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Loan Structure Preferences among Microenterprise Owners: Experimental Evidence from Yangon, Myanmar

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Abstract

Despite the important role of microfinance institutions (MFIs) in financial inclusion, a critical barrier persists for microenterprises (MEs) in developing economies: a misalignment between the loan structures offered by MFIs and the preferences of ME owners. This study uses a conjoint experiment with 1,009 microenterprise owners in Myanmar to evaluate how their preferences for microfinance loan structures are influenced by two key attributes: (i) loan period (short-/long-term loans) and (ii) loan type (individual/group loans), within the Resource-Based View (RBV) framework. Furthermore, we investigate how these preferences are shaped by the ME owners' levels of risk aversion. Results show that microenterprise owners, on average, favor short-term and individual loans over long-term and group loans. This study also reveals substantial roles of microenterprise owners' risk aversion levels in determining their preferences particularly for loan periods. Microenterprise owners with low risk aversion prefer short-term loans, whereas those with high risk aversion prefer long-term loans. The sample in this study consists exclusively of food related microenterprise owners in Yangon's urban wet markets; therefore, findings may not be generalizable to other sectors or rural areas without further validation.

Keywords: microfinance institutions, microenterprise, loan structure, risk aversion, conjoint experiment.

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ความต้องการโครงสร้างสินเชื่อในวิสาหกิจขนาดเล็ก: กรณีศึกษาเชิงทดลองจากนครย่างกุ้ง ประเทศเมียนมา

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บทคัดย่อ

สถาบันการเงินขนาดเล็ก (MFIs) มีบทบาทสำคัญในการส่งเสริมการเข้าถึงบริการทางการเงิน แต่ยังคงมีอุปสรรคสำคัญในวิสาหกิจขนาดเล็ก (MEs) ในประเทศกำลังพัฒนา ได้แก่ ความไม่สอดคล้องกันระหว่างโครงสร้างเงินกู้ที่สถาบันการเงินขนาดเล็กเสนอให้กับความต้องการของเจ้าของวิสาหกิจขนาดเล็ก งานวิจัยนี้ใช้การทดลองร่วมกัน (conjoint experiment) ระหว่างเจ้าของวิสาหกิจขนาดเล็กจำนวน 1,009 รายในประเทศเมียนมา เพื่อประเมินว่าความต้องการเกี่ยวกับโครงสร้างเงินกู้ในกลุ่มวิสาหกิจขนาดเล็ก โดยใช้ปัจจัยสำคัญสองประการ ได้แก่ (1) ระยะเวลาเงินกู้ (ระยะสั้น/ระยะยาว) และ (2) ประเภทเงินกู้ (เงินกู้รายบุคคล/กลุ่ม) ภายใต้กรอบแนวคิดในมุมมองทรัพยากร Resource-Based View (RBV) นอกจากนี้ยังศึกษาระดับความเสี่ยงที่เจ้าของวิสาหกิจขนาดเล็กยอมรับได้ ผลการศึกษาพบว่า โดยเฉลี่ยแล้ววิสาหกิจขนาดเล็กนิยมเงินกู้ระยะสั้นและเงินกู้รายบุคคลมากกว่าเงินกู้ระยะยาวและเงินกู้กลุ่ม ทั้งนี้ยังพบว่าระดับความเสี่ยงที่ผู้ประกอบการวิสาหกิจขนาดเล็กยอมรับได้มีบทบาทสำคัญในการกำหนดระยะเวลาเงินกู้ โดยวิสาหกิจขนาดเล็กที่มีความเสี่ยงต่ำจะนิยมเงินกู้ระยะสั้น ขณะที่กลุ่มที่มีความเสี่ยงสูงจะนิยมเงินกู้ระยะยาว กลุ่มตัวอย่างนี้ประกอบด้วยวิสาหกิจขนาดเล็กที่เกี่ยวข้องกับอาหารในตลาดสดเขตเมืองย่างกุ้งเท่านั้น ดังนั้นผลวิจัยอาจไม่สามารถนำไปใช้กับภาคส่วนอื่นหรือเขตชนบทได้โดยไม่ผ่านการตรวจสอบเพิ่มเติม

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1. Introduction

Micro, small, and medium enterprises (MSMEs) are essential to economic development but face persistent barriers to finance (Marwa, 2014; Wang, 2016). Microfinance institutions (MFIs) offer alternative financing for MSMEs excluded from formal financial services (Assefa et al., 2013; Newman et al., 2017), particularly microenterprises (MEs). However, MFIs often fail to offer loan structures aligned with borrowers' expectations (Ogouvide et al., 2020), creating a demand supply mismatch. This study examines the demand side of this mismatch by investigating ME owners' preferences for loan periods (short- vs. long-term) and loan types (individual vs. group), and how owners' risk aversion shapes these preferences. Using a conjoint experiment with 1,009 food-related ME owners across 20 markets in Yangon[1], Myanmar, we provide causal evidence on multidimensional loan preferences[2].

We frame our analysis using the Resource Based View (RBV) of the firm (Wernerfelt, 1984; Barney, 1991), which posits that competitive advantage arises from strategically managing valuable resources. Although traditionally applied at the firm level, RBV is relevant here because in microenterprises, the owner and firm are inseparable decision-making units. Financing choices reflect strategic assessments of how loan structures complement existing resource endowments, whether they enhance financial flexibility (short-term loans) or financial stability (long-term loans), and whether they leverage collective resources (group loans) or preserve autonomous resources (individual loans). This framework generates predictions about both average preferences and how they vary with owner characteristics like risk aversion. We acknowledge that alternative frameworks offer complementary insights, including behavioral finance, contract theory, and credit constraint models. However, RBV is particularly suited to our context because it emphasizes how firms strategically deploy financial resources to build competitive advantage, aligning with our focus on loan structures as tools for resource optimization rather than mere responses to credit constraints.

This study contributes to existing literature in several ways. First, while many studies have explored MFIs' role in shaping borrowers' preferences or behaviors by evaluating loan structures (Moahid et al., 2021), most focus on rural contexts, particularly in agricultural finance or poverty alleviation (Kong et al., 2021; Sonehekpon & Fiamohe, 2023). In contrast, this study shifts the focus to urban MEs, examining their loan preferences within competitive financial environments. Urban MEs, despite having relatively better access to financing compared to rural enterprises, still face financial constraints and seek diverse financial services (Utami et al., 2020). Understanding the specific loan preferences of urban MEs is critical to reducing the mismatch between lenders and borrowers, which, according to RBV, can enhance the firms' ability to optimize financial resources and ensure their sustainability and growth.

[1] The Small and Medium Enterprises Development Law of Myanmar lacks a precise definition for microenterprises, but it generally classifies small enterprises as those with under 30 employees, depending on their business type. At the same time, according to the Myanmar Micro, Small, and Medium Enterprises 2018 Qualitative Study, the Central Statistical Organization (CSO) defines microenterprises as enterprises with under 10 employees, which correspond to our target sample in this study.

[2] MFIs face a strategic challenge in balancing social performance with financial sustainability. While initially focused on poverty alleviation, a shift toward financial efficiency since the 2000s, supported by donors and policymakers, has resulted in MFIs achieving high loan recovery rates of around 95% (Hermes and Hudon, 2018), attracting interest from commercial banks in serving MSMEs. In Myanmar, however, strict regulations separate banks and MFIs, preventing most private banks from offering MFI services. Lengthy documentation requirements, limited awareness, and negative perceptions of bank loans have further discouraged MSMEs from seeking credit (Japan International Cooperation Agency (JICA), 2017).

This study aims to address this gap by examining ME owners' loan structure preferences, offering valuable insights for policymakers and MFIs to improve financial inclusion and foster economic development in urban areas, while also offering a comparative perspective to existing rural-focused studies.

Second, examining the relationship between ME owners' risk aversion and their loan structure preferences is important for MFIs. Such an examination can help MFIs design products that coincide with ME owners' risk profiles, improving loan uptake and client satisfaction. It also helps MFIs enhance risk management by assessing lending risks more effectively, reducing default rates, and improving portfolio performance. From the regulatory perspective, this information can guide the development of policies that promote diverse financial products and foster a supportive environment for MEs. Previous studies, such as Altınok (2023), have explored the efficiency of joint liability in group lending based on respondents' risk aversion levels. However, these studies often do not focus on identifying ME-specific preferences within MFI loan structures. To our knowledge, this study is among the first to examine the relationship between ME owners' multidimensional loan structure preferences and their risk aversion levels in an urban developing country setting. This approach provides insights into how MEs can leverage appropriate loan structures to enhance their resource capabilities, as emphasized by RBV.

Third, this study employs a conjoint experiment offering both methodological and conceptual advancements. Methodologically, conjoint analysis addresses critical limitations of traditional surveys by randomly manipulating multiple loan attributes simultaneously, providing unbiased causal estimates of each attribute's effect on choice probabilities. Conceptually, this study moves beyond documenting average preferences to reveal the multidimensional and heterogeneous nature of borrowing decisions. Our approach quantifies trade offs that ME owners make across multiple loan features simultaneously, which real world borrowing decisions involve. By examining how preferences vary systematically with owners' risk aversion, we demonstrate that loan structure preferences are conditioned by individual psychological characteristics. To our knowledge, this is the first study to bridge the gap between ME owners' multidimensional loan structure preferences and their risk aversion levels in urban developing country settings. The conceptual advances include revealing the relative importance of different loan attributes and demonstrating that highly risk-averse ME owners show opposite preferences for loan periods compared to low risk-averse ME owners.

Beyond documenting average preferences, this study offers practical relevance for microfinance institutions and policymakers, particularly in terms of designing loan products that better align with borrowers' risk profiles and operational needs. First, by demonstrating that loan structure preferences are systematically conditioned by risk aversion, we show that borrower heterogeneity follows predictable patterns based on psychological characteristics. Second, our conjoint approach reveals the multidimensional trade-offs that borrowers make across loan attributes, providing a more realistic understanding of borrowing decisions. Third, linking loan preferences to Resource Based View concepts of financial flexibility and stability offers a theoretical framework for understanding how loan structures function as strategic resources. These insights have implications for microfinance efficiency, as product borrower alignment can improve uptake and reduce default. For targeting, MFIs can use simple risk aversion screening to identify which borrower segments prefer specific loan products. For

financial inclusion, the heterogeneity we document implies that offering a menu of risk tailored loan structures could expand the reach of microfinance to previously underserved segments.

The results of the conjoint experiment provide key findings related to ME owners' preferences for MFI loan structures, illustrating strategic resource management in line with the RBV. First, ME owners, on average, prefer short-term to long-term loans, which supports the argument that ME owners tend to perceive the advantages of short-term loans, such as financial flexibility, outweigh those of long-term loans, such as financial stability. This preference can be considered as a strategy to maintain adaptable resource bases that are valuable for responding quickly to market changes, consistently with the RBV on managing resources for competitive advantage. Second, ME owners prefer individual loans over group loans due to the autonomy and personal information confidentiality associated with individual loans. This autonomy allows ME owners to leverage their unique capabilities and resources in a manner that best supports their specific business strategies. Third, the analysis reveals that ME owners' levels of risk aversion are closely linked with their loan preferences. Highly risk-averse ME owners prefer long-term loans over short-term loans, whereas low risk-averse ME owners prefer short-term loans over long-term loans. Moreover, irrespective of the level of risk aversion, ME owners prefer individual loans over group loans, but highly risk-averse ME owners tend to distaste group loans more than low risk-averse ME owners. The distinct preferences based on risk aversion reflect a strategic alignment of financial resources with individual risk profiles.

2. Hypotheses

In developing countries, MFIs have played an important role for MSMEs, including microentrepreneurs. The services provided by MFIs improve the performance of MSMEs, with training and loans having the most substantial effects (Audu et al., 2021). Additionally, MFIs can assist customers in freeing them from the control of moneylenders, thus reducing their reliance on informal lending and the dominant influence of informal moneylenders (Berg et al., 2020). Nevertheless, MSMEs still need to overcome numerous challenges in obtaining credit from MFIs because of the lack of essential and adequate information, paperwork, and collateral required for credit (Hanedar et al., 2014). One critical issue is the mismatch in loan structures between borrowers (MSMEs) and lenders (MFIs). MFIs can improve clients' financial outcomes by employing appropriate financial product design options. To understand this mismatch in loan structures, it is important to address this issue from the perspectives of MSMEs and MFIs. This study focuses on the demand side of loans, that is, ME owners' preferences for loan structures, leaving MFIs' strategies for designing loan structures in the future. Additionally, this study emphasizes two components of the loan structure: loan periods and loan types.

Financing decisions are not solely concerned with the imminent capital requirements; they also involve the support of management strategic objectives. The RBV emphasizes a firm's resources and capabilities, positing that their uniqueness facilitates the creation of sustaining competitive advantages (McGee, 2015), and the significance of firm effects in the development and integration of resources to attain a competitive advantage (Mahoney & Pandian, 1992). It also explains the relationship between firm performance and resources and the roles of a firm's tangible and intangible resources in generating and maintaining competitive advantage, which

makes a substantial contribution to strategy (Furr & Eisenhardt, 2021; Zahra, 2021). The selection of the appropriate loan structure is essential from the RBV perspective to ensure that financing is consistent with the firm's strategic objectives and available resources. When MEs consider applying for MFI loans, the structure of the loan, particularly the type (group vs. individual lending) and duration (long-term vs. short-term), plays a significant role in determining how effectively the funds meet their business needs. The RBV perspective suggests that MEs should select loan structures that align with their internal resources, such as managerial skills, market knowledge, and financial literacy, to maintain their competitive advantage.

From a Resource Based View perspective, financing decisions extend beyond meeting immediate capital requirements to encompass strategic resource management. Loan structures embody different resource characteristics that map directly onto RBV concepts. Short-term loans offer financial flexibility, the capability to quickly reallocate resources in response to market opportunities. Long-term loans provide financial stability, a buffer against external shocks that support sustained operations. Group loans leverage collective resources such as social capital and mutual accountability. Individual loans preserve autonomous resources including decision-making freedom and financial confidentiality. ME owners, as strategic resource managers, will prefer loan structures that best align with their existing resource endowments and the competitive demands of their operating environment.

2.1 Loan periods: short-term loan versus long-term loan

The choice of loan period is important in ME owners' decisions. When choosing between short- and long-term loans, ME owners optimize their internal resources to achieve short- and long-term business objectives. Wernerfelt (1984) suggests that a firm’s long-term success and competitive advantage stem from how well it manages and leverages its resources. In this context, “financial flexibility” is considered as an effective management resource, which enables firms to swiftly adapt to market dynamics. This flexibility is crucial particularly for MEs, which operate within highly volatile markets and with limited access to funding sources. Barney (1991) noted that resources could provide a competitive advantage when they are characterized as valuable, rare, inimitable, and non-substitutable. Financial flexibility could be accompanied with these characteristics, empowering MEs to quickly adjust their strategies in response to financial pressures for maintaining a competitive advantage. On the other hand, “financial stability” is also a crucial management resource, which enables firms to manage risks and pursue long-term viability without facing financial distress. This aspect of stability is important because it buffers MEs against external financial shocks and supports their sustained growth.

It is acknowledged that short-term loans enhance “financial flexibility” by providing immediate liquidity, which enables MEs to address short-term opportunities or urgent cash flow needs and to manage their resources with swiftness and responsiveness. In this context, MSMEs are expected to favor financial flexibility over financial stability due to their need to react immediately to opportunities or changes in unpredictable markets. Ng & Cheng (2020) highlighted that firms often rely on short-term loans due to their need for financial flexibility. Chandio et al. (2018) found that small farmers in Pakistan preferred short-term loans as they aligned better with immediate and seasonal financial needs. Bhat et al. (2020) investigated debt

capacity, debt choice, and underinvestment in China and showed that short-term debt can assist firms to make flexible financing decisions. This financial flexibility can allow MSMEs to address short-term demands and manage cash flow, all of which can be more beneficial in the current situation than long-term stability. Childs et al. (2005) suggested that flexibility encourages the use of short-term loans, which could reduce the costs associated with underinvestment and overinvestment. Christy et al. (2000) mentioned that MEs often favor short-term loans due to their high capital turnover rate, which makes management of these loans more feasible.

Conversely, long-term loans provide greater "financial stability" as an internal resource by offering stable financial sources, allowing MEs to invest in long-term business projects or expansion plans with comparative advantages. Knott (1998) and Ogouvide et al. (2020) suggested that the ability to manage debt from a long-term perspective allows MEs to allocate resources to growth-driving projects that enhance their competitive advantage. Sonehekpon & Fiamohe (2023) showed that long-term loans strengthen financial stability through effective risk management mitigating financial risks associated with market fluctuations. Demirgüç-Kunt et al. (2017) found that long-term finance reduces business risk by smoothing growth during both crisis and non-crisis periods.

Both types of loans play critical roles in the strategic financial management of MEs, with short-term loans enhancing financial flexibility and long-term loans strengthening financial stability. The choice between short- and long-term loans reflects an ME's strategic approach to managing its internal resources, guided by the principles of the RBV. Given these arguments, ME owners tend to prefer short-term MFI loans when they prioritize financial flexibility, while they may opt for long-term MFI loans when seeking financial stability. Given the competing theoretical arguments regarding loan periods, we evaluate how ME owners' preferences for loan periods are heterogeneous. This overarching argument presents two competing predictions: one favoring financial flexibility, and the other favoring financial stability. The relative strength of these competing preferences is expected to be conditional on risk aversion.

Hypothesis 1a: ME owners who prioritize adaptability to market changes will prefer short-term loans over long-term loans.

Hypothesis 1b: ME owners who prioritize predictable repayment schedules will prefer long-term loans over short-term loans.

2.2 Loan types: group loan versus individual loan

This study considers loan types (individual or group loans) as a critical factor in evaluating ME owners' preferences for MFI loans. Similar to the previous discussion, the RBV, which highlights the importance of internal resources for competitive advantage, provides a valuable framework for understanding MEs' loan preferences, particularly their decision between individual and group loans. MEs assess which loan type best enables them to optimize internal resources and sustain their competitive edge.

Group loans offer more advantages than individual loans mainly in two areas: (i) access to credit and (ii) mutual responsibility. First, group loans facilitate borrowers' "access to credit." Small business owners often lack sufficient assets or legal ownership to qualify for traditional loans, but group lending allows them to leverage group liabilities as social collateral and use

shared group information as a form of credit history. From the RBV standpoint, this collective approach enables MEs to pool intangible internal resources, such as trust, social capital, and accountability, to access financial capital, which is crucial for sustaining competitive advantage. Firms that effectively leverage these internal resources are better positioned to overcome external barriers. Agbo (2013) stated that group participation is the preferred strategy for accessing credit from MFIs, and Moahid et al. (2021) showed that Afghani farmers favor group loans due to lower collateral requirements, using group dynamics to compensate for a lack of individual financial resources.

Second, "mutual responsibility" within group lending systems fosters a sense of security as members collectively bear responsibility for each other's loans, creating a robust environment of shared accountability. This collective responsibility not only enhances trust and cooperation among members but also serves as an internal resource that enhances the group's capacity to manage financial risks. Osmani (2016) found that MFI borrowers in Bangladesh value group loans for the social benefits and mutual responsibility inherent in collective activities. In line with the RBV, these social ties and collective activities are invaluable internal resources, promoting collaboration and knowledge sharing. Members often reside near each other, share social connections (Hermes & Lensink, 2007), and exchange experiences and business opportunities, further enriching these resources. Additionally, when borrowers have equal power, their enhanced ability to enforce accountability within the group supports long-term competitiveness (Bond & Rai, 2008).

In contrast, some borrowers prefer individual loans for (i) enhanced autonomy and (ii) financial confidentiality. Individual loans provide borrowers with greater "autonomy," allowing them to utilize their internal resources without the restrictions typical in group lending systems. This autonomy protects them from joint liability issues like free-rider problems and group disputes over repayments (Che, 2002; Montgomery, 1996). The RBV suggests that such loans help maximize management efficiency and decision-making freedom, free from group dynamics or the need for coordination among members. This minimizes the time and conflicts associated with group meetings, reducing social stress and preventing the frustration linked to shared liabilities (Maiangwa, 2012; Kono, 2014; Besley & Coate, 1995). Consequently, borrowers can focus solely on their business, enhancing long-term competitiveness. Individual loans preserve "financial confidentiality," critical for borrowers who attempt to keep their financial strategies private, a factor not afforded by the transparency required in group loans (Hermes & Lensink, 2007). This confidentiality protects sensitive internal resources, enabling more effective leveraging without external scrutiny. This confidentiality is especially critical in industries characterized by near-perfect competition, such as markets where MSME owners produce and sell homogeneous food products. By safeguarding management strategies, confidentiality helps protect competitive advantages and prevents competitors from gaining strategic insights.

Given these two contrasting perspectives, ME owners' preferences for individual or group loans depend on which argument they find more compelling. Group loans provide benefits, such as enhanced access to credit and mutual responsibility, while individual loans offer autonomy and financial confidentiality. Strategic selection of the loan type allows MEs to utilize their internal resources with their business objectives, ensuring a stronger competitive position. Building on these competing arguments regarding loan types, we examine how ME owners' preferences for loan types are heterogeneous. This argument yields two competing predictions: one emphasizing the value of credit access and mutual responsibility, and the other emphasizing the value of autonomy and financial confidentiality. Risk aversion may also condition these preferences.

Hypothesis 2a: ME owners who value social collateral and shared accountability will prefer group loans.

Hypothesis 2b: ME owners who value independent decision-making and confidentiality will prefer individual loans.

3. The case of Yangon, Myanmar

Myanmar is a Southeast Asian developing country. As a developing country, the development of MSMEs is essential for Myanmar's economic development; 89.9% of all businesses in Myanmar were MSMEs in 2019 (Asian Development Bank, 2020). MSMEs are estimated to employ 50–95% of workers and contribute to 30–53% of the country's gross domestic product (GDP) (International Labour Organization, 2020). Although Yangon was Myanmar's capital city before 2006, it remained the country's economic capital, accounting for 23% of the country's GDP, serving as a significant commercial and trading hub for a variety of merchandise, and boasting several markets. Yangon, characterized by its high population density and significant food demand, serves as a hub for a thriving food-related MSME sector. According to the Yangon City Development Committee (YCDC), the city has 185 wet markets that supply fresh foods, including meat, fish, and other perishable goods, with 90% of households purchasing their daily food from these markets (Myanmar Economic Research Institute, 2022). Food and beverage enterprises dominate the MSME landscape in Myanmar, accounting for almost 60% of all SMEs in 2019 (Asian Development Bank, 2020). In Yangon, the majority of food-related MSMEs sell identical or homogeneous food products, indicating that they operate in a near-perfectly competitive market. Given the prominence of food-related MSMEs in Yangon, this study focuses on understanding the preferences of their owners, particularly those of MSME owners.

In Myanmar, MSMEs, including those in Yangon, face challenges in accessing finance for their development. Kapteyn & Wah (2016) illustrated that 41% of MSMEs in Yangon face significant difficulties obtaining loans from commercial banks, primarily because of their unfamiliarity with loan application procedures or their complex processes. Moreover, most private banks do not participate in microfinance operations in the country because of regulatory reasons, a lack of interest and understanding in microfinance (Duflos et al., 2013; Oomes et al., 2020). Thus, microcredit serves as a development tool for financial inclusion in the country (Tambunan, 2014), supports small enterprise growth, and aids in poverty reduction. Improving access to microcredit is crucial for the grassroots public expansion of small businesses (Wun et al., 2019). In 2019, MSMEs in Yangon borrowed 99.3% of their loans from nonbank financial institutions, including MFIs.

The origins of microfinance in Myanmar can be traced back to the mid-1990s, when international non-governmental organizations (INGOs) such as Private Agencies Cooperating Together (PACT), Groupe de Recherche et d'Echanges Technologiques (GRET), and World Vision began offering microfinance services. However, although the Small and Medium Industrial Development Bank (SMIDB), a semi-government bank focused on supporting MSME development, offered low-interest loans to MSMEs between 2012 and 2014, most MSMEs did not take advantage of these loans due to the lengthy documentation process and their negative perceptions of the program (Japan International Cooperation Agency (JICA), 2017). The Microfinance Business Law of 2011 granted the Microfinance Supervisory Committee the authority to oversee and formulate MFI policies. Currently, the Financial

Regulatory Department, under the Ministry of Planning and Finance, conducts inspections and supervises MFIs. As of July 2023, 180 MFIs, including foreign-owned and joint-venture MFIs, serve 3.60 million active clients in 15 states and regions across the country (Ministry of Information, Myanmar, 2023).
Myanmar's MFIs usually determine specific loan structures and practice strict legal policies and procedures when considering lending to clients (Aye & Nakamori, 2015). Thus, ME owners face difficulties receiving financial services from MFIs if their loan proposals fail to meet the MFIs' loan criteria or align with the MFIs' loan structure. One essential reason for the difficulty faced by food-related ME owners is the mismatch between borrowers' (ME owners') preferences and lenders' (MFIs') proposed loan structures. This mismatch makes it challenging for MEs to meet the repayment schedules and criteria set by the MFIs. Regarding loan periods as part of the loan structure, MFIs typically propose specific loan periods, usually ranging from 6 to 12 months. However, ME owners often face challenging negotiations with lenders because their preference for loan periods is frequently overlooked by MFIs, who hold the dominant power in deciding the loan structure, including the loan period.

Concerning loan types as part of the loan structure, MFIs in Myanmar primarily offer group loans, although some also provide individual loans (World Bank, 2022). For MSME owners, both loan types have distinct advantages and disadvantages and different stringent lending criteria. Group loans offer shared risk among members but require mutual trust and collective responsibility among borrowers. Individual loans provide more tailored financing and greater flexibility but have stricter eligibility requirements. A notable issue is the mismatch between the preferences of ME borrowers and the proposed loan structures offered by MFIs, whether as group or individual loans. This discrepancy often results in challenges for ME owners in accessing suitable financial services, further complicating their ability to secure the necessary funding for business operations. This study evaluates how information framing regarding loan structures, particularly loan periods and loan types, influences ME owners' preferences.

4. Data and methodology

4.1 Sampling and data

In this study, we conducted a conjoint experiment with ME owners from ten townships in Yangon. The primary data were collected through a field survey conducted by the first author. Two markets were selected from each township for the conjoint experiment focusing on food-related ME owners. This selection ensured a diverse representation of ME owners from various localities in Yangon. The rationale for choosing these specific townships and markets was based on their economic activity levels and the presence of a significant number of MEs, thus providing a comprehensive view of the loan preferences of MEs in Yangon. We randomly recruited 50 respondents from each market to participate in the survey. We chose this sample size to balance several factors: ensure sufficient statistical power for reliable and valid conjoint analysis; capture a broad range of preferences and behaviors to enhance representativeness; and address logistical constraints related to time, budget, and effort. In this study, we used Conjointly, an online survey platform, because of its efficiency and ability to maintain high quality of data quality in survey experiments. The total number of respondents was 1,009 food-related ME owners (Table 1). The survey was conducted from June to August 2024.

A survey questionnaire was meticulously developed to collect general information from the respondents and capture their preferences for various loan attributes. Table 2 presents the descriptive statistics of the sample. Female ME owners represented the majority of respondents (58.6 %). Moreover, a significant proportion of respondents (62.8 %) were from the age bracket exceeding 40 years. Additionally, 65.7% of respondents had attained an educational level of high school or above. A minority of respondents (40.6 %) hired employees (non-family members) within their business operations. Furthermore, 55.8% of the respondents had extensive business tenure, exceeding seven years. Notably, 32.8% of the respondents availed themselves of financial services from MFIs.

4.2 Experimental design

This study used a conjoint experiment to identify ME owners' preferences regarding MFI loan structures. Conjoint analysis is a valuable approach for determining the causal effects of different treatment components in survey research. It enables the simultaneous evaluation of numerous causal hypotheses and quantifies the causal effects of multiple treatment components (Hainmueller et al., 2014). It also increases realism by presenting respondents with a variety of information and asking for their selections, while simultaneously reducing concerns about social desirability by offering respondents multiple justifications for their choices. Several studies on borrowers' loan structure preferences apply conjoint experiments (Ogouvide et al., 2020; Moahid et al., 2021). In our context, conjoint analysis helps us understand ME owners' decision-making processes regarding their loan choices, which are based on a combination of various loan structure attributes.

To identify ME owners' MFI loan preferences, we selected six attributes that reflect their considerations of financing from MFIs (Table 3). Six attributes were considered in the experiment. Among them, we focused on two main attributes: (i) loan periods and (ii) loan types. The first main attribute, loan periods, had four levels: 6 months, 9 months, 1 year, and 2 years. In Myanmar, MFIs offer different types of loan periods. Most commonly, MFIs provide loan periods ranging from 6 months (the shortest) to 2 years (the longest). The second main attribute is loan types, which had two levels: individual loans and group loans. Certain types of loans are better suited to specific borrowers based on their preferences. Including loan periods and loan types as attributes in the experiment helps analyze the loan duration and loan type over which ME owners are comfortable committing to loan repayments and how loan periods and types affect their financing decisions.

In addition to the two main attributes, this experiment incorporated four additional attributes related to the structure of MFI loans, aiming to provide a more comprehensive investigation of our respondents' preferences for MFI loan structures. Both economic and non-economic attributes, such as interest rates and the quality of services provided, may influence borrowers' choices of microfinance services (Telaga & Ahmed, 2013). The first attribute is the monthly interest rate, which had three levels: 1.50%, 2.00%, and 2.33%. In Myanmar, regulations stipulate that MFIs cannot charge interest rates exceeding 28% per year or 2.333% per month (World Bank, 2022). The second is the initial fee, which was structured into four levels: 1%, 1.5%, 2.0%, and 3.0% of the loan amount. MFIs charge borrowers by varying their initial services or management fees to support their operational activities and ensure the delivery of

financial services. Integrating the monthly interest rate into the experiment allowed us to gauge ME owners' responsiveness to the financial burden of monthly interest payments. Additionally, including the initial fee in the assessment allowed us to evaluate the influence of upfront costs on ME owners' decisions regarding loan acceptance.

The third attribute is document procedure, which comprised three levels: simple, moderate, and complex. Several studies indicate that, when seeking credit, borrowers, including MSMEs, consider the quality of financial services, such as administration speed and ease, as essential factors (Utami et al., 2020). Incorporating document procedures in the experiment helps to evaluate the administrative burden and accessibility of loans for ME owners. Lastly, the fourth is the origin of MFIs at three levels: international, joint venture with international and local, and local. The Myanmar Microfinance Association (MMFA) reports that four main international or foreign-owned MFIs, namely the Pact Global Microfinance Fund (PGMF), Vision Fund, Sathapana, and Dawn Microfinance, dominate the country's microfinance sector. As of 2023, 8 joint venture MFIs and more than 100 local MFIs provide financial services (Ministry of Information, Myanmar, 2023).

We used the Conjointly survey platform to systematically randomize all the attribute positions and their corresponding levels for each set. We instructed the respondents to choose one of the two hypothetical loan options randomly generated from a set of attributes and levels. In this approach, we used a 4×2×3×4×3×3 factorial design, resulting in 864 possible loan options. Additionally, we conducted this experiment in five rounds to capture strong and reliable information from our sample, generating a total of 10,090 (=1009×5×2) observations from 1,009 food-related ME owners. Conjointly improved the efficacy, quality, and affordability of our survey experiment by offering a simplified procedure for survey preparation and dissemination, automatic data collection, and comprehensive attribute randomization to prevent bias. This method ensures an accurate recording of ME owners' preferences, providing MFIs crucial information for further tailoring their loan programs.

4.3 Analytical strategy

This study applied the average marginal component effect (AMCE), which represents the causal effect of changing one attribute of a set while averaging over the distribution of the remaining attributes (Hainmueller et al., 2014). The primary goal was to understand how different attributes influence decision-making. The AMCE can determine the average effect of altering a specific attribute while holding other attributes constant across all respondents. To measure the AMCE of each attribute, we used the ordinary least squares (OLS) estimation because of its efficiency, interpretability, and simplicity in conjoint analysis. In the estimation, the dependent variable is a binary variable representing the respondent's choice of a loan option, whereas the independent variables are binary variables representing the levels of each of the six attributes.

$$Y_{ij} = \beta_0 + \sum_{a=1}^{6} \sum_{l=2}^{L_a} \beta_a^l \, D_{ij}^{a,l} + \epsilon_{ij},$$

where Y_{ij} equals 1 if respondent i chooses loan profile j and 0 otherwise. $D_{ij}^{a,l}$ indicates whether loan profile j takes level l of attribute a, with one level omitted as baseline for each attribute. L_a represents the number of levels for attribute a (loan period: 4; loan type: 2; interest rate: 3;

initial fee: 4; document procedure: 3; MFI origin: 3). The coefficient β_a^l represents the change in choice probability when attribute a takes level l compared to baseline, averaging over all other attributes. Standard errors are clustered by respondent to account for five choice tasks per respondent under the assumption of repeat sampling (five rounds in this experiment) (Knudsen & Johannesson, 2019).

5. Results

Table 4 presents the OLS results of the models with and without respondents' characteristics or covariates (respondents' gender, age, education level, employment in their business, business age, status as a former MFI client, and risk-aversion level). In the estimation models, we set one level of each attribute as the respective baseline level. In this study, 6 months for the loan period, individual lending for loan type, 2.33% for monthly interest rate, 1% of the loan amount for the initial fee, moderate for document procedure, and joint venture for the origin of MFI were utilized as the baseline levels for the attributes. A positive coefficient value indicates that respondents prefer a specific attribute level compared to the baseline level, whereas a negative coefficient value indicates that respondents do not prefer a specific attribute level compared to the baseline level. Table 4 shows that the estimated coefficients for the model with covariates were almost identical to those for the model without covariates, implying that the randomization in the experiment worked well. Figure 1 illustrates the AMCEs of the attributes with a 95% confidence interval, based on the estimated models with covariates.

Among the six attributes, we focused on two: loan periods and loan types. First, concerning loan periods, Figure 1 and Table 4 reveal that although the coefficients of 9 months and 1 year are statistically insignificant, those of 2 years are significantly negative at the 1% significance level. This implies that the respondents showed less preference for a longer credit term (2 years) compared to the shortest credit term (6 months) as the baseline level, by 5.5 percentage points. ME owners, on average, prefer short-term loans over long-term loans, supporting Hypothesis 1a but not Hypothesis 1b. The preference for short-term loans among ME owners would reflect a prioritization of financial flexibility over financial stability. This choice can be recognized as a strategic utilization of internal resources under the RBV argument, allowing MEs to quickly adapt to changing market conditions. The food-related markets in Yangon exhibit relatively high competitiveness, marked by the presence of numerous small enterprises and swiftly shifting market conditions driven partly by volatile political and economic climates. This environment necessitates that ME owners emphasize financial flexibility to quickly respond to these uncertainties, rather than pursuing long-term financial stability. Our finding coincides with the argument of Chandio et al. (2018) that farmers in Pakistan prefer short-term loans over long-term loans but contrasts with the results of Sonehekpon & Fiamohe (2023) and Kong et al. (2021).

Second, regarding loan types, the analysis shows that the coefficients of group loans are significantly negative at the 1% significance level. ME owners prefer individual loans over group loans by 28.6 percentage points, which supports Hypothesis 2b but not Hypothesis 2a. In the context of the RBV, the preference of individual loans suggests that ME owners prioritize internal resources of autonomy and financial information confidentiality, which can empower them to exercise greater control over their business operations and financial decisions. This finding coincides with Ogouvide et al. (2020), which noted a preference for individual loans in

Benin, but contrasts with Osmani (2016), which observed a preference for group loans in Bangladesh. In Yangon, the prevalent instances of individuals failing to meet their loan obligations (Thar, 2020) have led ME owners to harbor mistrust towards other businesspeople. Consequently, they are reluctant to engage in group lending schemes, and thus they attempt to keep autonomy with personal responsibility associated with individual loans, which enhance financial control and mitigate risks from group lending. Additionally, financial information confidentiality is crucial for food-related MEs in Yangon, which sell almost identical or homogeneous food products. The confidentiality prevents competitors from gaining insights into management strategies, which helps maintain competitive advantages.

Furthermore, the estimations show clear results for the other four attributes. First, concerning monthly interest rates, the coefficients for the monthly interest rates of 1.5% and 2.0% are significantly positive at the 1% significance level, as expected. This suggests that ME owners prefer the lower interest rates of 1.5% and 2.0% by 15.6 and 6.7 percentage points, respectively, compared to the base case of the highest regulated monthly interest rate of 2.33%. Second, regarding the initial fee, as expected, the coefficients for initial fees of 2% and 3% are significantly negative at the 1% significance level. Thus, ME owners prefer lower initial fees of 2% and 3% by 4.5 and 5.5 percentage points, respectively, compared to the base case of an initial fee of 1%. Third, for document procedures, the estimated coefficients of simple and complicated procedures are significantly positive and negative at the 1% significance level, respectively. ME owners prefer simple document procedures to moderately complicated ones by 10.1 percentage points and are 10.0 percentage points less likely to prefer complicated procedures. This is consistent with the findings of Utami et al. (2020) that simple documentation procedures are essential when choosing a loan. Fourth, regarding the origin of MFI, the coefficients of local and international MFI are significantly positive and negative at the 1% significance level. ME owners prefer local MFIs over joint venture MFIs by 8.7 percentage points and simultaneously prefer joint venture MFIs over international MFIs by 6.9 percentage points MFIs. Possible reasons include the argument that Myanmar's customers have a strong cultural identity and often prefer local products (Rudkin & Erba, 2018).

6. Incorporating risk aversion

6.1 Measuring ME owner's risk aversion

This study considered the role of ME owners' risk aversion in shaping their preferences for loan structures: loan period and loan type. Individuals with low risk aversion tend to prefer engaging in activities with uncertain outcomes, whereas those with high risk aversion tend to prefer certain events over uncertain ones. We used a measure of ME owners' risk aversion for each respondent or ME owner, following Boyle et al. (2011) and Boyle et al. (2012) which employ decision-making tasks involving choices between safer and riskier options. In the survey, we asked each respondent the following question: "Imagine your wholesaler or supplier wants to give you a New Year gift, offering you two options. If you choose option A, you must play a heads-or-tails game for a 0.5 million kyats. If you win, you will receive 0.5 million kyats; if you lose, you will get nothing. If you choose option B, you will receive a specific amount of money as a gift without playing the game. Which option would you choose?" We presented each respondent with four different values for the gift in option B: (1) 0.05 million, (2) 0.15

million, (3) 0.25 million, and (4) 0.35 million kyats (Table 5). In option B, this approach involved presenting respondents with a sequence of heads-or-tails games, each with a different gift value.

Based on the respondents' decision to choose either option A or B in the heads-or-tails game for each of the four gift values, we determined a risk score for each respondent. If a respondent selects option B at a gift value of 0.05 million kyats, their risk score is one. Choosing option B, at a gift value of 0.15 million kyats, results in a risk score of two. If a respondent opts for option B at a gift value of 0.25 million kyats, their risk score is three. Selecting option B at a gift value of 0.35 million kyats leads to a risk score of four. If a respondent consistently chooses option A regardless of the gift value, the risk score is five. Using the calculated risk scores, we classified respondents with a risk score of one or two as "highly risk-averse" ME owners and those with a risk score of three, four, or five as "low risk-averse" ME owners.[3] Thus, this study divides the full sample into two subsamples: highly risk-averse and low risk-averse ME owners. In our experiment, 62.2% of respondents were highly risk-averse ME owners.

6.2 Loan structures and risk aversion

We first examined the association between ME owners' risk aversion and their loan period preference. Table 6 and Figure 2 present the OLS results for the two subsamples.[4] The results show that the coefficients of long-term loans (1 year and 2 years) are significantly positive at the 1% level for the subsample of highly risk-averse ME owners, while those of long-term loans (1 year and 2 years) are significantly negative at the 1% level for the subsample of low risk-averse ME owners. Highly risk-averse ME owners prefer long-term loans over short-term loans, which supports Hypothesis 1b. In contrast, low risk-averse ME owners prefer short-term loans over long-term loans, which supports Hypothesis 1a.

One possible justification for the different results is the argument that short-term loans are perceived as riskier than long-term loans. Long-term loans provide a buffer against financial fluctuations for borrowers concerned about future refinancing costs (Goyal & Wang, 2011). Their structured repayment plans help manage financial risk effectively and mitigate uncertainty from market volatility or economic instability. Additionally, long-term loans reduce rollover risk, a concern with short-term debt, due to their short maturity periods (Kahl et al., 2015). Frequent short-term refinancing often entails higher liquidity risk with a frequent

[3] We also applied two alternative measures of risk aversion for robustness checks. First, we followed the same questionnaire and used the same calculated risk scores, but we set different classification of risk-averse level to divide the full sample into the two groups of highly and low risk-averse ME owners. Further, we classified respondents with a risk score of one as highly risk-averse ME owners, and those with a risk score of two, three, four, or five as low risk-averse ME owners. The estimations yield results similar to those of the baseline models (Table A1 in the online appendix). Second, following the lottery choice method of Cramer et al. (2002) and Hanaoka et al. (2018), we measured the level of risk aversion for each respondent or ME owner within the survey, which is also a prevalent strategy employed to assess the level of risk aversion for individuals. This approach entails presenting respondents with a sequence of options using lotteries that have different probabilities and rewards. In this question, we show four lottery ticket prices: (1) 0.1 million, (2) 0.3 million, (3) 0.5 million, and (4) 0.7 million kyats. The respondents choose whether to buy or not buy each ticket's price. Based on respondents' decisions to either buy or not buy each lottery ticket at different prices, we can classify respondents (or ME owners) who choose not to buy, irrespective of the ticket price, as having relatively high-risk aversion. This indicates a strong preference to avoid financial risk. The estimations also yield results similar to those of the baseline models (Tables A2 and A3 in the online appendix).

[4] We also conduct full sample analysis by estimating the model with the interaction terms between the dummy of highly risk-averse ME owner and each of the six attributes, which confirms the statistically significant differences in the AMCE between the highly and low risk-averse subgroups (Table A4 in the appendix).

need for external funding (Jun & Jen, 2003; Brockman et al., 2010). These discussions encourage highly risk-averse ME owners to prefer long-term loans over short-term loans, which are generally perceived to entail high financial risk. By contrast, low risk-averse ME owners prefer short-term loans over long-term loans because they are less sensitive to the financial risks associated with short-term loans and prioritize the advantages of short-term loans, such as financial flexibility. From the perspective of the RBV, it can be considered that highly risk-averse MEs prefer long-term loans because of financial stability as internal resources, while low risk-averse MEs prefer short-term loans because of financial flexibility as internal resources. This finding suggests that it is possible that an owner's risk aversion could serve as a proxy for MSME's preference of financial stability or flexibility.Further, we examined how ME owners' risk aversion is associated with their loan type preference. Table 6 and Figure 2 illustrate that the coefficients of group loans are significantly negative at the 1% level for both the subsamples of highly- and low-risk-averse ME owners. Irrespective of the level of risk aversion, ME owners prefer individual loans over group loans, which confirms the validity of Hypothesis 2b but does not support Hypothesis 2a. From the RBV perspective, microenterprise owners, irrespective of their risk aversion level, favor strategic use of internal resources, like autonomy and financial confidentiality, associated with individual loans over those linked to group loans, such as credit accessibility and mutual responsibility. The analysis also shows that the absolute coefficient of group loans is higher for highly risk-averse ME owners than low risk-averse ME owners. This implies that highly risk-averse ME owners tend to distaste group loans more than low risk-averse ME owners. Several studies argue that individual loans entail less risk than group loans, for several reasons.

First, individual loans undergo more stringent credit evaluations than group loans, which reduces financial risk (Dellien & Leland, 2006). Second, individual loans mitigate free-riding issues by promoting personal responsibility for financial obligations (Fischer, 2013; Alam et al., 2021). Third, individual loans reduce the risk associated with personal information and confidentiality by eliminating the need for mutual screening which is necessary under group lending (Khavul, 2010). Fourth, individual loans help borrowers avoid the psychological stress and risk associated with group lending, in which members bear joint liability and exert social pressure on their peers (Ledgerwood, 1998; Van Tassel, 1999; Bongomin et al., 2020). Joint liability can lead to psychological stress, financial disputes, and reduced individual control over borrowers' loan obligations (Dube & Kamath, 2018; Altınok, 2023). These arguments suggest that group loans are expected to entail higher risk than individual loans, prompting highly risk-averse ME owners to distaste group loans over individual loans compared with those with lower risk aversion.

7. Conclusion

By conducting a conjoint experiment in Yangon, Myanmar, this study examined food-related ME owners' preferences for obtaining an MFI loan to solve their financial gap. Our particular interest lies in ME owners' preferences regarding MFI loan structures: loan periods and loan types. The main results show that, on average, ME owners prefer short-term loans over long-term loans, supporting Hypothesis 1a, and favor individual loans over group loans, supporting Hypothesis 2b. The RBV perspective suggests that customizing loan products encourages ME owners to enhance their internal resources or capacities, including financial flexibility, financial autonomy, and financial confidentiality, to leverage loans for their competitive advantage. Additionally, our estimates suggest clear links between ME owners' risk aversion and their preferences for loan periods and loan types within the loan structure. Concerning loan

periods, highly risk-averse ME owners prefer long-term loans over short-term loans, whereas low risk-averse ME owners prefer short-term loans over long-term loans. For loan types, irrespective of the level of risk aversion, ME owners prefer individual loans over group loans, but highly risk-averse ME owners tend to distaste group loans more than low risk-averse ME owners. These results highlight the importance of ME owners' risk aversion when deciding to obtain credit from MFIs.

Improving the microfinance sector could significantly boost financial inclusion in Myanmar by reducing its reliance on the informal loan market. Enhanced access to tailored financial services for MEs, especially during uncertain times, can alleviate their financial burden and strengthen the country's ME sector. Our results can help mitigate the mismatch between borrowers (MEs) and lenders (MFIs) by considering several practical implications. Moreover, MFIs should offer customized loan products that match ME owners' different risk levels. To achieve this, MFIs must develop advanced risk assessment tools to better understand and serve ME owners' risk profiles, resulting in greater satisfaction and fewer defaults. For MFI product design, the strong preference for individual loans suggests expanding individual lending portfolios, while risk segmented product menus could offer short-term loans for low risk-averse ME owners and longer terms for highly risk-averse ME owners. Streamlining documentation procedures could significantly increase loan uptake. For risk management, MFIs can use loan product choices as screening mechanisms, with simple risk assessment tools incorporating revealed preferences alongside traditional credit scoring. For financial inclusion, the heterogeneity in preferences implies that current standardized offerings may exclude borrowers whose preferences diverge from traditional models. For policymakers, regulations should enable diversified loan products rather than favoring group lending, and support for local MFI development could enhance financial inclusion. Regulatory simplification of documentation requirements could reduce barriers to formal finance. Furthermore, our analysis indicated that prioritizing individual loans could attract more MEs, suggesting that current group lending schemes may pose challenges for their businesses. This warrants a thorough re-examination and reform by regulators.

For small financial institutions, the substantial preference for individual loans over group loans suggests piloting individual lending products alongside traditional group schemes, starting with established clients to mitigate risk. The strong preference for simple documentation procedures indicates that streamlining applications could significantly expand client reach. Institutions can use simple risk aversion screening, such as the lottery choice questions in our study, to segment clients and offer tailored loan products. For government agencies, the preference for individual loans suggests regulations should enable diversified loan products rather than favoring group lending. Given that 62.2% of owners are highly risk-averse, government financial literacy programs could help ME owners understand the risk implications of different loan structures. Finally, regulatory simplification harmonizing documentation requirements could reduce barriers to formal finance.

Although our study offers several valuable insights, several limitations warrant acknowledgment. First, the sample is restricted to food-related ME owners in Yangon's urban wet markets, limiting external validity to other sectors and rural areas where preferences may differ. Second, we focused solely on MFI loans without considering informal moneylenders who serve as substitutes in the credit market. Third, this study examined only the demand side of credit markets, not MFIs' loan provision decisions and constraints. Fourth, stated preferences in hypothetical scenarios may not

perfectly predict real world borrowing behavior. Future research should examine whether our findings replicate across sectors and geographic contexts, and compare preferences for MFI loans versus moneylender loans. Despite these limitations, this study provides robust evidence of systematic heterogeneity in loan structure preferences and their relationship to risk aversion.

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