Myanmar's Financial Sector

A Challenging Environment for Banks

(3rd Edition, 2016)

ဂျာမနီ နှင့် ပူးပေါင်းဆောင်ရွက်မှု
DEUTSCHE ZUSAMMENARBEIT

Published by
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Published by
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn, Germany

Financial Sector Development in Myanmar
No. 635-E, Yoma Yeikthar Street,
Pyay Road, Kamayut Township, Yangon
T +95 1 230 60 84/85
F +95 1 501 257
E fsd-myanmar@giz.de
www.giz.de

As of
October 2016

Responsible
Thomas Foerch

Photo Credit
Veronica Wijaya

Design Credit
Manuel Erbenich

On behalf of
the German Federal Ministry for Economic Cooperation and Development (BMZ)

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Thomas Foerch
Om Ki
San Thein
Sophie Waldschmidt

Yangon, Myanmar
October 2016 (3rd Edition)

The GIZ in Myanmar

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is a German federal enterprise that supports the German government in international cooperation for sustainable development via technical advice and capacity development. The GIZ operates in more than 130 countries and employs approximately 17,000 staff members worldwide.

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the GIZ has resumed its activities in Myanmar in 2012 in the area of sustainable economic development. GIZ activities include three projects on a) Private Sector Development, b) Technical and Vocational Education and Training, and c) Financial Sector Development.

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(1) The GIZ supports the Central Bank of Myanmar (CBM) in creating, enforcing and promoting stable framework conditions for banks. This includes the support of human capacity development within the CBM as well as offering it specific technical advice.

(2) The GIZ also supports Myanmar key stakeholders in strengthening the legal framework and the enforcement of adequate standards in the area of financial reporting and auditing. This includes the support of human capacity development of the relevant stakeholders, such as the CBM, the Banks and Monetary Affairs Development Committee of the Lower House of Myanmar Parliament, the Myanmar Accountancy Council (MAC), the Office of the Auditor General (OAG), and the Myanmar Institute of Certified Public Accountants (MICPA).

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Acknowledgement

The authors would like to thank Anthony Deary and Sebastian Sommer for their insightful inputs to this publication. In addition, the authors express their heart-felt gratitude to all interviewees and local bankers for their invaluable contributions to complete this report.

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Foreword

Myanmar is in the middle of an economic transition. The close grasp of the state on the economy is easing and the country is moving from a centrally-directed economy to a market-oriented one. Big hopes are attached to this change and people are expecting that the wide-ranging reforms which commenced in 2011 will also raise their living standards.

The development of the private sector is essential for the sustainable development of Myanmar´s economy. Small and Medium Sized Enterprises (SMEs) particularly have the potential for becoming the driving force behind economic growth and thus also for poverty alleviation and job creation. Various surveys and studies have shown that doing business in Myanmar can be a challenging feat. Limited access to financial services and credit especially presents a big hurdle for local companies. For example, the Global Competitiveness Index (2015-2016) of the World Economic Forum ranks Myanmar at 131 out of 140 analyzed countries and identifies access to finance as the crucial factor for its ranking at the bottom end.

Germany and Myanmar are working closely together in this area. On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) is supporting Myanmar to develop its economy in a sustainable way. Promoting access to finance for SMEs is a key constituent to achieving this goal.

This report, now in its third edition, focuses mainly on the banking sector and will provide an overview of other components of the financial sector in Myanmar. By doing so, the report fills an important gap. Data is precious and notoriously scarce in Myanmar and the financial sector particularly stands out for its discreetness. In this report, data from various sources are compiled and analyzed in order to allow for a more transparent perspective. On the one hand, we hope to provide the various actors involved, whether they be customers, investors, or development partners, with a better understanding of the financial sector and hence offer them the possibility of making informed decisions. On the other hand, we hope to contribute to improved transparency and governance in the sector. We see this report as a starting point to an improved disclosure practice of financial information. We are confident that the stakeholders in the financial sector will build on our findings and hope that proactive contributions to more transparency in the sector are on the horizon.

Dr Petra Schill

Dr. Petra Schill
Country Director, GIZ Myanmar

Abbreviations and Acronyms

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AEG	Acceptance, Endorsement and Guarantee per contra
AGD	Asia Green Development Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASEAN	Association of Southeast Asian Nations
ATM	Automated Teller Machine
AYA	Ayeyarwaddy Bank
AYB	Asia Yangon Bank
BCP	Basel Core Principle
CB	Co-operative Bank
CBM	Central Bank of Myanmar
CBML	Central Bank of Myanmar Law
CPA	Certified Public Accountant
CSO	Central Statistical Organization
CUP	China UnionPay
DEval	German Institute for Development Evaluations
DICA	Directorate of Investment and Company Administration
DIR	Daiwa Institute of Research
DOP	Department of Population
EU	European Union
FATF	Financial Action Task Force
FIL	Financial Institutions Law
FPB	First Private Bank
FRD	Financial Regulatory Department
FY	Financial/Fiscal Year
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für internationale Zusammenarbeit GmbH
GTB	Global Treasure Bank
IBSB	Insurance Business Supervisory Board
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INGO	International Non-Governmental Organization
IOM	International Organization for Migration
ISA	International Standards on Auditing
JCB	Japan Credit Bureau
JICA	Japan International Cooperation Agency
JPAC	Joint Public Accounts Committee, Union Parliament of Myanmar
MAB	Myanmar Apex Bank

MAC	Myanmar Accountancy Council
MADB	Myanma Agricultural Development Bank
MALI	Ministry of Agriculture, Livestock and Irrigation
MAP	Making Access Possible
MBA	Myanmar Banks Association
MBSC	Microfinance Business Supervisory Committee
MCB	Myanmar Citizens Bank
MCDC	Mandalay City Development Committee
MEB	Myanma Economic Bank
MEC	Myanmar Economic Corporation
MFI	Microfinance Institution
MFRS	Myanmar Financial Reporting Standards
MFTB	Myanma Foreign Trade Bank
MI	Myanma Insurance
MIB	Myanmar Institute of Banking
MICB	Myanma Investment and Commercial Bank
MMB	Myanmar Microfinance Bank
MMCB	Myanmar Credit Bureau
MMK	Myanmar Kyat
MOB	Myanmar Oriental Bank
MOD	Ministry of Defence
MOHA	Ministry of Home Affairs
MOPF	Ministry of Planning and Finance
MOU	Memorandum of Understanding
MPU	Myanmar Payment Union
MRF	Myanmar Rice Federation
MSA	Myanmar Standards on Auditing
MSEC	Myanmar Securities Exchange Center Co., Ltd.
MSME	Micro, Small and Medium-sized Enterprises
MWD	Myawaddy Bank
n.a.	not applicable
NBFI	Non-bank Financial Institution
NGO	Non-governmental Organization
NPL	Non-performing Loan
NPTDC	Naypyitaw Development Committee
NSB	Naypyitaw Sibin Bank
OAG	Office of Auditor General
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control
p.a.	per annum

PGMF	Pact Global Microfinance Fund
POS	Point of Sale
PPP	Purchasing Power Parity
RDB	Rural Development Bank
RTGS	Real Time Gross Settlement
SDN	Specially Designated Nationals
SECM	Securities and Exchange Commission of Myanmar
SME	Small and Medium-sized Enterprise
SMIDB	Small and Medium Industrial Development Bank
SWIFT	Society for Worldwide Interbank Financial Telecommunication
T-bills	Treasury Bills
T-bonds	Treasury Bonds
TFB	Tun Foundation Bank
UAB	United Amara Bank
UMEHL	Union of Myanmar Economic Holdings Limited
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UPI	Union Pay International
US	United States of America
USD	United States of American Dollar
YCB	Yangon City Bank
YCDC	Yangon City Development Committee
YDNB	Yadanabon Bank
YSX	Yangon Stock Exchange
YUE	Yangon University of Economics

Executive Summary

Myanmar has the least developed financial sector of all countries in Southeast Asia, and Myanmar's financial sector cannot adequately fulfill its role as a financial intermediary. However, due to the recent reform process, the sector has already undergone tremendous changes. Steps to develop the capital market are under way, the Yangon Stock Exchange was established in late 2015, and the insurance market, formerly monopolized by the state, has been liberalized. Nevertheless, capital and insurance markets still only play a minor role, and the financial sector continues to be dominated by banks. While state-owned banks currently account for about half of the assets, they are struggling to maintain pace with the speed of reforms and the high growth rates of their private sector peers. However, given the low level of development of the banking sector and the size of the potential market, growth potentials continue to look promising.

Despite the current reforms, the legal framework as well as the financial infrastructure of the banking industry still has a long way to go in order to meet international standards. The main challenges ahead for the banking sector are the management of the reforms, including the pace thereof, the development of human resources and the trust of the public. These challenges become even more important when taking into consideration the two facts that foreign banks have been allowed to enter the Myanmar market starting from 2015 and that Myanmar has joined the single market of the ASEAN Economic Community in 2015.

This paper will focus particularly on the banking sector and will provide an overview of the financial sector in Myanmar.

BANKING SECTOR

CHAPTER 1

1. Banking Sector

1.1 Introduction

The financial system in Myanmar is dominated by the banking sector and is the least developed in Southeast Asia.

A sound financial system is an essential pillar for the development of every economy. The financial sector mobilizes savings and allocates credits, thereby promoting economic growth. It enables coping with economic uncertainties by hedging, pooling, sharing and pricing risks. The financial sector furthermore provides modern payment services, facilitating efficient monetary transactions. An efficient and effective financial sector hence reduces the cost and risk of producing and trading goods and services. The financial sector thus makes an important contribution to economic growth.

The current financial sector in Myanmar can fulfill its role as a financial intermediary only to a limited extent. For almost five decades, Myanmar's population and economy faced harsh restrictions under the rule of a military junta which set up a strict socialist regime (ADB, 2012). The international sanctions under the military rule led to international isolation of the nation. The former Asian granary Myanmar has become the poorest country in Southeast Asia, with a Gross Domestic Product (GDP) per capita of USD 1,204 in 2015. By way of comparison, in 2015, Laos has a per capita GDP of USD 1,812, Indonesia of USD 3,346 and Thailand of USD 5,816 (WB, 2016). Furthermore, Myanmar´s financial sector is the least developed in the region.

Together with other forms of liberalization measures that are having an astonishing effect, Myanmar has, since 2011, adopted necessary reforms in its banking system. Figures 1 and 2 illustrate the status and development of the financial sector both over time and from a regional perspective. They show clearly that Myanmar´s financial sector is growing very rapidly, yet from a very low level. Both deposit and loan as a ratio of GDP approximately tripled over the last five years (Figure 1).

Box 1	Myanmar in figures

Population: 51.5 million (2014 Census)

Area: 676,590 sq. km.

GDP (Nominal): USD 65.8 billion (FY 2015-2016)

GDP per capita: USD 1,204 (FY 2015-2016)

Real GDP growth: 7.0% (FY 2015-2016)

Inflation: 11.4 % (FY 2015-2016, period average)

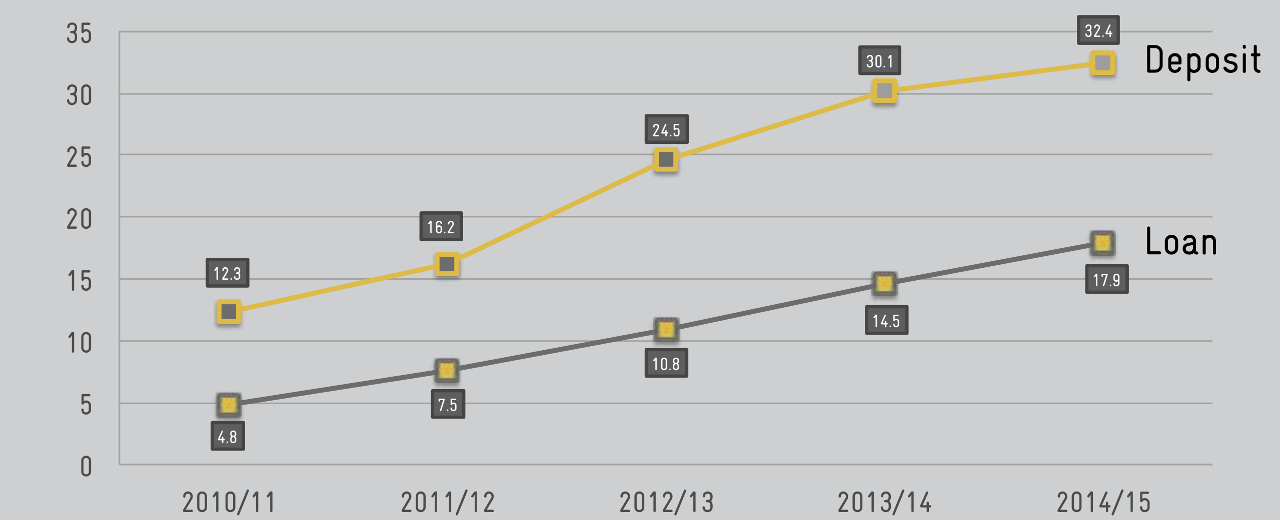
Reference: WB (2016), CSO (2016), DOP (2015), IMF (2015)

Box 2	Reliability and consistency of data

Data in Myanmar is scarce, not always reliable, and inconsistent. This holds especially true for the financial sector. Most financial institutions do not publish their annual reports or disclose data. Transparency is, however, increasing, as are the efforts towards improving disclosure of financial data. The Central Bank of Myanmar (CBM), for instance, just recently started to publish key banking data in its annual reports. Legal reforms that are being implemented are, furthermore, intended to help ensure a consistent application of international financial reporting standards.

This report uses data from official Myanmar sources, international organizations, and individual financial institutions. Additionally, the GIZ has conducted surveys and interviews with national and international finance experts and representatives of the Myanmar financial industry. Whenever data is presented, the source is clearly stated. The GIZ, nevertheless, cannot guarantee the accuracy of this data. Most data should be treated carefully.

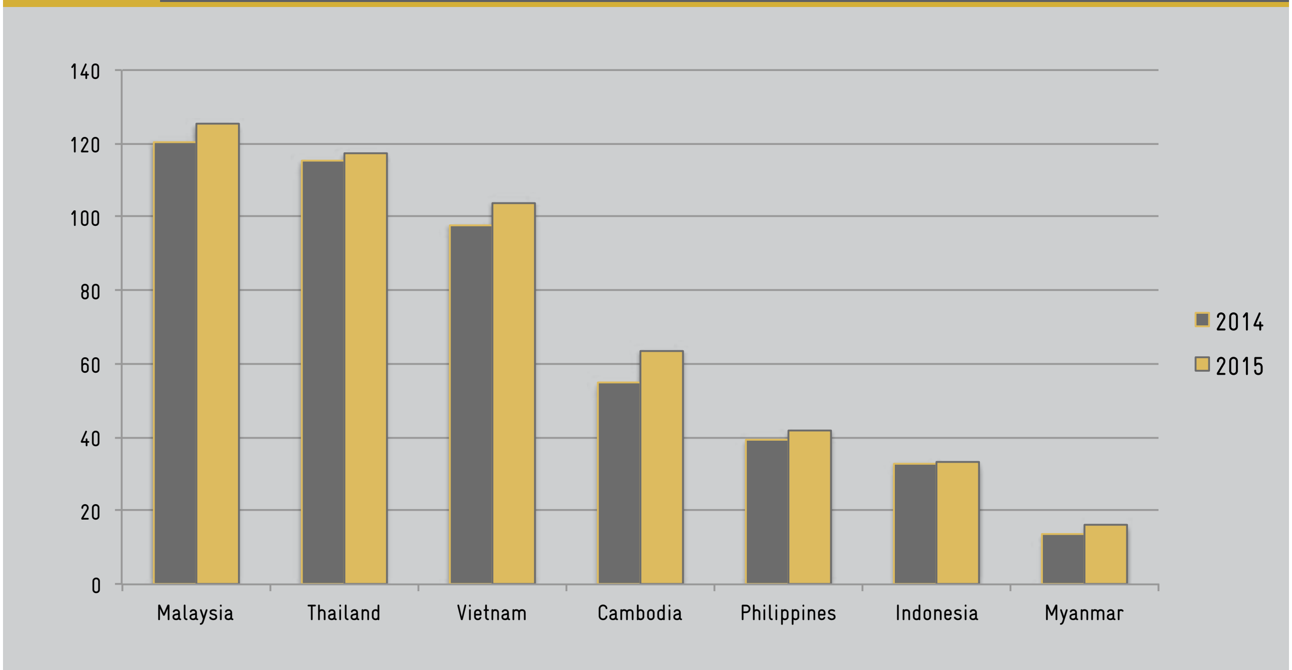
Figure 1 Financial Intermediation (Loans and deposits in % of GDP)



Reference: GIZ (2016), IMF (2015)

However, Myanmar's financial sector contribution to the economy, measured in terms of credit to the private sector, is still at the lowest level of the ASEAN (Association of Southeast Asia Nations) region (Figure 2).

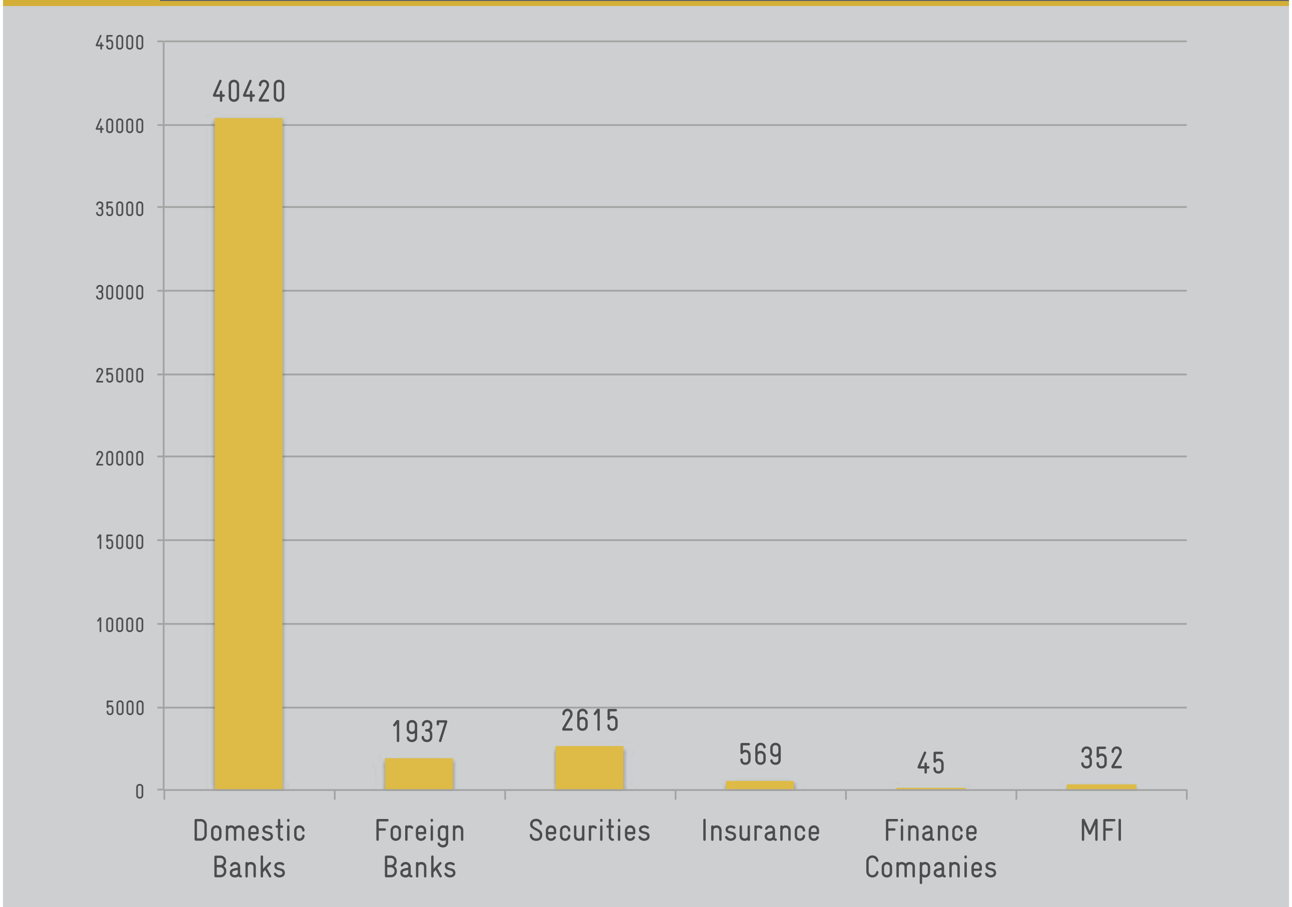
Figure 2 Domestic credit to the private sector in a regional perspective (% of GDP)



Reference: IMF (2015)

Similar to other ASEAN low-income countries (Cambodia, Laos, Vietnam)[1], the Myanmar financial sector is dominated by the banking sector, which represents about 90% of all financial sector assets in 2016 with about MMK 42.4 trillion (Figure 3)[2].

Figure 3 Size of Myanmar financial sector in terms of total assets as of March 31, 2016 (MMK billion)



Reference: GIZ (2016), CSO (2016)

After taking a closer look at the Myanmar banking sector in the upcoming sub-chapters of Chapter 1, followed by the challenges and future outlook of the banking sector in Chapter 2, the report will also provide a brief overview of other components of the Myanmar financial sector in Chapter 3, including (3.1) capital markets, (3.2) microfinance, (3.3) finance companies, (3.4) insurance, (3.5) pawn shops, and (3.6) informal financial sector.

Mobile money changer in downtown Yangon

1.2 History of Banking in Myanmar

After experiencing a range of ups and downs starting from the 19th century, the Myanmar banking sector is currently undergoing a significant reform process that is aiming at growth and sustainability.

Given the close ties between the government and the banking sector, changes in the economy and the financial sector in Myanmar have historically coincided with political change. (True, 2015). Recognizable patterns of modern Myanmar are apparent during: (i) the colonial era proper from 1826 to 1942; (ii) the wartime and interregnum years of British retreat and return from 1942 to 1948; (iii) the years of the parliamentary democracy of independent Burma from 1948 to 1962; (iv) the period of military-rule socialism from 1962 to 1988; (v) its time of market-reform military rule from 1988 to 2011; (vi) its quasi-civilian transitional government from 2011 to 2016 and (vii) during the current democratically elected civilian government from 2016 to 2021.

Indian moneylenders, called Chettiars, arrived in 1826 after the first Anglo-Burmese War when parts of Burma came under British colonial rule. They introduced many lending and bookkeeping innovations and employed the hundi system of informal remittances. The Chettiars dominated the financial sector up until World War II, financing Burma´s emergence as the "rice-bowl" of the British Empire (Turnell, 2009). The second pillar of the financial sector in the colonial era proper in Burma, the cooperative credit system, also experienced spectacular growth since it was favored by the British Empire as a device to marginalize moneylenders. Though seemingly of great promise, the cooperative credit system accounted for relatively little of the credit needs in the country and even collapsed entirely in the decade following 1925 due to lax lending practices and the collapse of paddy prices (Turnell, 2009). The banking sector dates back to the colonial era proper as the Indian Presidency Bank of Bengal opened its Rangoon branch in 1861 (Tin, 2013), and the first central bank emerged between the years 1939 and 1947 out of the Rangoon branch office of the Reserve Bank of India. Towards the eve of the British colonial era in Burma, towards the end of 1941, a total of 20 banks operated in the country, most of them with their headquarters elsewhere.

The Japanese occupation between 1942 and 1945 brought with it the flight of the Indian diaspora in Burma, including the Chettiars (Turnell, 2009). The Japanese, in cooperation with the local puppet-government, created a number of symbolic financial institutions with the purpose of supporting the extraction of resources from Burma without cost to the Japanese financial system (Longmuir, 2002). After the defeat of the Japanese in Burma in April 1945, the foreign banks returned, the Union Bank of Burma took over the role as the central bank, and a currency board was introduced which tried to re-establish a working financial sector.

Being put forward as scapegoats for the misfortunes that heralded the breakdown of Burma's colonial economy, the Chettiars were not allowed to return to their lives and livelihoods after Burma´s independence in 1948 (Turnell, 2009). The banking sector, including domestic and foreign banks, developed quickly under the parliamentary democracy and went on to account for more than one-third of Burma´s gross domestic product (Tin, 2013). Hence, Burma´s banking sector was the most developed one in the region at that time.

The Revolutionary Council Government seized control of the country in 1962, nationalized all banks in 1963 and before too long amalgamated them into the Peoples Bank of the Union of Burma. Nationalization and amalgamation of those 10 domestic and 14 foreign banks did not stop at the insurance sector either, which suffered the same fate in 1964. Subsequently, three major demonetizations occurred in 1964, 1985 and 1987. In the most recent demonetization of 1987, the military-socialist regime effectively declared about 75% of the currency in circulation illegal and eliminated three banknote denominations without any exchange or compensation (Nehru, 2014). Sporadic protests broke out among students unable to pay their university fees, and by 1988, these protests had become widespread, ultimately forcing General Ne Win to step down and triggering a bloody army crackdown on August 8, 1988 (Lintner, 1995 & Egreteau, 2009).

The succeeding military regime, called the State Law and Order Restoration Council, abolished the socialist path of development and chose a more market-oriented approach. In the financial sector, several laws replaced the remnants of the socialist area in 1990: the Financial Institutions of Myanmar Law liberalized the financial sector, resulting in the re-emergence of private banks starting from 1992; the Central Bank was given a certain degree of authority over the monetary policy via the Central Bank of Myanmar Law; the Myanmar Agriculture and Rural Development Bank Law aimed at bolstering the credit-deprived rural population. Furthermore, other characteristics of a modern financial sector were introduced to Myanmar in the 1990s, such as a primary government bond market, cash machines and credit cards. Also a microfinance program, sponsored by the United Nations, started its operations in 1997. However, after a decade of stellar growth (inflation adjusted, deposits grew by 2,100% and loans by 1,600% from 1992 to 2002), the Myanmar banking industry experienced a severe crisis in early 2003 (Turnell, 2009). This crisis originated in the collapse of a number of trading companies that were acting as informal financial institutions. The contagion spread to the banks, which were subsequently instructed to retract all their loans to increase their own liquidity. This, in turn, created a real-sector depression that further eroded the value of financial sector assets (Nehru, 2014). This crisis was aggravated further by sanctions of the United States brought about by Myanmar´s continuing failure to address major deficiencies in its anti-money laundering regime. After three major banks (Asia Wealth Bank, Mayflower Bank, and Myanmar Universal Bank) had been closed down and the crisis eventually subsided, the Central Bank issued stringent prudential measures, such as a high capital-to-deposit ratio and strict collateral requirements, which impeded credit growth for the next decade (True, 2015 & Turnell, 2009).

After the quasi-civilian government headed by President Thein Sein took office in 2011, Myanmar and the financial sector have embarked on a comprehensive set of reforms. With respect to the financial sector, the main thrust of the government reform measures has focused on relaxing the controls over private banks and legislating the Central Bank into an autonomous body (Than, 2014). New licenses were awarded to establish private banks while prudential regulations were eased. Reforms did not stop there, however; they rather resulted, amongst other things, in the establishment of the legal basis for a microfinance sector, a new banking law, the breakup of the state insurance monopoly, the unification of the exchange rate regime, and the establishment of the Yangon Stock Exchange. The reform emphasis of the government gave rise to an easing of international sanctions and the re-integration of Myanmar into the global economy. International financial institutions have started to re-engage with the country, foreign banks started operations, and international payments and credit cards came back to Myanmar.

In April 2016, a newly elected government, under the National League for Democracy and headed by President Htin Kyaw, came into power. According to the party's election manifesto and economic plan, the continuing liberalization of the financial sector will be a cornerstone of their future political agenda. Nevertheless, Myanmar's financial sector is still at a rudimentary level and has a long way to go to meet international standards.

Table 1 Major developments in the Myanmar banking secto

1800s

British Colonial Rule

1861

First Bank in Myanmar (Indian Presidency Bank of Bengal)

1900s

Japanese Occupation

1939-1947

First Central Bank of Myanmar (Reserve Bank of India)

1948-1963

Expansion of domestic banking sector

Military Rule (Socialism)

1963-1990

Socialist Banking System (incl. three demonetization waves)

1988 Uprising

1990

New financial laws (Central Bank of Myanmar Law and Financial Institutions of Myanmar Law)

1992

First private bank licenses issued

Reference: GIZ (2016), Turnell (2009), Tin (2013) r (1861-2016)

2000s

2000
U.S. sanctions on Myanmar

2002
Control of Money Laundering Law

2003
Banking crisis

First elections in 20 years

2011
Microfinance Business Law

2012
Foreign Exchange Management Law (Managed Floating System), Myanmar Payment Union: first debit cards, ATMs)

2013
Central Bank of Myanmar Law & Securities and Exchange Law

2014
Anti-money Laundering Law, Counterterrorism Law, Foreign Exchange Management Regulations, Securities and Exchange Commission of Myanmar formed

2015
Yangon Stock Exchange Foreign banks entry

Today

2016
AEC, Financial Institutions Law, Regulation on Mobile Financial Services

1.3 Regulatory and Supervisory Framework

The on-going revision of the legal framework is bringing Myanmar closer to international standards and is changing the way banks operate.

The Central Bank of Myanmar (CBM) has taken over the role as the regulator and supervisor of the banking sector. The legal framework for the banking sector has come under revision during the last five years: the laws that have been enacted are the new Foreign Exchange Management Law (August 2012), the revised Central Bank of Myanmar Law (July 2013), and the new Financial Institutions Law (January 2016).

Enacted on July 11, 2013, the revised Central Bank of Myanmar Law (CBML) has far-reaching consequences. It gives the CBM the authority and responsibility to carry out all central-banking functions including the independent implementation of the country's monetary policy and exchange-rate policy. With the new law, the Central Bank is no longer under the control of the Ministry of Finance but has become an independent institution with its governor being at the minister level. In order to ensure accountability and transparency, it is the mandatory responsibility of the CBM to submit its reports to the government as well as to the parliament at least twice a year, and the CBM´s monetary reports must be published quarterly.

The new Financial Institutions Law (FIL) was drafted with the technical assistance of the World Bank. After several discussions between the lawmakers and the monetary authority, the FIL was enacted on January 25, 2016. The future direction of the banking system is dependent upon the well-sequenced and carefully-managed implementation of this FIL. Carefully drafted to meet the best international practices, it also embodies the Basel Core Principles issued by the Basel Committee on Banking Supervision. The law grants the CBM wide-ranging powers to supervise banks and non-bank financial institutions. It encourages the practice of good corporate governance in banks, and promotes transparency and accountability as well as modernization of the payment system. Furthermore, it offers clear exit strategies for banks, should they become non-viable. This law and its associated rules and regulations will profoundly re-shape the framework conditions under which the banks operate, develop and innovate. The rules and regulations for the FIL are currently under revision. The first and only regulation issued thus far under this new law is on Mobile Financial Services[3].

Box 3 **Main CBM provisioning rules for Myanmar banks (effective September 2014)**

General Provisioning: the CBM rules on general provisioning require each bank to keep a provision of at least 2% based on its total outstanding loans and advances.

Specific Provisioning: specific provisioning is defined according to the five loan categories (Standard, Watch, Sub-standard, Doubtful and Bad) as outlined below:

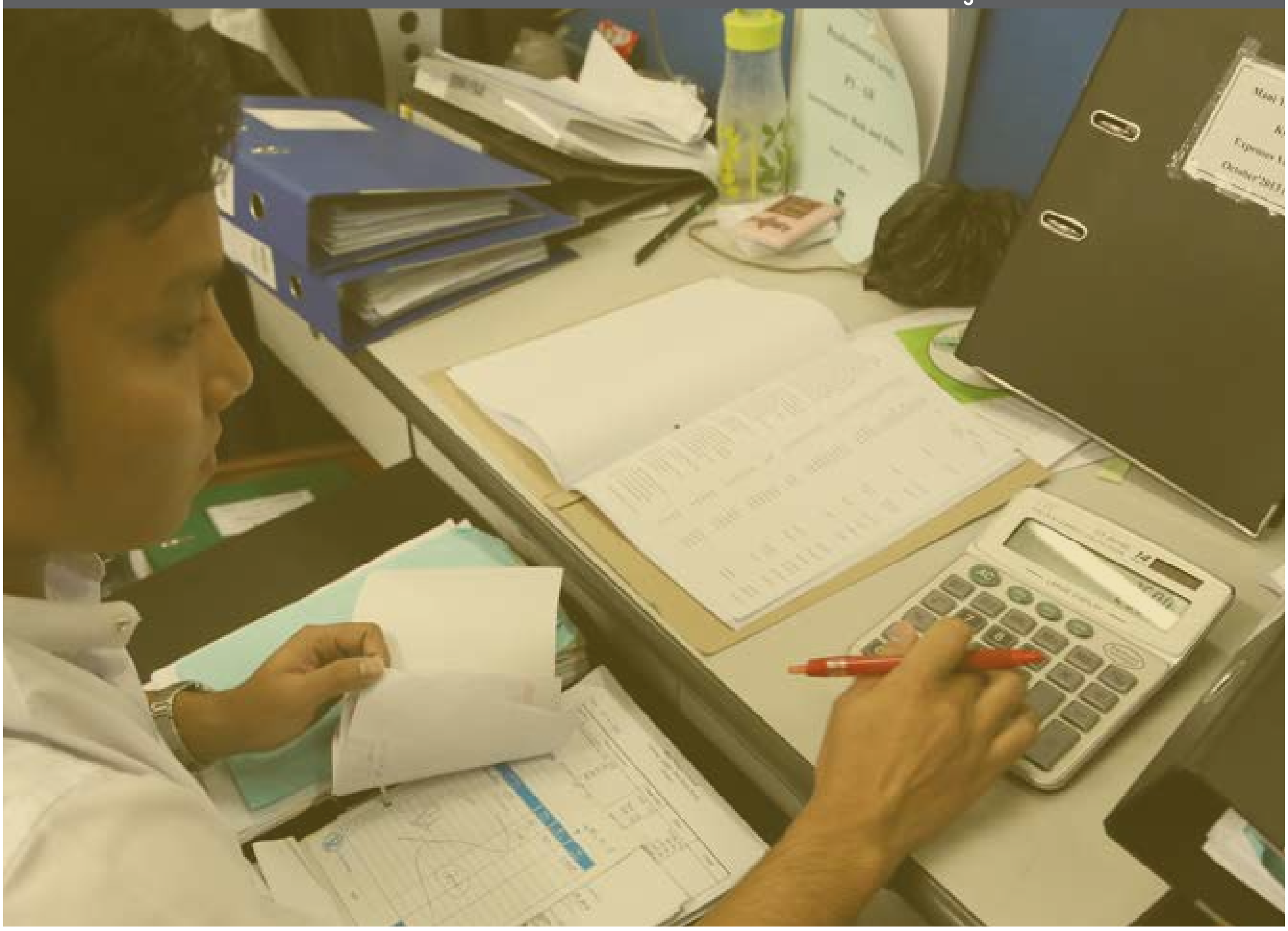
Loan category	Criteria (Days past due)	Provision on shortfall in security value
Standard loans/advances	No days	Nil
Watch	31-60 days	5%
Substandard	61-90 days	25%
Doubtful	91-180 days	50%
Bad Loans/ advances	More than 180 days	100%

The CBM emphasizes that the guidelines above represent only the minimum requirement that banks must observe in respect of provision for bad and doubtful debts and classification of non-performing loans/advances. Any bank which chooses to adopt a more stringent standard is encouraged to do so.

Under the FIL, financial institutions are classified as Bank[4], Development Bank[5], Non-bank Financial Institution[6] and Scheduled Institution[7]. However, the new FIL does not apply to scheduled institutions established under their specific laws to cater for specific customers and businesses. For example, the law does not apply to the Myanmar Agricultural Development Bank (MADB) and microfinance institutions which are established under their own laws to cater for their specific customers. It outlines various banking functions that have to be approved by the CBM before becoming effective[8]. Moreover, the FIL also requires the banks to meet the following key ratios and limits.

- First, regarding the single exposure limit, no customer's borrowing should exceed 20% of core capital.
- Second, with regard to the maintenance of a reserve fund, 25% of the net profits must be transferred to the reserve fund every year until it reaches 100% of the total paid-up capital.
- Third, the minimum liquidity ratio (liquid assets to current liabilities) is to be specified by the CBM (currently 20%).
- Fourth, the minimum paid-up capital is set at MMK 20 billion for domestic banks and USD 75 million for foreign bank branches.
- Fifth, the minimum capital adequacy ratio is to be specified by the CBM (currently 10% of risk-weighted assets).

Staff working in a bank



Box 4 Financial Institutions Law (2016)

The new FIL, enacted in early 2016, lays the foundations for more efficient financial institutions, and paves the way toward a modern and stable financial sector, and it also enhances the supervisory power of the central bank.

Significant features of the FIL

1) It gives wide-ranging powers to the CBM to supervise the financial institutions
The law gives the CBM all supervisory and regulatory powers to maintain stability, safety and soundness of the financial system in order to foster sustainable economic development. The CBM has to accept the responsibility of taking care of the whole process of a life cycle of a financial institution – i.e. from birth to death.

2) It meets international best practice as embodied in the Basel Core Principles (BCP)
The Law was carefully drafted to meet the requirements under the Basel Core Principles issued by the Basel Committee on Banking Supervision. They represent the framework and minimum standards for sound supervisory practices and are considered universally applicable. These Core Principles can broadly be categorized into two groups: the first group, from Principle 1 to 13, focuses on powers, responsibilities and functions of supervisors, while the second group, Principle 14 to 29, stresses the importance of prudential regulations and requirements for banks. Applying these principles to the regulatory framework means that Myanmar's banking system is committed to internationally well-recognized practices that lead to a stable and sound financial system.

3) It encourages the practice of good corporate governance of banks
According to the BCP 14, the supervisor determines that banks and banking groups have robust corporate governance policies and processes in place. Recognizing that sound corporate governance underpins effective risk management and public confidence in individual banks in particular and the banking system in general, Chapter (X) of the Law specifies: the procedure for electing the minimum number of board of directors with at least one independent non-executive director to have a quorum; the appointment of CEO; and the establishment of various board committees such as a Risk Management Committee, a Credit Committee, a Remuneration Committee, an Audit Committee and an Assets and Liability Management Committee.

4) It offers various options to resolve banks in an orderly manner should they become non-viable
The law is flexible enough to allow for various options to avoid bank failure. Subject to the prior written approval of the Central Bank, Section (48) of the Law allows a bank to change its ownership by acquiring all or part of the business of another bank, relinquishing all or part of its business, or merging with another bank. It is interesting to note that a foreign bank can acquire all or part of the business of a local bank or sell all or part of its own business in Myanmar. Chapter XIII stipulates corrective measures for an insolvent bank; Chapter XIV the appointment of an administrator and Chapter XV a rehabilitation program. While taking these various options, the Law mandates the Central Bank to make a proper supervisory approach to identify, assess and address risks emanating from banks and the banking system as a whole.

5) It promotes modernization of the payment system
The two chapters of XVIII and XIX specify the development of payment-system modernization. The CBM is responsible for issuing necessary regulations and instructions for the establishment of an electronic payment system. The objective is to reduce reliance on cash transactions and paper-based processing of payments. Issuance of e-money and credit token is restricted to a bank and a financial institution established for that purpose. Internet banking, mobile banking and other forms of electronic banking shall be established and supervised by the Central Bank. An electronic payment system is part and parcel of payment-system modernization, as it promotes efficient monetary transactions with a low operational cost. It contributes to the effective central bank's monetary management while keeping inflation under control. It also reduces the central bank's printing costs of paper-money.

6) It promotes transparency and accountability in the system
The most significant feature of the new law is its emphasis on promotion of transparency and accountability in the system. Chapter X outlines duties and responsibilities of the board of directors and the CEO. It proposes forming various board committees and sub-committees for effective supervision of the bank. In Chapter XI, a bank is required to promote its accounting standards to that of internationally accepted ones. It has to submit its financial statements, which are certified by its CEO and Chief Financial Officer, to the Central Bank within three months after the close of the respective financial year. And, it has to disclose its financial statements to the public in such a manner prescribed by the Central Bank. These requirements will definitely promote transparency and accountability in the system and they are the essential elements of promoting public trust in banks.

(For more details, please see the salient points of the FIL in Annex II).

Apart from the requirements outlined in the FIL, the Myanmar legal and statutory framework for corporate financial reporting is based on the following laws:

- Myanmar Companies Act (1914)[9],
- Myanmar Accountancy Council Law (2015)[10] and
- Auditor General of Union Law (2010) and its amendments[11].

Under the current FIL: *"Every bank shall maintain accounts and records, and prepare periodic financial statements, adequate to reflect its operations and financial condition, in accordance with such internationally accepted accounting standards, as prescribed by regulations made by the Central Bank. Compliance with such regulations shall be deemed to be in compliance with accounting standards specified in or under any other written law".*[12]

In 2009 and 2010, the Myanmar Accountancy Council (MAC), the regulatory body for accounting and auditing standards in Myanmar, officially released a series of notifications on Myanmar Financial Reporting Standards (MFRS) and Myanmar Standards on Auditing (MSA). First, a notification on MFRS for SMEs (Small and Medium Enterprises) was released in 2009, legally requiring all SMEs to follow it[13]. Second, another notification on a full set of MFRS was announced in 2010 for the financial institutions, public companies and accountants to follow it[14]. Regarding the auditing standards, the MAC announced Myanmar Standards in Auditing (MSA) in 2009[15], followed by the second notification in 2010 which added more auditing standards[16], legally requiring all the Certified Public Accountants (CPA) to follow them. As of 2009, MFRS and MSA follow their international counterparts, International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA).

The MAC is expected to announce in 2016 that the MFRS and the MSA will be replaced with the most current versions of IFRS and ISA. In that way, Myanmar's de facto Financial Reporting and Auditing Standards will always be aligned with the most current version of IFRS and ISA. However, no systematic review process or formal adoption guidelines for updates to IFRS and ISA are in place.

While IFRS-adoption by Myanmar's regulators signifies a key step in the development of a modern market-based economy, implementation has proven to be very challenging, and the current level of compliance in the financial sector is low. One of the biggest challenges will be to manage the potential impact of implementing IFRS rules for the impairment of loans. The impact will vary from bank to bank since it depends on the structure of their loan portfolio and the amount and type of exposures they are holding. However, it is possible that the valuation of impairment for loans based on IFRS requirements could, in some cases, be more significant than when calculated under current CBM rules on provisioning. Currently the CBM has not issued specific regulations, requirements or instructions regarding the implementation of IFRS.

Box 5 Banking Sector Financial Reporting Standards Implementation Committee

In 2013, under the direction of the Office of Auditor General of the Union (OAG), a multi-stakeholder committee was set up to strategically improve the implementation of a sound financial reporting framework for Myanmar's banking sector. In 2015, the Country Strategy and Action Plan was published by the committee, and, following its dissemination, the Banking Sector Financial Reporting Standards Implementation Committee (BFRIC) was founded to oversee and guide the IFRS and ISA adoption and implementation activities. For further information:

https://www.giz.de/en/downloads/giz2016-en-fsd-action-plan.pdf

The Financial Institutions Supervision Department (FISD) within the CBM is responsible for the supervision of the local and foreign banks. It issues necessary instructions and conducts both on-site examination and off-site monitoring. The off-site monitoring entails that the banks regularly report to the FISD (daily, weekly, monthly, quarterly and annually). The on-site supervision is conducted at least once in two years and covers announced visits to the banks' headquarters and branches in order to assess their internal control systems, corporate governance, their financial data, measures of Anti-Money Laundering and Combating of the Financing of Terrorism (AML/CFT), and other compliances. If a bank is not in line with the CBM's prudential ratios and limits, a penalty of one-fifth of 1% of the shortfall amount can be charged. The FISD is trying to improve its style of supervision from compliance to risk-based.

The Control of Money Laundering Law was enacted in June 2002. In the transition phase when the rules of this law were still in the process of being enacted, the United States of America, in November 2003, accused Myanmar and its two domestic private banks, the Asia Wealth Bank and the Myanmar Mayflower Bank, of being involved in money-laundering activities. Myanmar responded to the U.S. allegation by enacting the Control of Money Laundering Rules and by establishing an eight-member team to investigate the two suspicious banks. In addition to the revocation of licenses of these two banks, the Myanmar Universal Bank was also closed down in 2005, having been suspected of involvement in money laundering. After passing the Control of Money Laundering Rules in 2003, the CBM introduced a reporting system for banks, in which bank transactions of MMK 100 million and above as well as suspicious transactions are to be reported. In October 2006, the Financial Action Task Force (FATF) removed Myanmar from its list of Non-Cooperative Countries and Territories but stated that substantial deficiencies in the AML/CFT regime remained.

In order to address this anti-money laundering issue, in 2014, the Myanmar Parliament also enacted a new Counterterrorism Law as well as a new Anti-Money Laundering Law to meet international standards. To implement these new laws, the Financial Intelligence Unit and the Anti-Money Laundering Central Board[17] were formed in August 2014 (Myanmar Gazette, 2014). In June 2016, the FATF removed Myanmar from the list of jurisdictions with strategic weaknesses in its AML/CFT regime and issued the following statement: *"The FATF welcomes Myanmar's significant progress in improving its AML/CFT regime and notes that Myanmar has established the legal and regulatory framework to meet its commitments in its action plan regarding the strategic deficiencies that the*

FATF had identified in February 2010. Myanmar is therefore no longer subject to the FATF's monitoring process under its on-going global AML/CFT compliance process. Myanmar will work with the APG as it continues to address the full range of AML/CFT issues identified in its mutual evaluation report."[18] This move is generally seen as a strong recommendation for international investors and organizations to engage financially with Myanmar.

1.4 Institutions and Infrastructure

1.4.1 Supporting Institutions

Backed by the banks' strong demands as well as by political and economic liberalization, the supporting infrastructure for banks is developing at a fast pace.

There are several centralized institutions which form a supporting network for banks in Myanmar. These include the Myanmar Banks Association (MBA), the Myanmar Institute of Banking (MIB), the Yangon University of Economics[19] (YUE) and the Myanmar Payment Union (MPU).

The Myanmar Banks Association (MBA)[20] was established in April 1999 to provide a platform for addressing domestic banking-industry issues and to cooperate on an international level (e.g. with the ASEAN Bankers' Association). Apart from three state-owned banks, namely the MEB, the MICB and the MADB, all 25 local banks are members of the association (MBA, 2016)[21]. Until early 2013, the MBA was chaired by the CBM Governor, and representatives of local banks assumed vice-chairmen and secretary functions. In September 2013, the MBA for the first time since its inception elected a Board of Directors that was independent from the CBM. U Thein Tun, chairman of the Tun Foundation Bank, became the first elected chairman of the MBA Executive Committee. The latest election[22] took place in December 2015, and U Khin Maung Aye, chairman of CB Bank, was elected as the president of the MBA Executive Committee. The current CEO of the MBA is U Moe Thet Htoo.

The Myanmar Institute of Banking (MIB) was established in 2002 and is a quasi-department within the MBA. The MIB provides banking training, in particular for entry to middle-level management. Various training courses on general banking topics are being conducted at the MIB in Yangon to upgrade local banking through full-time and part-time training courses on banking. The MIB's core trainings include a one-month General Banking Training course (conducted 27 times) and a one-year full-time Diploma in Banking (conducted 9 times) as well as a two-year part-time Diploma in Banking (conducted 7 times). With the regular and structured Diploma and General Banking course, the MIB trains about 250 participants per year. About 30 short-term courses are offered per annum, mostly in an ad-hoc manner, together with international institutions and banks such as the Overseas Chinese Banking Corporation (OCBC), the Sumitomo Mitsui Banking Corporation (SMBC) and also the GIZ. In addition, the MIB is increasing the number of certificate-level courses which focus on technical banking topics including SME Finance (developed jointly with the GIZ), International Trade, Bank Accounting and English. Most trainers at the MIB are former and current lecturers from the Yangon University of Economics as well as (often retired) local senior bankers. The MIB does not have a pool of full-time lecturers, but has the potential to further extend courses on specialized banking topics targeted at specialists and the management of banks as the demand for classes greatly exceeds the current supply. The current principal of the MIB is Daw Nwe Nwe Lin.

The Yangon University of Economics (YUE) has been offering a three-year part-time Master of Banking and Finance (MBF)[23] since December 2012. The first batch with 56 students graduated in 2015. The fourth batch of the MBF started in December 2015 with 90 students. The demand for the Master's program exceeds the available places as the YUE receives about 350 applications for each batch. Currently, there are 10 full-time lecturers and 15 part-time lecturers working for the MBF program. The current rector of the YUE is Dr. Khin Naing Oo, and the Director of the MBF program is Prof. Dr. Soe Thu.

General business training courses which are also attended by bankers are offered by several other private training institutes, including the Myanmar Institute of Finance, PS Business School, the Myanmar Institute of Business and the Strategy First Institute. A main constraint to these institutes is the lack of adequately-trained local trainers and developed training courses specifically tailored to the Myanmar context.

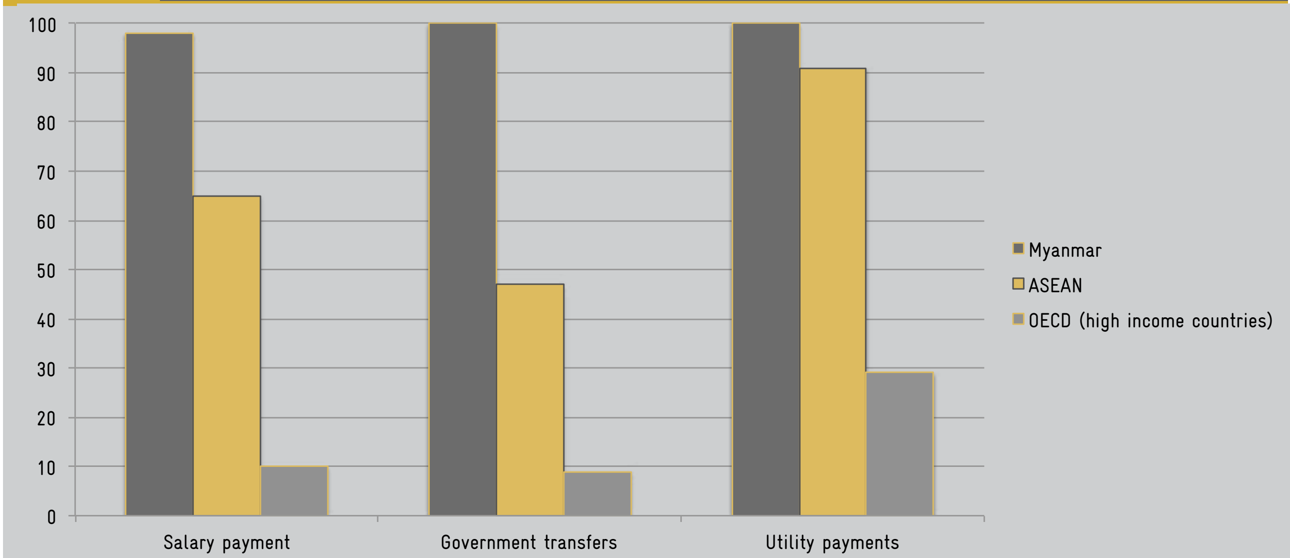
Other institutions that would further secure and support the smooth functioning of a financial system are currently not in place or are still at a rudimentary stage. For example, the deposit insurance scheme has been in place since October 2011, but covers deposits only up to an amount of MMK 500,000. Additionally, a credit guarantee scheme for SMEs was set up as a division under the Myanma Insurance in July 2014, which is, however, not popular under the current collateralized bank lending. It merely serves as a temporary program before a proper legalized credit-guarantee scheme is in place. A credit bureau by the name of Myanmar Credit Bureau (MMCB) is also planned to be set up in 2016, with a capital of USD 5 million by issuing 5,000,000 ordinary shares of 1 USD each (share participation can be made in terms of local currency). The MMCB will be established as a joint venture between MB Investment Limited, a proxy company of the MBA, and Asian Credit Bureau Holdings Limited formally known as NSP Holdings Pte Ltd from Singapore, sharing 60:40 stakes respectively. They are waiting for the credit bureau regulation to be passed by the CBM; once it is passed, the JV company will attain its license from the CBM, and it may take 12-15 months to establish the bureau.

1.4.2 Payment Services

Despite being the most cash-based economy in the ASEAN, Myanmar's modernization of payment services has developed rapidly over the past years.

Myanmar is (still) a predominantly cash-based economy. Figure 4 shows that salary payments, government transfers and utility payments in Myanmar are made almost exclusively in cash.[24] The lack of infrastructure only partially explains this phenomenon. In addition, Myanmar has experienced previous banking and currency crises so that (at least part of) the population continues to prefer cash in hand.

Figure 4 Percentage of payments made in cash (2014)



Reference: Jose de Luna Martinez (2016)

A largely cash-based economy incurs high operational costs (storage, cash-in/cash-out, counting cash, prevention of theft, etc.) and makes the economy more vulnerable to money laundering since cash payments can be easily anonymized.

Over the past years, Myanmar has taken important steps to reduce cash transactions. So far, 21 out of 28 Myanmar banks have joined the Society for Worldwide Interbank Financial Telecommunication system (SWIFT).[25] Through SWIFT, local banks can make secure and reliable financial transactions efficiently with their foreign correspondent banks. In 2011, the Myanmar Payment Union (MPU) was formed by Myanmar banks "to stand as a National Payment Switch for Myanmar", i.e. a system supporting non-cash payments originating from electronic channels such as Automated Teller Machines (ATMs), Point of Sale (POS) terminals, mobile banking, etc.[26] Since 2013, banks and other stakeholders have been working on introducing and/or expanding payment services, internet and mobile banking. In January 2016, CBM-Net, Myanmar's first real-time gross settlement system (RTGS), was implemented. Large payment transactions can be made through CBM-Net, while the MPU provides the facilities for retail payments.

Already in 1996, local offline debit cards had been introduced in Myanmar by the Asia Wealth Bank, and by 2002, the Myanmar Mayflower Bank had installed offline ATMs (11 ATMs by 2002). However, expansion of these electronic payment services was halted because of the 2003 banking crisis. Four years later, in 2007, a Payment System Development Committee was formed under the Myanmar Banks Association, which transformed into the MPU in September 2011. The founding members of the MPU consisted of three state-owned and 14 non-state-owned banks. In mid-2015, the MPU became a public limited company, owned by its members at equal stakes (MMK 200 million per bank). As of June 2016, 23 out of 28 Myanmar banks are members of the MPU.[27]

Currently, the MPU's activities are card-based. All MPU cardholders have access to any ATM within the MPU network, i.e. to almost 1,700 ATMs country-wide (as of March 2016). The withdrawal limit is fixed at MMK 300,000 per transaction and MMK 1 million per day. As of January 2016, MPU cards could also be used at almost 3,500 POS terminals in Myanmar and for online purchases on 32 e-commerce websites.[28] According to the MPU, most cardholders use their MPU cards for withdrawing cash from ATMs.[29]

Table 2 ATM and POS installation by domestic banks (as of March 31, 2016)

Sr.	Bank	Logo	ATM	POS
1	KBZ		545	1194
2	CB		353	929
3	AYA		350	255
4	MAB		141	122
5	AGD		118	6
6	UAB		70	-
7	MWD		41	133
8	MOB		28	156
9	INNWA		15	44
10	MCB		11	-
11	SMIDB		7	-
12	CHDB		7	-
		Total:	1,686	2,839

Reference: GIZ (2016)

The MPU member banks offer four types of cards to their clients: debit cards since 2012, credit cards since late 2015, and debit and credit cards co-branded with international partners of UPI (Union Pay International) and JCB (Japan Credit Bureau). Co-brand cards with MasterCard and Visa are under negotiation.[30] So far, MasterCard and Visa are operating on a bilateral basis with selected domestic banks since the U.S. sanctions currently in place limit direct cooperation with the MPU (Box 6) (Please note: all US sanctions were lifted on October 7, 2016)

Box 6 U.S. sanctions on Myanmar's financial sector (as of August 2016)

The Burma sanctions program of the U.S. government began in 1997 as a reaction to the "repression of the democratic opposition".[31] A large part of the sanctions refers to the financial sector. However, since 2012, when reforms in Myanmar started, U.S. sanctions regarding Myanmar have been eased.

Except if licensed or otherwise authorized, U.S. citizens are still prohibited from financially dealing with blocked persons (OFAC's Specially Designated Nationals (SDN) list and Blocked Persons list) or any entity (partly) owned by a blocked person. The exportation of financial services to the Myanmar Ministry of Defense, to armed groups (state and non-state) as well as to entities majority-owned by any of the former is not allowed.[32]

Myanmar banks on SDN list (as of May 18, 2016) include: Asia Green Development Bank, Ayeyarwaddy Bank, Innwa Bank and Myawaddy Bank. Although transactions with these four banks are allowed, U.S. citizens are prohibited to invest in any of the blocked banks.

Reference: U.S. Treasury Department (2016)

With an estimated 10% of Myanmar citizens living abroad and less than 20% of Myanmar's population holding a bank account, global money transfer services are in high demand.[33] Market leader Western Union entered Myanmar in 2013, making money transfers from abroad possible. In 2016, money can now also be sent abroad via selected Western Union partner banks.

International card service providers in Myanmar

Table 3 International remittance service providers and connected domestic banks

Sr.	Remittance Service Provider	Name of connected domestic banks
1	WESTERN UNION MONEY TRANSFER	1. FPB, 2. Yoma, 3. MOB, 4. KBZ, 5. GTB, 6. CB, 7. AYA, 8. UAB, and 9. MAB
2	XPRESS MONEY Send now. Receive now.	1. MCB, and 2. SMIDB
3	MoneyGram	1. MCB, 2. TFB, and 3. AGD
4	Maybank	1. KBZ, 2. CB, 3. AGD, 4. AYA, and 5. MEB
5	IME International Money Express A Complete Money Transfer Solution	1. MCB, 2. TFB, and 3. AGD
6	Singapore POST	1. TFB, 2. KBZ, 3. CB, and 4. AGD

Reference: BC Finance Limited (2014)

Mobile financial service providers regard Myanmar as a particularly interesting country – not only because of its extraordinary growth in mobile phone dissemination over the past few years, rising from slightly over 10% in 2013 to 62% in early 2016, but also because most (80%) of these mobile phones are smartphones.[34] Several banks as well as new players are entering the market for mobile financial services. One prominent example is Wave Money which is a joint venture between Norwegian telecommunication provider Telenor (51%) and the Yoma Bank (49%). It has partnered with the Consultative Group to Assist the Poor to develop a mobile phone application, and this endeavor specifically aims to include Myanmar's rural population and thus contribute to increasing financial inclusion levels.[35] Wave Money has started operations at the beginning of the FY 2016-2017. Among other things, its mobile financial services are planned to include bulk disbursements (e.g. for salaries), airtime top-up, e-commerce and remittances. Since 2015, non-cash payments have also been facilitated by new players in the Myanmar market such as Red Dot or ConnectNPay in the case of bill payments. The mobile banking directive (December 2013) and the new mobile financial regulation (March 2016) form the regulatory framework for these services. The Regulation on Mobile Financial Services has chapters on customer protection (VII) and on the supervision of mobile financial services providers through the Central Bank (VI). Minimum capital requirements are set at MMK 3 billion.

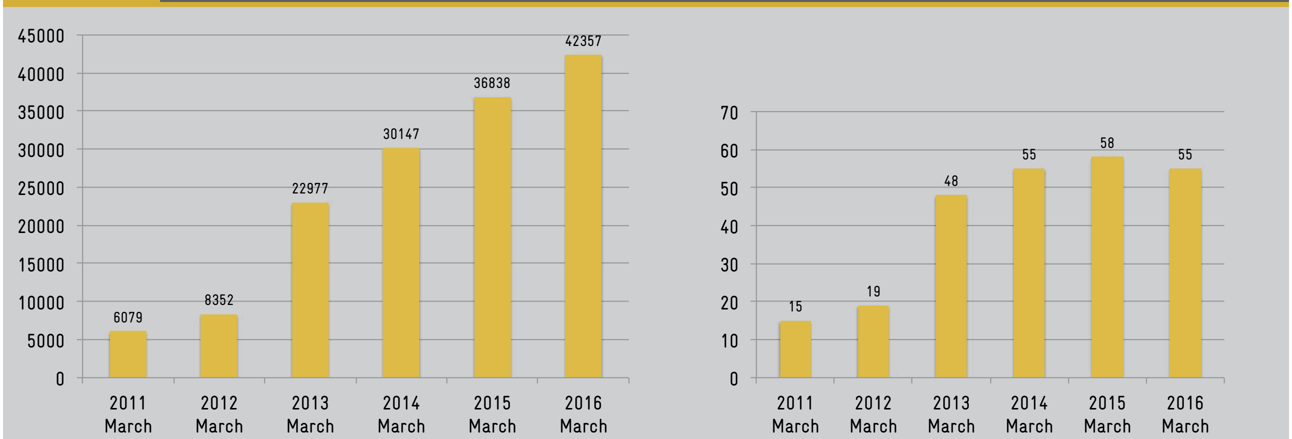
The introduction of CBM-Net represents an important step for clearing and settlement services in Myanmar, which, previously, were paper-based. In the future, CBM-Net is also to be used as a platform for the interbank market, for purchasing and selling scripless T-bonds and for foreign exchange auctions.[36]

1.5 Banks

As of March 2016, accumulated assets of the banking sector, which consists of 28 local banks and 9 foreign banks, amounted to around 55% of GDP.

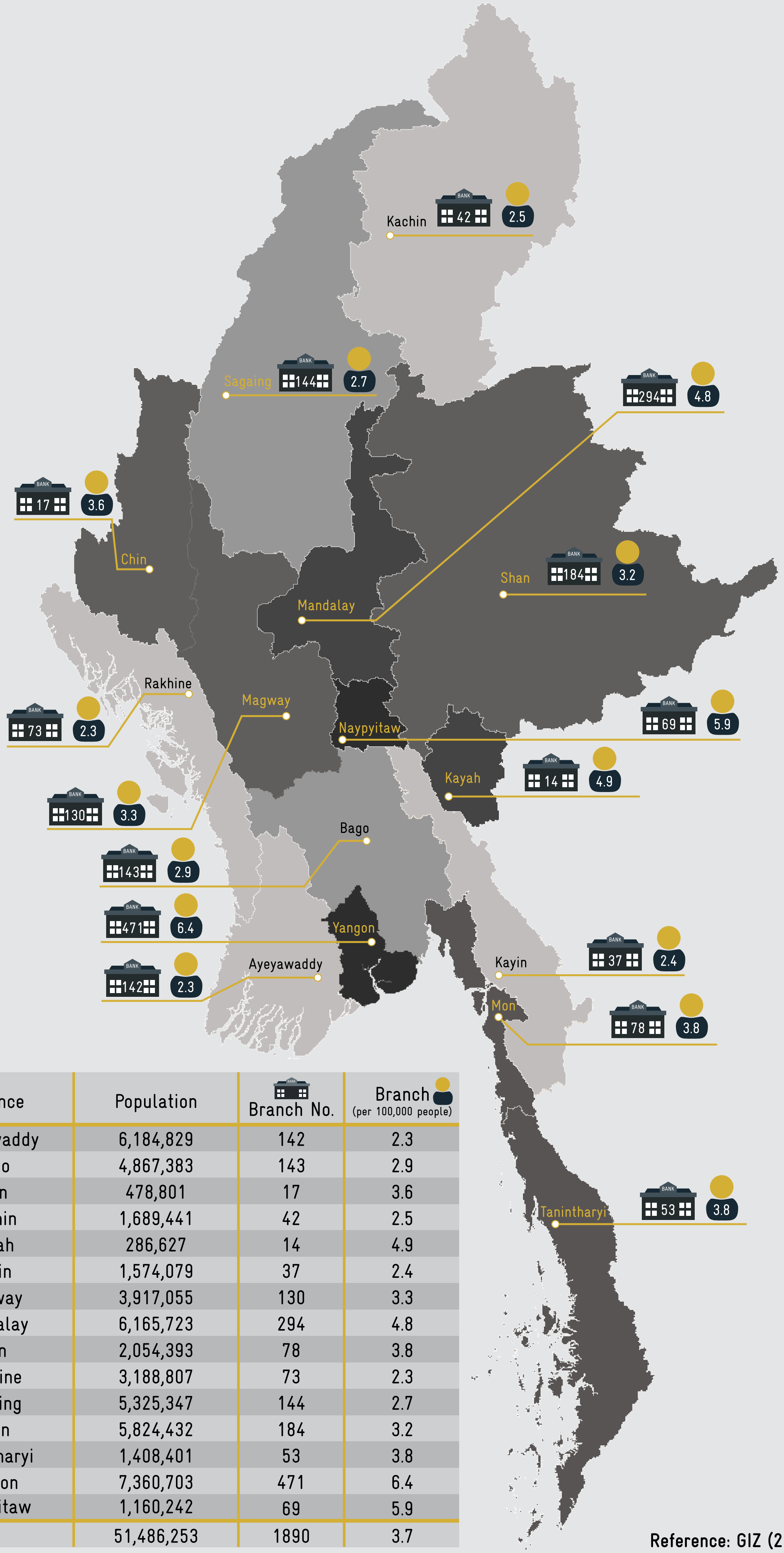
As of June 2016, 1,890 bank branches are operating in Myanmar. Figure 6 illustrates the distribution of bank branches in the country. On the national level, there are 3.7 bank branches per 100,000 people. That is a steep increase from about two years ago when there were merely 2.5 banks in August 2014 (GIZ, 2015). Nevertheless, this number differs when looking at the sub-union level (7 states, 7 regions and 1 union territory). Most bank branches per person can be found in the Yangon Region where 6.4 bank branches serve 100,000 persons. With 2.3 bank branches per 100,000 persons, the Rakhine State and the Ayeyarwaddy Region are least served. In general, differences on the sub-union level exist, but they are less distinct than one would expect. Partly responsible for this are the two state-owned banks of MEB and MADB, which represent about one-third of the total bank branches. The 570 branches of these two big state-owned banks are to be found especially in rural areas across the country. Private and semi-governmental banks, on the other hand, are rather concentrated in urban areas and are expanding their branch network rapidly.

Figure 5 Total assets of the Myanmar banking sector as of March 2016 (MMK billion and % of GDP)



Reference: GIZ (2016), IMF (2015)

Figure 6 Population and bank branches (as of June 2016)



Sr.	Province	Population	Branch No.	Branch (per 100,000 people)
1	Ayeyawaddy	6,184,829	142	2.3
2	Bago	4,867,383	143	2.9
3	Chin	478,801	17	3.6
4	Kachin	1,689,441	42	2.5
5	Kayah	286,627	14	4.9
6	Kayin	1,574,079	37	2.4
7	Magway	3,917,055	130	3.3
8	Mandalay	6,165,723	294	4.8
9	Mon	2,054,393	78	3.8
10	Rakhine	3,188,807	73	2.3
11	Sagaing	5,325,347	144	2.7
12	Shan	5,824,432	184	3.2
13	Tanintharyi	1,408,401	53	3.8
14	Yangon	7,360,703	471	6.4
15	Naypyitaw	1,160,242	69	5.9
Total		51,486,253	1890	3.7

Reference: GIZ (2016), DOP (2015)

Banks are restricted with regard to the types and characteristics of products they can offer (Box 7). Part of the current regulation is the sector-wide application of minimum and maximum interest rates set by the CBM for saving and loan products as well as maximum loan tenure for one year. Therefore, currently banks mainly compete by means of their service provision and their physical presence in the market.

Box 7 Bank products

Financial products:

- Commercial loans, development loans and overdrafts
- Time, savings, demand and call deposits
- Saving certificates
- Hire-purchase; leasing
- Debit cards, credit cards and co-brand cards
- Mobile banking and internet banking
- Foreign banking
- Domestic and international remittances

Total loan portfolio (all non-state-owned banks, FY 2015-2016): MMK 12,344 billion
Total deposits (all non-state-owned banks, FY 2015-2016): MMK 17,509 billion
Loan to deposit ratio (all non-state-owned banks, FY 2015-2016): 70.5%

Central Bank rate: 10% p.a.
Minimum bank deposit rate: 8% p.a.
Maximum bank lending rate: 13% p.a.

Loan period: usually one year
Loan amount: 30-60% of forced-sale value of the collateral of land and buildings, 80% for gold
Collaterals: land, buildings (not apartments), gold and jewelry, deposits and exportable crops* (rice, beans, pulses, and sesame)

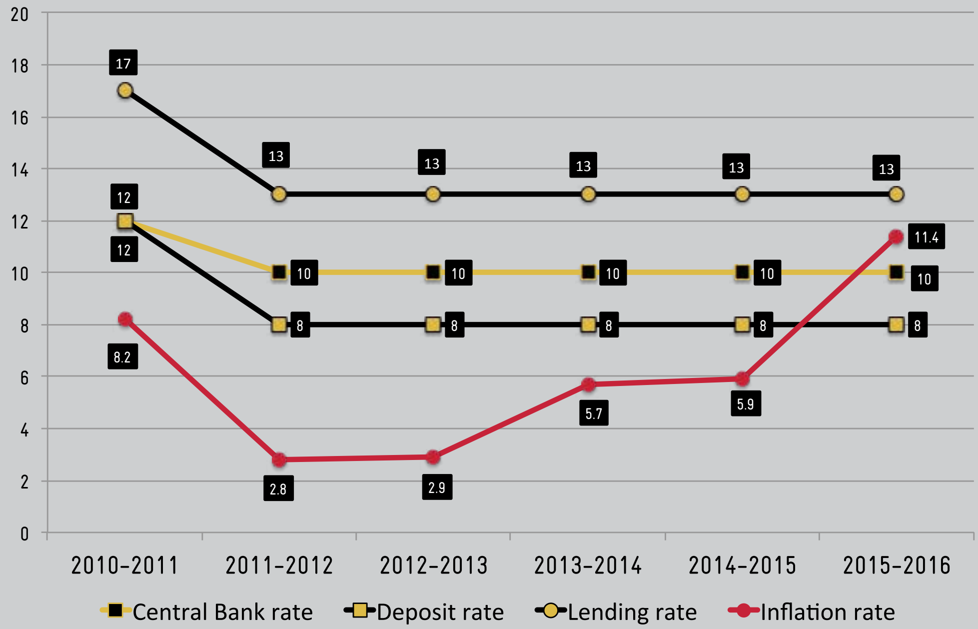
Subsidized loan schemes:

- JICA two-step loans to SMEs through six banks (SMIDB, MAB, AYA, CB, MCB & KBZ): 8.5% p.a.
- Agricultural loan from MADB: 8.5% p.a. until May 2014, 5% p.a. from June 2014 to May 2016 and 8% p.a. effective from June 2016

* Not accepted in practice as the assessment of crops' quality is often too complicated for banks.

As part of its monetary policy and with the intention of stimulating the economy, the CBM has reduced interest-rate ceilings over the last six years (Figure 7). Discussions on the liberalization of interest rates are still on-going and the prospect of their relaxation is seen as high.

Figure 7 Bank rates versus inflation rates over the last six years (in %)



Reference: CSO (2016), CBM (2016)

Box 8 Women in Myanmar's financial sector

Women account for slightly over half of Myanmar's population of over 51 million. Estimates foresee that Myanmar's economy will have created 10 million new non-agricultural jobs by 2030. Women, who are currently three times more likely than men to remain economically inactive (53% of women as compared to 18% of men), are at the forefront to help Myanmar fulfill its economic potential.

In Myanmar, the belief that women should focus on the domestic sphere is wide-spread and it is generally felt that they are less suited to assuming significant roles in the public sphere (e.g. politicians, businesspeople). According to a survey conducted by the GIZ, the banking sector seems to present an exception to these beliefs: women account for over 50% of bank staff and also represent approximately 50% of top bank managers. Myanmar banks understand themselves as equally accessible to men and women. The FinScope data seems to support this statement (18% of male population banked vs. 17% of female population banked).

In Myanmar, women are also represented rather well in the microfinance sector; there, they usually account for clearly over 50% of respective MFI clients. In many cases, women even account for (almost) the total client portfolio. Some MFIs explicitly target female clients, while other MFIs do not have a particular focus on women. For instance, the largest MFI in the country, Pact Global Microfinance Fund (PGMF), has over 98% female clients without specifically targeting women. MFIs in Myanmar put forward a number of different potential reasons for having mainly female clients, such as, for example the group experience of micro-lending, which women seem to enjoy, or the fact that women often lack the 'hard' collateral which would be required to borrow from a bank (see also Chapter 3.4 on microfinance).

The current practice of collateral-based loan appraisal seems to disproportionally challenge women. For example, farmland is typically registered in the name of the household´s head and in Myanmar only 24% of households are headed by women (2014 census). There is evidence that women are not always free in deciding on how to use a loan, but are often influenced by their husbands and relatives. This circumstance may partly be attributed to cultural reasons.

In view of the economic potential that women in Myanmar represent, reducing the barriers which currently hamper women-owned SMEs in accessing finance cannot only contribute to strengthening gender equality in Myanmar, but could also lead to increasing employment opportunities and economic growth.

Banks in Myanmar are often classified as state-owned banks, semi-government banks, and private banks. This classification is, however, often blurry as state ownership and state influence are not clearly separated. In order to provide a better understanding of the banking structure, this report takes a different approach and strictly classifies them according to ownership. The domestic banks are classified in this report in terms of three categories: (i) 100% government-owned, (ii) government-ownership of less than 100% and (iii) non-government-owned institutions (Table 4). A secondary classification follows: the government-owned banks are further classified according to ownership by Union Government vs. ownership by municipalities. The partly government-owned and non-government-owned banks are further classified according to their legal form: private, public non-listed and public listed. Affiliation to the military as well as guidance by the government are indicated by color coding (Table 4). The following sub-chapters will provide a closer look at the various types of banks.

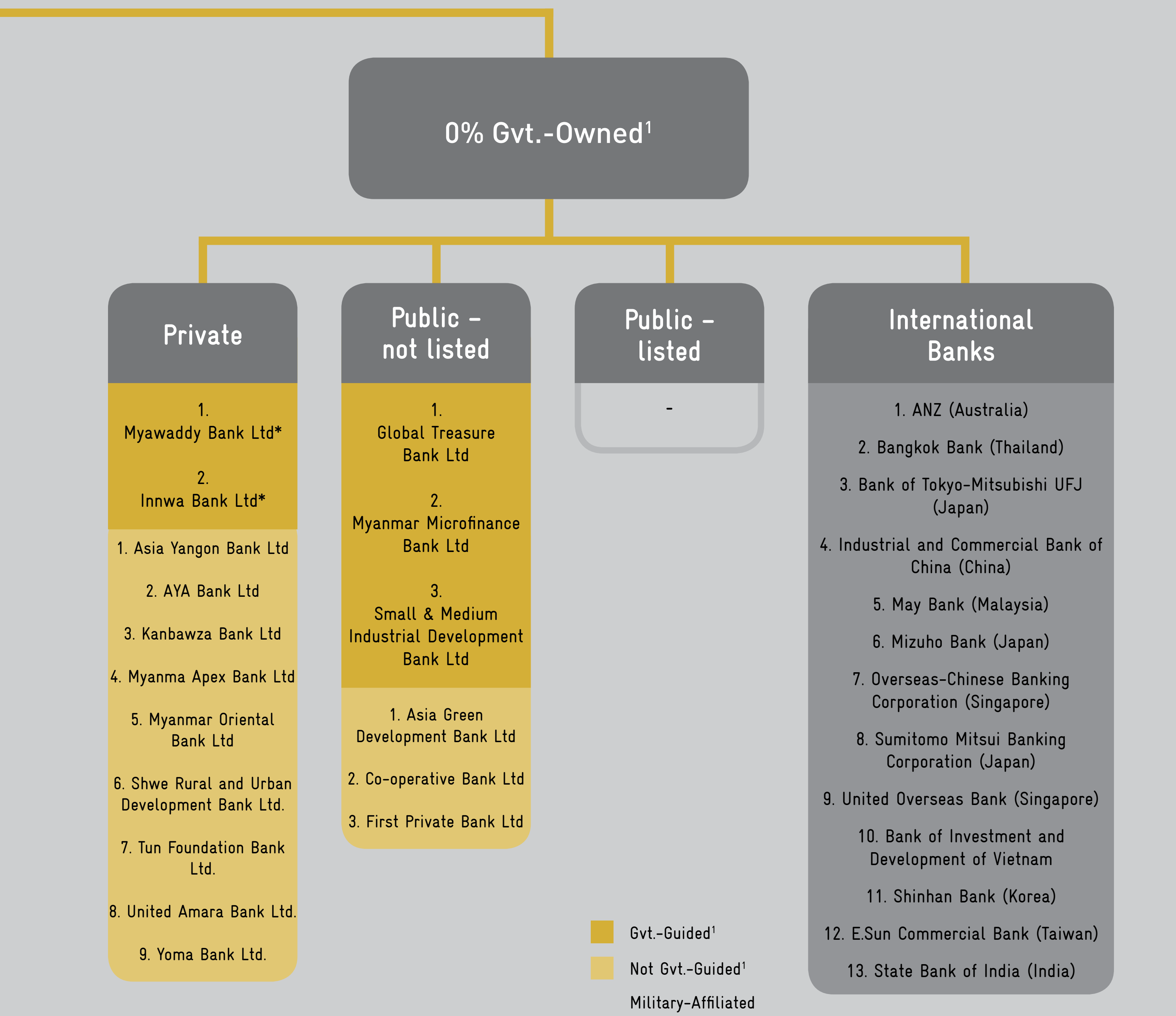
Central Bank of Myanmar in Yankin Township, Yangon

Table 4 Types of domestic banks in Myanmar (as of August 2

- Banks
  - 100% Gvt.-Owned[1]
    - State owned
      1. Myanma Agricultural Development Bank
      2. Myanma Economic Bank
      3. Myanma Foreign Trade Bank
      4. Myanma Investment and Commercial Bank
    - Municipality Owned
      1. Naypyitaw Sibin Bank Ltd (NPTDC)
      2. Yadanabon Bank Ltd (MCDC)
      3. Yangon City Bank Ltd (YCDC)
  - < 100% Gvt.-Owned[1]
    - Private
      1. Rural Development Bank Ltd (MALI & different municipalities)
    - Public – not listed
      1. A Bank Ltd.
      2. Construction and Housing Development Bank Ltd (MoConstruction, funds from Union budget)
    - Public – listed
      1. Myanmar Citizens Bank Ltd (partly MoCommerce, Funds from Union budget, Listed on YSX)

Reference: GIZ (2016)

2016)



[1] "Government" refers to Union Government, Ministries, Municipalities

1.5.1 Government-owned Banks

The four state-owned banks (SOB) are struggling to keep pace with the modernization and growth of their private sector peers.

The Myanma Economic Bank (MEB), the Myanma Foreign Trade Bank (MFTB) and the Myanma Agricultural Development Bank (MADB) were all established in 1976. A fourth state bank, the Myanma Investment and Commercial Bank (MICB), was set up in 1990 in order to stimulate the growth of industry and production in the country.

Table 5 Four state-owned banks in terms of branches and staff (as of June 2016)

Sr.	Name of Bank	Logo	Branches	Staff	Controlling Ministry
1	Myanma Economic Bank		341	9000	MOPF
2	Myanma Foreign Trade Bank		1	600	MOPF
5	Myanma Investment and Commercial Bank		2	300	MOPF
6	Myanma Agricultural Development Bank		229	2500	MALI
Total			573	12400	

No. of branches
No. of staff

Reference: GIZ (2016), MOPF (2016)

The state-owned banks are currently losing market share to their private competitors. They are struggling to keep pace with the growth and reforms of their private sector peers. They are facing challenges especially with respect to capitalization, information technology and their policy framework. Lacking recapitalization is hampering the growth of these institutions. Deficiencies with regard to most modern means of information technology is hampering efficiency. Political goals (subsidized loans to certain groups) are limiting their operational freedom.

The Myanma Economic Bank is controlled by the Ministry of Planning and Finance (MOPF) and largely acts on its behalf. It is the country's second largest bank (after the KBZ) in terms of outreach, with its domestic banking network of 341 branches across the country and employment of about 9,000 personnel. With its extensive branch network across the country, the MEB can provide financial services in rural areas where 70% of the Myanmar population lives. Furthermore, the MEB has a mandate to provide subsidized policy loans to other state banks, cooperatives and state-owned enterprises. Because of this, the MADB has been receiving credits below the market rate to serve farmers, and the SMIDB also got credits from the MEB to serve SMEs. Due to the provision of these subsidized loans together with its low level of loans to deposit ratio, the MEB has accumulated substantial losses almost over the past three decades. According to U Maung Maung Win, Deputy Minister of the MOPF, in his presentation at the Union Parliament session on August 23, 2016, the MEB has been making losses since 1988 (Myanmar Times, 2016a)[37]In order to cover these losses, MMK 79 billion of the state budget have been used in the FY 2012-2013 alone (Eleven, 2013). Like all other state- and non-state banks, customers of the MEB also prefer to keep saving accounts (about 60% of total deposits), which bear interest and can be withdrawn once a week without any limits.

The Myanma Foreign Trade Bank, also controlled by the MOPF, specializes in international banking. It was the only bank to do such business until the MICB was established in 1990. Government departments as well as some private companies and individuals have accounts with the MFTB. Since the private banks are allowed to engage in foreign banking services, the customers from the MFTB have been shifting their accounts to private banks. Nevertheless, the majority of foreign exchange accounts' holders seems to prefer opening their accounts at the MFTB (over 100,000 at the MFTB, about 25,000 at the MICB and about 100 at private banks) (Myanmar Times, 2016b). The MFTB has been providing a range of international banking and financial services to its customers through its worldwide extensive correspondent network of over 263 banks in 54 countries[38].

The Myanma Investment and Commercial Bank, also controlled by the MOPF, which is smaller than the MEB and the MFTB and has overlapping functions with each of them, is carrying out both domestic and foreign currency businesses. Its main business consists of extending banking services to private companies, including foreign joint ventures. Starting from the FY 2016-2017, the MICB started giving interest of 8% on saving deposits to its customers quarterly, although it had previously given the interest half-yearly. Besides conducting bilateral interbank lending by taking their hard currency deposits as collateral, it also extends trade financing to both importers and exporters (Shwe Pyi Tan Journal, 2016).

The Myanma Agricultural Development Bank, controlled by the Ministry of Agriculture, Livestock and Irrigation (MALI), was founded in 1953 under the State Agricultural Bank Act and was part of the People's Bank of the Union of Burma between 1969 and 1975. Its name was initially changed into Myanma Agriculture and Rural Development Bank in 1990, and then into Myanma Agricultural Development Bank in 1997. It extends credits to farmers in order to support the development of agriculture and livestock, as well as of rural enterprises. This bank provides seasonal loans for crop cultivation and term loans for acquisition of farming machinery and equipment. The MADB promotes a savings culture among farmers by operating a program for rural savings mobilization. It is the main official financing source for farmers, and, starting from the 2016 monsoon cultivating season, it is providing loans of MMK 150,000 per acre for paddy production and MMK 20,000 for production of farm crops at an interest rate of 8%, compared to the commercial lending rate of 13% (it gets an annual credit line from the MEB at an interest rate of 4%). In FY 2016-17, the MADB is going to receive a total of credit line amounting to MMK 1700 billion (MMK 1,200 billion from the MEB and MMK 500 billion from the CBM) available to disburse seasonal loans[39]. During the FY 2014-2015 and 2015-2016, it collected a reduced annual interest rate of 5%. Although the amount of loans per acre has increased considerably over the last years, it still falls short of covering the cost of paddy production which is estimated at about MMK 200,000 per acre for low-quality rice and MMK 400,000 for high-quality rice (World Bank, 2014).

The bank's seasonal loans are classified as monsoon loans, winter loans, and pre-monsoon loans.[40] The loans are disbursed for only a very limited number of agricultural products, namely for producing paddy, oil seeds, beans and pulses, long cotton and jute. The MADB also extends one-year loans for producing sugarcane, tea leaves, salt and palm-oil. Moreover, it extends more than three-year term loans for acquiring farming machinery and equipment, allowing the borrowing farmers to repay their loans in installments, which is similar to a hire-purchase system. The loans are disbursed to groups of three farmers (previously 10 farmers) who collectively share the responsibility of repaying the loans. The bank's loan committee disburses the loans for up to ten acres to farmers who have the capacity to repay the loans.

The government decided to restructure the MADB and turn it into a public-private partnership bank. With its notification issued in October 2015, a special task force[41], consisting of ten members headed by the deputy minister of the MOPF, was formed to make the necessary preparations for reorganizing it (Myanmar Gazette, 2015). Once the corporatization of the MADB materialises, it will be moved to the control of MOPF according to Deputy Minister U Maung Maung Win.[42]

Old building of Grindlay's Bank, now partly occupied by MADB

Box 9 Agricultural financing

About 70 percent of the population in Myanmar are living in rural areas and they are all reliant on the agriculture sector. Agricultural crops such as rice, beans and pulses constitute Myanmar's major exports. However, the agricultural sector remains largely underdeveloped. Farmers are struggling for their own existence as they are mainly still employing primitive ways of cultivation. Lack of technical know-how and insufficient financing and investment are the major causal factors for the agricultural sector remaining underdeveloped.

MADB Loans: MMK 1700 billion in FY 2016-2017 (MMK 1200 billion from the MEB & MMK 500 billion from the CBM) and MMK 1200 billion in FY 2015-2016 (MMK 800 billion from the MEB & MMK 400 billion from the CBM). Please see 1.5.1 for details.

Myanmar Apex Bank: the Myanmar Apex Bank, a commercial bank owned by U Chit Khaing, Chairman of the local conglomerate Eden Group with businesses in the agriculture industry, allows farmers to have access to its bank loans by taking their certificate of ownership of the farmland (Form-7) as collateral. The Form-7 certificate has been created with the enactment of the Farmland Law in 2012 by the Ministry of Agriculture and Irrigation. According to interviews with MAB, in 2015, the bank lent **MMK 596 million** at an interest rate of 13% per annum to 275 farmers in Danubyu Township of the Ayeyawaddy Region. It is the first private commercial bank which extends loans to farmers for a period of up to three years. The bank implements its projects with the coordination of Myanmar Rice Federation (MRF). It lends only to those who are recommended by the MRF.

Regulation for Farmers Development Bank: Since agriculture is the mainstay of Myanmar's economy, the CBM issued the Regulation for Farmer Development Bank on July 30, 2014 to support the agriculture sector. The regulation allows the establishment of provincial development banks for farmers. The headquarters of the farmers' bank must be located in the respective states/regions, and proposal for establishing the bank must be submitted to the CBM with the recommendation of local authorities.

The bank's minimum paid-up capital has to lie at MMK 20 billion, divided into 2 million shares with the face value of MMK 10,000 each. An initial paid-up capital of MMK 10 billion can be invested by the union or local government. The bank is expected to raise both a general reserve fund and a special reserve fund to have a buffer against potential risks. It also has to raise a development fund by allocating a certain percentage of its profit and by accepting grants and donations from various sources. Besides offering remittance services to its customers, it can accept deposits and extend seasonal and term loans to farmers with or without collateral. It is intended that the bank borrows money from within and outside the country to promote its banking businesses.

A Bank: Having taken this opportunity, a provincial private bank by the name of Ayeyarwaddy Farmers Development Bank (A Bank) was established in November 2015 at Pathein in the Ayeyarwaddy region. The A Bank disburses loans to farmers in the Ayayarwaddy delta region by accepting Form-7 together with a guarantee from one of the agriculturally specialized organizations such as the MRF as collateral. It extends short-term loans amounting to around MMK 100,000 per acre. By the end of the FY 2015-2016, the amount of loans extended to farmers from the two townships of Pathein and Bogale by the A Bank reached **MMK 14 billion**.

However, bank credit to farmers is still very limited. Although two-thirds of employment and 30% to the GDP is contributed by the agricultural sector, the rural sector receives only about 2.5% of total loans (OECD, 2016). Effective rural financial systems encompass a variety of institutions, including commercial banks, development banks, MFIs and other specialized financial services such as leasing and finance companies. The OECD suggests raising the ceiling on bank-lending rates as an incentive for banks to extend their reach into the rural economy (OECD, 2016).

Although they vary significantly in their respective functions, the four state-owned banks share a number of common features and characteristics. Their main challenges include: (i) a low level of transparency of their operations and financial performance; (ii) a need for modernized technology and IT systems, (iii) unclear policy mandates; and (iv) a need for skills development in areas such as management, credit and lending, risk management, auditing and accounting. Myanmar is looking forward to reforming its state-owned banks to promote transparency, stability and competitiveness in the financial sector. Benefits from SOB reform could entail (i) reduced vulnerabilities and strengthened stability of the banking sector; (ii) alleviated fiscal risk; and (iii) improved accountability and enhanced transparency and governance of SOBs. (World Bank, 2016)

Banks fully-owned by municipalities form the second sub-category of government-owned banks include Yangon City Bank Ltd. (owned by the Yangon City Development Committee – YCDC), Yadanabon Bank Ltd. (owned by the Mandalay City Development Committee – MCDC), and Naypyitaw Sibin Bank Ltd. (owned by the Naypyitaw Development Committee – NPTDC and established in 2013)[43]. These banks are significantly limited in size and outreach.

Table 6 Three banks fully-owned by municipalities (as of June 2016)

Sr.	Name of Bank	Logo	No. of branches	Controlling Municipality
1	Yangon City Bank		3	YCDC
2	Yadanabon Bank		2	MCDC
5	Naypyitaw Sibin Bank		5	NPTDC

Reference: GIZ (2016)

1.5.2 Private and semi-governmental banks

The 21 private and semi-governmental banks are the driving forces behind a modernization of the banking sector.

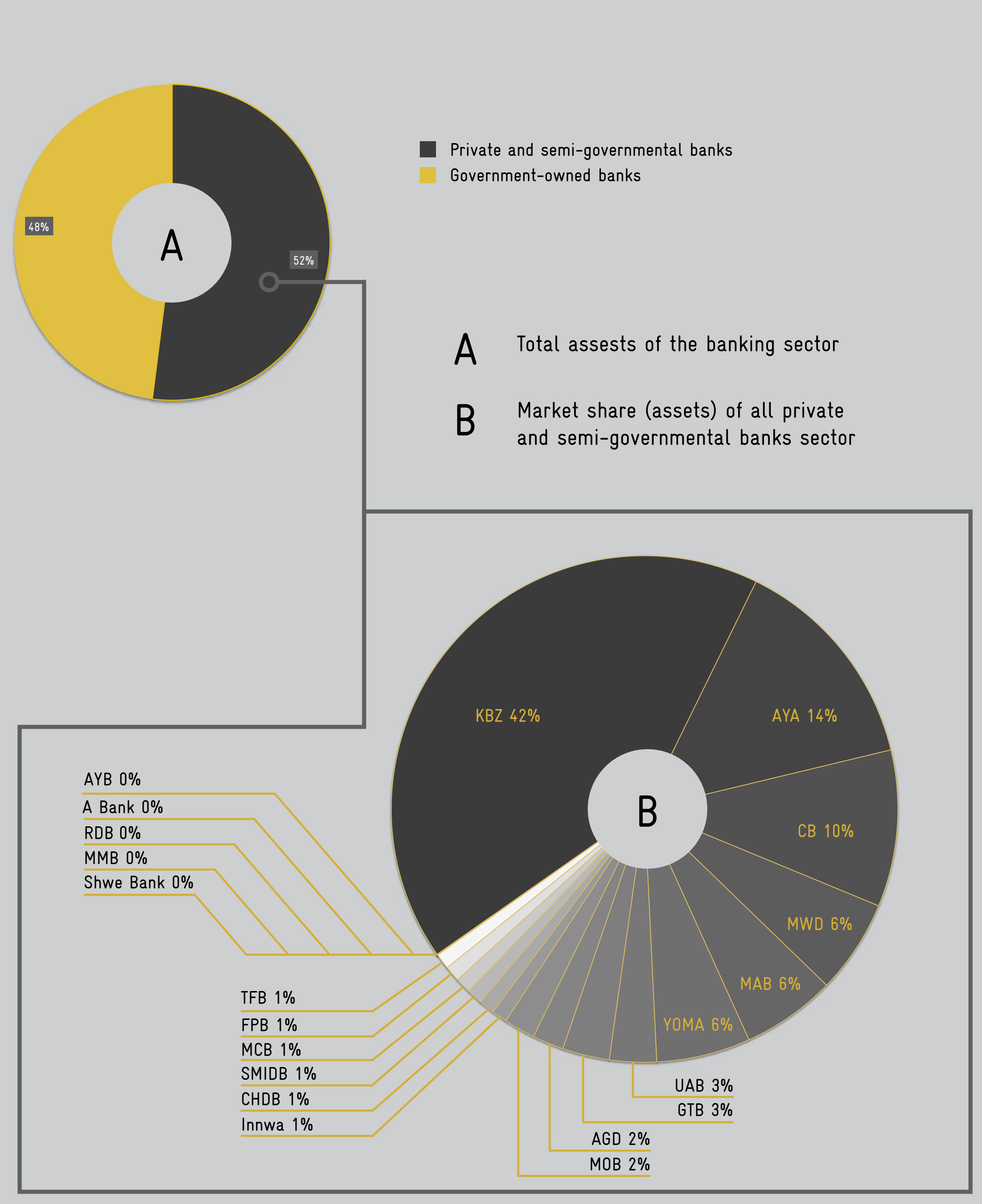
Private and semi-governmental banks play the leading role in terms of innovation (e.g. introduction of debit cards, credit cards and co-brand cards or installation of ATMs). However, existing rules and regulations limit the ways banks can distinguish themselves from another via products or prices.

A number of new institutions have (re)joined the existing banks over the past six years. In 2010, four new banks (MAB, UAB, AGD and AYA) were founded, and one bank (Yoma Bank) regained its full banking license in 2012. Also established in 2013 were two new banks: the Myanmar Microfinance Bank (MMB)[44] and the Construction and Housing Development Bank (CHDB)[45] controlled and partly owned by the Ministry of Construction. The Shwe Rural and Urban Development Bank (Shwe Bank), owned by Shwe Than Lwin group, was also granted license in 2014. Furthermore, the Ayeyarwaddy Farmers Development Bank (A Bank)[46] received its banking license in November 2015, and its headquarters is located in Pathein, Ayeyarwaddy Region. Further entities interested in acquiring a banking license include the Myanmar Gems and Jewellery Entrepreneurs Association (Myanmar Times, 2015a)[47] and the Myanmar Tourism Federation (Myanmar Times, 2015b)[48].

The commercial banking sector is increasingly gaining importance in Myanmar. With total assets of private banks amounting to MMK 20.9 trillion (27% of GDP) in March 2016, their total assets are almost 11 times higher than six years ago (MMK 1.9 trillion in March 2010). Private and semi-governmental banks account for over half of the banking sector's total assets.

Staff counting money in a bank

Figure 8 Market share (in terms of assets) of all operating semi-governmental and private banks (as of March 2016)



Reference: CSO (2016), CBM (2016)

Looking at the private and semi-governmental banks, about two-thirds of the market shares in terms of assets are held by the top three banks: the Kanbawza Bank, the Ayeyarwaddy Bank and the Co-operative Bank. (Figure 8b)

Table 7 Ten largest private banks of Myanmar: their assets (as of March 31, 2016) and their branches (as of June 2016)

Sr.	Name of Bank	Logo	Assets (MMK billion)	No. of Branches
1	Kanbawza Bank	KBZ BANK ကမ္ဘောဇဘဏ်လီမိတက် STRENGTH OF MYANMAR	8693	400
2	Ayeyarwaddy Bank	AYA Bank	2913	157
3	Co-operative Bank	C B BANK	2061	154
4	Myawaddy Bank	MYAWADDY BANK LIMITED	1305	47
5	Myanmar Apex Bank	Myanma Apex Bank	1194	74
6	Yoma Bank	YOMA BANK your bank	1191	61
7	United Amara Bank	UAB	662	47
8	Global Treasure Bank	Global Treasure Bank	657	120
9	Asia Green Development Bank	AGD	448	52
10	Myanmar Oriental Bank	MOB BANK	320	37
	Total of top 10 banks		19,444	1,142

Reference: GIZ (2016)

Box 10 SME finance

The 100,000 SMEs in Myanmar represent more than 95% of Myanmar enterprises and have the potential to become the driving force behind the country's fast growing economy. Most SMEs are not registered officially, which makes data collection more difficult and constitutes an additional burden for banks to service them. Supporting SMEs is a key element of Myanmar's Government Framework for Economic and Social Reforms because SMEs are of an utmost importance for job creation and sustainable economic development. The new SME Law, adopted in 2015, underlines the significance of this business sector.

SMEs in Myanmar face many challenges. Various surveys (e.g. the World Bank's doing business) show that access to finance is one of the major challenges.

SMEs have specific needs when it comes to finance: collateral, repayment schedule and loan amount must be tailored to meet the borrower's ability to repay and to fit the purpose of the loan. The financial sector in Myanmar is not able to meet the needs of SMEs for financial services in an adequate way.

The biggest obstacles to receiving bank loans are connected to (i) high collateral requirements, limited in practice mainly to land and buildings, (ii) complicated and long loan-application procedures as well as (iii) limited duration of loans. Banks currently extend credit only to established businesses and not to start-ups. Hence, it comes as no surprise that the sources of financing for SMEs originate mainly from personal savings and informal personal loans by connected parties (e.g. family members).

The biggest constraints in providing SME Finance on the bank's side include a certain distrust in financial statements of businesses, a lack of past credit information, a difficult legal environment when it comes to enforcing loan contracts and liquidizing collateral, as well as regulatory limitations such as ceilings on lending interest rates, strict collateral requirements and limited loan durations.
In practice, due to frequent limitations in the processing of loans and because of a lack of adequate data systems, most banks do not strictly differentiate between private and corporate loans. In most banks, loan products are limited to

a) "bullet loans" with full principal payment at the end of the loan term (usually 1-3 years) and quarterly interest payments.
b) "hire-purchase loans" for the financing of cars, electronics and other consumer products where the wholesaler carries part of the risk of repayment and
c) "overdraft facilities" where interest rates are only payable on the outstanding capital and where there is no fixed term for repayment.

Most banks lack the capability and range of products to provide lending products geared towards the investment needs of their clients. The extension of new SME development loans by the SMIDB (8.5% interest rate, 3-year repayment period), previously the only bank with a designated focus on SMEs, has been reduced. Only few other banks, such as the KBZ, have introduced special SME loans with regular principal repayments and a due diligence process focusing on the analysis of the client's repayment capacity (cash-flow-based lending and later credit-score-based lending) rather than only focusing on the collateral. However, there is an increased interest for several private banks to focus more on SME Finance due to both the potential the largely untapped market holds and the need to further diversify their lending portfolio.

It is likely that the banking regulation, in accordance with international good practices, will in future allow banks to further extend their lending activities with regard to uncollateralized loans, long-term financing as well as variable and risk-adjusted pricing. In order to grow their loan portfolio while at the same time ensuring profitability and stability, banks must further develop sound-lending and due-diligence methods and structures.

Box 11 SME Development Law (2015)

The new SME Development Law was enacted on April 9, 2015 with the objective of supporting the development of SMEs in the country. The law classifies business enterprises as (1) manufacturing industry, (2) Labor-intensive manufacturing industry, (3) wholesale business, (4) retail business, (5) service-rendering business and (6) others. The law defines SMEs in terms of number of workers and capital or turnover.

Definition of SMEs:

SME	No. of workers (Small/Medium)	Capital (C)/Income (I) (MMK million) (Small/Medium)
1. Manufacturing Industry	50/300	500/500-1,000 (C)
2. Labor-intensive Industry	300/600	500/500-1,000 (C)
3. Service-rendering Business	30/60	100/100-200 (I)
4. Wholesale Business	30/60	100/100-300 (I)
5. Retail Business & other	30/60	50/50-100

Institutional infrastructure:

Central Committee headed by the president (re-formed on June 07, 2016 with the current president as its chairman)
Main responsibility: to adopt policy guidelines for the development of SMEs

Working Committee headed by the vice-president
Main responsibility: to make every effort for the development of SMEs, including helping them to have access to finance and market information

Reviewing & Reporting Body headed by an appropriate person appointed by the Central Committee
Main responsibility: to review all aspects of SME developments

Agency to be formed with heads of government departments, representatives from various organizations and technicians. This is the main implementing body for SME development. There will be branch offices of the Agency across the country and they are responsible for providing one-stop service in their respective localities. SMEs have to cooperate with the Agency to have various development opportunities.

SME Development Fund

With the approval of the Central Committee, the Working Committee shall form a fund management body for SME development. The fund management body has the responsibility to accumulate funds for SME development from both within and outside the country.

Tax incentives

Agency is responsible for advising respective departments to give tax incentives to private entrepreneurs who:

- (a) produce new and innovative products
- (b) run essential SMEs in the areas of least development
- (c) produce commodities using by-products and wastes
- (d) modify the factory to be able to produce energy and make effective use of it; and
- (e) engage in the refurbishments of SMEs destroyed by a natural disaster.

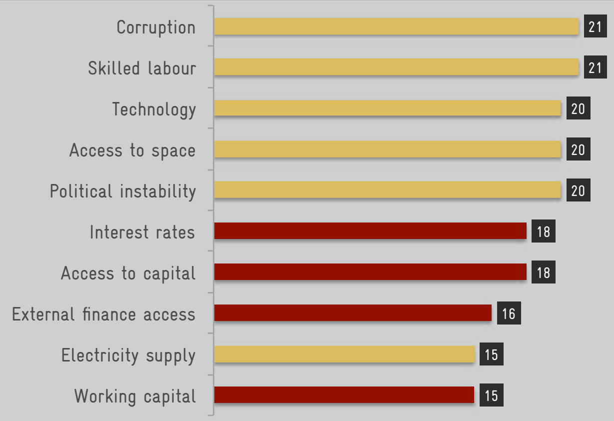
Incentives: tax relief, allowance to lease plots of land at reduced rates, advice on the establishment of business and solving related problems, and assistance in setting up manufacturing JVs.

Figure 9 Key barriers for business and in financing and source of financing

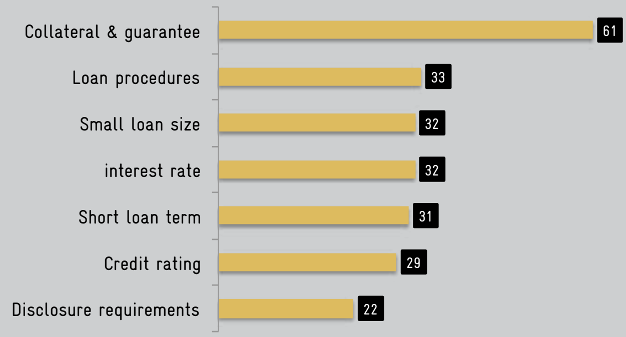
Businesses strongly express their need for formal financing with favorable terms with 80% of their financing currently being done through personal savings/loans

Key barriers for business and in financing[1]

Of the top 10 barriers for businesses in Myanmar, 4 are related to financing

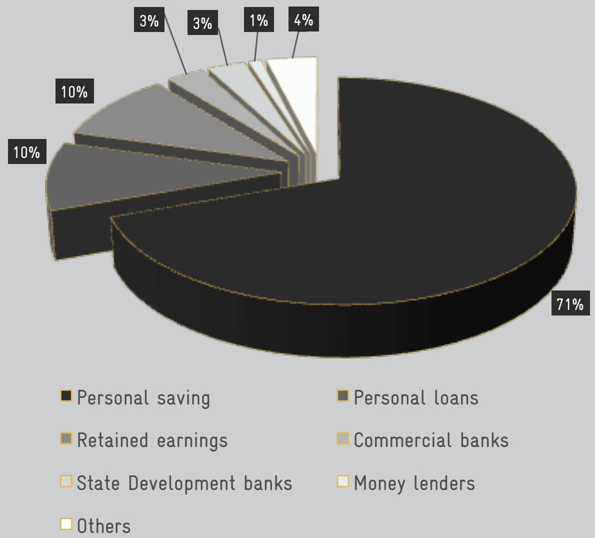


In financing, collateral followed by loan procedures ranks highest



Source of financing[1]

80% of financing done through personal savings and personal loans



% of Respondents

[1] Based on survey of >3000 businesses in Myanmar
Source: OECD-UNESCAP-UMFCCI Business Survey 2014

Reference: Deloitte (2014)

1.5.3 Foreign Banks

For the first time in five decades, foreign banks are allowed to play a role in supporting the economy with their strong international experience and world-wide network.

Since 1963, when a total of 14 foreign banks, including Chartered Bank, OCBC and HSBC, were nationalized by the then military government, foreign banks were not granted licenses and hence could not operate in the country. Before 1963, there was no differentiation between foreign banks and local banks. Foreign banks were allowed to perform all banking functions like local banks. In some areas such as foreign trade, they were even more active than their local counterparts. At the time of bank nationalization in 1963, foreign banks represented more than half of the total capital in the sector.

The Financial Institutions of Myanmar Law of 1990 allowed foreign banks to maintain representative offices in the country. Ever since 1994, foreign banks have started opening their representative offices in the country, but they were not permitted to conduct banking business in Myanmar. Most of them are primarily engaged in gathering information for their foreign customers trading with Myanmar. Currently, there are over 40 representative offices[49] of foreign banks in Myanmar.

In October 2014, the CBM granted preliminary approval to nine foreign banks to make the necessary preparations for a commencement of their banking operations, and all of them were awarded final license upon fulfilment of their commitments pledged in their proposals. In March 2016, four more foreign banks were also granted preliminary approval by the CBM. Out of these, the Vietnamese Bank was awarded final license in June 2016.[50] Each licensed foreign bank is allowed to open a branch at only one location by bringing in the minimum paid-up capital of USD 75 million. Their banking functions are limited to wholesale banking. They are allowed to grant loans to and take deposits from foreign corporations and domestic banks in both international currency and Myanmar Kyat. In coordination with a local bank, they can also establish a syndicated loan extension program and disburse loans to local companies. They are, however, not yet permitted to operate retailed banking. The selected, licensed foreign banks are expected to contribute to the development of the domestic banking sector by participating in the interbank market, by lending to domestic banks, and by engaging in foreign exchange business and so on. A possible extension of the scope of license or relaxation on foreign banking is anticipated to be considered within two years after awarding fully-fledged license.

Sewing room in Myanmar - banking reforms have an impact on SMEs

Figure 10 Foreign banks which received license from the CBM (as of October 2016)

Reference: GIZ (2016)

ENDNOTES

1 Cambodia: 98.6%, Laos: 98.2%, Vietnam: 96.7% of total assets in the financial sector held by banks (as of 2011).

2 The financial sectors in all these countries are growing from a generally low basis.

3 http://www.cbm.gov.mm/content/1765 (Accessed July 21, 2016)

4 Banks include commercial banks, development banks and foreign banks' branches licensed under this law.

5 Development bank means a bank which accepts the deposits with terms exceeding one year and financing of specific economic sectors at terms consistent with the terms of the resources collected by such banks or funds provided by the government.

6 Non-bank financial institution means an entity that is registered under Section 20 of FIL to carry on one or more of the following businesses: finance company, leasing, factoring, credit token, money services and any other credit services the CBM may prescribe.

7 Scheduled institutions mean rural development bank, agricultural bank, MFIs licensed under 2011 microfinance business law, credit societies and postal savings bank which are not established under FIL.

8 Key aspects of the Financial Institutions Law are listed in the annex (Annex Table II).

9 http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/myanamr_companies_act_1914.pdf (Accessed September 12, 2016)

10 The MAC law, enacted in 1994 by the State Law and Order Restoration Council, was repealed with this new law. http://www.oagmac.gov.mm/mac-legal-framework (Accessed September 12, 2016)

11 The Law amending the Auditor General of Union Law (2013) and the Law amending the Auditor General of Union Law (2014) http://www.oagmac.gov.mm/oag-legal-framework (Accessed September 12, 2016)

12 FIL Chapter XI Accounting, Auditing and Financial Statements, section 84

13 MAC Notification 2/2009.

14 MAC Notification 1/2010.

15 MAC Notification 1/2009.

16 MAC Notification 3/2010.

17 The Anti-Money Laundering Central Board was formed on August 4, 2014 under the Thein Sein Government (Myanmar Gazette, 2014), and re-organized on May 24, 2016 by the new government headed by President Htin Kyaw with the following members (Myanmar Gazette, 2016).

1. Minister, Ministry of Home Affairs (MOHA) Chairman
2. Governor, CBM Member
3. Deputy Minister, MOHA Member
4. Deputy Attorney-General, Office of Union Attorney-General Member
5. Permanent Secretary, MOPF Member
6. Director General, Bureau of Special Investigation, MOHA Member
7. Director General, General Administration Department, MOHA Member
8. Director General, Agricultural Land Management and Statistics Department, MALI Member
9. Director General, Customs Department, MOPF Member
10. Director General, Internal Revenue Department, MOPF Member
11. Director General, Office of Chief of the Justice of the Union Member
12. President, Union of Myanmar Federation of Commerce and Chamber of Industry Member
13. Head of Department, Trans-boundary Crime Department Member
14. Chief, Myanmar Police Force Secretary
15. Commander, Financial Intelligence Unit Co-secretary

18 http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-june-2016.html (Accessed June 29, 2016)

19 Yangon Institute of Economics (YIE) was officially re-named as Yangon University of Economics (YUE) in 2014.

20 http://www.myanmarbanksassociation.org/ (Accessed June 29, 2016)

21 http://www.myanmarbanksassociation.org/index.php/member-banks (Accessed June 29, 2016)

22 Newly elected EC members of MBA are as follows: (http://www.myanmarbanksassociation.org/index.php/about-us/member-lists)

1. U Thein Tun (TFB): Patron
2. U Khin Maung Aye (MMB): President
3. Dr. Sein Maung (FPB): Vice-president (1)
4. U Yu Lwin (MWD): Vice-president (2)
5. U Kyaw Lin (CB): General Secretary
6. U Than Zaw (AYA): Associate General Secretary (1)
7. U Than Win Swe (UAB): Associate General Secretary (2)
8. Daw Kyi Kyi Than (MOB): Treasurer
9. U Aung Kyaw Myo (KBZ): Associate Treasurer
10. U Zaw Win (GTB): Auditor-1
11. U Kyaw Than (YCB): Auditor-2

23 http://yueco.edu.mm/academic-departments/major-departments/department-of-commerce/ (Accessed July 21, 2016)

24 Jose de Luna Martinez (2016): Financial inclusion in ASEAN; presentation for the ASEAN Working Group on Financial Inclusion, Kuala Lumpur, January 21, 2016.

25 Reportedly, some banks with a SWIFT code cannot use the system due to U.S. sanctions which are imposed on them.

26 Myanmar Payment Union (2016): MPU Progress Report, January 2016, page 1.

27 The following five banks are not members of the MPU since their size is either very small or because their main activity is issuing policy loans: Asia Yangon Bank (AYB), Myanmar Agricultural Development Bank (MADB), Naypyitaw Sibin Bank (NSB), Yadarnabon Bank (YDNB), and Ayeyarwaddy Farmers Development Bank (A Bank)

28 Interview with MPU (February 2016).

29 Ibid.

30 Interview with MPU (February 2016).

31 OFAC (2015): Burma Sanctions Program, page 3.

32 U.S. Government (2016): 31 Code of Federal Regulations, part 537, subpart E, available online http://www.ecfr.gov/cgi-bin/text-idx?SID=e7bd89735355a88109ef606e0084ca48&node=pt31.3.537&rgn=div5 (accessed February 16, 2016)

33 Migration estimations according to IOM https://www.iom.int/countries/myanmar/general-information (accessed April 6, 2016)

34 And with estimations to reach 90% by the end of 2016. See: Peter Janssen (2016): From hype to reality, Frontier Myanmar, Issue 32.

35 Interview with Wave Money (February 2016).

36 Interview with MPU (February 2016)

37 http://www.mmtimes.com/index.php/business/22131-mps-discuss-reforms-to-loss-making-myanmar-economic-bank.html (Accessed August 26, 2016)

38 http://www.mmftb.com/english/mftbhistory.php (Accessed July 22, 2016)

39 In FY 2015-2016, MADB borrowed MMK 1200 billion in total (800 billion from MEB and MMK 400 billion from the CBM) at interest rates of 4%. http://www.mmtimes.com/index.php/business/22359-corporatisation-for-madb-next-step-in-state-enterprise-reform-efforts.html
(Accessed September 09, 2016)

40 The monsoon loans are disbursed from May to August and collected in the period from December to March (the following year). The winter loans are disbursed in the period from September to January and collected from February to June of the following year. The pre-monsoon loans are disbursed from January to February and collected in December of the same year.

41 A special task force for restructuring the MADB was formed with the following ten members on October 13, 2015.

1. Deputy Minister, Ministry of Finance: Chairman
2. Director General, Ministry of Agriculture and Irrigation: Member
3. Managing Director, MADB: Member
4. Managing Director, MEB: Member
5. Director General, Ministry of National Planning and Economic Development: Member
6. Director General, Office of the Attorney General of the Union: Member
7. Director General, Office of the Auditor General of the Union: Member
8. Director General, CBM: Member
9. Deputy Managing Director, Rural Development Bank: Member
10. Director, Ministry of Finance: Secretary

42 http://www.mmtimes.com/index.php/business/22359-corporatisation-for-madb-next-step-in-state-enterprise-reform-efforts.html (Accessed September 09, 2016)

43 http://nptdc.gov.mm/pages.php?pagename=%E1%80%94%E1%80%B1%E1%80%95%E1%80%BC%E1%80%8A%E1%80%BA%E1%80%90%E1%80%B1%E1%80%AC%E1%80%BA%E1%80%85%E1%80%8A%E1%80%BA%E1%80%95%E1%80%84%E1%80%BA%E1%80%98%E1%80%8F%E1%80% BA (Accessed July 12, 2016)

44 It is a newly established bank to support microfinance activities in the country.

45 The new Construction and Housing Development Bank is expected to hand out long-term (20-30 years) housing loans intended for acquiring apartments in a government housing complex.

46 Banks for the development of farmers can be established provincially with a minimum paid-up capital of MMK 20 billion, and their headquarters must be located in the respective states and regions (CBM Notification 3/2014).

47 http://www.mmtimes.com/index.php/business/16268-gems-and-minerals-bank-to-register-in-september.html (Accessed July 12, 2016)

48 http://www.mmtimes.com/index.php/lifestyle/travel/16232-tourism-bank-waits-on-licence.html (Accessed July 12, 2016)

49 http://www.cbm.gov.mm/content/representative-offices-foreign-banks (Accessed August 23, 2016)

50 http://bidv.com.vn/Tin-tuc-su-kien/Thong-tin-bao-chi/Press-Release-No-35-2016--BIDV-receives-banking-op.aspx (Accessed July 12, 2016)

CHALLENGES AND OUTLOOK OF BANKING SECTOR

2

CHAPTER

2. Challenges and Outlook of Banking Sector

The Myanmar banking sector is particularly facing challenges in the pace and nature of the regulatory reform process, in developing human resources, and in re-establishing public trust in the banking sector.

For the time being, four major challenges for the banking sector should be highlighted: (i) the well-sequenced and carefully-managed implementation of the new Financial Institutions Law and other relevant rules, regulations and instructions, (ii) the development of human resources, (iii) the development of technology and infrastructure, and (iv) the gaining of public trust.

With the new CBM Law (2013) and the new Financial Institutions law (2016) as well as other relevant laws such as the new MAC Law (2015), the legal framework under which banks operate is changing on a large scale and at a fast pace. The direction of the legal reform process is clear: Myanmar is heading towards international good practices and increasing competition in the financial sector. At the same time, it has to be noted that these laws remain rather general and will still be further specified with the help of secondary rules and regulations. During the recent reform process, the banking sector in Myanmar has already undergone tremendous changes. The upcoming years will continue to bring about changes under the newly enacted Financial Institutions Law.

The future reform process needs to be a carefully-sequenced and well-managed one. Coordination and cooperation among the institutions involved will prove essential for this to be the case. In a liberalized financial sector, financial services could be designed to better meet the demands of the people and enterprises, and hence access to finance would improve and poverty could be alleviated. In order for the potential benefits of a liberalized banking market to materialize, the associated potential risks also need to be carefully weighed up and managed. Regulations need to ensure that the risks that accompany liberalization and a growing banking business can, on the one hand, be managed properly by the Myanmar banks and, on the other hand, also adequately be supervised by the CBM. These two prerequisites require huge effort from both the banks and the CBM. The best legal framework is of little use if it cannot be implemented and enforced properly. In order to ensure appropriate supervision and proper bank management, it is necessary to foster good corporate governance, reliable data and transparency as well as adequate risk management as they are all inevitable prerequisites and as such they still need to be further promoted in Myanmar. The Central Bank must furthermore pay attention to its own resources when navigating the future reform paths. The supervisory capacities have to especially keep up with the regulatory developments as well as the developments of the banks.

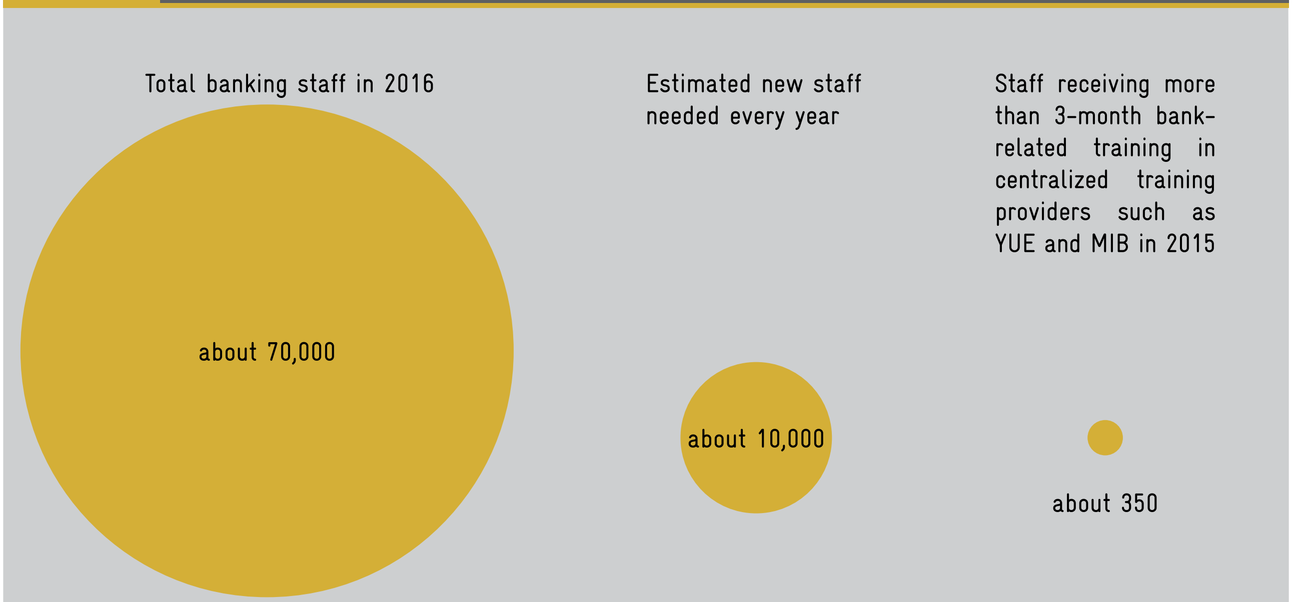
As Myanmar's banking sector grows in terms of size and complexity, so will the demand for additional human resources for the banks. Based on discussions and surveys with local banks, we estimate that the banking sector in Myanmar currently employs around 70,000 staff. At the current growth rate of banks and including the regular retirement process, about 10,000 new employees are joining the sector every year.

It is important to note, however, that the majority of new staff to the banking sector join a small group of fast growing local private banks, in particular those belonging to solvent conglomerates. At the same time, it is not only the sheer number of staff available, or rather the lack thereof, that poses grave challenges to the banks, but also the fact that the banks are in desperate need of specialists for various functions and are struggling to adequately fill these positions. The business environment will continuously progress from a restricted and uniform market with limited products to a competitive service-oriented and less cash-focused setting. Some of the larger private banks have also increasingly built on complementing their workforce during the past three to five years by attracting a number of repats and expats and have placed them in key positions, mainly in middle, some even in senior management positions. Simultaneously, more traditional banks, in particular government-owned banks, invest little in new staff and have limited monetary incentives to offer their current employees and potential applicants. The tough competition over the few qualified members of staff who are available to the market has led to large salary differentials.[51] The increased presence of international banks in the market will further intensify the struggle to attract and retain the limited number of suitable and competent candidates.

The lack of qualified staff available to the rapidly developing banking sector is the result of the long isolation of the country as well as of inadequate education and training possibilities. The primary, secondary, and tertiary education systems of Myanmar are not up to regional or international standards, and at the same time, the hands-on vocational training in the banking sector is virtually non-existent. Therefore, entrants to the banking sector lack the fundamental knowledge required to work in the banking sector, including mathematics or basic accounting and business skills.

The outreach of centralized training providers able to impart banking and financial knowledge, such as the MIB and the YUE (see 1.4.1), has not significantly increased over the past years. Training is too general and theoretical to either close the wide knowledge gaps of local bank employees or to adequately prepare the large number of new staff to enter the market. Other domestic training institutes are emerging, but these will require time to develop further until they reach a considerable size and expand the scope of their training programs. The training institutes in the banking sector are struggling to

Figure 11 Human resource development in Myanmar's banking sector



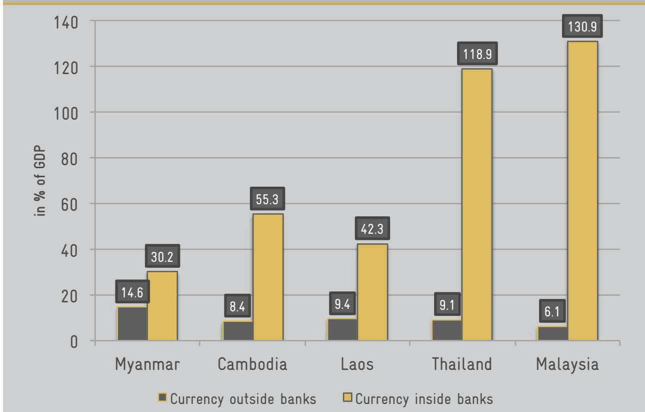
Reference: GIZ estimation based on discussions and surveys with local banks (2016) attract qualified full-time trainers at affordable prices as potential candidates find it more profitable to work as consultants to private banks.

Banks are attempting to bridge the training gap with in-house training schools or classes, which might be sufficient to train entry-level staff but which usually lacks more specialized trainings. Domestic banks need more structured, comprehensive, and needs-based trainings for all hierarchy levels to learn more about innovative approaches and international banking practices which can enable them to better deal with the changing environment and foreign competitors in the future.

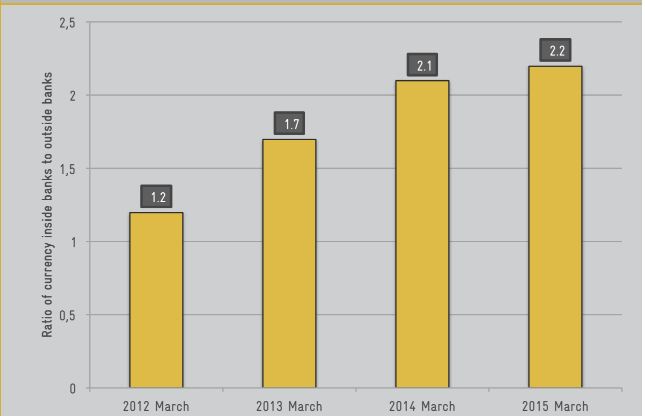
Challenges for banks are not limited to internal adaptations – public trust, which is the essence of every financial system, has to be regained by Myanmar banks. People's trust in the financial and particularly the banking sector has been shaken severely by a series of demonetizations and especially the banking crisis of 2003, which resulted in the closure of three banks and severe losses for, and consequently the loss of, its depositors. Rising property prices and stockpiling of physical assets, especially of gold, are signs of this lack of trust in the financial sector. Another sign is the relatively large volume of cash outside banks when compared to its ASEAN peers (Figure 12a). In 2014, Myanmar had the highest proportion of currency outside the banking sector to GDP in the ASEAN region. At the same time, it had the lowest share of currency in the banking sector, again compared to GDP. There are, however, signs of growing trust. Over the last four years, the ratio of currency inside the banking sector to the currency outside the banking sector has almost doubled. In 2012, for every kyat in a bank, there was 1.2 kyats outside a bank. In 2015, there were 2.2 kyats in a bank for every kyat outside of it (Figure 12b), indicating a growing public trust in banks.

Figure 12 Currency in and outside banks in Myanmar and four ASEAN countries (% of GDP in 2014) and ratio of currency in banks to outside banks in Myanmar

(12a) Currency in and outside Banks in 2014



(12b) Comparison of currency in banks to outside banks in Myanmar



Reference: IMF (2015 & 2014)

Upon closer scrutiny, however, it becomes apparent that cautious behavior is still in place. Deposits in the banking sector, for instance, consist to a vast extent (more than 90%) of demand deposits. Term deposits, and hence the willingness to commit one's savings to a bank for a longer period of time, are barely existent. Another sign of the limited trust in the banking sector is the immediate reaction of depositors to rumors and market developments. For example, rumors about liquidity problems of the largest private bank, the KBZ, led to massive withdrawals from depositors in the fall of 2012, with daily customer withdrawals amounting to MMK 8 billion (from an average of MMK 1-2 billion) (Myanmar Times, 2013). In November 2014, there was also a huge withdrawal of deposits from the United Amara Bank. Within only one day on November 4, 2014, the total withdrawal amount reached MMK 26 billion (The Voice Weekly, 2014). Trigger for these unprecedented withdrawals was the inclusion of the then parliamentarian U Aung Thaung, the father of the owner of the bank, on the U.S. designated persons list. Depositors feared resulting consequences to the bank. Therefore, it seems as if banks still have a long way to go until they earn back the trust lost in the last decades and can make full use of their potential as financial intermediaries.

Building IT infrastructure for the modernization of banking is another challenging task for local banks. Selection of suitable partners and programs at reasonable cost, and giving trainings on IT to their staff are sometimes complex and time-consuming and need heavy investment.

Myanmar continues to present a challenging environment for banks. The way forward will certainly not always be easy: too great are the various challenges and risks. It is anticipated that our work as the GIZ and this report in particular will help decision-makers better understand the context of the sector and hence encourage them to make better-informed decisions.

ENDNOTES

51 Whereas a Head of Department level position in a government-owned bank is entitled to a monthly salary of an equivalent of around USD 300, private banks currently have open positions offering twenty-fold or more for middle management positions in their banks.

2


Withdrawal
Balance
1,700,000.00
1,733,999.99
533,999.99
1,733,999.99
1,533,999.99
1,583,999.99
683,999.99
710,346.66
760,346.66
660,346.66

OTHER COMPONENTS OF MYANMAR'S FINANCIAL SECTOR

CHAPTER 3

3. Other Components of Myanmar's Financial Sector

3.1 Capital Markets

The opening of the Yangon Stock Exchange in December 2015 is a major step in the development of the capital market.

A primary government treasury bond (T-bond) market was established in 1993. However, a secondary market for on-trading bonds has not yet been established. The thin spread between T-bonds and deposit rates is the main reason why no efficient market has developed so far. Although most of the buyers of T-bonds used to be the local private banks that invest their surplus funds, state-owned banks have been becoming the main players in the T-bond market since 2009 due to the permission that was granted to them to invest their excess liquidity in T-bonds (OECD, 2014). The total amount of T-bonds outstanding reached MMK 2662 billion in February, 2016 (Table 8).

Table 8 Total outstanding amount of government T-bonds as of March 2016 (MMK billion)

Sr.	Type of T-bonds	Amount outstanding by		Outstanding (Total)
		General Public	Private Enterprises	
1	2-year T-bonds	38.9	326.7	365.6
2	3-year T-bonds	111.6	421.7	533.3
5	5-year T-bonds	30.5	1685.4	1715.9
Total		**181.0**	**2433.8**	**2614.8**

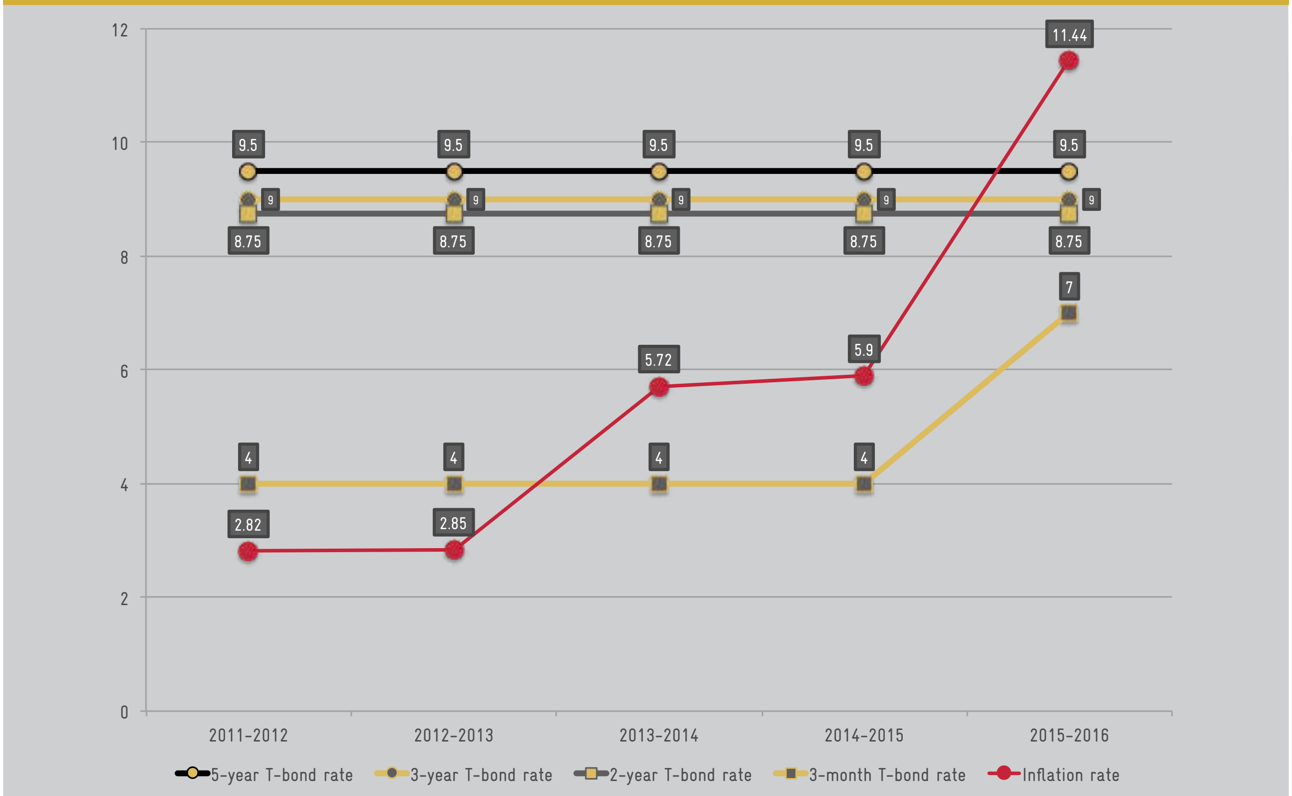
Reference: CSO (2016)

The Central Bank of Myanmar has been issuing 3- and 5-year T-bonds since 1993 and 2-year T-bonds since 2010. These T-bonds bear the interest rates of 8.75% per annum for two-year T-bonds, 9% for three-year and 9.5% for five-year T-bonds (Figure 13). Until September 2015, private banks were allowed to borrow from the CBM at its interest rate of 10% by placing their T-bonds as collaterals. As the CBM has since then terminated this facility, the local banks have to resort to the interbank market to address their liquidity shortage problems.

The Ministry of Planning and Finance also issues shorter maturity treasury bills (T-bills) for short-term financing of budget deficits. Previously, the CBM was the sole investor in these T-bills, and there had been no proper market demand due to an extremely-low annual interest rate of 4%.[52] With the agreement made with the MOPF early in 2015, the CBM started conducting T-bill auctions on January 28, 2015, and since then, the bill auctions have been taking place every two weeks. T-bills are issued with a variety of maturity tenure of 91 days (3 months)[53], 182 days

(6 months)[54] and 364 days (12 months)[55]. The discount rates range from approximately 7% to 9% in the auctions[56] conducted in 2015 and 2016. Most of the investors in the T-bills are bankers, and their interest in the auction is becoming higher with discount rates reflecting the market rates. However, as the MOPF continues to keep an upper limit for discount rates, bill sales are still unable to meet the targets (USAID, 2016). The CBM also intends to start conducting T-bond auctions in September 2016. There are mainly two objectives for the CBM to conduct these bill and bond auctions, namely to establish an efficient open market operation and to make effective domestic financing of the central government budget deficits.

Figure 13 T-bond and T-bill rates vs. inflation rates over the last six years (in %)

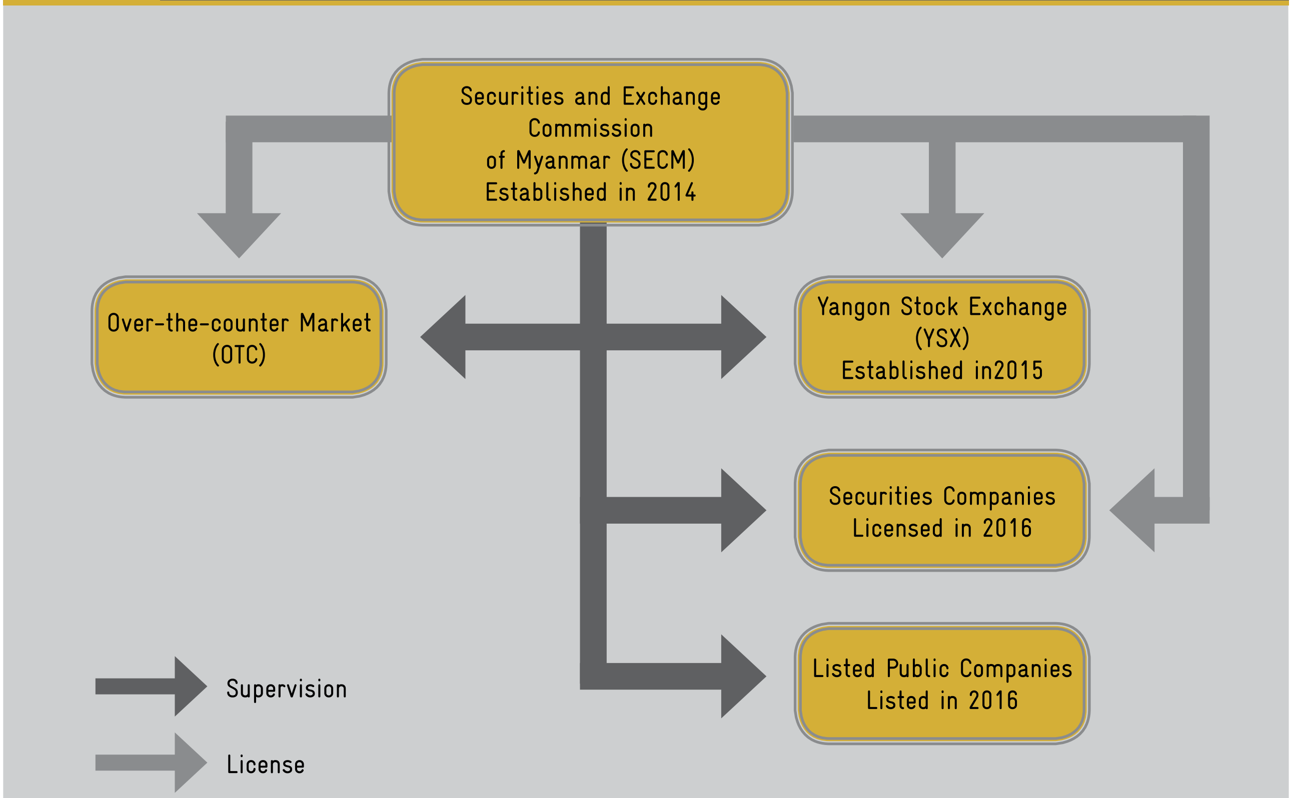


Reference: GIZ estimation based on discussions and surveys with local banks (2016)

Furthermore, Myanmar also took major steps to develop a capital market over the last two decades. With the ultimate goal of establishing a stock exchange, the Myanmar Securities Exchange Center (MSEC) was in 1996 incorporated as a joint venture by Myanma Economic Bank (MEB) and the Japanese Daiwa Securities Group Inc. The MSEC listed two public companies (the Forest Products Joint Venture Corporation in 1996 and the Myanmar Citizens Bank in 2006). It also provided technical assistance to the Myanmar government in drafting the Securities Exchange Law and its associated rules[57]. Until the end of 2015, the MSEC had been the only OTC market in the country for trading shares of its two listed companies as well as government securities.

In 2012, the Central Bank of Myanmar, while under the Ministry of Finance, signed a Memorandum of Understanding with Daiwa Institute of Research (DIR) Ltd. and Japan Exchange Group, Inc. (JPX) to develop human resources and receive technical assistance for the development of capital market in Myanmar.[58] A new Securities and Exchange Law[59] was enacted in July 2013, and the Securities and Exchange Commission of Myanmar (SECM), chaired by the Deputy Minister of Finance, was formed with seven members[60] in August 2014 (Myanmar Gazette, 2014b) in accordance with this law. The SECM is the regulatory body to issue the licenses and supervise the securities exchange market. Moreover, the securities exchange rules[61] were also enacted in July 2015. The legal structure of the securities market can be observed in Figure 14.

Figure 14 Legal structure of the securities market



Reference: GIZ (2016)

In January 2015, the SECM invited local companies, including joint-ventures in which the foreign partner does not have a controlling stake, to submit their applications for one of the four types of securities licenses . Of 57 applications received, 20 were for underwriting, 2 for dealing, 5 for brokerage and 30 for investment advisory (GIZ and Thura Swiss, 2016). Two days later, after releasing Securities Companies Regulations on March 11, 2016, the five securities companies, which were awarded securities business license, were officially announced (Table 9).

Table 9	Five securities companies which received underwriting license from the SECM		
Sr.	Name of Securities Company	Logo	Licensed Date
1	KBZ Sterling Coleman Securities Co., Ltd.	KBZSC KBZ STIRLING COLEMAN SECURITIES CO., LTD.	February 26, 2016
2	Myanmar Securities Exchange Center Co., Ltd.	MSEC MYANMAR SECURITIES EXCHANGE CENTRE	February 26, 2016
3	AYA Trust Securities Co., Ltd.		March 01, 2016
4	CB Securities Co., Ltd.	CB SECURITIES	March 01, 2016
5	KTZ Ruby Hill Securities Co., Ltd	KTzRH	March 01, 2016

Reference: SECM (2016), GIZ (2016)

In December 2014, Yangon Stock Exchange Joint Venture Company Limited (YSX) was formed by the MEB (51%), the DIR (30.25%) and the JPX (18.75%) with a total paid-up capital of MMK 32 billion. After obtaining permission of stock exchange business issued by the SECM in April 2015, the YSX selected KBZ bank as a fund settlement bank for cash settlement on stock trading. Following the announcement of its listing criteria in August 2015, the YSX held the grand opening ceremony on December 9, 2015. First Myanmar Investment (FMI)[63] became the first listed company on the YSX on March 25, 2016, followed by Myanmar Thilawa SEZ Holdings Public Ltd. (MTSH)[64] listed on May 20, 2016 and Myanmar Citizens Bank[65] listed on August 26, 2016. Additionally, First Private Bank and two more companies – namely Myanmar Agribusiness Public Corporation and Great Horkham - are also making preparations to be listed on the YSX.

In 2015 Yangon Stock Exchange started operating

Currently, only local individual and institutional investors are permitted to buy and sell at the YSX. However, the SECM announced in June 2016 that it has been making preparations to allow foreign investors to trade shares on the YSX, as well as to allow joint-ventures to be listed on the YSX after the revised Myanmar Companies Act will be enacted by the parliament (Thura Swiss, 2016).

3.2 Insurance Sector

Private insurance companies have been entering the market since 2013, but the reform process in this sector currently seems to stagnate.

The insurance sector in Myanmar dates back a long time and has an eventful history. While the insurance sector flourished in the pre-socialist era, lasting until 1963, insurance habits and awareness have almost disappeared over the last decades.[66] By nationalizing a local insurance company, the Burma National Insurance Company, the state-owned Union Insurance Board was established in 1952. The nationalization process of the insurance sector began when, first, all life insurance businesses were state-monopolised under the Union Insurance Board in 1959, and, second, the socialist government abolished all private insurance companies in 1964.

From late 1969 to 1976, all insurance business activities were centralized under the Insurance Division of the People's Bank of the Union of Burma. Under the Union Bank Law (1975), banking functions were decentralized, and the insurance business was outsourced to the newly-formed Myanma Insurance (MI). The Myanmar Insurance Law (1993) empowers the MI to engage in all insurance business activities (reinsurance business, determination of various insurance premium rates etc.). For more than two decades, the MI monopolized all the insurance businesses in Myanmar. As of July 2016, the MI offers over 40 different types of insurances via 38 branches with around 1,500 staff members across the country. The Insurance Business Law (1996) entrusts the Insurance Business Supervisory Board (IBSB)[67], controlled by the MOPF, to scrutinize and decide on applications for the business license of an insurer, underwriting agent or insurance broker, and to determine their capital and limits of investment.

As part of the financial sector reforms, the IBSB launched a license application process for private insurance companies in November 2012 in order to diversify the provision of insurance services and to modernize the sector. The IBSB received twenty applications from private companies, of which 12 met the requirements. Among these 12 companies (Table 10), the three insurers (Capital Life Insurance Ltd., Citizen Business Insurance Company and Aung Myint Moh Min Insurance Company) focus their business on life insurances only, which requires a total paid-up capital of MMK 6 billion. The remaining nine companies engage in both life- and non-life insurance business (paid-up capital: MMK 46 billion for both life-and non-life insurance).[68] Insurance companies have to deposit 40% of their paid-up capital in a state-owned bank that does not pay any interest[69]. The companies have to pay license fees of MMK 3 million and annual fees of MMK 1 million. Currently, the Financial Regulatory Department (FRD), instituted under the MOPF in 2014, supervises all private insurance companies. Because the insurance sector is now open to private firms, it currently has enormous potential for growth since only 2.3% of the Myanmar population[70], i.e. about one million people, have formal insurance (BC Finance Limited, 2014).

Selling insurance product in Yangon

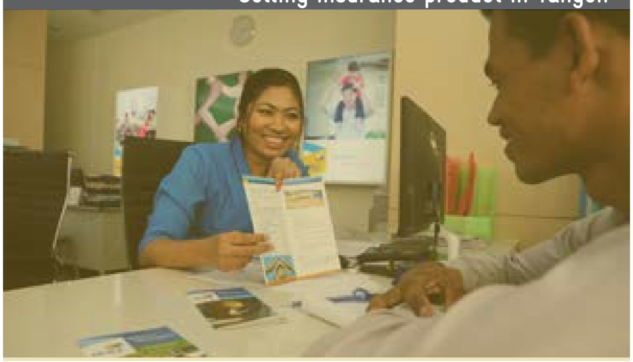


Table 10 Licensed private insurance companies and their holding companies

Sr.	Licensed insurance company	Logo	Class	Holding Company
1	IKBZ Insurance (Public) Co., Ltd.		General Insurance + Life Insurance	KBZ Bank
2	Grand Guardian Insurance Public Co., Ltd.		General Insurance + Life Insurance	Shwetaung Development Co., Ltd.
3	First National Insurance Public Co., Ltd.		General Insurance + Life Insurance	Htoo Group of Companies
4	AYA Myanmar Insurance Co., Ltd.		General Insurance + Life Insurance	Ayeyarwaddy Bank
5	Young Insurance Global Co., Ltd.		General Insurance + Life Insurance	Young Investment Group Co., Ltd.
6	Global World Insurance Co., Ltd.		General Insurance + Life Insurance	Asia World Co., Ltd.
7	Excellent Fortune Insurance Co., Ltd.		General Insurance + Life Insurance	Excellent Fortune Development Group Co., Ltd.
8	Aung Thitsa Oo Insurance Co., Ltd.		General Insurance + Life Insurance	Union of Myanmar Economic Holdings Ltd. (UMEHL)
9	Pillar of Truth Insurance Co., Ltd.		General Insurance + Life Insurance	Parami Energy Group of Companies
10	Capital Life Insurance Co., Ltd.		Life Insurance	Diamond Star Co., Ltd.
11	Citizen Business Insurance Public Ltd.		Life Insurance	CB Bank
12	Aung Myint Moh Min Insurance Co., Ltd.		Life Insurance	Myanmar Economic Corporation (MEC)

Reference: GIZ (2016)

Although private insurance companies are allowed in the country, their operations are still restricted. At present, all private insurance companies are to use the same premium rates with the intention of avoiding potentially harmful competition. Since May 2013, private insurers have been allowed to engage in six insurance policies; these include: life insurance, fire insurance[71], comprehensive motor insurance[72], cash-in-transit insurance, cash-in-safe insurance and fidelity insurance. A highway travel insurance was added to the list in May 2014. Following the introduction of health insurance in January 2015, a marine cargo insurance was also recently allowed. Among the licensed insurers, IKBZ and Grand Guardian Insurance were the first ones that started operations in June 2013. As regards selling products on a USD basis, four insurance companies (IKBZ, Grand Guardian Insurance, First National Insurance, and Aung Thitsa Oo Insurance) have been allowed since May 2014. In order to operate accordingly, each of them was required to increase its paid-up capital by USD 500,000.

Thus far, over 20 foreign insurance companies[73] have set up representative offices in Myanmar (Myanmar Times, 2016 & The Nation, 2014).[74] As a first step towards liberalizing the market for foreign insurers, three Japanese insurers, namely Tokyo Marine & Nichido Fire Insurance Co Ltd, Sampo Japan Insurance Inc. and Mitsui Sumitomo Insurance Co Ltd, were granted a one-year temporary license in 2015 to operate three types of insurances - life , fire and motor - in Myanmar's special economic zones (Eleven, 2015).[75]

Notwithstanding these promising recent developments, the Myanmar insurance sector is still struggling in important aspects such as skilled workforce, modern insurance technology, reinsurance and experience in insurance supervision. An upgrading of the existing insurance business law to meet international standards is also still pending. A lack of public awareness about the importance of an insurance system is also one of the obstacles faced by Myanmar insurance companies. As the micro-insurance market has not yet emerged, access to insurance services is still limited to a relatively small part of the population, mainly comprising members of the middle and upper classes.

Myanma insurance building in Yangon

3.3 Finance Companies

Thus far, finance companies do not play a significant role. They do, however, have the potential to play a greater role in the future.

Up until January 2013, there had only been one finance company, Oriental Leasing Company Limited. Established in 1996 as a subsidiary of the Myanmar Oriental Bank Ltd, its main activity lies in the hire-purchase of mostly motor vehicles, agricultural machineries and electrical goods. For the Oriental Leasing Company, the investment funds pooled under the bank's trust fund scheme are the main source of funds for its operation.

Between January 2013 and June 2016, fourteen additional finance companies were licensed: two were granted license in 2013, six in 2014, one in 2015 and five in 2016 (**Table 11**). In FY 2015-2016, their total amount of loans extended to their customers reached nearly MMK 30 billion. They seek their long-term funds from domestic banks they have close realationship with and foreign investors. However, foreign investors (investment firms) are more interested in equity participation in the finance companies than in handing out loans to them. About ten more companies applied for a license and are currently awaiting approval from the CBM. Two foreign finance companies, BTMU Leasing (Thailand) Co. Ltd. and ACELEDA Bank Plc. have also recently established representative offices in Myanmar.

Box 12	Finance Companies
Interest rate of loans:	24-35% p.a.
Maximum maturity of loans :	1 year
Major products: Lending, Hire-purchase and Leasing	
Minimum paid-up capital:	MMK 3 billion
License fee & Annual fee:	0.1 % of existing capital
No. of licensed finance companies:	11 (as of June 2016)

Reference: GIZ (2016)

Table 11 Licensed finance companies (as of August 2016)

Sr.	Name of finance companies	Year of license issued
1	Oriental Leasing Company Ltd.	1996
2	Myat Nan Yone Finance Company Ltd.	2013
3	Ryuju Finance Company Ltd.	2013
4	Mahar Bawga Finance Company Ltd.	2014
5	Jewel Spectrum Company Ltd.	2014
6	Century Finance Company Ltd.	2014
7	Win Progress Services Company Ltd.	2014
8	Z Corporationn Company Ltd.	2014
9	Global Innovations Finance Company Ltd.	2014
10	Citizen Finance Company Ltd.	2015
11	Mother Finance Company Ltd.	2016
12	Mawganite Company Ltd.	2016
13	Best Merchant Finance Company Ltd.	2016
14	Myanmar Ruby Hill Finance Company Ltd.	2016
15	A1 Capital Company Ltd.	2016

Reference: CBM (2016)

Finance companies are subject to the 2016 Financial Institutions Law. According to the central bank, the three main functions of a finance company are lending, hire-purchase and leasing. The current minimum capital is set at MMK 3 billion. Finance companies are not allowed to accept deposits from the public. They can, however, receive long-term loans from institutional investors and foreign financial institutions subject to the approval of the CBM.

Box 13 Non-bank money changers

- Non-bank money changers have been allowed since December 2012.
- Their minimum capital is set at MMK 30 million.
- Based on the central bank's daily reference rate, they deal in USD, EURO, Singapore Dollar, Thai Baht and Malaysia Ringgit. They set their own buying and selling rates within the bands of plus or minus 0.8% of central bank's daily reference rate.
- As of June 2016, there were 381 non-bank-money-changers, and money-changer licenses given to banks were 767.
- They offer competitive rates to the customers.

3.4 Microfinance

Despite high demand, the microfinance sector is facing sustainability issues.

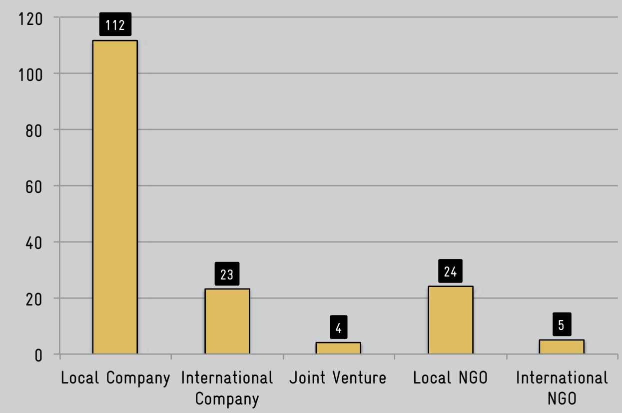
Microfinance in Myanmar is mainly designed as a means to alleviate poverty. The beginnings of the country's microfinance date back to the mid-1990s when international NGOs (e.g. PACT, GRET, World Vision), most of them with support from the United Nations Development Programme (UNDP), started offering microfinance services. However, a legal framework for microfinance operations was only developed in 2011.

The Microfinance Law of November 2011 underlines the poverty alleviation aspect of microfinance and defines microfinance institutions (MFIs) as *"local and foreign institutions, partnership firms, companies, co-operative societies, banks and non-banking financial institutions, (...) funded with own capital, charity and grant, (...) to operate microfinance business in order to reduce the poverty of the grass-roots people and to improve their socio-economic life".*[76] Furthermore, while capping the maximum loan amount at MMK 5 million and discouraging "luxury" consumer finance through MFIs, the regulator also encourages lending in rural areas: "50% of portfolio outstanding and outreach should be in rural areas".[77]

The Ministry of Planning and Finance regulates and supervises the microfinance industry through its Financial Regulatory Department (FRD).[78] As of March 2016, 168 MFIs, namely NGOs, INGOs, local and international companies as well as joint ventures, operated under the regulation and supervision of the FRD.[79]

MFIs can be deposit-taking or non-deposit-taking.[81] About two-thirds of MFIs is deposit-taking (110 out of 168 MFIs).[82] Among these MFIs are some important regional microfinance providers, such as Acleda (Cambodia), ASA (Bangladesh), Basix (India), BRAC (Bangladesh), CARD (the Philippines) and LOLC (Sri Lanka). As of February 2016, the Myanmar microfinance sector had served 1.6 million borrowers; total assets amounted to approximately MMK 352 billion and the total outstanding loan portfolio to MMK 256 billion. Total micro savings amounted to MMK 68 billion.[83]

Figure 15 Licensed MFIs (168 in total) as of March 2016[80]



Reference: GIZ (2016)

In February 2016, the FRD transferred the 77 cooperative MFIs, initially under the joint regulation and supervision of the MOPF and the Ministry of Cooperatives[84], to become subject to the regulation and supervision of the Ministry of Cooperatives only.[85]

Box 14	Microfinance

Minimum paid-up capital:

- Deposit-taking MFIs: MMK 300 million (Previously MMK 30 million)
- Non-deposit-taking MFIs: MMK 100 million (Previously MMK 15 million)

Interest rates:

- Compulsory micro-savings interest rate: minimum 15% p.a.
- Voluntary micro-savings interest rate: minimum 10% p.a.
- Microloan interest rate: maximum 30% p.a.

Prudential Ratios:

- Minimum Solvency Ratio: 12%
- Minimum Liquidity Ratio: 25%

Microfinance products:

- Maximum loan size: MMK 5 million
- Maximum compulsory deposit size: 5% of a client's loan size
- Maximum voluntary deposit size: 12% of Solvency Ratio
- Micro leasing: allowed, reportedly offered by one international MFI
- Mobile payments: allowed, individual approval from the Central Bank of Myanmar required, reportedly offered by one local MFI
- Micro insurance: allowed by law, but regulation is not yet implemented

References: Microfinance Business Supervisory Committee Directives 1/2011, 3/2014, 1/2015, 4/2016 & 5/2016; Interview with FRD (2016)

Interest rates are set by the MOPF and currently stand at 30% p.a. (maximum) for loans and 15% p.a. (minimum) for compulsory deposits and 10% p.a (minimum) for voluntary deposits.[86] In Myanmar's macroeconomic context of rising inflation and growing currency risks, this interest-rate spread makes commercial viability a challenge for MFIs.

Under current regulations, microloans – though they can be (and typically are) secured by guarantees - have to be uncollateralized and the permitted maximum individual loan amount is set at MMK 5 million.[87] Instead of bullet repayments, which are common in the Myanmar banking sector, microloan repayment is usually structured in regular installments (often bi-weekly).

According to interviews with MFIs, the majority of MFI clients in Myanmar are women. There are some MFIs that explicitly target and serve women, and others that mainly serve but not explicitly target women. To give an example: Myanmar's largest MFI, PACT Global Microfinance, does not explicitly target women but, in fact, over 98% of its clients are women. MFIs in Myanmar explain the popularity of microfinance services with female clients. While a number of microloans seem to be used for developing microbusinesses, microloans also frequently seem to be used as a 'liquidity management tool' or for private consumption purposes.

Data shared by a number of large MFIs in Myanmar show that most micro-borrowers actually take out much smaller amounts than would be allowed by the regulatory framework – and would, in fact, be needed for expanding and growing a business (most loans range between MMK 100,000 and MMK 250,000).

Currently, Myanmar's microfinance sector faces a number of challenges and opportunities. On behalf of its member MFIs, the Myanmar Microfinance Association (MMFA) summarized these challenges and opportunities in its 'Policy Reform Recommendations to Accelerate Microfinance in Myanmar' paper in early 2016.[88] Among these are suggestions to abolish the cap on the maximum amount of voluntary savings or proposals for a reduction of the micro-savings interest rate down to the level of minimum interest rates of banks (8% p.a.). At this time, funding is one of the major concerns of MFIs. On the one hand, MFIs are restricted in the deposits they can collect from their borrowers. In a regulatory move made in April 2015 to protect micro-depositors, voluntary and compulsory micro-savings were previously capped at 5% of the client's loan amount.[89] On the other hand, access to non-depositor funding is possible but also restricted. Unless funded by grants or equity provided by the parent institution, they need to borrow from formal financial institutions abroad (loans per MFI may total USD 3 million at maximum), if the loan and its conditions are approved by the home country, Microfinance Business Supervisory Committee and the Central Bank of Myanmar.[90]

At the same time, the microfinance sector nonetheless possesses significant growth potential: a 2013 IFC/CGAP sector assessment estimated the total demand for microloans in Myanmar at USD 1 billion.[91] Some experts think that despite a growing microfinance sector, estimated demand still exceeds current supply more than four times. However, another study on microfinance sees the Myanmar MFI sector as "saturated", in spite of the low percentage of market penetration. A report points out that the low capacity/financial literacy of the population, state involvement and the informal sector especially pose the risk of over-indebtness and unsettlement in Myanmar's microfinance sector (MIMOSA, 2015).

3.5 Pawn Shops

Pawn shops are still an important part of the lending landscape in Myanmar.

In Myanmar's economic hub and most populated city, Yangon, the pawn-shop business is traditionally run by the Myanmar-Chinese community.[92] Pawn shops tend to be located in populated and busy areas, often close to markets. According to Yangon-based pawn-shop owners, the majority of clients are female, and these females or their families often run a micro-business at a nearby market. Reportedly, a commonplace purpose for taking out a loan is to bridge business or private liquidity shortages.

Pawn-shop licenses are issued through a bidding process which is organized either by the authority of the State/Region or by the municipal authorities in the case of larger cities, e.g. the Yangon City Development Committee (YCDC) in Yangon.[93] According to pawn-shop owners, it takes two to three months to receive a license. The licenses under the YCDC have to be renewed annually, with the license fee increasing progressively (approximately 5% every year). License fees differ depending on location; they range from MMK 300,000 in rural areas to up to MMK 20 million in major cities.[94]

The YCDC also fixes the interest rates and maturities that pawn shops are allowed to apply. Maturities for pawn-shop loans in Yangon are fixed at four months, although some pawn-shop owners grant slightly longer maturities (e.g. five months). Clients have the option to roll-over pawn-shop loans multiple times under the condition that they have regularly repaid interest. Repayment can be made at any time and in whatever amount the client can afford to pay.

Interest rates are fixed at 3% per month for high-value items such as gold or jewelry and at 10% per month for less valuable items such as clothes or household items.[95] If a pawn shop charges higher rates than these, clients can turn to the YCDC for complaints. The YCDC does not regulate the loan-to-collateral ratio. This is at the discretion of the pawn shop. Usually, loan-to-collateral ratios at pawn shops are slightly higher than those used by banks. On average, pawn-shop loan sizes are similar to average sizes of microfinance loans (MMK 100,000 to MMK 250,000). This may be one reason why pawn-shop loans and microloans are often perceived as the same thing. Another reason may rest in the fact that regulated MFIs were initially put under the same regulatory and supervisory authority as regulated pawn shops. The responsibility for regulating MFIs and pawn shops was divided up in 2014.

It is estimated that pawn shops provide about three times more customers with microloans than MFIs (excluding cooperatives).[96]

Box 15 Pawn shops

Interest rates:
Urban areas:[97] maximum 36% p.a. (for high-value items), maximum 120% p.a. (for low-value items)
Rural areas:[98] 72-240% p.a.

Repayment periods:
4 months[99]

Can vary from a few thousand kyats to several lakhs; the loan-to-collateral ratio is at the discretion of the pawn-shop owner. For high-value items (e.g. gold), the loan-to-collateral ratio seems to be approximately 80%. For items of lower value, the ratio is also lower.

Collateral items accepted:
Gold, jewelry, business equipment and household items

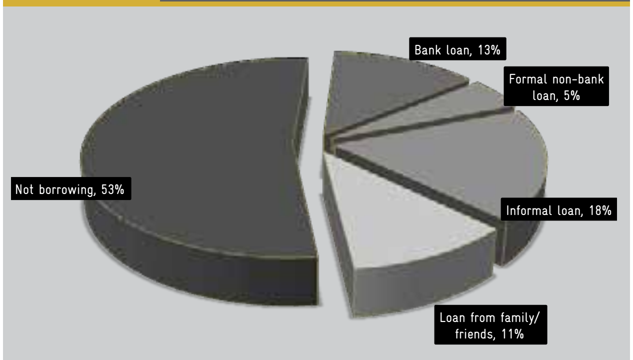
Reference: Interviews with Pawn-shop Owners in Yangon (2016 and 2013)

3.6 Informal Financial Sector

Informal lending is widely used despite high interest rates.

A 2013 nationwide study by FinScope found that more people in Myanmar use informal loans than formal loans (29% vs. 18%, Figure 16).[100]

Figure 16 Access to different types of credit (% of the population)



Reference: FinScope 2013

Collecting comprehensive and reliable data about informal moneylenders is difficult because lending money without holding a license is illegal and may be punished with a fine or imprisonment.[101] However, informal moneylending is not only flourishing but also has a long tradition in Myanmar. For example, from the mid-19th century until the end of British colonial rule, Chettiars, people of a mercantile caste originally from India, successfully operated as professional but largely informal moneylenders, particularly for Myanmar's agricultural sector.[102] They often offered additional financial services, such as bills of exchange used for advancing credit or for remitting funds - so-called hundis.[103] The hundi system still operates today.[104] Hundi operations are based on a high degree of trust and an extensive network of relationships, reaching out to most rural areas in Myanmar. They are used for transporting all kinds of goods, including money, and deliver them directly to the recipient. IDs are often not required and transactions are processed quickly and at acceptable costs for clients. Hundi systems also operate internationally. In this case, hundi agents usually charge slightly higher foreign exchange rates than the official foreign exchange rates and make money out of the spread.

According to the information available, most moneylenders operate as individuals. They usually lend within their social stratum and neighborhood – meaning that moneylenders do not necessarily come from affluent backgrounds (though they naturally need to have some funds of their own which they can lend to others).[105] Apart from this commonality, business models, lending terms, and degree of professionalization vary. Some money lenders only lend a few times per year while others lend several times per week. Loan maturities differ greatly, from days or weeks to a few years. It would also seem that rolling over loans is as common and accepted in the informal sector as in the formal banking sector.

For higher loan amounts, collateral is required but informal moneylenders are more flexible than banks with regard to items acceptable as collateral. In addition to the typical items that are also acceptable to banks, moneylenders accept apartments and gems, which many banks will not accept.[106] The interest rate charged by informal moneylenders depends on the relationship between borrower and moneylender as well as on whether or not a loan is collateralized and on the type of collateral pledged. For collateralized loans, monthly interest rates can reportedly range from 2.5% to 10% or more. For uncollateralized loans, which pose a higher risk for the lender, interest rates are easily three to four times higher than for collateralized loans. Interest-rate payments are usually calculated on the outstanding principal. Disbursement of informal loans seems to be much faster than in the formal sector and, even for fairly large amounts, often only requires a day or two.

Informal moneylenders are filling a gap in the current financial sector as they are serving clients who, so far, have not been served by formal financial sector. Simultaneously, informal moneylending enhances the shadow economy and bears the risk that arises from its informality, in particular regarding the protection of borrowers in the event of overdue payments or realization of collaterals.

Box 16 Informal moneylenders

Interest rates:
Varying approximately between 30% and 100% p.a. for collateralized loans and between 60% and over 200% p.a. for uncollateralized loans

Repayment periods:
Depending on loan amount and collateralization of the loan (small amounts and uncollateralized loans have shorter maturities – though all loans can usually be rolled over)

Loan amounts:
Depending on social stratum, e.g. a few hundred thousand kyats for laborers and MMK 50 million or more in the middle class

Collateral items accepted:
Gold, jewelry, apartments, land and buildings

Reference: Interviews with Yangon-based Moneylenders (2016)

ENDNOTES

52 The government mainly relied on government T-bills to finance budget deficits and tried to avoid paying high interest on its debt by fixing a low T-bill rate. The Joint Public Accounts Committee (JPAC) of the Myanmar Parliament reported in 2014 that the components of T-bonds and T-bills in deficit financing are 32:68 in the FY 2011-2012 and 22:78 in the FY 2012-2013 (JPAC, 2014a).

53 Introduced on February 18, 2016 (T-bill maturity of the first auction conducted on January 28, 2015 is 98 days exceptionally).

54 Introduced on May 4, 2016

55 Introduced on June 15, 2016

56 http://www.cbm.gov.mm/content/1309 (Accessed September 12, 2016)

57 http://www.msecmyanmar.com/why-msec (Accessed July 06, 2016)

58 https://ysx-mm.com/en/aboutysx/history (Accessed July 06, 2016)

59 http://secm.gov.mm/en/se-law/ (Accessed July 06, 2016)

60 The SECM was formed with the following 7 members, and the first two were replaced by U Maung Maung Win (current Deputy Minister) and Dr. Daw Tin Hla Kyi: (Myanmar Gazette, 2014b) http://secm.gov.mm/en/about-secm/ (Accessed July 06, 2016)

1. Dr. Maung Maung Thein, Deputy Minister, Ministry of Finance Chairman
2. Dr. Than Swe, Rector (retired), Meikhtila Institute of Economics Member

3. Daw Khin Lay Myint, Deputy Director General (retired), Budget Department — Member
4. U Htay Chun, Deputy Director General (retired), DICA — Member
5. Daw Tin Kyi U, Deputy Director General (retired), Office of Union Auditor-General — Member
6. Daw Tin May Oo, Deputy Director General (retired), Project Appraisal and Progress Reporting Dept. — Member
7. Director General, Office of SECM — Secretary

61 http://secm.gov.mm/en/rule/ (Accessed July 06, 2016)

62 Minimum paid-up capital for securities licenses are set as follows:
1. Underwriting license: MMK 15 billion,
2. Dealing license: MMK 10 billion
3. Brokerage license: MMK 7 billion and
4. Investment Advisory license: MMK 0.03 billion.

63 https://ysx-mm.com/en/listing/company/lc00001/ (Accessed July 06, 2016)

64 https://ysx-mm.com/en/listing/company/lc00002/ (Accessed July 06, 2016)

65 https://ysx-mm.com/en/listing/company/lc00003/ (Accessed August 26, 2016)

66 According to the Asia Insurance Review, before 1964, there were nearly 80 foreign insurance companies and 4,000 agents operating in Myanmar. As of 2013, local insurance experts estimate the number of private agents to be around 1500 nationwide.

67 The IBSB was formed in 2013 with the following people in accordance with 1996 Insurance Business law, and it needs to be reformed as its chairman retired in March 2016.
http://www.mof.gov.mm/en/content/myanma-insurance (Accessed June 14, 2016)
1. Dr. Maung Maung Thein, Deputy Minister, Ministry of Finance: — Chairman
2. Director General, Central Bank of Myanmar: — Member
3. Director General, Office of Attorney General: — Member
4. Director General, Office of the Auditor-General: — Member
5. Director General, Directorate of Investment and Company Registration: — Member
6. Director General, Internal Revenue Department: — Member
7. U Aung Myaing, Expert (Retired Director, Budget Department): — Member
8. Managing Director, Myanma Insurance: Member: — Secretary

68 The U.S. insurance company MetLife, which also established a representative office in Myanmar, expects the market for life insurance premiums to grow from USD 1 million (2012) to almost USD 1 billion until 2018.

69 http://www.mmtimes.com/index.php/business/20811-government-to-tackle-insurance-regulations.html (Accessed August 26, 2016)

70 According to the results of Population and Housing Census of Myanmar 2014 conducted by the Ministry of Labor, Immigration and Population, the total population of the whole country is 51,486,253 (51.49 million).

71 Banks ask their clients to get insurance policies for items (land, building, machinery, etc.) they placed as collateral.

72 With the automotive market currently flourishing in Myanmar, motor insurances are among the most popular products. Different policies cover the own losses or damages as well as the losses, damages and injuries or deaths of third parties. The insurance period is up to one year and can be renewed annually. Depending on the use and value of the car, the premium range varies between 0.8% and 1.2% of the sum insured.

73 American International Assurance Co., ACE INA International Holdings, MetLife, Mitsui Sumitomo Insurance Co., Muang Thai Life Assurance, Sompo Japan Insurance, Tokyo Marine & Nichido Fire Insurance co., Taiyo-Life Insurance Co., Poema Insurance, Great Eastern Life Assurance Co., Prudential Holdings, Pana Harrison (Asia) Pte., Manulife Financial Life Insurance, Willis Co. and United Overseas Insurance, New India Assurance and Marsh Insurance.

74 http://www.mmtimes.com/index.php/business/20811-government-to-tackle-insurance-regulations.html (Accessed August 26, 2016)

75 http://elevenmyanmar.com/business/3-japanese-insurance-companies-eligible-permanent-licenses (Accessed July 14, 2016)

76 See Chapter 1 of the Microfinance Law (2011), Translation by UNCDF MicroLead.

77 Microfinance Business Supervisory Committee Directive 3/2014.

78 The Ministry of Finance merged with the Ministry of National Planning and Economic Development under the new government in April 2016. In September 2014, the MMSE (Myanmar Microfinance Supervisory Enterprise) transformed into the FRD.

79 Interview with FRD (March 2016). Note: MFI licenses initially are temporary for one year.

80 Cooperatives withdrew from Microfinance licenses and some NGOs (e.g. World Vision and Save the Children) changed into international companies.

81 Minimum paid-up capital: MMK 15 million (non-deposit-taking) and MMK 30 million (deposit-taking) see: Microfinance Business Supervisory Committee Directive 1/2011, but increased with a new directive in 2016.

82 Interview with FRD (March 2016).

83 FRD presentation at IFC Speaker Series "Smart Lessons for Responsible and Sustainable Microfinance in Myanmar", Yangon, March 7, 2016.

84 Under the restructuring process of ministries by the new government headed by President Htin Kyaw, three ministries (the Ministry of Cooperatives, the Ministry of Livestock and Fisheries and the Ministry of Agriculture and Irrigation) were merged into the "Ministry of Agriculture, Livestock and Irrigation (MALI)".

85 Interview with FRD (March 2016).

86 Microfinance Business Supervisory Committee Directive 1/2011 & 4/2016

87 See chapter 1, Microfinance Law (2011); Microfinance Business Supervisory Committee Directive 3/2014.

88 MMFA (2016): Policy Reform Recommendations to Accelerate Micro-Finance in Myanmar (Draft as of February 4, 2016).

89 Microfinance Business Supervisory Committee Directive 1/2015.

90 MMFA (2016): page 4f.

91 Eric Duflos et al. (2013): Microfinance in Myanmar Sector Assessment.

92 Interviews with pawnshop owners in Yangon (September 2013, February 2016).

93 Reportedly, there are, however, also a number of pawn shops that operate without a license.

94 Interviews with pawn-shop owners in Yangon (September 2013, February 2016).

95 Pawn shops usually only require ID documentation for high-value items.

96 Cenfri data presented at IFC Speaker Series "Smart Lessons for Responsible and Sustainable Microfinance in Myanmar", Yangon, March 7, 2016.

97 As set by the YCDC for Yangon.

98 Joshua Carroll (2015): Inside Burma's pawn shop culture. In: The Guardian: http://www.theguardian.com/global-development-professionals-network/2015/apr/27/inside-burmas-pawn-shop-culture-we-wouldnt-accept-filthy-kitchen-utensils-or-used-underwear.

99 As set by the YCDC for Yangon. Information on rural areas and unregulated pawn shops is not available.

100 FinScope (2013): Survey Highlights Myanmar.

101 See e.g. Microfinance Law (2011): Chapter 14.

102 Sean Turnell (2005): The Chettiars in Burma.

103 Ibid: page 17.

104 The Economist (2013): Myanmar's remittances. Too many chits for kyats. http://www.economist.com/blogs/banyan/2013/05/myanmars-remittances

105 Interviews with five Yangon-based active and former money lenders in 2013 and 2016.

106 The loan-to-collateral ratio for apartments can lie anywhere between 25% and 50%. The money lender requires the handover of all original ownership documents of the apartment as well as, occasionally, the apartment keys as loan security.

Former Central Bank of Myanmar building, Now occupied by YSX

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ANNEX

Table I — Recent legal reforms in the Myanmar financial sector

Name of the Law	Date of Enactment	Main Changes
Microfinance Business Law (new)	November 30, 2011	• Legalization of microfinance operations • Introduction of interest rate caps • Allows domestic and foreign investors to establish fully-privately owned MFIs
Foreign Exchange Management Law (new)	August 10, 2012	• Introduction of a managed float system • Eliminated exchange rate restrictions and removed multi-currency practices
Foreign Investment Law (new)	November 2, 2012	• 5-year tax holiday with various tax and cus toms duty relief • Non-nationalization and non-suspension of the business • Land use allowed up to 70 years (50+10+10) • Right to repatriation of profits and capital brought in
Central Bank of Myanmar Law (new)	July 11, 2013	• Independence of the CBM from the MoF • Autonomous power to implement monetary and exchange rate policies • CBM Governor becomes a minister level
Securities and Exchange Law (new)	July 31, 2013	• Provides a framework for a stock market • Allows an over-the-counter market • Establishes a Securities and Exchange Commission, the main regulatory body • Mobilizes the accumulation and allocation of financial resources
Anti-money Laundering Law (new)	March 14, 2014	• Provides a legal and regulatory framework for anti-money laundering activities
Financial Institutions Law (new)	January 25, 2016	• Implementation of a stable and modern banking system

Reference: GIZ (2016)

Table II	Salient points of FIL (2016)		
Chapter [Section]	Topic	Main Changes	Remark
2	Objectives	To obtain sustainable economic development; to maintain the stability, safety and soundness of the financial system and to protect the depositors' interest; etc.	
5 [19(a)]	Application of the law	The law applies to banks, and to non-bank financial institutions (NBFI) but not to Scheduled Institutions, which are established under their specific laws to cater for specific customers and a specific group of people and businesses such as the Rural Development Bank, the Agricultural Bank, MFIs licensed under the Microfinance Law, credit societies and postal savings bank.	
8 [34 (a)]	Maintenance of capital fund	Minimum paid-up capital: MMK 20 billion for a local bank and USD 75 million for a branch of a foreign bank.	
8 [34 (f&g)]	Capital adequacy ratio	A bank is required to maintain capital adequacy ratio on a consolidated basis (to be specified by the CBM)	Currently, it is 10%
8 [35]	Maintenance of reserve fund	At least 25% of the net profits of every year must be transferred to the reserve fund until the reserve fund equals the total paid-up capital.	
8 [36]	Maintenance of liquid assets	Minimum or minimum average amount of liquid assets shall be maintained as specified by the CBM.	Currently, it is 20%
8 [37]	Maintenance of assets in Myanmar	Minimum amount of assets must be maintained as specified by the CBM	
8 [39]	Provisions for loans and other assets	Provision for loans, advances and other assets must be made before any profit or loss is declared	See Box-9
9 [59 (a&b)]	Single exposure	Not more than 20% of core capital	Same as before
9 [64]	Restriction on related party lending	Related party (directors, managers or shareholders holding more than 5% of voting shares) lending is prohibited.	
9 [66]	General prudential requirements	To be announced by the CBM	
10 [73]	Number of directors (for local banks)	At least 5 , including non-executive independent director(s); at least one non-executive independent director is required to have quorum	
11 [85]	Audit Committee	Consists of 3 members (not members of the management) appointed by the general meeting of the shareholders for a period of 4 years. A board member shall lead the committee.	
11 [88]	External auditors	To be appointed by the general meeting of the shareholders but not the same auditor for more than three consecutive times. External auditors shall be replaced at least once every five years.	
9 [71]	Consumer Protection	It is the responsibility and duty of the CBM to promote consumer protection and financial capability of the financial consumers.	
9 [60&61]	Restrictions on Investment	(1) not more than 10% of a bank's capital in a public co. (2) not more than 5% of another bank's/NBFI's capital.	
11 [86(d,e&f)]	Transparency	Disclosure of audited financial statements must be made in various ways as prescribed by the CBM.	

Reference: FIL (2016)

Table III	CBM rules on risk weights
Categories	Risk weights %
Balances due from banks	
Residual maturities up to one year	20
Residual maturities over one year	100
Loans and Advances	
Mortgages	50
Secured	50
Unsecured	100
Fixed assets	20
Checks, bills, and all receivables	20
Other assets (excluding claims on government, government departments, state-owned enterprises)	100

Reference: GIZ (2016)

Table IV	Reporting frequencies and financial data reported to the CBM
Daily	• Free capital • Cash receipts/payments and balance for each branch • Deposit account balance (current, savings, call, foreign currency and fixed accounts) • Remittance transactions • Loan account balance (loan, overdraft, trade finance and hire-purchase) • Consolidated trail balance
Weekly	• Cash ratio • Reserve ratio • Liquidity ratio (20%)
Monthly	• Cash transactions and cash balance • Income and expenditure statement • General ledger return • Capital adequacy ratio • Types of loans and collaterals • Daily progress of loans • Loans outstanding • NPL ratio

Reference: MOB (2016)

Table V Aggregate balance sheet of the Myanmar banking sector for the six fiscal years (MMK million)

Financial Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Assets						
Cash	1,130,375.52	1,463,407.49	2,332,303.61	2,382,134.35	9,541,469.96	11,425,090.13
Equity investment	3,353.39	3,369.39	8,363.89	19,273.35	19,426.20	41,226.89
Loans and Advances	870,006.27	1,129,831.18	1,925,903.45	3,172,230.65	5,289,043.90	8,318,018.19
Government Securities	485,191.97	926,050.00	1,291,427.30	2,021,972.30	2,579,932.00	3,314,547.00
Public Securities	0	200.00	200.00	220.00	772.80	872.80
Bills Purchased & Discounted	35,162.83	110,737.22	180,623.82	74,014.31	80,285.06	66,310.88
Fixed Assets	35,725.55	49,628.52	83,708.75	140,390.35	222,994.68	375,946.64
Other Assets	96,702.16	142,017.16	227,628.33	499,368.97	4,597,971.76	5,455,521.01
AEG[107]	27,586.44	27,791.13	29,334.50	42,748.50	645,213.64	1,149,486.89
Total	2,684,104.13	3,853,032.09	6,079,493.65	8,352,352.78	22,977,110.00	30,147,020.43
Liabilities						
Paid-up Capital	94,281.20	130,808.00	240,457.60	344,492.23	467,204.65	625,110.18
Reserves	27,139.33	35,925.30	51,773.52	76,814.09	121,266.30	186,291.76
Other Reserves	25,915.38	28,888.48	42,807.19	61,377.62	1,147,011.81	1,180,268.64
Profit & Loss	1,950.62	3,377.20	6,559.79	12,131.55	14,191.19	28,593.89
Share Premium	1,368.47	2,219.55	2,672.50	3,589.39	1,828.29	13,589.26
Deposits[108]	2,186,663.69	3,162,502.84	4,911,005.43	6,961,246.25	13,057,304.48	17,384,273.19
Borrowing	23,283.10	47,713.56	275,812.13	198,726.62	552,073.10	1,367,517.97
Bills Payable	123,087.88	228,264.31	268,772.75	81,213.49	1,255,136.29	2,003,632.18
Other Liabilities	172,828.02	185,541.72	250,298.24	570,013.04	5,715,880.25	6,227,246.38
AEG	27,586.44	27,791.13	29,334.50	42,748.50	645,213.64	1,130,046.89
Total	2,684,104.13	3,853,032.09	6,079,493.65	8,352,352.78	22,977,110.00	30,147,020.34
Increase in total assets (%) year-on-year	37.65	43.55	57.78	37.39	175.10	31.21

Reference: CBM (2016)

Table VI	Foreign banks' representative offices in Myanmar (as of August 2016)		
Sr.	Name of Bank	Date of Licence Issued	Date of Commencement
1.	DBS Bank Limited	10.11.1993	29.3.1994
2.	National Bank Limited	6.7.1995	16.7.1996
3.	First Overseas Bank Limited	30.4.1996	15.5.1996
4.	CIMB Bank Berhad (New Licence for Name of Change)	19.2.2008	19.2.2008
5.	Arab Bangladesh (AB)Bank Limited	10.12.2010	6.6.2012
6.	Siam Commercial Bank Public Company Limited	23.4.2012	23.12.2012
7.	Maruhan Japan Bank PLC	7.5.2012	28.7.2012
8.	Krung Thai Bank Public Company Limited	14.6.2012	20.12.2012
9.	United Bank of India	19.6.2012	5.12.2012
10.	Kasikornbank Public Company Limited	18.7.2012	9.1.2013
11.	Woori Bank	25.10.2012	15.11.2012
12.	Vietin Bank	12.12.2012	1.3.2013
13.	Korea Development Bank	27.12.2012	12.6.2013
14.	Standard Chartered Bank	27.12.2012	5.2.2013
15.	Shinhan Bank	13.3.2013	9.4.2013
16.	Industrial Bank of Korea	14.3.2013	23.4.2013
17.	First Commercial Bank (New Licence for Change of Management Office)	18.3.2013	30.4.2013
18.	E.SUN Commercial Bank, Singapore Branch	1.4.2013	17.7.2013
19.	Bank of India (BOI)	7.5.2013	-
20.	Kookmin Bank	4.6.2013	19.12.2013
21.	Export-Import Bank of India	14.6.2013	9.9.2013
22.	The Export-Import Bank of Korea	16.12.2013	20.1.2014
23.	Eastern Bank Limited	26.3.2014	-
24.	Bank of Ayudhya Public Company Limited	26.3.2014	-
25.	RHB Bank Berhad	26.3.2014	-
26.	Commercial Bank of Ceylon PLC	12.11.2014	-
27.	State Bank of India	26.3.2014	-
28.	Cathay United Bank	11.4.2014	-
29.	State Bank of Mauritius	11.4.2014	-
30.	BRED Banque Populaire	11.6.2014	-
31.	Busan Bank Co., Ltd	23.6.2015	-
32.	AEON Credit Service Company	20.7.2012	21.9.2012
33.	PT. Bank Negara Indonesia (Persero)Tbk	23.6.2015	-
34.	Bank of Taiwan	23.6.2015	-
35.	Taishin International Bank Co., Ltd	23.6.2015	-
36.	Taiwan Shin Kong Commercial Bank Co., Ltd	23.6.2015	-
37.	CTBC Bank Co., Ltd	23.6.2015	-
38.	Yuanta Commercial Bank Co., Ltd	23.6.2015	-
39.	Taiwan Cooperative Bank Limited	23.6.2015	-
40.	Taiwan Business Bank Limited	23.6.2015	-
41.	Mega International Commercial Bank Co., Ltd	23.6.2015	-
42.	Ho Chiminh City Development Joint Stock Commercial Bank	23.6.2015	-
43.	Qatar National Bank	26.7.2015	-
44.	Sampath Bank PLC	26.7.2015	-
45.	Bank of China	12.8.2015	-
46.	KEB Hana Bank (New Licence for Change of Name)	18.12.2015	18.12.2015

Reference: CBM (2016)

Table VII New capital adequacy ratio (effective April 1, 2015)

- The Regulatory Capital Adequacy Ratio: 10%
- The Tier I Capital Adequacy Ratio: 4%
- Regulatory Capital= Tier I+Allowable Tier II – Deducted Equity Investment
- Tier I (Core) Capital
  - o Paid-up Capital (Common Stock)
  - o Share premium
  - o Reserve and Retained Earnings
  - o Minus: Intangible Assets and Net Deferred Tax Assets
  - o Profit/Loss of Current Year (if negative)
- Tier II (Supplementary) Capital
  - o General Loss Reserve on Credits
  - o Revaluation Reserves on Fixed Assets
  - o Profit/Loss of Current Year (if positive)
- Allowable Portion of Tier II (Supplementary) Capital
  - o No more than 100% of Tier I
- Deducted Equity Investment
  - o Investment in Bank Subsidiary
- Risk-Weight Categories
  - o 0% risk weight
    - Cash in kyat and fully convertible foreign currencies, direct claims on central banks and central governments of category-A countries
    - Precious metals and precious stones
    - Loans collateralized by blocked deposits
    - Others as defined by the CBM
  - o 20% risk weight
    - Loans collateralized by claims on central banks and central governments of category-A countries
    - Direct claims on banks licensed in category-A countries
    - Short-term claims on banks licensed in non-category-A countries
    - Loans collateralized by claims on or guaranteed by multilateral lending institutions
    - Cash items in process of collection
    - Others as defined by the CBM
  - o 50% risk weight
    - Qualifying residential mortgage loans
    - Qualifying real estate construction loans
    - Others as defined by the CBM
  - o 100% risk weight
    - All other assets
    - Minus intangible assets
    - Minus net deferred tax Assets
    - Minus deducted equity investments banking subsidiaries
- Off Balance Sheet Items
  - o 0% Credit Conversion Factor
    - Unused portion of commitments with original maturity of 1 year or less
    - Unused portion of commitments that are unconditionally cancellable
  - o 20% Credit Conversion Factor
    - Commercial Letters of Credit
  - o 100% Credit Conversion Factor
    - Guarantees and Standby Letters of Credit

Reference: CBM (2016)

Table VIII	New regulations to be issued

- New licensing regulations for domestic commercial banks and foreign banks (new applicants)
- Regulations for registration of NBFI and representative offices Regulations on the following:
- Acquisition of substantial interest
- Maximum permissible shareholding
- Retention of documents
- Investment by banks
- Corporate governance
- Nostro/vestro accounts and net position of foreign banks
- AML and Customer Due Diligence
- Payment system, designation of systemically important payment system
- Capital
- Provisions and classification of non-performing loans
- Credit risk management
- Oversight and internal control
- Large exposures
- Related party transactions
- Risk management
- Audit procedures
- Bank holidays

Reference: CBM (2016)

ENDNOTES

107 AEG = Acceptance, Endorsement and Guarantee per contra.

108 The shares of non-interest bearing demand deposits and fixed deposits (8-10% interest p.a.) are comparatively low. Savings deposits (8 - 8.5% interest rate p.a.) make up the majority of deposit accounts held at semi-governmental and private banks.

Profiles of largest private banks (in terms of assets) and an SME-specialized bank (SMIDB)

Kanbawza Bank is the largest commercial bank in Myanmar in terms of assets (MMK 8693 billion as of March 2016). The KBZ belongs to the business conglomerate KBZ Group, chaired by U Aung Ko Win. Initially, it was established as a local bank in Taunggyi (Shan State) in 1994. In 2000, the headquarters was relocated to the former capital Yangon. As of June 2016, the KBZ has 400 branches all over Myanmar with 17,000 employees and wants "to become Myanmar's premier bank with a strong base in the Myanmar's financial market". The product range of the KBZ includes savings, current, call and fixed deposits, loans, overdrafts and hire purchase as well as domestic and international remittances. KBZ Group controls two airlines (Air KBZ and Myanmar Airways International) and jade and gem mining concessions. The Group also owns Inlay Shoe Manufacturing Co., Ltd. and the IKBZ Insurance Company.

Box A — Kanbawza Bank

- Private bank
- Founded in 1994
- Branches as of June 2016: 400
- Total assets as of March 2016: MMK 8693 billion

Box B — Ayeyarwaddy Bank

- Private bank
- Founded in 2010
- Branches as of June 2016: 157
- Total assets as of March 2016: MMK 2912 billion

Ayeyarwady Bank was established in August 2010. Its assets reached MMK 2912 billion by March 2016. It is owned by U Zaw Zaw (known as Max Zaw Zaw in the country). He is the chairman of Max Myanmar Group of Companies, a major conglomerate with interests in timber, gems, rubber, construction and hotel industries and many more. He also serves as the chairman of the Myanmar Football Federation.

Co-operative Bank was established in 1992 under the guidance of the Ministry of Co-operatives, the third largest bank in terms of total assets (MMK 2061 as of March 2016). There used to be Co-operative Farmers Bank and Co-operative Promoters Bank under the ministry, both established in 1996, which were merged together with the Co-operative Bank into the new Co-operative Bank in June 2004. In contradiction to its name, Co-operative Bank is not built on co-operative principles in its governance structure. Although the bank has received strong support from the Ministry of Co-operatives, the ministry itself does not have any shares in the bank. Its major shareholders are U Khin Maung Aye and his Citizen Business Private Company, who owns 10% of the bank's shares. There are many lines of businesses under the company including Kaytumadi Trading, a hotel business, Golden Myanmar Airline, and the new Myanmar Microfinance Bank. The company also owns Citizen Business Insurance Company. It is the first bank to offer loans to SMEs without collateral but with the insurance cover of the government- owned Credit Guarantee Insurance (CGI).

Box C — Co-operative Bank

- Private bank
  (Public Company)
- Founded in 1992
- Branches as of June 2016: 154
- Total assets as of March 2016: MMK 2061 billion

Established in 1993, **Myawaddy Bank** is owned by the Union of Myanmar Economic Holdings Limited (UMEHL). It is the fourth largest bank with total assets of MMK 1305 billion as of March 2016. The shares are held by serving and retired army personnel and related organizations such as the Veterans' Associations. Through foreign and local joint ventures and 100% owned companies, UMEHL's activities span a broad range of industries: trading, hotels and tourism, banking, buses and taxis, iron and steel, cement, cigarettes, brewing, paint, garments, jade, precious stones and jewellery. UMEHL also owns Aung Thitsa Oo Insurance Company.

Box D	Myawaddy Bank
➪	Private bank (Public Company)
➪	Founded in 1993
➪	Branches as of June 2016: 47
➪	Total assets as of March 2016: MMK 1305 billion

Box E	Myanmar Apex Bank
➪	Private bank
➪	Founded in 2010
➪	Branches as of June 2016: 74
➪	Total assets as of March 2016: MMK 1194 billion

Myanmar Apex Bank was established in August 2010. Its total assets reached MMK 1194 billion by March 2016. It is owned by U Chit Khaing (Eden Group of construction companies), a leading property developer. Eden Group owns the Aye-Tha-Yar Golf Resort in Taunggyi and numerous hotel complexes in popular tourist spots around the country. The bank also makes seasonal loans to farmers in the delta by taking Form-7 (Land title Form) as collateral.

Yoma Bank was founded in 1993 and was one of the largest private banks prior to the Myanmar banking crisis in 2003. As a consequence of the banking crisis, Yoma Bank's business was restricted to domestic remittances, based on the domestic Western Union-style business model. In August 2012, Yoma Bank was reinstated with a full banking license. The bank is majority-owned and controlled by the businessman, Serge Pun. Thirty percent of Yoma Bank is owned by the public company First Myanmar Investment (FMI), which was also founded by Serge Pun. Its total assets amounted to MMK 1191 billion by March 2016. IFC signed a USD 5 million convertible loan agreement with Yoma Bank to help finance SMEs. If the new Myanmar Company Act permits, IFC desires to convert its loans to equity investment in the bank.

Box F	Yoma Bank
➪	Private bank
➪	Founded in 1993
➪	Branches as of June 2016: 61
➪	Total assets as of March 2016: MMK 1191 billion

Box G	Small and Medium Industrial Development Bank (SMIDB)
➪	Private bank (Public Company)
➪	Founded in 1996
➪	Branches as of June 2016: 17
➪	Total assets as of March 2016: MMK 225 billion

SMIDB is a public bank under the guidance of the Ministry of Industry. It was founded as the Myanmar Industrial Development Bank in 1996 but shifted its mission and vision towards SMEs in the course of the current national reform process. The SMIDB is striving to become a leading bank in SME finance by supporting SMEs financially. The SMIDB accepts current, fixed and saving deposits and extends commercial (13% flat p.a.) and SME loans (8.5% flat p.a.) to businesses, particularly to small and medium-sized businesses. In order to promote SMEs, the Government of Myanmar (via the MEB) granted MMK 30 billion credit lines (November 2012 and July 2013) at an interest rate of 8.25% to the SMIDB. It has lent this money to 427 domestic SMEs at an annual interest rate of 8.5% and for the duration of three years. The size of loans ranges from MMK 5 to 100 million. Furthermore, the SMIDB received MMK 4.8 billion credit line under JICA's two-step-loan program in February 2016 and disbursed it to 11 SME borrowers. It is expecting more credit line under the program.

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Financial Sector Development Project
E: fsd-myanmar@giz.de
I: www.giz.de

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