Start-up takes on moneylenders with short-term microfinance loan options

By Steve Gilmore | Wednesday, 12 October 2016

Myanmar's moneylenders have a captive customer base of poor households unable to access traditional bank or microfinance services. But a Yangon-based start-up is working on a system to offer small short-term loans that can compete directly with local loan sharks.

In some areas, experts say, more people owe money than don't.Staff

Debt is a huge problem in Myanmar. Data is scarce, but in many poor communities on the outskirts of Yangon experts believe the majority of households are in debt.

Banks lend only with collateral – such as land or gold – which many poor families do not have. Microfinance is expanding, but the amount poor households borrow is often too small for traditional MFI loans, which average around K250,000 according to USAID.

The US government organisation recently started a US$10 million guarantee program with five local MFIs to help them provide loans of up to $5000. That initiative is aimed at helping mostly female-owned businesses grow operations and hire workers.

ZigWay – a Yangon-based start-up co-founded by Miranda Phua and Laurent Savaete – is targeting the other end of the microfinance spectrum. Ms Phua says that in poor Yangon townships someone might want to borrow K20,000 for a week or a smaller amount for just 24 hours. This is where informal lenders thrive.

"Money lenders are very flexible," says Ms Phua. "Although MFIs offer lower interest rates, they can't match that flexibility. That's where we saw the gap."

In addition to higher interest rates, moneylenders also often prolong a loan by refusing to accept any payment less than the full amount and put public

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pressure on clients to repay. Households can easily find themselves trapped in debt.

"A lot of people borrow money for day-to-day expenses, and food is one of the big ones," says Mr Savaete. "Someone doesn't have work that day, so they borrow and then take another loan to repay that loan and so on."

ZigWay aims to offer loans in short, flexible maturities and in sizes up to K50,000 – less than half the typical MFI threshold.

"At that level the MFIs find it hard to lend because they can't make a profit," says Mr Savaete. The fact that MFI's typically rely on a manual face-to-face process for issuing loans also makes issuing smaller amounts for shorter terms problematic, he adds.

But MFIs are also eager for ways to expand their services and reach people in need of loans but underserved by microfinance, says Mr Savaete. New regulation allowing MFIs to take deposits and borrow from banks should also help them raise more capital for loans.

ZigWay's plan is to partner with a traditional MFI. The established microfinance lender will issue the loans using a ZigWay-designed system that automates each stage of the credit cycle, says Mr Savaete.

"Drawing in customers, assessing credit risk, lending money – the idea is that this is all automated and so the cost of the transaction can be lowered," says Mr Savaete. Automation would also issue loans more quickly, helping customers avoid a trip to a moneylender while they wait for an MFI to approve a loan, he adds.

The spread of smartphones and mobile coverage across Myanmar helps make automation plausible. Wave Money – a joint venture between Telenor and Yoma Bank – recently received the country's first mobile money licence. The firm's chief executive Brad Jones says he is hoping to help ZigWay with a payment platform.

The start-up is still working on the system, but has had strong interest from microfinance lenders and is about to start a pilot program with a major MFI, says Ms Phua. That pilot program will allow the firm to experiment with different kinds of loan delivery models, including making use of the MFI's credit agents and potentially finding people in the local community to act as credit agents.

Ultimately, ZigWay wants to design a smartphone app that would allow customers to borrow loans from MFIs and build out a credit profile to help secure future loans.

"But right now our target customers are women aged 18-40 and who may have a smartphone but are not app users," she says.

The pilot program will also allow ZigWay and the MFI to collect data on repayment and defaults, which is crucial for assessing credit risk. One difficulty with lending to the type of poor households ZigWay is targeting is that they lack things like proof of income or home ownership that are typically used to gauge repayment risk.

In other developing markets firms have experimented with alternative methods of assessing credit risk, for example mobile phone usage patterns. Ms Phua says that there is less of that kind of data available in Myanmar at present, although it could become useful in the future.

"There are ways to assess creditworth that don't rely on traditional methods," says Mr Savaete.

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