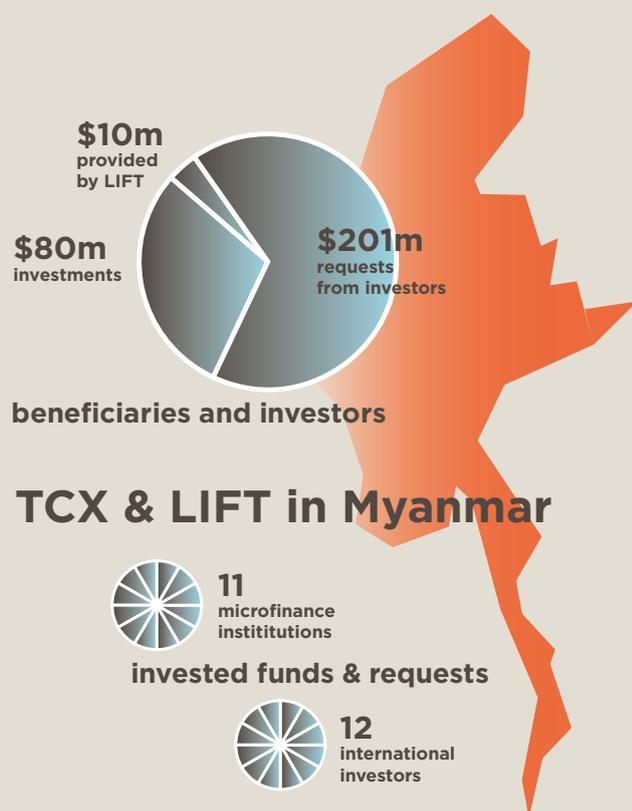


Blended finance in Myanmar

In a fragile context, TCX blended donor funding with the financial inclusion mission of the development finance institutions operating in Myanmar. Combined, they realized over USD 80 million in local currency investments.



- As Myanmar's economy opened up in 2011, microfinance providers were looking for significantly more funds to expand and satisfy the microfinance needs of the population. However, the volatility of the Myanmar kyat, combined with the regulatory interest rate ceiling (13% p.a.), made lending in local currency unattractive to investors.

- A USD 10 million subsidy provided by a consortium of donors to the Livelihoods and Food Security Trust Fund (LIFT) allowed TCX to hedge 11 microfinance institutions (MFIs) in Myanmar.

- In total, TCX converted USD 80 million of microfinance debt financing sourced from abroad into Myanmar kyat.

Realizing local currency finance

Local currency financing is widely recognized as a powerful way to reduce the currency risk that arises when international investors provide debt to borrowers in developing countries. This currency risk occurs if investors can only provide hard currency loans, while the borrowers generate revenues in local currency. Especially in the least developed countries, local financial markets are too shallow to cater for local demand for funding, and too underdeveloped to provide tools to mitigate currency risk. Myanmar is no exception. Since the country opened up and removed its barriers to foreign investment, the demand for local currency financing has heavily outweighed the supply.

This is exactly the type of situation for which TCX was established 10 years ago. Especially in the most challenging financial markets like Myanmar, where hedging solutions are almost inexistent, TCX has become the only source at scale for international funders to provide loans in local currency to microfinance organizations, local banks, SMEs and entrepreneurs. Parallel to generating kyat finance, TCX has become an important partner of the development finance community in Myanmar, supporting policy reforms and stimulating the use of local currency, in close cooperation with the government and the Central Bank.

TCX

Blended rates as part of the local currency financing solution in Myanmar

The Situation. Myanmar has always been a regional trading hub, thanks to its location at the intersection of China and India, two of the world's most vibrant economies. A long period of military rule broke with this tradition. In 2011, Myanmar opened up for trade and investment again. Since then, Myanmar has taken its first steps on the global market place, experiencing economic growth, a decline in poverty, an increase of foreign direct investments, more dynamic trade, and a more flexible exchange rate. This was coupled by a high demand for financing, especially by MFIs, to support financial inclusion in Myanmar. Unfortunately, lending to microfinance providers in Myanmar is heavily constrained.

As in many fragile countries, there is a range of risks in Myanmar – including political instability, natural disasters, regulatory risks, financial risks, including currency risk. Regulation protects the end-clients of MFIs from currency risk: MFIs are not allowed to lend in hard currency to their borrowers. In Myanmar, the foreign exchange risk is borne at MFI level, when international investors provide loans in US dollars to the MFI. Foreign investors do not want to take the currency risk on the Myanmar kyat and offer dollars. Moreover, the Central Bank of Myanmar imposed an interest rate ceiling of 13% on lending, which is not enough to compensate for the risks involved in lending in kyat to microfinance institutions.

The Strategy. The challenges faced by international investors and the MFIs were recognized by LIFT, whose goal is to stimulate the financial inclusion of rural people in Myanmar and to improve their lives in general. TCX and LIFT established a unique cooperation that opened the microfinance sector for larger scale foreign investments by Development Finance Institutions and Microfinance Investment Vehicles. TCX provided a hedging service which enabled investors to lend in local currency to Myanmar's microfinance sector. LIFT made funds available to subsidize the interest rate levels of these local currency loans, bringing them down to 13%, i.e. the level of the Central Bank interest rate cap. The result is that lending in kyat became attractive to both foreign investors and MFIs. The USD 10 million subsidy catalyzed over USD 80 million of new investments, denominated in kyat, into the Myanmar microfinance sector.

The Outlook. There is still a lot of potential for investors to address the funding needs of local MFIs in Myanmar but also in other countries. In Myanmar, the total demand for local currency financing (USD 201 million or 92 loans to hedge) exceeded the available amount of the subsidy, which could only support USD 80 million or 40 loans requiring a hedge. TCX's intervention in Myanmar shows how donors can realize financial inclusion through new and innovative partnerships in imperfect markets.

TCX: A shared commitment to local currency

As of the beginning of 2018, TCX manages a portfolio of USD 1.7 billion across 836 transactions in 53 emerging market currencies, in 5 regions globally. TCX is an investment fund with both public and private shareholders. At the end of 2017, TCX had 24 investors, including the Dutch and German governments.

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