Myanmar Ministry of Commerce

Republic of the Union of Myanmar

International Trade Centre

REPUBLIC OF THE UNION OF MYANMAR

NATIONAL EXPORT STRATEGY

ACCESS TO FINANCE

CROSS-SECTOR STRATEGY 2015-2019

The National Export Strategy of the Union Republic of Myanmar was developed on the basis of the process, methodology and technical assistance of the International Trade Centre (ITC). The views expressed herein do not reflect the official opinion of the ITC. This document has not been formally edited by the ITC.

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The International Trade Centre (ITC) is the joint agency
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ACRONYMS

AG	Attorney General
ASEAN	Association of South-East Asian Nations
ATM	Automated Teller Machine
CBM	Central Bank of Myanmar
CPA	Certified Public Accountant
FY	Fiscal Year
GDP	Gross Domestic Product
GIZ	German Agency for International Development
ITC	International Trade Centre
L/C	Letter of Credit
MBA	Myanmar Banks Association
MoC	Ministry of Commerce
MoFR	Ministry of Finance and Revenue
MTDC	Myanmar Trade Development Committee
NES	National Export Strategy
PoA	Plan of Action
SME	Small or Medium-sized Enterprise
SOE	State-Owned Enterprise
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TA	Technical Assistance
TSI	Trade Support Institution
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry

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KBZ
ATM
KBZ

EXECUTIVE SUMMARY

CURRENT STATE OF ACCESS TO FINANCE IN MYANMAR

Myanmar's financial sector is the least developed in South-East Asia.[1] Less than 10% of the population hold a bank account, less than 0.1% participate in credit markets, and the country's 2011 credit-to-gross domestic product (GDP) ratio was an exceedingly low 7.2%.[2] Of 189 economies assessed by the World Bank's Doing Business project in 2014, Myanmar ranked 170th in terms of access to credit.[3]

More concerning even than the sector's low level of development is its development trajectory. During the first decade of this century, Myanmar's credit-to-GDP ratio actually declined, while the ratio increased several-fold for countries with a similar starting point.

The financial services that the sector does currently provide are very limited and come with unattractive terms. For example, basic trade finance and insurance are largely unavailable, as are loan, investment and credit guarantees. By Government regulation, Myanmar banks typically require agricultural loans to be repaid in eight months and industrial loans in a year; do not accept movable assets as collateral; lend only up to 30% of collateral value; and charge a high annual interest of 13%. These requirements are very difficult for most small or medium-sized enterprises (SMEs) to meet. For the enterprises that do take out such loans, the loan tenures are frequently too short for them to see a return on investment. This forces them to take out additional short-term loans to repay the original, creating a cycle of debt which threatens to hobble business rather than facilitate it.

1. Foerch, T., Thein, S. & Waldschmidt, S. (2013). *Myanmar's Financial Sector: A Challenging Environment for Banks.* Yangon: GIZ.

2. *Ibid.*

3. World Bank (2014). *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises.* Washington, D.C.: World Bank Group.

However, in the last few years the Government of Myanmar has initiated a round of major reforms which have won international praise and, if well implemented, promise to lay the foundation for a modern financial system capable of financing the country's anticipated growth. For example, in the year after the lifting of deposit caps in 2011, total deposits in private banks nearly doubled. Making use of technical assistance (TA) and training from international organizations, legal and regulatory reforms have touched on Central Bank of Myanmar (CBM) administration, finance law, investment law, foreign exchange controls and trade facilitation, all of which will affect the ability of Myanmar firms to improve the value chains and export levels of NES priority products.

COMPETITIVENESS CONSTRAINTS

Sector stakeholders working to transform Myanmar's financial sector and make it competitive with the financial systems that back exporters in other economies are faced with a long list of serious constraints. These have to do with Myanmar's legal and institutional framework for finance, its regulation of trade finance, banking sector capacity, and the creditworthiness of Myanmar enterprises. This strategy highlights 21 of the most important constraints to alleviate, constraints which in turn provide a focus for the strategic plan of action (PoA) at the core of this strategy. Chief among these are:

Constraints in the legal and institutional framework:

- Myanmar lacks the suite of financial laws typically associated with a modern financial system.
- Current financial regulations impose difficult terms on loans, greatly reducing participation in credit markets and making Myanmar's collective exports less competitive in target markets.
- CBM lacks the procedures, technology and skills to lead Myanmar's financial sector effectively.
- Reliable credit information and ratings on loan applicants are not readily available, impeding effective due diligence, risk management and total credit volume.

- Basic trade finance products are largely unavailable in Myanmar, either because they are prohibited or because CBM has yet to issue clear rules for the product, leaving too much uncertainty for banks to confidently enter that particular market.
- Private banks lack the foreign exchange needed to engage in trade finance and do not offer exporters the foreign exchange risk management products they need.
- CBM, the Ministry of Finance and Revenue (MoFR), Customs and other vital institutions of the sector lack the habit and systems of information dissemination needed to educate, update and converse with the country's financial firms.
- The lack of Government-backed deposit insurance inhibits public confidence in banks and, consequently, bank deposits.
- Immigration policy misses an opportunity to alleviate the stark shortage of skilled and experienced bank staff with knowledge of modern banking systems and international banking practices.

Constraints in the regulation of trade finance:

- The prohibition on exporting goods without advance payment or a letter of credit (L/C) from foreign buyers hampers the attractiveness of Myanmar's exporters to those buyers.
- Trade credit insurance is not yet permitted, depriving would-be exporters of one the most basic and essential risk management tools.
- The restrictions on Myanmar citizens making down payments on imported goods before receiving them severely inhibit domestic enterprises from getting the capital goods and inputs they need to compete globally.

Constraints in banking sector capacity:

- Weak human resources and infrastructure undermine the sector's attempts at computerization, automation, security, increasing efficiency and cost reduction.
- Many banks lack the funds and skills to buy and implement core banking systems needed for modern and efficient operation.
- Most banks do not have the risk management skills and tools needed to responsibly expand lending on the scale demanded by the country's anticipated growth.
- Collectively, financial sector personnel have little knowledge of trade finance, hurting the sector's ability to advocate conducive rules and regulations, as well as its ability to design and implement products.
- Organizational hierarchies and culture in Myanmar are not conducive to market responsiveness and fast-paced competition.

Constraints in the creditworthiness of Myanmar enterprises:

- Few would-be exporters and importers in Myanmar have the knowledge they need to obtain and make effective use of L/Cs.
- Weak business strategies and management make many enterprises unattractive to lenders.
- Weak record-keeping, accounting and auditing among the country's SMEs produce unreliable financial statements and diminish the creditworthiness of enterprises.

VISION FOR FUTURE DEVELOPMENT

The public, private and international stakeholders consulted in the process of developing the present strategy collaborated to articulate the following vision for the sector and its positive impact on the country.

> "An internationally integrated financial sector with the legal framework, infrastructure and customer service to effectively support export growth and the socioeconomic development of Myanmar."

ROAD MAP FOR STRATEGY IMPLEMENTATION

The vision and the key features for the access-to-finance cross-sector function will be achieved through the implementation of the strategy's PoA, which revolves around the following three strategic objectives, each with specific sets of activities intended to address both challenges and opportunities in the access to finance function in Myanmar. Three strategic objectives have been identified in order to realize the overall vision for the financial sector. These are:

1. Process quickly all pending approvals, instructions and clarifications that will facilitate trade. This objective will be realized through initiatives implemented along the following dimensions (or operational objectives):
   - Support trade competitiveness by bringing regulation of payments for exports and imports in line with global standards
   - Strengthen exports by giving exporters internationally comparable access to trade finance mechanisms and products
   - Make public administration of the financial sector more transparent and conducive to sector development.

2. Review and update the legal, regulatory and institutional frameworks for banking and finance. This objective will be realized through initiatives implemented along the following dimensions:
   - Relax regulations limiting liquidity
   - Enact missing legislation
   - Promote a more dynamic and sophisticated financial market with better risk management systems and tools.

3. Supply the sector with the skills, technology and infrastructure to be internationally competitive. This objective will be realized through initiatives implemented along the following dimensions:
   - Improve exporter knowledge of available financing, how to qualify for it and how to use it
   - Upgrade the data-reporting and record-keeping systems of CBM and commercial banks
   - Encourage Myanmar banks to adopt international business practices
   - Provide banks with the systems and staff skills to provide trade financing.

IMPLEMENTATION MANAGEMENT

The broad range of activities, together with the complex nature of integrated intervention, requires careful implementation involving efficient allocation of resources and monitoring of results at both the micro and macro levels.

To this end the Myanmar Trade Development Committee (MTDC) will be established in order to facilitate the public–private partnership in elaborating, coordinating and implementing the NES. In particular, the MTDC will be tasked with coordinating the implementation of activities in order to optimize the allocation of both resources and efforts across the wide spectrum of stakeholders. Within this framework, the implementation of the access-to-finance strategy will fall within the purview of the MTDC.

Specific efforts will be made to direct donor and private and public sector organizations towards the various NES priorities in order to avoid duplication and guarantee maximum impact. Responsibilities will also include monitoring the results of activities and outputs, while at the same time recommending policies that could serve to enhance the realization of the strategic objectives. With a 360-degree view of progress, the MTDC will be best placed to manage funding and provide regular reports to donors and stakeholders. Moreover, the MTDC will play a key role in recommending revisions and updates to the strategy so that it continues to evolve in alignment with Myanmar's changing needs.

Box 1: Building blocks for the access-to-finance cross-sector strategy

The following analytical components are the building blocks for the access-to-finance cross-sector strategy.

Current state of Myanmar's access to finance

This section discusses the relevance of access to finance for Myanmar export development and provides an overview of the national framework. This overview serves as the basis for a broader analysis of the performance and efficiency of the access-to-finance cross-sector function in Myanmar.

Competitiveness constraints

The effectiveness and efficiency of access to finance is currently restricted because of a host of constraints both at the institutional (supply-side) and enterprise (demand-side) levels. These wide-ranging constraints have resulted in restricted access to international markets for Myanmar exporters. The competitiveness constraints section discusses these important challenges and their impact on current and potential exporters.

Trade Support Institution (TSI) analysis

TSIs are organizations that have a bearing on the development and delivery of access to finance services in Myanmar. An analysis of the effectiveness and capacity gaps affecting these TSIs is important to ascertain the efficiency of the entire access-to-finance framework.

The TSI analysis section assesses individual TSIs on their capacities in areas such as coordination, financial sustainability, human capital and advocacy. Analysis is also conducted to assess the TSIs based on their level of influence versus their capacity to respond to client needs. A composite picture is developed of the strengths and weaknesses of the cross-sector's TSIs.

How to get there

The road map section highlights the key elements of the strategy for the access-to-finance cross-sector function and discusses the way forwards. This includes the vision for the cross-sector, the strategic objectives, and the implementation management framework.

The analyses and recommendations are based on national level consultations supported by external analytical research. Once endorsed by the Government of the Republic of the Union of Myanmar, the strategy will serve as the main road map for private and public sector stakeholders to improve access to finance.

INTRODUCTION

Myanmar has the potential to reach upper-middle income status in the next two decades, as real per capita income is expected to more than quadruple, according to the Asian Economic Development Bank.[4] This economic growth depends on efforts to develop crucial industries and their exports, which are captured in the sector priorities of Myanmar's NES and which, today, are gravely underfinanced.

The NES' seven sector-specific strategies cover agriculture, manufacturing (textiles and garments), and services (tourism). Realizing the export objectives in each strategy requires that the value chain improves through increased production capacity, product quality, product diversity, domestic value chain functions and/or trade connections to target markets. Producers and traders can make many of these improvements only with additional finance for capital investment, operating cash and risk-mitigating trade finance.

However, this financing cannot simply be a one-time response to the NES or any development initiative. For Myanmar's enterprises to be responsive to ever-changing market conditions and to thrive in global competition, access to finance must be ongoing through a sound and robust national financial system. Such a system enables investments in new products, machinery and processes, which in turn enhance productivity, quality standards and market diversification. Thus, export success depends on general finance as much as it does on trade finance.

Trade finance, specifically, facilitates trade by facilitating international payment, mitigating risk of non-payment and non-delivery, financing, and the provision of information regarding payment and shipment status. More than 90% of transactions involve the use of trade finance tools including L/Cs, import bills for collection, import financing, shipping guarantees, L/C confirmation, document audit, pre-shipment export financing, invoice financing and receivable purchase.[5]

However, access to finance in Myanmar is severely restricted for most enterprises. Access to finance refers to the ability of firms to use formal financial services, suited to their business needs, when the need arises. Good access should be reliable, convenient, continuous and innovative in finding ways to finance borrowers with little collateral.

Myanmar's financial sector has undergone several positive developments in recent years, but progress has been inconsistent and could stall. The present strategy is an integral part of the NES and lays out a set of measures which will enable export success in each of the country's priority sectors by achieving a modern, nimble and internationally competitive system of business and trade finance. The strategy is based on extensive consultations with enterprises and trade associations in each of the priority sectors, private banks, public banks, CBM, policymakers, regulators and international experts.

The strategy describes the current state of the financial sector; summarizes the major obstacles to improvement; assesses the capacity of sector-supporting institutions to resource and coordinate a reform and capacity-building strategy; lays out a vision for the country's financial sector; and presents a resulting PoA.

4. East Asia Forum (2014). ASEAN's first 'Myanmar' summit: moving beyond 2015, 11 May. Available from http://www.eastasiaforum.org/2014/05/11/aseans-first-myanmar-summit-moving-beyond-2015/.

5. International Trade Centre (2009). *How to Access Trade Finance: A Guide for Exporting SMEs.* Geneva: International Trade Centre.

WHERE WE ARE NOW

HISTORICAL PERSPECTIVE

Myanmar's banking sector began in 1948, after the country's independence from the British. The first bank to open was the Union Bank of Burma, which took over the functions of the Yangon branches of the Reserve Bank of India. In 1952, it was made the country's central bank, issuing currency, managing Government assets and keeping Government accounts. It was followed by the openings of the State Agricultural Bank in 1953, Union of Burma Cooperative Bank in 1955, Myanmar Eastern Bank in 1960, and Rangoon Bank Ltd In 1975, all State-owned banks.[6]

In 1976, the State-owned banks were reorganized as CBM, Myanma Economic Bank, Myanma Foreign Trade Bank, and Myanmar Agricultural and Rural Development Bank, with insurance and small loan divisions being spun off into separate entities which continue to exist today.[7]

CURRENT CONTEXT

Myanmar's financial sector is the least developed in South-East Asia.[8] Less than 10% of the population hold a bank account, less than 0.1% participate in credit markets, and the country's 2011 credit-to-GDP ratio was an exceedingly low 7.2%.[9] Of 189 economies assessed by the World Bank's Doing Business project in 2014, Myanmar ranked 170th in terms of access to credit.[10] The legal and regulatory framework for finance has historically been devoid of international best practices. Under this framework, the Government financed deficit spending through the printing of money, lending policies were onerous, insider lending occurred,[11] and several financial institutions failed.[12] The consequent macroeconomic weakness, sector fragility and lack of public confidence has discouraged both would-be depositors and would-be borrowers. This further weakened the financial sector and led to a proliferation of informal lending channels.

More concerning even than the sector's low level of development is its development trajectory. During the first decade of this century, Myanmar's credit-to-GDP ratio actually declined, while the ratio increased several-fold for countries with a similar starting point. Figure 1 shows that Mongolia and Cambodia trailed Myanmar in 2001, but exceeded 50% and 30%, respectively, in 2011.

The financial services that the sector does currently provide are very limited and come with unattractive terms. For example, basic trade finance and insurance are largely unavailable, as are loan, investment and credit guarantees. Business loans typically come with 13% annual interest rates and must be repaid within one year. Significant capital investments by businesses, such as modern garment manufacturing technology, may take more than a year to show a positive return on investment. In such cases, businesses frequently find themselves taking out a new loan each year to pay off the last one, in the end taking out a series of loans to make a single investment. Not only is this time-consuming and risky (as new loans may not be granted); it also has the effect of capitalizing each year's interest in the following year's loan.

6. Central Bank of Myanmar (2014). Website. Available from www.cbm.gov.mm/; and NES access-to-finance team.

7. Central Bank of Myanmar (2014). Website. Available from www.cbm.gov.mm/; and NES access-to-finance team.

8. Foerch, T., Thein, S. & Waldschmidt, S. (2013). *Myanmar's Financial Sector: A Challenging Environment for Banks.* Yangon: GIZ.

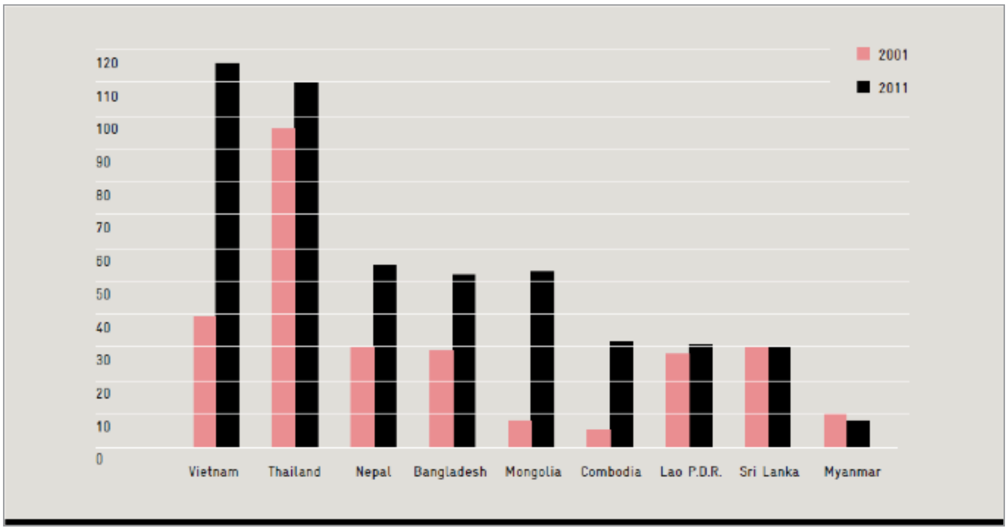
9. *Ibid.*

10. World Bank (2014). *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises.* Washington, D.C.: World Bank Group.

11. Charltons (n.d.). Myanmar economy: banking and financial services in Myanmar. Available from http://charltonsmyanmar.com/myanmar-economy/banking-and-financial-services/.

12. Turnell, S. (2003). Myanmar's banking crisis. *ASEAN Economic Bulletin*, vol. 20, No. 3 (December), pp.272-282.

Figure 1: *Recent trajectory of certain Asian credit-to-GDP ratios*



Source: Foerch, T., Thein, S. & Waldschmidt, S. (2013). *Myanmar's Financial Sector: A Challenging Environment for Banks*. Yangon: GIZ.

The typical tenure for agricultural loans is even shorter at eight or nine months, forcing farmers to sell crops immediately after harvest, when supply is highest and prices lowest. Even a slight extension of tenure could have a large effect on a farmer's selling price, making the difference between profitability and financial independence, on the one hand, and the need to borrow again to finance the next year's crop, on the other hand. For a country where an estimated 70% of the population depends on agriculture for their livelihood, the lack of crop insurance keeps much of the country in perpetual financial risk.

However, in the last few years the Government of Myanmar has initiated a round of major reforms which have won international praise and, if well implemented, promise to lay the foundation for a modern financial system capable of financing the country's anticipated growth. For example, in the year after the lifting of deposit caps in 2011, total deposits in private banks nearly doubled.[13]

Making use of TA and training from international organizations, legal and regulatory reforms have touched on finance law, investment law, foreign exchange controls and trade facilitation, all of which will affect the ability of Myanmar firms to improve the value chains and export levels of NES priority products. Among Myanmar's recent legal reforms, the most significant for access to finance is the Central Bank of Myanmar Law, which was signed into law in July 2013. Elevating CBM to ministerial level, this law made CBM autonomous, with the responsibility for transparent and independent monetary policy expected of central banks around the world.

While the general policy direction of CBM is perceived as being positive by the State-owned and private banks it regulates, these banks are still waiting for CBM to articulate clear rules and implement efficient systems for approvals and information dissemination. Banks eager to offer new financial products (e.g. trade finance) or compete more aggressively for business – for example, by lowering interest rates or offering longer tenure on loans – need these rules and systems in place so they can react nimbly to markets and be confident that they are operating within the rules.

STRUCTURE OF THE SECTOR

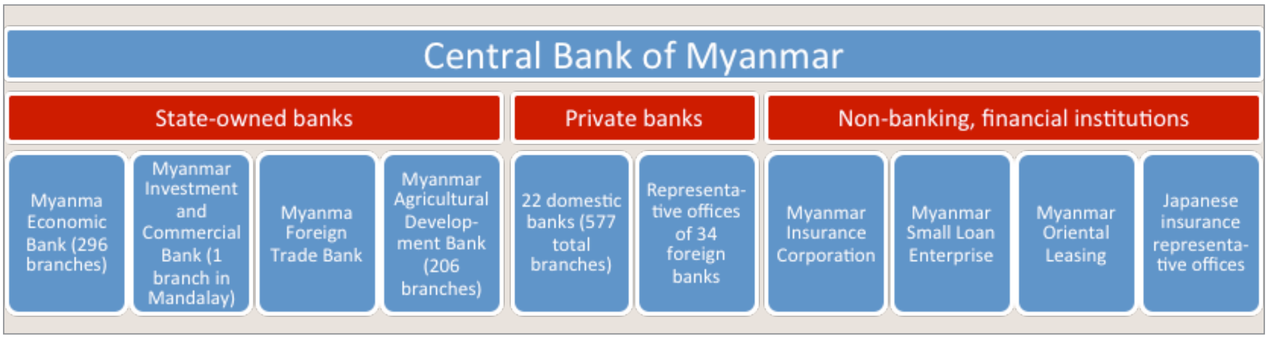
This section describes the institutions which comprise Myanmar's financial sector, their financial positions, and their operating environment.

FINANCIAL INSTITUTIONS

The banks and other financial institutions making up the institutional landscape of Myanmar's financial sector are summarized in figure 2.

13. Foerch, T., Thein, S. & Waldschmidt, S. (2013). *Myanmar's Financial Sector: A Challenging Environment for Banks*. Yangon: GIZ.

Figure 2: *The institutional landscape of Myanmar's financial sector*



The Financial Institutions of Myanmar Law classifies financial institutions as commercial banks, investment or development banks, finance companies and credit societies. Commercial banks take deposits, including time deposits of up to one year. They provide cheque facilities and working capital loans. Investment and development banks take time deposits exceeding one year and use both private and public funds to provide fixed and working capital loans. Finance companies provide financing for the purchase of goods and services using funds other than deposits collected from the public. Credit societies use member funds to provide financing to individuals for the purpose of consumption, production and commerce. Myanmar's banks are nearly all commercial banks, with three State-run development banks, and no finance companies or credit societies registered as of the end of the 2013-2014 fiscal year (FY).

At the end of FY2013, Myanmar's banks held total deposits of only approximately US$23 billion,[14] and in 2012 there were less than two bank branches per 100,000 adults, as compared with Thailand's 11.8, Bangladesh's 8.1, Cambodia's 4.4, Viet Nam's 3.2, or the Lao People's Democratic Republic's 2.7.[15]

STATE-OWNED BANKS

Myanma Economic Bank was established to develop commercial and industrial banking, taking deposits and granting personal and business loans for the purpose of production and trade. With 296 branches, it has the largest national network of any bank. Myanma Economic Bank is licensed to handle foreign currency accounts and plans to expand its business from domestic banking alone to include international financial services.

Myanmar Agricultural Development Bank reports to the Ministry of Agriculture and Irrigation and provides seasonal and term loans to 1,820,000 individual farmers and farmers' groups for agriculture. Seasonal loans are given for crop production, while term loans are for the purchase of machinery. With 206 branches in all of the country's 15 (non-self-administered) administrative regions, Myanmar Agricultural Development Bank is the most important bank for the country's agricultural sector, on which 70% of the population depend for their livelihood.

Prior to the 1975 reorganization of State-owned banks, Myanma Foreign Trade Bank was the foreign exchange division of the central bank. With its deep reservoir of knowledge of import and export businesses, it was made into the bank specializing in administration of the Government's international trade, such as that involving timber and gems.

PRIVATE BANKS

As measured by share of the banking sector's 8.4 trillion kyats in total assets, private banks represent 61% of the sector and State-owned banks represent 39%.[16] Of the 22 private banks, just 10 account for 90% of private assets, as shown in table 1. Among these, Kanbawza Bank is by far the largest (38%). A second tier of three banks, Myawaddy Bank (16%), Co-operative Bank (12%), and Myanmar Livestock and Fisheries Development Bank (9%) together have the same approximate share of assets as Kanbawza Bank. For a full list of Myanmar's private domestic banks and representative offices of foreign banks, see appendix 2.

14. *Ibid*.

15. World Bank (2014). Commercial bank branches (per 100,000 adults). Available from http://data.worldbank.org/indicator/ FB.CBK.BRCH.P5. Accessed 29 April 2014.

16. ITC calculations based on: Central Bank of Myanmar (2012). *Annual Report 2011-2012*.

Table 1: *Market share of the 10 largest private banks in Myanmar, on 31 March 2012*

(Kyat in million)

Bank	Total Assets		Paid-up Capital		Total Deposit		Total Loan	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
KBZ	1,774,444.86	38.29	61,025.00	22.39	1,580,206.11	40.17	1,026,401.39	39.04
MWD	732,786.29	15.81	48,077.50	17.64	610,981.83	15.53	469,684.46	17.87
CB	563,134.99	12.15	28,126.34	10.32	480,615.68	12.22	325,926.16	12.40
MLFDB	397,370.22	8.58	26,079.50	9.57	296,455.00	7.54	243,049.20	9.24
MAB	275,867.19	5.95	25,000.00	9.17	214,257.07	5.45	162,777.01	6.19
INNWA	245,094.28	5.29	19,135.00	7.02	215,229.33	5.47	91,335.72	3.47
AGDB	209,720.27	4.53	24,138.10	8.86	177,139.84	4.50	102,205.21	3.89
AYWB	197,655.56	4.27	24,000.00	8.80	165,651.34	4.21	111,188.96	4.23
SIBIN	119,322.76	2.58	2,000.00	0.73	110,209.28	2.80	34,626.76	1.32
MIDB	118,341.40	2.55	15,000.00	5.50	82,605.17	2.10	61,834.79	2.35
Toal	4,633,737.82	100.00	272,581.44	100	3,933,350.65	100	2,629,029.66	100
Total Industry	5,126,387.51	90.39	340,362.23	80.09	4,273,480.81	92.04	2,879,801.50	91.29

Source: Central Bank of Myanmar (2012). *Annual Report 2011-2012.*

Although no foreign banks are currently permitted to take deposits or issue loans in Myanmar, the law permitting them to do so is in place and CBM is accepting applications for foreign banks to open full branches in Myanmar. An initial list of planned openings is expected to be announced in September 2014.

The sector's common products and services include deposit accounts, short-term loans of up to one year, 'long-term' loans of 4-20 years, foreign remittances (inbound and outbound), and issuing / cashing traveller's cheques and foreign currencies. Less commonly but increasingly, the sector provides L/Cs, payment orders, guarantees and telegraphic transfers. To obtain an L/C, importers previously needed to deposit 100% of the L/C value with the issuing bank, but from April 2014 CBM is allowing banks to accept lower percentages. From July 2014, CBM is drafting instructions which will allow banks to provide pre-shipment financing and short-term credit facilities.

The most modern features of modern banking systems – automated teller machines (ATMs), mobile banking and credit card issuance – have begun to emerge just over the last few years, with the first ATM cash withdrawal occurring in November 2011 and the first Visa and MasterCard purchases taking place in April 2013.

NON-BANKING FINANCIAL INSTITUTIONS

Myanmar's non-banking financial sector is small, consisting of one State-run insurance company and two State-run companies established to help consumers acquire household and durable goods. Japanese insurance companies also have a presence in the country through representative offices, but until 2012, only the state-run Myanmar Insurance Corporation was permitted to issue insurance policies. Since then, Yasuda Fire and Marine Insurance Company of Japan has entered the Myanmar insurance market in a joint venture with the Myanmar Insurance Corporation.

Box 2: The effect of United States of America sanctions on Myanmar's financial sector

The United States sanctions regime currently in place against Myanmar prohibits the export or re-export of financial services to the Ministry of Defence, an armed group, specially designated nationals, or any entity in which these parties are majority shareholders. This includes several public and private banks. These restrictions were relaxed in early 2013 when transactions with, but not investment in, Myanma Economic Bank, Myanmar Investment and Commercial Bank, Myanmar Agricultural Development Bank and Ayeyarwady Bank were permitted.

Further relaxation is anticipated, but as long as significant financial sanctions remain in place, they will have a significant indirect impact on the ability of Myanmar's enterprises, even those unconnected to sanctioned entities, from conducting basic trade. Some American companies may prefer to trade only in countries where their preferred banks have a presence, and the L/Cs typically issued by a buyer's bank could be interpreted as an exported financial service, creating enough uncertainty for American banks that they might prefer not to engage in apparently legal trade finance.

INFORMAL LENDING

Sector stakeholders believe that total lending volume in the informal sector may be greater than in the formal sector; however, there is little data available on which to base a precise estimate. Pawnshops and moneylenders are the largest sources of informal lending, typically providing short-term loans secured by homes, cars, farming instruments (e.g. cows, bullock carts), gold and other personal valuables. These loans may accrue interest daily and come with repayment schedules of daily instalments. These loans are a common recourse for a wide swathe of the Myanmar population, including farmers, shopkeepers, factory workers, construction workers, middle-class families, workers barely earning a living wage, and the homeless.

FINANCIAL POSITIONS

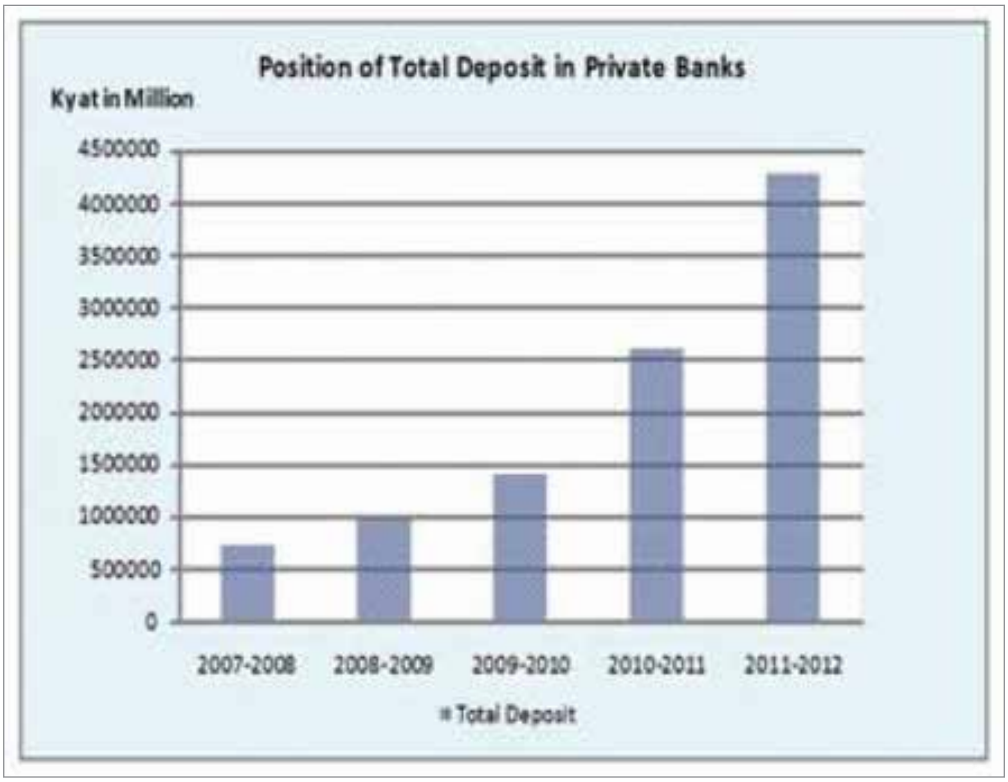
Deposit accounts include savings accounts, current (chequing) accounts in kyats and foreign currencies, and fixed time deposits. The system's total deposits have grown rapidly over the last several years of political and financial reforms and attendant economic growth. The country's total deposits doubled between 2008 and 2010 and then tripled again between 2010 and 2012, reaching 4.3 trillion kyats, as shown in figure 3.

This growth in deposits started at a very low base, however, with only about 10% of Myanmar citizens holding a deposit account. Low confidence in the security of deposits, difficulty withdrawing funds and regulatory constraints on bank competition discourage deposits and reduce the total credit available in the system. Depositors may withdraw funds from savings accounts only once per week, and it can take them half a day of waiting at a bank branch to receive the funds. The amount of foreign currency which can be withdrawn in one day is capped at US$10,000, with the use of any larger amounts being limited to telegraphic transfer and private banks requiring CBM approval for overseas transfers. All banks are required to provide an interest rate of 8% on savings accounts, inhibiting their ability to compete for customers with higher interest rates.

The private banking sector's total loans and advances in FY2012 amounted to 3.2 trillion kyats, close to three times the level of FY2010, as shown in figure 4. Such a rapid increase in loans can sometimes be associated with a loosening of credit requirements and a consequent increase in the ratio of non-performing loans to total loans. However, Myanmar has had a good and improving record for non-performing loans in recent history, as reported by CBM. During the recent period of rapid growth in the sector's total loans, the sector has, in fact, seen a marked decrease in the ratio, dropping from 2.9% in FY2010 to 1.6% in FY2012, as shown in figure 5. The former rate is slightly better than the high-income Organisation for Economic Co-operation and Development average (3.1%) that year, and the latter rate is better than even the East Asia and Pacific average (1.7%), which was the lowest average of the world's major regions (as classified by the World Bank) in 2012.[17]

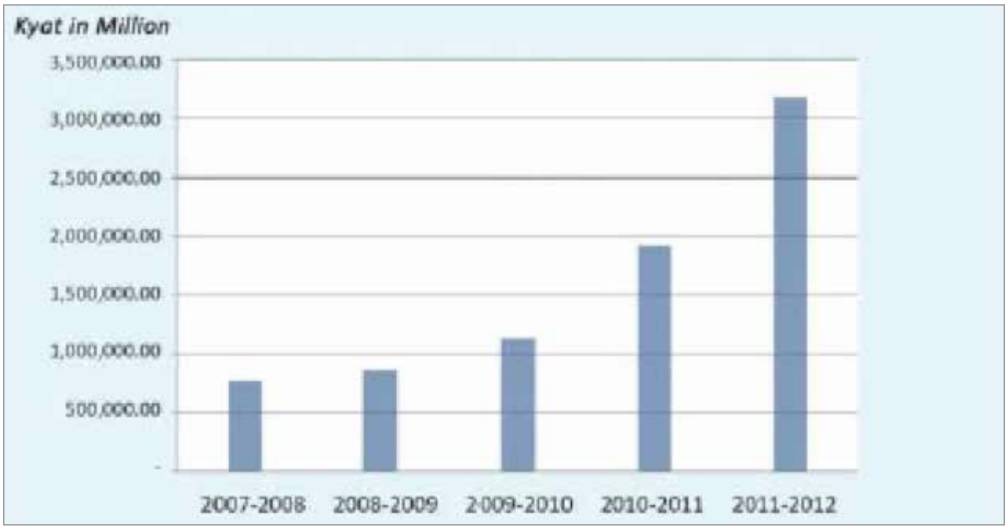
17. World Bank (2014). Bank nonperforming loans to total gross loans (%). Available from http://data.worldbank.org/indicator/ FB.AST.NPER.ZS. Accessed 26 April 2014.

Figure 3: *Growth in total deposits of private banks in Myanmar, 2007-2008 to 2011-2012*



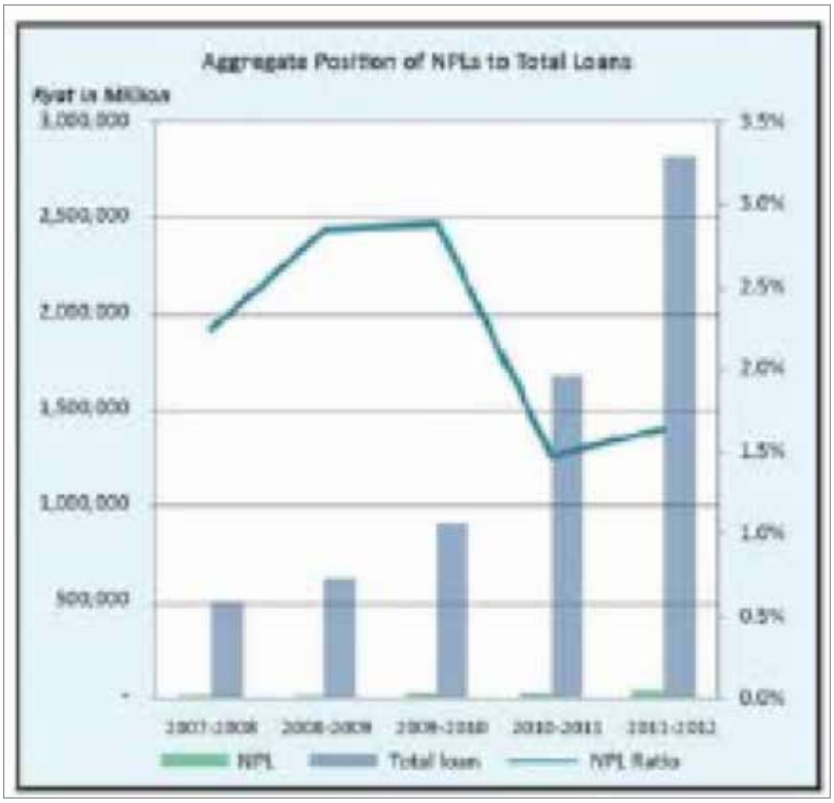
Source: Central Bank of Myanmar (2012). *Annual Report 2011-2012.*

Figure 4: *Total loans and advances of the Myanmar banking industry, 2007-2008 to 2011-2012*



Source: Central Bank of Myanmar (2012). *Annual Report 2011-2012.*

Figure 5: *Non-performing loans in Myanmar: value and ratio to total loans, 2007-2008 to 2011-2012*



Source: Central Bank of Myanmar (2012). *Annual Report 2011-2012.*

The types of firms that are currently the largest consumers of commercial loans are those involved in:

- Manufacturing
- Oil and gas production
- Transportation
- Trading
- Services[18]
- Construction
- Agriculture
- Livestock and fisheries.

Credit demand from manufacturers is the most stable year-round. Demand from the agricultural sector is consistent for nine months a year, declining between March and May, and all other sectors tend to peak in the seven months between November and May. The primary reason for this seasonality is the rainy season (June to October), with agriculture picking up then and other sectors declining.

The standard annual interest rate on commercial and agricultural loans is 13%. Standard tenure is one year on short-term commercial loans and nine months on agricultural loans. These terms are set by CBM regulation, preventing banks from tailoring loan products to customer needs and competing for their business with lower interest rates and longer tenures.

OPERATING ENVIRONMENT

A developed country's institutional infrastructure for finance normally includes several institutions dedicated to facilitating markets, decreasing risk and ensuring compliance with regulatory requirements. Myanmar has no secondary financial markets, but a stock exchange planned to open in 2015 would help financial markets to raise capital. Mortgage and lien registries exist but are not comprehensive; improving their reach will help the reliability of the credit bureau currently being planned under CBM supervision. The country has a pool of auditors, accountants and financial advisers certified by the Government and third-party organizations, such as the London Chamber of Commerce and Industry, but the pool is small and not subject to effective monitoring and recertification.

The financial sector is highly dependent on information and communications technology infrastructure to secure transactions and manage information. Myanmar's weak penetration of information and communications

18. These include transportation, communications and finance, and social and administration services, among others.

technology infrastructure and low investment in networking and data management software results in the sector having a low level of Internet connectivity, unreliable internal systems and incompatible inter-branch and interbank systems. This inhibits fast and secure financial transactions, the sharing of confidential data, and the full transition from paper records to electronic ones.

DEVELOPMENTS IN THE SECTOR

Despite the financial sector's low level of development, there are many positive developments under way which bode well for the sector's potential to reform, the most important of which are outlined below.

- **The new Central Bank of Myanmar Law:** established the bank's autonomy, creating an enabling environment for transparent and independent monetary policy.
- **The new Foreign Exchange Management Law:** moved the kyat from a pegged exchange rate to a managed float. In late 2011, private banks opened their first foreign exchange desks. In late 2013, the interbank foreign exchange market commenced.[19]
- **Deposits as a percentage of GDP nearly doubled between 2011 and 2012**: due in part to the lifting of a restriction on deposits (previously, 10 times paid-up capital), this is also seen as a reflection of the public's increasing trust in the country's banks and ongoing reforms.[20]
- **Licences issued to banks for the provision of export finance:** MoFR has yet to promulgate rules for export finance, but some licences have already been issued and several banks are eagerly awaiting the rules to begin offering export finance.
- **Plans for the establishment of a credit rating and information bureau:** the draft Financial Institutions Law currently with the Attorney General (AG) makes provision for the creation of a Financial Institutions Supervision Department under CBM. The Department is meant to act as the country's first credit information bureau.
- **The new Foreign Investment Law:** Foreign direct investment is anticipated to play a crucial role in ramping up Myanmar's economic development, but it has been deterred so far by a lack of legal clarity. The new Foreign Investment Law has substantially contributed to clarity for the sectors in which foreign direct investment will be permitted and related regulations concerning modes of investment, ownership limits, transfer requirements, etc.
- **Plans for the opening of a stock exchange in 2015:** The Securities Exchange Law currently under consideration is expected to set up the legal / regulatory framework and supervisory infrastructure that will create the anticipated opening of a stock exchange in 2015. This will give domestic enterprises a valuable channel for raising badly needed capital.
- **Integration with the Association of South-East Asian Nations (ASEAN):** With Myanmar committed to implementation of the ASEAN Economic Community by the end of 2015 – and acting as the 2014 Chair – the Government is demonstrating eagerness to bring its economic policies in line with ASEAN Economic Community standards.
- **TA projects for financial sector development:** Myanmar is receiving substantial financial sector-specific TA from a wide range of international and national donors, which signals broad international perception of a strong Government intent to implement reforms. These TA partners include the Asian Development Bank, the International Finance Corporation, the International Monetary Fund, the Livelihoods and Food Security Trust Fund, the Toronto Centre: Global Leadership in Financial Supervision, the World Bank, Bank Negara Malaysia, the Bank of Thailand, the German Agency for International Development (GIZ), the Financial Services Agency of Japan, the Japan International Cooperation Agency, and the United Kingdom of Great Britain and Northern Ireland Department for International Development.[21]

These developments provide an important signal to domestic banks, foreign banks, borrowers and other financial institutions that there is political will to reform Myanmar's financial sector as needed. However, even with that political will, there remain significant obstacles to reform. Most notably, these include technical knowledge to devise effective reforms, human resources to adequately implement policies and staff banks, and national infrastructure crucial to the sector's modernization and day-to-day operation.

THE INSTITUTIONAL PERSPECTIVE

The entities comprising Myanmar's financial sector and the enterprises which depend on them for financing rely on a wide range of stakeholders to advocate policies and provide services that, in turn, enable the sector to develop sustainably and better support business and trade. For the purposes of the NES these are dubbed TSIs, and they are divided into four categories:

19. Foerch, T., Thein, S. & Waldschmidt, S. (2013). *Myanmar's Financial Sector: A Challenging Environment for Banks.* Yangon: GIZ.

20. *Ibid*.

21. International Monetary Fund (2014). Central Bank of Myanmar hosts the first conference on financial sector technical assistance coordination. Press release No. 14/180, 25 April. Available from www.imf.org/external/np/sec/pr/2014/pr14180.htm.

- Policy support network
- Trade services network
- Business services network
- Civil society network.

Many of these institutions will have important roles to play in the successful implementation of the access-to-finance strategy. As such, it is necessary to understand the capacity of these TSIs and sector members to implement strategy recommendations in coordination with other each other.

Tables 2 to 5 list the TSIs and sector segments with the largest roles to play, and provide an assessment of their ability to coordinate with others, the human capital and financial resources at their disposal, and their records as advocates of the sector. A score of low, medium or high is given in each of these categories, based on consultations with a wide range of private and public stakeholders.

POLICY SUPPORT NETWORK

These institutions represent ministries and competent authorities responsible for influencing or implementing policies related to access to finance at the national level.

Table 2: *Myanmar policy support network for access to finance*

Name	Function / role	Coordination *	Human capital **	Financial sustainability ***	Advocacy ****
MoFR	Supervises Myanma Foreign Trade Bank, Small and Medium Industrial Development Bank, and Myanma Economic Bank. Good coordinator of State-owned banks, budget departments and microfinance institutions	M	M	H	M
CBM	Regulates the Myanmar banking system. Sets interest rates, manages the kyat, regulates foreign exchange, etc.	M	M	H	M
MoC	Provides documentation needed to authorize financial transactions	L	M	L	M
Office of the AG	Provides advice on proposed laws and coordinates among ministries	L	H	M	L
Office of the Auditor General	Monitors and provides guidance to external auditors	L	L	L	L
Ministry of Agriculture and Irrigation	Provides the banking sector with technical knowledge of the agricultural sectors	M	M	M	H
Ministry of Communications and Information Technology	Provides vital infrastructure for fund transfers, data transfers, ATMs, mobile banking and general business operations	M	M	M	M

* Coordination with other TSIs: measures the strength of this institution's linkages with other institutions as well as the beneficiaries of their services (in particular, the private sector) in terms of collaboration and information sharing.

** Human capital assessment: assesses the general level of capability of this institution's staff in terms of their training and responsiveness to sector stakeholders.

*** Financial resources assessment: assesses the financial resources / capacity available to the institution to provide service delivery in an efficient manner.

**** Advocacy: assesses the efficacy of this institution's advocacy mechanisms, and how well / frequently this institution disseminates important information to the sector.

TRADE SERVICES NETWORK

These institutions or agencies provide a wide range of trade-related services to both government and enterprises. They support and promote sectors and are concerned with the delivery of trade and export solutions within a developing country.

Table 3: *Myanmar trade services network for access to finance*

Name	Function / role	Coordination	Human capital	Financial sustainability	Advocacy
Myanma Foreign Trade Bank	Facilitates foreign banking and remittances for exporters and importers	M	M	H	M
Myanma Economic Bank	Largest number of bank branches and customers	L	L	M	M
Myanmar Agricultural Development Bank	Takes rural savings deposits and provides seasonal and short-term loans, some of which are collateral-free	M	M	M	M
Private commercial banks	Well-capitalized and rapidly growing segment of the sector. Leads the sector in training personnel and customer service.	H	M	H	M
Foreign bank representative offices	Liaise between Myanmar and foreign banks. Provide market information. Help with foreign direct investment due diligence.	L	M	L	L
Exporters / importers	Major depositors and borrowers	M	M	M	M

BUSINESS SERVICES NETWORK

These are associations, or major representatives, of commercial services providers used by exporters to effect international trade transactions.

Table 4: *Myanmar business services network for access to finance*

Name	Function / role	Coordination	Human capital	Financial sustainability	Advocacy
Myanmar Banks Association (MBA)	Networking among domestic and ASEAN banks. Advice and training for members through its Myanmar Institute of Banking. Public policy advocacy on behalf of members and the sector overall	H	H	H	M
Private accounting and auditing firms	Accounting and auditing services	L	L	M	L
Law firms	Legal services	L	L	M	L
Institutes of Economics	Primary source of human resources for the sector. Provides lecturers to the Myanmar Institute of Banking	M	H	M	L
Myanmar Securities Exchange Centre	Not yet operational. As with any securities exchange, Myanmar Securities Exchange Centre is expected to give enterprises an important means of raising badly needed capital	–	–	–	–
Microfinance institutions	Accept deposits and provide no-collateral loans to the poor, including the poorest	M	L	M	L

CIVIL SOCIETY NETWORK

These institutions are not explicitly engaged in trade-related activities. They are often opinion leaders representing interests that have a bearing on the country's export potential and socioeconomic development.

Table 5: *Myanmar civil society network for access to finance*

Name	Function / role	Coordination	Human capital	Financial sustainability	Advocacy
SMEs	Biggest market segment for most private banks. Well-performing	L	L	L	L
State-owned enterprises (SOEs)	Primary customer of State-owned banks. Poor-performing. In process of privatization	L	L	L	L
Local governments	Coordinate loans between Myanmar Agricultural Development Bank and farmers	H	M	M	L
Small farmers	Increasing banking habit and use of formal sector. Good payment record	L	L	L	L
International organizations	Good source of loans, grants and TA. Good source of advice on new laws	M	H	H	M
National development agencies	Good source of loans, grants and TA. Good source of long-term loans	M	H	H	M

PERCEPTION OF MYANMAR TSIS IN THE ACCESS-TO-FINANCE FUNCTION – INFLUENCE VERSUS CAPACITY

The classifications in table 6 reflect stakeholder perceptions of each institution's influence and capacity to improve access to finance in the country.

Table 6: *Perception of TSI influence and capacity to improve access to finance in Myanmar*

Level of influence on the sector		Capacity of institution to respond to sector's needs: Low	Capacity of institution to respond to sector's needs: Medium
	High	Auditor General Local governments Ministry of Communications and Information Technology	CBM International organizations MoC MoFR National development agencies
	Low	Accounting and auditing firms AG Microfinance institutions Ministry of Agriculture and Irrigation Myanmar Securities Exchange Centre Small farmers SMEs SOEs	Institutes of Economics Law firms MBA

The institutions perceived as having the most influence over Myanmar's financial sector are those that:

1. Are involved in the formulation and implementation of the sector's emerging laws and regulations;
2. Provide TA for sector development;
3. Build critical infrastructure;
4. Coordinate loans with farmers, potentially the sector's largest market segment.

Among these, three institutions are viewed as having a low capacity to respond to the sector's needs, including the Ministry of Communications and Information Technology, which is far from spreading the information and communications technology infrastructure needed for bank branches throughout the country to engage in reliable and secure transfers of funds and data. Local governments lack technical capacity to coordinate Myanmar Agricultural Development Bank loans with all the farmers in their jurisdictions. Finally, the AG's Office is severely backlogged, delaying the process for passing badly needed laws.

On the other hand, the crucial players of MoFR, CBM, MoC and international organizations are considered to be fairly responsive ('medium') to the sector's needs, actively providing valuable policy, operational and financial support.

COMPETITIVENESS CONSTRAINTS

Sector stakeholders working to transform Myanmar's financial sector and make it competitive with the financial systems that back exporters in other economies are faced with a long list of serious constraints. These have to do with Myanmar's legal and institutional framework for finance, its regulation of trade finance, banking sector capacity, and the creditworthiness of Myanmar enterprises. This section highlights 21 of the most important constraints to alleviate; constraints which in turn provide a focus for the strategic PoA at the core of this strategy.

Box 3: Overview of top issues affecting the legal and institutional framework for finance in Myanmar

- Myanmar lacks the suite of financial laws typically associated with a modern financial system
- Current financial regulations impose difficult terms on loans, greatly reducing participation in credit markets and making Myanmar's collective exports less competitive in target markets
- CBM lacks the procedures, technology and skills to lead Myanmar's financial sector effectively
- Reliable credit information and ratings on loan applicants are not readily available, impeding effective due diligence, risk management and total credit volume
- Basic trade finance products are largely unavailable in Myanmar, either because they are prohibited or because CBM has yet to issue clear rules for the product, leaving too much uncertainty for banks to confidently enter that particular market
- Private banks lack the foreign exchange needed to engage in trade finance and do not offer exporters the foreign exchange risk management products they need
- CBM, MoFR, Customs and other vital institutions of the sector lack the habit and systems of information dissemination needed to educate, update and converse with the country's financial firms
- The lack of Government-backed deposit insurance inhibits public confidence in banks and, consequently, bank deposits
- Immigration policy misses an opportunity to alleviate the stark shortage of skilled and experienced bank staff with knowledge of modern banking systems and international banking practices

MYANMAR LACKS THE SUITE OF FINANCIAL LAWS TYPICALLY ASSOCIATED WITH A MODERN FINANCIAL SYSTEM

The Central Bank of Myanmar Law which came into effect in July 2013 was a first, essential step needed to reform the country's financial sector. However, many of the legal aspects surrounding the financial sector's products, clients, regulation and support services remain uncertain, inhibiting the sector's development. Revisions of the Financial Institutions of Myanmar Law and Small and Medium Enterprise Law are under consideration but have been stalled for years. It is a common sentiment among sector stakeholders that Myanmar's Insurance Business Law and the Myanmar Companies Act of 1914 are outdated.

An illustration of the Companies Act's shortcomings can be found in its handling of the auditing industry. It is weak in its division of roles and coordination among CBM's Supervision Department, internal bank auditors, external auditors and bank audit committees.

CURRENT FINANCIAL REGULATIONS IMPOSE DIFFICULT TERMS ON LOANS, GREATLY REDUCING PARTICIPATION IN CREDIT MARKETS AND MAKING MYANMAR'S COLLECTIVE EXPORTS LESS COMPETITIVE IN TARGET MARKETS

By Government regulation, Myanmar banks typically require agricultural loans to be repaid in eight months and industrial loans in a year; do not accept movable assets as collateral; lend only up to 30% of collateral value; and charge a high annual interest of 13%. These requirements are very difficult for most SMEs to meet, especially with (uninsured) risks such as crop failure a constant threat. For the enterprises that do take out such loans, the loan tenures are frequently too short for them to see a return on investment. This forces them to take out additional short-term loans to repay the original, creating a cycle of debt which threatens to hobble business rather than facilitate it. Consequently, Myanmar's enterprises are less competitive than other exporters trying to sell in Myanmar's target markets.

CBM LACKS THE PROCEDURES, TECHNOLOGY AND SKILLS TO LEAD MYANMAR'S FINANCIAL SECTOR EFFECTIVELY

The information and communications technology infrastructure employed by CBM is highly outdated, which prevents not only CBM from becoming more efficient but also constrains the modernization of the sector. For example, the CBM electronic funds transfer system and telecommunications lines are unreliable, and many of CBM's internal processes are still performed manually. There is some computerization of processes and files but it is far from complete. Full computerization is constrained by funds, but also by a severe lack of the technicians and operators needed to install and implement systems. CBM's preference for manual reports over electronic ones and for faxes over e-mails discourages banks and auditors from modernizing their own systems.

RELIABLE CREDIT INFORMATION AND RATINGS ON LOAN APPLICANTS ARE NOT READILY AVAILABLE, IMPEDING EFFECTIVE DUE DILIGENCE, RISK MANAGEMENT AND TOTAL CREDIT VOLUME

Although a credit ratings bureau has been planned, it is still far from operation. Until the bureau's records of credit, default and delinquency are consolidated, turned into rankings and made available to lenders, the Myanmar financial sector will not have all the information tools it needs to make well-informed decisions on the creditworthiness of loan applicants. This disproportionately inhibits the flow of finance to Myanmar's SMEs, which make up more than 99% of the country's registered companies. In an environment where credit information on companies is hard to come by, the largest companies with the highest profiles and the best business networks are more likely to receive scarce loans.

BASIC TRADE FINANCE PRODUCTS ARE LARGELY UNAVAILABLE IN MYANMAR, EITHER BECAUSE THEY ARE PROHIBITED OR BECAUSE CBM HAS YET TO ISSUE CLEAR RULES FOR THE PRODUCT, LEAVING TOO MUCH UNCERTAINTY FOR BANKS TO CONFIDENTLY ENTER THAT PARTICULAR MARKET

'Back-to-back' L/Cs, one of the most fundamental financial tools for facilitating trade, are not offered in Myanmar. They have been permitted by CBM but the rules surrounding their provision have yet to be published. Several banks are eager to enter this market but cannot act without the rules and cannot even be certain when the rules will be forthcoming. Other trade finance products, such as buyer's credit, are simply not available.

The garment industry vividly illustrates the disadvantage this situation presents to enterprises. Myanmar's garment industry could be more competitive and secure higher profits if it were able to buy garment inputs for assembly in Myanmar and sale abroad. However, the lack of buyer's credit means that many factories cannot front the cash to enter this more lucrative business. Still, in most countries a garment factory could use its buyer's L/C to secure a back-to-back L/C, which could be used to purchase inputs. This too is not currently an option in Myanmar. As a consequence, the sector's enterprises are restricted to a lower link in the value chain, assembling garment components which are purchased and supplied by the buyers themselves.

PRIVATE BANKS LACK THE FOREIGN EXCHANGE NEEDED TO ENGAGE IN TRADE FINANCE AND DO NOT OFFER EXPORTERS THE FOREIGN EXCHANGE RISK MANAGEMENT PRODUCTS THEY NEED

According to foreign currency regulation, export revenue from the country's leading export sectors, timber and precious stones must be deposited at public banks. At the same time, most imports are handled through private banks. This puts private banks in the position of having to buy foreign exchange funds.

This shortage of foreign exchange at private banks and the fact that foreign banks are not operational in Myanmar mean that public banks are the only institutions in a position to provide foreign exchange risk management products. However, public banks, which are generally known as being less responsive to customer needs than private ones, do not offer such products.

CBM, MOFR, CUSTOMS AND OTHER VITAL INSTITUTIONS OF THE SECTOR LACK THE HABIT AND SYSTEMS OF INFORMATION DISSEMINATION NEEDED TO EDUCATE, UPDATE AND CONVERSE WITH THE COUNTRY'S FINANCIAL FIRMS

In Myanmar's evolving legal and regulatory landscape for finance, banks can struggle to keep up with the latest rules and services coming out of CBM, MoFR, Customs, other regulators and TSIs. There are several areas, such as trade finance, in which clear rules have been long-awaited. Rules may emerge in pieces, over several months or years. It can take a long time for banks to become aware of new rules, to understand all of their implications and to adapt their services accordingly. This is particularly true as the promulgation of future rules remains uncertain, and it severely slows the rate of the sector's development.

However, CBM and the other institutions lack the habit and information systems needed to ensure that all banks are immediately informed of new rules, know when additional rules can be expected, have a chance to ask questions on implementation, and are meaningfully consulted on problems and solutions.

THE LACK OF GOVERNMENT-BACKED DEPOSIT INSURANCE INHIBITS PUBLIC CONFIDENCE IN BANKS AND, CONSEQUENTLY, BANK DEPOSITS

The collapse of several informal financial companies in 2003 triggered a nationwide financial crisis, bank runs and a Government response that included restrictions on withdrawals. The consequent loss of public confidence in the Myanmar financial sector persists. Many national governments foster confidence in their countries' financial sectors by providing depositors with deposit insurance, but this is absent in Myanmar. This inhibits public willingness to participate in Myanmar's formal banking sector, evidenced by the facts that less than 10 % of the population hold a bank account and that less than 0.1 % participate in credit markets. This low level of deposits severely constrains the capitalization of Myanmar's banks – collectively, approximately US$23 billion as of the end of FY2013 – and therefore their ability to support Myanmar's industry.

IMMIGRATION POLICY MISSES AN OPPORTUNITY TO ALLEVIATE THE STARK SHORTAGE OF SKILLED AND EXPERIENCED BANK STAFF WITH KNOWLEDGE OF MODERN BANKING SYSTEMS AND INTERNATIONAL BANKING PRACTICES

One of the most acute challenges facing Myanmar's banking sector is a stark shortage of skilled and experienced bank staff with knowledge of modern banking systems and international best practices. Work permits for returning Myanmar citizens and foreigners could provide one of the most high-impact, low-cost, targeted, positive and straightforward solutions to this problem, but immigration policy tends to be restriction-minded and misses the opportunity to serve as a targeted tool for economic development.

Especially as foreign banks begin to operate in Myanmar and bring in their own best practices and personnel with global experience, Myanmar's immigration policies for the financial sector can be expected to take a toll on the competitiveness and survival of Myanmar's domestic banks.

Box 4: Overview of top issues affecting the regulation of trade finance and finance generally in Myanmar

- The prohibition on exporting goods without advance payment or an L/C from foreign buyers hampers the attractiveness of Myanmar's exporters to those buyers
- Trade credit insurance is not yet permitted, depriving would-be exporters of one the most basic and essential risk management tools
- The prohibition on Myanmar citizens making down payments on imported goods before receiving them severely inhibits domestic enterprises from getting the capital goods and inputs they need to compete globally

THE PROHIBITION ON EXPORTING GOODS WITHOUT ADVANCE PAYMENT OR AN L/C FROM FOREIGN BUYERS HAMPERS THE ATTRACTIVENESS OF MYANMAR'S EXPORTERS TO THOSE BUYERS

Would-be exporters are not permitted to export their goods without first receiving advance payment from their buyers. This is not standard business practice, especially when the exporter is based in a country with a short history of and weak infrastructure for industry, international trade, financial transactions and legal recourse. This makes most Myanmar exporters unattractive to new buyers and excludes smaller buyers from doing business with Myanmar. This pushes business towards a few of the largest, best-known and most well-resourced companies in all industries.

This regulation is ostensibly meant to protect Myanmar exporters from non-payment by buyers, but it has the perverse effect of cutting many off from new markets and significantly reducing the country's overall export potential. Some companies manage to get around the regulation by depositing their own funds in their bank account and using that deposit record to get their export licences. However, this ties up capital that could be put to more productive use and is a tactic unavailable to many smaller would-be exporters.

TRADE CREDIT INSURANCE IS NOT YET PERMITTED, DEPRIVING WOULD-BE EXPORTERS OF ONE THE MOST BASIC AND ESSENTIAL RISK MANAGEMENT TOOLS

Trade credit insurance, which is one of the most common tools for protecting exporters from the risk of non-payment by foreign buyers, is not yet permitted in Myanmar. A request to permit trade credit insurance is currently under consideration by MoFR, but when that decision might come, what it might be, and the eventual details of the related rules and regulations, are still uncertain. Without this basic trade finance tool, investment in export-oriented activities will be less attractive and the Government will retain its rationale for the prohibition on exporting goods without advance payment or an L/C from buyers.

THE RESTRICTIONS ON MYANMAR CITIZENS MAKING DOWN PAYMENTS ON IMPORTED GOODS BEFORE RECEIVING THEM SEVERELY INHIBITS DOMESTIC ENTERPRISES FROM GETTING THE CAPITAL GOODS AND INPUTS THEY NEED TO COMPETE GLOBALLY

For purchases of large capital goods, such as farm machinery, some industries have a standard practice of requiring down payments prior to export. Myanmar law restricts Myanmar citizens from making payments in advance of receipt of imported goods without a substantial burden of documentation, which many SMEs have difficulty supplying. Although this is ostensibly a measure to protect importers against non-delivery of goods, it severely reduces the accessibility of certain capital goods for Myanmar producers, which can have the effect of raising costs and constraining productivity, therefore stifling competitiveness.

There is low awareness at banks of industry-standard down payments by product, and low awareness on the part of importers of their rights to financial and performance guarantees from vendors. These factors contribute to the sense that importers need to be protected and discourage CBM from allowing advance payments in line with international norms.

Box 5: Overview of top issues affecting banking sector capacity in Myanmar

- Weak human resources and infrastructure undermine the sector's attempts at computerization, automation, security, increasing efficiency and cost reduction
- Many banks lack the funds and skills to buy and implement core banking systems needed for modern and efficient operation
- Most banks do not have the risk management skills and tools needed to responsibly expand lending on the scale demanded by the country's anticipated growth
- Collectively, personnel in the financial sector have little knowledge of trade finance, hurting the sector's ability to advocate conducive rules and regulations, as well as its ability to design and implement products
- Organizational hierarchies and culture in Myanmar are not conducive to market responsiveness and fast-paced competition

WEAK HUMAN RESOURCES AND INFRASTRUCTURE UNDERMINE THE SECTOR'S ATTEMPTS AT COMPUTERIZATION, AUTOMATION, SECURITY, INCREASING EFFICIENCY AND COST REDUCTION

The country's low rate of electrification and unreliable electricity supply undermine attempts to modernize internal and interbank operations. Frequent outages create an incentive to stick with outdated manual procedures, rather than switch to electronic systems which require expensive generators to ensure operation at all times. Outdated, manual procedures constrain improvements to efficiency and raise costs in the long run.

This dynamic is further aggravated by low Internet penetration – less than 1 % of the population – and low computer literacy. Sector stakeholders anticipate a severe shortage of staff with adequate computer skills as efforts to fully modernize the banking sector ramp up.

MANY BANKS LACK THE FUNDS AND SKILLS TO BUY AND IMPLEMENT CORE BANKING SYSTEMS NEEDED FOR MODERN AND EFFICIENT OPERATION

Globally recognized solutions (e.g., those from Oracle, Infosys, SAP) can cost US$5 million, a price most Myanmar banks are unwilling or unable to pay. Locally produced core banking systems are under development through collaborations between Microsoft and Oracle, on the one hand, and local companies, on the other. However, these have proven unreliable so far. The lack of skilled staff for the implementation of a core banking system contributes to hesitation in buying expensive systems.

MOST BANKS DO NOT HAVE THE RISK MANAGEMENT SKILLS AND TOOLS NEEDED TO RESPONSIBLY EXPAND LENDING ON THE SCALE DEMANDED BY THE COUNTRY'S ANTICIPATED GROWTH

Bank risks can be thought of as falling into four types: system, credit, corporation and human. The management of each requires different tools and skills, but throughout the sector there is a low level of awareness of risk types and the appropriate approach to their management. For example, most banks do not separate management structures for risk management and product management, as is international best practice.

Naturally, difficulty mitigating risks internally leads banks to make up for it with higher risk thresholds externally; that is to say, with respect to borrowers. This has the effect of unnecessarily reducing available credit in the economy.

COLLECTIVELY, PERSONNEL IN THE FINANCIAL SECTOR HAVE LITTLE KNOWLEDGE OF TRADE FINANCE, HURTING THE SECTOR'S ABILITY TO ADVOCATE CONDUCIVE RULES AND REGULATIONS, AS WELL AS ITS ABILITY TO DESIGN AND IMPLEMENT PRODUCTS

Having not engaged in trade finance and having had little exposure to foreign banking systems, most of the country's bank personnel lack experience in the design and implementation of products, such as back-to-back L/Cs. This means that individual banks and the MBA are less motivated and less able to advocate the rules and regulations that the (generally receptive) CBM needs to adopt to enable trade finance by the banks. In short, banks are less able to help CBM help them because they are more focused on the day-to-day problems of current operations than on encouraging CBM to open new frontiers in the industry.

Some banks pay for existing training courses for bank personnel, but at €200 per day, they are considered expensive. As such, they tend to be too few, too short and too shallow, focusing on topics of immediate need, such as Society for Worldwide Interbank Financial Telecommunication (SWIFT) operations.

ORGANIZATIONAL HIERARCHIES AND CULTURE IN MYANMAR ARE NOT CONDUCIVE TO MARKET RESPONSIVENESS AND FAST-PACED COMPETITION

Management in Myanmar's banks tends to be highly centralized, with decision-making authority residing with a few high-level people. This creates bottlenecks in the ability to react to customers' everyday needs and in the development of new products. Low exposure to alternative management models, for example in foreign banks, has made bank management very conservative, posing a potentially serious disadvantage to Myanmar banks as they start to be confronted by more and more international competition.

Box 6: Overview of top issues affecting the creditworthiness of enterprises in Myanmar

- Few would-be exporters and importers in Myanmar have the knowledge they need to obtain and make effective use of L/Cs
- Weak business strategies and management make many enterprises unattractive to lenders
- Weak record-keeping, accounting and auditing among the country's SMEs produce unreliable financial statements and diminish the creditworthiness of enterprises

FEW WOULD-BE EXPORTERS AND IMPORTERS IN MYANMAR HAVE THE KNOWLEDGE THEY NEED TO OBTAIN AND MAKE EFFECTIVE USE OF L/CS

The L/C is arguably the most basic form of trade finance, a first step towards back-to-back L/Cs and more complicated forms of trade finance, yet few of Myanmar's exporters and importers even have adequate knowledge of how to obtain and use an L/C. MoC provides fully subscribed trainings on the topic every three to six months in Yangon, with nearly 100 traders in attendance each time. However, this number represents a very small percentage of would-be traders, and the training remains out of reach for the many people who are unable to travel to Yangon for it.

WEAK BUSINESS STRATEGIES AND MANAGEMENT MAKE MANY ENTERPRISES UNATTRACTIVE TO LENDERS

Enterprises are most likely to receive loans when they can demonstrate a capacity to understand and satisfy target markets; plan strategically; operate systematically, achieving quality and process certifications; navigate local and domestic trade procedures; comply with tax regulations; and otherwise meet obligations and rise to challenges. Many Myanmar enterprises do not take an approach to planning and management that readily demonstrates these factors to the satisfaction of lenders.

WEAK RECORD-KEEPING, ACCOUNTING AND AUDITING AMONG THE COUNTRY'S SMES PRODUCE UNRELIABLE FINANCIAL STATEMENTS AND DIMINISH THE CREDITWORTHINESS OF ENTERPRISES

Many of Myanmar's enterprises, over 99% of which are SMEs, are unable or unaccustomed to maintaining reliable records and producing sound financial statements. This prevents banks from judging them to be creditworthy, even when they might otherwise be. Even enterprises that make use of external auditors often find their certified public accountants (CPAs) produce unreliable work. Yet there is not a culture among enterprises of reporting bad CPAs, nor at the Auditor General's Office of vigorously weeding them out. Lenders thus have reduced confidence in loan applicants' paperwork, even when it appears to be in order.

WHERE WE WANT TO GO

VISION

Myanmar's financial sector has clearly been on a path of reform, but it remains a long way from having the laws, regulations, institutions, banks and products of a modern financial system, without which Myanmar's exporters will struggle to succeed in international markets. Yet it is the collective belief of the sector's public, private and international stakeholders that this can be achieved. Sector stakeholders have therefore collaborated to set the following vision for Myanmar's financial sector:

> "An internationally integrated financial sector with the legal framework, infrastructure and customer service to effectively support export growth and the socioeconomic development of Myanmar."

When realized, this vision will be characterized by the following structural improvements:

Legal and institutional framework for finance:

- A full suite of modern, market-oriented financial laws that serve the competitiveness of Myanmar's enterprises and the well-being of its people
- Sound and effective institutions needed to support a responsible and robust financial sector, including the new credit information bureau, new stock exchange and strengthened Auditor General
- Domestic and foreign banks competing freely for business.

Regulation of trade finance and finance generally:

- Banks free to set their own interest rates and loan tenures so as to optimize competitiveness and profitability. Internationally comparable collateral requirements
- The full range of trade finance products, provided reliably, conveniently, continuously and in a fashion customized to the collateral-poor borrowers typical of Myanmar.

Banking sector capacity:

- A financial sector labour force that is adequate in size and skill to the rapid expansion of the sector
- Public electricity and telecommunications infrastructure that has been built up to satisfy the needs of the financial sector, in recognition of its importance as a multiplier for the country's industrial and economic development

- Vastly greater bank deposits and bank loans
- Strengthened interbank lending and foreign currency exchange.

Creditworthiness of enterprises:

- A Myanmar private sector that is well-managed, with sound strategies and good accounting
- Exporters and importers well-educated in how to make use of newly available trade finance.

Improvements to the **legal and institutional framework for finance** will see an inclusive, fast-track process for formulation of the following new or revised laws: the Financial Institutions of Myanmar Law, the Myanmar Companies Act of 1914, bankruptcy laws, the law governing private insurers, an SME law, a law establishing a consumer protection agency, and a law establishing an export–import bank. Improved institutions would include strengthened capacity for CBM to act as an accessible, reliable, transparent and responsive source of up-to-date information for the sector; the start of lending operations by foreign banks; a new searchable database of titles, mortgages, and liens; establishment of the planned credit information and rating bureau; and a strengthened Auditor General's Office.

Improvements to the regulation of trade finance will see new approvals and instructions from MoFR and CBM allowing all conventional instruments of trade finance, including back-to-back L/Cs and trade credit insurance. Improvements would also allow the export of goods without proof of advance payment and liberalize the advance payment of deposits on imported goods. Improvements to the regulation of the financial sector in general would focus on increasing bank liquidity and reducing foreign exchange risk through clear guidelines on interbank lending; allowing exporting SOEs to deposit foreign exchange in private banks; and strengthening the foreign exchange market with regulations empowering banks to provide swaps, forwards, futures and options. These new approvals, instructions and regulations would be facilitated by a decentralized approval process at CBM.

Improvements to banking sector capacity will see bank management structures that separate product management from risk management; staff trained in trade finance, risk management and computer skills; a more efficient, secure and reliable electronic funds transfer system; widespread use of electronic record keeping and data reporting; staff with practical experience in high-performing foreign banks; and State-owned banks using core banking systems to effectively coordinate with all their branches.

Improvements to enterprise creditworthiness will see many more SMEs able to articulate sound business plans, follow accounting standards, and make effective use of trade finance instruments, such as L/Cs.

HOW TO GET THERE

STRATEGIC PLAN OF ACTION

1. Three strategic objectives have been identified in order to realize the overall vision for the access-to-finance cross-sector function. These are:
   - Process quickly all pending approvals, instructions and clarifications that will facilitate trade. This objective will be realized through initiatives implemented along the following dimensions (or operational objectives):
   - Support trade competitiveness by bringing regulation of payments for exports and imports in line with global standards
   - Strengthen exports by giving exporters internationally comparable access to trade finance mechanisms and products
   - Make public administration of the financial sector more transparent and conducive to sector development.

2. Review and update the legal, regulatory and institutional frameworks for banking and finance. This objective will be realized through initiatives implemented along the following dimensions:
   - Relax regulations limiting liquidity
   - Enact missing legislation
   - Promote a more dynamic and sophisticated financial market with better risk management systems and tools.

3. Supply the sector with the skills, technology and infrastructure to be internationally competitive. This objective will be realized through initiatives implemented along the following dimensions:
   - Improve exporter knowledge of available financing, how to qualify for it and how to use it
   - Upgrade the data-reporting and record-keeping systems of CBM and commercial banks
   - Encourage Myanmar banks to adopt international business practices
   - Provide banks with the systems and staff skills to provide trade financing.

IMPORTANCE OF COORDINATED IMPLEMENTATION

The broad range of activities, together with the complex nature of integrated intervention, requires careful implementation involving efficient allocation of resources and monitoring of results at both the micro and macro levels.

To this end, the MTDC will be established in order to facilitate the public–private partnership in elaborating, coordinating and implementing the NES. In particular, the MTDC will be tasked with coordinating the implementation of activities in order to optimize the allocation of both resources and efforts across the wide spectrum of stakeholders. Within this framework, the implementation of the access-to-finance strategy will fall within the purview of the MTDC.

Specific efforts will be made to direct donor and private and public sector organizations towards the various NES priorities in order to avoid duplication and guarantee maximum impact. Responsibilities will also include monitoring the results of activities and outputs, while at the same time recommending policies that could serve to enhance the realization of the strategic objectives. With a 360-degree view of progress, the MTDC will be best placed to manage funding and provide regular reports to donors and stakeholders. Moreover, the MTDC will play a key role in recommending revisions and updates to the strategy so that it continues to evolve in alignment with Myanmar's changing needs.

THE **REPUBLIC OF THE UNION OF MYANMAR**
NATIONAL EXPORT STRATEGY

PLAN OF ACTION

Strategic objective 1: Process quickly all pending approvals, instructions and clarifications that will facilitate trade.

Operational objectives	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Targets	Leading implementing partner	Supporting implementing partners	Existing programmes or potential support	Estimated cost (US$)
1.1 Support trade competitiveness by bringing regulation of payments for exports and imports in line with global standards.	1.1.1 Issue MoFR instructions permitting the export of goods without proof of advance payment or L/C, as currently required, so that Myanmar may engage in trade according to international norms and be a more attractive sourcing destination.	2	Exporters, manufacturers	Clear Instructions from MoFR and CBM for this permission	MoFR	MoC, Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), CBM		None
	1.1.2 Issue CBM instructions permitting companies to pay industry-standard deposits to foreign sellers on imported capital goods, in line with international business norms.	1	Exporters, importers, manufacturers	Clear instructions from CBM for this permission	CBM	All commercial banks		None
1.2 Strengthen exports by giving exporters internationally comparable access to trade finance mechanisms and products.	1.2.1 Have MoFR approve pending requests by private banks to provide trade credit insurance, giving exporters an important risk mitigation tool for doing business internationally.	2	Exporters, importers, manufacturers	Two or more institutions offering credit insurance	MoFR	CBM, insurance companies, financial institutions, importers and exporters	New foreign exchange management rules are being drafted now	None
	1.2.2 Issue instructions on conducting back-to-back L/Cs and other forms of trade finance, giving financial institutions the regulatory clarity they need to proceed. (Note: Some banks have been licensed since 2011 but are awaiting guidelines.)	2	All commercial banks, exporters, importers, manufacturers	Two or more banks using back-to-back L/Cs	CBM	All commercial banks, logistics and shipping agencies, insurance companies, inspection agencies, clearance agencies	New foreign exchange management rules are being drafted now	None
	1.2.3 Increase lending sources, range of loan products and favourability of loan terms available to Myanmar exporters by elaborating the clear guidelines needed for the establishment and operation of foreign banks.	1	Foreign banks, exporters, importers, all commercial banks	Two or more foreign banks' lending	CBM	AG's Office, Parliament	New financial institutions law is being drafted now	None (but TA needed for guidance on best practices: 100 000)
1.3 Make public administration of the financial sector more transparent and conducive to sector development.	1.3.1 Decentralize approval processes at CBM for offering new financial products, particularly forms of trade finance, and opening new branches. The ability to respond to consumer demands more quickly and with tailored products will strengthen the sector's international competitiveness.	2	All commercial banks	Reduce average processing time by 75%	CBM	All commercial banks	New financial institutions law is being drafted now	None (but TA needed for guidance on best practices: 100 000)
	1.3.2 Reduce regulatory uncertainty by establishing or improving the CBM information window, call centre, website and automatic transmission of new circulars, so that financial institutions may have up-to-date information on the quickly evolving regulatory framework.	2	Exporters, importers, all commercial banks	Establishment of a one-stop information centre	CBM	All commercial banks		350 000
	1.3.3 Strengthen certification and recertification practices, through training and system implementation, at the Myanmar Institute of Certified Public Accountants, in line with international standards, so as to reduce unnecessary risk in the system and improve access to finance.	2	Exporters, importers and financial institutions	Satisfaction of the banking sector with the quality of CPAs	Auditor General's Office	Myanmar Institute of Certified Public Accountants, commercial banks and financial institutions, UMFCCI		150 000

Strategic objective 2: Review and update the legal, regulatory and institutional frameworks for banking and finance.								
Operational objectives	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Targets	Leading implementing partner	Supporting implementing partners	Existing programmes or potential support	Estimated cost (US$)
2.1 Relax regulations limiting liquidity.	2.1.1 Issue regulations and CBM instructions empowering banks to establish a foreign exchange market with the full range of financial instruments – swaps, forwards, futures and options – giving Myanmar exporters the foreign exchange risk mitigation tools they need to compete confidently in international markets.	3	Exporters, importers, all commercial banks and the public	Two private banks involved in two or more types of foreign exchange markets (other than spot)	CBM	All commercial banks		None (but TA needed for guidance on best practices: 100 000)
	2.1.2 Optimize the financial system's liquidity and, consequently, lending to enterprises by issuing clear and comprehensive CBM guidelines on interbank lending.	3	All commercial banks	Triple interbank lending	CBM	All commercial banks		None (but TA needed for guidance on best practices: 100 000)
	2.1.3 Provide private banks greater access to foreign currency through a relaxation of Foreign Exchange Management Department Instruction No. 15-2012, by permitting the major exporting SOEs to make deposits at private banks.	2	All commercial banks	First deposits in private banks from SOEs exporting timber or gems	CBM	All commercial banks and SOEs		None
2.2 Enact missing legislation.	2.2.1 Implement an inclusive system for fast-track formulation of finance and trade laws.	2	Exporters, importers, all commercial banks	Public–private dialogue forum and working groups regularly issuing recommendations on finance and trade laws	MoC	MoFR, AG's Office, CBM, all commercial banks		None
	2.2.2 Expedite passage of the Financial Institutions of Myanmar Law, providing the financial sector with the fundamental legal framework it needs to function and grow.	3	All commercial banks and financial institutions	Law passed and implementing regulations publicized	CBM	All commercial banks and AG's Office, Parliament, financial institutions	World Bank TA programme	None
	2.2.3 Articulate public policy and support for SMEs through an SME law, making them less risky and more likely to get credit.	3	SMEs	Law passed and implementing regulations publicized	Ministry of Industry	Ministry of Cooperatives, Government ministries, UMFCCI, and non-governmental organizations	In process	None (but TA needed for guidance on best practices: 100 000)
	2.2.4 Update the Myanmar Companies Act of 1914.	3	Exporters and importers	Law passed and implementing regulations publicized	Ministry of National Planning and Economic Development (Directorate of Investment and Company Administration)	AG's Office, Government ministries, UMFCCI, and non-governmental organizations	Existing law but needs to be updated	None (but TA needed for guidance on best practices: 100 000)
	2.2.5 Promote lending by updating bankruptcy laws to give lenders and borrowers modern protections and greater predictability.	3	Financial institutions and the public	Law passed and implementing regulations publicized	Ministry of National Planning and Economic Development (Directorate of Investment and Company Administration)	AG's Office, Government ministries, and related law firms		None (but TA needed for guidance on best practices: 100 000)

Strategic objective 2: Review and update the legal, regulatory and institutional frameworks for banking and finance.

Operational objectives	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Targets	Leading implementing partner	Supporting implementing partners	Existing programmes or potential support	Estimated cost (US$)
2.2 Enact missing legislation.	2.2.6 Review insurance business law.	2	Exporters, importers and the public	Public–private dialogue forum and working groups	Myanmar Insurance	MoFR, private insurance companies, exporters / importers	Existing law but needs to be updated	None (but TA needed for guidance on best practices: 100 000)
	2.2.7 Pass a law establishing a national export–import bank dedicated to strengthening Myanmar's participation in international trade.	3	Exporters, importers, consumers, all commercial banks	Establishment of at least one export–import bank	Parliament	CBM, MoFR, MoC, all commercial banks		None (but TA needed for guidance on best practices: 100 000)
	2.2.8 Fast track legislation, currently with the AG's Office, to create a consumer protection agency. The consumer protection agency will be an important measure for social responsibility as the financial sector grows.	2	Exporters, importers and consumers	Establishment of a consumer protection agency	AG	MoC and all financial institutions	In process	None
2.3 Promote a more dynamic and sophisticated financial market with better risk management systems and tools.	2.3.1 Strengthen the regulatory framework and institutions for oversight of CPAs.	1	All commercial banks	Review and update the existing regulatory framework with the assistance of the Myanmar Institute of Certified Public Accountants	Auditor General's Office	Myanmar Institute of Certified Public Accountants, all financial institutions		200 000
	2.3.2 Create searchable title databases and online registries for mortgages and liens, so that lenders can confirm collateral.	3	Exporters, importers and the public	Establishment of online registries for titles, mortgages and liens	General Administration Department (Ministry of Home Affairs)	Yangon City Development Committee, Mandalay City Development Committee, Ministry of Construction (Housing Board), Ministry of Agriculture and Irrigation (Settlement and Land Records Department)		2 000 000
	2.3.3 Implement the credit ratings bureau to give financial institutions more confidence in select borrowers.	3	Exporters, importers	A reliable credit rating available for at least one million businesses	CBM	All commercial banks	Planned but with unclear implementation plans	2 000 000

Strategic objective 3: Supply the sector with the skills, technology and infrastructure to be internationally competitive.

Operational objectives	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Targets	Leading implementing partner	Supporting implementing partners	Existing programmes or potential support	Estimated cost (US$)
3.1 Improve exporter knowledge of available financing, how to qualify for it, and how to use it.	3.1.1 Increase dramatically the frequency and number of sites where MoC training on L/Cs is provided (currently every three to six months and only in Yangon), either directly or through partnerships and training of trainers.	3	Exporters / importers	3 000 individuals trained per year	MoC	UMFCCI and related institutions, MBA, all relevant Government ministries	Small existing programme	15 000 per course for 50 candidates for one week training with national trainer
	3.1.2 Provide training to SMEs in priority sectors on keeping better records and producing reliable financial statements, so that they may better qualify for financing.	3	SMEs and exporters / importers	3 000 individuals trained per year	UMFCCI	Myanmar Institute of Certified Public Accountants, Ministry of Industry, Ministry of Cooperatives, all financial institutions	Small existing programme	15 000 per course for 50 candidates for one week training with national trainer
3.2 Upgrade the data-reporting and record-keeping systems of CBM and commercial banks.	3.2.1 Encourage CBM and commercial banks to use electronic data-reporting systems and record-keeping systems instead of paper files, as a way to increase bank efficiency and customer service.	3	CBM, all commercial banks	Fully electronic systems at CBM and 50 % of commercial banks	CBM	All commercial banks		
	3.2.2 Replace the current electronic funds transfer system with a more efficient, secure and reliable funds transfer system.	3	All commercial banks	Launch of SWIFT system	CBM	All commercial banks		
3.3 Encourage Myanmar banks to adopt international business practices.	3.3.1 Establish bank exchange (i.e. 'deputation' or 'secondment') programmes with partner banks in countries that are major trading partners, so that bank staff in Myanmar can be exposed to international best practices.	3	All commercial banks	Fifty participants sent abroad each year	MBA	CBM and foreign correspondent banks, all commercial banks	Irregular practice of a few banks	Fund for Scholarship Programmes?
	3.3.2 Promote delegation of decision-making authority as a means of increasing speed and responsiveness to bank customers.	3	All commercial banks	Exercise corporate governance practice as earliest as possible	CBM	All commercial banks		None
3.4 Provide banks with the systems and staff skills to provide trade financing.	3.4.1 Provide training programmes for commercial banks in the areas of trade financing, risk management and computer literacy.	3	All commercial banks	Following minimum numbers trained: » Trade finance: 30 people from six banks » Risk management: 150 people from 15 banks » Computer literacy: 500 people from 25 banks	MBA	All commercial banks	Small existing programme	15 000 per course for 50 candidates for one week training with national trainer
	3.4.2 Allow permanent residency visas for foreign citizens and returning citizens with experience and expertise in efficient banking, in order to build up sector skills and experience.	3	All commercial banks	Satisfactory number of working visas granted to foreign citizens and returning Myanmar citizens employed in the banking sector	Ministry of Immigration and Population	Ministry of Home Affairs, CBM, Ministry of Foreign Affairs, Parliament		None (but TA needed for guidance on best practices: 100 000)
	3.4.3 Encourage commercial banks to adopt structures for the separation of risk management and product management as a way of promoting greater product innovation and better customer service.	3	All commercial banks	Steps taken by banks to reduce risk	CBM	All commercial banks		None
	3.4.4 Use uniform and common core banking systems (software and hardware) for all State-owned banks, as a means of improving customer service and the security and reliability of transactions.	3	All State-owned banks	Adoption rate of 90 % among State-owned banks	CBM	All commercial banks		20 000 000

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APPENDIX 1: MEMBERS OF THE SECTOR TEAM

Team coordinator

- Daw Su Win Myat, Assistant General Manager, Myanmar Citizens Bank

Team members

U Min Han Soe	Director	CBM
U Win Naing Oo	Deputy General Manager	Loan and Supervision Department
U Sein Hla Tun	Deputy General Manager	Myanmar Agricultural Development Bank
Daw Ni Ni Soe	Manager	Myanmar Agricultural Development Bank
U Zaw Win	Deputy Managing Director	Myanmar Livestock and Fisheries Bank
U Sein Win Kyi	Assistant General Manager	Myanma Foreign Trade Bank
Daw Myint Myint Win	Assistant Director	Directorate of Trade
Daw San San Aye	Staff Officer	Department of Commerce and Consumer Affairs
Daw Hla Hla Maw	Staff Officer	Trade Promotion Department
Daw Khin Nilar	Assistant General Manager	Small and Medium Industrial Development Bank
U San Thein	Leading Advice	GIZ
Daw Than Than Win	Assistant General Manager	Kanbawza Bank Ltd
U Aung Myint	Manager	Co-operative Bank Ltd

APPENDIX 2: LIST OF PRIVATE DOMESTIC BANKS AND REPRESENTATIVE OFFICES OF FOREIGN BANKS

Private domestic banks		Representative offices of foreign banks	
1	Myanmar Citizens Bank Ltd	1	DBS Bank Ltd. (Singapore)
2	Co-operative Bank Ltd	2	United Overseas Bank Ltd. (Singapore)
3	First Private Bank Ltd	3	Oversea-Chinese Banking Corporation Ltd (Singapore)
4	Myawaddy Bank Ltd	4	Malayan Banking Berhad (Maybank) (Malaysia)
5	Yangon City Bank Ltd	5	Bangkok Bank Public Company Ltd (Thailand)
6	Yoma Bank Ltd	6	National Bank Ltd
7	Myanmar Oriental Bank Ltd	7	Brunei Investment and Commercial Bank
8	Tun Foundation Bank Ltd	8	First Overseas Bank Ltd
9	Kanbawza Bank Ltd	9	CIMB Bank Berhad
10	Small and Medium Industrial Development Bank	10	Sumitomo Mitsui Banking Corporation
11	Global Treasure Bank Public Ltd (Myanmar Livestock and Fisheries Development Bank Ltd)	11	The Bank of Tokyo-Mitsubishi UFJ, Ltd
12	Innwa Bank Ltd	12	Bank for Investment and Development of Viet Nam
13	Yadanar Pon Bank Ltd	13	AB Bank Ltd
14	Asia-Yangon Bank Ltd	14	Industrial and Commercial Bank of China Ltd
15	Rural Development Bank Ltd	15	Mizuho Corporate Bank Ltd (Japan)
16	Asia Green Development Bank Ltd	16	Siam Commercial Bank Public Company Ltd
17	Ayeyarwady Bank Ltd	17	MARUHAN Japan Bank PLC (Cambodia)
18	United Amara Bank Ltd	18	Krung Thai Bank Public Company Ltd (Thailand)
19	Myanmar Apex Bank Ltd	19	United Bank of India (India)
20	Naypyitaw Sibin Bank Ltd	20	Kasikornbank Public Company Ltd (Thailand)
21	Myanmar Small and Financial Bank	21	AEON Credit Service Company
22	Construction and Housing Development Bank	22	Hana Bank (Korea)

Private domestic banks	Representative offices of foreign banks	
	23	Woori Bank
	24	ANZ Bank (New Zealand)
	25	VietinBank
	26	Korea Development Bank (Korea)
	27	Standard Chartered Bank
	28	Shinhan Bank (Korea)
	29	Industrial Bank of Korea (Korea)
	30	First Commercial Bank
	31	E.SUN Commercial Bank, Singapore branch
	32	Bank of India
	33	Kookmin Bank
	34	Export–Import Bank of India


1000
HUNDRED KYATS
CENTRAL BANK OF MYANMAR
200
CENTRAL BANK OF MYANMAR
CENTRAL BANK OF MYANMAR

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Republic of the Union of Myanmar

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