Myanmar's Financial Sector

A Challenging Environment for Banks

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A Challenging Environment for Banks

Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH

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ပူးပေါင်းဆောင်ရွက်မှု
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Executive Summary

The financial sector in Myanmar is the least developed of all in Southeast Asia and cannot adequately fulfil its role as a financial intermediary. However, due to the recent reform process, the sector has already undergone tremendous changes. Steps to develop a stock market in 2015 are underway, and the insurance market, formerly monopolized by the state, has been liberalized. However, capital and insurance markets still play a minor role, and the financial sector continues to be dominated by banks. While state-owned banks currently account for the majority of assets, they are struggling to keep pace with the speed of reforms and high growth rates of their private sector peers. Given the low level of development of the banking sector and the size of the potential market, growth potentials continue to look promising. Despite current reforms, the legal framework as well as the financial infrastructure of the banking industry lags behind international standards. The main challenges ahead for the banking sector are the management of the reforms, including the pace thereof, and the development of human resources. These challenges become even more important when considering foreign banks entering the market from 2016 onwards, after Myanmar will have joined the single market of ASEAN Economic Community.

This paper aims at providing an overview of the financial sector in Myanmar and will focus particularly on the banking industry.

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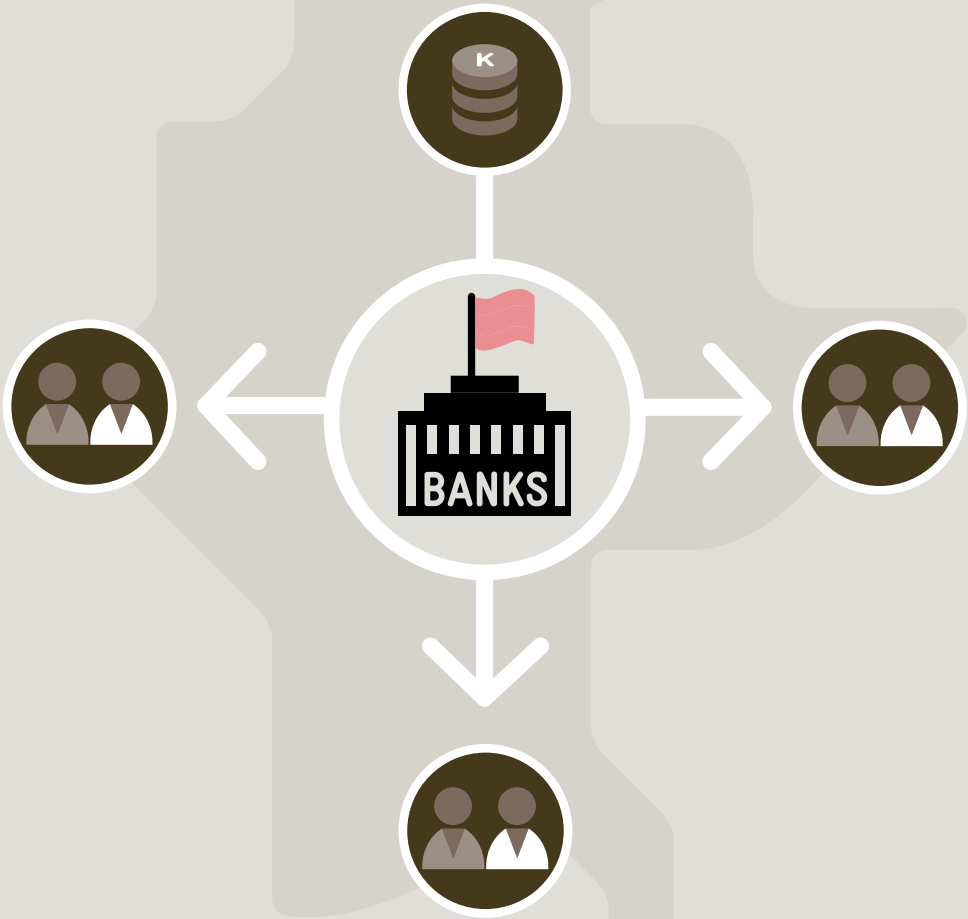
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1 Financial Sector Overview and Regional Perspective

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

A sound financial system is an essential pillar of every economy. The financial sector mobilizes savings and allocates credits to other sectors to promote economic growth. It provides not only payment services but also enables coping with economic uncertainties by hedging, pooling, sharing, and pricing risks (e.g. via insurances). An efficient financial sector hence reduces the cost and risk of producing and trading goods and services and thus makes an important contribution to raising the standard of living.

In Myanmar, the financial sector can fulfill its role as a financial intermediary only to a limited extent. For almost five decades, Myanmar's population and economy faced harsh restrictions under the rule of a military junta which set up a strict socialist regime (ADB 2012). The international sanctions under the military rule led to international isolation of the nation. In Southeast Asia, the former Asian granary Myanmar has become the poorest country with the lowest level of financial intermediation (credit-to-GDP of 7.2% in 2011).

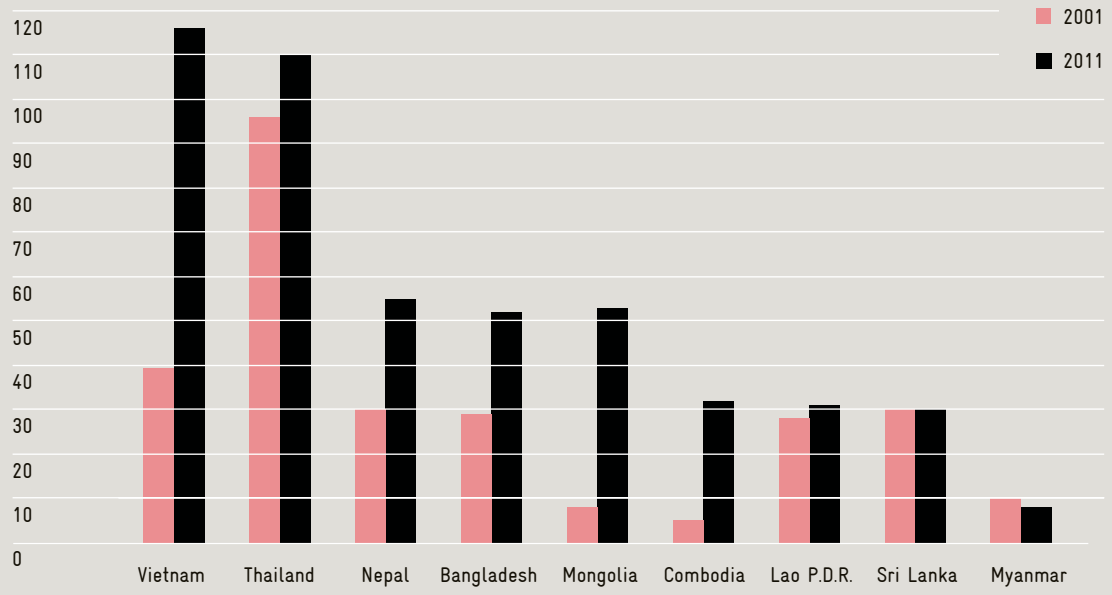
Figures 1 and 2 illustrate this low level of financial intermediation and its development over time. It should be especially noted that Myanmar was the only country in ASEAN that could not increase its financial intermediary ratio between 2001 and 2011. While Cambodia and Mongolia had a lower financial intermediary ratio in 2001, they overtook Myanmar during the last decade.

Box 1 Reliability and consistency of data

Data in Myanmar is scarce, not always reliable, and often difficult to compare, as information is barely prepared in a consistent manner. This is especially true for the financial sector. Most banks do not publish annual reports or disclose their financial data. Transparency is, however, increasing as well as efforts towards improving financial data. For example, CBM just recently started to publish key banking data in its annual report. Legal reforms shall, furthermore, help to ensure the consistent application of international financial reporting standards.

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

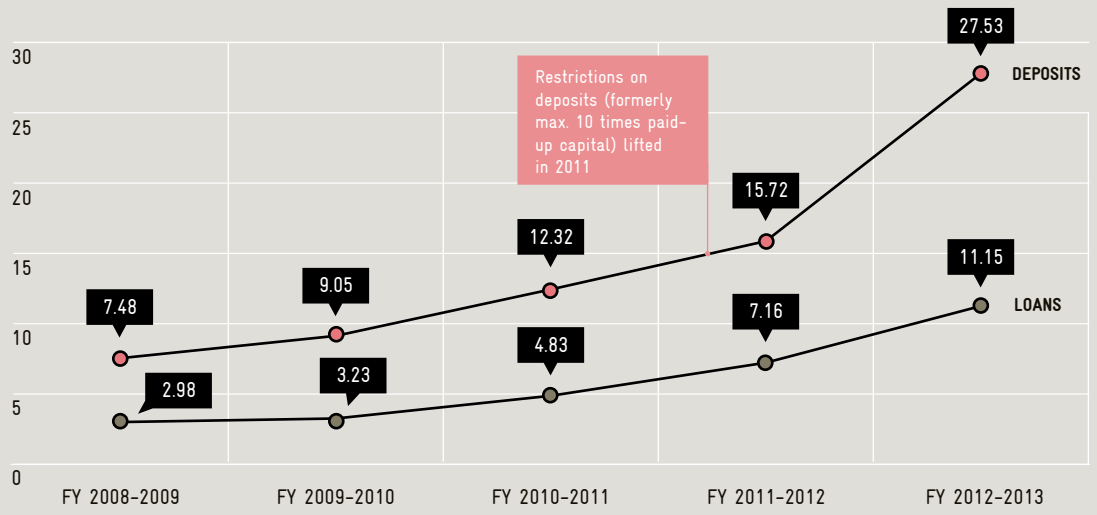
Figure 1 Credit to the Economy (in % of GDP)



Reference: IMF (2013)

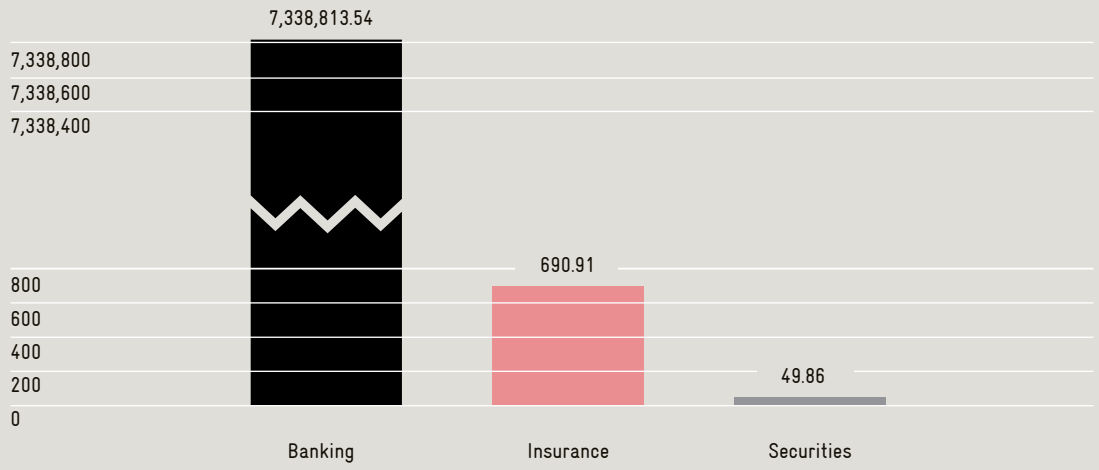
Looking more closely to the development of financial intermediation in Myanmar reveals an interesting picture. Over the last three years, Myanmar has been catching up at a fast pace. Until 2010, the level of deposits-to-GDP ratio has been comparably low in Myanmar (see Figure 2). The regional average for South East Asia was around 35% in 2010 (Myanmar: 12%). But the total amount of deposits (especially with private banks) tripled over the last three years[1] and can be seen as a sign of growing trust from Myanmar people in their banking system and the reforms underway.

Figure 2 Financial intermediation in Myanmar over the last five years (in % of GDP)



Reference: CBM (2013), GIZ (2013)

Figure 3 Total assets held by Myanmar financial institutions in 2011 (in MMK million)



Reference: CBM (October 2011)

Similar to other ASEAN low-income countries (Cambodia, Lao PDR, Vietnam)[2], the Myanmar financial sector is dominated by banks, which covered 99.9% (MMK 7.3 trillion, see Figure 3) of all financial sector assets in 2011.[3]

The banking sector, however, is at a rudimentary stage. In the Financial Year (FY) 2012-2013, there were 24 banks[4] with total assets only amounting to MMK 23 trillion at the end of March 2013. While the branch network has been expanded over the last three years, its outreach is still very low with less than two bank branches per 100,000 Myanmar people, representing the lowest outreach in the region (i.e. Lao PDR: 2.6 branches or Thailand: 11.2 branches per 100,000 people) (ADBI 2013).

A series of reforms is underway since the Myanmar Government has undergone economic and political transformation after the 2010 elections. CBM has started to revise the legal framework and various requirements for the financial sector (see table I in the annex) in order to modernize the infrastructural and institutional framework, liberalize the foreign exchange market, relax administrative controls, allow more competition and innovations, and improve fiscal and foreign exchange management capacities.

A new Foreign Exchange Management Law and exchange rate regime (managed float exchange rate system) were introduced in April 2012. With the technical assistance of International Monetary Fund (IMF), the 35-year old peg to the Special Drawing Rights (SDR) at MMK 8.51/SDR[5] was replaced by a managed float which defines the market-determined reference rates through daily auctions at CBM. The new Foreign Exchange

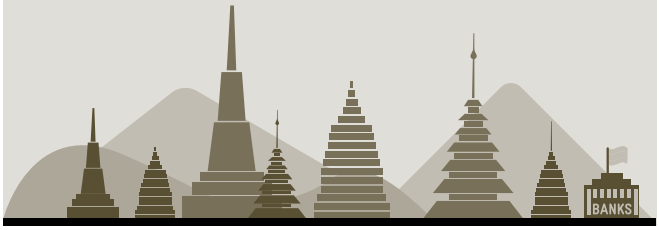
Box 2 Recommended reading

U Soe Tin (2013): Financial Development in Myanmar

Sean Turnell (2009): Fiery Dragons – Banks, Moneylenders and Microfinance in Burma

Eric Duflos (2013): Microfinance in Myanmar Sector Assessment

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



Management Law further intends to lift all restrictions on transactions in the current account of the country's balance of payments, such as transactions on exports and imports of goods and services. In October 2011, private banks were allowed to open foreign exchange counters and on August 5, 2013, an interbank foreign exchange market was opened.

Before taking a closer look at the Myanmar banking sector in Chapter 2, the report will give a brief overview of the other components of the Myanmar financial sector, including capital markets (1.1), microfinance (1.2), insurance markets (1.3), pawnshops (1.4), and the informal financial sector (1.5).

Box 3 Currency Conversion

1 USD = 956 MMK | 1 EUR = 1295 MMK

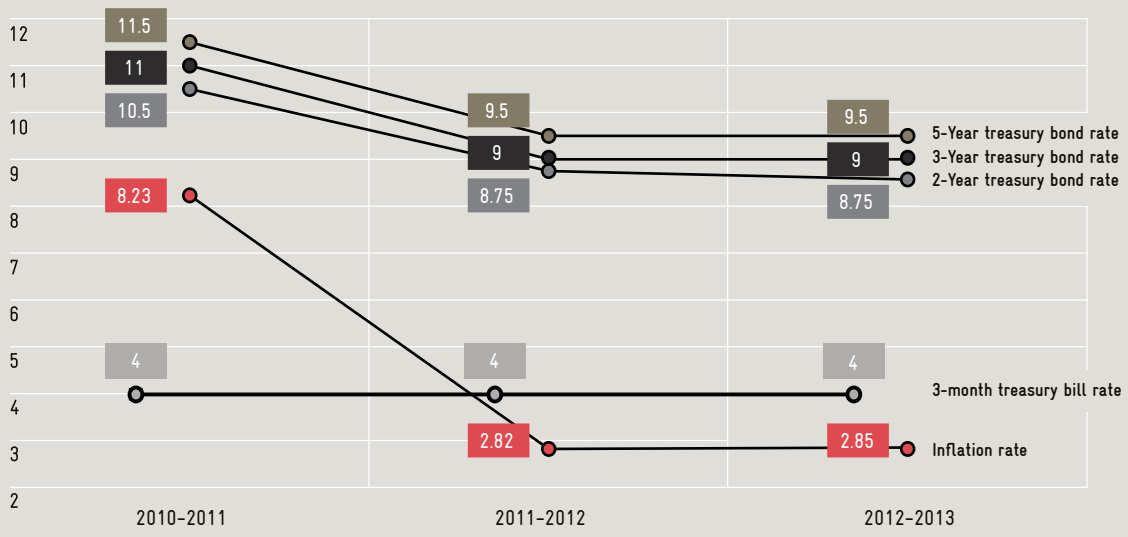
Reference: OANDA - as of October 3, 2013

1.1 Capital Markets

Myanmar lacks most features of modern capital markets. The Government of Myanmar has recently enacted the Myanmar Securities Exchange Law and further reforms are underway, leading towards the establishment of a stock exchange in 2015.

A primary government treasury bond market was established in 1993. However, a secondary market for on-trading bonds has not yet been established. The thin spread between treasury bonds and deposit rates is the main reason why no efficient market has developed so far. According to the Myanmar Securities Exchange Center (MSEC, see below for functions) most of the buyers of bonds are local private banks that invest their surplus funds. According to CBM, the total sale of treasury bonds amounted to MMK 1.1 trillion in the FY 2012-2013. The interest rates of treasury bonds are 8.75% per annum for two-year treasury bonds, 9% and 9.5% for three-year and five-year treasury bonds, respectively (see Figure 4). Private banks can borrow from CBM at a 10% rate by placing these treasury

Figure 4 T-bond and inflation rates over the last three years (in %)



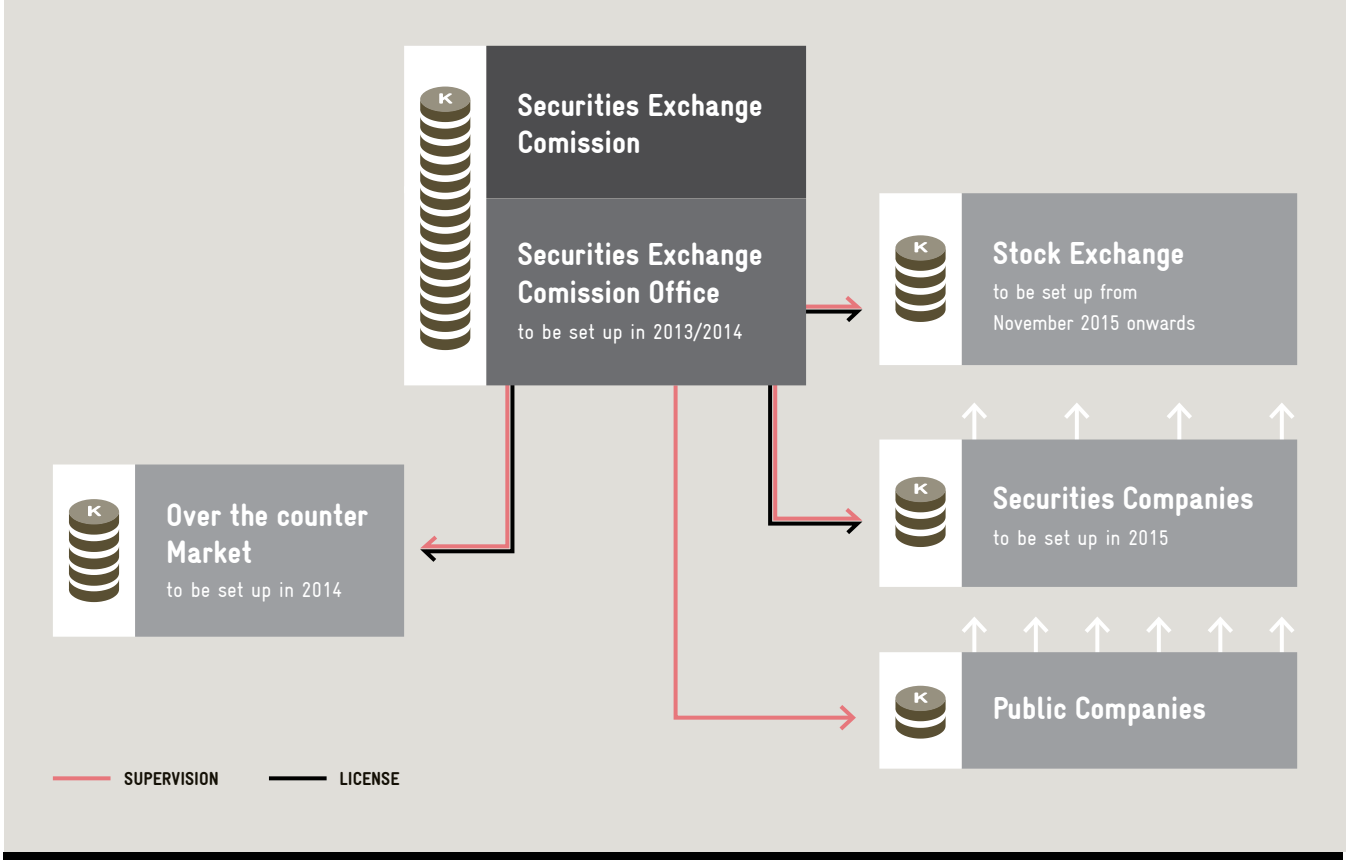
Reference: CSO (2013)[6]

bonds as collateral. The Government of Myanmar also issues treasury bills. At the moment, they are merely used for short-term funding of budget deficits at a fixed interest rate of 4% with CBM as the only buyer.[7]

At the moment, MSEC is the only market place in the country for trading government securities and shares of listed companies. Currently, 86 Myanmar companies are listed as public companies under the Directorate of Investment and Company Administration (DICA, under the Ministry of National Planning and Economic Development). But MSEC has only listed the shares of two companies, namely Forest Products Joint Venture and Myanmar Citizen Bank Ltd. MSEC is a joint venture[8] between the state-owned Myanmar Economic Bank (MEB) and the Japanese Daiwa Institute of Research and was launched in April 1996. The explicit objective of this initiative was to create and develop a securities market in Myanmar and to support marketization, privatization, and internationalization of the country. MSEC's current activities and services include acting as an intermediary in securities trading and providing consultancy services to the Government in the capital market reform process (see Figure 5). As part of the capital market reforms, a new Securities Exchange Law was drafted by MSEC, CBM, MEB, Ministry of Finance (MoF), and OAG and enacted on July 31, 2013 aiming at:

1. Creating investment opportunities for investors and thereby raising domestic investment which is low by ASEAN standards[9],
2. Creating fundraising opportunities for companies and organizations,
3. Promoting the efficiency of state and private financial enterprises and thereby fostering and expanding the country's economic sector,
4. Legally protecting the players in the securities market, and
5. Reducing speculating activities (especially in real estate and motor-vehicle markets) which fuel inflation in the country.

Figure 5 Total assets held by Myanmar financial institutions in 2011 (in MMK million)



Reference: Interview with MSEC (2013)

With the assistance of the Japanese Policy Research Institute (PRI), the rules deriving from the new Securities Exchange Law are currently being defined and expected to be finished in November 2013. Three months after the enactment of the law, a Securities Exchange Commission consisting of five government appointed members (at least three full-time members) shall be established to supervise and manage the securities market. It will be the only authority to issue security exchange licenses and supervise the securities exchange market.

CBM signed a Memorandum of Understanding (MoU) with Tokyo Stock Exchange on March 29, 2012, to establish a stock exchange in Myanmar by the year 2015. MESC has stated that listing will most probably be done in Myanmar Kyat, and formal and substantial requirements for public companies to get listed are expected to be defined in 2014. Myanmar banks are most likely to be among the first companies listed on the stock exchange (Myanmar Times 2013a).

However, experts of MSEC consider the deadline agreed in the MoU to be challenging and expect that more time might be needed for this process. They argue that apart from deficiencies in IT and human capacity development in the securities exchange market, the financial sector as a whole is still lacking appropriate accounting and disclosure standards.

1.2 Insurance Sector

Reforms in the insurance sector show first results: Private insurance companies have been entering the market since mid-2013.

The insurance sector in Myanmar looks back to a long and eventful history. While the insurance sector flourished in the pre-socialist era, lasting until 1963, insurance habits and awareness have almost disappeared over the last decades.[10] By nationalizing a local insurance company, the Burma National Insurance Company, the state-owned Union Insurance Board was established in 1952. The nationalization process of the insurance sector began when, first, all life insurance businesses were state-monopolised under the Union Insurance Board in 1959, and, second, the socialist government abolished all private insurance companies in 1964.

From late 1969 to 1976, all insurance business activities were centralized under the Insurance Division of the People's Bank of the Union of Burma. Under the Union Bank Law (1975), banking functions were decentralized, and the insurance business was outsourced to the newly formed Myanmar Insurance (MI). The Myanmar Insurance Law (1993) empowers MI to engage in all insurance business activities (reinsurance business, determination of various insurance rates, etc.). The Insurance Business Law (1996) empowers the Insurance Business Supervisory Board (IBSB), controlled by MoF, to scrutinize and decide on applications for business license of an insurer, underwriting agent or insurance broker, and to determine their capital and limits of investment.

Because the insurance sector has now opened up, it currently has enormous potential for growth. According to the MoF, only 0.5% of the Myanmar population (300,000 of the total population of 60 million people) is insured (ELEVEN 2013a). MI, which covers the country via its approximately 40 offices and around 1,500 staff members, begins facing competition from the private sector.

As part of the current financial sector reforms, IBSB launched a license application process for private insurance companies in November 2012 to diversify the provision of insurance services and to modernize the sector.[11] IBSB received 20 applications from private companies, out of which 12 met the requirements (see table 1). Of the 12 companies three (Capital Life Ltd. Insurance, Aung Myintmo Min Insurance Company, and Citizen Business Insurance Company) plan to focus their business on life insurance only, which requires a total paid-up capital of MMK 6 billion. The remaining nine companies will engage in the life- and non-life insurance business (paid-up capital: MMK 40 billion for non-life insurance, MMK 46 billion for both life-and non-life insurance).[12] Insurance companies have to deposit 60% of their capital at a state-owned bank and can withdraw this money after one year. Furthermore, 10% must be deposited into an interest bearing MEB account as a provision for emergency compensation, and the remaining 30% should be used to purchase treasury bonds. The companies have to pay a MMK 3 million license fee and a MMK 1 million annual fee. IBSB supervises all private insurance companies. Operations must start within one year after licensing.

Table 1	Local private insurance companies eligible for an IBSB license and their operating companies	
	Name	**Affiliated to**
1	IKBZ Insurance Public Company*	Kanbawza Bank
2	Grand Guardian Insurance Public Co., Ltd.*	Shwetaung Development Company
3	Citizen Business Insurance Company*	Co-operative Bank
4	First National Insurance International Company*	Htoo Group
5	Young Insurance Global Co., Ltd.	Young Investment Group
6	Global World Insurance Company*	Asia World Company
7	Excellent Fortune Insurance Company	Jade King and Queen Company Ltd.
8	AungThtsaOo Insurance Company*	UMEHL
9	Pillar of Truth Insurance Company	Parami Energy of Oil and Gas company
10	Capital Life Ltd. Insurance	Diamond Star Company Ltd.
11	Ayeyar Myanmar Insurance Company	Ayeyarwady Bank Ltd.
12	AungMyintmo Min Insurance Company*	Myanmar Economic Corporation

Companies marked with (*) are affiliated to banks.

"At the initial stage, all private insurance companies are required to use the same policy premium rates to avoid unhealthy competition resulting in price competition and unprofitability. They will have to compete for the clients' attention through the services they provide. But the Insurance Business Supervisory Board will liberalize the market in the near future," describes U Aye Min Thein, Managing Director of MI (Asia Insurance Review 2013). IBSB allows private insurance companies to engage in nine insurance policies: life, group life, fire[13], motor[14], fidelity, cash-in-transit, cash-in-safe, snake-bite, and sport man life but no health insurance is allowed. IKBZ and Grand Guardian Insurance were the first local private insurers that started operations on June 12, 2013.

Similar to the banking sector (see 2.4.3), foreign insurance companies – mainly from Japan – also operate representative offices in Myanmar. According to the Deputy Minister of Finance, Dr. Maung Maung Thein, foreign investors will probably be allowed to enter the insurance market in 2015 (Strohal Legal Group 2013).[15] However, the Myanmar insurance sector is struggling in important aspects such as skilled workforce, modern insurance technology, reinsurance, and experience in insurance supervision. A lack of public awareness about the importance of an insurance system is also one of the challenges faced by Myanmar insurance companies (Paing 2013). As a microinsurance market has not yet emerged, access to insurance services is still limited to a relatively small part of the population that belongs to the middle and upper class in Myanmar.

Box 4 **Microfinance Law (2011)**

Micro loan interest rate cap: max. 30% p.a. (flat)
Micro savings interest cap: min. 15% p.a.
Micro insurance: not yet allowed

Paid-up capital: MMK 15 million for non-deposit-taking MFIs, MMK 30 million for deposit-taking MFIs

166 MFI licenses given out (as of September 2013)

1.3 Microfinance

The landscape of microfinance institutions has changed and grown rapidly over the last two years but lacks control and supervision.

Microfinance operations in Myanmar only started in the late 1990s with the UNDP Human Development Initiative (for a detailed description of the four phases of this initiative, see Turnell 2009). All NGOs operating under this program have been working with different solidarity group lending schemes and charged about 20% interest rate per annum (p.a.). By that time, framework conditions, including high inflation rates, were unfavorable.[16]

A new legal microfinance framework was established in November 2011 (see box 4). The new microfinance bill imposes interest

Table 2 **Providers of microfinance services in Myanmar**

166 MFIs[17] (including 71 cooperative societies, 12 NGOs, 6 INGOs, and 63 companies) **Eg:**	**Cooperatives**	**Specialized agricultural development companies**	**Banks**	**Government & semi-government organizations**	**Semi-formal and informal sector**
• Acleda Myanmar • GRET • MDP • Mingalar Myanmar • PACT • Proximity • Save the Children • World Vision Myanmar	• Central Cooperative Society (apex): 21,138 societies • Union of Savings and Credit Federation: 41 federations and 1,625 primary level societies	• Agri-Specialized Companies • 38 Rice Specialized Companies. eg: Gold Delta and KittayarHinthar	• MADB	• Microfinance Supervisory Enterprise • Union Solidarity and Development Party • Myanmar Women Affairs Federation	• Hundis (see 1.5) • Money lenders • Pawnshops • Village revolving funds, village savings and credit groups

Reference: Duflos et al. (2013), GIZ (2013)

rate caps for micro loans (maximum interest rate of 2.5% flat per month) and micro savings (minimum interest rate of 1.25% per month) (Myanmar Microfinance Network 2012). On the one hand, the new law legalizes microfinance operations which had been in place but not under any legal framework before (e.g. licenses for MFIs, restrictions on business activities or interest rates caps). On the other hand, it allows local and foreign investors to establish completely private-owned microfinance institutions (MFIs).[18] There are also other institutions besides MFIs that engage in microfinance. We can sum up the providers of micro-finance services as follows in table 7.

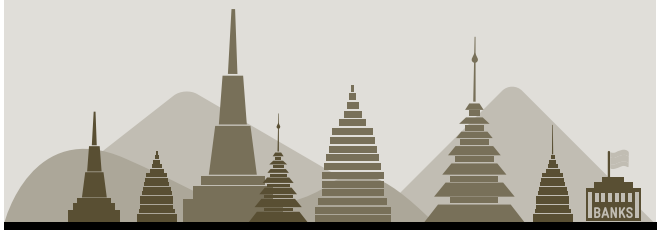
The enacted microfinance regulation entails several flaws. First, low capital requirements[19] for MFIs led to a large number of newly licensed MFIs: 166 new licenses between November 2011 and September 2013. Second, supervision is fragmented and lacks the necessary know-how: Banks are under the supervision of CBM, and cooperatives operating in the microfinance sector are under the control of the Ministry of Cooperatives. In the meantime, MFIs are supervised by the Microfinance Supervisory Enterprise, which also provides microcredit itself (Duflos et al. 2013). And third, funding remains a key challenge for MFIs since they cannot tap re-financing from local and foreign financial institutions under the current rules and regulations. According to the United Nations Capital Development Fund (UNCDF), the current demand for microfinance in Myanmar is around USD 1 billion (ibd.). However, the Microfinance Supervisory Enterprise reported in October 2013 that the total loan portfolio of the 116 newly licensed MFIs amounts to only USD 118 million. The financing gap is hence still wide with less than one-fifth of the potential loan market tapped.

1.4 Pawn Shops

Despite high interest rates, particularly poor Myanmar people regularly rely on uncomplicated pawn shop loans.

Box 5 Pawn Shops

- Interest rate: 24-120% p.a.
- Loan amount: 50-65% of forced-sale value
- Repayment period: 4 months and 10 days
- Collateral: Gold, watches, machinery, bicycles, garments, and reconditioned clothes



The pawn shop business is traditionally run by the Chinese community.[20] They usually locate their pawn shops in populated, poor areas and close to market places. Most of their customers live from hand to mouth and often get a pawn shop loan to bridge income shortcomes and ensure coverage of daily living expenses or emergency cases (illness, funeral, etc.). They can place gold and machines but also other consumer goods such as watches, bicycles, and reconditioned clothes as collateral. The loan amount granted and interest rate charged depend on the type and market value of the collateral. For gold, the loan can amount to up to two-thirds of the market value, and the monthly interest is set at 2-3% flat (depending on the loan amount, it will initially be deducted from the loan amount). For all other items, the loan amount granted will only be 50% of the forced-sale value of the collateral item(s), and the monthly interest rate is 10% flat. The Yangon City Development Committee (YCDC) has fixed the repayment period for all pawn shop loans at four months and ten days. In Yangon, pawn shops have to register at the YCDC Revenue Department. Depending on the location of the pawn shop, the annual license fee will be between MMK 5 and 20 million in Yangon and between MMK 300,000 and 500,000 in rural areas where registration has to be made with respective local authorities.

1.5 Informal Financial Sector

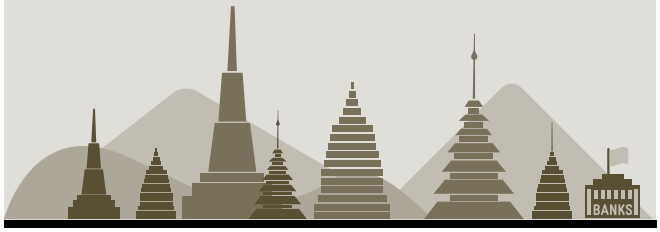
As the formal financial services sector is struggling to satisfy clients' needs, the informal financial sector is very active and has gained an important role in Myanmar.

Informal money lending is a traditional and prospering business in Myanmar. Chettiars, people of a mercantile caste originally from Southern India, have successfully operated as professional money lenders since the mid-19th century. By 1930, there were more than 1,600 Chettiar offices in Myanmar (Turnell 2005).

Especially people living in rural areas rely on the informal sector when it comes to (urgent) money matters and accept to pay higher interest rates than they would with banks or MFIs (see box 6). Today's informal money lending business models vary greatly and are, for instance, linked to real estate or bank brokerage activities. Such broker services regularly include the intermediation between (less financial literate) clients and banks offering credit services. In the case of informal lending, interest rates depend on the type of collateral placed and vary between 3% and 8% per month.[21] Uncollateralized loans are an exemption. However, collateral requirements are often not as strict as for formal loans, for example the loan amount in relation to the forced-sale value of the collateral is higher (80% with money lenders vs. 30-50% of forced-sale value of collateral for formal loans). The usual repayment period is between three to six months and can often be extended. However, many informal borrowers cannot manage to repay the loan during this short period and have to sell out their property (well below market price) to finally meet their obligations with informal money lenders.

Box 6 Informal Money Lenders

- Interest rate: 36-96% p.a.
- Loan amount: 30-80% of forced-sale value
- Repayment period: 3-6 months
- Collateral: Land, building, gold and gems, etc.



Box 7 Formal Remittances Transfer Services

To discourage the use of the hundi system and to promote activities in the banking sector, CBM has issued licenses to four private banks allowing them to engage in formal foreign remittance services with effect from November 14, 2011 (see below). However, people still consider the official remittances channel to be too expensive, even if the risks aligned to the informal money transfer are taken into account. The Thai Siam Commercial Bank, for instance, charges a flat fee of USD 7 for remittances transfers from Thailand to Myanmar, and Western Union a flat fee of USD 5 for the same service (TheIrrawaddy 2013). International money transfer services like Western Union are another popular way of transferring remittances (see 2.3 for further information).

Bank	Destination
Kanbawza Bank	Thaniland
Co-Operative Bank	Thailand, Singapore
Asian Green Development Bank	Singapore, Malayasia
Ayeyarwady Bank	Malayasia

With national and international payment services being under-developed, even restricted under the socialist rule, Myanmar people also use an informal system for money transfers: the hundi system which originated in India many centuries ago. It grew in use after 1988 as the economy and foreign trade expanded with private sector participation, but many foreign exchange controls remained. It operates through an extensive network of relationships, reaching out to most rural areas in Myanmar, and with a high degree of trust but minimal formality involved (no ID has to be presented; money transfers are often only based on a phone call and can hence be handled comparatively quickly).

Although the formal financial sector has been growing remarkably over the last years, it is still struggling to fulfill its role as a financial intermediary in an efficient way. Therefore, it is to be expected that informal financial services will continue to play an important role in Myanmar.

End notes

1 From MMK 4,911 billion in the FY 2010-2011 to MMK 13,057 billion in the FY 2012-2013 for the whole banking sector.

2 Cambodia: 98.6%, Lao PDR: 98.2%, Vietnam: 96.7% of total assets in the financial sector held by banks.

3 The financial sectors in all these countries are and will continue growing (from a generally low basis).

4 Including CBM but excluding the banks founded in 2013.

5 Apart from the official rate of around MMK 6/USD 1, there was a black market rate, FEC (Foreign Exchange Certificate) rate, export earning rate, account transfer rate, hundi rate, etc., all of which had severely complicated business activities and drastically reduced investors' confidence.

6 International estimations, e.g. IMF, for the inflation rate are higher (see footnote no. 17).

7 The Government mainly relies on government treasury bills (t-bills) to finance budget deficits and tries to avoid paying high interest on its debt by fixing a low t-bill rate. However, currently no private investor invests his money at a comparatively low interest rate (4% for t-bills).

8 USD 1.7 million paid-up capital each.

9 Myanmar's average gross domestic investment during the last ten years ending in 2010 was 14.2%, compared to an ASEAN average of 21% (ADB 2012).

10 According to the Asia Insurance Review, before 1964, there were nearly 80 foreign insurance companies and 4,000 agents operating in Myanmar. Today, local insurance experts estimate the number of agents to be below 100 nationwide.

11 Less populated ASEAN countries, used to have more insurance companies (as of 2010: Cambodia: seven insurance companies, Lao PDR: ten insurance companies; total for all ASEAN countries: 575 insurance companies).

12 The U.S. insurance company MetLife, who will soon open a representative office in Myanmar, expects the market for life insurance premiums to grow from USD 1 million (2012) to almost USD 1 billion until 2018.

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

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

15 The Asia Insurance Review is quoting IBSB saying that in the event that domestic insurers are not ready for competition by 2015, the targeted year may shift to 2020.

16 According to the IMF, the inflation rate heavily fluctuated in recent years, almost reaching 50% in 2007, and was also high on average (2001-2010: > 20%) (IMF 2013). It started to fall in 2011, as food prices dropped and CBM policy towards budget financing changed (e.g. reduced amount of t-bills). In the first quarter of 2013, inflation rate was lower than 5%.

17 Examples of business models: Save the Children: DAWN microfinance scheme (loans, compulsory and voluntary savings), World Vision: microfinance operations as a component of its Micro-Enterprise Development Program (lending combined with credit and business training), Proximity: Agri-business micro loans for input purchase, GRET: first non-deposit taking microfinance license under the new regulation and now focusing on individual microenterprise loans (plus vocational training).

18 According to chapter 1 of the Microfinance Business Law (November 30, 2011), "Microfinance Institution means local and foreign institutions, partnership firms, companies, co-operative societies, banks and other non-banking financial institutions (…) which carry out microfinance business (…) by contributing the capital, charity and grant (…)."

19 While deposit-taking MFIs in Cambodia must have a minimum capital of USD 61,000, deposit-taking MFIs in Myanmar only need USD 30,500.

20 Insights gained into this business have been provided by one pawn shop owner who is a member of the Chinese community in Yangon.

21 Among the providers of financial services in Myanmar interviewed by GIZ, some informal money lenders were the only ones charging interest rates based on the declining balance method.


BANKS

2 Banking Sector

2.1 History of Banking in Myanmar

After nationalizing the banking system during the socialist era and experiencing a severe bank run in 2003, the Myanmar banking system is currently undergoing a significant reform process aiming at growth and sustainability.

Myanmar's banking history dates back to the 19th century, when Myanmar was under British colonial rule and the Indian Presidency Bank of Bengal opened its Yangon branch in 1861 (Tin 2013). The Yangon branch office of the Reserve Bank of India became the first Central Bank in Myanmar (1939 – 1947). After Myanmar's independence in 1948, the banking sector, including domestic and foreign banks, developed quickly under the democratic government and accounted for at least one-third of Myanmar's GDP (Tin 2013). But after the Revolutionary Council had taken state power, all banks (ten domestic and 14 foreign) were nationalized in 1963. One consequence of the then established socialist banking system was the country-wide deployment of nationalized banks which was intended to create more outreach (banks were almost exclusively present in Yangon before).

A total of three demonetization waves hit the country since independence, the most recent one in 1987, which rendered 75% of the currency in circulation worthless.

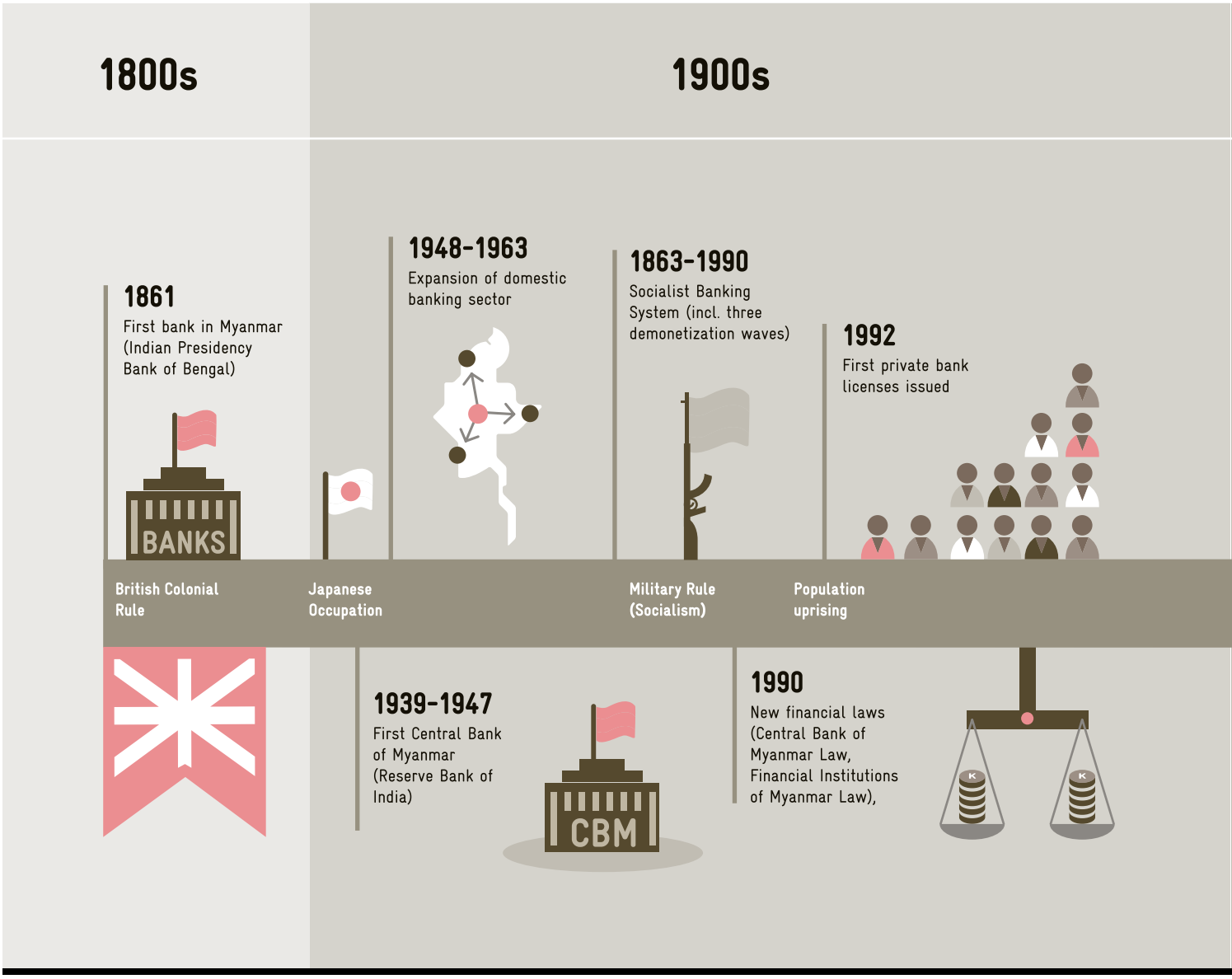
New financial laws such as the Central Bank of Myanmar Law and the Financial Institutions of Myanmar Law were promulgated in July 1990 (see also 2.2). Subsequently, the first private bank licenses were issued in 1992.

In early 2003, the collapse of numerous Ponzi type informal finance companies, which took advantage of a weak interest rate policy[22] at that time, finally led to a banking, a financial, and an economic crisis in Myanmar. Most monetary transactions through the banks stopped which included the payment of employees and business operations. While private banks tried to acquire liquidity through selling their properties, they also recalled their loans, which in turn forced individuals and companies to sell assets and suspend or close down their business operations to meet their loan obligations. As one of the consequences, a secondary market for frozen bank accounts emerged, with prices largely under face value. Trust in the banking and financial sector, already shaken by the waves of demonetization, has been severely affected by this banking crisis.

To regain public confidence, private banks put much effort into providing good customer services. Since the FY 2006-2007 their efforts proved successful with loan and deposit portfolios growing steadily.[23] Nevertheless, Myanmar's banking sector remains under-developed and the economy functions in large on a cash basis.

A bank branch in Yangon (Image: Thomas Foerch, GIZ)

Table 3 Major developments in the Myanmar Banking Sector (1861-2016)



Reference: Turnell (2009), Tin (2013), GIZ (2013)

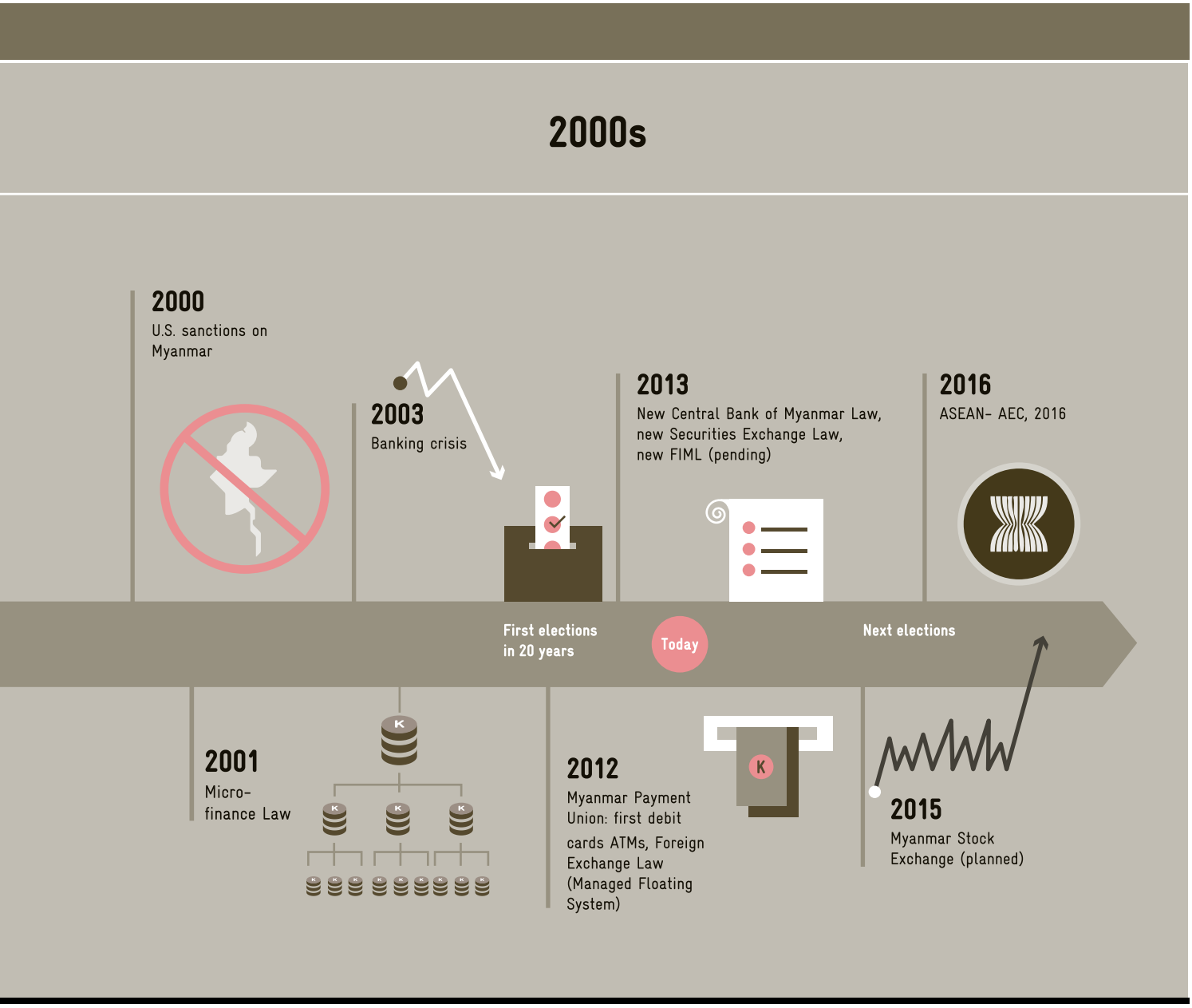
2.2 Regulatory and Supervisory Framework

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

CBM takes over the role as regulator and supervisor of the banking sector. MoF oversees the microfinance and insurance sector as well as the securities and capital markets.

A new Foreign Exchange Law (August 2012) and a revised Central Bank of Myanmar Law (July 2013) were recently enacted. The key banking laws encompass the Financial Institutions of Myanmar Law and CBM rules and regulations which are currently under revision (see table I in the annex).

Enacted on July 11, 2013, the revised Central Bank of Myanmar Law (CBM Law) has far reaching consequences. It gives CBM



the authority and responsibility to carry out all central banking functions including the independent implementation of the country's monetary policy and exchange rate policy. It is no longer under the control of MoF but becomes an independent institution with its Governor being at the ministry level. The primary objective of the new CBM Law is to ensure price stability and to control the inflation rate. In conformity with this primary objective, CBM shall strive for monetary and financial system stability while promoting efficient payment and clearing mechanisms to support the government's economic policy of sustainable economic development (The New Light of Myanmar 2013a). To ensure accountability and transparency, CBM shall submit its reports on the country's monetary affairs to the Government and the Pyidaungsu Hluttaw (Parliament) at least twice a year, and its monetary reports shall be published quarterly.

Box 8 **Main CBM provisioning rules for Myanmar banks**

CBM rules on general provisioning require each bank to keep a provision of 2% based on its total loan portfolio. Further specific provisioning is defined according to the three loan categories (sub-standard, doubtful, and bad), as outlined below:

Loan category	Criteria	Provision
Sub-standard	6-12 months	0%
Doubtful	12-24 months	50%
Bad debt	More than 24 months	100%

Reference: GIZ (2013)

Specific provision is raised only if the value of the collateral is less than the value of the outstanding loan and is based on the difference between the value of the outstanding loan and the value of the collateral. Banks rarely provide loans if there is a shortfall in the value of the collateral. However, it is not clear whether the collateral can be reliably valued and easily disposed of once seized by the banks. Given furthermore the maximum loan term of one year, specific provisioning is barely existent in Myanmar.

The Financial Institutions of Myanmar Law (FIML) is currently under revision and is supposed to be discussed in Parliament in November 2013. This law and its rules and regulation will profoundly shape the framework conditions under which banks operate, can develop, and innovate. Enacted in 1990, the FIML finally allowed private participation in the banking sector after nearly three decades of a state-owned banks monopoly. Under section V of the FIML, financial institutions are classified as follows: commercial banks, investment or development banks, finance companies, and credit societies (in practice, CBM only issues licenses for the establishment of commercial and investment or development banks).

The FIML outlines various banking functions that have to be approved by the CBM before becoming effective.[24] Furthermore, the FIML also requires banks to meet the following key ratios and limits. First, regarding single exposure, no customer's borrowing should exceed 20% of capital and reserves. Second, in terms of reserve requirements, 10% of deposits have to be kept as reserves of which 25% in the form of cash at hand and another 75% shall be deposited at CBM. Third, the liquidity ratio is set at 20% (liquid assets to current liabilities). And finally, the capital adequacy ratio is fixed at 10%.

Apart from the audit requirements outlined in the FIML, the Myanmar legal and statutory framework for corporate financial reporting is based on the following laws: Myanmar Companies Act (1914), Myanmar Accountancy Law (1994), and Auditor General of Union Law (2011). Legal notifications were published in the Myanmar Gazette in 2010 to make Myanmar Financial Reporting Standards (MFRSs) and Myanmar Standards on Auditing (MSAs) officially and legally the accounting and auditing standards of Myanmar. MFRSs and MSAs follow the international counterpart IFRSs (International Financial Reporting Standards) and ISAs (International Standards on Accounting) as of 2010. However, there is no process for official adoption and publication of MFRSs and MSAs when international standards are amended and new standards are issued.

The Financial Institutions Supervision Department within CBM is in charge of supervision of the local banks. It issues necessary instructions and conducts off-site and on-site supervision. The off-site supervision consists of regular reporting (daily, weekly, monthly, quarterly, and annually; see table IV in the annex) from the banks to the supervision department. The on-site supervision is conducted on an annual basis and covers announced visits to banks' headquarters and branches to assess their internal control

systems, their financial data, as well as AML/CFT measures and other compliances. If a bank is not in line with CBM's prudential ratios and limits, a penalty of one-fifth of 1% of the shortfall amount will be charged (however, this practice is not always enforced with state-owned banks).

The Control of Money Laundering Law was enacted on June 17, 2002. While the rules of this law waited to be enacted, the United States of America, in November 2003, accused Myanmar and two domestic private banks, the Asia Wealth Bank and the Myanmar Mayflower Bank, of being involved in money laundering activities. Myanmar responded to the US allegation by enacting the Control of Money Laundering Rules and establishing an eight-member team to investigate the two suspicious banks. Licenses of Asia Wealth Bank and Myanmar Mayflower Bank were revoked in 2005. After passing the Control of Money Laundering Rules in 2003, the monetary authorities launched a reporting system for cash transactions over MMK 100 million for banks as part of the anti-money laundering measures. In October 2006, the Financial Action Task Force (FATF) removed Myanmar from its list of Non-Cooperative Countries and Territories. However, international best practices have not been reached in all areas. FATF stated in June 2013 that "Myanmar has not made sufficient progress in implementing its action plan, and certain strategic AML/CFT deficiencies remain" (FATF Public Statement 2013). Areas for improvement mentioned by FATF include, amongst others, adequate procedures to identify, criminalize, and freeze terrorist financing and assets, a fully operational and effectively functioning financial intelligence unit, and the promotion of financial transparency.

2.3 Institutions and Infrastructure

Backed by political reforms and the banks' demands, the supporting infrastructure for banks is developing at a fast pace.

Apart from the banks themselves, the Myanmar banking sector is made up of the following key institutions: The Myanmar Banks Association, the Myanmar Institute of Banking, and the Myanmar Payment Union.[25]

The Myanmar Banks Association (MBA) was formed in April 1999 to provide a platform for domestic banking industry issues and to cooperate on an international level (e.g. with the ASEAN Bankers' Association). All local banks are members of the association. It used to be chaired by the CBM Governor, and the heads of local banks assumed vice-chairman and secretary functions. There were three official patrons, namely the Ministers of Finance, National Planning and Economic Development, and Home Affairs. In September 2013, MBA for the first time elected a Board of Directors independent from CBM. U Thein Tun, Chairman of Tun Foundation Bank, was elected Chairman of MBA. The three Vice-chairmen are from First Private Bank (Dr. Sein Maung), Yoma Bank (U Thane Wai), and KBZ (U Than Cho). This change in leadership, which is actively supported by CBM, is also accompanied by institutional changes. MBA is in the process of becoming an independent organization. Whether MBA is able to develop towards an effective independent lobbying body representing the voice of Myanmar's banking system and addressing the main needs remains to be seen.

The Myanmar Institute of Banking (MIB) was founded in 2002 and is a quasi-department within MBA, providing banking training, in particular from the entry to middle management levels. Various training courses on general banking topics are being conducted at MIB in Yangon to upgrade local banking through full-time and part-time training courses on banking. MIB's core trainings include a one-month General Banking Training course, a one to two years Diploma in Banking, and a two years Master Degree in Banking, offered jointly with the Yangon Institute of Economics (YIE). Most trainers at MBA are former and current lecturers from YIE as well as (often retired) local senior bankers. Due to decades of isolation, MIB struggles to upgrade training content and methodology to international standards. Whereas the classes do provide a general overview and understanding of the functions and structures of financial and banking markets, MIB largely lacks specific courses on specialized banking topics targeted at specialists and management of banks. In addition to this, the demand for the classes greatly exceeds the current supply.

The Myanmar Payment Union (MPU) was formed in 2011 to reform the Myanmar payment system. Local credit cards (offline transaction) were already introduced in Myanmar by Asia Wealth

Bank in 1996, and ten offline ATMs had been installed by Myanmar Mayflower Bank by 2002, but their use was stopped during the banking crisis. A Payment System Development Committee was founded under MBA in July 2007 aiming at reducing the cash-based payment, improving existing payment systems, and connecting them with international payment systems. In September 2011, the committee was transformed into MPU. The latter consists of 17 members[26]: three state-owned and 14 other banks. MPU is becoming a national payment brand. MPU started its operations in September 2012. Its business model is similar to that of China Union Pay (CUP), for example. All MPU cardholders can have access to any ATM of all member banks and also make payments at any POS of all member banks for goods and services they purchase. ATM operations (cash dispensing, balance inquiry, account transfer, and mini-statements) were re-launched in November 2011. In October 2012, MPU debit cards were introduced. A next step will be MPU credit cards which shall be issued within the next two years.

As of July 2013, MPU expects the number of debit card holders in Myanmar to be around 350,000 (Interview with MPU). By July 2013, 346 ATMs were installed in Myanmar[27] and the number of POS rose to 1,408. ATM and POS transactions have extensively grown over the last months and rose from about 50,000 in May 2013 to over 120,000 in June 2013, according to MPU. CUP and JBC (Japan Credit Bureau) cards as well as Visa and MasterCard transactions have also been recently introduced and can be used by foreign account holders (Myanmar Business Today 2013a). Visa launched a cooperation with eight local banks[28] and expects to expand its network from currently 100 to an additional 150 ATMs this year. In turn, MasterCard is cooperating with five local banks[29] and is operating via some 140 ATMs (Newsroom MasterCard 2013). MPU plans to issue an

Table 4 Current U.S. sanctions on Myanmar

Main Restrictions
Exportation of financial services: partly prohibited E.O. 1331 of 2003 (to implement the Burmese Freedom and Democracy Act to restrict the financial resources of the military junta), General Licenses No. 16 & 19 of 2012/2013 (Re-)exportation of financial services to Myanmar allowed, except for: • (in)direct transfers to the Myanmar Ministry of Defense (MoD), • any state or non-state armed group in Myanmar, • or any entity in which the MoD or any armed group in Myanmar holds 50% or more interest. **Banks on Burma SDN (Specially Designated Nationals) list: Myawaddy Bank, Innwa Bank, Asia Green Development Bank, Ayeyarwady Bank, MEB, MICB, and MFTB. Since early 2013, transactions with MEB, MICB, AGDB, and Ayeyarwady Bank are allowed, but no investments can made with these banks.**
New investment in Burma and facilitation: partly prohibited Burmese Sanctions Regulations by the U.S. Department of Treasury, General License No. 17 of 2012 U.S. citizens are allowed to invest in Myanmar, except if they want to cooperate with people or entities listed on the SDN list. Investments worth more than USD 500,000 have to be reported to the U.S. State Department.
Importation of Myanmar products: allowed; Importation of gems mined in or extracted from Burma: prohibited JADE (Junta's Anti-Democratic Efforts) Act of 2008, General License No. 18of 2012

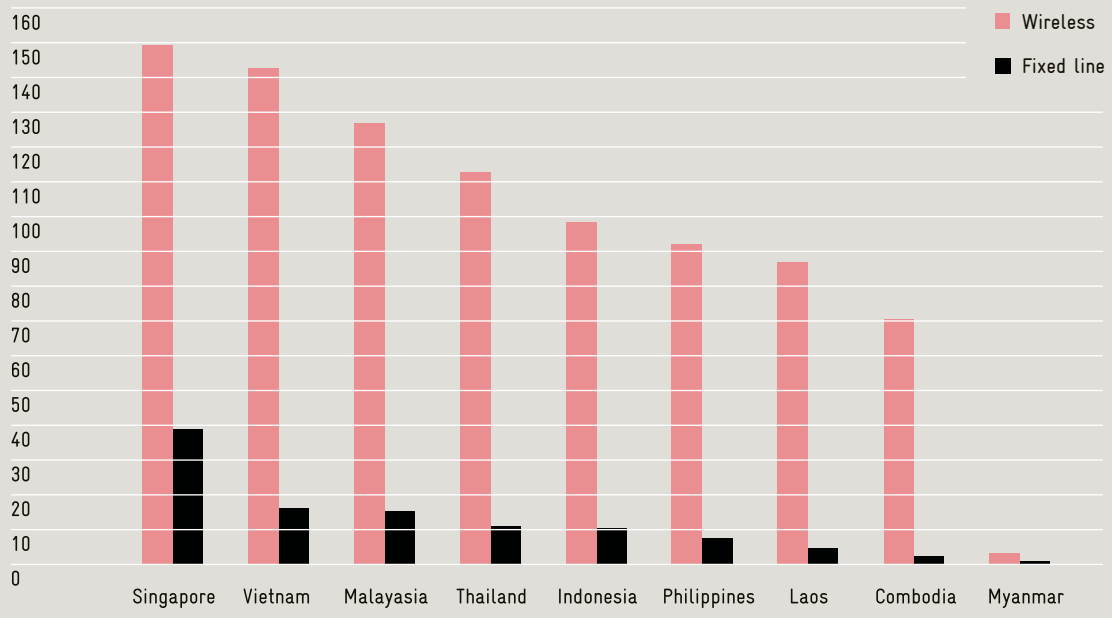
Reference: U.S. Treasury Department (2013)

international MPU credit card scheme until 2015 and has invited Visa and MasterCard to join the MPU network. However, the American financial service providers remain reluctant as some of MPU's shareholders appear on U.S. sanctions lists (see table 4).

Since January 12, 2013, seven domestic banks[30] and 280 agents across Myanmar have been linked to about 500,000 Western Union agents around the world (Myanmar Times 2013b). Western Union reports that since operations in Myanmar started, people have already sent money from 107 countries. Xpress Money, another global leader in money transfer services, in collaboration with the two local banks, the Myanmar Citizen Bank and the Small & Medium Industrial Development Bank, launched its international money transfer and remittance services for Myanmar nationals working abroad on April 29, 2013. Xpress Money's services will be available from about 120 locations to Myanmar. Further international money transfer service companies such as MoneyGram are trying to engage with local banks to facilitate their services. MoneyGram signed an agreement with three Myanmar banks (Asia Green Development Bank, Myanmar Citizens Bank, and Tun Foundation Bank) on August 25, 2013, and plans to cooperate with another seven banks and will hence enable Myanmar citizens to receive funds from around 80 countries (MarketWatch 2013).

In many developing countries, remittances are channelled via branchless banking. According to IOM, official remittance flows into Myanmar amounted to an estimated USD 566 million in 2012 (IOM 2012).[31] Internet, mobile phones,[32] and smart cards which could ease remittances transfer are not yet widespread in Myanmar. But with regard to the high speed at which technological innovation spreads in the 21st century, the McKinsey Global Institute sees high business potentials for internet and mobile financial services in Myanmar and suggests to directly move from a cash-based to a branchless banking-based economy (McKinsey Global Institute 2013).

Figure 6 Telecommunication penetration in ASEAN countries (2011)



Reference: Deloitte (2013)

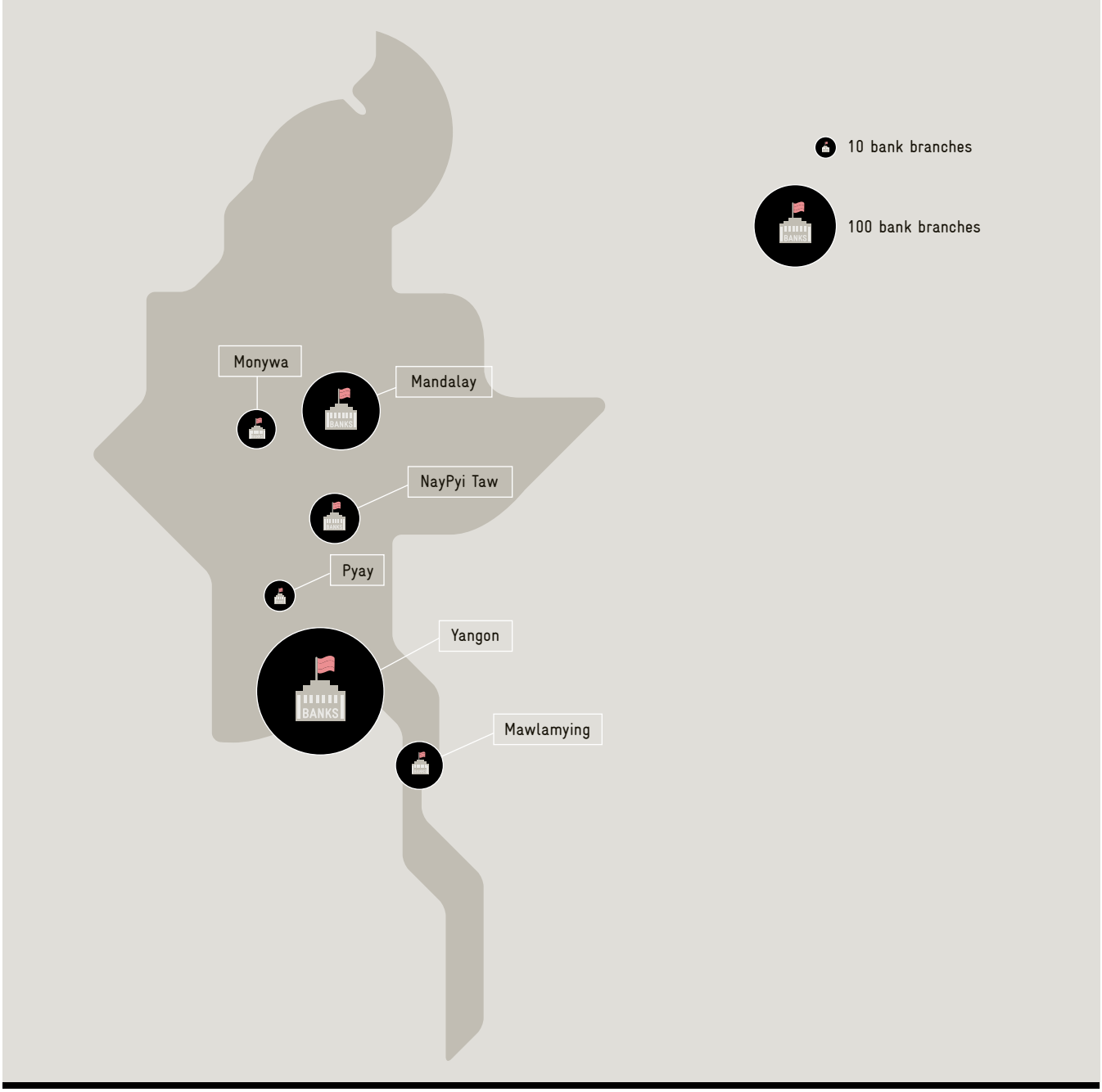
Using mobile devices makes access to finance easier and can lower banks' operational costs, but technology bears its own risks and without a personal, regular contact with their clients (Know-Your-Customer principle), banks providing mobile banking services might take client risks they actually do not want to take. Additionally, a proper legal framework that outlines the rights and responsibilities of the financial and the telecommunication sector has to be in place -- and this is not yet the case in Myanmar (Waldschmidt 2013).

2.4 Banks

The banking sector in Myanmar is dominated by state-owned banks (MMK 15 trillion total assets) and consists of 25 banks with accumulated assets amounting to around MMK 23 trillion, equivalent to almost 50% of GDP.

As of March 2013, there are 1,003 bank branches (state-owned, semi-governmental, and private banks) in Myanmar of which approximately 50% belong to state-owned banks. While the number of state-owned bank branches covers large parts of the countries (MEB and MADB) and has remained rather stable

Figure 7 Branch network of non-state-owned banks (towns with ten or more bank branches in 2010)



Reference: CBM (2010)

over the last years, private and semi-governmental banks are expanding their branch network rapidly[33]. Looking at private and semi-governmental banks, as of 2010, half of their branches were concentrated in six major cities (see Figure 7).

While non-state-owned banks were not allowed until the 1990s, they represent nearly 80% of market share in terms of loans today. Domestic banks can generally be classified in terms of ownership (see table 5).

Table 5 Types of domestic banks in Myanmar

State-owned Banks	Semi-governmental Banks[34]	Private Banks
Myanmar Agricultural Development Bank (under Ministry of Agriculture)	Co-operative Bank (controlled by Ministry of Co-Operatives)	Asia Green Development Bank (controlled by Htoo Group)
Myanmar Economic Bank (under Ministry of Finance)	Innwa Bank (controlled by Myanmar Economic Corporation, affiliated to Ministry of Defense)	Asia Yangon Bank (controlled by U Myo Paing)
Myanmar Foreign Trade Bank (under Ministry of Finance)	Microfinance Bank (controlled by Ministry of Co-Operatives)	Ayarwaddy Bank (controlled by Max Myanmar Group)
Myanmar Investment and Commercial Bank (under Ministry of Finance)	Myanmar Citizen Bank (controlled by Ministry of Commerce)	First Private Bank (controlled by Public Ltd. Company)
	Myanmar Construction and Housing Development Bank (controlled by Ministry of Construction, to open in January 2014)	Global Treasure Bank (controlled by Livestock and Fisheries Associations)[35]
	Myawaddy Bank (controlled by Union of Myanmar Economic Holding, affiliated to Ministry of Defense)	Kanbawza Bank (controlled by KBZ Group)
	Rural Development Bank (controlled by Ministry of Border Area)	Myanmar Apex Bank (controlled by Eden Group)
	Small and Medium Industrial Development Bank (controlled by Ministry of Industry)	Myanmar Oriental Bank (controlled by 25 shareholders, Kyi Kyi Than being the major shareholder)
	Yadanabon Bank (controlled by Mandalay City Development Committee)	Tun Foundation Bank (controlled by MGS Beverages Co., Ltd.)
	Yangon City Bank (controlled by Yangon City Development Committee)	United Amara Bank (controlled by IGE Company)
		Yoma Bank (controlled by FMI Group)

Reference: GIZ (2013)

Box 9 **Bank loans and deposits**

Financial products: Commercial and development loans; hire purchase; savings, time, and demand deposits; debit cards

Total loan portfolio (all non-state-owned banks, 2012-2013): MMK 4.2 trillion
Total deposits (all non-state-owned banks, 2012-2013): MMK 6.5 trillion

Central Bank rate: 10% p.a.
Average loan interest: 13% p.a. (flat) (= interest rate cap, maximum)
Acceptance rate for loans: 1% of loan amount
Average deposit interest: 8% p.a. (= interest rate cap, minimum)

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

Subsidized loan schemes: SMIDB (SME loan, 8.5% p.a.), MADB (Agricultural loan, 8.5% p.a.)

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

In Myanmar, state-owned, semi-governmental, and private banks are restricted in the kind and characteristics of products they can offer, leading to very similar ranges of financial products (see box 9) with slight exceptions for MEB, MADB, and SMIDB. Part of the current regulation is the sector-wide application of minimum and maximum interest rates set by CBM for saving and loan products, with a spread of only 5%. Therefore, banks distinguish themselves currently mainly by their service provision and physical presence in the market.

As part of its monetary policy and with the intention of stimulating the economy, CBM reduced interest rate ceilings over the last three FYs (see Figure 8). Discussions of whether to further decrease the lending and deposit rate, while keeping a 5%-spread between the rates, are still on-going.

2.4.1 State-owned Banks

The four state-owned banks account for two-thirds of total banking assets but are struggling to keep pace with the modernization and growth of the private sector peers.

The Myanmar Economic Bank, Myanmar Foreign Trade Bank, and Myanmar Agricultural Development Bank were all established under the socialist Union of Burma Bank Law in 1975. A fourth state bank, the Myanmar Investment and Commercial Bank, was set up in 1990 in order to stimulate the growth of industry and production in the country.

Myanmar Economic Bank (MEB) is the country's largest bank in terms of outreach, with its domestic banking network of over 300 branches across the country and employment of over 8,900 staff members. In 2010, MEB raised the limit on the minimum deposit account balance from MMK 1,000 to Kyat 10,000, and interests on saving deposits have only been calculated for the amount of MMK 10,000 and above.[36] A customer can only keep up to two saving accounts with the bank , an individual account and a joint account, on which he or she can enjoy interest payments from the bank[37]. MEB does not make interest payments for additional accounts. Like with all other state- and non-state banks, customers of MEB also prefer to keep saving accounts (about 75% of the accounts), which bear interest and can be withdrawn once a week without any limits, rather than current and fixed accounts.

With its extensive branch network across the country, MEB can provide financial services in rural areas where 70% of the Myanmar population lives. Furthermore, MEB provides subsidized loans to other banks in order to enable them to serve specific target groups. Because of this, MADB and SMIDB in particular are receiving credits well below the market rate to

Figure 8 Myanmar economic and financial rates over the last three years (in %)

Reference: CSO (2013)

serve farmers and SME, respectively. Also due to the provision of subsidized loans, MEB has accumulated substantial losses in the past years. According to OAG, MEB could not make any profits over the last 22 years and has been operating at loss since 1990. To cover the losses, MMK 79 billion of the state's budget have been used in the FY 2012-2013 (ELEVEN 2013b).

Myanmar Foreign Trade Bank (MFTB) specializes in international banking. It was the only bank to do such business until MICB was established in 1990. All Government departments and state economic enterprises keep their foreign exchange accounts with this bank. Some private companies, but mainly private individuals, particularly sailors, have accounts at MFTB. Since the slow unfolding of the economy starting in the 1990s, the number of accounts has risen from 500 to over 80,000 in 2012. According to MFTB, an estimated 75% of foreign exchange transactions by value are made through MFTB, while MICB accounts for the other 25% (Thein 2011).

Myanmar Investment and Commercial Bank (MICB), which is smaller than MEB and MFTB and overlaps with each of them, is carrying out both domestic and foreign currency businesses. Its main business is extending banking services to private companies, including foreign joint ventures. Unlike foreign trade banks in other countries, both MFTB and MICB offer no credit facilities to finance foreign trade. A foreign exchange deposit of 100% must be in place before a Letter of Credit is issued, and there are often administrative delays, which in turn limit the turnover of the exporters and importers.

Myanmar Agricultural Development Bank (MADB) is the largest state-owned bank in terms of loans. It was founded in 1953 under the State Agricultural Bank Act and was part of the People's Bank of the Union of Burma between 1969 and 1975. MADB has the second largest branch network with 205 branches and agency offices across the country. It extends credits to farmers in order to support the development of agriculture and livestock, as well as rural enterprises. This bank provides seasonal loans for crop cultivation and term loans to acquire farming machinery and equipment. It promotes a savings culture among farmers by operating a program for rural savings mobilization. It is the main official financing source for farmers and provides loans of MMK 100,000 per acre for paddy production and MMK 20,000 for production of farm crops at 8.5% interest (it gets an annual credit line from MEB through budgetary system at an interest rate of 4%). Although the amount of loans per acre has increased considerably over the last years, it falls significantly short of covering the cost of monsoon paddy production, which the Ministry of Agriculture & Irrigation estimated at about MMK 220,000 per acre in 2011-2012.

The bank's seasonal loans are classified as monsoon loans, winter loans, and pre-monsoon loans.[38] The loans are disbursed for producing paddy, oil seeds, beans & pulses, long cotton, and jute.

A bank branch in Yangon (Image: Thomas Foerch, GIZ)

MADB also extends one year loans for producing sugarcane, tea leaves, salt, and palm-oil. Moreover, it extends three year term loans for acquiring farming machinery and equipment, allowing the borrowing farmers to repay the loan by installments, which is a kind of hire-purchase system.

MADB has the right to provide agricultural credits to farmers in the country. The borrowing farmers must have saving deposits with the bank as a precondition for getting loans from the bank. The loans are disbursed to groups of five to ten farmers who collectively take responsibility to repay the loans. The bank's loan committee disburses the loans for up to ten acres to farmers who have the capacity to repay the loans. According to the Ministry for Agriculture and Irrigation, the disbursement of loans reached MMK 557.85 billion in the FY 2012-2013 (The New Light of Myanmar 2013b).

State-owned banks are currently losing market share to their private competitors. They are struggling to keep pace with the growth and reforms of their private sector peers. They face challenges especially with respect to capitalization, IT, and their policy framework. Lacking recapitalization limits the growth of the institutions. Deficiencies with respect to most modern means of information technology hamper efficiency. Political goals (subsidized loans to certain groups) limit the operational freedom.

2.4.2 Semi-governmental[39] and Private Banks

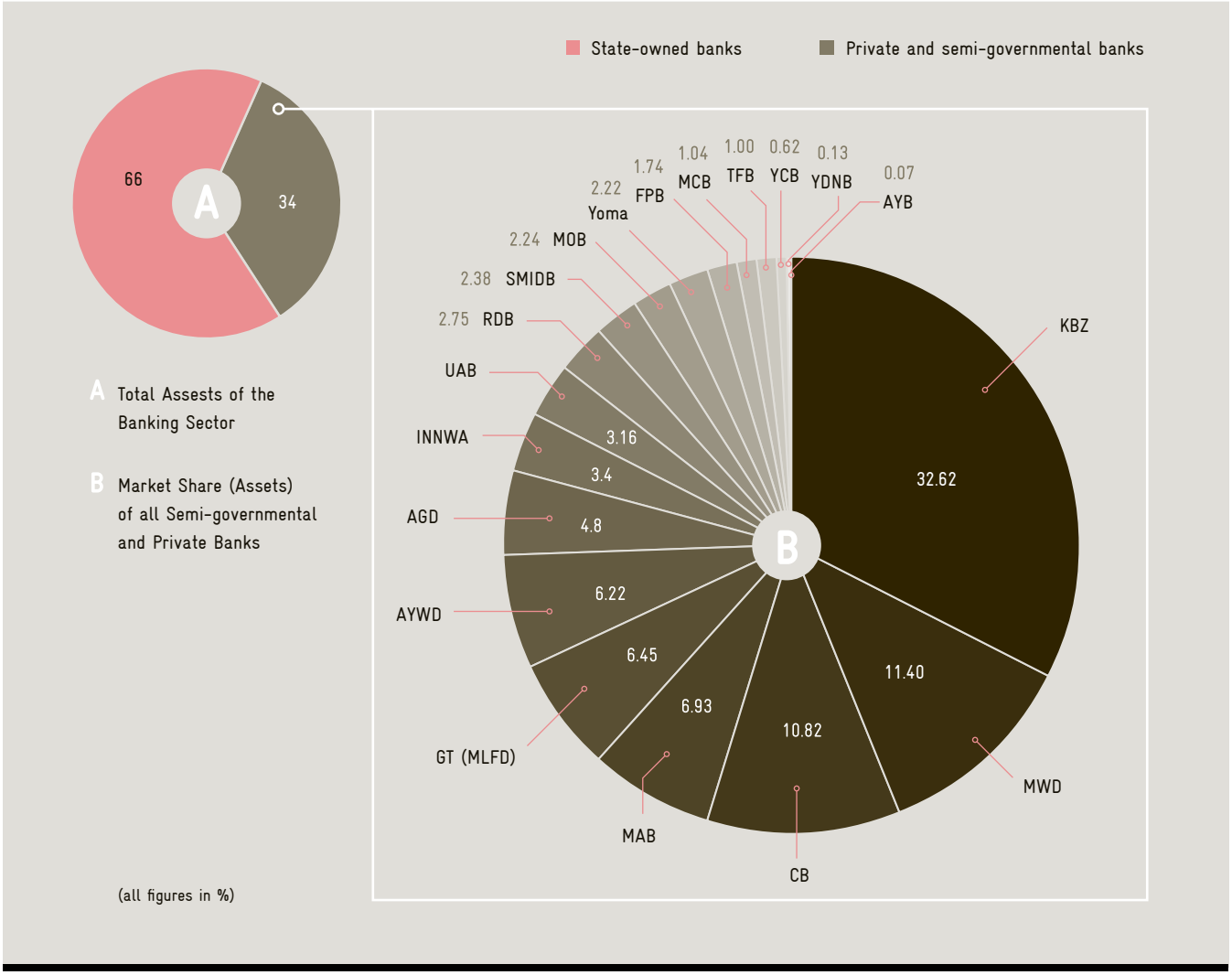
The ten semi-governmental and 11 private banks are the drivers towards modernization of the banking sector.

In comparison to state-owned banks, semi-governmental and private banks play a leading role in terms of marketing campaigns and technological innovation (e.g. introduction of debit and credit cards or installment of ATMs).

Existing rules and regulations (see box 9) limit the ways banks can differentiate each other via products or prices. The ways semi-governmental and private banks operate also do not differ significantly from each other. However, a major difference between semi-governmental and private banks can be observed when it comes to the use of profits. While the profits of private banks in most cases directly go to their respective business group owning the bank, public banks pay – partly linked to high interest rates on deposits - relatively high dividends to their shareholders (on average 20%).

A number of new institutions (re)joined the existing banks in the last year. In 2010, four new banks (Myanmar Apex Bank, United Amara Bank, Asia Green Development Bank, and Ayeyarwady Bank) were founded, and one bank (Yoma Bank) regained its full banking license in 2012. Two new semi-governmental banks have furthermore been founded in 2013 and are expected to

Figure 9 Market share (total assets) of all operating semi-governmental and private banks (FY 2012-2013)



Reference: CBM (2013), GIZ (2013)

start operations soon: the Microfinance Bank[40] controlled by the Ministry of Cooperatives and the Construction and Housing Development Bank[41] controlled by the Ministry of Construction. Additionally, in September 2013, the Myanmar Gems Entrepreneurs Federation announced to open a public bank "aimed at bringing about the development of Myanmar gems and mineral resources" (Eleven Myanmar 2013c).

The commercial banking sector is gaining a growing importance in Myanmar. With total assets of commercial banks amounting to MMK 7.63 trillion in the FY 2012-2013, their total assets were five times higher than five years ago. Private and semi-governmental banks roughly account for one-third of total assets in the banking sector. Nevertheless, as of now, government-owned banks are still in a dominant position.

Looking at only the private and semi-governmental banks, over 50% of the market shares (measured in assets, see figure 9b) are held by the top three banks: Kanbawza Bank, Myawaddy Bank, and Co-Operative Bank. Apart from these three banks, this report will give a brief overview (see profiles in the annex) of Innwa Bank, Myanmar Apex Bank, Ayeyarwady Bank, Asia Green Development Bank, United Amara Bank, Yoma Bank, and the Small and Medium Industrial Development Bank. Except for Yoma Bank, they all belong to the top ten banks in terms of asset size. The Small and Medium Industrial Development Bank is the only bank which has so far specialized in targeting a particular group of clients (see box 10).

Box 10 **Focus: SME finance**

Strengthening small and medium-sized enterprises (SMEs) is a key element of the Myanmar government's Framework for Economic and Social Reforms (Government of Myanmar 2013). SMEs represent over 99% of the total industries in Myanmar, but at least half of them are not registered officially, and hence exact figures for this sector do not exist. Apart from a strong need for infrastructure modernization and skilled labor, SMEs need a reliable legal framework and funding. A new SME law is in the drafting stage and the institutional landscape has started to change, e.g. set up of an SME Development Center at the Ministry of Industry. Several Myanmar banks have furthermore started to or plan to have customized SME loan products. Apart from SMIDB's SME development loans (8.5% interest rate, 3 years repayment period), no explicit SME loan product is currently in place. While other banks also do business with SMEs, they do not have specific SME products or monitor this particular target group separately. Available data (especially the low penetration of the financial sector) as well as interviews with banks and SME suggest a substantial lack of access to formal financial services for SMEs. Reliable data to measure this SME finance gap are, however, not available.

Banks cite the prohibitive regulatory framework conditions as the main obstacles for developing their SME finance segment. This includes the strict collateral requirements and short repayment periods that usually do not exceed 12 months. The loan amount granted on average is furthermore only 50% of the forced sale value of the collateral item(s). Hire purchase is a relatively new lending model in the Myanmar banking sector, but is rather used for consuming than business investment purposes. For start-up businesses, financing still remains a big challenge as there is no special loan program provided for new businesses, and credits are only extended to businesses running for more than three years.

A credit guarantee scheme for SMEs shall be set up by 2015. However, the funding, set-up, and legal framework for such a credit guarantee scheme are still under discussion.

2.4.3 Represented Foreign Banks

Foreign banks are only allowed to have representative offices in Myanmar – however, joint venture banks are expected to be set up soon.

In October 2013, the number of foreign banks' representative offices amounted to 34 (see table V in the annex) while this figure used to be almost double in the 1990s, but it declined sharply due to U.S. sanctions (Tin 2013).

CBM has developed a tentative strategy to open up the domestic banking sector which encompasses three phases (CBM 2012): permitting (1) private banks to run joint ventures (JVs) with foreign banks (instruction is expected to be approved by the end of 2013, but it is not yet clear whether CBM will allow equity participation and/or the foundation of new JV banks), (2) JV banks to establish locally incorporated 100%-owned subsidiaries, and (3) foreign banks to open bank branches in Myanmar (when Myanmar joins AEC in 2015).

A bank branch in Yangon (Image: Thomas Foerch, GIZ)

End notes

22 The interest rates set by the CBM were lower than inflation rates, and the CBM thus produced real negative interest rates.

23 According to the CBM, total deposits in private banks rose approximately by a factor of 6 between the FY 2007-2008 and the FY 2011-2012.

24 Key aspects of the FIML are listed in the annex (table II).

25 Several other institutions that would further secure and support the smooth functioning of a financial system are currently not in place or still in an infant stage. A deposit insurance scheme has been in place since October 2011 and covers deposits up to an amount of MMK 500,000. A credit information bureau shall be set up soon with the new Central Bank of Myanmar Law entering into force. A credit guarantee scheme for SMEs might be set up by 2015. However, the funding, set-up, and legal framework for such a credit guarantee scheme are still to be decided upon.

26 Eight banks are not part of the MPU: Yoma Bank, First Private Bank, Yangon City Bank, Yadanabon Bank, Asia Yangon Bank, Microfinance Bank, and Myanmar Construction and Housing Development Bank as well as MADB. The CBM is also not a member of the MPU.

27 This is a very low number in comparison to neighboring countries. According to the ADB Institute, Lao PDR and Cambodia have four and five ATMs, respectively, and Thailand even has 75 ATMs per 100,000 adults while Myanmar has less than one ATM per 100,000 adults (ADBI 2013).

28 Co-Operative Bank Ltd., Kanbawza Bank Ltd., United Amara Bank, Myanmar Apex Bank Ltd., Myanmar Oriental Bank, Myanmar Citizen Bank, Ayeryarwady Bank, and Asia Green Development Bank.

29 Co-Operative Bank Ltd. (also launched a prepaid travel card for locals travelling internationally called the CB Bank EASI Travel Prepaid MasterCard card in October 2013), Kanbawza Bank Ltd., United Amara Bank Ltd., Myanmar Apex Bank Ltd., and Myanmar Citizen Bank Ltd.

30 Kanbawza Bank Ltd., Cooperatives Bank, First Private Bank, Myanmar Apex Bank, Global Treasure Bank, Myanmar Oriental Bank, and United Amara Bank.

31 More information on remittances transfer: http://www.economist.com/blogs/banyan/2013/05/myanmars-remittances

32 As of April 2013, less than 10% of the population had a mobile phone (DBS Group Research 2013). In June 2013, two exclusive licenses had been granted to telecommunication providers from Norway (Telenor) and Qatar (Ooredoo). According to the Myanmar government, they have to reach 80% of the population by 2016. For the provision of better internet services and a nationwide fiber optic network, the Myanmar government also plans a call for tenders (Myanmar Business Today 2013b).

33 Still, CBM has to authorize the opening of all new bank branches individually.

34 A government entity is holding shares of or giving support to the bank.

35 This bank used to be under the influence of the Ministry of Livestock and Fisheries.

36 Since April 1, 2010, accounts with a balance less than MMK 10,000 do not earn interest. Moreover, accounts without any transactions for two years were classified as dead accounts; previously, the period of non-transaction was allowed for four years. However, an account-holder of the dead account can make a written request with the bank for reactivation of his or her account.

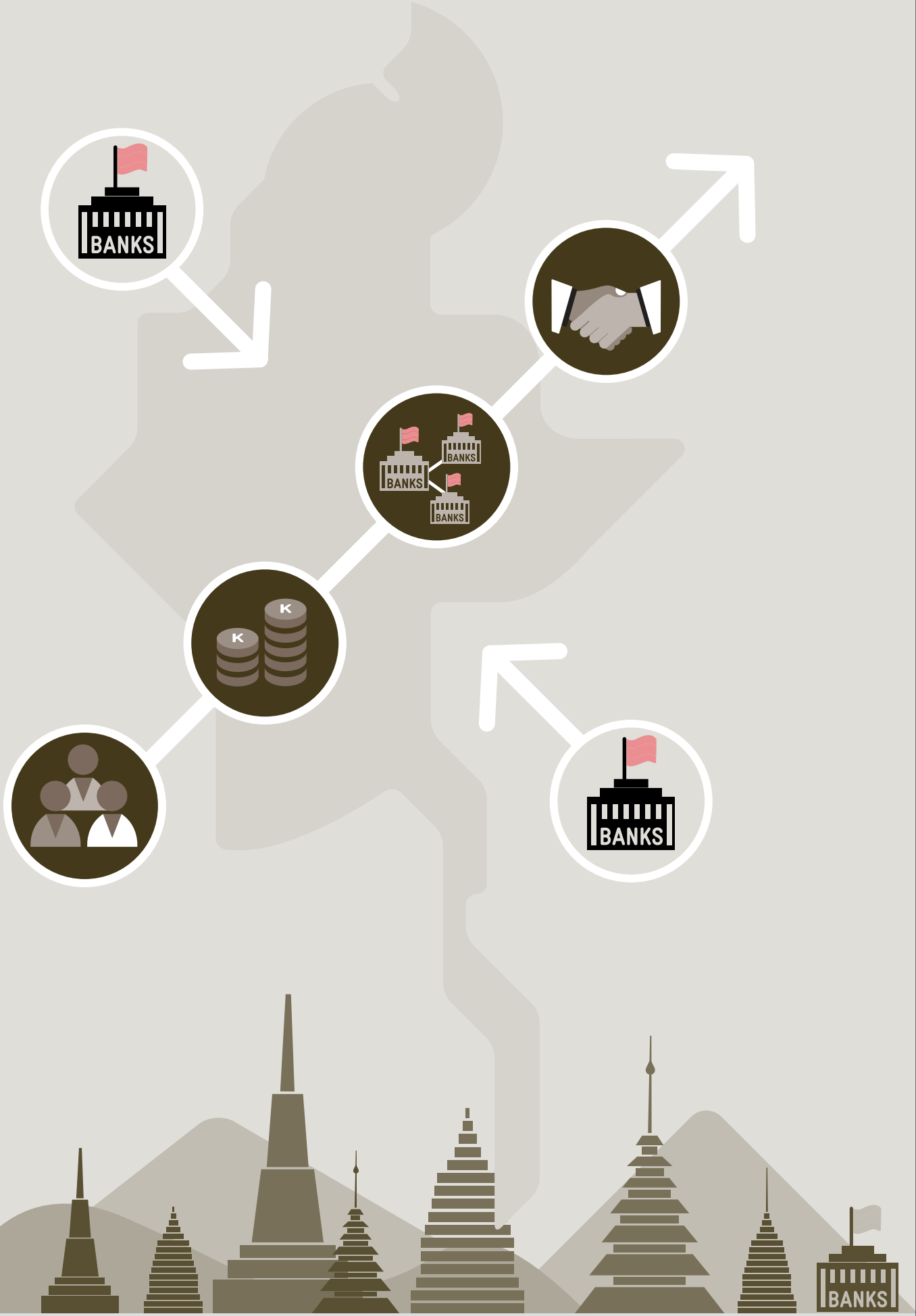
37 By limiting the number of customer accounts and their minimum balances, the bank wants to effectively reduce its workload and check possible money laundering transactions effectively. However, with MEB's banking network of over 300 branches across the country without them using computerized networking systems, it is difficult to control for customers with multiple accounts.

38 The monsoon loans are disbursed in April-August and collected in February/March. The winter loans are disbursed in September-December and collected in June of the following year. The pre-monsoon loans are disbursed in January-February and collected in December.

39 Meaning a ministry holding shares of or giving support to the bank

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

41 The new Construction and Housing Development Bank will, for instance, give out long-term (20-30 years) housing loans for acquiring apartments in a government housing complex.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3 Challenges and Outlook

The Myanmar banking sector is particularly facing challenges in the pace and nature of the reform process, developing Human Resources, and in re-establishing trust in the banking sector.

During the recent reform process, the banking sector in Myanmar has already undergone tremendous changes. The upcoming years will continue to bring along changes and will pose challenges to the sector and its actors. Banks are currently up-scaling their operations and growing in terms of clients, branches, staff members, and total assets. The upcoming new FIML is expected to provide banks with more freedom to further develop their range and pricing of products. In addition, the new regulation is expected to allow foreign banks' competition to come in as early as 2014 and 2015, via joint ventures and foreign bank licenses, respectively (see 2.4.3).

For the time being, two major challenges should be high-lighted: The sound continuation of regulatory reforms as well as the development of human resources in the banks.

With the new Central Bank Law enacted in 2013 and the upcoming, new FIML as well as other relevant laws such as the Myanmar Accountancy Council Law in the drafting stage, the legal framework under which banks operate is changing extremely and at a fast pace. At the same time, it has to be noted that these laws remain rather general in their regulation and will still be specified with the help of secondary rule and regulations. However, the direction of the legal reform process is clear: Myanmar is heading towards international good practices and increasing com-petition in the financial sector.

The nature and the speed of this journey are the more difficult questions that lawmakers and regulators will have to answer. The future reform process needs to be managed carefully. This relates particularly to the area of liberalization and good governance, where room for improvement can still be widely observed in the Myanmar financial sector. In a liberalized financial sector, financial services could be designed to meet the demands of more people and enterprises, and hence access to finance would improve and poverty could be reduced. But at the same time, regulation needs to assure that the risks that come along with liberalization and a growing banking business can, on the one hand, be managed properly by the Myanmar banks and, on the other hand, also adequately be supervised by CBM. At the same time, the Central Bank needs to pay attention to its own resources when steering the future reform paths The best legal framework is of no use if it cannot be enforced. To ensure sound supervision and proper bank management, good corporate governance, reliable data, and transparency as well as risk management are inevitable prerequisites which still need to be further promoted in Myanmar.

Myanmar's banking sector will grow in terms of size and complexity. In addition, Myanmar's local banks will face regional and international competition in the coming years with foreign banks bringing in their skilled staff. The changing environment puts great demand on local banks' human resources. Myanmar's isolation of almost half a century also constrained innovation in the education and training sector. The primary, secondary, and tertiary education sectors in Myanmar do not fulfill regional or international standards. Hands-on vocational training in the banking sector is virtually non-existent. The only significant national training provider for imparting banking knowledge is MIB (see 2.3). However, MIB's outreach is currently too limited and training is too general to close the wide knowledge gaps of local bank employees. Therefore, more and more domestic banks hire repatriates or international staff in key positions with regional working experience. They also attempt to bridge the training gap with in-house training schools or classes, which might be sufficient to train entry-level staff but which usually lacks more specialized trainings. Recently, several banks have started to introduce new specialized modules to their in-house training with the assistance of their international correspondence banks or foreign training providers. Nevertheless, all domestic

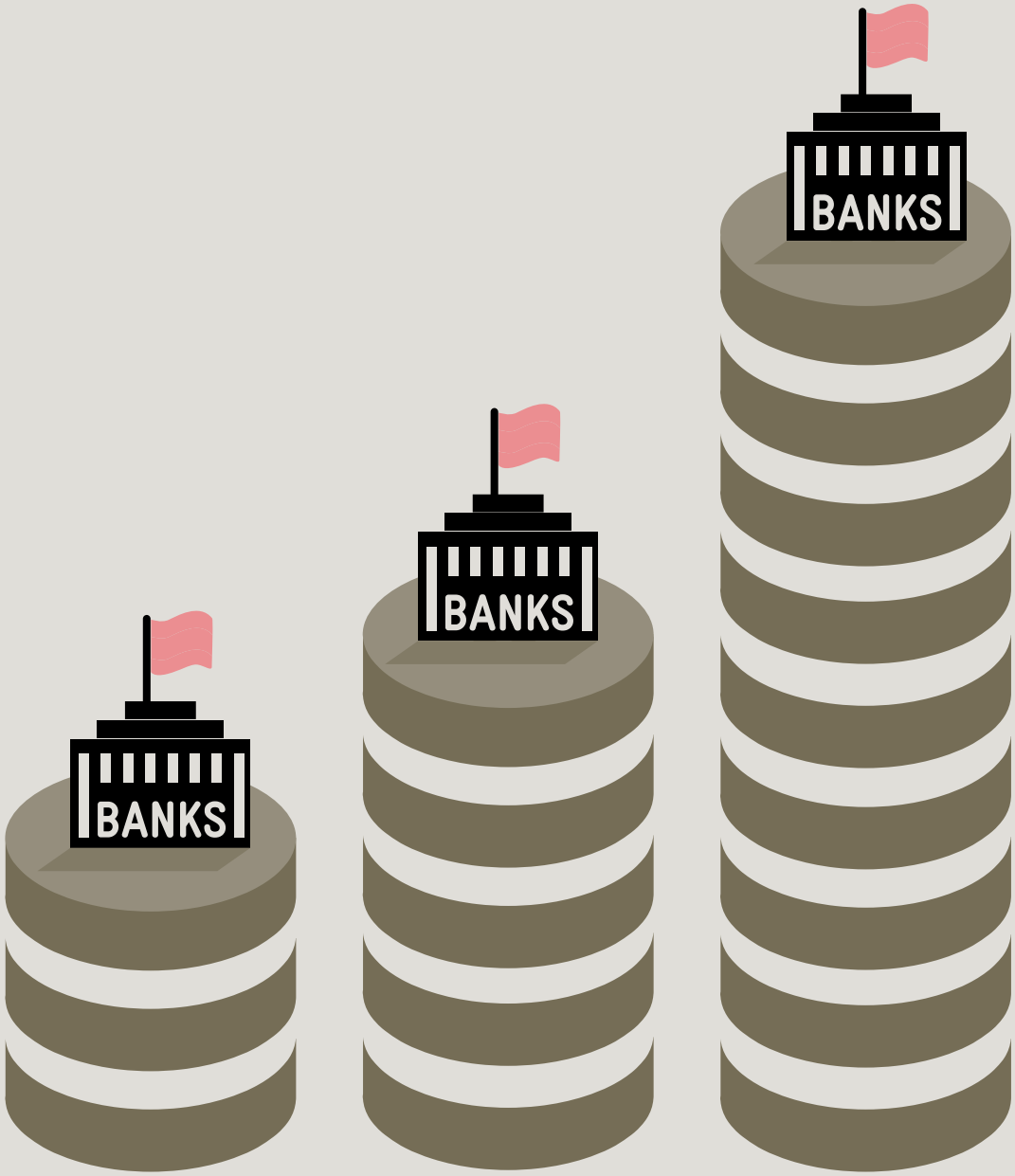
banks need further structured, comprehensive, and needs-based trainings for all hierarchy levels to learn more about innovative approaches and international banking practices which can enable them to better deal with the changing environment and with foreign competitors in the future.

Challenges for banks are not limited to internal adaptations – trust, which is the basis of every financial system, has to be regained by Myanmar banks. Peoples' trust in the financial and especially the banking sector was shaken heavily by a series of demonetization and especially the banking crisis in 2003, resulting in the closure of a number of banks and severe losses for and consequently loss of its depositors. The impressive growth in deposits observed over the last years indicates that banks regained trust. Taking a closer look, however, reveals that cautious behaviour is still dominant. Deposits, for example, are to a vast extent only time deposits. Term deposits are barely existent. Rumours about liquidity problems of the largest private bank, KBZ, lead to massive withdrawals from depositors in autumn 2012, with daily customer withdrawals amount-ing to MMK 8 billion (from an average MMK 1-2 billion) (Myanmar Times 2013c). Therefore, it seems as if banks still have a long way to go until they earn back the trust lost in the last decades and can make full use of their potential as financial intermediaries.

End notes

42 The NPL ratio for non-state-owned banks is very low (under 2% for the FY 2012-2013), but this is

Central Bank of Myanmar, Yangon (Image: Thomas Foerch, GIZ)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Abbreviations

AEC	ASEAN Economic Community
AEG	Acceptance, Endorsement and Guarantee per contra
AGD	Asia Green Development Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASEAN	Association of Southeast Asian Nations
ATM	Automated Teller Machine
AYB	Asia Yangon Bank
AYWD	Ayeyarwady Bank
CB	Co-Operative Bank
CBM	Central Bank of Myanmar
CCB	Central Control Board
CSO	Central Statistical Organization
CTR	Cash Transaction Report
CUP	China Union Pay
DICA	Directorate of Investment and Company Administration
EU	European Union
FATF	Financial Action Task Force
FEC	Foreign Exchange Certificate
FIML	Financial Institutions of Myanmar Law
FPB	First Private Bank
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GEB	GovernmentEmployees Bank
GIZ	Deutsche Gesellschaft fuer international Zusammenarbeit GmbH
GT (MLFD)	Global Treasure Bank (Myanmar Livestock and Fisheries Development Bank)
HQ	Headquarter
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IBSB	Insurance Business Supervisory Board
IMF	International Monetary Fund
IOM	International Organization for Migration
ISA	International Standards on Accounting
JCB	Japan Credit Bureau
MAB	Myanmar Apex Bank
MADB	Myanmar Agricultural and Rural Development Bank
MBA	Myanmar Banks Association
MCB	Myanmar Citizens Bank
MDP	Myanmar Development Partners

MEB	Myanmar Economic Bank
MEC	Myanmar Economic Holding
MESC	Myanmar Securities Exchange Commission
MFIs	Microfinance Institutions
MFRS	Myanmar Financial Reporting Standards
MFTB	Myanmar Foreign Trade Bank
MI	Myanmar Insurance
MIB	Myanmar Institute of Banking
MICB	Myanmar Investment Commercial Bank
MMK	Myanmar Kyat
MOB	Myanmar Oriental Bank
MoD	Ministry of Defence
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MPU	Myanmar Payment Union
MSA	Myanmar Standards on Accounting
MSLE	Myanmar Small Loans Enterprise
MWB	Myawaddy Bank
n.a.	not applicable
NGO	Non-Governmental Organization
OAG	Office of Auditor General
p.a.	per annum
PACT	Partner Agencies Collaborating Together
POS	Point Of Sale
PRI	Policy Research Institute (Japan)
RDB	Rural Development Bank
SDR	Special Drawing Rights
SME	Small and Medium sized-Enterprise
SMI	Small and Medium-sized Industries
tba	to be announced
TFB	Tun Foundation Bank
UAB	United Amara Bank
UMEHL	Union of Myanmar Economic Holding
UN	United Nations
UNDCF	United Nations Development Capital Fund
UNDP	United Nations Development Program
USD	United States of American Dollar
YCB	Yangon City Bank
YDNB	Yadanabon Bank
YIE	Yangon Institute of Economics

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Annex

Table I Recent legal reforms for the Myanmar financial sector[43]

Name	Date of enactment	Main changes
Microfinance Law (new)	November 30, 2011	• Legalization of microfinance operations Introduction of interest rate caps
Foreign Exchange Management Law (new)	August 10, 2012	• Introduction of a managed float system
Foreign Investment Law (new	November 2, 2012	• 5-year tax holiday with various tax and customs duty relief • Non-nationalization and non-suspension of the business • Land use allowed up to 70 years (50+10+10) • Right to repatriation of profits and capital brought in
Central Bank of Myanmar Law (revised)	July 12, 2013	• Independence of the CBM from the MoF • Autonomous power to implement monetary and exchange rate policies
Securities Exchange Law (new	July 31, 2013	• To establish a stock exchange, securities exchange companies, and counter markets for the accumulation and allocation of financial resources
SME Law (new)	3rd drafting stage	• Clear definition of SME and SMI
Financial Institutions of Myanmar Law (revised)	1st drafting stage	• Implementation of a more efficient banking system
Forthcoming:		
Electronic Transactions Law	tba	• tba
Insurance Law	tba	• tba
Insurance Authority Law	tba	• tba
Pensions Law	tba	• tba

Reference: GIZ (2013)

Table II	Main FIML requirements[44]		
Section	**Category**	**Requirements**	**Remarks**
5	Types of financial institutions	Commercial banks, investment or development banks, finance companies, and credit societies	
6	Services provided by the different financial institutions[45]	**Commercial banks:** demand and time deposits up to one year; Investment or development banks: receiving deposits with terms of more than one year and extending loans for more than one year; **Finance companies:** financing the purchase of goods and services with funding other than deposits from the public; **Credit societies:** Credit societies shall engage primarily in financing to individual members of the society (consumption, production, or commerce purpose).	There is only one finance company (Oriental Leasing Company). Credit societies are usually established under the Co-operatives Law
8	Capital requirement	**Minimum paid-up capital:** **Commercial Bank with internal and external banking:** MMK 30 million **Commercial Banks with domestic banking:** MMK 15 million **Investment/Development Banks:** MMK 60 million **Finance companies:** MMK 8 million **Credit Societies:** MMK 2 million	Minimum capital is expected to be raised in the new FIML
12	Ownership	Financial institutions can be set up in the forms of joint ventures (JV) between private and government and purely privately owned companies.	Foreign share participation and JV between local and foreign banks being considered in the new FIML.
13	Participation of foreign banks	The Law empowers the CBM to permit foreign financial institutions to play a role in the country by granting licenses for representative offices and (theoretically) full-fledged branches.	Foreign banks are expected to be permitted in Myanmar in 2015/2016 with Myanmar joining AEC.
14	License fee	0.1% of the bank's initial paid-up capital must be paid to the CBM within 15 days from the date when the license is granted and the banking business must start within one year after receiving the license.	
35	Restriction on investment in other entities	Financial institutions are not permitted to hold more than 10% equity in non-financial institutions.	
48	Supervision	The CBM sends its on-site supervision teams to banks once a year to investigate whether they comply with the law, rules and instructions by the CBM.	
49	Audit	Banks have to appoint their external auditors with the approval of the CBM. Furthermore, they must have an internal audit department. A local bank must have its own Audit Committee (AC) consisting of 3 members appointed by the shareholders (usually at its annual general meetings) who report to the Board of Directors.	

Reference: FIML (1992)

Table III CBM rules on risk weights

Categories	Risk weights %
Balances due from banks	
Residual maturities up to one year	20
Residual maturities over one year	100
Loans advances	
Mortgages	50
Secured	50
Unsecured	100
Fixed assets	**20**
Cheques, Bills and all receivables	20
Other assets (excluding claims on Government, Government departments, State-owned enterprises)	100

Reference: GIZ (2013)

Table IV Reporting frequencies and financial data reported to CBM

Daily	Weekly	Monthly
• Free capital • Cash receipts/payments and balance for each branch • Deposit Account Balance (current, savings, and fixed accounts) • Remittance transactions • Loan Account Balance (Loan, • Overdraft, and Hire Purchase) • Position of fixed assets • Consolidated Trail Balance	• Cash Ratio • Reserve ratio (10% of total deposits) • Reserve balance • Liquidity ratio (20%) • Due to/Due from banks • Demand liabilities • NPL Ratio	• Cash transactions and cash balance • Income and Expenditure statement • Balance Sheet • Capital Adequacy Ratio • List of Risk Weighted Assets • List of borrowers • Types of loans and collateral • Daily progress of loans • Repayments • Loans outstanding

Reference: SMIDB (2013)

Table V	Aggregate Balance Sheet of the Myanmar Banking Sector, 2008-2013 (in MMK million)[46]				
Financial Year	**2008 - 2009**	**2009 - 2010**	**2010 - 2011**	**2011 - 2012**	**2012 - 2013**
Assets					
Cash	1,130,375.52	1,463,407.49	2,332,303.61	2,382,134.35	9,541,469.96
Equity investment	3,353.39	3,369.39	8,363.89	19,273.35	19,426.20
Loans and Advances	870,006.27	1,129,831.18	1,925,903.45	3,172,230.65	5,289,043.90
Government Securities	485,191.97	926,050.00	1,291,427.30	2,021,972.30	2,579,932.00
Public Securities	0	200.00	200.00	220.00	772.80
Bills Purchased & Discounted	35,162.83	110,737.22	180,623.82	74,014.31	80,285.06
Fixed Assets	35,725.55	49,628.52	83,708.75	140,390.35	222,994.68
Other Assets	96,702.16	142,017.16	227,628.33	499,368.97	4,597,971.76
AEG[47]	27,586.44	27,791.13	29,334.50	42,748.50	645,213.64
Total	2,684,104.13	3,853,032.09	6,079,493.65	8,352,352.78	22,977,110.00
Liabilities					
Paid-up Capital	94,281.20	130,808.00	240,457.60	344,492.23	467,204.65
Reserves	27,139.33	35,925.30	51,773.52	76,814.09	121,266.30
Other Reserves	25,915.38	28,888.48	42,807.19	61,377.62	1,147,011.81
Profit & Loss	1,950.62	3,377.20	6,559.79	12,131.55	14,191.19
Share Premium	1,368.47	2,219.55	2,672.50	3,589.39	1,828.29
Deposits[48]	2,186,663.69	3,162,502.84	4,911,005.43	6,961,246.25	13,057,304.48
Borrowing	23,283.10	47,713.56	275,812.13	198,726.62	552,073.10
Bills Payable	123,087.88	228,264.31	268,772.75	81,213.49	1,255,136.29
Other Liabilities	172,828.02	185,541.72	250,298.24	570,013.04	5,715,880.25
AEG	27,586.44	27,791.13	29,334.50	42,748.50	645,213.64
Total	2,684,104.13	3,853,032.09	6,079,493.65	8,352,352.78	22,977,110.00
Increase in total assets (%) y-o-y	37.65	43.55	57.78	37.39	175.10

Reference: CBM (2013)

Table IV Foreign Banks' Representative Offices in Myanmar

Country of Origin	Banks	Year of License issued / Year of Commencement
Australia	ANZ Bank	2012/2013
Bangladesh	AB Bank Ltd.	2010/2012
	National Bank Ltd.	1995/1996
Brunei	Brunei Investment Bank	1995/1996
Cambodia	First Overseas Bank Ltd.	1996/1996
China	Industrial and Commercial Bank of China Ltd.	2011/2011
India	Bank of India	2013/n.a.
	Exim Bank	2013/2013
	United Bank of India	2012/2012
Japan	Aeon Credit Service Company	2012/2012
	Bank of Tokyo-Mitsubishi Ltd.	2006/2006
	Maruhan Japan Bank PLC	2012/2012
	Mizuho Corporate Bank Ltd.	2012/2012
	Sumitomo Mitsui Banking Corporation	2001/2001
Malaysia	Commerce International Merchant Bank Berhad	2008/2008
	Malayan Banking Berhard (MAYBANK)	1994/1995
Singapore	Development Bank of Singapore Ltd.	1993/1994
	ESun Commercial Bank	2013/2013
	Oversea-Chinese Banking Corporation Ltd.	1994/1994
	United Overseas Bank Ltd.	1993/1994
South Korea	Hana Bank	2012/2013
	Industrial Bank of Korea	2013/2013
	Kookmin Bank	2013/n.a.
	Korea Development Bank	2012/2013
	Shihan Bank	2013/2013
	Woori Bank	2012/2012
Taiwan	First Commercial Bank Ltd.	2013/2013
Thailand	Bangkok Bank Public Company Ltd.	1994/1995
	Kasikorn Bank Public Company Ltd.	2012/2013
	Krung Thai Bank Public Company Ltd.	2012/2012
	Siam Commercial Bank Public Company Ltd.	2012/2012
United Kingdom	Standard Chartered Bank	2012/2013
Vietnam	Bank for Investment and Development of Vietnam	2010/2010
	Vietin Bank	2012/n.a.

Reference: CBM (2013), GIZ (2013)

Profiles of largest non-state-owned banks (in terms of assets/branch network)

Kanbawza Bank is the largest commercial bank in Myanmar in terms of assets (MMK 2,489 billion in the FY 2012-2013). KBZ belongs to the business conglomerate KBZ Group, chaired by U Aung Ko Win. Initially, it was created as a local bank in Taunggyi (Shan State) in 1994. In 2000, the HQ was relocated to the former capital Yangon. As of September 2013, KBZ has 122 branches and 87 ATMs as well as MPU and VISA POS terminals all over Myanmar and wants "to become Myanmar's premier bank with a strong base in Myanmar financial market" (vision). The product range of KBZ includes savings, current and fixed deposits, loans, overdrafts, and hire purchase as well as domestic and international (Thailand) remittances. KBZ Group controls two airlines (Air KBZ and Myanmar Airways International) and jade and gem mining concessions. The Group also owns Inlay Shoe Manufacturing Co., Ltd. and the IKBZ Insurance Company.

Box A | **Kanbawza Bank (KBZ)**

- Private bank
- Founded in July 1994 (Shan State)
- 122 branches as of September 2013
- Over 8,400 employees
- Total assets (FY 2011/12): MMK 1,774 billion

Co-operative Bank was established in 1992 under the guidance of the Ministry of Co-operatives, the third largest bank in terms of total assets (MMK 825 billion in the FY 2012-2013). There used to be a Co-operative Farmers Bank and Co-operative Promoters Bank under the ministry, both established in 1996, which in June 2004 were merged together with Co-operative Bank into the new Co-operative Bank. In contradiction to its name, Co-operative Bank is not built on co-operative principles in its governance structure. The bank is not owned by its individual private clients and only a small part of the loan portfolio is lent to cooperatives. Although the bank has received strong support from the Ministry of Co-operatives, the ministry itself does not have shares in the bank. Its major shareholders are U Khin Maung Aye and his Citizen Business Private Company, who owns 10% of the bank's shares. There are many lines of businesses under the company including Kaytumadi Trading, a hotel business, Golden Myanmar Airline, and the new Microfinance Bank. The company also owns Citizen Business Insurance Company.

Box B | **Co-operative Bank (CB Bank)**

- Semi-governmental bank
- Founded in August 1992
- 47 branches as of March 2013
- About 3,000 employees
- Total assets (FY 2011/12): MMK 563 billion

Established in 1993, Myawaddy Bank is owned by a military holding called Union of Myanmar Economic Holdings (UMEHL), the second largest bank with total assets of MMK 870 billion in the FY 2012-2013. The Ministry of Defense (MoD) owns the "A" shares of this holding and the UMEHL management also works for MoD's Directorate of Procurement. The "B" shares are held by serving and retired Army personnel and related organizations such as Regimental Funds and Veterans' Associations. Through foreign and local joint ventures and 100% owned companies, UMEHL's activities span a broad range of industries: trading, hotels and tourism, banking, buses and taxis, iron and steel, cement, cigarettes, brewing, paint, garments, jade, precious stones, and jewellery. UMEHL also owns AungThisaOo Insurance Company.

Box C **Myawaddy Bank**

- Semi-governmental bank
- Founded in 1993
- 26 branches as of March 2013
- Employees: n/a
- Total assets (FY 2011/12): MMK 732 billion

Innwa Bank was established in 1997 by another military holding, Myanmar Economic Corporation (MEC). Its total assets amounted to MMK 260 billion in the FY 2012-2013. MEC was established in March 1997 under the Special Company Act of 1950 and is wholly owned by the MoD. MEC is an investor in the Dagon Brewery established in 1998 to brew the Skol brand beer in Myanmar. The foreign partner is Brewinvest (Bermuda), and there used to be another local partner, Myanmar Golden Star Group. MEC owns Myawaddy Television channel and has wholly owned companies in building materials. MEC also has a mining industry in Mogok and Monghsu, two towns in northern Myanmar that are famous for jade and ruby. MEC also runs Aung Myintmo Min Insurance Company.

Box D **Innwa Bank**

- Semi-governmental bank
- Founded in 1997
- 33 branches as of March 2013
- Employees: n/a
- Total assets (FY 2011/12): MMK 245 billion

Myanmar Apex Bank was established in August 2010. Its total assets in FY 2012-2013 reached MMK 529 billion. It is owned by U Chit Khaing (Eden Group of construction companies), a leading property developer. Eden Group owns the Aye ThaYar Golf Resort in Taunggyi and numerous hotel complexes in popular tourist spots around the country.

Box E **Myanmar Apex Bank**

- Private bank
- Founded in 2010
- 20 branches as of March 2013
- Employees: n/a
- Total assets (FY 2011/12): MMK 275 billion

Ayeyarwady Bank was established in August 2010. Its assets reached MMK 474 billion in the FY 2012-2013. It is owned by U ZawZaw (known as Max ZawZaw in the country). He is the chairman of Max Myanmar Group of Companies, a major conglomerate with interests in the timber, gems, rubber, construction and hotel industries, and many more. He also serves as the chairman of the Myanmar Football Federation.

Box F **Ayeyarwady Bank**

- Private bank
- Founded in 2010
- 32 branches as of March 2013
- Employees: n/a
- Total assets (FY 2011/12): MMK 197 billion

Asia Green Development Bank was established in August 2010; its total assets in the FY 2012-2013 amounted to MMK 366 billion. It is owned by the Htoo Group of Companies. Its chairman is U TayZa. Htoo Group Companies is the parent company of Air Bagan, a privately held airline company. The company has several subsidiaries. Htoo Wood Products Company Ltd., for instance, is engaged in logging and exporting timber (especially teak). Htoo Trading Company is engaged in construction, property development, agriculture, transportation, shipping, mining, hotels, and tourism operations. Htoo Group also owns First National Insurance International Company.

Box G **Asia Green Development Bank**

- Private bank
- Founded in 2010
- 28 branches as of March 2013
- 1,700employees
- Total assets (FY 2011/12): MMK 209 billion

United Amara Bank was established in August 2010. Its total assets in the FY 2012-2013 amounted to MMK 241 billion. It is owned by IGE Group of Companies. The two sons of former minister of industry U Aung Thaung, Pyi Aung, and Nay Aung founded Aung Yee Phyo Co Ltd and IGE Co Ltd. They hence gained a foothold in the oil, gas, agricultural products, and timber trading industries. IGE was established in 1994 and registered in Singapore in 2001. IGE also owns a newspaper, the Trade Times.

Box H **United Amara Bank**

- Private bank
- Founded in 2010
- 14 branches as of March 2013
- 1,700 employees
- Total assets (FY 2011/12): n.a.

Yoma Bank was founded in 1993 and was one of the largest private banks prior to the Myanmar banking crisis in 2003. As a consequence of the banking crisis, Yoma Bank's business was restricted to domestic remittances, based on the domestic Western Union-style business model. But Yoma Bank hence became the second largest private bank in terms of branch network (50 branches but no ATMs). In August 2012, Yoma Bank was reinstated with a full banking license. The bank is majority-owned and controlled by the businessman, Serge Pun. Thirty percent of Yoma Bank is owned by the public company, First Myanmar Investment (FMI), which was also founded by Serge Pun.

Box I **Yoma Bank**

- Private bank
- Founded in 1993
- 50 branches as of July 2013
- Employees: n.a.
- Total assets (FY 2011/12): n.a.

SMIDB is a public bank under the control of the Ministry of Industry. It was founded as the Myanmar Industrial Development Bank in 1996 but shifted its mission and vision towards SMEs in the course of the current national reform process. SMIDB strives for becoming a leading bank in SME finance by supporting SMEs financially, extending technical support to its SME customers and providing good customer services. The branch network is made up of 11 branches, and SMIDB plans to set up an additional 6 branches in the FY 2013/2014. The bank has two ATMs and wants to set up 5-7 new ATMs in the FY 2013-2014. SMIDB accepts current, fixed, and saving deposits and extends commercial (13% flat p.a.) and SME loans (8.5% flat p.a.) to businesses, particularly small and medium-sized businesses. In order to promote SMEs, the Government of Myanmar (via MEB) granted two MMK 5 billion credit lines (November 2012 and July 2013) at an interest rate of 8.25% to SMIDB. SMIDB has lent this money to 62 domestic SMEs at an annual interest rate of 8.5% and for the duration of three years.

Box J **Small and Medium Industrial Development Bank**

- Semi-governmental bank
- Founded in 1996
- 11 branches as of March 2013
- 373 employees
- Total assets (FY 2011/12): MMK 118 billion.

End notes

43 The World Bank and IMF are giving technical assistance for drafting some of these new laws and to prepare Myanmar for joining IMF Article VIII member countries (see also IMF Country Report No. 13/250).

44 This Law is currently revised but information on changes from this reform is not yet available.

45 In addition, almost all private banks (except for Yangon City Bank and Yadanabon Bank) have been issued licenses to conduct international banking.

46 Including CBM

47 AEG = Acceptance, Endorsement, and Guarantee per contra

48 The shares of demand (no interest rates) and time deposits (8-10% interest p.a.) are comparatively low. Savings deposits (8% interest rate p.a.) make up the majority of deposit accounts held at semi-governmental and private banks. Information on savings deposit accounts with state–owned banks is not available.


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GIZ in Myanmar

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

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

The GIZ Financial Sector Development project in Myanmar started in autumn 2012 and will last until December 2015. The project is based on four complementing pillars:

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

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

3. GIZ also supports training providers for the banking sector in the development of human resources in the banking industry. In this context, GIZ assists in the development of adequate and demand-oriented qualification and training measures. Furthermore, GIZ facilitates cooperation and the exchange of information concerning human capacity development among Myanmar banks.

4. The Financial Sector Development project also supports the banking industry in developing adequate structures, processes, and products for SME Finance. Three selected Myanmar pilot banks will be supported by GIZ in the development of tailor-made financial services for SME, taking effect in April 2014.

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