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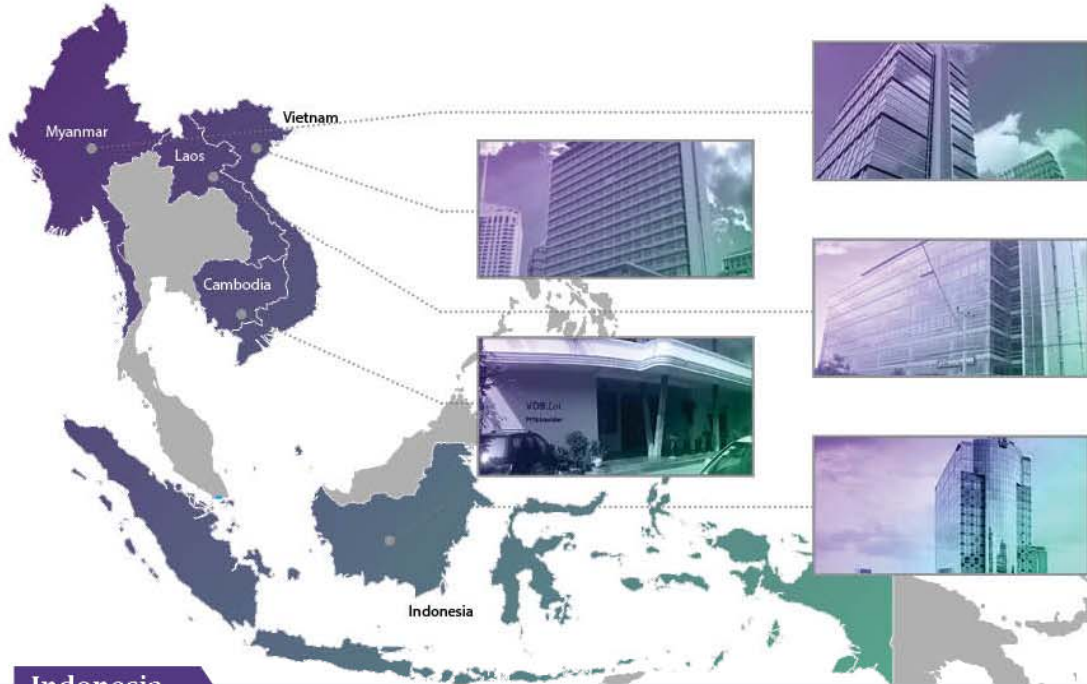
Chin State Investment and Product Fair 2019

How to structure financing
for SMEs and farmers
& tax incentives

16 March 2019

Get to the point.

VDB LOI KEY PEOPLE IN THE REGION



Cambodia



Potim Yun



Alex Larkin



Robert Porter



Laysym Sim



Alessandra Laureiro



Sivila Khim

Myanmar



Jean Loi



Edwin Vanderbruggen



Maxim Kobzev



U Aye Kyaw



Philipp Troesch



Myo Win

Indonesia



Dewi Larasati



Fernando Manullang



Graham Garven



Tommy Oetomo



Olina Rizki Arizal

Vietnam



Eric Le Dreau



Thuan Pham



Antoine Toussaint



Nguyen Quoc Tuan

Laos



Daodeuane Duangdara



Sornpheth Douangdy



Anthony Assassa

VDB Loi in Myanmar

QUICK OVERVIEW OF MYANMAR PRACTICE



PARTNERS IN MYANMAR



Edwin Vanderbruggen
Senior partner



Jean Loi
Managing partner

HEAD COUNT

- 2 Partners
(full-time Myanmar residents)
- 54 Fee earners
(full-time Myanmar residents only)
- Including 18 Expats
(20 languages)
- 75 Staff in total in Myanmar

GENERAL PRACTICE TEAMS



CORPORATE M&A TEAM
Maria Teresa Lucibello
Team leader
[Recent work](#)



CORPORATE COMMERCIAL TEAM
Anna Makosa
Team leader
[Recent work](#)



REGULATORY TEAM
My Le
Team leader
[Recent work](#)



LICENSING TEAM
Daw May May Kyi
Team leader
[Recent work](#)



DISPUTES TEAM
U Aye Kyaw
Team leader
[Recent work](#)

SPECIALIZED PRACTICE TEAMS



ENERGY AND INFRASTRUCTURE TEAM
Philipp Troesch
Team leader
[Recent work](#)



BANKING FINANCE TEAM
Maxim Kobzev
Team leader
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TELECOMS TEAM
Edith Ruan
Team leader
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TAXATION TEAM
Daw Honey Htun Wai
Team leader
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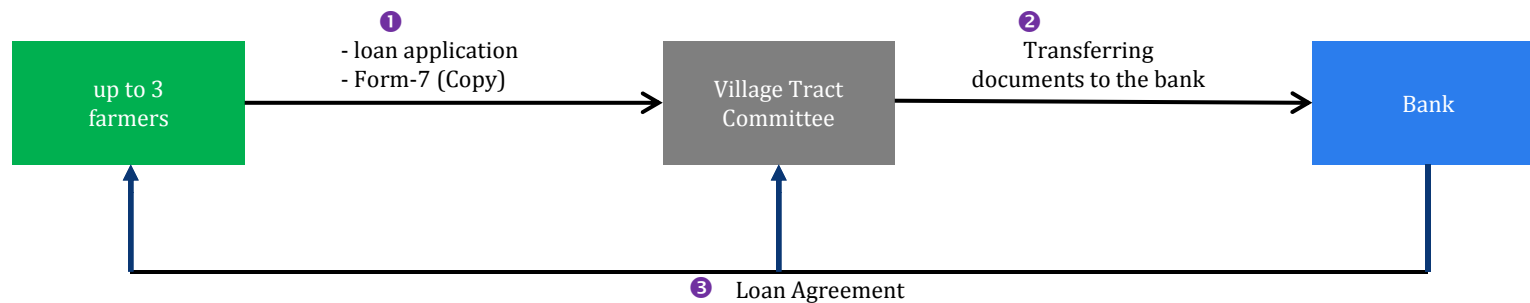


SPECIAL PROJECT TEAM
Daw Aye Myat Thu
Team leader
[Recent work](#)

How to structure financing for SMEs and farmers

Financing in agriculture sector – current status (1)

- Predominantly state-supported financing tools
- General loan application process:



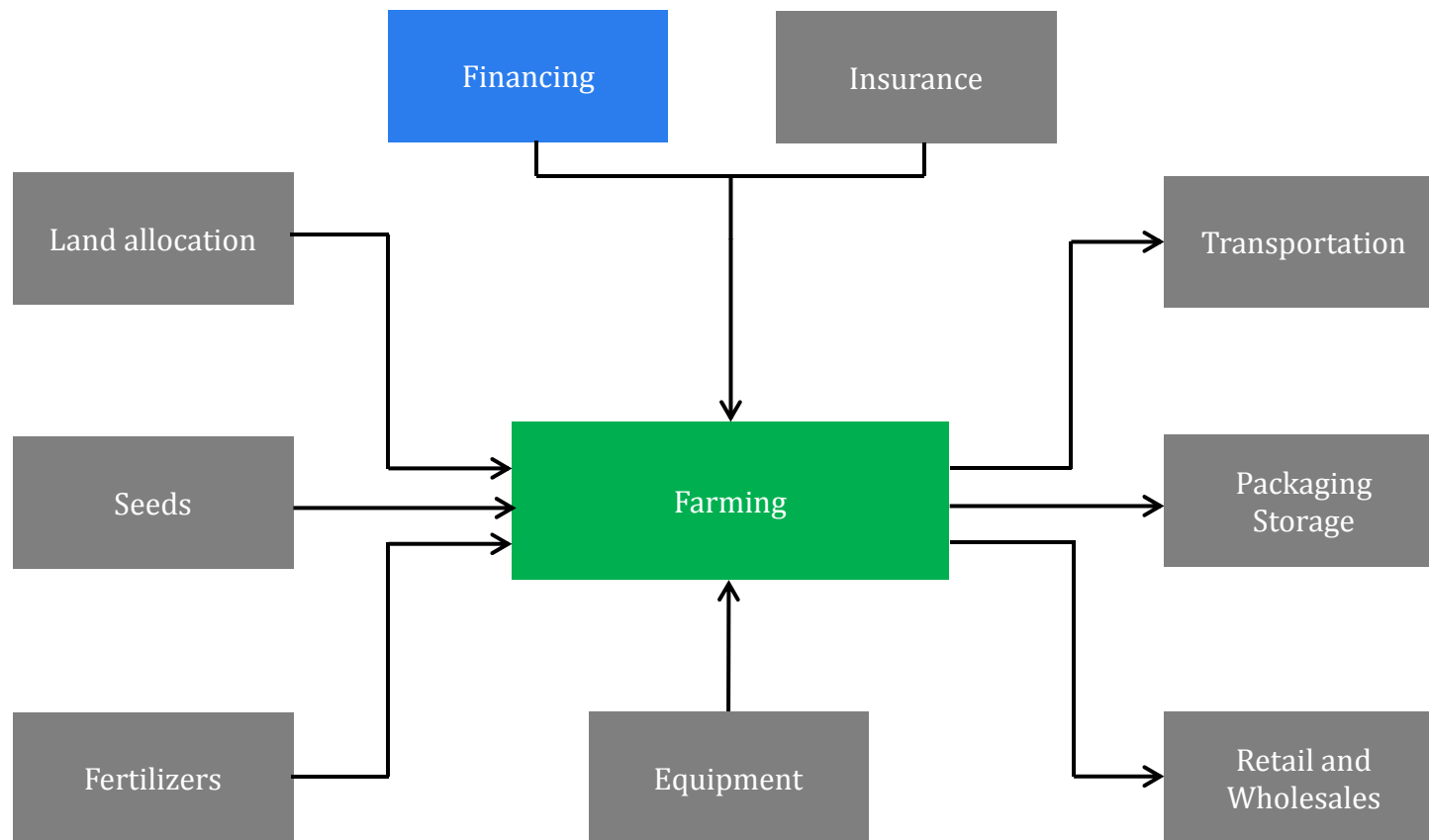
- Advantages: known by farmers; not many formalities; “one-stop-service” approach
- How bankable is this structure from the perspective of a commercial bank:
 - + Lack of security for the loan
 - + Absence of a legal entity on the borrower-side (how to check credit history? Reliance on word-of-mouth recommendations)
 - + Cash disbursements / repayments
 - + Small size & short term loans

Financing in agriculture sector – current status (2)

- **Private banks develop agriculture financing products**
- **What farmers require:**
 - + Larger amounts of the loans (for example, enough to purchase equipment)
 - + Extended tenors (crops from only one season may not be enough to generate enough revenue to repay a larger loan)
- **How to make this bankable:**
 - + Form legal entities (unlimited or limited companies, or gradual transformation of using these forms)
 - + Appropriate loan documentation
 - + Registrable and enforceable security (potential difficulties: land plots delineation / consents of land owners for creation of mortgages, registration of mortgages). Sections 48 – 51 of the Notification 2/2012 of MOAI – mortgage of farmland.
 - + Transparent and reliable sales: sale contracts with reliable buyers
 - + Specific agricultural risks: weather / volume of collected crops

Agricultural value chain

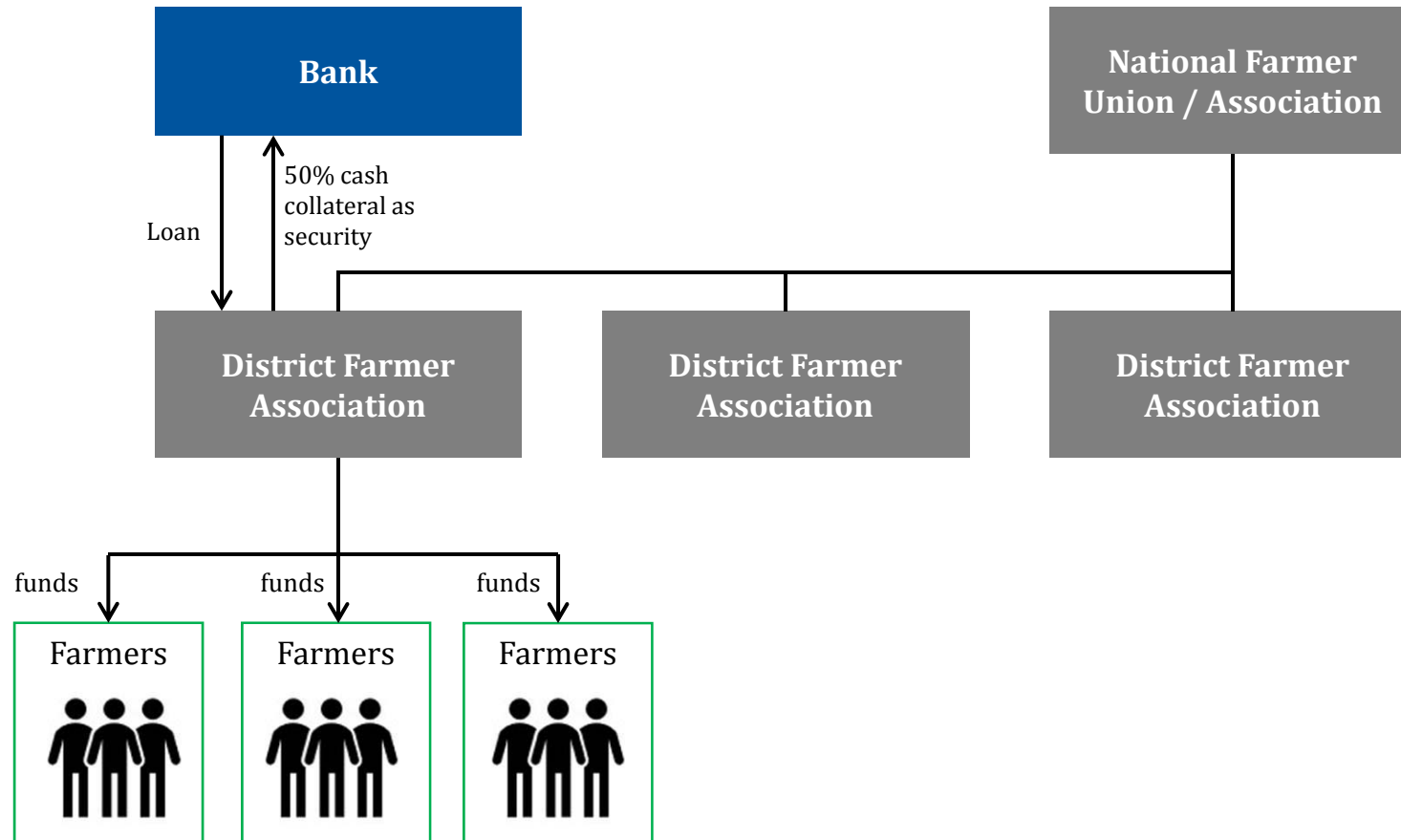
- **Key aspect - how to ensure access to financing** - all elements of the agriculture **value chain** can potentially be the basis for financing:



Financing models: what banks will review

- **Farmer model** - bank will consider whether the farmer will have enough revenues from sale of the crops to repay the loan debt:
 - + Direct small loans to individual farmers or small groups
 - + Savings accounts
- **Movable assets collateral** - bank will rely on the value of pledged equipment or crops in warehouse:
 - + Equipment acquisition loans
 - + Leasing
 - + Warehouse receipts financing
- **Value chain finance** - bank would look at creditworthiness of different participants of the production value chain (for example, the buyer, how strong and reliable is the business relationship between the farmer and buyer of agricultural products)
- Value chain finance can also be “**internal**” – for example, deferred payment terms between the fertiliser supplier and the farmer.
- **Personnel and officers specialising in agriculture**
 - + Lending officers with understanding of agriculture specifics, seasonality and risks
 - + Agronomic due diligence
 - + Value chain specialists

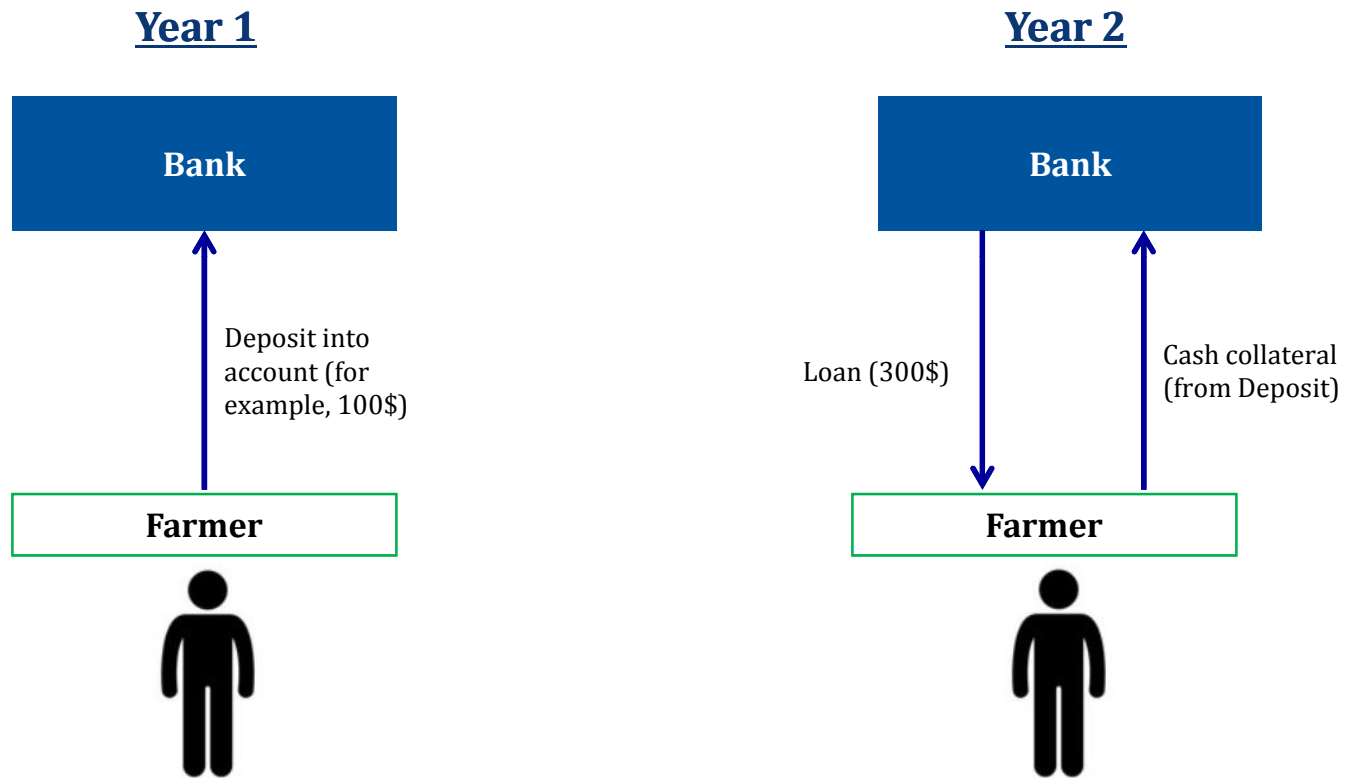
International experience - indirect lending structure



"All for one" responsibility

In case of default → not admitted into program next year.

International experience - savings account financing



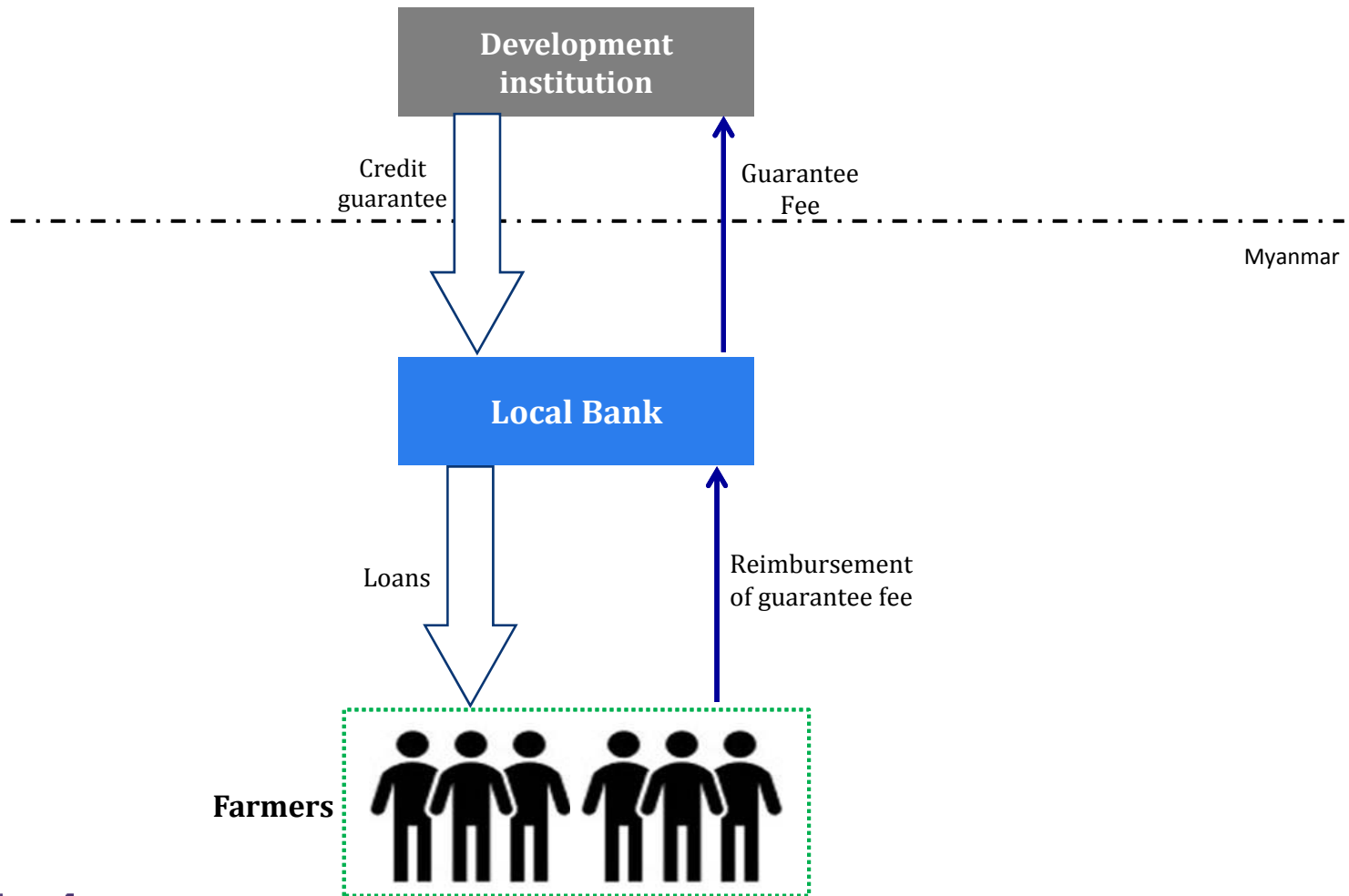
Incentive not to close deposit:

- High interest rate
- Bonus when no major withdrawals
- Loan = deposit x 3

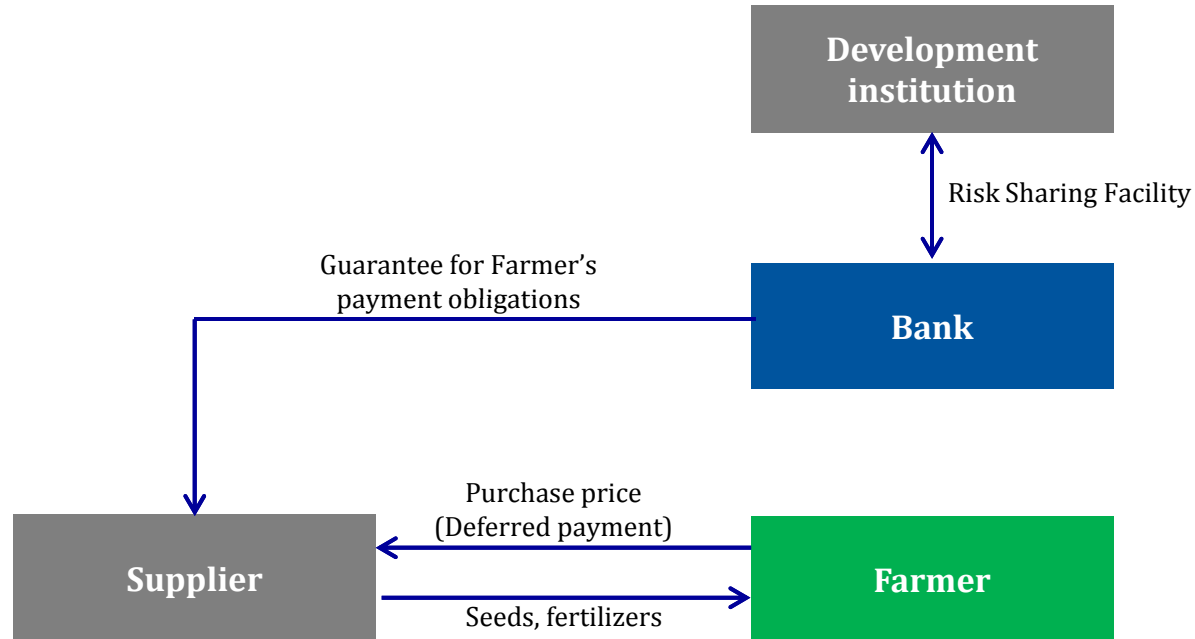
International experience - cooperation with development institutions

- **Credit guarantee schemes**

- + Full or partial risk coverage
- + For individual loans or loan portfolio



Value chain risk sharing with a local bank and a development institution



Cooperation with insurance providers

- **Modern technology and insurance products:**
 - + Typhoon index insurance:
 - + Automatic pay-out based on satellite typhoon tracking (path and speed);
 - + Minimum paperwork; automatic and quick payments;
 - + All data easily verifiable on Internet;
 - + Protects farmers and their lenders

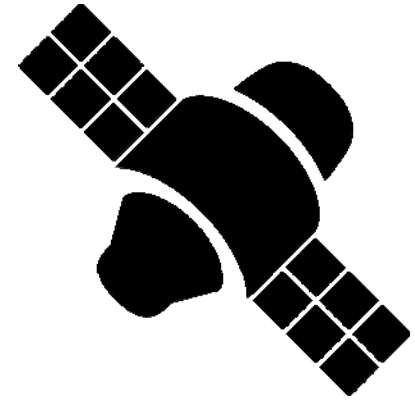


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Tax incentives

Tax incentives : Under Myanmar Investment Law

come tax holiday

Tax incentives : Under Myanmar Investment Law

- 7-year income tax holiday (Chin state is under Zone A) applicable to investment in promoted sectors (Most of agriculture activities, hotel, manufacturing, etc is under promoted sector).
- Tax exemption on importation of machinery, equipment, spare part and construction materials during construction period (customs duty, commercial tax, advance income tax)
- Tax exemption on importation of machinery, equipment, spare part and materials for maximum of 2 years under the expansion of investment.
- Exemptions on the importation of the raw materials and semi-finished goods for purpose of manufacturing of goods for export conducted by export-oriented business
- Reimbursement (refund) of the applicable taxes on imported raw material or semi-finished goods used for manufacturing goods for export

VDB Loi offices



Get to the point.

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Thank You