

Primary	
Secondary	
High	

6. Major Source of Income

Paddy	
Other Agriculture	
Livestock	
Trading	

7. Major Source of Income

Paddy	
Other Agriculture	
Livestock	
Trading	

8. Major Source of Income

Paddy	
Other Agriculture	
Livestock	
Trading	

9. Land Ownership (Acre) ----------

Interest Charged and Credit Accessibility 5 Points Likert-Scale Measurement

5 = Strongly Agree 3 = Neural

4 = Agree 2 = Disagree

1 = Strongly Disagree

No	Interest Charged and Credit Accessibility	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Interest rates charge by institutions are low					
2	Financial institution lends on short term with lower interest rate					
3	Unrealistic credit processing costs and charges are low					
4	Repayment on time interest and principle to financial institution					
5	Resolve for failure to repay a loan especially when whether conditions are unfavorable					

No	Lending Institution and Credit Accessibility	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	To mobilize loan which has resulted to more capital injection					
2	Good relationship between Financial institution and farmers					
3	Present Many Financial Institution in Kyaiklatt					
4	Many financial institutions have tailor made product that suit farmer needs					
5	Offering many financial services to farmers					

No	Literacy Level and Credit Accessibility	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
11	Year of experience contribute to be more effective in farm performance					
2	Educational level helps in making financial decision for farm management					
3	Level of education has positive influence on getting loans from financial institution					
4	Provide training secession to farmers to educate concerning with term and condition of loan					
5	Due to training, Increase farm output such as revenues and profits					

Appendix (A)

List of banks in Myanmar

State-Owned Banks	Semi-Government Banks	Private Banks	Foreign Banks
1. Myanma Agricultural Development Bank	1. Construction and Housing Development Bank	1. Ayeyarwaddy Farmers Development Bank	1. Australia and New Zealand Banking Group Limited
2. Myanma Economic Bank	2. Global Treasure Bank (former Myanmar Livestock and Fisheries Development Bank Ltd)	2. Asia Green Development Bank Ltd	2. Bangkok Bank Public Company Limited
3. Myanma Foreign Trade Bank	3. Innwa Bank Ltd	3. Asia-Yangon Bank Ltd	3. E.Sun Commercial Bank Limited
4. Myanma Investment and Commercial Bank	4. Myanmar Citizens Bank Ltd	4. Ayeyarwady Bank Ltd	4. Industrial and Commercial Bank of China
	5. Myawaddy Bank Ltd	5. Co-operative Bank Ltd (CB Bank)	5. Malayan Banking Berhad (Maybank)
	6. Naypyitaw Sibin Bank	6. First Private Bank Ltd	6. Mizuho Bank Limited
	7. Rural Development Bank Ltd	7. Kanbawza Bank Ltd	7. Oversea-Chinese Banking Corporation Ltd
	8. Small & Medium Industrial Development Bank Ltd	8. Myanma Apex Bank Ltd	8. Sumitomo Mitsui Banking Corporation
	9. Yadanabon Bank Ltd	9. Myanmar Microfinance Bank Limited	9. Shinhan Bank
	10. Yangon City Bank Ltd	10. Myanmar Oriental Bank Ltd	10. State Bank Of India
	11. Glory Farma Development Bank (G Bank)	11. Shwe Rural and Urban Development Bank	11. The Bank of Tokyo-Mitsubishi UFJ, Ltd
	12. Mineral Development Bank	12. Tun Foundation Bank Ltd	12. The Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV)
	13. Myanmar Tourism Bank	13. United Amara Bank Ltd	13. United Overseas Bank Limited
		14. Yoma Bank Ltd	

Source: GIZ Report, 2018