

Analysis of Agricultural Credit Functions of Myanmar Agricultural Development Bank Thongwa Branch

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Abstract

The study intends to investigate the functions of Myanmar Agricultural Development Bank (MADB) Thongwa Branch. MADB is established to give agricultural loans to farmers. Most of MADB's loans require a joint guarantee of borrowers instead of collateral. Each farmer can get a loan for a maximum of 10 acres. Due to insufficiency of Bank's capital, MADB has to borrow loan from Myanmar Economic Bank and it can provide only seasonal loans and term loans to rural farmers. Seasonal loans for production of two main crops include paddy and pulses in MADB Thongwa Branch. The study found that though MADB can support financing to farmers in cash or in kind or both in accordance with law, it can disburse only credit in cash to rural farmers. MADB Thongwa Branch issued 12400 million kyats to 17509 farmers living in 65 villages in Thongwa Township. The study also observed that the paddy loan is more than the short-term loan and the rural farmers want more loans from the MADB. Based on those empirical analysis results, MADB Thongwa Branch should create sufficient level of seasonal credit and farm implements essential for farming works.

Key Word: Agricultural Credit, MADB, Rural Development, Disbursement Loans, Seasonal Loans, Term Loans

1. Introduction

Agricultural Credit is the key element for improvement in agricultural production and marketing in many developing countries and also for the modernization of agriculture. Credit enables a move from a stagnant situation to a dynamic situation. Therefore, credit is important and necessary in nearly all commercial farm business. In this paper, the study focuses on agricultural credit in Thongwa Township. There are many types of lenders for agricultural credit. This study intends to investigate the role of Myanmar Agricultural Development Bank (MADB) Thongwa Branch.

MADB Thongwa Branch implements the government policy which is to effectively support the development of agriculture in the country by providing banking services. Accordingly its credit trusts are geared towards crop production and farm investment. Myanmar Agricultural Development Bank expands agricultural credit services providing loans directly to individual farmers, groups, state-owned agricultural organizations. It also supports farmers with more credit as long loans for investment in farm machineries such as water pump sets, power tillers and tractors. The bank cooperates with the Agricultural Mechanization Department and the private sectors for the improvement of farm mechanization. It supports the government's policy for boosting agricultural production.

Myanmar Agricultural Development Bank encourages farmers and rural population to deposit their surplus income at MADB with the aim of fulfilling their needs for farm investments. It cultivates habit of savings to bring about self- help spirit among them. Governments have a crucial role to play in fostering the development of a viable rural financial system.

1.1 Rationale of the Study

Myanmar is agro-based country and reforming its economy for moving towards all - round development. One of the economic objectives is "Building of modern industrialized nation through the agricultural development and all-round development of other sectors of the economy.

Agriculture credit is the key element for improvement agriculture sector in many developing countries. Credit is important and necessary for farmers because they are in need of credit for crops production as well as for farm development. Almost all farmers are lack of capital to modernize their farms. It is necessary to provide rural areas with sufficient capital for development. The MADB is established with their aim in Myanmar and supported for poor farmers. Therefore, the functions of MADB Thongwa Branch that provide agricultural credits have been studied.

1.2 Objectives of the Study

The objectives of this research paper are;

- to analyze the agricultural credit system of Myanmar Agricultural Development Bank Thongwa

- to analyze the structure and trend of agricultural credit in Thongwa Township

1.3 Scope and Limitation of the Study

The study will emphasize on formal source of agricultural credit in MADB Thongwa Branch. The study will also emphasize on the functions of MADB Thongwa Branch and the study is confined only to seasonal loans for paddy and pulses. The scope of the study on agricultural credit period is from 2005-2006 to 2014-2015.

1.4 Method of the Study

The study used the descriptive method. The secondary data and statistical record were collected from published governmental documents and reports. Sources of information for this research were from MADB Thongwa Branch, Myanmar Agriculture Services (MAS), and the use of internet websites, reference book, published other papers.

2. Historical Background of Myanmar Agricultural Development Bank

The Myanmar Agricultural Development Bank was founded in 1953 under the State Agricultural Bank Act. The principal focus of State Agricultural Bank was to provide credit to farmers through a system of village banks which were established. The village banks were governed by a detailed set of rules laid down by the State Agricultural Bank.

In 1963, all banks in Burma were nationalized and the State Agricultural Bank came under the direct control of the Banking Nationalization Committee. A single state-owned bank, the Union of Burma Bank, was formed in 1967 and in 1970 the State Agricultural Bank became the Agricultural Finance Division of the Union of Burma Bank.

Under the new Bank Law 1975, the Union of Burma Bank was transformed into four separate banks.

1. The Central Bank of Myanmar
2. The Myanmar Economic Bank

3. The Myanmar Foreign Trade Bank
4. The Myanmar Agricultural Bank

Myanmar Agricultural Development Bank (MAB) issued loans to state-owned agricultural organizations, co-operations, livestock and breeding business village banks and farmers as annual and term loans in accordance with the guidance of Ministry of Planning and Finance.

Myanmar Agricultural Bank was later reorganized again as Myanmar Agricultural and Rural Development Bank in July 1990 in accordance with Myanmar Agricultural and Rural Development Bank Law which was enacted by the State Law and Order Restoration Council. In 1993, the head office in Yangon was organized with six functional departments- Administrative Department, Loan Department, Accounts Department, Internal Audit Department, Research and Development Department and Banking Department.

In 1996, the Myanmar Agricultural and Rural Development Bank was transferred from Ministry of Finance and Revenue to the Ministry of Agriculture and Irrigation. The name of bank was changed to Myanmar Agricultural Development Bank. But its organizational set up and functions remain the same. It continues operations through the country wide network 207 township branches. Among state- owned banks and private banks in Myanmar, the Myanmar Agricultural Development Bank is still the only source of institutional credit for small scale farmers.

3. Agricultural Credit in Thongwa Township

3.1 Role of Myanmar Agricultural Development Bank Thongwa Branch

Myanmar Agricultural Development Bank (MADB) under the Ministry of Agricultural, Livestock and Irrigation has (207) branches providing seasonal loans, short and long term loans for agriculture. Among the branches of Bank, MADB Thongwa Branch is effectively implementing in accordance with the six objectives of MADB to farmers in the Township. MADB Thongwa Branch is situated in 5 wards, Thongwa Township and on the way along Thongwa-Thanyin. It disbursed seasonal loans to farmers for crop production. To issue such loans, it have to draw out required loans directly from Myanmar Economic Banks branch within Township concerned and at the same time have to repay the capital and interests there on to MEB. There are (65) villages, (21782) farmers and (149831) cultivable land acres in the Thongwa

Township. Under the Guidance & Instruction of Head Office, MADB Thongwa Branch is supporting (17509) farmers and (124000) acres.

3.2 Aims and Objectives of MADB

The main aims of MADB Thongwa Branch are to effectively support the development of agriculture in the country by providing banking services. In accordance with the main aim, Myanmar Agricultural Development Bank (MADB) is authorized to provide bank loans to state-owned agriculture organizations, village banks and farmers.

The objectives of MADB Thongwa Branch are;

- to provide loans in a simple procedure
- to promote rural banking
- to encourage saving habit
- to support rural socio-economic development
- to cultivate habit of using banking service
- to develop banking services

3.3 Sources of Fund

- (1) Capital an reserve fund
- (2) Saving Deposits of farmers
- (3) Borrowing from the Myanmar Economic Banks.

3.4 Types of Loans

There are two types of loans provided by MADB Township Branch ;

- (1) Seasonal loans (monsoon paddy)
- (2) Term loans (short- term loans)

3.5 Establishment of loan Scrutiny committee

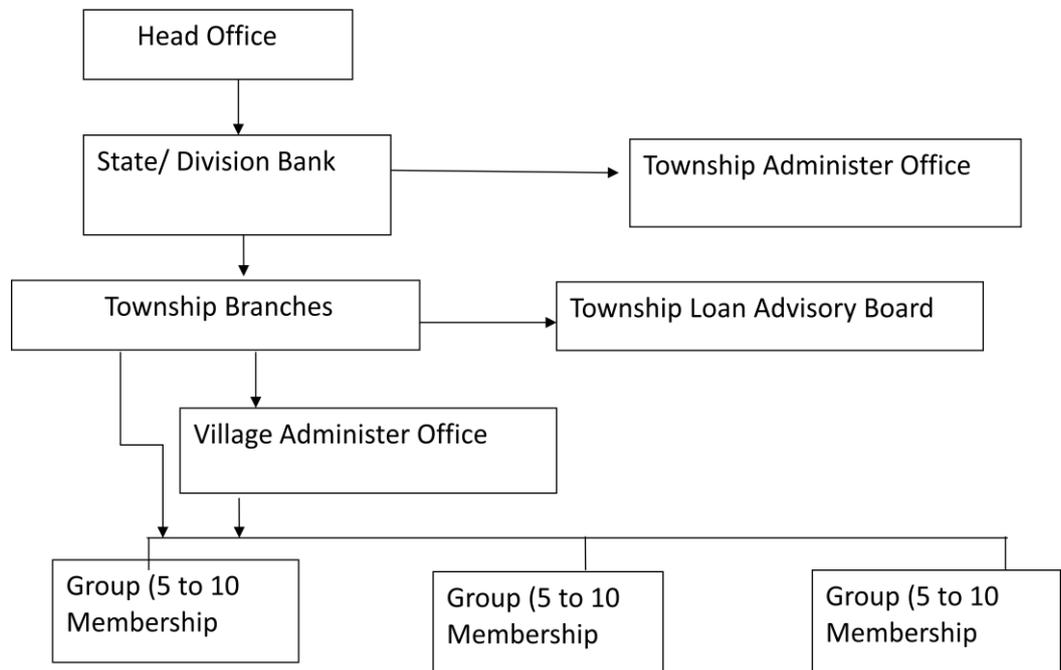
In order to scrutinize and recommend loan requested by individual farmer Loan Security Committee was established under the following persons:

1. Ward/village Tract Administer Office. (Chairman)
2. Village Manager, Myanmar Agriculture Services. (Member)

3. Village Survey Clerk, Settlement & Land Records Department. (Member)
4. A representative of farmers borrowing loans. (Secretary)

3.6 Lending Procedure

According to Myanmar Agricultural Development Bank Law and Rules, loans can be disbursed in kind or in cash and kind mixed.



Sources: MADB Branch in Thongwa Township

3.7 Bank Loan Conditions

Conditions provided for demanding loan are as follows:

- (a) Loans reaching due date must repay the capital as well as interests imposed fully.
- (b) Must be a farmer assuring to grow crops and attaining farming permit from Ward/Village Tract & Development Council.
- (c) Borrower must be the person who had opened saving account at the Bank.
- (d) Loans shall be disbursed to farmers in group unit comprising 5 to 10 participated at their own will.
- (e) Loans must be repaid including prescribed interest immediately at crop harvest.

- (f) The borrower by himself or in joint or collective undertaking must take responsibility for total repayment of loans.

The borrower's name, the size of farm, the kind of crops to be planted and the amount of loan proposed are to be certified by the loan supervision committee chaired by the Village Administer Office Chairman and comprising village level staff of Land Records Department and Agricultural Extension as member and a farmer's representative as the volunteer secretary. All loan applications are processed at township branches. Loans sanction is given by the branch manager after calculating the demand, needs and repaying capacity of each and every farmer.

3.8 Credit Delivery System

In the case of seasonal crop production loan, collateral is not needed. It is guaranteed instead by joint liability of 5 to 10 members group. The entire group is liable for the debt of individual members. If one of the group members could not pay back and the others group members do not help, the entire group loses its eligibility for future loans. Seasonal loans are directly disbursed to individual farmers based on their need and repaying capacity. The loans are used effectively in crop production disbursements are planned to farming works start and issue after farm works area completed. MADB provides loans to farmers to cover a fraction of the production costs for up to 10 acres. Moreover, MADB Thongwa Branch finances the production of only a limited number of crops and commodities such as paddy, pulses and beans.

3.9 Loan Collection Period

The two types of seasonal crops loans are Monsoon Season and Winter Season. Monsoon Season crop is Paddy and Winter Seasonal Crop is Pulses and Beans. Table 3.1 shows disbursement and collection calendar by types of seasonal crops loans.

Table 3.1 Disbursement and collection calendar by types of seasonal crops loans

Crops	Loans Disbursement Period	Loans Collection period
<u>Monsoon Season</u> Paddy	April- August	Next- Year- 31 st March
<u>Winter Season</u>	September- December	Next Year- 30 th June

Pulses and Beans		
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Sources: MADB Branch in Thongwa Township

3.10 Interest Rates

Branch of MADB interest rates are kept within the margin of Central Bank rate. In 2012 lending rate per annum both for seasonal and term loans is 17 %. MADB Township Branch pays 12 % interest per annum on saving deposits. Present lending rate per annum for these loans is 5 %.

Table 3.2 Lending Interest Rate

Year	Interest Rate
1953-1963	12%
1963-1976	9%
1976-1977	12%
1977-1989	18%
1989-1997	15%
1997-1998	21%
1/4/98-31/12/98	18%
1999-2000	17%
2000-2012	17%
2012-2013	8.5%
2013-2014	8.5%
2014-2015	5%

Sources: MADB Branch in Thongwa Township

3.11 Credit Performance

Seasonal loans for crop production are collected lump sum together with interest. In addition to interests, penal interest is also charged for late repayments of loans on the period beginning from the last date fixed for repayment. Term loans are collected in yearly installment according to loan agreement. Interest is charged on the loan balance. In case of widespread crop failure due to natural disasters or causes

beyond the control of the borrowers the bank may reduce interest and panel interest and reschedule the payment of loan principal.

Loans recovery is prepared to coincide with harvest when farmers have cash inflows. The group members who are individually and jointly responsible for full repayment of loan help each other. MADB branch staffs maintain close contacts with the loan supervision committee chaired by the chairman of Village Administer Office and keep reminding them for timely repayment. The Township Administer Officer is regularly informed on loan repayment positions. As a last resort MADB can take direct action on the defaulters under MADB Law which empowered managers to collect the undercharged loans as arrears of land revenue by issuing warrants on the crops and property of defaulters. For term loans the bank can seize the defaulter's saving deposits and implements pledged for the loan and also force the guarantors to pay.

4. Types of Loans

4.1 Seasonal Loans for Paddy (Monsoon) and Pulses (Winter)

Seasonal loans intend to assist in the purchase of farming inputs such as seeds, fertilizers and labor needed. Seasonal loans are granted for paddy (monsoon) and pulses (winter) by MADB Thongwa Branch. No other collateral is necessary. Starting from 1994-1995, clients have to open bank account under the loan system. Loans are also assessed on the demand and the repaying capacity of clients.

Table 4.1 Seasonal Loans for Paddy (Monsoon)

Year	Village Group	No. of Farmers	Acres	Disbursed Amount (Kyats)	Lending Rate(Kyats)
2005-2006	65	12998	103689	518490000	5000
2006-2007	65	13125	104000	624000000	6000
2007-2008	65	13174	104000	728000000	7000
2008-2009	65	13291	104500	836000000	8000
2009-2010	65	13493	105200	1052000000	10000
2010-2011	65	13780	107000	214000000	20000
2011-2012	65	14159	217613	4352260000	20000
2012-2013	65	15246	117880	5894000000	50000
2013-2014	65	17292	123460	12346000000	100000

2014-2015	65	17509	124000	12400000000	100000
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Sources: MADB Thongwa Branch

According to the table (4.1), the loan amount per acre for paddy production increased from 5000 kyat in 2005-2006 to 100000 kyat in 2014-2015. Seasonal loans increase year after year. In 2014-2015, seasonal loans sharply increased to 12400 million kyat, two times of the 2012-2013. During the same period, the total number of acres financed by MADB Branch increased from 103689 acres to 124000 acres. The disbursement amount of monsoon paddy, the quantity of borrowers and the disbursement acres increased year by year due to the reduction of interest rate.

Table 4.2 Seasonal Loans for Pulses (Winter)

Year	Village Group	No.of Farmers	Acres	Disbursed Amount (Kyats)	Lending Rate(Kyats)
2011-2012	65	12877	99305	993050000	10000
2012-2013	65	13865	105741	1057410000	10000
2013-2014	65	16266	117637	2352740000	20000
2014-2015	65	16508	117250	2345000000	20000

Sources: MADB Thongwa Branch

According to the table 4.2, the disbursement of pulses and beans started from 2011-2012 in MADB Thongwa Branch. The loan amount per acre for pulses and beans production increased from 10000 kyat in 2011-2012 to 20000 kyat in 2014-2015.

4.2 Short Term Loans for Farm Implements

MADB Thongwa Branch is providing farmers with farm implements and machines under bank loan system. Farmers shall have to save money for receiving loans for machines at MSADB Branch. Short Term Loans (2 to 4 years) and investments in farm development are known as development loans. They are given loans for purchase of farm equipment, such as cattle, carts, pump sets, power tillers and for farm investment. For Term Loans MADB Law require a security consisting of a pledge of saving deposits, farm implements bought with the loan proceeds, and two reliable personal securities. In 2011-2012 MADB Branch issued about 148 million

kyat for farm implements in table 4.3. After 2012, MADB did not issue to farmers for farm implements.

Table 4.3 Short Term Loans for Farm Implements

Year	Types of Loan	Disbursed Amount (Kyats)
2005-2006	Farm Implements	147316000
2006-2007	Farm Implements	335684000
2007-2008	Farm Implements	153900000
2008-2009	Farm Implements	5500000
2009-2010	Farm Implements	209726100
2010-2011	Farm Implements	110939000
2011-2012	Farm Implements	148250000

Sources: MADB Thongwa Branch

4.3 Loans Recovery

The loans recovery rate is 100% for monsoon loans. Term loans are usually recovered in yearly installments according to loan agreement. As the farmers who had benefited from MADB loans for so many years and who are to repay for to future loans, they always pay back without fail, both in good years and bad years.

5. Conclusion

5.1 Findings

Majority of the farmers need agricultural products credit as a working capital to grow crops seasonally. Agricultural products play an essential part in daily consumption for the people. The State-owned MADB is the only source of agricultural credit. This bank expends agricultural credit services providing loans directly to individual farmers, groups, state-owned agricultural organizations. Loans rates were also substantially increased to meet the demand and need of the borrowers by MADB Thongwa Branch.

The study found that there are two types of loans (1) seasonal loans and (2) term loans. Seasonal loans are granted for growing monsoon paddy in Thongwa Township. The study found that majority loans are borrowed from Myanma Economic Bank (MEB). Present lending rate per annum both for seasonal and term loan is 5%. The study also observed that the amount of paddy loans (12400 million kyat) is more than the amount of development loans about (148 million kyat) in 2014-2015. Even though the bank increased per acre lending rate from time to time, they still amount to be less than the actual cost of cultivation.

The major finding was that the MADB's farm loan was demanded by farmers and does not serve the farmers who have no land. They have to live on informal credit received from local money at very high interest rate. The majority of rural poor have been unable to escape from the vicious cycle of poverty for lack of capital, unable to save due to low income and not allowed to borrow from the main stream formal financial institution. State- owned banks and private banks are specialized only in commercial banking. They are not interested to provide loans to the rural poor people in microfinance.

5.2 Recommendations

MADB Thongwa Branch should create sufficient level of seasonal credit and farm implements for farming works. But the expansion of agricultural credit alone does not always bring adequate increase in agricultural production. It also should have an emphasis on the non-farm business like traders, millers and related agro-industry. To promote agro-based industries, a conscious policy for micro and small rural enterprises remain undeveloped mainly due to lack of access to capital and market. If government fills this need, landless and some rural poor may get job opportunities and raise their income. So, it should be considered to introduce credit program for agricultural commodity related agro-business.

As MADB is the largest and leading provider of formal finance in rural areas in Myanmar and it has the potential to play a key role in providing broad-based, market oriented rural financial services, it should be encouraged by the government and other international organizations to expand efficient financial services. As local farmers have no sufficient working capital and have to borrow loans from informal sources at high interest rates, they should access easily and less costly financial products. It is necessary to educate farmers how to access financial facilities and what

are the requirements to get finance from the financial institutions. Small and medium scale farmers should obtain market information timely and let them to sell their products freely in the market and they should have better bargaining power.

There might be misappropriations because of ineffective financing if there are not inputs and technological supports to farmers and financing knowledge sharing and technical supports to the staff concerned. Efficient systems of agricultural credit are necessary if agriculture is to make its contribution to national development. The efficient sources of agricultural credit to farmers can be important accelerator of agricultural development.

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