
FORUM



TCX / LIFT Facility for Microfinance in Myanmar

In early 2013, TCX started closely following Myanmar's development as the country was undergoing significant political and economic reforms. As one of the poorest countries in Asia, but also one of the most populous, Myanmar was already considered one of the continent's last high-potential frontier economies.

From the outset it was clear that the microfinance sector could play an instrumental role in fostering financial inclusion. As the only source to hedge currency risks in Myanmar, TCX recognized the importance of facilitating access to local currency funding for the microfinance institutions (MFIs).

By October 2013 TCX developed a macro-economic model to price hedging solutions in Myanmar. TCX has developed a model based approach where the absence of a local currency market makes it impossible to derive a market-based pricing.

In November 2013, TCX in collaboration with UNCDF and the Livelihoods and Food Security Trust Fund (LIFT) organised a conference that gathered the financial sector and the regulators to discuss the opportunities and challenges of financing in local currency the sector. The conference counted more than 70 participants amongst which govern-

ment officials, central bankers, MFIs, commercial banks, experts as well as impact investors.

Since 2014, TCX has been proactively working with its development finance investors to promote foreign direct investments denominated in Kyat that TCX can hedge. To achieve this goal TCX addressed the local authorities, such as the Myanmar Microfinance Supervisory Enterprise a joint missive co-signed by 15 lenders to open the market and met senior officials at the Central Bank (CBM) in 2015. In parallel, donors and the DFI community alike continued their efforts to engage with the regulator to ease the restrictions holding



up the flow of investment in the micro-finance industry. In March 2015, Queen Maxima in her capacity as UN Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA) was in Myanmar to push for a series of regulatory changes allowing the micro-finance industry to access funding more easily.

The greatest holdup to foreign direct investment (FDI) in Myanmar's micro-finance market is the cap enacted on foreign lending that is currently set at 13 percent per annum.

To circumvent this regulatory bottleneck, in early 2015 TCX developed in partnership with LIFT and its fund manager – UNOPS, a facility to subsidize interest rates for the microfinance industry. TCX, for the first time since its creation, consid-

ered to subsidize its risk based pricing, a solution to allow MFIs to access offshore funding at the current cap level of the CBM while allowing lenders to secure a financial return in hard currency adjusted to the credit risk of the MFI. Although TCX considers subsidized pricing a market distortion, this solution is aimed at demonstrating to the regulators the relevance of FDI and commitment to the sector growth with a calibrated subsidy element. Moreover, concessional rates can help a nascent industry to emerge and ultimately adjust its pricing sensitivity to market based rates once the market is liberalized.

This cooperation led to the signature in November 2016 of an agreement to constitute a \$US 10mm facility that will be managed by TCX. The program was launched on December 1st, 2016 and

demand for funding in MMK was largely in excess of the amount the facility could support demonstrating the high risk appetite from impact lenders for the Myanmar MFIs and the success of the program.

TCX and LIFT believe that this facility will promote consistent growth among micro-finance institutions in Myanmar in term of volumes and outreach. In the end, the key beneficiaries will be the people of Myanmar that will access local currency financing to support their families, business and the growth of their nation.

The Currency Exchange Fund (TCX) is the provider of emerging markets currency hedging solutions for the microfinance sector. TCX provides currency derivatives to hedge the currency and interest rate mismatch that is created in cross-border investments between international investors and local borrowers in frontier markets. The goal is to promote long-term local currency financing, by contributing to a reduction in the market risks associated with currency mismatches. TCX activity spans over 70 currencies in Sub-Saharan Africa, Eastern Europe, the Middle East & North Africa, Central Asia, South East Asia, and Latin America. TCX counts among its shareholders several e-MFP members such as AFD, Bio, BlueOrchard, EIB, FMO, Grameen Credit Agricole, KFW, Oikocredit and Oxfam Novib.

