STRUCTURAL POLICY COUNTRY NOTES
Myanmar

This Country Note is an extract from the *Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle-Income Trap*, http://dx.doi.org/10.1787/saeo-2014-en.

Myanmar*

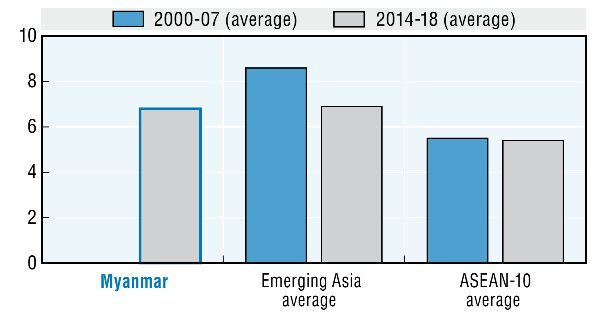
A. Medium-term economic outlook
(Forecast, 2014-18 average)
GDP growth (percentage change): 6.8
Current account balance (% of GDP): -4.4

B. Medium-term plan
Period: 2012-15
Theme: Development of industry, balanced development, improvements in education, health, living standards and statistical capacities.

C. Basic data (in 2012)
Total population: 64 million*
Population of Nay Pyi Taw: 1 million (in 2009)
GDP per capita at PPP: 1 405 (current USD)**

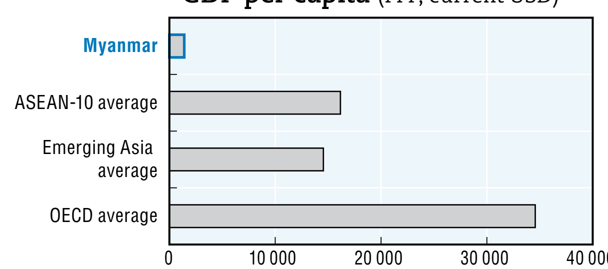
Note: * Total population data for 2012 are estimates.
** IMF estimate
Sources: OECD Development Centre, national sources and IMF.

GDP growth rates (Percentage change)



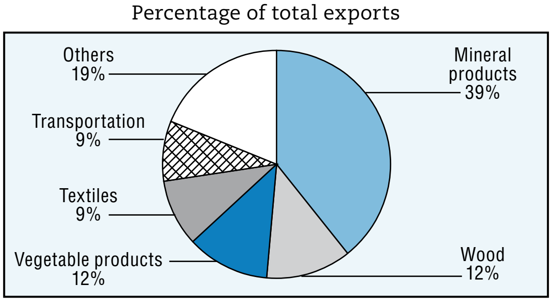
Source: OECD Development Centre, MPF-2014.

GDP per capita (PPP, current USD)



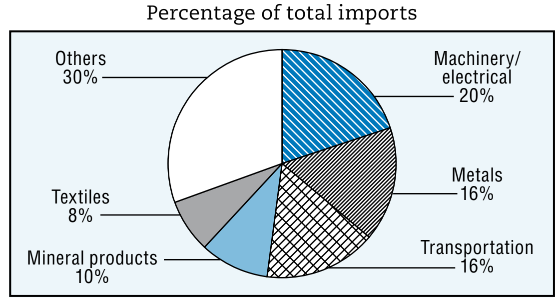
Source: IMF and national sources.

Composition of exports, 2012
Percentage of total exports



Source: Trademap.

Composition of imports, 2012
Percentage of total imports



Source: Trademap.

* This Country Note is largely based on OECD (2013b), *Multi-dimensional Review of Myanmar: Volume 1. Initial Assessment*, OECD Development Pathways, OECD Publishing, http://dx.doi.org/10.1787/9789264202085-en.

Fortunate to be endowed with a wealth of assets, Myanmar is well positioned to engage a multi-pronged development strategy that draws on agriculture, mining and extraction, manufacturing and services. Myanmar can also benefit from its advantageous location between major growth poles and markets, such as China and India, and its proximity to the ASEAN tigers to regain – or even exceed – the importance it once enjoyed as a regional hub. Myanmar has already undertaken some major reforms and the political will to take them even further appears strong. The recent political changes since the transition to a civilian government in 2011 have opened doors around the globe and paved the way for economic ties with bilateral and multilateral organisations. To meet their expectations and include them in its nation-building process, the government needs to devise an inclusive political and economic agenda.

Such an agenda would entail securing peace and setting it as a common goal for all, valuing political diversity and fostering dialogue, preserving ethnic identities and cultures, guaranteeing decent livelihoods, protecting private initiatives and fair returns and, most importantly, distributing the proceeds from the nation's wealth in ways that are sustainable and equitable and take the interests of future generations into account.

Myanmar will also need to address important, long-standing issues related to the economy that include an environment that is still not very conducive to business, the lack of skilled labour, and underdeveloped infrastructure.

Myanmar's medium-term policy challenges and responses

- Create a business-enabling environment
- Upgrade education and anticipate future demands for skilled labour
- Create a stable and efficient financial system

POLICY FOCUS

Create a business-enabling environment

The business sector has the potential to become a driving force of Myanmar's economic development. While foreign direct investment (FDI) is needed to acquire technology, domestic private initiatives are equally important in paving the way to industrialisation. Business supplies value added to society through the goods and services it produces, while developing technology, creating jobs and generating incomes.

The government's private sector development agenda is focused on fostering manufacturing, commercialising agriculture, and nurturing the services industries. Although Myanmar is rich in natural resources and has abundant low-cost labour,[1] it has not successfully managed, among other things, to harness the power of the private sector and realise its full potential. The prime reasons are the country's centrally planned economy, bureaucratic mismanagement, and the economic sanctions imposed by a number of developed countries (UNESCAP, 1996; ADB, 2012b).

Urgent need to ensure a business-enabling environment

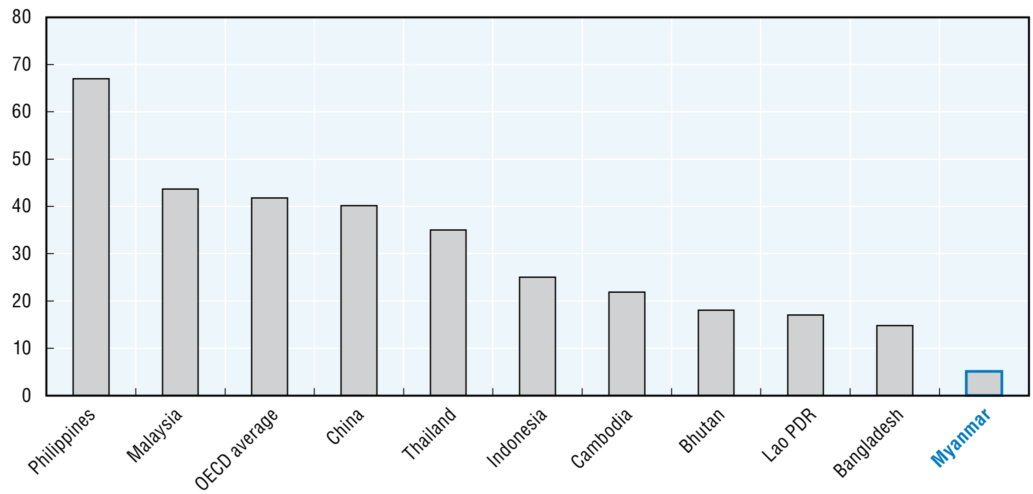
Myanmar has been encouraging business investment from both domestic and foreign sources since the earlier reform process that started at the end of the 1980s. Among the measures it has implemented are six investment-related business laws that generally aim to facilitate the development of the private sector by encouraging business investment, providing incentives to businesses (e.g. tax breaks and land leasing), and keeping business activities (e.g. ownership structures and lines of business) within Myanmar.

However, these efforts will come to nought if the economic environment is not business-enabling. Surveys conducted in Myanmar to date (Kudo, 2002 and 2005; JETRO, 2009 and 2012; Oo, 2013) have identified significant impediments to business. They including such common problems as: limited access to capital and credit; poor trade facilitation and high customs related fees; cumbersome business and trade licensing and permits; shortages of electricity; and weak telecommunications and inefficient transportation systems.

For example, road density in Myanmar is extremely low (Figure 2.6.1) and the country's road network does not run to all townships. The quality of roads is also an issue, with just 21.7% of them being paved. The current rail network, too, is sorely inadequate. Under-investment and insufficient maintenance over past decades have left it very run down. The 5 768 km network runs north to south with branch lines to east and west, but does not connect with neighbouring countries.

Figure 2.6.1. **Road density in Myanmar and other selected countries, 2010**

Kilometres of road per 100 sq. kilometres of land area



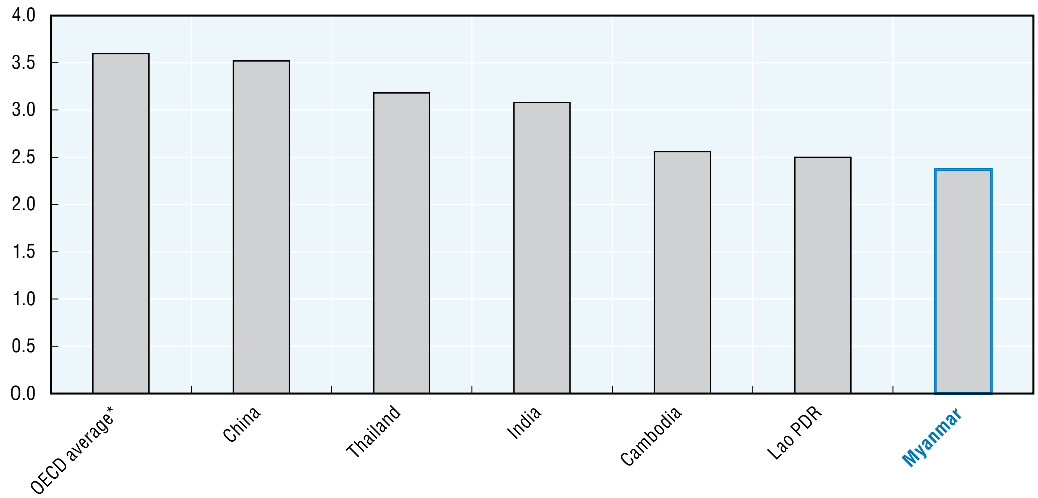
Note: All data are from 2010 except for Philippines (2003), Thailand (2006), Indonesia, Cambodia and Lao PDR (2009).
Source: World Bank (2013b), *World Development Indicators* (database), http://databank.worldbank.org.
StatLink http://dx.doi.org/10.1787/888932938137

Other challenges identified include a shortage of spare parts and raw materials, a low level of advanced technology utilisation, machinery and equipment deficiencies, and shortages of foreign currency. According to the World Bank's Logistic Performance Index (2012g), Myanmar ranked 129th out of 155 countries in the world in terms of logistical efficiency (Figure 2.6.2). Similarly, Transparency International (2012) puts Myanmar near the bottom of its Corruption Perceptions Index – 172nd out of 176 countries – and last among the ASEAN countries.[2]

The government should take note of the results of such studies and surveys in its policy-making efforts to meet investors' requirements and build a more attractive business-enabling environment.

Figure 2.6.2. **Logistics performance index in Myanmar and other selected countries, 2012**

Score between 1 “worst” and 5 “best”



Notes: The logistics performance index is based on six criteria, namely customs clearance process (i.e. speed, simplicity and predictability of formalities); trade and transport related infrastructure (e.g. ports, railroads, roads and information technology); international shipment cost; logistics services (e.g. transport operators and customs brokers); tracking and tracing; and timeliness. *No data for Israel.

Source: World Bank (2012g), *Logistics Performance Index: Connecting to Compete 2012*, World Bank, Washington, DC. http://lpisurvey.worldbank.org/domestic/performance (accessed 27 April 2013).

StatLink http://dx.doi.org/10.1787/888932938156

A robust legal and regulatory framework for business is an urgent priority

The legal and regulatory framework and institutional structure of business in Myanmar is fragmented. There is no effective centralised administrative system which registers or licenses all business establishments – even though the Ministry of National Planning and Economic Development formally has a central business registry. The Ministry has been designated as a one-stop shop for enterprise registration and administration, but has not yet been able to capture the statistics of the entire business community.[3] As a consequence of the fragmented institutional framework, a variety of government-wide committees have been established to co-ordinate issues spanning industries and sectors such as small and medium-sized enterprises (SMEs), industrial development and special economic zones. This, of course, is a source of inefficiency.

Another issue with Myanmar’s legal and regulatory business framework is that it favours state-owned enterprises (SOEs), which include military enterprises. SOEs and their joint-venture business partners are afforded a great degree of freedom and economic privilege, which may be conducive to less transparent management practices and finances. Such joint-venture partnerships are not required to register as enterprises unless they apply for incentives under the Foreign Investment Law (2012) or the Myanmar Citizens Investment Law (1994). However, these incentives may not be applicable or relevant to the business operations of private firms. Moreover, there is no clear policy or measure for developing certain activities within the services industry, many of which are still dominated by SOEs.

The current legal and regulatory setting thus has numerous weaknesses, such as the fragmented institutional framework that favours SOEs. Such failings need to be addressed and remedied in order to turn the private business sector into a driver of development. The government must provide a level playing field for business competition – it is a prerequisite for inclusive, sustainable development.

Human capital development is critically important

Sustainable economic development in Myanmar is conditioned by the availability and quality of human capital. A prerequisite for providing the skills needed by the labour market is access to high-quality basic education – i.e. primary and non-vocational secondary education.

While most of Myanmar's adult population have learnt the basic skills of reading, writing and arithmetic, and access to formal education has widened over the last 20 years, high primary school drop-out rates and low enrolment rates in secondary schools point to persistent challenges in access to education. Issues relating to the quality of education have recently been addressed through upgraded teacher training programmes and revised curricula, but tools that measure students' educational attainments and teacher quality more effectively need to be developed.

Many low- and middle-income countries have difficulty moving up the value chain owing to a lack of adequate and specific professional skills (OECD, 2013c). Comparing Myanmar with fast-growth emerging and already industrialised economies suggests that the country has not yet acquired the full set of skills which may be required in the years ahead. A stronger focus on vocational training and a higher proportion of tertiary graduates in education and health are essential.

Although their number has recently grown, there were only one-third as many school-leavers with vocational education qualifications as there were upper-secondary school graduates in academic subjects in the 2010/11 school year. Given that access to ordinary upper-secondary education is itself limited (the gross enrolment ratio was only 38% in 2010), a considerable proportion of adolescents in Myanmar are probably not completing either ordinary secondary or vocational education.

The first step in better identifying future skills demand in Myanmar is to improve co-ordination between ministries that have some responsibility for the education system. Another valuable measure would be to conduct a thorough analysis of the labour market to examine where unemployment is concentrated and how salaries in different sectors and between the public and private sectors compare with each other and other countries. Surveys could also be conducted among employers to identify the present and future skill needs of firms and public organisations (for more detailed information, see next section of country note of Myanmar).

POLICY FOCUS

Upgrade education and anticipate future demands for skilled labour

Under military and socialist rule, Myanmar substantially neglected investment in education. Government expenditure dropped from almost 3% of GDP in 1972 to about 0.5% in 2000. Although recent reforms have slightly restored it – to 0.8% of GDP in 2011 –

it is still lower than in neighbouring countries. In 2010, Thailand reported education expenditure of almost 4% of GDP and Malaysia and Viet Nam of more than 5%. Such shares are equivalent to around 20% of total government spending on education.

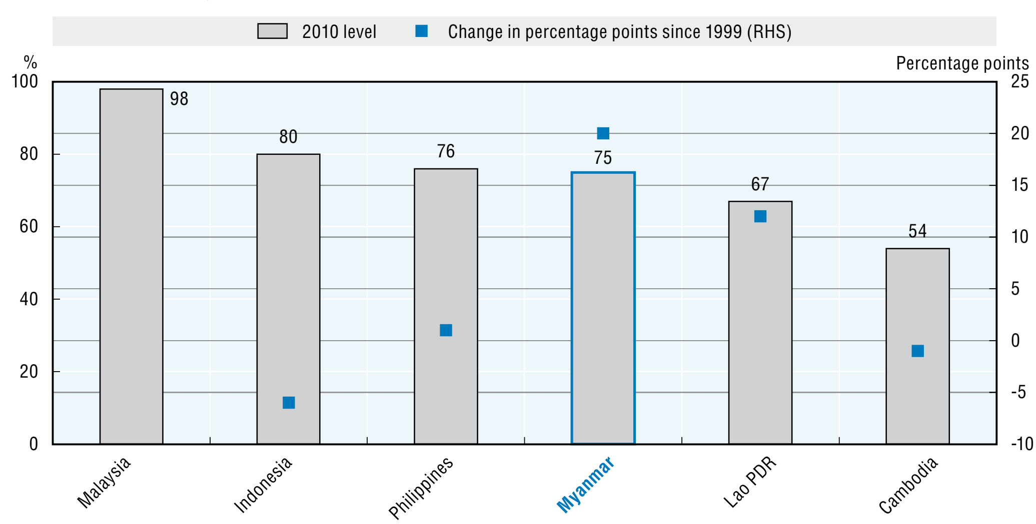
Despite this comparative neglect, Myanmar has seen its literacy rate rise substantially, according to official statistics – from 71% in 1973 to 91% in 2000 and 95% in 2011. Broad access to education, however, does not go far beyond the most basic literacy skills, as only primary school education (5 to 9 years old) is legally guaranteed and compulsory. The short length of schooling has affected the supply of skilled labour in the country.

Sustainable economic development in Myanmar is conditional on the availability and quality of human capital. A look at labour costs in Myanmar, compared to its peers in the region, suggests that it suffers from a relatively greater scarcity of skilled labour. While the wage of a manufacturing worker in Myanmar, for example, is only about one-sixth of that of a comparable worker in China or Thailand, the wage differential narrows in job categories that require higher skills. Engineers are paid of one-quarter of what their counterparts in China earn and one-fifth of their peers in Thailand. In managerial jobs, the wage differential with neighbouring countries further narrows.

Increase primary education attainment rates and the length of compulsory education

The net intake rate in formal primary education of 5-year-olds climbed from 67% in 1988 to 98.5% in 2011. This rise can be explained by the government's commitment to its mandate to provide free, compulsory primary education – building new primary schools in border regions, for example – and by non-governmental organisations' efforts to offset shortages of school materials. However, only about 75% of the pupils reached the last grade of primary education in 2010 (Figure 2.6.3) and only 69% completed the last grade. Although that 69% was a 20-percentage point improvement over 1999, much more needs to be done.

Figure 2.6.3. **Survival rate to last grade of primary education in Myanmar and other Southeast Asian countries, 2010**

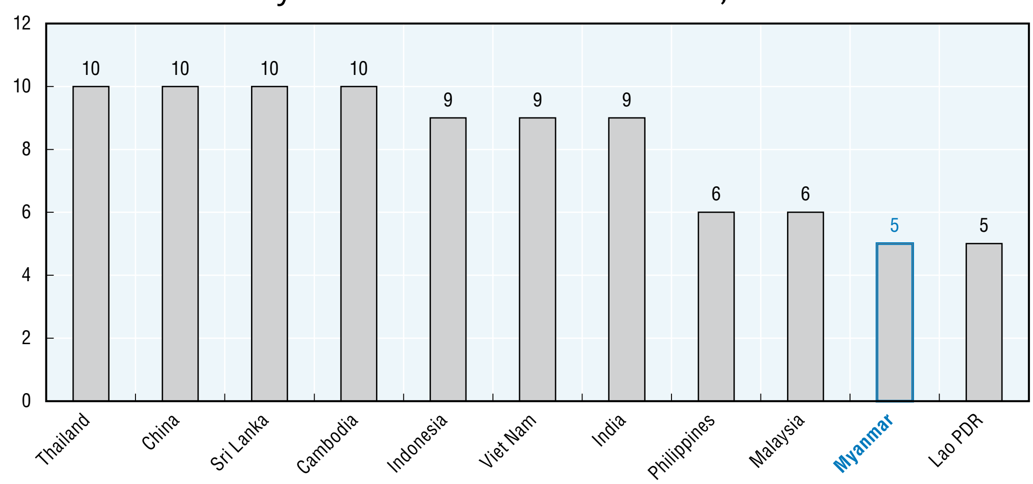


Source: UNESCO, *Institute for Statistics*.
StatLink http://dx.doi.org/10.1787/888932938175

Gross enrolment rates (GER) in both pre-primary and secondary education in Myanmar are much lower than in richer neighbouring countries. For example, the GER in pre-primary education of 10% should be set against 54% in China, 55% in India, and 100% in Thailand. Similarly, the GERs in Myanmar in lower and upper secondary education were, respectively, 62% and 32% in 2010 – far lower than in the region's middle-income countries. Access is so low because pre-primary and secondary schooling is not compulsory in Myanmar.

Only primary school, for children aged between 5 and 9 years old, is compulsory. In this respect, too, Myanmar lags far behind most countries in the region. In Thailand and China, for example, as well as in least-developed countries (LDCs) such as Sri Lanka and Cambodia, compulsory education includes secondary school and lasts ten years – twice as long as in Myanmar (Figure 2.6.4).

Figure 2.6.4. **Number of years of compulsory education in Myanmar and other Asian countries, 2010**



Source: UNESCO, *Institute for Statistics*.
StatLink http://dx.doi.org/10.1787/888932938194

While there are policies to strengthen the educational system – in particular by increasing funding and the number of teachers – more needs to be done. For example, pupil-to-teacher ratios in Myanmar are much higher than in most neighbouring countries. In primary schools the ratio was 28:1 in 2010, an improvement from 31:1 in 1999. At secondary level, the ratio was 34:1, a worsening over the same period from 30:1. In China, by comparison, the pupil-to-teacher ratios were 17:1 in primary schools and 15:1 at secondary level.

Although ongoing initiatives have met with some success, the sustainable provision of basic education for all can be achieved only through a well thought-out increase in government spending on education. To assess in which areas increased education spending is needed, the factors that restrict access to education need to be identified.

On the one hand, access to basic education is conditional on logistics, such as the availability of school facilities, teacher training institutions, transportation to schools and teaching materials. On the other hand, it is also dependent on key stakeholders having the right incentives to get involved in schooling. For example, incentives for training and working as a teacher must match the demand from teachers. Moreover, in a country like Myanmar where about two-thirds of the population live in rural areas, teachers must have sufficient incentive to work there.

Families, too, must have the financial wherewithal to send their children to school. Their means should cover not only money spent on education itself, but the costs associated with the loss of labour when children go to school and can no longer, for example, work on the family farm. Traditionally, families and communities in Myanmar value education highly. However, if parents do not see education as an investment in future success, they may resist sending their children to school.

While upgrading basic education is taking place, more can be done

Since the end of the 1990s, pre-service teacher training institutions have been restructured and upgraded. Today, all existing institutions are affiliated with institutes of education and require students to have successfully completed upper secondary school and passed the higher education entrance examination. As a result, Myanmar's teacher-training system is better co-ordinated. However, practical pre-service training is still not part of the curriculum and the process of training and qualifying as a teacher is significantly shorter than in more developed countries, where a three-year degree course is required to teach in primary and lower secondary schools.

To reduce the percentage of teachers without a nationally approved teaching qualification, Myanmar has introduced several in-service training programmes over the past two decades. They have proven extremely successful: while in 1999 only 60% of primary school teachers were qualified, official statistics suggest that by 2010 all primary school teachers were certified to teach at that level. Similar improvements were reported for secondary schools, where the share of qualified teachers rose from 69% to 99% over the same period.

Finally, Myanmar has recently made improvements to the quality of the educational process itself – which includes the curriculum plus learning and examination methods. Additionally, a new assessment programme has been introduced. It emphasises comprehensive personal records (CPR)[4] and more frequent testing in order to avoid the burden of final examinations. With these changes, Myanmar has sought to reflect its rapidly transforming society and foster its students' more rounded development.

Although quality monitoring initiatives (such as school inspections) were introduced recently, there is a need for more effective tools for assessing policies to improve educational quality. Participation in the Programme for International Student Assessment (PISA), an international comparative study launched by the OECD in 1997, would be one option. It evaluates basic education systems worldwide by assessing 15-year-olds' competencies in the key subjects of reading, mathematics, and science. Policy makers use PISA to determine the level of knowledge and skills of students in their own country compared to those of other participating countries or economies.

Adjusting the supply of skills to meet future demand essential to ensure sustainable long-term growth

As Myanmar's economy transforms, a new and probably wider range of skills will be needed. A look at tertiary education graduates reveals that most of them study the humanities, arts and social sciences alongside science and engineering – possibly at the expense of education, health, management and entrepreneurship skills. The gradual opening-up of the economy will increase demand for greater entrepreneurship and management skills in Myanmar. While economics and business programmes exist within the humanities, no public business or management school exists to date. A stronger effort to help students acquire those skills will be needed in the future.

As well as higher education graduates, an industrialising Myanmar will need a workforce with strong mid-level technical and vocational skills. Although their number has recently grown, there were only one-third as many school-leavers with vocational education qualifications as there were upper-secondary school graduates in academic subjects in the 2010/11 school year. Given that access to ordinary upper-secondary education is itself limited (the gross enrolment ratio was only 38% in 2010), a considerable proportion of adolescents in Myanmar are probably not completing either ordinary secondary or vocational education. In the medium term, a sophisticated and formal apprenticeship programme like the one in Switzerland might be considered for Myanmar.

To better identify future skills demand in Myanmar, it is important to improve co-ordination between ministries that have any responsibility for the education system. Today, there are a dozen such ministries, which has led to significant inefficiency and even misallocations of educational resources. Ideally, only one ministry should be responsible for the provision and quality of education at all levels. There is also a particular need for closer co-ordination of profession-specific education (in higher education as well as vocational training).

A thorough analysis of the labour market should also be conducted to examine where unemployment is concentrated and how salaries in different sectors and between the public and private sectors compare with each other and other countries. Surveys could also be conducted among employers to identify the present and future skill needs of firms and public organisations. Their responses could help guide policies towards meeting labour market needs more effectively and ensure that the right skills are being taught in vocational training and the education system at large.

POLICY FOCUS

Create a stable and efficient financial system

A well-developed financial system has a number of critical functions that contribute to economic growth. It can mobilise savings and enable the trading, hedging and diversification of risk. It can promote investment by identifying and funding good business opportunities. It can facilitate the exchange of goods and services and enhance the efficiency of intermediation by reducing information, transaction, and monitoring costs. These critical functions can lead to a more efficient allocation of resources, an accumulation of physical and human capital, and faster technological progress – all of which feed into economic growth (Creane et al., 2004).

Since the new civilian government took office in April 2011, Myanmar has undertaken important reforms, particularly with regard to exchange rate and monetary policies. An overvalued peg has been replaced by a managed float, with the reference exchange rate determined by an auction mechanism. A new foreign exchange management law designed to lift all restrictions on current payments and transfers abroad has been passed. Indeed, some key exchange restrictions on current international payments and transfers – particularly the requirement to use only export proceeds for imports – have already been removed.

The banking system is segmented and underdeveloped

Restrictive administrative controls that limit formal intermediation have stifled Myanmar's financial sector. Its banking system, which consists of four state-owned banks and 19 private banks (Table 2.6.1), is small and by far the weakest and least developed in Southeast Asia. It is segmented and poorly connected, and competition between banks is weak.

Several specialised state-owned banks emerged from a break-up of the financial system in 1975 after it was nationalised in 1969. For example, the Myanmar Foreign Trade Bank was created to handle foreign exchange dealings and the Myanmar Agricultural Bank was formed to service agriculture. Some state-owned banks used to exercise functions that are normally handled by the central bank, such as managing foreign exchange reserves and distributing currency. The authorities have recently moved to restore these functions to the central bank, starting with the transfer of foreign exchange reserves, which is now largely complete.

Myanmar's private banking sector is small and segmented. A number of private banks, mostly connected to private business conglomerates, emerged from a partial liberalisation of the banking industry in 1988. Entry to the banking market was further liberalised in 2010 for domestic banks and four new private banks were granted licences.

So far, foreign financial institutions have not been allowed to enter, although this is about to change as an official committee has been set up to examine how foreign banks can be allowed to establish branches in Myanmar. Representative offices were recently allowed to open and subsidiaries are likely to be set up in the near future.

An official (regulated) microfinance sector competes with the informal sector, but has not so far replaced it. The lending rate of microfinance institutions is capped at 30% per annum – a ceiling that is close to the interest rates prevailing in the informal market. No usury laws exist in Myanmar and there is protection only under civil law for borrowers in the informal markets. Imposing a ceiling on informal lending rates would make it easier under a civil lawsuit to determine whether there is an unfair business transaction. Many countries set such ceilings, either as an absolute number or as a multiple of the official rate, and protection under civil law applies only if the rate applied is within those limits.

Myanmar's non-bank financial sector is very small, with the insurance sector a major institution. While the non-bank financial sector is essential to the economy, its development has not yet reached the stage where it can assume responsibilities comparable to those of the banking sector.

Table 2.6.1. **Myanmar's financial system**

Type of business organisations	Number of entities	Description	Registration and supervisory office	Legal framework
State-owned development banks	4	Myanmar Foreign Trade Bank Myanmar Economic Bank Myanmar Investment and Commercial Bank (to be renamed the Small and Medium Industrial Development Bank) Myanmar Agriculture and Rural Development Bank	Central Bank of Myanmar and respective line ministries	Central Bank of Myanmar Law (1990); Financial Institutions of Myanmar Law (1990); Saving Bank Law (1992); Myanmar Companies Act (1914);* Myanmar Agricultural and Rural Development Law (1990)
Private banks	19	Private commercial banks	Central Bank of Myanmar	Central Bank of Myanmar Law (1990); Financial Institutions of Myanmar Law (1990); Saving Bank Law (1992); Myanmar Companies Act (1914)
Financial institutions	5	Myanmar Orient Leasing Company Ltd. Myanmar Insurance Myanmar Securities Exchange Centre Company Co., Ltd. Security and Printing Works Myanmar Microfinance Supervisory Enterprise (former Myanmar Small Loan Enterprise)	Ministry of Finance and Revenue and Ministry of Defence (for security and printing works)	Central Bank of Myanmar Law (1990); Financial Institutions of Myanmar Law (1990); Myanmar Insurance Law (1993); Microfinance Law (2011); Microfinance Notification and Directives (2011); Myanmar Companies Act (1914)*
Representative offices of foreign banks	28	Foreign banks mainly from South-East and North-East Asia	Central Bank of Myanmar	Central Bank of Myanmar Law (1990); Financial Institutions of Myanmar Law (1990); Myanmar Companies Act (1914)*
Micro finance providers	1 755	Microfinance institutions (MFIs) Informal and semi-formal sector Cooperatives NGOs (e.g. PACT) Specialised agricultural development companies Village revolving funds Community-based organisations	Ministry of Finance and Revenue, Ministry of Cooperatives and Ministry of Agriculture and Irrigation	Microfinance Law (2011); Microfinance Notification and Directives (2011); Myanmar Agricultural and Rural Development Law (1990); Cooperative Society Law (1992); Law relating to Forming of Organisations- NGO Law (1988); Myanmar Companies Act (1914)*

Note: * The subsection of the Myanmar Companies Act (1914) covers the provision of bankruptcy; thus, the banking and financial sector has to reply on this law for the cases of loan defaults caused by insolvency.
Sources: PWC (2012), *Myanmar Business Guide*, August 2012, PricewaterhouseCoopers LLP, Singapore, www.pwc.com/sg/en/assets/document/myanmar_business_guide.pdf; Aung, Y. and C.O. Khin (2011), "Small and medium enterprises in Myanmar", a presentation at the Asia–Pacific Financial Inclusion Forum, Tokyo, Japan, 6-8 September, Ministry of Finance and Revenue, Government of Myanmar; and Duflos, E. et al. (2013), *Microfinance in Myanmar: Sector Assessment*, January, International Financial Corporation, World Bank Group. Washington, DC? www.cgap.org/sites/default/files/Microfinance%20in%20Myanmar%20Sector%20Assessment.pdf.

Private banks face many constraints

The regulatory and supervisory treatment of state banks and private banks is uneven, while lending by private banks is heavily constrained. It is extremely difficult for the banks to determine the credit-worthiness of potential borrowers (other than the business conglomerates to which they are connected), as financial information and auditing is very weak and small enterprises are not required to produce financial statements.[5] As a result, banks' assets consist mostly of treasury bonds which are issued in maturities of two, three and five years and, as there is no secondary bond market, they are always held to maturity. Otherwise, lending takes place outside the formal sector in an unregulated shadow financial system at interest rates that are high in comparison with the banking sector (2.5-3% per month), but unconstrained by formal collateral requirements.

Bank lending, however, is constrained by very strict liquidity and solvency requirements, which were introduced in the wake of the banking crisis. They include a 10% reserve requirement ratio, a 10% liquidity ratio, a 20% single borrower limit, and a 20% related-party borrower limit. In addition, banks have to hold 50% of their paid-in capital in liquid assets. All lending is collateral-based by law (since 2003) and the value of assets used as collateral is calculated with 40% of their market value as the for-sale value which is, in turn, used as the basis for determining the amount of the loan.

The loan-to-value ratio is not regulated, but banks follow the practice of a maximum of 60-70% of the for-sale value. In addition, deposit and lending rates are fixed by the central bank in order to secure sufficient margins for banks to remain profitable. However, this leaves banks with little scope, or incentive, to engage in competition. The central bank is wary of encouraging competition for fear of seeing the small and medium-sized banks fail.

Lending by Myanmar banks is limited to the short term and for a few purposes only, although long-term lending is envisaged in the near future with an interest rate of 15%. Banks cannot lend to home buyers unless they do so through hire purchase loans with a maximum maturity of 36 months. Until recently, they had also been prohibited from lending to the rural sector, thus limiting their scope of activities and increasing their vulnerability to shocks. The rural sector is covered by the Myanmar Agricultural Development Bank that has a branch in nearly all townships. Income from non-lending activities such as investment in government bonds and remittance handling constitutes a large share of its total income.

As a result of cautious lending policies and significant non-lending activities, the non-performing loan (NPL) rate of private banks is about 2%. State-owned banks have admittedly higher NPL ratios resulting from the lending boom in the 1990s, but their exact size is not disclosed. Those non-performing loans have not been handled as yet, partly because the underlying collateral values are not considered worthy of lawsuits. The Myanmar Agricultural Development Bank currently has a very low NPL ratio, but the ratio is expected to rise following the quintupling of the ceiling for loans per acre (from MMK 20 000 to MMK 100 000 [Myanmar kyat]).

There is relatively little confidence in the financial system

A handicap afflicting the development of Myanmar's financial system is a general lack of public confidence in banks. There is a general suspicion of cronyism, partly because of the banks' close ties to business conglomerates and partly because of their (alleged) money laundering activities. This is a potential source of instability as rumours spread quickly and bank runs can easily take off, as happened in the 2003 banking crisis.

The crisis in 2003 was triggered by the collapse of several informal finance companies that were little more than Ponzi schemes and brought about direct losses for some authorised banks. Exacerbating the crisis were rumours of large-scale money laundering, bank losses on investments in China, and withdrawals of deposits. As the panic began to spread, even the state-owned banks were affected. Soon all found themselves short of liquidity and, as a consequence, they attempted to maintain reserves by limiting depositors' access to their funds. A flight to currency ensued, which led to a shortage of Myanmar kyats – and the means of exchange created by banks (cheques, remittance facilities, credit and debit cards, electronic transfers, etc.) ceased to function.

The banking crisis severely disrupted production and distribution. Though most people in Myanmar did not – and still do not – have bank accounts, many employers and businesses did: large numbers of workers went unpaid for considerable periods, as did suppliers and distributors. Even firms earning foreign exchange were harmed, as they could no longer convert it into kyats to meet their local costs. The situation worsened further when the authorities allowed private banks to recall loans, forcing firms and individuals to meet loan calls by selling assets. A growing secondary market in frozen bank accounts emerged, with a going price of between 60% and 80% of face value. The banks themselves tried to acquire liquidity by selling their properties.

The key reasons why the crisis got out of hand were the failure of the monetary authorities to provide credible, visible liquidity support to halt the crisis and the failure of deposit guarantees to ensure depositor protection.

Work is underway to improve the financial system

A top priority for the Myanmar authorities should be to adopt and enforce high standards of corporate governance, accounting, disclosure, and prudential regulation and supervision within sound financial institutions and a sound financial infrastructure. A number of new laws have been or are being drafted to provide a new framework for the sector that will give more leeway to expand its activities.

Myanmar is working in conjunction with the International Monetary fund (IMF) and World Bank to strengthen supervision and regulation so as to safeguard the stability of the banking system. The IMF's 12-month Staff-Monitored Program (SMP),[6] which the authorities requested for 2013, focuses on two building blocks: *i)* improving the regulatory and supervisory framework; and *ii)* developing treasury markets to provide alternatives to central bank funding of the budget deficit.

To further safeguard stability, deposit insurance of up to MMK 500 000 (USD 570) per account will be enacted soon, with the ceiling expected to double next year. A credit bureau is to be established soon, paving the way for credit card issuance.

While most regulations in banking are intended to ensure the stability of institutions, little attention is paid to efficiency or to consumer protection. More needs to be done to protect consumers if confidence in the financial system is to be restored. Regulations should also require banks to make their products comparable so that customers with low levels of financial literacy can find the one that best fits their needs.

Healthy competition that could drive efficiency gains among private banks should be allowed to flourish. However, it is being inhibited by administered interest rates. Similar constraints weigh on service charges which the government sets at the same level. In fact, private banks have been lobbying for their liberalisation so that they can attract more customers through the lower service charges that they would be able to apply through improved efficiency. Needless to say, the efficiency gains from competition in the banking sector would help improve the financial system's critical functions in the economy.

Notes

1. Myanmar has over 30 million labourers (CSO, 2013). According to a survey conducted by JETRO in August 2010, the wage of a factory worker in Myanmar is only 16% of the wage of his or her Thai counterpart and less than a half of his or her peers in Cambodia and Viet Nam (Makishima, 2012).

2. The Corruption Perception Index ranks countries according to how corrupt the business community perceives their public sector to be.

3. The Ministry of National Planning and Economic Development has set up one-stop business support centres in Nay Pyi Taw and Yangon and plans to open another one in Mandalay in 2013. The government has also planned to set up a number of one-stop service SME supporting centres at the provincial and state levels throughout the country in collaboration with the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI).

4. Comprehensive personal records (CPR) record student participation in a set of selected activities. An independent evaluation of the UNICEF education programme for primary schools in Myanmar lists the CPRs' components as follows:

   CPR elements Primary level CPR

   - 75% school attendance;
   - Sitting regularly the chapter-end tests;
   - Abiding by school rules and regulations and not indulging in social crimes;
   - Fulfilling obligations to school, teachers, parents and the community and taking care of younger students;
   - Growing trees, plants and making the school environment verdant and green;
   - Giving assistance in parents' livelihoods;
   - Participation in sports and physical activities;
   - Participating in aesthetic education such as involvement in literary activities, music, singing, dancing and painting;
   - Keeping oneself neat and tidy.

   Secondary level CPR (additional elements)

   - Participating in the development tasks of the local community and state;
   - Offering voluntary service for community work;
   - Participating in the activities of teams, clubs and associations of the school and social activities such as the Red Cross.

   Source: Clarke, D.J. (2010), *Independent Evaluation of UNICEF Education Programme: Improving Access to Quality Basic Education in Myanmar (2006-2010)*, UNICEF.

5. In addition, the foreclosure procedure is long, often taking a couple of years, and the foreclosed assets are auctioned off by the court.

6. A Staff-Monitored Program (SMP) is an informal arrangement between a country and the IMF's staff to monitor that country's economic policy. The IMF gives no financial assistance.

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