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GLZ in Myanmar



giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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 2016. 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 banks are currently being supported by GIZ in the development of tailor-made financial services for SMEs.

Thura Swiss at a glance

THURA SWISS

Thura Swiss is a dynamic and innovative company providing market research, consultancy and capital market services in Myanmar. Despite being a local company, the company is known for its ability to deliver on par with international standards, owing to a team that is comprised of qualified local and international experts. Thura Swiss has been involved in projects in various sectors including financial services, oil and gas, telecommunication, pharmaceuticals, and real estate since its inception in 2012. Thura Swiss has been one of the driving forces behind the development of the country's capital market, and is often invited to give advice and feedback in local media regarding Myanmar's financial markets and business conditions. The company offers three types of services that complement each other:

1 Market Research

Acquiring accurate market data is essential for making sound decisions such as introducing a product into the market or developing a new product. Thura Swiss research provides a thorough assessment of the political, economic and business environment in Myanmar from both a bird's eye view and the ground level and arms its clients with accurate and up-to-date information. Being one of the few local market research and consulting companies involved in the development of the financial sector and capital markets, Thura Swiss is well positioned to access experts, decision makers and government employees to understand the most recent business updates.

2 Consulting

Often times, companies lack the insight and the capacity to effectively use available data and formulate strategies. Thura Swiss and its team of experts help its clients benchmark against their relevant competitors, provide insight and develop strategic plans across various industries. Thura Swiss has been offering specialized advice relating to market entry, business development, corporate and financial structuring and new product development to name a few.

3 Capital Markets

Thura Swiss has been at the forefront in Myanmar's financial and capital market scene. The company was the first to conduct equity research for First Myanmar Investment Co. Ltd. (FMI) and Forest Products Joint Venture Corp. The result was a ground-breaking report that was transparent and up to international standards. Thura Swiss is committed to promoting transparency in the way business is conducted in Myanmar so that investors are able to make more informed investment decisions about local companies. In its equity research report, Thura Swiss implemented sophisticated financial modeling methods, in-depth industry analysis, site visits and discussions with management experts to provide accurate forecasts and valuation and come to sound conclusions. Thura Swiss uses the same rigor and methods to clients who seek to do a valuation of their companies. In the process, Thura Swiss also assists companies to gain access to financing to aid in the continued growth and prosperity of the company.

Thura Swiss has been able to gain an edge because it has been able to fluidly combine its services to complement each other, thus allowing it to provide to its client a comprehensive package that is very accurate, insightful and relevant to solving the client's problems.

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Foreword

by Head of Project, GIZ-FSD

A lot has been written about Myanmar. Especially since the gradual opening of the country in 2011, scholars and international organizations have tried their best to fill the existing data gaps and improve their understanding of the country, its people and the economy. Data have been collected, comparisons with other countries made and analyses and interpretations conducted. One particular subject of these publications is the financial sector – a sector on which data have been especially scarce. In the last years, remarkable publications on the sector have been published by international and bilateral development organizations, as well as consulting and audit firms. Also GIZ contributed to these publications with the report “Myanmar’s Financial Sector: A Challenging Environment for Banks” in 2013 and 2015. Without a doubt, all these reports helped our understanding of the sector and also improved transparency. However, what all these publications have in common is that they were written by foreigners and often for foreigners.

This very paper collection is different from the publications published in the last years. We want to give a voice to leading national experts in the financial sector. GIZ and Thura Swiss joined forces and approached outstanding academics, researchers and practitioners. This paper collection shall give these colleagues a platform to express their respective views on the financial sector and its development. Taking this opportunity, we express our heartfelt thanks to those who contribute articles to the publication and to the experts who share their knowledge and experience.

We hope that this paper collection from national experts will contribute to the continuous development of a culture of discussions and discourse in the financial sector in Myanmar. An environment, in which developments are critically analyzed, in which decisions are profoundly debated, is in our view paramount to a sustainable development of the every sector – also to the financial sector in Myanmar.

Hope you enjoy reading the articles. Any form of feedback to the paper collection or individual papers is most welcomed !



Thomas Foerch
Head of Project
Financial Sector Development

Foreword

by CEO, Thura Swiss

Myanmar's financial sector has come a long way since the Thein Sein administration has initiated a series of economic reforms after assuming office in 2011. Among the many reforms undertaken by the government are the unification of the exchange rate, the release of the Central Bank of Myanmar into independence from the Ministry of Finance, and the granting of licenses to private insurance companies, local and foreign banks, finance companies as well as microfinance institutions. The reforms have led to a rapid increase in the number of bank branches and usage of credit and debit cards. The opening of the Yangon Stock Exchange has been one of the highly anticipated milestones in the development of Myanmar's financial industry.

Despite the rapid growth and changes, however, Myanmar's financial industry is still quite small compared to neighboring countries. In order to be able to support the development of Myanmar's economy, the financial sector needs a thorough modernization process in the coming years. Like in so many other sectors in Myanmar, the lack of skilled people poses a major obstacle to the growth of the financial industry. Although many local financial institutions started to hire foreign expertise to fill the gaps, it is mainly a base of local professionals that needs to be built up over time. Currently, there are not many ways a young university graduate can acquire the skills needed for a successful career in the financial industry, apart from learning on the job.

However, there are a couple of highly experienced and motivated local professionals who are working hard to develop Myanmar's financial industry. Many of those experts are locals who have spent a long time overseas and have returned to Myanmar in the recent years as they saw opportunities to contribute to the development of the country. I myself am one of those people. In 2012, I gave up my job as a derivatives trader at a Swiss Bank in Zurich and moved to Myanmar to establish Thura Swiss, which has become a leading market research and consulting company in Myanmar. We assist local companies in their restructuring and capital-raising efforts. In our daily work, we often encounter and work hand in hand with the small community of highly skilled local financial sector professionals. In this co-publication with Germany-based GIZ, it was our intention to give our readers access to the thoughts and insights of those local professionals who are at the forefront of financial market development in Myanmar. They are the people who are shaping the landscape of tomorrow's financial sector. We compiled a collection of articles by and interviews with those experts and we think that this publication will give our readers the closest and most precise insight on what is currently going on in the financial industry. I would like to thank all the persons who contributed to this publication.

We hope you will enjoy the read.



Dr. Aung Thura
CEO Thura Swiss Ltd.



PUBLIC FINANCE

01 Myanmar Attempts to Fiscal Decentralization Reform by Cindy Joelene

I The New Legal Structure

The 2008 Constitution has introduced a new decentralized system through creating new institutions at the Union and State/Region level. The constitution stipulates a federal structure with 14 states and regions with separate budgets and funds. At the union level, the executive, legislative, and judicial branches were established according to article 12 in the constitution for check and balance, and states/regions were empowered with their own parliaments through article 12 (World Bank, 2013a). The Financial Commission created through article 230 has the highest policy power, and the Union Parliament has the Union budget regulating power. The new structural arrangements have significant changes on the financial arrangements and management.

Policy initiatives were also introduced from the President Office in support of the decentralized system. In the speech by President Thein Sein in December 2012, he outlined the reforms to improve the management and administrative performance of the government agencies to reflect the people-centered development. Furthermore, new administrative changes were introduced to incorporate the bottom-up approach. This has also caused changes in fiscal structure to take into account the request made by the communities. The Presidential speech made in August 2013 stated future fiscal decentralization arrangements through public service delivery and empowering state/region governments.

Fiscal decentralization describes the way in which expenditure responsibilities and corresponding financial resources are provided to subnational levels. Some discretion over resources may be deconcentrated to lower tiers of central ministries or more complete control devolved to local government with a system of planning and budgeting, local revenue, central-local transfers, and borrowing.

“Fiscal Decentralization can be looked at in terms of four basic building blocks or “pillars” (UNDP 2005). First are the arrangements of expenditure responsibilities to different government levels. Second is the assignment of tax and revenue sources to different government levels. Third are intergovernmental transfers—central governments may provide regional and local governments with additional resources through a system of intergovernmental fiscal transfers or grants. Fourth is the issue of subnational borrowing and whether local governments are permitted to borrow to finance revenue shortfalls” (Zaw Oo et al., 2015).

I Budget Process

The budget process is decentralized; State Administrative Organizations and line ministries set their own expenditure proposals. As Myanmar has five main tiers of government, the budget process, therefore, takes five steps from a bottom-up approach. The budget preparation process usually starts in August and ends in March (see figure 1).

The Budget Department of Ministry of Finance (MoF) is responsible for collecting and consolidating the recurrent budget (World Bank, 2013b). This includes proposals made from the Union Ministries, Union Government, State Economic Enterprises, and Nay Pyi Taw Council as well as state/region budget. The Ministry of National Planning and Economic Development (MNPED) is responsible for collecting and consolidating the capital budget (World Bank, 2013a). This includes proposals for investment and infrastructure development.

While the budget preparation is supposed to have a decentralized and participatory approach, the needs are gathered at the township level departments and passed on to the state/region budget department and planning department for more discussions and consolidations. These budget proposals are then discussed at the state/region cabinet meeting and if the budget

proposal is agreed on by the state/region cabinet, it will pass to state/region Hluttaw (Parliament). At this stage, there are no changes or few changes are made before submitting to the Financial Commission. The Financial Commission will finalize the state/region and union budget proposal at the national level after discussions at the commission (Nixon et al., 2013).

I Union Finance Commission

The Financial Commission was established according to the 2008 Constitution to integrate the Union Ministerial budget proposal and state/region budget proposal into the Union budget. Financial Commission comprised of the President, two Vice-Presidents, the Auditor and Attorney General, the Minister of Finance, the Nay Pyi Taw Council Chairman, and each of the 14 Chief Ministers.¹

Figure 1	State/Region Budget Preparation Process
During Year	Departments under state/region responsibility prepare proposals
September	State government prepares a budget proposal
October	Submitted to state/region Hluttaw for discussion
November	Submitted to Union Finance Commission, which integrates state/region budgets with Union Budget
December	Budget submitted to Pyidaungsu Hluttaw (Union Parliament)
February/March	Pyidaungsu Hluttaw passes Union Budget
March	State/region Hluttaw drafts and approves state/region Budget Law

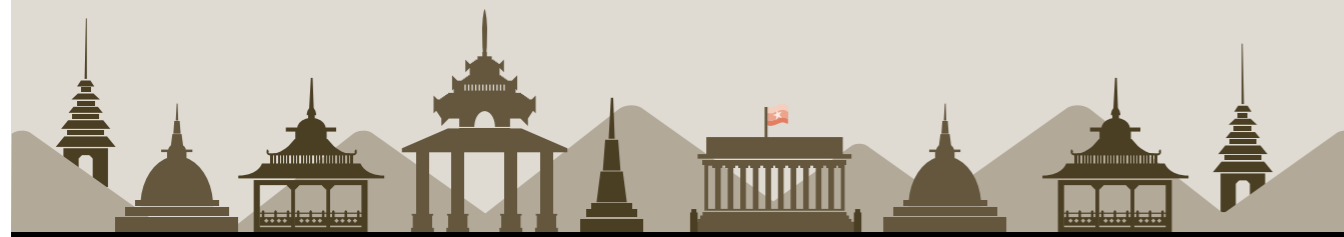
Source: Nixon et al. (2013)

As stated in the Constitution, the Financial Commission could define policy goals and a fiscal framework for the new structure. Previously in 2011, the policy making function was centralized by the President's Office; nevertheless, in the new planning and budgeting practices, Public Financial Management (PFM) policy functions have been deconcentrated to Ministry of Finance and the MNPED (Bank, Public Financial Management Performance Report, 2013). The Financial Commission works occasionally with MoF and MNPED on some policy settings.

The Financial Commission meets to discuss the budget proposals sent from the Union Ministries and state/regions.² It considers issues on debt ceiling and contributions to be made from the Union to the state/region budget (World Bank, 2013a). While the Financial Commission was newly established in 2012, it has remained as a forum for compiling budget proposals, rather than setting a fiscal policy framework for the Union with little interaction between the ongoing fiscal decentralization reforms (Nixon & Joelene, 2014). The Financial Commission comprising of Chief Ministers from states/regions affects the bargaining power on budget allocations of funds under schedule II

Box 1 Role of the Financial Commission**Art. 230.**

- 1 The budgets of the Union Ministries and Union level organizations are to be vetted by a Vice-President assigned by the President, and the estimated budgets of the Union level organizations including the Union Ministries are to be submitted to the Financial Commission
- 2 The budgets of the Region or State are to be vetted by the other Vice-President assigned by the President, and the estimated budgets of the Region or State are to be submitted to the Financial Commission.
- 3 The Financial Commission shall:
 - submit to the Pyidaungsu Hluttaw with recommendation for the Union Budget which includes the expenditure of the Union territory, a supplementary finance as suitable to the Regions or States from the Union Fund, giving grants as a special matter and permitting loans;
 - advise financial matters that should be undertaken;
 - carry out the duties assigned by the Pyidaungsu Hluttaw through the promulgation of law for the emergence of a substantial financial system.
- 4 The Financial Commission shall submit with recommendation to the President, the Bill of Union Budget, which includes Union Budget, the distribution of suitable funds from Union Fund accounts to Regions or States, the provisions or funds as a special case and disbursing of necessary loans for submitting them to the Pyidaungsu Hluttaw.



Source: Constitution of Myanmar (2008)

Even though the Financial Commission discussed the revenue and expenditure allocations alongside the expenditure responsibilities of the Union Ministries and state/region government, functional and expenditure responsibilities among different levels of government were not clearly defined in the constitution. The current legal framework leaves ambiguity to some of the expenditure responsibilities and overlaps the Union (schedule I) with the state/region (schedule II).

The absence of a broader vision on the decentralization process has made it problematic to link the subnational spending, which is not linked with the expenditure assignments.

The intergovernmental transfers in place are unconditional/conditional transfers: grants for poverty reduction, which started being distributed in FY2012 to all states and regions as well as other grants primarily for helping regions and state “balance their books” (Zaw Oo et al., 2015). “Balancing their book”

has recently changed into formula-based funding calculated on the criteria of poverty index, population index, and per capita GDP starting from FY2014. Medium-term and long-term fiscal frameworks that have been designed with the MoF budget ceilings have been set based on formula-based criteria; however, it is difficult for the ministries and state/region to do budget forecasting as this has not been communicated vertically.³

After the budget submissions and discussions at the Financial Commission, the budget proposal is submitted to the Pyidaungsu Hluttaw for more scrutiny with committees that are formed at Pyithu Hluttaw (Lower House Parliament) and Amyothar Hluttaw (Upper House Parliament). The establishment of Public Account Committees and the Planning and Finance Committee as external budgetary oversight bodies ensure budget transparency through the public airing of budget debate on national television and the publication of the budget law in the national newspapers (World Bank, 2014).

Parliamentary Budget Review Process for Union Budget

The 2008 constitution stipulated that the Union Government needs to submit the budget proposal to the Pyidaungsu Hluttaw for discussions before enacting as a law. The process starts with the Pyidaungsu Hluttaw reviewing the budget with relevant committees from Amyothar Hluttaw and Pyithu Hluttaw.

According to article 100 (b) in the constitution, bills relating to national plans, annual budgets, and taxation must be submitted to the Pyidaungsu Hluttaw for more discussion. In this article, Hluttaw has some decision-making power over the budget proposal; however, there are areas where Hluttaw has no power to refuse or curb some of the budget items (see Box1). When Pyidaungsu Hluttaw receives the budget proposal, it is discussed thoroughly in the committees and also in Hluttaw sessions for a majority consensus through voting.⁴

Pyidaungsu Hluttaw forms 19 committees; each committee comprises 14 members from Pyithu Hluttaw and Amyothar Hluttaw. Each committee has the responsibility to investigate and check the budget thoroughly with two to three ministerial sectors which falls under the schedule I of the constitution. Each committee takes one or two days with each ministry to discuss and investigate the expenditure proposals. Usually, some debates happen at this stage. After reviewing the budget, the report is submitted to the Joint Public Account Committee formed by 15 members from the Pyithu Hluttaw and Amyothar Hluttaw and the Joint Planning and Financial Development Committee formed by 14 members from Pyithu and Amyothar Hluttaw.⁵ The most important committee is the Joint Public Account Committee. The Joint Public Account Committee is involved in checking the actual spending and the budget proposal of all the ministries and government organizations. This allows the committee to have an in-depth as well as overall insight of the budget errors.

The Joint Public Accounts Committee and the Joint Planning and Financial Development Committee investigate budget estimation for suspicions, and these are sometimes discussed in the Pyithu Hluttaw or Amyothar Hluttaw. Some of the issues are resolved at this stage with no further discussions. In the end, after reviewing the budget, reports are produced from these committees and submitted to the Pyidaungsu Hluttaw for discussion.

The Joint Bill Committee will draft the budget law that is passed from the Joint Public Accounts Committee. At this point, the committees will discuss the budget cuts and reallocation of the budget. Hluttaw invites ministers, deputy ministers, and other

Box 2 Mandates of Pyidaungsu Hluttaw in accordance with the Constitution**Art 103**

- 1 The President or the person assigned by him, on behalf of the Union Government, shall submit the Union Budget Bill to the Pyidaungsu Hluttaw.
- 2 The following matters included in the Union Budget Bill shall be discussed at the Pyidaungsu Hluttaw but not refused or curtailed:
 - Salary and allowance of Heads and Members of the Union level organizations formed under the Constitution and expenditures of those organizations; debts for which the Union is liable and expenses relating to the debts, and other expenses relating to the loans taken out by the Union:
 - Expenditures required to satisfy judgment, order, decree of any Court or Tribunal;
 - Other expenditures which are to be charged by any existing law or any international treaty.
- 3 Approval, refusal, and curtailing of other expenditures except the expenditures specified in Sub-Section (b) shall be passed by the majority consent of the Pyidaungsu Hluttaw.



high officials from the concerned ministries and government organizations to give justifications on budget proposals. In this process, debates usually happen to decide whether to cut the budget or not. These decisions are decided by votes. In the previous years, the draft budget goes through the Financial Commission again after these decisions are made. Starting from the FY 2015, Pyidaungsu Hluttaw sends the draft budget law directly to MoF without passing through the Financial Commission. MoF will then revise the budget according to the Hluttaw decision and send it back to the Hluttaw to enact as a Union Budget Law, with the requirement of the President's signature. After passing this step, the Union Budget Law of Myanmar is promulgated at the end of March or in early April. This has raised the question of credibility of the new fiscal

decentralization initiatives done by the Financial Commission and Ministry of Finance of designing formula findings.

“The criteria for this element require that (a) within year budget execution reports are routinely made available to the public through appropriate means and (b) are made available within one month of their completion. Such reports have not been provided to the public during the period under review. There are no legal or regulatory requirements for such publication” (World Bank, 2013a).

The committee looks into the actual spending of each ministry to check whether it is in line with the budget proposal and financial rules and regulations. Both Pyithu and Amyothar Hluttaw play a very active role in budget discussion, and these discussions are made throughout the year. The committees make bold statements on budget misuses, mismanagements, corruptions, misallocations, and lack of fiscal transparency. They make bold recommendations to the Pyidaungsu Hluttaw to take actions in such types of behavior.

Budget Reviewing Process For The Union Supplementary Budget Estimate

The 2008 Constitution has allowed for the enactment of a Supplementary Appropriation Law if needs arise. Therefore, every year ministries come up with a proposal for supplementary budget before the end of the fiscal year. These revised budget requests are as high as the initial budget estimations. This also needs to go through the same kind of budget process to get approval from Pyidaungsu Hluttaw. Previously, less investigation was done for the revised budget but recently, the Parliament has become more cautious on these revised estimated budgets.

Figure 2 Parliament budget reviewing process	
Finance Commission	Budget negotiations are done, calculate formula transfers, specify budget ceilings, allocate budget
Pyidaungsu Hluttaw	Forms 19 committees- each responsible for 2-3 ministries to consult and discuss on the budget submitted by FC
19 Committees	Submitted to state/region Hluttaw for discussion
Joint Public Accounts Committee, Joint Planning and Financial Development Committee	Sometimes consult with Pyidaungsu Hluttaw and Amyothar Hluttaw and sends it to the Joint Bill Committee and report to the Pyidaungsu Hluttaw
Joint Bill Committee	Prepares the draft bill consult with legal advisors
Pyidaungsu Hluttaw	Draft budget is discussed in the Hluttaw, decide by voting and send it to the cabinet
Cabinet	President receives the budget for signing

Monitoring And Evaluation

For monitoring, the Public Account committees from both Amyothar and Pyithu Hluttaw have meetings at the committee offices. These committees also fulfill monitoring, evaluating, and auditing roles for the budgets throughout the year. The public account committee reviews the actual spending of the budget submitted from the Office of the Union Auditor General and reports submitted from the Financial Commission.

Box 3 Mandates of Pyidaungsu Hluttaw for Supplementary Appropriation Law

Art 103

If in respect of the relevant fiscal year a need has arisen to authorize the estimated receipts and authorized expenditures in the Union Budget Law enacted by the Pyidaungsu Hluttaw and in addition to estimate receipts and to authorize expenditures, the Supplementary Appropriation law shall be enacted in the above manner.

The Union Government shall perform as necessary in accordance with the Supplementary Appropriation Law enacted by the Pyidaungsu Hluttaw.



Box 5 Debate and Statements made by Public Account Committees

Debates and Statements

- Public Accounts Committee has asked the Ministries to pay back their debt which they owe to the Government.
- Ministry of Electricity has exceeded its budget estimation, and this budget should be used for rural electrifications.
- Public Account Committee proposed in Pyithu Hluttaw that 96 million kyats should be deducted from the Napyitaw Councils infrastructure development and the Public Account



Box 4 The summarized responsibilities and mandates

Responsibilities

- To look into the Union Government Budget and Union Auditor General and check whether it has been used according to the financial procedures
- Can visit concerning departments to investigate whether the budget has been used effectively
- The following points could be submitted to the Hluttaw:
 - The allocated budget for specific item has been used for different cause
 - Not complying with the financial rules and regulations when changing the budget title of permitted budget
 - When no proper budget spending guidelines have been shown to the concerning departments and organizations
 - Expense requested by the Finance and Revenue Department to submit to Pyidaungsu Hluttaw
- Economic enterprise by Union Government Organization and also accounts that are done by the order from the President, the reports from the Union Auditor General



I Conclusion

Myanmar is going through a transition period, and fiscal decentralization is slowly taking place but with fragmented goals and policies. This requires a sound public financial management strategy that supports the fiscal decentralization by reforming the whole fiscal systems. Currently PFM reform is taking place, but this should be incorporated in the long-term national decentralization vision and strategy. To support this, existing laws and procedures should be amended, new laws should be enacted, and relevant policies should be set to support the inclusiveness of a decentralization reform strategy.

The Financial Commission should be strengthened and shift to a more policy setting body in designing a fiscal decentralization policy framework. The commission should develop and apply clear Union and Subnational sound fiscal policies. The future Hluttaw should also be aware of the National decentralization strategies, and Hluttaw committees should work in line with the technical experts to create a more transparent and budgetary system. Addressing the capacity challenges and strengthening the local capacity to keep up with the new fiscal policies will be greatly enhanced by the fiscal decentralization reforms.



About the author

Cindy Joelene is a Research Associate at the Myanmar Development Resource Institute's Center for Economic and Social Development (MDRI-CESD). Cindy has acquired a depth of experience working on issues relating to Myanmar's political and fiscal systems both during her time at MDRI – CESD and while at the Vahu Development Institute in Thailand. Recent publications of note include *State and Region Governments in Myanmar*, *Fiscal Decentralization in Myanmar: Towards a Roadmap for Reform and Local Development Funds in Myanmar*. She was also responsible for initiating the Local Government Assessment Project with international local governance experts. Cindy holds a Master degree in International and Public Affairs from the University of Hong Kong and a certificate in Fiscal Decentralization and Local Finance from the Hague Academy for Local Governance.

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End Notes

- 1 Constitution of Myanmar (2008), Art. 229
- 2 The Union Ministries prepare budget on their own and are said to adapt the bottom-up approach; however, the current practice is collecting the wish list prepared from lower level units by combining them to create ministerial budget. The state/region budget department takes the lead in preparing the departments that are decentralized to the state/region governments through the schedule II in the Constitution. The budget proposal consists of wish lists submitted by the schedule II departments and also some schedule I departments. This was also said to have a bottom-up approach on collecting the wish lists.
- 3 Interview with the director from MoF
- 4 Interview with one of the members from Joint Public Account Committee
- 5 The number of composition is taken from this website: http://www.myanmarparliament.gov.mm/?page_id=11606

02 A Primer on Subnational Finances and Fiscal Decentralization in Myanmar

by Giles Dickenson-Jones and Cindy Joelene

I Introduction

This paper provides a brief summary of Myanmar's subnational fiscal structures in the interest of highlighting the relevance of Myanmar's subnational political, administrative and economic systems to public financial management reforms. Readers are directed to State and Region Public Finances in Myanmar by Dickenson-Jones, G., S Kanay De, and Smurra, A. for a more comprehensive treatment of the topic.⁶ The opinions expressed in this article are solely those of the authors and do not necessarily reflect those of MDRI-CESD.

Historically, Myanmar's political and fiscal systems have been highly centralized, making fiscal, administrative and political decentralization an important area of focus of recent reforms. In terms of fiscal decentralization, this has meant attempts to move fiscal resources, administrative processes and political authority from the central, or union, government, to subnational governments and lower administrative levels (Nixon et al. 2013; Nixon and Cindy Joelene 2014). Although there are a number of arguments made for decentralizing fiscal systems, broadly the motivation for doing so typically rests on the 'subsidiarity principle', which advocates the provision of public goods and services at lower levels of government so as to encourage a more efficient and effective allocation of public resources (Dabla-Norris 2006).

While the reasons theorized for fiscal decentralization improving the effectiveness of public expenditure are varied, advocates generally argue that by more widely distributing political power and narrowing the distance between communities and public institutions, governments will become more accountable and receptive to community needs thereby improving the way expenditure is allocated and revenue is mobilized. Equally however, decentralization may also result in a loss of efficiency as a consequence of not being able to leverage the economies of scale available to larger government entities, may make the policy process more open to capture by local elites, or create an incentive for the under provision of public goods by more decentralized authorities (Shah 2004; Porcelli 2009).⁷

Because of this, the success of fiscal decentralization depends on a number of contextual factors, such as the balance of administrative, political and fiscal authority held by subnational and national

institutions and the speed in which transfers of resources and authority occur. For instance, if expenditure responsibilities are provided to subnational government more quickly than resources, the provision of public goods may fall below acceptable levels. Alternatively, if the ability to raise revenue is decentralized too fast it may be that collections decline. While even if transfers in revenue and expenditure responsibilities are balanced it may be that authorities do not have sufficient capacity to manage public finances thereby increasing waste. Practically then, fiscal reforms need to be viewed systemically and sequenced alongside political and administrative reforms in a balanced fashion.

I Fiscal Decentralization In Myanmar

Within the context of many of its regional neighbors, such as India, China and Indonesia, Myanmar appears to be highly centralized with published subnational budgets accounting for a relatively low share of total government revenue and expenditure, at below ten percent. Notwithstanding this, it is important to recognize that 'on paper' fiscal transfers to states and regions have increased steadily in a relatively short time-frame growing from 2.2 percent of union budgeted expenditure in 2011-12 to 8.7 percent in 2015-16 (Martinez-Vazquez and Jorge 2011; Dickenson-Jones, S Kanay De, and Smurra 2015). In addition, while it is typical to use subnational budgetary shares as a measure of the extent of decentralization, the meaningfulness of such a measure depends on whether budgeted shares provide an adequate proxy of the ability of authorities to influence the allocation of resources assigned to them, meaning that the effective resources controlled by subnational authorities may be either higher or lower from what is implied by such ratios.

For Myanmar fiscal decentralization has been an explicit focus of President U Thein Sein's government, with the Framework for Economic and Social Reforms expressing a desire to encourage more decentralized public financial management through a number of reforms, such as the implementation of more participatory processes for local budgeting (Government of Myanmar 2013). This has also been echoed by directives for greater coordination between the union government and state and region governments in addition to the creation of consultative bodies at the district, township, village tract and ward levels (Nixon and Cindy Joelene 2014).

Myanmar's subnational government comprises seven regions, seven states, and one union territory, Nay Pyi Taw. While states and regions are constitutionally equivalent, states cover areas with large ethnic minority populations and are located along Myanmar's borders, while regions encompass majority "Burman" areas (Nixon et al. 2013). Since their establishment state and region governments have become responsible for preparing their own budgets, collecting taxes, and undertaking expenditure with much of subnational government's formal authority over expenditures stemming Schedule 2 of the 2008 Constitution, while Schedule 5 provides a state's or region's rights to mobilize revenue (Dickenson-Jones, S Kanay De, and Smurra 2015).⁸

Within states and regions, there exists a range of subnational administrative groupings that are also used to functionally divide subnational political, administrative, and fiscal responsibilities. States and regions are divided into districts, which are made up by a collection of townships. Townships are then divided into village tracts, or their urban equivalent wards. Although revenue is collected by a number of subnational entities, under these groupings the General Administration Department (GAD), under the Ministry of Home Affairs, represents a key administrative structure within these grouping with a large number of taxes and fees being collected by the GAD at the township level (Kyi Pyar Chit Saw and Arnold 2014; Dickenson-Jones, S Kanay De, and Smurra 2015).

Both the day-to-day administration of states and regions, as defined by their executive powers and the submission of bills to the state and region hlttaws are restricted to the region or state 'legislative list' as per Schedule 2 of the 2008 Myanmar Constitution.⁹ The expenditure responsibilities of state and region governments are consequently defined by prescribed 'sectors' such as the "Agriculture and Livestock Breeding Sector" and sub-sectors such as "Fresh water fisheries" (Dickenson-Jones, S Kanay De, and Smurra 2015).

The right to collect revenue, is then defined chiefly according to the 19 items provided in Schedule 5 which range from specific taxes which are understood to have existed when the constitution was drafted, such 'water tax and embankment tax', to more general areas such as 'taxes collected on vehicles on road transport'.¹⁰ Of the revenue sources listed, the extent to which these rights are being exercised is unclear with only nine being explicitly listed in the 2013-14 subnational budget (Dickenson-Jones, S Kanay De, and Smurra 2015).

I Subnational Public Finances

When combining the expenditure responsibilities and revenue collections rights of subnational government, as described by the 2008 Constitution, states and regions can source revenue both from those areas defined under Schedule 5 and directly from via union government transfers.¹¹ Expenditure activities of subnational government then include those areas outlined in Schedule 2 and matters prescribed by union law (Nixon et al. 2013). A simplified diagram of these interactions is provided in Figure 1.

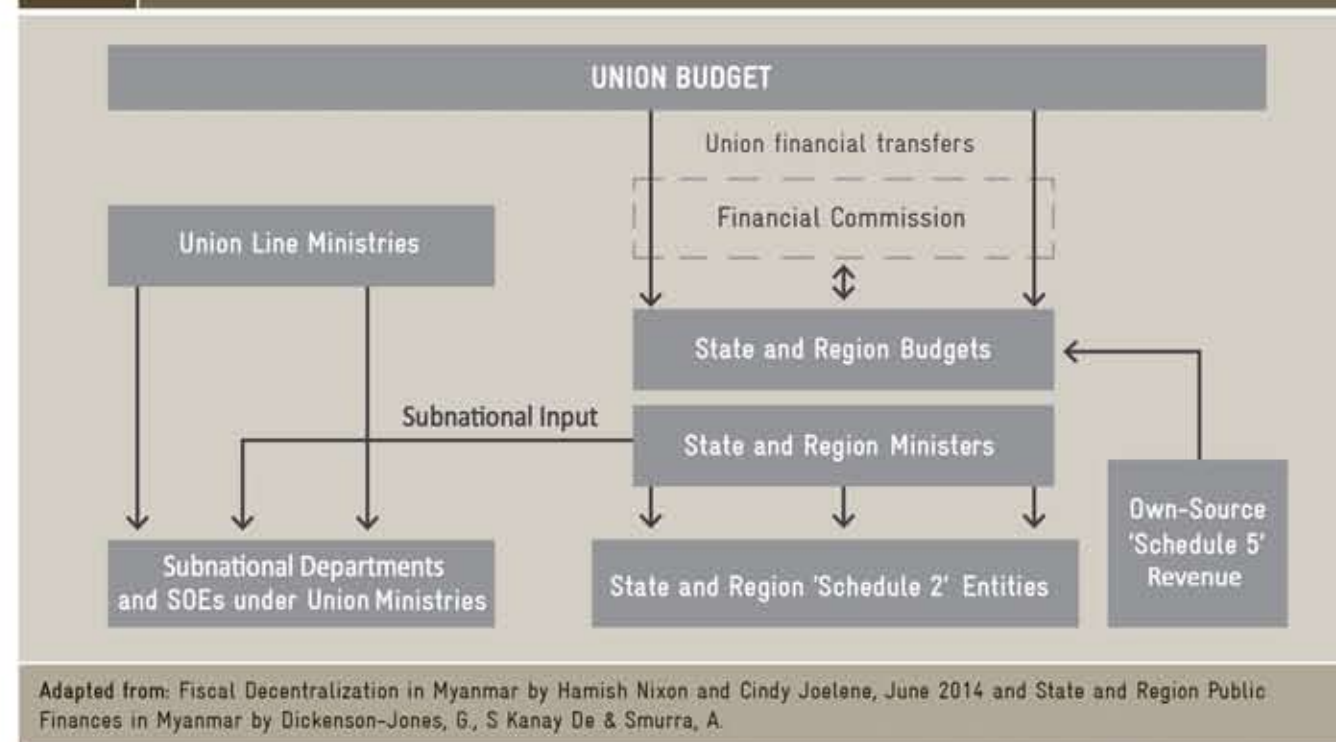
On a practical level the operation of subnational budgets is quite different to that described in Figure 1, with most revenue being sourced from union financial transfers and most expenditure being conducted by entities not directly under the control of subnational ministers. For instance, in 2013-14 approximately half of all revenue received by state and region government was provided by the union, while similar proportions are spent by the Department of Public Works¹², meaning that the source and destination of public resources is directed by a relatively narrow range of institutions. In addition, because of the heavy reliance on funding from the union, subnational budgets need to be harmonized with the union budget, requiring the Financial Commission sometimes make amendments to state and region budget proposals (Dickenson-Jones, S Kanay De, and Smurra 2015):

While states and regions have full statutory authority to determine budgeting priorities, spending discretion is limited in practice by the union-level Finance Commission, which ultimately decides how much budget support each state and region will receive from the union Fund through a process that is neither transparent nor based on objective criteria.¹³

Public Financial Management in Myanmar, The Asia Foundation, 2014.

This is also mirrored from an administrative perspective, with Myanmar's subnational government being heavily reliant on union administrative structures. For instance, budgeted expenditure appears to be mainly conducted by entities accountable to parent union Ministries, that are only informally accountable to subnational Ministers. On the other hand, a large proportion of self-source revenue such as excise licenses, forestry taxes and land taxes are collected by subnational departments of union ministries, such as the GAD (Dickenson-Jones, S Kanay De, and Smurra 2015).¹⁴

Figure 1 An Overview of Subnational Government and Public Finances



I Conclusion

Although the high level of centralization is not unexpected given Myanmar has only recently undertaken reforms targeting greater levels of fiscal decentralization, from a practical standpoint it tends to suggest standard measures of decentralization, such as the expenditure and revenue assigned to subnational government, are unlikely to be meaningful proxies for the extent of public resources controlled by subnational government. However, perhaps more importantly, it also suggests a situation in which the potential benefits of fiscal decentralization depends heavily on the functioning of a limited number of processes and institutions, such as how expenditure is conducted by Public Works, the extent subnational government can utilize existing administrative infrastructure to collect revenue and the formal and informal relationships of union and subnational governments that informs resource allocation.

More generally it also presents a situation in which taking a 'birds eye' view of subnational finances risks ignoring many of the informal relationships and processes that define how fiscal decentralization policies manifest themselves practically as part of budget formulation, execution, reporting and oversight. For instance, in the past some ministries have prepared budgets along administrative lines, rather than thematic or sectoral lines, without a medium term policy perspective, thereby risking that

budgets are based on past processes rather than a future outlook (Nixon and Cindy Joelene 2014; The Asia Foundation 2014; World Bank 2012).

While it is not clear to what extent past practices still inform current allocations, given Myanmar is only in the relatively early stages of fiscal and political decentralization and that a formalized vision of subnational government's role in public finances is still being developed, it is likely that many informal processes which have developed under a highly centralized system are still informing the operation of public finances.

Although this is unsurprising, it does suggest that public financial management reforms in Myanmar have the potential to result in 'on paper' success, such as greater resource shares being notionally allocated sub-nationally, without these successes resulting in tangible changes on the ground.¹⁵ Although there are a range of reasons this might occur, such as a change being misaligned with the incentives of implementing parties, it can present a clear risk to achieving meaningful reform if superficial success obscures failures in implementation. There is therefore a clear need when considering public finance reforms in Myanmar to match changes to formal public finance systems and processes with the informal processes and relationship that define their application.

End Notes

- 6 <http://asiafoundation.org/publications/pdf/1544>
- 7 Readers are directed to 'Fiscal Decentralisation and efficiency of government: A brief literature review by to Porcelli F' 2009 for a good summary of the theory behind decentralization.
- 8 Although descriptions of Myanmar's 2008 Constitution in this article have been based on the English translation provided by Myanmar's Ministry of Information, it is important to recognize that in some instances the practical interpretation of terms differ between the English and Burmese versions.
- 9 Executive powers are outlined in Chapter V, Sections 249-253 of the 2008 Constitution. Section 249 in particular notes that executive powers extend to administrative matters which Region or State Hluttaws has the power to make laws.
- 10 At the time of writing it is understood that amendments to Schedules 2 and 5 had been submitted for consideration to parliament. Proposed changes will potentially provide state and region governments with new revenue streams and additional areas of legislative responsibility.
- 11 'Revenue received from the Union Fund Account' is also listed under Schedule 5.
- 12 The Department of Public Works, under the Ministry of Construction, was predominantly responsible for the construction and maintenance of bridges, roads and airports. It has recently been divided into separate specialized departments focusing on building administration, bridges and highways.
- 13 The Financial Commission was established under the 2008 Constitution as part of wider decentralization efforts. Key roles of the Financial Commission are to harmonize the Union budget with State and Region budgets, to recommend the provision of supplementary funding, and to advise on financial matters (Dickenson-Jones, S Kanay De, and Smurra 2015).
- 14 Development Affairs Organizations (DAOs) are one exception to this, being largely independent and self-funded. DAOs collect revenue through a range of license fees, taxes and service charges such as property taxes, wheel taxes and community contributions. DAOs, are predominantly responsible for the delivery of municipal services, such as waste removal, street lighting etc. Generally, each of Myanmar's townships have at least one DAO (Arnold et al. 2015).
- 15 The practice of introducing reforms for reasons other than to create meaningful change is sometimes described as 'isomorphic mimicry'. In the context of PFM reforms this might mean the adoption of improved accounting standards to comply with external demands, without making changes to the way public resources are sourced and allocated (Andrews, Pritchett, and Woolcock 2013).



About the author

Giles Dickenson-Jones is a Research Fellow at the Myanmar Development Resource Institute's Center for Economic and Social Development (MDRI-CESD). Giles has worked as an economist and advisor in a range of roles for international organisations, the private sector, government and the not-for-profit sector. From 2012 to 2014 Giles worked as an Economist with the Institute for Economics and Peace where he provided advice and analysis on topics relating to peace, conflict and economic development. Before this he worked as a Policy Analyst with the Federal Treasury, where he advised Government on tax policy, climate change and Australia's provision of development assistance. He holds a Masters of Development from the University of Sydney and an Honours degree in Economics from the University of New England.



About the author

Cindy Joelene is a Research Associate at the Myanmar Development Resource Institute's Center for Economic and Social Development (MDRI-CESD). Cindy has acquired a depth of experience working on issues relating to Myanmar's political and fiscal systems both during her time at MDRI – CESD and while at the Vahu Development Institute in Thailand. Recent publications of note include State and Region Governments in Myanmar, Fiscal Decentralization in Myanmar: Towards a Roadmap for Reform and Local Development Funds in Myanmar. She was also responsible for initiating the Local Government Assessment Project with international local governance experts. Cindy holds a Master degree in International and Public Affairs from the University of Hong Kong and a certificate in Fiscal Decentralization and Local Finance from the Hague Academy for Local Governance.

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03 Mobilization of Tax Revenues

by San Thein

I Introduction

Myanmar's revenue-to-GDP ratio has significantly increased over the past three years (Table 1). Myanmar's revenue-to-GDP ratio was only 7% of GDP during the period FY 2005 – 2009, the lowest among ASEAN countries (ADB, 2010). In contrast, under the new government, revenue mobilization as a

percentage of GDP has significantly increased from 11.4% of GDP in 2010 to 24.2% in 2014. The major sources of revenue are taxes and duties and contributions from the State Economic Enterprises (SEEs).

Country	Average(2005-2009)	2010	2011	2012	2013	2014	Average
Brunei	51.0	51.8	60.4	52.6	46.7	na	52.9
Cambodia	11.9	13.2	13.2	15.2	15.0	15.7	14.5
Indonesia	17.6	14.5	15.5	15.5	15.0	15.5	15.2
Laos	13.9	15.7	16.4	17.7	18.1	17.2	17.0
Malaysia	21.6	20.0	10.9	22.1	21.6	20.6	19.0
Myanmar	7.0	11.4	12.0	23.3	23.2	24.2	18.8
Philippines	15.6	13.4	14.0	14.5	14.9	15.1	14.4
Singapore	16.3	14.3	14.7	15.4	15.1	15.7	15.0
Thailand	17.0	17.3	18.0	18.3	18.1	17.1	17.8
Vietnam	28.4	27.6	26.1	22.7	22.1	21.5	24.0

Source: Asian Development Outlook 2010 & 2015

This paper tries to elaborate on the mobilization of tax revenues, especially commercial tax and income tax collected by the Internal Revenue Department (IRD).

promotion of an equitable distribution of wealth and help the central government raise enough financial resources to allow for a certain level of public expenditures to meet a desired social goal without creating any impediment on economic growth.

I The Role Of Taxation In Raising Revenues

Sources of funds for most governmental budget expenditures and infrastructure financing are income taxes, customs duties, excise duties, and general sales taxes such as value-added taxes (VATs). In developing countries tax policy is adopted by the central government. An efficient tax policy can contribute to the

In many developing countries, taxation is being increasingly used as an instrument for the removal of poverty and inequalities, and on the other hand, it indirectly helps promote social and economic justice, proper allocation of resources, and reduction of regional imbalances. Governments of most developing countries usually try to collect more revenues to meet their

ever rising expenditures for social and economic developments. Improvement in revenue collection will help a government to balance its budget and keep the economic house in order.

Myanmar's Tax Structure

Myanmar's tax structure comprises 18 different taxes and duties under four categories. The Internal Revenue Department (IRD) and Customs Department under the Ministry of Finance are the two major tax administrations in the country.

Table 2 Tax Structure	
Types of Taxes	Responsible Ministry
Taxes levied on domestic productions and public consumption	
- Excise duty	Home Affairs
- Commercial tax	Finance
- License fees on imported goods	Commerce
- State Lottery	Finance
- Taxes on transport	Rails
- Sales proceeds of stamps	Finance
Taxes levied on income and ownership	
- Income tax	Finance
Taxes levied on exports and imports	
- Customs duties	Finance
Taxes levied on the use of public utilities	
- Taxes on land (land revenue)	Homes Affairs
- Water Tax	Agriculture & Irrigation
- Embankment tax	Homes Affairs
- Taxes on extraction of forest products	Environmental Conservation and Forestry
- Taxes on extraction of minerals	Home Affairs
- Taxes on fisheries	Livestock, Fisheries, and Rural Development
- Taxes on rubber	Environmental Conservation and Forestry
- Taxes on oil and gas	Energy
- Taxes on minerals and jewelry	Mines
- Taxes on telecommunication	Communication
- Taxes on electricity	Electricity

Source: IRD

The Internal Revenue Department under the Ministry of Finance is responsible for collecting (1) commercial tax, (2) taxes on state lottery, (3) sales proceeds of stamps, and (4) income tax. Customs duties are collected by the Customs Department. Other taxes are collected by respective government departments under the ministries shown in the table.

Major Taxes

It is encouraging to learn that the tax revenue has significantly increased over the last three years. Due mainly to reforms in the tax collecting system, tax revenue-to-GDP ratio has increased from around 3% during 2009 – 2011 to around 7-8% during 2012 – 2015 (Table 3). Income tax, commercial tax, and customs duties are major sources of tax revenue, constituting over 90% of

the total tax revenue (Table 4). Both commercial tax and income tax maintain their share of over 40% each, while customs duty remains at around 10% of the total (Table 4).

Table 3 Major Taxes and Duties (MMK million)							
Year	Commodity and Services Tax and Commercial Tax	State Lottery	Stamp Duties	Income Tax	Customs Duty	Total	In % of GDP
2009/10	466,121	20,106	20,804	529,776	45,586	1,082,393	3.1
2010/11	601,771	20,274	29,472	571,341	54,169	1,277,027	3.2
2011/12	768,680	21,546	37,405	711,196	130,270	1,669,097	3.9
2012/13	1,194,918	44,582	50,992	1,438,108	367,923	3,096,523	6.5
2013/14	1,639,707	28,992	37,744	1,631,465	363,232	3,701,140	6.8
2014/15	1,959,825	30,383	77,362	2,344,388	495,598	4,907,556	7.8

Source: Selected Monthly Economic Indicators, CSO

Table 4 Major taxes in percent of the total taxes and duties						
Year	Commodity and Services Tax and Commercial Tax	State Lottery	Stamp Duties	Income Tax	Customs Duty	Total
2009/10	43	2	2	49	4	100
2010/11	47	2	2	45	4	100
2011/12	46	1	2	43	8	100
2012/13	39	1	2	46	12	100
2013/14	44	1	1	44	10	100
2014/15	40	1	2	48	10	100

Source: Selected Monthly Economic Indicators, CSO

Commercial Tax

The commercial tax is a broad-based sales tax applicable to both goods and services. In the case of imports, the tax is charged on landed costs, and in the case of domestically produced goods, it is based on sales receipts. Commercial tax of 5 per cent is levied

on goods and services; however, special rates of commercial tax are levied on the following special commodities, comprising tobacco, alcohol, timber, precious stones, cars and fuel.

Commodity	Tax rate
Cigarettes	120
Wine	50
Other tobacco and alcohol	60
Teak & hardwood (logged & sawn)	25
Precious stones (raw)	15
Precious stones (finished products) and jewelry	5
Van, saloon, sedan, and wagon (over 1800CC) (Except Double Cab 4 Door Pick-up)	25
Gasoline, diesel, jet fuel	10
Natural gas	8

Source: 2015 Union Taxation Law

No commercial tax is collected on 79 items of goods, which include major staple food items, primary agricultural products, basic household goods, essential agricultural inputs, household medicines, and other essential items. Commercial tax is also exempt on such services as life insurance, microfinancing, education services, banking, port clearing services, cut-make and pack (CMP), and public transport services. A commercial tax of 5% is imposed on other services. A commercial tax of 3% is levied on sales of real estates.

Minimum turnover for collection of commercial tax is set at MMK 20 million per annum. The 2015 Union Taxation Law limits the minimum amount of sales of domestically produced goods and services at MMK 20 million per annum; the commercial tax will be levied on the amount in excess of MMK 20 million. As part of the export promotion, no commercial tax is levied on exportation of all commodities except crude oil, natural gas, teak and hardwood, precious stones and jewelry, and electricity (Table 6).

Export Commodity	Tax rate
Crude oil	5
Natural gas	8
Teak & hardwood (logged & sawn)	50
Precious stones (raw)	15
Precious stones (finished products) and jewelry	5
Electricity	8

Source: 2015 Union Taxation Law

Income Tax

The income tax applies to personal incomes as well as enterprise incomes. Under the Income Tax Law, the tax is payable by any person who receives income from salaries, professions, business,

property, and capital gains. Income tax is levied according to the rate schedules shown in Table 7, at the rates ranging from 0 to 25% after deducting personal and family allowances/relief.

Taxable Income (in MMK)	Income Tax Rate (%)
1 – 2,000,000	0
2,000,001 – 5,000,000	5
5,000,001 – 10,000,000	10
10,000,001 – 20,000,000	15
20,000,001 – 30,000,000	20
30,000,001 and above	25

Source: 2015 Union Tax Law

Residents working abroad are required to pay 10% of the total income as tax in foreign currency. A 10% tax is imposed on income on the lease of real estate. Corporate tax of 25% is levied on net income of all companies and business enterprises including local and foreign companies, state-owned economic enterprises and cooperatives. A non-resident foreigner has to pay 25% tax on his or her income other than salary income. Dividend income is exempt from taxation.

Income tax on capital gains

Capital gain tax is to be paid on the amount of profit in excess of MMK 10 million from the sales of capital assets. For individuals, capital gain tax is levied at a rate of 10%; for companies involved in the oil and gas sector in the country, the tax rates on profits from sales of shares, assets, and other benefits are 40% on the

profit up to MMK 100 billion, 45% between MMK 100 – 150 billion and 50% over MMK 150 billion.

Tax exemption for new small and medium industries

As part of the effort to promote small and medium industries (SMIs) in the country, tax exemption is granted to new business ventures for three consecutive years, provided the amount of income is less than MMK 10 million in three years; the tax will be levied on profits in excess of the amount.

Personal Allowances under Income Tax Law

Personal allowances are permitted before collecting income tax. Basic allowance is set at 20% of an income, but the amount is limited to MMK 10 million per year. The allowance for the spouse and a parent is MMK 1 million each, and allowance for a child under the age of 18 is MMK 0.5 million per person.

Basic allowance	20%, up to max. MMK 10 million
Family allowances:	
- Spouse	MMK 1 million
- A parent living with tax payer	MMK 1 million
- A child under 18	MMK 0.5 million

Source: IRD

Income tax on undisclosed income

A range of 3 – 30 per cent is set as income tax on undisclosed sources of income when acquiring capital assets. No tax is levied on the amount after payment of tax due.

Income from undisclosed sources (MMK)	Tax rate (%)
1 – 100,000,000	3
100,000,001 – 500,000,000	5
500,000,001 – 1,000,000,000	10
1,000,000,001 – 1,500,000,000	20
1,500,000,001 and above	30

Source: 2015 Union Taxation Law

Sr. No.	Type of Income	Resident citizens & resident foreigners	Non-resident foreigners
1	Interest		15%
2	Royalties for the use of licenses, trademarks, patent right, etc.	15%	20%
3	Under contract, or agreement, or any agreement, payments made by the state organizations, city development committees, partnerships, companies, organizations registered under any existing law, from the amount of purchasing of goods locally, and executing works to be rendered for those entities	2%	3.5%
4	Under contract, or agreement, or any agreement, payment made foreign entrepreneur of foreign company for services to be rendered for them, and payments from the amount of purchasing of goods locally	2%	3.5%

Source: Internal Revenue Department

Measures Taken By IRD To Raise Tax Revenue

Cooperation and persuasion

Coordination with local authorities and potential taxpayers:

Tax evasion and avoidance are common in Myanmar. The

majority of business owners usually try to avoid tax. Sometimes they prepare two separate financial statements: one with actual figures which reflects the true situation of the business, and

another with manipulated figures for submitting to the revenue office for tax purposes. The greater the extent of tax evasion and avoidance, the more difficult it is to finance government expenditure without inflation. Weak tax administration, corruption, and poor tax compliance are the main factors contributing to tax evasion and avoidance, which create serious revenue mobilization problems in the country. The Internal Revenue Department tries to discover potential taxpayers with the cooperation of various local authorities and influential persons. With the cooperation of these persons and authorities, the tax authorities regularly visit market places and meet the shop owners for collecting taxes. The IRD seeks cooperation of the Union of Myanmar Federation of Chamber of Commerce and Industries (UMFCCI) to persuade businesspeople to pay their tax dues properly. At the same time, the tax authorities try to solve their problems in paying taxes.

Introduction of Large Taxpayer Office:

With the technical advice of the International Monetary Fund, a series of tax administration reforms have been launched by the tax authorities. The Large Taxpayers Office (LTO) with the system of self-assessment on income tax has been applied since April 2014. The large taxpayers are those whose turnover is over

MMK 5 billion per year. In the financial year 2014/15, there were over 450 companies in the category of LTO. They have to make their own assessment on income tax and submit their tax return to the IRD. The tax authority checks the tax return with the assistance of external auditors. The system does not allow the taxpayers to meet and negotiate with the tax officers. It promotes integrity of both the taxpayer and the tax officer. The system has proven to be successful and, therefore, the Medium Taxpayer Office (MTO) with turnover of under MMK 5 billion will be introduced in 2016.

In its effort to promote submission of genuine financial statements to the tax office, the IRD seeks the cooperation of private auditors in the country. At the same time, it tries to promote tax culture by educating the people. In honoring those who pay large amounts of taxes and simultaneously increasing tax awareness, the IRD annually announces the list of 100 and 500 large taxpayers through state-owned public media.

More reform measures including institutional capacity and the introduction of value-added taxes (VAT) are being undertaken by the IRD to enable it to raise more revenues necessary for achieving the desired social and economic goals.



About the author

San Thein is a former central banker with over 20 years of experience at the bank's research department. He got a bachelor degree in commerce specializing in banking finance and insurance from the Yangon Institute of Economics in 1968. Starting his career with the central bank, he becomes a career banker and devotes his time to banking and finance. Currently, he is working for GIZ as a senior national expert.

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04 Commercial Tax: Implication and Direction

by Win Thin

What are the highlighted points for commercial tax in Myanmar? How is it different from Value-added Tax (VAT) used in other countries?

When foreign investors first come into the Myanmar market, they have very little knowledge about commercial tax law in Myanmar. Myanmar's Commercial Tax has a unique feature that is applied only in Myanmar, and is a combination of the VAT/GST (Goods and Services Tax) system and Excise Tax system. The highlighted point for commercial tax is a VAT/GST with excise tax feature, as provided in the Union Tax Law 2015, wherein different rates are prescribed for different commodities (VAT), for different services with general/concession rate (GST), and special commodities with different tax rates and exempt commodities/services (Excise Tax). Another point is Myanmar's Commercial Tax System, whose Excise Tax feature does not allow set-off rights as in VAT features.

Compared to other countries, Myanmar is not fully applying a VAT system and adapts some features according to the business practices in the country. Due to the difficulty in tracing the actual sales from the total imported goods, and in order to prevent tax evasion, the current tax system collects the taxes at the source (at the point of import) even before these goods are sold.

If commercial tax collected at the point of import is in the nature of Excise Tax and in some cases VAT, when the unit on which commercial tax and units sold are not directly identifiable, tax collected could not be set-off against the tax due on final sales. This feature is different from VAT, which allows every commercial tax to be cancelled out.

How did Commercial Tax come into existence? And what is the reason behind this Commercial Tax?

Commercial Tax came into existence in 1990 under the State Law and Order Restoration Council government. Prior to 1988, there was a similar turnover tax known as sales tax, payable only on commodities. However, when the Commercial Tax was introduced, it was intended to regulate the consumption of goods and services, treating the buying and selling of goods as a class of services for which a flat rate of 5% on the sale of goods was charged with a set-off right against subsequent transactions requiring commercial tax registration of the whole

chain of sellers for this right. The Internal Revenue Department (IRD) later emphasized the VAT/ GST feature by making public clarifications that commercial tax is to be paid by the end consumer, assuring set-off right for the intermediaries. The inclusion of the Excise Tax feature is addressed in the Union Taxation Law (2015) by prescribing schedules for exempt items and special commodities with different commercial tax rates.

Current Status

Can you briefly explain how commercial tax (CT) works in different business settings, for example – service, trading, and manufacturing? And in your opinion, what implication does this bring into business practices? Could you provide some relevant examples for the case based on your experience?

Importers and manufacturers produce or import the goods to sell, and they are liable for commercial taxes when goods are sold. This is a normal business setting. In the case of importing the goods, however, importers here have to pay taxes before selling the products. Then a new regulation that includes ways to avoid double payment of commercial tax (when the goods are sold) was announced. For example, the service income received from Thura Swiss (TS) Company is not among the exempt list for commercial tax and the company has to pay the CT under its name. In this example, the company (a consulting firm, for example) receiving the service income collects CT from the TS Company and turns it over to IRD within 10 days of the end of the month, collectively with CT collections from other service users along with CT pertaining to TS Company. If TS Company wishes to set off CT paid with CT-payable for a related service rendered to an issuer of securities, it must obtain Form 31 showing evidence of tax collected from the company and set-off against the CT payable by it. The two services should be directly related and identifiable. Thus, the government issued ways to avoid paying the commercial tax twice under paragraph 42 in a new regulation released that is applicable to both goods and services.

While it is natural to pay tax when a sale occurs between customers and producers, people sometimes complain that it is unfair for a repeated collection of tax payments. However, measures have been introduced to avoid this. For example, if I were to sell goods to you, you have to pay commercial tax;

then you sell the goods to the next person. This transaction will lead to another commercial tax payment. The way to avoid a repeated collection of tax payments is by submitting receipts of commercial tax payments (those incurred during the importing process) to local tax officers after the sale of the imported goods.

This will allow you to set off the taxes when imported, provided all the dealers are registered CT payers. You only have to pay the difference between them. However, this method is only applicable for importers. The new regulation states that taxes can only be set-off between traders. After 2000, the Union Taxation Law stipulates that CT cannot be set-off when a manufacturer buys from a trader for 10 special items. CT set-off can occur either among manufacturers or traders; for example, if I am a trader and you are a manufacturer, we cannot have tax set-off if there is a transaction between the manufacturer and trader selling special commodities.

In order to offset commercial tax, it is therefore complicated. For example, assume that we import CIF value of \$1 million USD worth of televisions for the purpose of reselling. We will have to pay 5% of \$1 million at the time of import, adding up to \$50,000 as commercial tax. Even when half of the products are damaged in natural disasters, commercial tax can only be set-off for \$500,000 value of goods, not the whole \$1 million. Under the current regulation, taxes are calculated based upon the total amount of sales (\$500,000), not counting the goods damaged. Tax transfer depends only on the value of transaction.

Tax set-off applies the same for "revenue gained" from trading. Assume that we sell \$500,000 worth televisions at a price of \$700,000. The taxes collected for 5% of \$700,000 would be \$35,000. However, we were only selling goods valued at \$500,000, and, therefore, can only set-off \$25,000. The current law collects 5% CT once imported and before the manufactured goods are sold. The consequence is that the law does not allow set-off for the goods damaged, but only for the goods sold valued at \$500,000.

Although Myanmar's tax system still does not use VAT, it is moving towards it. The feature of allowing set-off of input and output CT paid for goods and services other than 10 special items has now been introduced. During this process, some issues have arisen. Companies from the service industry such as Ooredoo and Telenor began operating in April 2014. The regulation states that for trading and manufacturing goods, for example, when a company bought a vehicle for office use, commercial tax has to be paid when it is imported, and the CT cannot be offset as it is on imported goods.

The service sector is different from trading or manufacturing goods. In the service industry, a major question arises whether these companies can set-off the CT it paid for its service business operations with what it collected as part of its service income.

Let's say, a service company rents an apartment for its service business and has to pay CT. The question is 'can we set-off that CT with what we collected from its services provided?' As this kind of issue arises in the service industry, last month the authorities from the IRD held a meeting and decided to allow the set-off of the two CTs. However, the decision prompted objections from dismayed manufacturers and traders. They said that they cannot set-off the CT they had paid on damaged or loss goods but only on the sold ones. They should understand that set-off of CT will be possible only if the nature of the two CTs is related and directly identifiable. But as the service industry is growing, if they are to allow it, almost everything will be open to set-off. Therefore, it has been decided that for big telecom companies, the government will not allow set-off CT for fixed assets, e.g. towers. Only CT on revenue expenditure or running costs will be allowed. The current situation is due to the fact that Myanmar does not fully implement VAT. If VAT is put in place, all of the tax paid as VAT will have the potential to be set-off.

In a recent discussion on a VAT system, officials from both the International Monetary Fund and Large Taxpayer Office (LTO) encouraged the implementation of VAT. Only after it is implemented will all the input VAT be allowed to deduct the amount of VAT paid from any settlement with the tax authorities, provided that the buyer is registered in the VAT Register. Input VAT is the value added tax added to the price when you purchase goods or services liable to VAT, while Output VAT is the value added tax you calculate and charge on your own sales of goods and services. Having said that, this cannot be implemented easily and quickly; it is still underway. Commercial Tax is giving the authorities such a headache in the current situation. For example, in the case of running a barber shop, CT will have to be paid when buying scissors. It is not allowed to set-off the CT for the scissors because the scissors are being used every day as a fixed asset, but things that you consume such as disposable razors or shampoo will be allowed to be set-off. This is not mentioned clearly in the laws and regulations, but that is the current practice.

Another point contended in the regulation is that CT paid to setup or operate a service center is allowed to be set-off with CT collected for sale of service if it is identifiable with the end unit of services sold. As for trading and manufacturing, only CT on the value of goods sold will be allowed to set-off except for the

10 special items. Few people understand this, although this is the basics of Commercial Tax.

We would also like to understand whether the same problem is happening to foreign investors.

Usually, the service sector is likely to have more problems. There is not much complication for foreign manufacturers. The same goes for them in a SEZ (Special Economic Zone) setting. The law is pretty much the same for every sector or business. Currently, foreign investors do not need to pay CT when they import raw materials, which is the same as when they bring in machinery and equipment for the factories or workshops. This allows them to operate at a lower cost. However, raw materials are imported to produce and sell finished goods and, although raw materials are exempt from CT, the finished goods are not. Therefore, a MIC (Myanmar Investment Commission) permit does not exempt you from all taxes essentially, but only Income Tax is exempt during the tax holiday period.

There is also another highlighted point in CT. To set-off CT with the excise feature, taxpayers need to register at their tax office. For example, you sell a product to me, and if I want to set-off the CT I have paid after selling it to another third party, both you and I have to have a Commercial Tax Registration Certificate in order for me to set-off.

It makes sense for any business to want to set-off CT, regardless of the other parties' registration status. However, say you collected 100 as CT from your customer and you had to give me 80 as CT. But if I am not registered with the tax office, you will not try to set-off the CT you paid to me, of course.

Even when a manufacturer and a trader both have registration certificates, the Union Taxation Law does not allow CT set-off between the two for the special 10 items. For example, when a manufacturer produces goods such as beer or cigarettes and sells to a trader, the latter is liable to pay 60% commercial tax to the former during the transaction. Questions arise whether this 60% CT can be set-off when this trader sells the finished goods to another trader. As beer and cigarettes are included in the 10 special items, the initial CT cannot be set-off against subsequent sales. The manufacturer has 60% CT collected from its buyers. This 60% CT cannot be set-off against CT on subsequent sales, but there is only 5% CT among the subsequent traders, which is allowed by the law to be set-off. This is a practical complication regarding the goods such as cigarettes and alcohol. The general public is not yet familiar with this flow.

In Myanmar, alcohol and cigarettes are imported into the country as finished goods, and there is a tax of 60% for alcohol products. The importer cannot set-off this, but there is another 5% tax, which importers can set-off at the time of selling that alcoholic product to another trader. This illustrates the excise tax feature of CT. To make it clearer, the government divides CT into two parts; Special Commercial Tax and Commercial Tax. Commercial Tax will be with VAT features and Special Commercial Tax will be made and able to set-off 5%. The complication currently happening is because of combination of the two – 60% and 5% - together.

Moreover, the current Myanmar CT system only allows to set-off the tax incurred on the sale of goods; it does not include the damaged/loss goods' value. Another thing is that it is not allowed to set-off based on assets. Should VAT system be in place, importers may set-off all of these. This would be the same with other countries as Input Tax and Output Tax. The tax may be offset between Input VAT paid and Output VAT collected.

What is the development (from the government) in this particular area?

Right now, the process to approve a new tax law in Myanmar is like this. Firstly, these new laws will have to pass the Attorney General's Office via the President's Office, and finally onto the Parliament. For example, the amendment to transform CT into a VAT system is currently under review by the Attorney General's Office and President's Office. And as the Hluttaw is currently in recess, it is believed that a true VAT system can only be achieved in 2018. It is clear that the current CT system will continue within for the next one or two years. In the meantime, some minor amendments in regulations will be announced in the yearly updated Union Taxation Law. Usually the Union Taxation Law is amended and passed by Parliament in March each year.

The normal process to update the Tax regulations would start with the UMFCCI (Union of Myanmar Federation of Chambers of Commerce and Industry). The tax office would provide them the draft of Union Taxation Law to review and ask for comments. The draft laws would also be published in the newspaper to let the general public review and comment on it. All of the ideas and comments from stakeholders would then be submitted to the Parliament to decide on how and what should be amended.

On the other hand, the International Monetary Fund (IMF) is providing aids for tax system reform as well. For example, IMF sends consultants to Large Taxpayer Office (LTO) to help restructure tax declaration forms, which were not that standardized in the past. Now tax declaration in LTO is a Self-Assessment System (SAS), moved from the Official Assessment System (OAS).

How do you see Myanmar's commercial tax system in comparison with other emerging markets within ASEAN region such as Laos, Cambodia, Brunei, etc.?

Currently, Myanmar is the only country in ASEAN (Association of Southeast Nations) that uses a Commercial Tax system instead of VAT system. ASEAN countries, other than Myanmar, either use a VAT system or do not have commercial tax. Malaysia has

just started using a VAT system last year and before switching to the VAT system, it only had income tax and custom duty. Now as Myanmar prepares to transform to VAT, the public reception has not been good. A notable example is when the authorities instructed telecom companies to deduct 5% CT on mobile bill recharges, public outrage was so strong that the Parliament had to discard the plan for now. People are simply not accustomed to paying this kind of tax. It would have been accepted if the telecom operators raised their prices, say, from 20 to 21. Instead, they announced 5% of every top-up will be deducted from consumers' accounts, and people did not feel comfortable with this.

So if the international community questions Myanmar's tax system, we would have to say it is because of VAT. Although the current CT system is not a real VAT, it has many VAT features. On the other hand, Myanmar's CT does not automatically allow for setting-off some aspects as in VAT, and CT is liable at the time of importing goods or purchasing such goods.



About the expert

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CAPITAL MARKET

05 Development of Myanmar's Stock Market by Dr. Aung Thura

I Introduction

The launch of the Yangon Stock Exchange (YSX) on December 9 has been a major milestone in the development of Myanmar's financial markets. Within the last year, much interest and excitement about the emergence of the stock market could be observed among company owners and potential investors alike. An active stock market is expected to bring a couple of benefits to the country.

First of all, with the weak banking sector not being able to sufficiently support the financing needs of the local economy, hopes are high that the advent of the stock market (and of the corporate bond market at a later stage) will open new avenues of financing for local companies. According to the World Bank's Myanmar Investment Climate Assessment, lacking access to finance is still considered one of the main obstacles for business growth in Myanmar. The majority of local companies are still family-owned and self-funded. The development of strong capital markets in the country will allow companies to fund themselves easier and at a lower cost and risk. A successful stock market will set the foundation for the further development of the capital markets in Myanmar.

As a second benefit, the stock market will give investors access to a broader portfolio of investment possibilities. Stock markets can bring about growth to an economy by boosting the returns of domestic savings. In Myanmar, people have traditionally invested their money into real estate, foreign currencies, precious metals, and increasingly into bank savings accounts. With the es-

tablishment of the stock market, a broad range of the population receives the possibility to participate in the economic growth of the country by channeling money into the corporate sector.

Besides the already mentioned two benefits, stock markets can also serve as a channel for foreign capital inflow. Compared to Foreign Direct Investments (FDI), foreign portfolio investments into the local stock market can occur easier and within a much shorter time frame. With Myanmar having a weak local investor base, particularly when it comes to institutional investors, foreign investments can bring much needed support of the local stock market in the initial years.

Stock markets are a sophisticated environment requiring highly trained people. Whereas the lack of skilled labor is a major obstacle for growth in most sectors of the country, people with professional experience in financial markets or even with a deep theoretical foundation in finance are almost entirely missing in Myanmar. This will pose a major challenge in the development of Myanmar's stock market. The training of managers, traders, brokers, research analysts, back office personnel, and IT professionals will take years. Even bank employees are missing the knowledge and skillsets required to work in the stock market. On the other hand, I encountered in the last two years an increasing number of young people who are eager to work in the exciting field of brokerage and trading after seeing movies like "The Wolf of Wall Street." In many cases, I had to tone down unrealistic expectations about how Myanmar's stock

market will evolve in the initial years. However, it is promising to see young people taking classes, reading books, and getting excited about finance.

In this article, I would like to shed light on aspects of stock market development in Myanmar, and I would like to incite some practical ideas on how to make the stock market become a success story. For this, I will also draw from lessons learnt from other emerging economies.

I Learning From Other Emerging Countries

The launch of a stock exchange is a novelty for the country. The strong support by the Japanese government and corporate sector helps to bring in much-needed expertise to Myanmar. With over 2000 listed companies and a market capitalization of USD 4 trillion, the Tokyo Stock Exchange is the fourth largest exchange in terms of market capitalization in the world. Therefore, Japanese experts know well how to operate in a sophisticated stock market. On the other hand, we should not forget that the current generation of Japanese finance professionals have been born into a financial system that has been up and running for several decades. Many of the Japanese experts in charge of setting up the Yangon Stock Exchange are for the first time involved in developing a stock market from scratch. While I am convinced that the Japanese will be capable of delivering a perfect technical infrastructure, I have more concerns with the non-technical aspects of developing a successful stock market.

It would be advisable to draw from the experience of other emerging economies that developed a stock market in the past two decades. Some of the markets to learn from are the Eastern European countries, China and Vietnam, which all set up their stock exchanges within the last 25 years. Other ASEAN countries, such as Thailand and Malaysia, can also give valuable insights although these countries have established their stock markets further back in time and in a different environment than Myanmar is facing nowadays.

Many of the countries that developed a stock market in the past two decades have fully or partially transformed from centrally planned socialist or communist economies into a market-oriented system. These countries had a vast supply of State-owned Enterprises (SOEs) that they could in a first step corporatize and then later partially or fully privatize by offering shares to the public. Listing SOEs in many cases significantly increased the market capitalization of a stock exchange in a country.

In many developing countries, the largest companies on the stock exchange are often privatized SOEs, such as Petrobras in Brazil and China Mobile.

Myanmar does not have the same luxurious supply of SOEs that the Eastern European Countries, China, or Vietnam had. Although SOEs and military-owned conglomerates are significant players in the economy, Myanmar has developed a strong private sector over the past 25 years. Therefore, Myanmar has only limited means to replicate the growth of the stock market through privatization of SOEs. Instead, the focus of policy makers and regulators has to be in convincing the private sector to foster its growth by making use of the new stock market. For this, the government will have to install a strong framework of institutions that protect property rights, enforce disclosure rules and prevent insider trading. It has been observed that countries with a lower quality of law enforcement have smaller capital markets and more concentrated ownership. A weak legal environment in China, for instance, has failed to support a strong growth of the Chinese stock market. On the other hand, a strong disclosure system, consisting of disclosure rules, monitoring and enforcement, and information dissemination channels, leads to higher market liquidity. Liquidity again has the effect of attracting good companies to get listed and enhancing investor confidence. For Myanmar, more important than installing the most elaborate regulatory framework is to be practical by considering the available capacity of the regulator and market participants. Laws, rules, and regulations should ensure legal certainty in the first place and be designed to be easy to understand, to comply with, and to enforce.

In Poland, both the regulator and the stock exchange were the leading forces promoting high accounting and auditing standards. This has led to the Warsaw Stock Exchange becoming a success story among the Central and Eastern European stock exchanges. While on the first trading day in 1991, only five stocks were listed and there were only seven brokers who accommodated 112 buy and sell orders with a total worth of USD 2000, the Warsaw Stock Exchange has become a regional player. Nowadays, the stock exchange has around 470 companies listed on the main market with a total market capitalization of domestic companies reaching EUR 139 billion. This should remind us that we cannot imply the future success of Yangon Stock Exchange by just counting the number of listed companies on its first trading day.

I Banking Sector And Capital Markets

Research indicates that in the early stages of economic development, banking sector and capital markets are rather

complimentary than competing. This is understandable as capital markets rely on basic banking functionalities such as settlement, remittance, and bank accounts. However, as economies develop, capital markets and banks increasingly become competitors in their aspiration to finance companies. Since the 1980s, large corporates in developed markets, particularly in the US, have increasingly financed their debt directly at the capital markets instead of relying on bank loans. Besides the cheaper debt financing, the corporate bond market has the additional advantage of reducing maturity and currency mismatches in the financial system.

In my opinion, the underdeveloped banking sector in Myanmar will boost the role of capital markets in the country. At this stage, the local banks are not able to satisfy the financing needs of businesses in Myanmar. Bank loans, currently extended to businesses at a uniform rate of around 13% p.a., are too expensive for most local companies. Moreover, borrowing from a bank is made difficult by the requirement of all loans to be collateralized with real estate. Naturally, many SMEs do not own land in order to provide collateral and are, thus, excluded from obtaining bank loans. Recently, foreign development aid money has been channeled through local banks with the target of extending loans at preferred interest rates to SMEs. However, the available funds are by far surpassed by demand. As a resort, some businesses have started to borrow offshore in foreign currencies. With a strongly depreciating Kyat in the recent months, these businesses are taking the risk of borrowing at a much higher cost than originally anticipated and of ultimately running into cash flow problems.

Even if the local banking sector should further develop and become better at accommodating the financing needs of businesses in the future, there is a strong case for financing through capital markets, both equity and debt, in the country. In the 1997 Asian Financial Crisis, many companies have been hit by a sudden credit crunch in the economy. While banks in such a crisis situation will typically cut the amount of loans made available to the corporate sector, companies financed through corporate bonds will face fewer problems as they will not be forced to pay back their debt prematurely. The development of an Asian bond market has been a priority for policy makers since the Asian Financial Crisis in order to make the financial system more resilient. Of course, it will take its fair time until a vibrant corporate bond market emerges in Myanmar. Necessary precursors will be a properly functioning stock market, the conducting of government credit rating, the development of a government bond market, the establishment of rating agencies, and the emergence of a strong institutional investor base.

In the remainder of the article, I would like to discuss all relevant stakeholders of a stock market, and I will highlight what I think needs to be done by each participant to successfully contribute to the development of the stock market.

I Regulator

The supreme regulatory body in charge of overseeing the stock market in the country is the Securities and Exchange Commission of Myanmar (SECM), which was established in August 2014. Although it is planned to spin off the SECM as a fully independent body in a couple of years, the institution is currently supervised by the Ministry of Finance and chaired by Dr. Maung Maung Thein, the Deputy Minister of Finance. The Yangon Stock Exchange will have its own supervisory power over applicants, listed companies, and members. However, currently it looks as if the SECM is making the ultimate decisions with regards to listing criteria and which public companies will be accepted for listing.

Generally, regulators in Myanmar are known to be slow and bureaucratic when it comes to adapting to new situations or when new products are to be approved. The Myanmar stock market will only be able to keep up with the latest developments in a fast changing environment if the SECM is quick in responding to unforeseen challenges. As a newly established institution, the SECM has a unique opportunity to distinguish itself from other government agencies. The SECM should establish a culture of regularly meeting and having open discussions with securities companies and listed public companies to identify the needs of the industry and to understand the continuously changing environment. In order to be able to do so, the SECM will require qualified personnel. In the recent months, the institution has been recruiting people from various government agencies after making them first sit in a written exam. This seems to be a reasonable effort to get good people, but it might not be sufficient. The SECM should also consider recruiting young people with an education in finance from outside the government apparatus. Of course, this would require the SECM to pay higher salaries and make the career paths and working environment more attractive for its employees.

Another solution would be to reduce the operational burden of the SECM. The institution should define the strategic guidelines and delegate the implementation to the Yangon Stock Exchange. As a private company, YSX will have more flexibility in recruiting qualified people and in paying market salaries.

I Yangon Stock Exchange And OTC Market

Yangon Stock Exchange Joint-Venture Company Limited was formed as a joint venture between state-owned Myanmar Economic Bank (51%), Daiwa Institute of Research (30.25%) and the Japan Exchange Group (18.75%) with a total paid-up capital of MMK 32 billion. YSX was designed to be a modern, scripless trading platform, using book-entry rather than physical certificates. According to the Securities and Exchange Law 2013, a stock exchange can run clearing business without any further licensing. Also YSX is likely to become the Central Securities Depository, at least in the initial years. Due to low trading volumes expected, YSX will operate at the beginning with just two daily auctions instead of continuous trading. Securities companies will be free to use Order Management Systems of their choice as YSX will be offering the open FIX protocol as an interface. Due to the lack of reliability in Myanmar's telecommunication infrastructure, YSX will also offer terminals for its members to manually enter orders in the case of connectivity problems between the exchange and securities companies.

The Securities and Exchange Law does not limit the number of stock exchanges that can be established in the country. Realistically, however, it is not to be expected that any other stock exchange will be set up in the near future. The Over-the-Counter (OTC) market, on the other hand, is a different case. Out of the around 200 public companies existing in Myanmar, only a handful is likely to meet the listing criteria of YSX. Many of those companies operate their own physical OTC trading rooms in order to offer their shareholders a secondary market. The Securities and Exchange Law actually prohibits conducting any securities business without having a proper license. According to interviews with the chairman of the SECM, unlicensed OTC trading floors are likely to be shut down some time after the opening of YSX. On the other hand, the law allows three securities companies to apply for a license to jointly operate an OTC market. Such a regulated OTC market could become an alternative for public companies that do not want to get listed or do not meet the listing criteria of YSX but still want to offer their shareholders a secondary market. The development of an OTC market, however, does not seem to be a priority in the SECM's agenda.

With an increasing economic integration of the ASEAN region in the years to come, the trend will go towards regional consolidation of stock exchanges or at least the trading platforms. YSX as a latecomer is likely to feel pressure from the more advanced stock exchanges in the region. The most successful companies in Myanmar will be tempted to get listed at large regional or global stock exchanges if YSX cannot meet their

needs. It would make sense if the government defines policies to prevent YSX from becoming the stock exchange of second-tier companies. An example would be to require that Myanmar companies need to list first at YSX before cross-listing at other exchanges.

I Settlement Bank

The SECM has recently selected KBZ Bank as the official settlement bank of the Yangon Stock Exchange. It means that the stock exchange and all securities companies will open accounts with KBZ Bank. At the end of each day, YSX will calculate the net settlement amount of each securities company. It is not clear yet at which time KBZ will offer YSX and the securities companies a fully automated process for crediting and debiting their accounts. In the initial stage, it is likely that the securities companies will have to write checks when conducting the settlement with the Yangon Stock Exchange. As a subsidiary of the KBZ Group received an underwriter license, it makes sense for all market participants to keep a watchful eye that the bank does not receive any comparative advantage from its dual role as settlement bank and securities company.

I Securities Companies

In January 2015, the SECM invited interested parties to submit their application for one of four types of securities licenses. Joint ventures with foreign partners would be allowed as long as the local shareholders have a controlling stake. The available time for the application was six weeks, which is quite tight considering negotiations with foreign partners. The application documents as well as the regulations were only available in Burmese. The licenses and respective minimum capital requirements are as follows:

- Underwriting (MMK 15 billion)
- Dealing (MMK 10 billion)
- Brokerage (MMK 7 billion)
- Investment Advisory (MMK 30 million)

While the receiver of an underwriting license will be allowed to conduct all four types of business, the SECM made clear that a dealer would not be allowed to conduct brokerage and vice versa. In total, there were 57 applications, out of which 20 were for underwriting, 2 for dealing, 5 for brokerage and 30 for investment advisory. In order to receive a license, the applicant needs to be able to prove the source of funding. At the time of writing this article, the SECM was middle in the process of issuing around 10 underwriter licenses, while the applications for the other license types were still under review. The number

of issued licenses seems to be at the higher end of general expectations with a stock market estimated to be rather small at its launch. Ten percent of the paid up capital of a securities company serves as a deposit to the SECM and will either have to be put into a blocked savings account or will have to be used to purchase treasury bonds. However, the securities company is entitled to the interests.

Securities companies, after receiving a license, will have much work to do in order to be ready at the launch of the Yangon Stock Exchange. On the one hand, they will have to register their company, find appropriate office space, set up the infrastructure including servers, Order Management Systems, back office systems, telecommunication, connection to YSX, and conduct system testing. On the other hand, they will have to hire qualified staff and train them. Also, it will be part of their job to educate investors and to show them the risks and rewards of investing into the stock market.

It would be advisable for the securities companies to establish an association as soon as possible and to discuss possibilities to source together the IT infrastructure from the same suppliers and to establish common training facilities for their staff. Also having an association would be helpful to speak with one voice to the SECM and YSX.

I Listed Companies

Although the SECM announced at the opening ceremony of YSX that six public companies will be listed in the coming months, one main challenge in the initial years will be the lack of companies suitable for listing. During the military junta, permits to commence a public company were only rarely awarded. This practice changed soon after the Thein Sein administration took over power. In a push to let the general public participate more in the economic development of the country, the government started to favor public companies over private companies when awarding projects. This led to a rapid increase in the registration of new public companies from 2012/13 onwards. With the Securities and Exchange Law and the SECM not in place yet at that time, public companies could be established without any effort and they, therefore, lacked significantly in quality. Only some of those public companies took it upon themselves to prepare a proper prospectus and to implement adequate corporate structures. As a result, only few of the around 200 registered public companies are expected to meet the listing criteria recently issued by the SECM. A public company, in order to qualify for listing at the YSX, must fulfill following criteria among others:

- Minimum capital of MMK 500 million
- Minimum number of 100 shareholders
- At least two years of profitability
- Meeting tax obligations

There is no minimum requirement with regards to the free float. In order to avoid price manipulation by majority shareholders, it would make sense to add such criteria as well.

Personally, I do not think that in the long run, the existing 200 public companies will be the main candidates for listing at YSX. I rather think that it will be the successful private companies, some being subsidiaries of large conglomerates, who will be the key drivers of the development of the stock exchange. Another source of listing at a later stage could be SOEs and military-owned companies. However, many of the SOEs need to go first through a restructuring and corporatization process.

Within the last year, I have identified an increasing interest by business owners to get their companies listed on the exchange, although many of them do not exactly understand the implications, advantages, and disadvantages of getting listed. The main hurdle for listing such companies is the lack of proper accounts and corporate governance. A significant number of companies in Myanmar have two or multiple sets of financial statements, one for the Internal Revenues Department (IRD), another one for the owner, etc. I noticed big differences among private companies in terms of preparing themselves to become investable. While some conglomerates have for the last two years been overhauling their entire corporate structure and upgrading their accounting to national or even international standards with the help the Big Four companies, other local businesses have not been doing much. Over the long term, companies that have readily adopted the changes will have a comparative advantage over their idle cousins when it comes to access to capital, partnering with foreign operators, and M&A activities. This will lead to a wake-up call for businesses if they do not want to be left behind in the future economic growth of Myanmar. In my opinion, competition among businesses for capital and foreign partners will be the main driver for new listings in the coming years.

Some countries try to get more companies listed on the stock exchange by setting tax incentives. Vietnam, for instance reduced the corporate income tax in the period from 2004 to 2006 from 28 to 14% for newly listed companies. However, this scheme was later discontinued. Thailand reduces the corporate income tax for the first three years from the normal 30% to 25% when listing on the Stock Exchange of Thailand and to 20% when listing on the Market for Alternative Investments. Additionally,

an investment tax credit of up to 25% of total qualifying costs is granted for new projects of listed companies. In Cambodia, corporate income tax is reduced from 20% to 18% in the first three years of listing. Although it could make sense for the government to introduce such tax incentives to be in line with other ASEAN markets, I do not believe that tax incentives will be a driving force to get more companies listed in an environment like Myanmar, where taxes still can be easily evaded.

I Investors

Myanmar will be completely lacking institutional investors. With foreign investors not allowed to participate in the initial phase, the market will be a playground for local retail investors. Similar to many other Asian countries, it can be expected that retail investors in Myanmar will not base their investment decisions on proper analysis of a company's financials, business activities, and track records. The majority of investors will just use basic information or follow what other investors do. Stock market volatility could be high due to the speculative nature and the short holding period of investments. Securities companies could bring some stability into the stock market by determining market prices with the help of easily understandable equity research reports.

There is also a danger that the stock market will be used for money laundering. Currently, the number one vehicle for money laundering in the country is the real estate market. This has led to an explosion of real estate prices in the recent years. If the stock market is seen as an alternative way for money laundering and therefore a large volume of black money is shifted into a stock market that has a low market capitalization in the initial years, it could lead to a complete detachment of share prices from a company's fundamentals. It will be of utmost importance that the regulator sets stringent screening standards to prevent large amounts of black money from entering the stock market.

The emergence of institutional investors, who base their investment decisions on proper analysis, would help to set reference prices in the stock market. Private and state-owned insurance companies and a government-managed social securities fund already exist and are the first candidates to be turned into institutional investors. Other institutional investors, such as mutual funds and pension funds, are still far from being implemented. For the military that is operating two major conglomerates in the country, the Union of Myanmar Economic Holdings (UMEHL) and the Myanmar Economic Corporation (MEC), it could be an interesting approach to list the holding companies or some of its subsidiaries on the stock exchange.

Instead of directly operating companies, the military could choose to become an institutional investor managing a portfolio of investments in the stock market.

Institutional investments into Myanmar's stock market could also stem from overseas. Foreign Direct Investments (FDI) usually receives much attention from governments of emerging economies due to their long-term investment horizon, their potential for job creation, and the technology and know-how they usually bring with them. On the other hand, portfolio investments from abroad into the local stock market can be equally beneficial as they fund local businesses. Particularly, if the local investor base is not strong enough, allowing foreign investments into the stock market can boost growth. However, there are two main concerns often heard in Myanmar when it comes to allowing foreign investments into the stock market: hot money and foreign dominance. Both concerns are legitimate but can be addressed with proper policy and monitoring. Foreign institutional investors tend to invest in stocks of companies that are better known internationally, while local investors typically prefer to invest in companies that pay out higher dividends and show a high growth potential. Both foreign and local investors are complimentary in their investment styles and could together help to reduce volatility in the stock market.

I Final Remarks

As Myanmar's stock market is still at its very beginning, information about it is difficult to come by. With this article, I try to fill a gap and give a broad overview of the recent development and express my personal views. It was not my intention to write a scientific publication addressed at the academic community. Instead, the article shall give some guidance to people who would like to get involved in the development of Myanmar's financial industry. In order to write this text, I drew from my own practical experience in the financial markets and from insights I gained in the last three years by interacting with policy makers, regulators, business owners, accountants, and professionals in the area of banking and finance. Much of this article is, of course, also based on educated guesses. I am certain that in one year from now, we will be able to draw a much clearer picture of the stock market, as by then the Yangon Stock Exchange will have been running for a couple of months.

I personally believe that the stock market in Myanmar can bring clear benefits for both companies seeking capital and investors who want to participate in the economic growth of the country. However, a lot of work still needs to be done in order to establish a vibrant stock market. Policy makers and regulators, on the one

hand, will mainly have to establish a clear regulatory framework that protects ownership rights and is easy to understand and enforce. Market participants, on the other hand, will have to invest heavily in the education of their staff and the general public.



About the author

Dr. Aung Thura is a Myanmar national who grew up and was educated in Switzerland. He holds a master's degree in Mechanical Engineering from the Swiss Federal Institute of Technology in Zurich, a master's degree in Quantitative Economics and Finance and a doctorate in Banking and Finance from the University of St. Gallen in Switzerland. Dr. Aung Thura has written his master's thesis in cooperation with the research department of the Swiss National Bank. He has worked in business development private banking with Credit Suisse and as a trader for structured products and exotic derivatives with Zürcher Kantonalbank. In 2012, he decided to move to Myanmar and to found Thura Swiss. Since then, Thura Swiss has become a leading Myanmar company in the areas of market research, consulting and capital markets. Dr. Aung Thura is widely seen as an economic expert with regards to investments and capital markets in Myanmar and has been featured in and interviewed by local and foreign newspapers, journals and TV.

06 Private Equity Funds as an Alternative Source of Capital

by Thura Ko Ko

How to define private equity (PE), a new concept in Myanmar?

It is as simple as the word itself: private and equity. Fundamentally, it is acquiring the ownership of equity shares of non-listed private companies. In the case where equity cannot be invested, investments will be made as convertible bonds, in the way the International Finance Corporation (IFC) acquires the ownership of some banks by buying convertible bonds. These bonds can be converted into equity if the regulatory framework allows it.

Most PE funds are private entities, and it is hard to calculate their worth or value because investments are private and confidential. Some PE funds choose to get listed and offer shares to the public. As listed firms, transparency is guaranteed in a way that all investments are made publicly. One major concern with listed PE funds is that there could be up and down valuation of the firm due to instability in the number of shareholders, due to external factors such as market volatility, political factors, natural disasters and others, regardless of concrete and prospective long-term strategies of firms in which PE funds have invested. Even if the company has been progressing well, these short-term considerations could frighten investors, and the PE funds are left chaotic if investors leave. For listed PE funds, all are transparent, and everyone can judge the ups and downs in the firms' valuations. By remaining private, PE funds have more flexibility as they can also discuss with the investors to retain profits rather than paying dividends and focus instead on long-term strategies, e.g. the case in Indonesia where we invested in BTPN bank and did not distribute dividends to the investors for five years. As equity does not always guarantee profit, there will be times when a PE fund results in losses or when it involves major spending for business development and is, therefore, not able to distribute profits. At this point, it is good for the PE funds to stay private as it gives them more flexibility, unlike listed firms which are obliged to pay regular dividends to the investors.

So, do the PE funds in Myanmar get involved in operations of the investee companies?

I do not know much about other local firms. Equity is not cheap, and investors expect an Internal Rate of Return of between 20% and 25%. Thus, investees will not be satisfied with just the capital investment from PE funds. In the eyes of investees, they

might see PE funds as those who come to reap the benefits of investees' years of hard work if it is just financial investment. So, I believe that the majority of PE funds have the responsibility to be involved in or manage the operations by being involved in the Board of Directors or taking an advisory role, or providing corporate governance, such as audits. This is the best-case scenario that offers mutual benefits for both PE funds and the investee in a way that PE funds can track the progress of the company, and investees are happy with PE funds' contribution towards them. We had the experience of funding a bank in Sri Lanka and appointed a Chief Operations Officer who had the experience of managing the same business in Korea.

Looking at the history of PE funds in Myanmar, were there any PE funds before 2010?

In 1997, there was a PE fund named Kerry Group, the parent company of Shangrila Group. The firm funded businesses in beans and pulses trading and property businesses. Although I am not certain, I believe it invested in Thilawa Port as well. In 1997, the government opened up the economy for the first time, and a few PE funds entered the market due to a number of factors, although they did not receive satisfactory results. Due to political unrest, human rights concerns of Shangrila Group, and the 1997 financial crisis, the firm was no longer able to survive and withdrew from the market. Since 2010, a few local and foreign PE funds have entered the market. Golden Rock Capital and PMM are widely-known onshore firms. Our firm, TPG, is not a domestic firm but a US-based global firm considering the transformation into a Myanmar-focused firm. Apollo Towers has been funded by TPG.

What could be the important considerations of PE funds to enter Myanmar?

In any market, in funding businesses, the first thing that PE funds will consider is the investment timeline. It varies case-by-case but is generally between 5 and 10 years. Investors commit some amount of money to PE funds, and these can be used within a specific time frame. These investments come with the responsibility of PE funds to realize returns to the investors. Each investment timeline can be split into an investment period and a harvesting period.

A 10-year investment can be split into five years of investment, and the next five years is harvesting period where PE funds reap the benefits of the investments made in the earlier five years and realize some returns to the investors. So, for each PE investment, investors and investees should expect at least 10 years.

The first and foremost responsibility of a PE fund in making an investment decision is to prudently consider exit options. Return is the ultimate goal for every investment, especially when the fund comes from institutions or funds such as California State Teachers' Pensions Funds for which good returns are vital. However, since it is investing in equity, returns cannot always be positive, and there could be complete loss, too. Although it is a long-term investment, there must be an exit after all.

An exit option is the most important in making an investment decision. PE funds have to think of the most viable exit options, such as through Initial Public Offering (IPO), selling to a strategic buyer, or the repurchase of the PE investors' shares by the company and/or its management. It is very important to make investment decisions based on the ability to meet the returns within the time frame. In other countries, it is not that difficult to meet the targeted returns as companies can use leverage options by taking debt or mortgage loans. Companies that have regular cash flow or revenue, such as utility companies or tower companies, have more ability to pay back the debt. Although companies in frontier or emerging markets have limited leverage opportunities, PE funds have growing interest due to the very high growth potential.

Myanmar is a frontier market with enormous growth opportunities with the rising GDP of 8 – 9%. Since exit is the ultimate goal of every investment, PE funds have to consider the availability of stock markets, the availability to list in foreign stock markets, the potential for a strategic alliance, or the potential of the business owner to buy back. No matter how fruitful an investment, if there are limited exit options, PE funds will not proceed with it. Lastly, for an investment to be fruitful:

- 1 the market must be good,
- 2 products and services must be in demand of the market,
- 3 the management must be effective,
- 4 the investee has the ability to borrow if needed (not mandatory), and
- 5 ultimately, there must be viable exit options which could bring favorable returns.

What do you think is the reason for the growing interest of local firms on PE funding? Is that due to limited financing sources?

First and foremost, sources of financing are very limited in Myanmar because banks also have stringent requirements in extending loans to businesses. Capital market, which is another source of financing, is also not yet ready. Forming strategic partners is another option that some of the firms have chosen, such as MMRD teaming up with AC Nielsen. However, by forming a strategic alliance, the company has to give up some of its control rights, 60% or so, to the strategic partner.

In the case of Myanmar Beer, it had to give up some of its controlling rights to its partner, Kirin (previously F&N). The advantage of private equity is that it does not charge interest, and it offers additional contribution besides capital to the investee. During the investment period, a PE fund strives for the company's growth for favorable returns and by the time of its exit, the company is left in a better state. Based on PE funds' international experience, they spur the companies' growth by launching new products and services, enabling process optimization, ensuring better cash flow and creating new opportunities in other markets. So, the essence of PE funds is not just capital investment but also value creation. When TPG bought the BTPN in Indonesia, we invested only USD 200 million. During the five years of investment, we were involved in operations and made strategic moves. Upon our exit, the bank was worth USD 400 billion, making it into the top five most profitable banks in Indonesia.

What do you think are the major constraints that PE funds face in Myanmar?

Firstly, the exit option is the major constraint as Myanmar is still in the progress of developing the capital market. Thus, PE funds have limited exit options such as selling stakes via IPO in foreign capital markets or selling to other business proprietors/strategic buyers. Secondly, when investing in Myanmar companies, PE funds need to have a certain level of patience, as processes take longer than expected. So, it is safe to regard the first one or two years as foundation years for every investment. Thirdly, fluctuations in exchange rates are barriers, as PE funds have to cope with the fluctuations in committing dollar returns to the investors who invested in dollar. Thus, in order to hedge the risks associated with currency fluctuations, PE funds try to reach agreements with the investee on the valuation of the investment since the time of deal negotiation.

Another constraint is the local companies' incompliance with accounts and auditing standards. Soaring property prices also threaten PE funds in the performing valuation of a deal. A company which has a net worth of USD 100 million might only be worth half of this if the value of property is excluded. Most of the businesses operating in Myanmar are located on their own properties and thus are not required to pay rent, which shows positive signs in the company's financial statements. Another constraint is the lack of proper organizational structure among Myanmar companies, no matter if they are big or small. There are many cases where the owner does not take a salary, but his personal expenses are borne by the company and sometimes they even go unrecorded.

These things pose problems when performing an audit for investment deals. The lack of proper organizational structure is more common in SMEs. Although SMEs have high risk, PE funds cannot neglect them as they have high growth potential to yield high return. Lastly, uncertainty in politics, such as frequent changes in rules and regulations, poses a threat for PE funds.

What kind of challenges do PE funds face in deal evaluations?

Again, the lack of proper accounting standards, legal structure, and company structure pose major problems in deal evaluations. Sometimes PE funds have to spend quite a lot of time restructuring the company. Another major challenge is limited information access. Information cannot be obtained 100% of the time, and often only 60% is obtained, the rest being based on gut feeling. However, limited information access is not new in the frontier markets. When investing in emerging markets, trust and reliability between two parties is of more importance than legal contracts. Investees have to evaluate PE funds as well and choose the best from a number of options, based on a set of criteria. It is not the best practice to always choose a well-known global firm, but rather choose the one that could be most compatible with the investee.

Are there PE funds in the local business environments that are fully funded by local investors?

I am not very sure about it, but I do not think so as it is very hard to receive funding from investors, even in foreign markets. It requires strong rules and regulations to protect both the investors and the PE fund. Inviting funding from investors is of great responsibility as PE funds have to ensure the cash has

been used up efficiently and ultimately realize some favorable returns to the investors. Most of the funding of TPG comes from Teachers' Pensions Funds from the US and EU. There are disciplines of private equity that if an investor (limited partners) has promised to commit a certain amount of investment to a PE fund, the investment is to be made, even if the PE fund has sorted out an investment deal.

As said previously, an investment period can be split into five years investment and five years harvesting, and all investors seek returns on their investments upon exit. Myanmar is way behind in PE funds and has to work a lot more to understand and get used to these disciplines of investing into PE funds. The local business context has been operating a trust-based style due to the weak regulatory enforcement in the past. It is time to change this culture and the responsibility and to enact rules and regulations to govern investments into PE funds, which lies mainly with the government. So, for these reasons, Myanmar has not seen many investors in PE funds; however, it is a must to have local funding even though it will take time. But as of the present situation, there could be local investors who would like to invest in PE funds; but with the lack of investment discipline, stock market discipline and firms' discipline and the people's limited knowledge, even TPG is not ready to receive local funding.

So, what kind of action should be taken to overcome these challenges with local funding?

Rules and regulations must be enacted in order to protect PE funds, investors, and investees. PE funds should be given the right to sue investors (limited partners) who fail to meet the agreed terms and conditions. The same theory applies to the stock market where the enforcement of regulatory framework plays a vital role. In countries with strong regulatory systems, even issuing prospectus requires following a set of rules, and all terms and conditions and important considerations such as risk factors are to be clearly stated.

Myanmar has a lot more work to do on building a strong and effective regulatory system, and it will take time. However, it does not have to start from zero as it can make use of last mover advantages by copying the frameworks practiced in other countries and adapting them to the local context accordingly. However, even if rules and regulations are in place, the compliance of stakeholders becomes crucial.

How should local firms prepare themselves in order to receive capital from PE funds?

As a preparation not just for private equity alone but for IPO listing and strategic alliance, firms should get themselves ready by preparing corporate governance, corporate structuring, enhancing senior management's capabilities, and ensuring that accounts and financial statements are reliable. It is common for businesses to have risks, and these need not to be hidden, as PE funds understand very well how to tackle them. For example, even if there were tax evasions, businesses do not have to hide as it happens in other countries as well, and the most important thing is to find solutions together with PE funds. Ensuring that accounts and financial statements are authentic as well as related licenses' validity plays an important role.

What is the average return on investments for PE funds? Is that IRR based or cash flow based?

PE funds expect returns either as IRR or in money terms. For IRR, PE funds are expected to receive IRR of low 20s as the business environment and other related factors pose high risk for investors. Even IRR of low 20s is difficult to achieve in Myanmar due to risks such as exchange rate fluctuations, which is a major threat for investors. The rate of return depends greatly on the type of business and the sector in which it is operating. For example, it is of less risk to invest in state-run enterprises, such as national electricity grid operators, rather than investing in microfinance.

One thing to note is that investors are not just looking at Myanmar. There are many other frontier markets with promising potential. The United States of America is a great market for investors due to its enforcement of rules and regulations, the appreciation of the dollar, etc. Iran and Cuba are also attractive frontier markets for investors. It is not just the responsibility of companies to attract PE funds but also the government's responsibility to make state-level initiatives to attract investors.

What is the perspective of local businesses on PE funds?

The majority of entrepreneurs have the perspective on PE funds that they come to enjoy the benefits of the business only after the entrepreneur's years of hard work, devotion and sacrifices. This is partly because only the success stories of PE funds become public. Howev-

er, there were many cases where PE funds made billion dollar losses. Most importantly, the advantage of being an entrepreneur is the independence it allows one to make on-the-spot decisions. When collaborating with PE funds, even if the entrepreneur continues to hold control rights, he in a way will lose independence and flexibility. Businesses might lose their sentimental values as well. Most of the businesses are operated in a family style, in which family members get involved in decision making. In order to be compatible with the practices of PE funds, businesses have to figure it out by making a balance and understanding the rules of the game.

What is your future outlook for PE funds in Myanmar? Will there be many firms entering the market?

Certainly. As the economy grows, there will be more opportunities for PE funds. As more firms exist, capital requirement will continue to be an important factor, and the role of PE funds will become greater. However, there can be crises as well, such as a few companies listed on the stock market collapsing and investors therefore suffering. Thus, investors have to make their own assessment by weighing up the consequences of possible returns.

Can PE funds be regarded as one of the growth drivers for Myanmar's economy?

Without a doubt PE funds will become one of the growth drivers for the economy, as they offer capital plus other contributions such as experience in other markets, management and supervision, advisory, etc., which are both needed by local firms. An important consideration for local firms when considering PE funds as an option is that profit sharing is obligatory. If a firm is not willing to share the profit, it may think of other funding options such as 50% PE funding vs. 50% bank loans.

Can you give us an idea on the size of local PE funds?

In our deal with Apollo Tower, the funding is not a big amount, and the fact that Apollo is a start-up firm poses high risks. It shows that PE funds are looking to fund Myanmar firms regardless of the high risk. Due to high risks associated, I think local PE funds could start with a small fund of USD 30 million – 60 million. If the firm could make twice or three times that in five years, it is already good enough.

What is the amount of investment PE funds invest in local firms?

Most of the time, the amount of funding the PE fund can commit to a project (firm) is 10% to 20% of the total fundraised. It is too risky to invest more than 20% in a single firm or project. Most of the deals in Myanmar would be between USD 5 million to 10 million.

Deals are sourced mostly through networking. Since private equity is a partnership, long-term relationships between both parties need to be developed. We meet a lot of people by investing our time. We have to attend many events and even if we do not make deals out of it, we build networks. In every private equity firm, there is a mix of people who have strong relationship skills and those with strong technical skills. If we look at major PE funds, there is always a deal driver who has great relationship experience and interpersonal skills. There are many phases after deal sourcing, and it sometimes takes between three years and five years to reach a final agreement. Meanwhile, both parties, the PE fund and the investee, will make mutual assessments in order to make a final decision.

Can you give us an insight on how deals are sourced in Myanmar?



About the expert

Thura Ko Ko is the current Director of YGA Capital Limited, an institution offering financial advisory services and which focuses on identifying potential investment opportunities in Myanmar for domestic and international investors. He graduated from the London School of Economics and Political Sciences with a Bachelor of Science (Hons) in Economics. He spent much of his early career in investment banking firms, including 12 years in the Far East, based in Hong Kong, with a particular focus on Southeast Asia. His previous employers include Goldman Sachs (Asia) Limited and NM Rothschild & Sons. In May 2007, he was appointed Vice-president of Providence Equity Asia Limited, a global telecom and media fund based in Hong Kong. Mr. Ko held that post for three years before returning to Myanmar to explore opportunities in both non-profit and for profit situations, resulting in the formation of YGA Capital.

07 Sovereign Bond: The Link to fill Infra Gap

by Kyaw Myo Htoon

How would you define sovereign bond?

Sovereign bond is a type of bond issued by the government. There are already kyat-denominated, government-issued bonds such as treasury bonds, which are issued with the purpose of being sold in the domestic market. But dollar-denominated (foreign currency) sovereign bonds are issued with the intention of being offered to international markets. The difference from kyat-denominated bonds is that issuing dollar-denominated sovereign bonds requires stringent requirements. It is a fundamental requirement for a country to receive a credit rating in order to issue sovereign bonds and, based on the rating, yield and structure as well as other terms and conditions of the bonds are determined. Generally speaking, dollar-denominated sovereign bonds are intended to be sold in international markets, whereas kyat-denominated bonds are offered only in the domestic market.

What kinds of benefits could sovereign bonds bring to an economy?

Myanmar is regarded more as a frontier market as opposed to an emerging market. For the economic development of emerging markets (for example, India and Mexico), three pillars are required. The first pillar is the flow of Foreign Direct Investments (FDI) into a country. Secondly, remittance of expatriates is important, as this is a major source of cash inflow to the country. Lastly, Official Development Assistance (ODA) from other countries also contributes a great deal to the economy of an emerging market. Of the three pillars, a developing country should make its first priority to attract more FDI. In order for a country to be able to welcome more FDI, the role of credit rating becomes important. A good and reliable credit rating from a major reputable credit rating agency means a lot for the economy as it attracts foreign investors. It is now the right time to attract more FDI because Myanmar is facing the problem of kyat depreciation, and foreign investments are vital in order to strengthen the local currency.

Sovereign bonds offer five benefits to a country.

1 Firstly, it attracts FDI as a result of the credit rating, which is the first step to issuing sovereign bonds.

2 Secondly, it supports local businesses to get international capital. In other countries, investors eye investment opportunities of a particular country and once the country receives credit rating from a trusted credit rating agency, investors will flock into the country. Once the government issues sovereign bonds, companies from the private sector will follow the trend and start issuing bonds as a method of fundraising. Banks especially will issue bonds for better circulation of capital and in this way, the financial market will be developed. African nations have received credit rating and have benefitted from it. Myanmar is the only country in ASEAN (Association of Southeast Asian Nations) that has not received a credit rating. Laos and Cambodia have received the rating, although Cambodia has not issued sovereign bonds yet.

3 Thirdly, sovereign bonds can help foster public sector transparency. Transparency is vital in issuing bonds and thus, when issuing bonds, there should be a department like the Public Debt Administration Office under the Ministry of Finance to monitor the use of debt. The government has been weak in ensuring transparency on the utilization of tax revenue and thus, the general public lacks the knowledge on how the taxes they are paying are used. By offering bonds to the public, the government has to ensure transparency, promoting public sector transparency.

4 Due to the credit rating and transparency, issuing sovereign bonds gives a good impression of the government and enhances credibility on its political reform process.

5 Lastly, sovereign bonds make the capital market more liquid as it ensures better circulation of capital in the market. So, these are the direct and indirect benefits a country could enjoy by issuing sovereign bonds.

Myanmar currently lacks credit rating. What actions should be taken in order to receive credit rating?

Citi Bank and Standard Chartered Bank are helping the government with the internal review process. There are three major credit rating agencies known as the Big Three: Standard & Poor's (S&P), Moody's, and Fitch Group. Each of them has their own

credit rating assessment criteria. For S&P, the assessment is made on five scores: Political Score, Economic Score, External Score, Fiscal Score, and Monetary Score. The political score assesses the country's political stability, peace, and reconciliation process with armed forces and the rule of law. The economic score measures the country's economic growth potential; the external score judges the amount of external debt the country owes, and the fiscal score measures the effectiveness of debt management by the government. Lastly, the monetary score examines whether the monetary policies in place are in line with the rating agency's policies.

Citi Bank and Standard Chartered Bank have a thorough understanding of these assessment criteria and are helping Myanmar with the necessary preparations. Ethiopia received its credit rating last year, and the rating is either C or B. Myanmar will also receive a B or B- given the current condition, and it is impossible to get higher.

Almost all African nations have received credit rating. The reason is that although many ODAs were extended to African nations in earlier decades, the countries saw little improvement. After examination, the donors found that ODA increased inflation, and that the morale of the people has been badly affected in a way that they no longer had the motivation to depend on themselves to earn a living. Thus, other countries in the West, led by the United States, urged African nations to get a credit rating so that investors will know the countries' risks and make investment decisions based on them.

Therefore, starting in 2006 or 2007, countries that are at about the same level as Myanmar in all perspectives, such as Rwanda, Ghana, Zambia, and Senegal, received credit rating and were able to issue sovereign bonds. As a result of this, the countries' FDI inflow also went up. So, in order to get a credit rating, Myanmar government should follow the guidelines of Citi Bank and Standard Chartered Bank to be in line with the assessment criteria.

Apart from the lack of credit rating, what other challenges limit the issuing of sovereign bonds?

The first challenge is currency. In every country, the bonds issued are denominated either in USD or EURO. Money generated from offering the bonds is used in local currency and when it is due, it has to be paid back in the issued currency. Secondly, the current investment climate is not a good time to issue bonds in USD as the dollar is getting very strong. However, bonds are issued on a long-term basis such as 10 years, and there can be a lot of changes within the given time frame. Thus, current

conditions should not have much of impact on the issue of dollar-denominated sovereign bonds. Although the dollar is appreciating at the moment, nobody knows what will happen in five years. In March 2015, Mexico issued century bonds denominated in EURO with a maturity of 100 years.

Most of the time, governments issue bonds for the following objectives.

- 1 Bonds are issued for government expenditure. This is not very favored by investors.
- 2 Bonds are issued with the intention of debt restructuring. Money derived from bonds will be used to pay back outstanding debt to creditors, such as Paris Club.
- 3 Bonds are issued for benchmarking. This enables a country to receive credit rating and be able to set a benchmark with other countries. Credit risks are made known to international investors. Sovereign bonds are issued for a minimum of USD 500 million. These bonds will be used to fund large-scale infrastructure projects such as road infrastructure and electricity grid. This is the most favored type of bonds by bond buyers and institutional investors as they will be invested in infrastructural development projects, which will generate revenue on a regular basis upon completion.

What should be the currency of choice? Please assess different currencies.

The market sentiment at the moment does not favor the dollar as it has strengthened a lot. Although the future of the dollar cannot be predicted, investors will not like dollar bonds as of the current market conditions. However, sovereign rating is not yet ready in Myanmar, and the process will take time. By the time Myanmar receives credit rating, the dollar might be in a more favorable state. A country needs to take several factors into consideration when choosing a certain currency. The JP Morgan Emerging Market Index provides institutional investors and international corporates the comprehensive benchmarks of bonds issued by emerging and frontier markets. One of the most important concerns of emerging markets in issuing bonds is to show their credit rating to bond buyers and institutional investors. Since investors take the JP Morgan Index as a benchmark in analyzing the bonds offered by emerging markets, countries can benefit as they could show potential investors their credit rating and strengths of their bonds. To get listed in the index, the bonds must be issued either in USD or EURO, and

the minimum outstanding face value of bonds must be USD 500 million. Rwanda issued bonds worth USD 400 million, and since it does not meet the minimum bond value, the bonds were not listed in the index.

What are the most common types of yield and structure of sovereign bonds in frontier markets?

In Mexico, the bonds were offered at the coupon rate (interest) of around 4%. In African nations, the interest rate is much higher at 6%, 7%, or 8% due to high risk. When Myanmar starts to issue bonds, the interest rate can be expected to range between 6% and 8% due to the country's high-risk profile. In determining the interest rate, factors such as the country's outstanding debt profile, credit rating, and other risk factors are taken into consideration. When Ethiopia issued bonds, the yield was also 6% or 7%. Looking at sovereign bonds issued by African nations in the last two years, all bonds were oversubscribed for three times to eight times, regardless of risk. To describe oversubscription, consider the following situation. Let's say the bonds offering was worth USD 1 billion, the number of buyers who have booked to buy these bonds has gone up to USD 3 billion, and in this case, it can be said that the bonds were oversubscribed three times.

What other risks are there for investors apart from credit rating?

First and foremost, the lack of a strong legal system and the weak enforcement of rules and regulations will threaten investors. However, these kinds of risks are expected in every frontier market and that is why investors demand high yields and return in these markets.

Given the fact that Myanmar is in drastic need of infrastructural developments, how can sovereign bonds play a role in it? Can it be a source of project financing for the infra-projects?

The biggest challenge and yet the fundamental need of the country is infrastructure. Although the central government is funding infrastructural projects, it has financial limitations as it is barely depending on tax revenue, which is shared for other government expenditures as well. The immediate impact will be using money derived from the selling of bonds to invest in infrastructural projects.

Credit rating can be divided into national credit rating for the whole country and sub-national credit rating for states, regions, and city/municipal. The responsibility for infrastructural developments shall not be placed only on the central government as it also has budget constraints with other expenditures. Thus, responsibility should be split between the central government and regional (sub-national) governments where the central government focuses on the primary infrastructure, such as national highway network and electricity grid, and the regional governments have full responsibility for infrastructural projects in their state or regions. In this way, each regional government will have the financial autonomy in fundraising and financing the projects.

As mentioned before, credit rating is the first step to issue bonds, and regional governments need to get their own credit rating for their regions apart from the national credit rating. The credit rating agencies will assess each region based on their assessment criteria. When attempting to get a good credit rating, regional governments need to ensure transparency with the use of public finance.

Although Myanmar is rich in natural resources, extraction of natural resources should not always be a solution for capital for national development, but it can be used as collateral to issue bonds. For example, the Kachin government can collateralize its jade mines whilst the central government can collateralize the cash flow of international remittance of expatriates working abroad. In my perspective, civil wars with ethnic armed forces originated from mistrust and misunderstanding which come from lack of interaction as people have limited access to different parts of the country due to poor infrastructure.

If both sides prioritize on getting credit rating and focus on developing infrastructure, the country will witness many improvements, and the peace negotiation process will be a lot easier and faster. Therefore, in my perspective, it is very important for the authorities on both sides to have financial knowledge to visualize and materialize development of their own region instead of fighting senseless wars for the last 6 decades in the name of justice and national issues. Myanmar's situation today strongly resembles the situation in the United States over 300 years ago after they gained independence from Great Britain. What the first U.S. Secretary of the Treasury, Alexander Hamilton, commented in 1790 is still true about the situation in Myanmar today: 'It is by introducing order into our finances—by restoring public credit—not by gaining battles, that we are finally to gain our object.'

How can local SMEs benefit from sovereign bonds?

Infrastructural developments cannot only rely on international assistance, loans, and capital. Hence, the World Bank and the International Monetary Fund always recommend to ensure diversified sources of capital; therefore, development of the domestic bond market is crucial.

On the other hand, track records indicate that after the government issues dollar-denominated sovereign bonds, the biggest business institutions such as banks, oil and gas, and telecom will also issue dollar-denominated corporate bonds, and it will give more capital to the domestic banks to expand. Thus SMEs can benefit with more support and loans from the bank. Therefore, it can be said that if a country has not yet received credit rating, it is blocking the country's development process. Currently, the stock market under implementation does not allow foreign investors to participate. In Vietnam, foreign investors are given incentives to invest in the stock market as they make the market more liquid and hence raise the valuation of local companies listed on the market. Myanmar should also follow the same step. Only if the capital market and bond market develop will the country need to depend less on international aids and grants for infrastructure investment.

Are there regulations in place that will govern the project financing of infrastructural projects?

Infrastructural projects were implemented in the form of public private partnership (PPP) as government budget and ODA cannot sufficiently fund the projects. The most important aspect in PPP is the legal framework, which lays out a set of rules and regulations to avoid conflicts and disputes between private and public entities. There should be a separate entity within government with primary focus on infrastructural developments headed by a Czar. In order for an economy to grow, at least 5% of GDP needs to be invested in infrastructure. Vietnam invests about 6% or 7% of its GDP on infrastructure, whereas China invests about 10%. The Chinese government invests heavily in infrastructure such as building expressways, and when it starts to earn regular cash flow from these investments, the shares of the companies will be traded on Stock Exchange. Infrastructural development should be inclusive of national government, regional government, and foreign and domestic investors.

What is the status of bond market development in Myanmar?

Myanmar totally lacks the knowledge when it comes to bonds and thus, there is still a long way for bond market development. At the time of the 1997 during the Asian Financial Crisis, the bond market did not even exist in countries like Singapore. A bond is a kind of debt just like bank loans. However, bank loans have a shorter time horizon, whereas corporate bonds are for a longer term of 10 – 15 years. During the 1997 crisis, companies financed their long-term investments with short-term bank loans, and when the banks asked for repayment at times of crisis, the companies had no option and ran into bankruptcy.

Learning from this incident, the Singapore government urged its companies to diversify their sources of finance rather than relying on banking loans. The corporate bond market in Asian countries is still relatively small compared to that of the United States. So, going back to the question, Myanmar has not introduced corporate bonds yet, although it has been some time since the government began issuing treasury bonds. In any market, it is usual for a bond market to come into existence only after the development of a stock market.

Given the current status of Myanmar's financial industry, is it too soon for Myanmar to issue sovereign bonds? Or should Myanmar start working towards it now?

Myanmar should start working on it, because before issuing bonds, there are several steps the country needs to undergo. Just as companies prepare for the stock market, the government needs to restructure the country as a preparation for credit rating and dollar-denominate sovereign bond issuing.

Firstly, the country needs to make sure it meets the credit rating assessment criteria. Each and every ministry or department must be able to meet its Key Performance Indicators (KPIs) so that it is easier for them to raise funds by means of issuing bonds when needed. After receiving its credit rating, Myanmar can choose whether or not to issue bonds. There are countries that do not issue bonds, regardless of the credit rating. However, since Myanmar is in need of rapid infrastructural developments, the government should grab all financing opportunities including issuing dollar-denominate sovereign bonds.

Since there are many forms of infrastructural developments that are in demand, the government must also be able to prioritize based on the level of importance. When issuing bonds, the government should start with issuing bonds worth USD 500 million for the first time, as it is the amount that does not cause burden to the country for repayment, as Myanmar has regular income from oil and gas, exports, remittance, etc.



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Kyaw Myo Htoon @John is a Financial Consultant and author of best-selling book called "Understating Equity and Project Financing". John is also a co-founder of U.S based Young & Rubicam Yangon advertising agency and Coca Media a media placement agency. John graduated from Yangon University with History. John is a Managing Director at Trust First, a financial advisory firm, currently working with several local Myanmar firms for fund raising.



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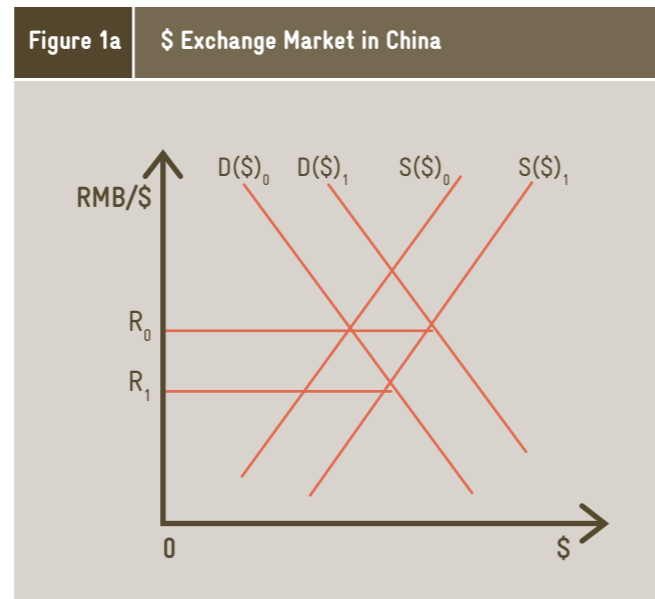
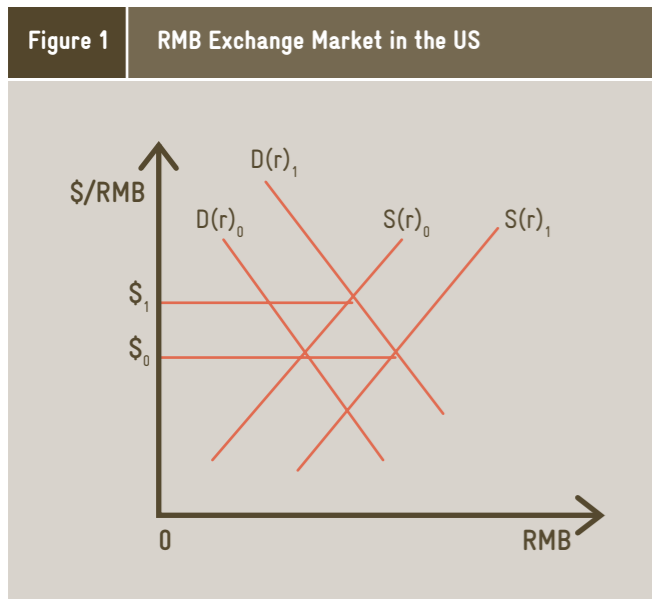
08 The Depreciating Kyat/Dollar Exchange Rate Issue by U Myint

- 1 Myanmar has adopted a managed float exchange rate system. How does this system work? A useful way to find out is to look at how China has used such a system to fix the exchange rate of its currency, the renminbi (RMB), against US currency, the dollar (\$). To illustrate, we begin by considering the US's balance of trade with China as provided in the table below.
- 3 RMB exchange market in the US is presented in Figure (1). For illustrative purpose, start with demand and supply curves of $D(r)0$ and $S(r)0$ that give rise to an exchange rate of $\$0$ per RMB.

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
US Exports	19.2	22.1	28.4	34.7	41.8	55.2	65.2	71.5	69.6	91.9
US Imports	102.3	125.2	152.4	196.7	243.5	287.8	321.5	337.8	296.4	364.9
Balance	-83.1	-103.1	-124.0	-162.0	-201.7	-232.6	-256.3	-266.3	-226.8	-273.0

Source: US Department of Commerce; US International Trade Commission (ITC).

- 2 Table (1) shows that the US bought (imports) goods and services from China more than it sold (exports) goods and services to China from 2001 to 2010. That is, the US has had balance of trade deficits with China for 10 years in a row. This affects the exchange rate between the \$ and RMB. There are two foreign exchange markets to show how this takes place: Figure (1) is the exchange market for RMB in the US, and Figure (1a) is the exchange market for dollars in China.
- 4 Now, consider what happens when the US balance of trade deficits, as shown in Table (1), come into play. The US's consumers are now buying goods and services far in excess of what the US is selling to the consumers in China. Buying more Chinese goods and services imply an increase in the US's demand for RMB. As a result, the demand curve of the US for RMB shifts upwards to $D(r)1$. With the supply curve of RMB remaining the same at $S(r)0$, the RMB/\$ exchange rate will appreciate to $\$1$.



- 5 From China's point of view, the US's trade deficit with them will mean a trade surplus with the US. The impact of China's balance of trade surplus with the US on the dollar exchange rate in China's exchange market is presented in Figure (1a). Here again, for illustrative purpose, we start with demand and supply curves $D(\$)_0$ and $S(\$)_0$ in the dollar exchange market, and the RMB/\$ (RMB per \$) exchange rate is R_0 . With such a balance of trade surplus, the inflow of dollars exceeds the outflows of dollars into China, so the supply curve for dollars increases and shifts to the right to $S(\$)_1$. This, in turn, causes the RMB/\$ exchange rate to decline to R_1 .
- 6 To summarize the presentation up to this point, two countries, the USA and China, are engaging in trade. The US came to have a large balance of trade deficit in this engagement. The trade deficit will cause a rise in demand for RMB in the US and the RMB/\$ exchange rate will appreciate in the US. As time passes, this appreciating RMB exchange rate will raise prices of imports from China and reduce these imports into the US.
- 7 In China's case, a trade surplus with the US will increase the supply of dollars in its economy, which results in the RMB/\$ exchange rate to depreciate, making American goods and services cheaper for Chinese consumers and leading to higher demand and increasing US exports to China.
- 8 The final outcome, as imports from China are reduced in the US, and at the same time, exports from the US to China are increased, the trade imbalance between the two countries will narrow as time passes, and ultimately disappear.

- 9 However, as we can see in Table (1), the trade imbalance did not narrow or disappear. On the contrary, the US balance of trade deficit with China continued for 10 years and the size of the deficit increased every year (except in 2009 when there was a recession in the US). The question is – Why?
- 10 The reason: As mentioned in the paragraphs above, the Central Bank of China did not allow a free float of its currency against the US dollar. Instead, it prevented its currency from appreciating against the dollar, and also for the dollar to depreciate against the RMB. This is done by China's Central Bank's managed float action that involves buying billions of dollars of US treasury (government) bonds. As can be seen in Figure (1), such purchases by China flood the US with large inflows of RMB causing the supply curve $S(r)_0$ to rise to $S(r)_1$. This results in the RMB/\$ exchange rate to fall from $\$1$ back to its original rate of $\$0$.
- 11 Likewise, China's Central Bank buying billions of US treasury bonds will lead to an increase in demand for dollars in the country's dollar market. As shown in Figure (1a), the demand curve for dollars will rise in China from $D(\$)_0$ to $D(\$)_1$. This increase in demand for dollars causes the RMB/\$ exchange rate to rise back to the original R_0 .
- 12 Resort to import of financial assets, such as US treasury bonds, plays a crucial role in the managed float of China's currency exchange rate. On December 31, 2014, US treasury bonds held by foreigners amounted to \$6.15 trillion. Of this, China held \$2.24 trillion, the largest amount, which accounted for 36% of the total.

- 13 From 2001 to 2010, why did China engage in a managed float which prevented the RMB from appreciating with respect to the dollar? The simple answer: maintaining high exports to the US is good for its economic performance and creates employment for its workers.
- 14 Goods sold in the US market are produced in China by US multinationals. Multinationals gave technology, know-how, enterprise, capital, management, and marketing skills to China to make laptop computers, digital cameras, washing machines, out-sourcing services, etc., using cheap labor. These improved productivity, employment, incomes, and living standards in China. Purchasing US treasury bonds, in fact, amounts to giving loans to the US. Interest is earned on these bonds and risks are low as they are backed by the US government, and the dollar is a relatively stable currency.

- 15 Now, coming to the managed float exchange rate system in Myanmar, many reasons have been given for the present depreciation of the kyat/dollar exchange rate over the past months. One popular reason is Myanmar's rising balance of trade deficit. This can be seen in Table (2). The table shows that Myanmar's balance of trade deficit has increased substantially over the past three years from \$92 million in the 2012-13 fiscal year, to \$2.6 billion in 2013-14, and to \$4.1 billion in 2014-15.
- 16 Since the kyat/dollar exchange rate depreciation has occurred in past months, Table (3) presents the monthly balance of trade deficits from May 2014 to April 2015. There has been continuous deficits at the monthly-level as well, except in August 2014, when a surplus of \$84 million was recorded.

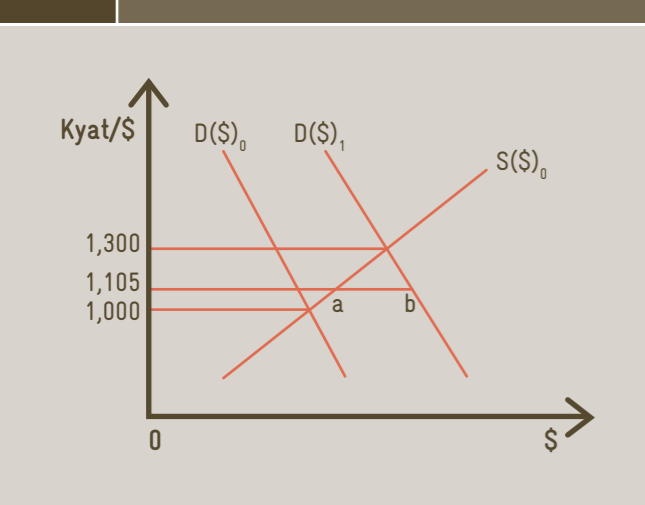
Fiscal year	2012-13	2013-14	2014-15
Exports of goods and services	8,977.0	11,204.0	12,523.7
Imports of goods and services	9,068.9	13,759.5	16,633.2
Balance of trade	-91.9	-2,555.5	-4,109.5

Source: Central Statistical Organization, Monthly Economic Indicators, April 2015, Table 1.1, p. 11.

Year	2014								2015			
	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Exports	997.3	891.6	953.4	1,437.6	1,182.9	1,125.7	1,102.9	930.0	960.7	928.6	1,477.2	623.6
Imports	1,311.6	1,298.6	1,366.2	1,353.6	1,741.1	1,343.7	1,253.2	1,372.8	1,382.6	1,514.1	1,519.3	957.6
Balance	-314.3	-407.0	-412.8	84.0	-558.2	-218.0	-150.3	-442.8	-421.9	-585.5	-42.1	-334.0

Source: Central Statistical Organization, Monthly Economic Indicators, April 2015, Table 1.3, p. 13.

Figure 2 US\$ Exchange Market in Myanmar



17 Taking into account Myanmar's balance of trade deficits with the rest of the world given in Tables (2) and (3) above, Figure (2) sets out the US dollar exchange market in Myanmar. For illustrative purpose, we start with $D(\$)_0$ (the demand curve for dollars) and $S(\$)_0$ (the supply curve) which results in the exchange rate of 1,000 kyats per dollar. Now, when Myanmar imports more goods and services from abroad than what it is exporting, the demand for dollars to buy these imports will increase in the dollar exchange market in Myanmar. Suppose the demand curve increases to $D(\$)_1$, and assume that under a free float system the exchange rate will result in 1,300 kyats per dollar, but the authorities who are running the show in Myanmar had reservations with such a free float outcome. In the latter half of June 2015, attempts were made to hold the exchange rate at 1,105 kyats per dollar (+/- 0.8%). What is the reason for this?

18 The reason may be provided by approaching the matter by means of a branch of study known as behavioral economics. Behavioral economics is defined as a study of psychological, cognitive, social, and emotional factors in economic decision making of individuals and institutions.¹⁶

19 In our situation it simply means that the authorities who are currently taking care of the exchange rate and monetary policy are also those who have been performing the same tasks under the previous regime. Under the past regime, Myanmar was inward-looking, not in the good books of major economic powers, was isolated, and under economic sanctions for many years. These had an impact on the behavior and mind-set of key economic policy makers in the country at that time.

20 Due to sanctions and other discriminatory acts, foreign exchange, such as the dollar, was scarce in those days and care has to be exercised in meeting three demands for its use. These are:

- (a) *Transaction demand*: to meet demand for dollars – to buy and sell in the world market;
- (b) *Precautionary demand*: to have dollars in store for security and to meet unexpected events and emergencies; and
- (c) *Speculative demand*: to have dollars to speculate in the foreign exchange, commodity, stock, and financial markets.

21 Among the three, priority has been given in the past to meet precautionary demand – to have sufficient foreign exchange reserves to take care of emergencies, man-made and natural disasters, and huge economic disturbances coming from across the border due to regional and global financial crises. Similarly, although with limited success, as currency speculation has been a source of exchange rate instability in the country, cracking down on such activities has been a well-established measure that continues up to now.

22 Hence, priority concerns of those in charge of foreign exchange management in present-day Myanmar seem to be devoted to precautionary and speculative demands. Sufficient attention does not appear to be given to transaction demand in order to ensure adequate foreign exchange is allocated for the smooth functioning of the external trade sector.

23 The need for the public sector to be more liberal with its foreign exchange earnings in support of the private sector is also highlighted by Table (4). It shows 57% of the country's receipts from the exports of goods and services are obtained by the public sector, while the expenditure for buying 83% of imports of goods and services are met by the private sector.

24 Figure (2) illustrates a managed float aimed at fixing the exchange rate at K1,105 per dollar will result in a dollar shortfall amounting to ab . This shortfall will need to be further examined and analyzed and corrective measures properly thought out, planned, and implemented. Some ideas to undertake such a task are given below.

25 First, administrative measures that instruct banks and the financial community to abide by the managed float reference exchange rate set by the Central Bank of Myanmar (CBM); issuing warnings and threats of persecution if they fail to do so, is not a good idea. It will amount to going back to an old solution to resolve a new problem and will be looked upon as a major set-back to establish an exchange rate that is

relatively stable, market-determined, and meets ASEAN and international standards.

26 Second, Myanmar is no longer isolated and doing its own thing without bothering with what is going on among its neighbors and in the rest of the world. The re-engagement with the outside world has far exceeded expectations with the reforms underway (including the exchange rate issue). Advantage should be taken of opportunities it has presented to us.

29 Fifth, keeping the exchange rate far below the market rate by administrative measures will give incentive for people with foreign currency deposits in the domestic banks to withdraw their dollars and sell them on the free market to make significant profits. This is not sustainable, and a stage will be reached when just one bank runs out of dollars, meaning it cannot meet its obligations to its depositors which could trigger a bank run, not only with respect to withdrawal of dollars, but herd behavior and withdrawal disease infects the kyat. This could lead to a serious banking crisis.

Table 4 Myanmar: Share of Government and Private Sectors in Exports and Imports, 2014-15 (US\$ million)

Exports				
Total	Government		Private	
Amount	Amount	Share (%)	Amount	Share (%)
12,523.7	7,169.6	57.2%	5,354.1	42.8%
Imports				
Total	Government		Private	
Amount	Amount	Share (%)	Amount	Share (%)
16,633.1	2,754.2	16.6%	13,878.9	83.4%

Source: Central Statistical Organization, Monthly Economic Indicators, April 2015, Table 1.3, p. 13.

27 Third, it is not sufficient to look primarily at the balance of trade. Other items in our economic and financial relations with the outside world will need to be looked into considering the exchange rate issue. These include inflows of dollars such as remittance from millions of our migrants working in foreign countries, net foreign investment inflows, foreign aid and loans, etc. Information on these should be made available in the current, financial, and capital accounts of the balance of payments.

28 Fourth, there are several types of exchange rates. What we have been concerned with is the nominal exchange rate. Another type, which should be of interest, is the real exchange rate which is influenced by inflation in the country. Drawing attention to inflation leads us into the need to take account of macroeconomic policy (fiscal and monetary) on the exchange rate.

30 Sixth, there should be more reliable, timely, and easily accessible statistics with respect to our trade and economic relations with the outside world to enable us to analyze and make recommendations on how to move forward on the exchange rate front.

31 Seventh, with general elections just four months away, this is not a good time to have a banking crisis and our financial sector in turmoil. Instead, this is an opportune time for CBM to demonstrate that it is independent, has clout, is in charge, and is playing the lead role in dealing with the kyat/dollar exchange rate depreciation issue facing us today. It should not be standing on the side-line, allowing our managed float system to be turned into a mismanaged float system, doing more harm than good. It should move away from being overly concerned with the precautionary and speculative demands for dollars, and instead, devote the much deserved attention to transaction demand to enable the private sector

to play a more positive role in our international economic relations with the outside world. As noted earlier, the private sector accounts for 43% of the country's export earnings but takes care of 83% of expenditures on our imports.

32 Eighth, to show that CBM is taking charge, it should set its reference dollar exchange rate closer to the market rate by allowing it to have access to the 57% of export earnings of the public sector. Setting the reference rate, say at 1,200 kyats per dollar, may be a good start to achieve this objective.

33 Finally, a few thoughts on how we might go forward with improving our foreign exchange management are given below:

- First, the mandated independence (which was won recently) of CBM must be nurtured and respected. As usual, a newly independent entity faces a host of difficult problems. My hope is CBM will do a better job than what we did soon after our country got independence in 1948.
- Second, for CBM to be independent other powerful authorities should refrain, to the greatest possible extent, from interfering in what clearly falls within the area of competence and responsibility of CBM.
- Third, CBM must exercise its independence to make decisions granted to it. It must implement measures and make decisions based on its assessment and analysis of critical issues in the banking and financial sector that require response and remedial action.
- Fourth, CBM to perform this task, the person who is in charge (the Governor) must be willing and able to take on such a responsibility. The Union Bank of Burma Act 1952 conferred upon CBM the usual functions of a central bank. Hence, CBM has a long history, and over these years it has had notable successes. It has also faced serious challenges. CBM's governors and staff have learned many lessons from this experience – the good and the bad, what to do and what to avoid. Hence, in this country, we still have dedicated banking and financial experts and their staff who can take on the challenges currently facing us, provided they are assured CBM will be an independent organization and be able to make decisions based on their knowledge and experience.

- Fifth, as we all know, after years of inaction and neglect, capacity of CBM, like in other institutions in the country, has fallen much below regional and international standards. CBM governor and his staff will need support. I propose support should come in the form of an advisory team led by a foreign expert central banker to be attached to (or embedded in) the CBM to impart to our officials the knowledge and technical expertise to enable our central bank to play as an equal partner with other central banks in the region and beyond.
- Sixth, I believe the bilateral and multilateral donors will be ready to support such an initiative to meet the present challenges facing CBM, but the initiative must come from us, along with the request for help and technical assistance.
- Seventh, I believe our people in CBM have the capacity to prepare a request that gives well-reasoned arguments and clearly indicates our commitment to cooperate closely with such an expert team, not only to take care of the exchange rate problem, but also, to enable the CBM to become a key institution for economic reforms in the country. Serious consideration should therefore be given to undertake such an initiative at present.
- Eighth, why should we not give serious consideration to this initiative? Our neighbor, Singapore, at one time had a foreign central bank expert running the Monetary Authority of Singapore (central bank). Also, the Bank of England, one of the great central banks in the world, which began operations in 1694 had 120 governors from that date to the present, and among them 119 are British. The current governor (the 120th appointed in 2013) is a Canadian. We are not mature enough to have a foreign central bank expert to serve as governor of CBM. So the second best solution I am suggesting is that we should appoint a Myanmar national who is dedicated and who has the technical and administrative capacity to run CBM. Perhaps we can count such individuals with our fingers, but they are there. This governor will be independently running CBM and making decisions regarding crucial issues facing our banking and financial sector. In performing this task he will be assisted and will take advice from a team led by an expert foreign central banker. Given our declared intent to reform CBM, I do not believe this is too much to ask for.

End Notes

- 16 Please see Sendhil Mullainathan & Eldar Shafir, *Scarcity the true cost of not having enough* (Penguin Books: London, 2013).



About the author

U Myint has a B.A from Rangoon University majoring in Economics, Political Science and English Literature; an M.A in Economics from Cornell University, USA; and Ph.D in Economics from University of California, Berkeley. He has held posts of Assistant Lecturer in the Yangon Institute of Economics; Lecturer and Head of Economics Department at the Institute of Education; Chief, Economic Division, Ministry of Foreign Affairs; and Senior Economist, United Nations. At present, he is President's Chief Economic Adviser; Director, Tun Foundation Bank; and Chief, Centre for Economic and Social Development, Myanmar Development Resource Institute.

09 Myanmar Kyat Exchange Rate Issue by San Thein

I The Two Extremes

To paraphrase a famous saying that there are neither permanent friends nor permanent enemies in the world of politics, only permanent interests, I would say that there are neither permanent problems nor permanent solutions only permanent interest in the favorable solution to the problems in the world of finance. To elaborate, five years ago in June 2010, we had a kyat appreciation problem. Hovering around 1000 kyats per US dollar (USD) during the first half of 2010, the Myanmar kyat (MMK) appreciated swiftly during the first half of 2010, sending the dollar value of kyats to the lowest point at 750 kyats per USD on June 13, 2010. The strong kyat had a tremendous impact on the US dollar-earners - both inside and outside the country. Exporters of goods and services lost their competitive edge in international markets. The hotel and tourism sector received fewer foreign visitors due to the low purchasing power of their currencies. Myanmar people working abroad sent back to their dear ones less money than before. Landlords received less rental fees from their foreign tenants. Even foreign investors and international aid programs were hit by the rising kyat value. At that time, some scholars blamed the Dutch disease (sharp appreciation of the local currency exchange rate due to huge natural gas exports) and inflows of funds in terms of USD from investors and donors as major causal factors for the appreciation of the local currency, Myanmar kyat. The issue hit the businesspeople so hard that on February 25, 2013, when the rate was 850 MMK per USD, the Speaker of the Pyithu Hluttaw, Thura U Shwe Mann, suggested an appropriate rate of Myanmar kyat to be around 950 - 1,000 MMK to serve the interest of the people¹⁷. This time, when the pendulum swung back to the other extreme, there were cries of rising import bills and scarcity of foreign exchange (e.g. the US dollars) in the markets. The problem heated up during the first half of June 2015 with mounting pressure on the central bank, especially from media and importers, and the issue was finally brought to the attention of the authorities. In effect, neither weak nor strong kyat could serve the permanent interest of both sides. Keeping a stable exchange rate by avoiding the two extremes would be the only favorable solution which would serve the common interest of the country in the long run.

Keeping the above issues in mind, this paper tries to answer the following questions:

- 1 Why is exchange rate so important to an economy?
- 2 What are the contributing factors to the decline of the external value of Myanmar kyat?
- 3 What measures have been taken to stabilize the exchange rates by the authorities? And in its last part, the paper mentions the IMF's recommendations on the issue which the monetary authorities are supposed to have taken into serious consideration to manage the exchange rates.

Importance Of Currency Exchange Rate To An Economy

The exchange rate plays a vital role in an economy. It is the price of foreign currency in terms of domestic currency and vice-versa. It links the domestic economy with the rest of the world through both goods and asset markets. Exchange rates can be fully market-determined by the interaction of demand for and supply of foreign exchange. This has become the global norm and a crucial determinant of a country's international competitiveness. The foreign demand for a country's product depends not only on the price expressed in its own currency but also on the conversion rate of foreign currency into its currency. A currency appreciates or depreciates against its trading currencies depending on its prevailing economic and political situation. If a country's national currency appreciates against its trading currencies, the country's export prices will become higher in international markets, and if it depreciates, its exports will be cheaper in terms of other currencies. Therefore, countries with relatively under-valued or lower-valued local currencies would have favorable conditions to boost their exports, which would have price-incentives for importers from other countries. Volatility in exchange rates means high levels of uncertainty for traders and investors and, therefore, jeopardizes the country's trade and investment. High volatility may also be a chance for some short-cited business activities. Overall, it can be said that a stable and predictable exchange rate regime facilitates promotion of a country's favorable performance in international trade and payments.

In the case of Myanmar, since both its export and import prices are normally quoted by the US dollar, not in terms of Myanmar kyat, the depreciation or appreciation of kyat against the greenback would not change the external prices of exports and imports of goods and services. However, the impacts will

be on Myanmar's importers and exporters. If the local currency depreciates against its trading currency (e.g. USD), the exporters will get more Myanmar kyats than before. For example, assuming the kyat depreciates from 900 MMK per USD to 1,000 MMK, if the export price of a ton of beans is 100 USD, the exporter will get 10,000 MMK more on the sale of beans per ton than before. Therefore, it will be an incentive for the exporters to export more. On the other hand, importers have to spend more Myanmar kyats to get the same amount of imported goods.

Contributing factors to the decline of the value of Myanmar kyat against the US dollar

Stronger USD In International Markets

Growth in the United States was stronger than expected in the last three quarters of 2014. Consumption - the main engine of growth - has benefited from steady job creation and income growth, lower oil prices, and improved consumer confidence. The stronger U.S. economy makes the USD stronger than before. Among major currencies, as of February 2015, the U.S. dollar had appreciated by about 10 percent in real effective terms (IMF April 2015). Since the start of 2015, the U.S. dollar has been getting stronger in international markets. In the world of floating exchange rate system, where the international currency is Myanmar's major trading currency, the strong USD means weak Myanmar kyat.

Rising Trade And Current Account Deficits

Myanmar's rising external trade deficits is one of the most cited reasons for the decline in the external value of the kyat. According to the available official data from CSO (the Central Statistical Organization), in the financial year (FY) 2014-2015 Myanmar had a recorded trade deficit of 4.1 billion USD (about 7% of GDP), an increase of a staggering sixty-four percent over the 2.5 billion USD deficit recorded in FY 2013-2014. Import bills, excluding draw-back items, increased by 22.3 percent from 13.0 billion USD to 15.9 billion over the two periods, whereas, export proceeds increased by 11.6 percent from 11.2 billion USD to 12.5 billion¹⁸. Higher import value means higher demand for USD within Myanmar as the buyers have to pay their bills in USD. Low exports mean low supply of the US dollars within Myanmar as exporters are paid for their goods in terms of USD. In theory, free floating exchange rates are determined by the market forces of supply and demand and are, therefore, self-correcting. Stronger exports would increase the demand for kyats and given a sufficient time, it would reverse the course of declining the kyat. Since April 2012, when the central bank dropped export first policy, which required having export earnings for is-

suance of import permits by the Ministry of Commerce, import bills have surged to meet the domestic demand, especially, in the areas of construction and investment. On the other hand, due to their supply-inelasticity of Myanmar's exports, which are largely of agricultural and primary products, Myanmar exporters' ability to take the advantage of price-incentives in the international markets is limited. The rising trade deficit is too large to be offset by net receipts from services and income producing a high deficit of 6.1 percent of GDP in 2014-15 compared with 5.2 percent of GDP in 2013-14 (IMF 2015)¹⁹.

Rising inflation

The current rising rate of inflation is most commonly identified as the main culprit for the weak currency. According to the latest available official data published by CSO, year-on-year inflation has been rising from 5.96 percent in April 2014 to 7.89 percent in May 2015²⁰ - approaching ADB's estimate of 8.4 percent in 2015. Due to the government's expansionary monetary policy and limited monetary tools to control the inflation, IMF predicts inflation may reach 13 percent by the end of 2015²¹. According to the theory of purchasing power parity, if a country's general price level rises (inflation) relative to those of the country's trading partners, its currency depreciates against those of these countries. Hence, inflation is inversely correlated with the purchasing power of money: the higher the rate of inflation, the lower the purchasing power (real value) of money and the lower the living standard of the general public.

The causative factor of rising inflation can be related to the government budget deficit and the way it is being financed. Previously, the central bank used to heavily finance the deficits by printing banknotes, leading to a double-digit inflationary pressure on the economy most of the time during the last decade. As the price stability is the primary objective of the central bank, it is the central bank's legal obligation to keep the inflation under control.

Limited Legitimate Investment Opportunities In Myanmar

Another possible factor is limited investment opportunity in the country. Myanmar's financial sector is underdeveloped and there is no active financial market in the country. There used to be real estate and motor-vehicles as the two main investment areas for quick and high return on investment. Since property market and used-car market have cooled down recently, investors, as well as speculators, turn to gold and the greenback as their safe haven for investment and also as a hedge against rising inflation.

Wide Use Of The Greenback In The Payment System Is Driving Towards Dollarization

The US dollar is a major trading currency in Myanmar's external trade. Import and export prices of goods and services are generally quoted in the US dollar. Such payments as container charges collected by shipping lines, hotel accommodation fees, entrance fees of sightseeing zones, house and apartment rental charges on foreign tenants, salaries of employees working for foreign companies and international organizations, visa fees, etc. are being made in terms of the US dollar. The US dollar plays a prominent role in the payment system and it becomes the most promising store of value in the face of rising inflation. It is also the most liquid profit-making asset for speculators.

IMF's Assessment: The Economy Is Overheating

According to the International Monetary Fund (IMF) Article IV Mission to Myanmar (June/July 2015), the main international institution responsible for its members' exchange rate systems, the economy is overheating with rising inflation due to a high credit growth (40 percent increase within one year ended January 2015) mainly caused by the central bank's loose monetary policy. Increased budget deficit has raised inflationary expectation, resulting in less willingness to hold kyat, which in turn increases demand for the US dollar. According to IMF, overheating has led to rising trade deficit and put pressure on the kyat. Imports are growing too fast and export earnings and capital inflows are not enough to meet demand for dollars – too many kyat (including kyat borrowed from banks) chasing for too few dollars.

Measures taken by monetary authorities Realigning To The Market Rates

Since April 2012, the Central Bank of Myanmar has tried to manage the exchange rates by holding daily foreign exchange auctions with domestic private banks holding authorized dealer licenses. These banks submit their daily proposals to buy/sell foreign exchange to the central bank. Based on these proposals, the central bank announces its daily reference exchange rates for the day's trading. The reference rate is used in both retail and wholesale currency-trading markets. In the retail markets, currency exchange counters can set their own rates within the bands of plus or minus 0.8 percent of the reference rate, whereas the spread is narrowed to plus or minus 0.3 percent for wholesale inter-bank markets. In this way, the central bank, acting as the price maker in currency exchange markets, sets its market-determined reference rates through daily auctions.

CBM's Reference Rate And Market Rate:

Keeping its reference rates around 1025-1027 MMK, the monetary authority tried to stabilize the exchange rates during the first quarter of 2015. As the rates of year-on-year inflation increased from 7.06 percent in December 2014 to 8.00 percent in April-May 2015, the depreciation rate of Myanmar kyat has accelerated, especially after the Myanmar's New Year. At first, the central bank tried to slow the depreciation of kyat by keeping its reference rate around 1110-1120 MMK per USD. However, it widened the gap between the reference and market rates, leading to a flight to the USD. The gap between the reference and market rates can be observed in the following table.

CBM's Contractionary Monetary Policy

On July 13, 2015, the CBM announced the introduction of Contractionary Monetary Policy²² and started making upward adjustment in its reference rates to be in line with the prevailing market rates. On that day, the CBM raised its reference rate from 1125 MMK to 1200 MMK per USD, a depreciation of 14.5 percent since January 2015. Under its contractionary monetary policy, CBM is supposed to contain the rising inflationary pressure by reducing liquidity from banks which would limit the lending power of the banks. The CBM, with the support of the Ministry of President's Office and other related ministries, tries to stabilize the exchange rates by narrowing the gap between the official and unofficial rates while at the same time making sure that local banks are not involved in currency speculation²³. The effectiveness of the realignment can be seen in the narrowing gap of less than 1 percent of the reference rates, especially after July 27th. The central bank managed to close the gap, while allowing the value of kyat to gradually slide against the US dollar. On September 18th, the reference rate was set at 1292MMK per USD while the market rate is hovering around 1300 MMK, a depreciation of 36 percent since the introduction of currency realignment program in April 2012. The following figure shows how CBM could manage closing the gap between its reference and market rates.

Allowance Of Purchase Of Unrestricted Foreign Exchange For Imports Of Fuel And Edible Oil

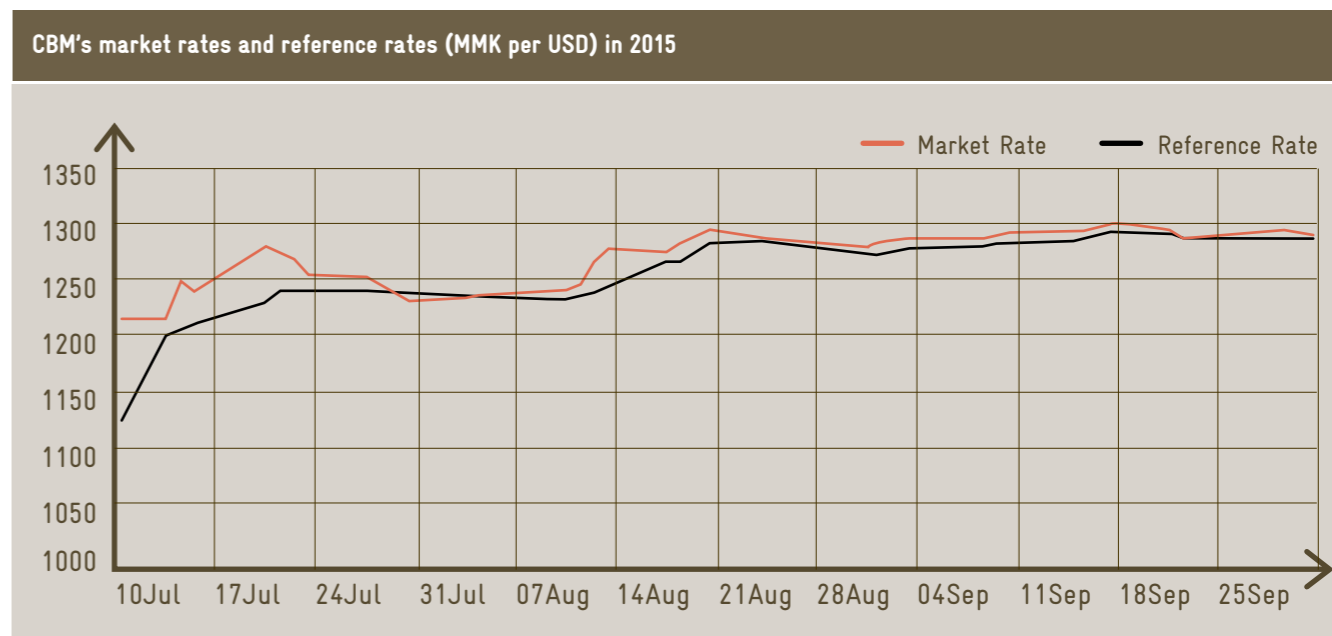
As part of its effort to deal with the unstable exchange rate problem and in a move aimed at facilitating the imports of fuel and edible oil (the two essential items), CBM has made unrestricted sales of foreign currencies to the importers of those two politically sensitive items since mid-June at its set

Commodity	CBM Reference Rate (MMK/USD1)	Market selling rate	Gap	Gap in %
May 5-12	1080	1090 - 1115	10 - 35	0.9 - 3.2
May 13-25	1082	1135 - 1137	53 -55	4.9 - 5.0
May 26-Jun 3	1090	1140 - 1152	50 - 62	4.5 -5.6
Jun 04	1097	1165	68	6.2
Jun 5-18	1105	1200 - 1300	95 - 195	8.6 - 17.6
Jun 19-Jul 1	1110	1119 - 1190	9 - 80	0.8 - 7.2
Jul 02	1120	1187	67	6.0
Jul 3-10	1125	1134 - 1220	9 - 95	0.8 - 8.4

Source: CBM & market survey

rates²⁴. Starting from June 17th, CBM sells foreign currencies to the importers through financial institutions. The two state-owned banks, the Myanma Economic Bank and the Myanmar Investment and Commercial Bank, followed suit on June 22nd. Under the program, importers of the two essential items will get necessary foreign exchange through local banks. Importers buy fuel and edible oil in foreign markets by opening letters of

credit (L/Cs), which allows them to make the payments through local banks' accounts with foreign banks. The central bank sells the local bank(s) the amount of foreign exchange used for buying those essential import items. Since it is an extraordinary measure which carries the risk of depleting the country's foreign reserves quickly, it is hoped that it will be a temporary program of the central bank's intervention in the markets.



I Possible Remedial Measures

De-dollarization by reducing the role of USD in the payment system

Given the current high demand for the US dollars, Myanmar's economy is largely dollarized. Dollarization undermines the role of national currency in the payment system. It breeds speculative motives in the currency exchange market. The important task for the CBM is to preserve the role of national currency 'kyat' in the payment system. Every payment in the country should be made in the local currency. The recent move taken by the central bank - requesting all ministries and regional authorities to instruct organizations and departments under their management to make all local payments in kyat and related decision to revoke foreign exchange acceptor and holder licenses issued to government departments and private businesses - is highly desirable. The Ministry of Hotel and Tourism announced on October 6, 2015 that the entry fees for tourists to the Bagan sightseeing zone would be collected in Myanmar kyat instead of USD. Starting from that date, the entry fee costs 25,000 MMK instead of 20 USD per person²⁵. With the announcement on October 13, 2015, by the Foreign Exchange Management Department, the CBM has decided to revoke all foreign exchange acceptor and holder licenses within one and half months (from October 19-November 30, 2015)²⁶. The effectiveness of the move can be seen in the lowering of demand for the greenback in the markets, and it strengthens the kyat against the USD.

Pursuance Of Export Promotion And Diversification

Myanmar has only a few export items, mainly agricultural and primary products, such as rice, beans and pulses, teak and hardwood, minerals and gems, gas, etc. Their inelastic supply makes it hard to boost their production to take the advantage of depreciated kyat - something that can be done in an industrialized country. Another weakness is their vulnerability to economic shocks both externally and internally, such as bad weather, workers' strikes, a sudden fall in the commodity prices, and trade embargo. To address the issue, we should effectively pursue export promotion and diversification by efficiently implementing the National Export Strategy (NES) developed by the Ministry of Commerce in coordination with the International Trade Centre (ITC) and GIZ

I Fine-Tuning The Payment System

All economic transactions should be made through a formal banking sector. The banking system is still underdeveloped, and a large number of transactions are being conducted through

informal means. A good example of these transactions can be seen in border trade and Hundi payment system. Traders should be encouraged to use banks for their trade facilitation and financing. Banks, on behalf of their customers, can make payments through their nostro-accounts with their correspondent banks in other countries. Through these accounts, traders can buy and sell foreign exchange at prevailing market rates. Using the bank account transfer methods, traders do not need to buy the US dollars in outside markets. Banks can make all transactions through respective accounts, therefore, no US dollar cash would be involved in the system so the burden for importers looking for necessary foreign exchange will be lifted.

Promoting Non-Inflationary Ways Of Deficit Financing

Persistent fiscal deficits and routine central bank financing to the deficit are the two underlying problems which fuel inflationary pressure on the economy. Other ways of domestic financing, such as raising funds through bill-auctioning are preferable for non-inflationary way of financing. Currently, major investors on the treasury bonds and bills are local bankers. Popularity of these bonds and bills are extremely low among local investors. Active financial markets should be created to have an avenue for domestic borrowings.

I Payment System Modernization

Myanmar's economy is largely cash-based. People love to handle bank-notes. Only 5-10 percent of adults have bank accounts. The cash-based payment system itself allows speculation and promotes inflation. Cashless payment systems, such as internet banking, mobile banking, and digital payment system would be desirable to maintain the price stability.

IMF Suggestion On How To Stabilize Exchange Market In Myanmar²⁷

IMF suggests taking the following key actions to stabilize the foreign exchange market

- Tighten liquidity conditions (i.e. reduce money supply) to reduce the risk of devaluation spiral (losing control)
- CBM needs to increase deposit auctions so banks deposit more money in the CBM rather than buying US dollars.
- Implement and enforce new reserve requirements on banks faster. This also means that banks put more money in the CBM.
- Reduce budget deficit to lower expectations for inflation
- Generate more government revenue by reducing tax incentives and improving tax collation (by better enforcement of tax law).

- Tighten/ implement prudential policies to manage speculation risks
- Ensure banks' compliance on net open position limit on foreign exchange (no hoarding of US dollars)
- Ensure banks hold adequate capital and liquidity (not lend too much)
- Allow the CBM reference rate to reflect market supply and demand
- This will help bring US dollar supply back to the formal and informal market and reduce demand for dollars (hence no hoarding, excess demand or shortages).

I Conclusion

The CBM is trying to stabilize the exchange rates while acquiring useful monetary instruments, such as Open Market Operation (OMO) to control money supply, and driving the economy towards a market-driven interest rate system by introducing auctioning of treasury bills, bank deposit, and foreign exchange.

Interest rates are still fixed, OMO cannot be used effectively due to the lack of secondary bond markets (Set Aung 2015)²⁸, and deposit and bill auctioning are at their initial stage. Under these circumstances it would be a challenging task for CBM to manage the exchange rates to be able to avoid the two extremes.

However, addressing the exchange issue should be a well-articulated, sustainable, and consistent program for the long-term solution. Short-term measures using quick fixes, such as administrative actions on money-changers would not be able to produce the long-term solution to the problem. These temporary measures (say-mee-toe in Burmese) would create distortions in the on-going process towards a market-oriented economic system and undermine the financial system by driving the FX business into the black markets. In the long run, it is vitally important for the monetary authority to adopt a sound monetary policy which instills a stable exchange rate system to serve the common interest of the country.

End Notes

- 17 The New Light of Myanmar issued on February 26, 2013
- 18 CSO's Selected Monthly Economic Indicators, April 2015
- 19 IMF Country Report No. 15/267, September 2015
- 20 CSO's Selected Monthly Economic Indicators, June 2015
- 21 IMF Country Report No. 15/267, September 2015
- 22 The Myanma Alin Daily, Vol. 54, No. 282 dated July 14, 2015
- 23 The Myanma Alin Daily, Vol. 54, No. 290 dated July 22, 2015
- 24 The Global New Light., Vol II, No. 58, June 18, 2015
- 25 The Myanmar Times, Oct 9, 2015
- 26 FEMD Instruction No. FE-10/365, dated October 13, 2015
- 27 IMF Article IV Consultation Mission to Myanmar June/July 2015
- 28 Commerce Journal, Vol. 15, No. 33, August 31, 2015



About the author

San Thein is a former central banker with over 20 years of experience at the bank's research department. He got a bachelor degree in commerce specializing in banking finance and insurance from the Yangon Institute of Economics in 1968. Starting his career with the central bank, he becomes a career banker and devotes his time to banking and finance. Currently, he is working for GIZ as a senior national expert.

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10 Myanmar and Foreign Exchange Market

by Mya Than

I What Is Foreign Exchange (FX)?

When we say foreign exchange, many people think foreign currency notes are the only instrument taking the name "foreign exchange." In fact, foreign exchange includes: (1) foreign bank notes and coins, (2) deposits in private and governmental financial institutions, central banks, treasuries, and commercial banks abroad, (3) foreign currency denominated securities, instruments issued or guaranteed by foreign governments, foreign financial institutions, and intergovernmental financial institutions, and (4) instruments used for the international transfer of funds. This explains why countries all over the world regard "foreign exchange" as the most essential tool to making themselves economically strong in the international community.

• The importance of foreign exchange

In view of the definition given above, foreign exchange can be taken as a main indicator of a country's economic strength, as almost all developed economies and newly-emerging economies across the world attain their economic strength through accumulation capability of foreign exchange reserves. Developed economies like the USA, Germany, and some European countries, as well as Asian countries, such as Japan, South Korea, Taiwan, and Singapore, have reached economic development levels because they could systematically manage their economies through their foreign exchange accumulation process. Nowadays, we can see that China has become the latest members in this developed block through the same process of foreign exchange reserve accumulation.

• How countries build up their FX reserves

In the early stages of economic development, countries like England, Spain, and Portugal became rich through the notorious colonization process in Asian and Latin American regions. During the industrialization era, they made use of cheap natural resources obtained in their colonies in manufacturing processes, and their economies benefited by selling industrial products in their colonies and elsewhere.

The way countries make themselves economically strong changed in the later part of the twentieth century with countries such as Japan, Korea, Taiwan, and Singapore attaining their economic strength by building up their foreign exchange reserves; not through colonization but by adopting export-oriented manufacturing strategies.

First, Japan, then South Korea, Hong Kong, Taiwan, and Singapore (the so-called Asian Tigers) managed to strengthen their economies by accumulating their foreign exchange reserves with excess export earnings. China has become the richest country in foreign exchange reserve by following a similar strategy of the Asian Tigers, and it has attained super power status, even now.

• Myanmar's FX Market

1 The situation in the past:

Ten years after Myanmar gained independence from the British in 1948, the state of Myanmar's economic situation was fairly strong, as the country was able to maintain a well-established physical infrastructure, good financial systems, a well-founded legal system, an excellent education, and a strong administrative system based on democratic socio-economic values. All of these can be said to have been the legacies inherited from the British.

Moreover, at the time Myanmar enjoyed the status of the biggest exporter in the world, meaning the country's foreign exchange reserve stood at a sizable level. Myanmar's currency, the kyat (MMK), was quite strong at the time and the exchange rate to other hard currencies like Pound Sterling or US Dollar (USD) was reflected by the market and quite stable. The kyat was the only currency used in the country.

During the socialist era, which began in 1962 and lasted about 26 years, as well as during the times of SLORC (State Law and Order Restoration Council) and SPDC (State Peace and Development Council), Myanmar's foreign exchange reserve position declined. The official exchange rate between the US dollar and Myanmar kyat was fixed around 1 USD to 6 MMK, regardless of the market rate. Throughout this time, the value of the kyat depreciated year-by-year due to fiscal policies being enacted. In an attempt to offset the budget deficit, the government excessively printed new bank notes making the market exchange rate 1,000 MMK to 1 USD, while the official rate remained around 6 MMK to 1 USD. The MMK was pegged to Special Drawing Right in determining the MMK-USD official exchange rate at this time.

This huge gap between the official and market rates created many problems, among which the emergence and dominance of a very big and strong informal FX market (“black market”) in Myanmar’s economy became the biggest challenge. While state-owned industries had to apply the official rate, the private sector applied the market rate, which was about two hundred times more. All of the State Economic Enterprises (SEE) that specialized in exports suffered huge losses as their export earnings were valued at the official rate of about six kyats. Those that specialized in imports made huge profits because their cost of imports was valued at the official rate, while their products were being sold domestically at much higher prices.

During that period, even in the private sector, dollar-kyat exchange rates were multiple. According to the trade policy of the state, “export proceed US Dollars” were the most attractive and most expensive in the market, as they could exclusively be used for imports by the private sector. Other dollar-incomes, salary earnings by company employees, and dollars paid for reasons other than export could not fetch as high a price as export proceeds, leading to the emergence of different exchange rates for differently-earned US dollars in the private sector. This led to many distortions and problems in the Myanmar economy.

In that time, only three state-owned banks - Myanmar Economic Bank, Myanmar Foreign Trade Bank and Myanmar Investment and Commercial Bank – were allowed to handle foreign currencies. The problem was that the banks had to apply unrealistic official exchange rates, meaning people did not sell their earned dollars or other foreign currencies to the banks, and banks did not sell their currency to private entities at the official rate, which led to a situation where no formal FX could be established.

To make matters worse, people and businesses preferred to accept US dollars, and the state-owned enterprises were no exception to that. As the government instructed the state-owned enterprises, and some government departments to try and earn foreign currencies, fees and taxes on many domestic payments for goods and services had to be made in US dollars.

Although Foreign Exchange Certificates were introduced with the aim of solving the gap between the official and market rates, it could not bring about a satisfactory solution to the problem. There was a tendency towards dollarization in the country with private entities, such as

hotels, restaurants, gem traders, souvenir shops, travel, and tour companies, as well as government departments such as the International Revenue, ministries of immigration, transportation, and communications accepting only US Dollars for certain transactions.

In this situation, exporters sell their export proceeds to importers at the informal market by transferring their bank account balances to the buyers’ accounts. Banks could not buy the dollars from the exporters nor could they sell the dollars to the importers due to the big exchange rate difference handicap. This is the reason why the informal market (“black market”) became so big in Myanmar, and until now, its dominance has remained. During that period, we can see that there was no formal inter-bank FX market in Myanmar because the whole of the business community was exclusively relying on the informal or black FX market.

2 Some improvements to foreign exchange in Myanmar’s banking sector

With the emergence of the new government after the 2010 election, measures were taken to upgrade the situation regarding foreign exchange in Myanmar’s financial sector. As stated above, until the end of March 2013, multiple exchange rates were applied depending on the source of foreign exchange earnings making FX transactions very complicated in the private sector.

In 2011, some private banks were given Authorized Dealer (AD) Licenses enabling them to conduct international business banking and handle FX transactions. In the same year, money changer licenses were given to some private companies so they could officially carry out FX dealings through their counters. US Dollars, Euros, and Singapore Dollars were allowed for trading by those changers and the AD banks.

For the smooth functioning of FX transactions, the Central Bank of Myanmar (CBM) successfully made the unification of different exchange rates and adopted a managed float exchange rate regime starting on April 1, 2012. This is a very important accomplishment made by the CBM on the journey of banking-sector reforms in Myanmar. According to this policy, the Central Bank conducts daily auctions for the US dollar to the AD licensed banks, and based on the bid prices made by the AD licensed banks, the daily reference exchange rate between MMK and USD is determined.

AD licensed banks and money changers have to apply the CBM’s daily reference rates in their FX dealings. For the buying and selling of foreign currency notes, banks and money changers have to determine their buying and selling rates within the spread of $\pm 0.8\%$ of the CBM reference rate. For the banks, in dealing foreign currencies by way of account transfers, the buying and selling rates are to be determined within a spread of $\pm 0.3\%$ of the CBM reference rate. Based upon USD and MMK reference rates, exchange rates between other currencies and MMK were determined and announced to the public by the CBM. This process continues in Myanmar’s banking sector today.

Foreign Currency auction regulations were prescribed by the CBM in March 2012, and in August of the same year the Foreign Exchange Management Law was enacted with the intention of establishing a concrete legal framework for FX transactions in the country. Towards the end of the same year, under the guidance of the CBM, an inter-bank foreign exchange market committee was formed with representatives from all of the AD licensed banks and some officials from foreign exchange management department of the CBM. The inter-bank FX market committee formulated a code of conduct, which is to be followed by all the inter-bank FX market member banks. In September 2014, the CBM prescribed the Foreign Exchange Management Rules, which are to be followed by the AD licensed banks to be in line with what has been laid down by the Foreign Exchange Management Law.

3 Current situation and critical issues

From the start of the inter-bank FX market operations in early 2013, banks have been allowed to conduct the trading of foreign currencies on spot basis only, and forward sales and purchases have not been permitted until now. The inter-bank FX market is not well-developed due to certain reasons and some of the salient points are highlighted below:

- The existence of a huge informal FX market, with which the formal inter-bank FX market cannot compete because it facilitates the FX sellers, buyers, and brokers outside the banking channel, should be made easier to trade because no stringent rules are there to be followed. The only solution is (after negotiation on the informal market) for the seller to apply to his bank to transfer foreign currency from his account to the buyer’s account.
- There also is an absence of a modern electronic FX trading mechanism through which banks can deal online.

- Nevertheless, this mechanism can be established soon if the CBM and inter-bank FX market committee work together for its emergence. At the moment, there is weakness in the functioning of the FX market due to the lack of concrete cooperation between the FX market committee and the CBM.

- Moreover, there is difficulty in finding experienced personnel who have practical experience and technical know-how on FX dealings, both at the CBM and the FX market member banks. Without these persons, the FX market cannot be expected to develop.

4 How to develop the FX market in Myanmar

In order to establish a developed FX market in Myanmar the following suggestions are made.

The most important is to establish ways to make the players on the informal market move to the formal inter-bank FX market. As stated previously, this has become a huge obstacle due to the late implementation of the exchange rate unification, which should have been done about 20 years earlier. However, it is now too late to stop.

Nevertheless, it is now time to enforce rules and regulations, which require the tactful, lenient, and persuasive restriction of bank account transfers for informal market transactions. It is also important to adopt stricter foreign currency account opening policies that require account holders to see their earned foreign currencies to the banks in a certain period of time (for example three months), which happens in many other countries.

There must also be enforcement on those who are in need of foreign currencies. For example, importers, should be prevented from buying on the informal market and buy from AD licensed banks instead.

- The CBM should lead the inter-bank FX market and help member banks in areas such as HR development, the modernization of the dealing process, and the modernization of infrastructure for trading and settlements.
- The CBM should encourage the state-owned banks, with whom the informal market players are widely doing the account transfers, and which are handling much bigger volumes of foreign currencies, to actively participate in the inter-bank FX market. This would aid the flow of foreign

currencies between the state-owned banks and private banks to become more frequent and make the inter-bank market more dynamic, which would enable the CBM to reduce the need to conduct daily USD auctions.

- The CBM needs to give guidelines to the FX market member banks to install and understand the modern electronic trading equipment in order to make FX dealings more reliable and efficient. It should also allow forward sales and purchases to make AD licensed banks effectively apply market risk management measures by hedging against price fluctuations, leading to a wider scope of FX market transactions.
- The CBM should speed up the introduction of electronic settlement and clearing systems such as Real Time Gross Settlement for the FX market and security market transactions.



About the author

Mya Than is a banking career man with more than 48 years of banking experience. He became the chairman of Myanmar Oriental Bank in December 2009 after retirement as the managing director of Myanma Investment and Commercial Bank, a state-owned institution. He served at various financial institutions specializing in agricultural, commercial and international banking services. He is also actively participating in Myanmar financial sector development activities by working as the chairman of Myanmar Payment Union, an institution for promoting electronic payment systems in Myanmar, and also as the chairman of Yangon Interbank Foreign Exchange Market Committee. He holds the B.A (Economics), Bachelor of Education and Master of Public Administration degrees.

5 The need to review the policies for FX reserve accumulation

As pointed out earlier, it is an indisputable fact that Myanmar must follow the export-oriented strategy of the Asian Tigers to establish sufficient foreign exchange reserves. For this, relevant authorities need to review the country's existing monetary, trade, investment, and fiscal policies, as well as make necessary adjustments and reforms to create a situation where stakeholders can effectively contribute to the country's economic development through the foreign exchange reserve accumulation process.

11 Bank Trade Financing and Facilitation in Myanmar

by Dr. Hla Theingi

The world is moving away from self-contained national economies towards globalized economies. Globalization has taken place all over the world. Falling trade barriers through the formation of bilateral and multilateral trade agreement, such as ASEAN Free Trade Area (AFTA), enhances more and more globalization. Along with globalization, production becomes increasingly complex and fragmented, and outsourcing has become inevitable. Many firms become players of global supply chain. Many Myanmar SMEs become lower-tier firms under flagship companies of multinational companies (MNCs). Major competitiveness value of those lower-tier firms is their low cost structure. For exporters and importers, trade financing gives working capital to pay for buying raw materials and imported goods, for marketing efforts, etc. In addition to trade financing, international trade settlement needs trade facilitation as well. Nevertheless, the availability of financial services in Myanmar ranks 138 out of 140 countries with the score of 2.8 out of 7 scale, and ease of access to loan ranks 140 out of 140 countries with the score of 1.4 out of 7 scale in The Global Competitiveness Report 2015-2016. It is also found that out of the top 10 barriers for business in Myanmar, 4 are related to financing, namely, interest rates, access to capital, external finance access, and working capital (GIZ, 2015). The Global Competitiveness Report 2015-2016 also reports that access to financing ranks the top problematic factor for doing business in Myanmar. Thus, the lack of sufficient trade facilitation and financing undermines Myanmar SMEs cost competitiveness, which in turn hinders Myanmar export competitiveness and Myanmar SMEs' integration into global supply chain.

The banking sector in Myanmar is dominated by state-owned banks and non-state-owned banks were not allowed until the 1990s (GIZ, 2013). However, today these non state-owned banks, semi-government, and private banks represent 80% of the market shares (GIZ, 2013). Though the number of branches of those non-state-owned banks are expanding, the services

provided by them are limited. Most of the banks lack trade financing and trade facilitation services.

Though nine foreign banks, namely Industrial and Commercial Bank of China (ICBC), Bank of Tokyo Mitsubishi UFJ (BTMU), Sumitomo Mitsui Banking Corporation (SMBC), Mizuho Bank, Bangkok Bank, Overseas-Chinese Banking Corporation (OCBC), United Overseas Bank (UOB), Malayan Banking Berhad (May Bank), Australia and New Zealand Banking Group Limited (ANZ), got banking licensing in Myanmar, their services are limited to non-resident companies. Thus, foreign banks made engagements with local banks to provide financing. Though some foreign banks, such as Siam Commercial Bank (SCB) of Thailand, do not have banking licenses, it provides trade financing through Myanmar banks including: Aya Bank, CB Bank, Kanbawza Bank (KBZ), Myanmar Apex Bank, Yoma Bank, and Myanmar Foreign Trade Bank. Furthermore, SCB confirms letters of credit from the seven Myanmar banks and also discounts and provides short-term financing to the extent required (Pinijparakarn, 2015). However, current trade instruments and facilities provided by banks in Myanmar still needs be improved with vigor and enthusiasm.

Bank's trade facilitation and financing services

The most commonly used international payment methods are open account, advance payment, consignment, collection, and letter of credit (L/C). In open account, advance payment, and consignment methods, banks help transferring the money. In collection and letter of credit payment methods, banks' services, such as export/import collection under bill for collection and collection under letter of credit are essential. The following table (Table 1) summarizes the banks' trade facilitation and financing services by different payment methods.

Commodity	Open account	Cash in advance	Consignment	Collection	Letter of Credit
Money Transfer (inward/outward remittance)	X	X	X	X	X
Collection				X	X
Payment guarantee					X
Payment confirmation (if any)					X
Advising (L/C)					X
L/C Amendment (if any)					X
Bill purchase (in case of time draft)					X
Forward exchange bought/sold				X	X

In Myanmar, banks' inward/ outward remittance services and L/C related services are widely used. Though L/C payment method is fair for both exporters and importers initially, it is relatively more expensive than other payment methods since more banks' L/C related services are required under L/C payment method. As the confidence increases between exporter and importer, using other payment methods reduces the cost of trade settlements. Due to of lack of services and lack of knowledge of other payment methods, many Myanmar companies are encountering high trade settlement costs which undermine their competitiveness. Thus, banks play a critical role in facilitating trade by providing trade-facilitating instruments. The following trade financing and facilitating services are usually provided to exporters and importers by banks in general.

To exporters,

- Packing credit
- Letter of Credit (L/C) advising / L/C amendment advising
- L/C confirmation
- Transfer L/C and Back to Back L/C
- Assignment of proceeds under L/C
- Export bills negotiating
- Export bills collections under L/C / under Bill for Collection (B/C)
- Export bills purchased under L/C / under B/C
- Inward remittance
- Export credit insurance

- Foreign exchange bought are available.

To importers

- L/C issuance / L/C amendment
- Outward remittance
- Bills for collection
- Trust receipt
- Shipping guarantee & Delivery Order (S/G & D/O)
- Forward exchange sold are available.

Trade facilitation and financing services in Myanmar

According to GIZ (2013), till the fiscal year ended in 2012-2013 there were nineteen semi-government and private banks in Myanmar. Only a few banks, such as Kanbawza Bank (KBZ), Co-operative Bank (CB), Ayarwaddy Bank (AYA), and Yoma Bank (YOMA) offer trade facilitation services, mainly Letter of Credit (L/C) issuance, L/C advising, confirmation, negotiation, amendment, shipping guarantee, export bills for collection, and import bills for collection. The following table (Table 2) summarizes the trade facilitation and financing services provided by banks in Myanmar.

CB bank and AYA bank provide trade-financing facilities, such as a packing credit loan to exporters and a trust receipt loan to importers with a maximum 1-year period. However, the interest rate is 12% and service charge is 1% based on the loan period. A packing credit loan provided by banks enables exporters to enjoy

Commodity	KBZ	CB	AYA	YOMA
Packing credits		X	X	
Remittance (in/out)	X	X	X	X
L/C advising	X	X	X	X
L/C confirmation	X	X	X	X
L/C issuance/ amendment	X	X	X	X
Transferable L/C	X			
Export bills negotiation	X	X	X	
Collection under L/C	X	X		
Collection not under L/C		X	X	
Assignment of Proceeds		X		
Bill purchase/invoice financing	X		X	
Shipping Guarantee	X	X	X	
Trust Receipt	X	X	X	X

Source: kbzbank.com, cbbank.com.mm, ayabank.com, yomabank.com

pre-export financing for the purchase of the goods. However, the applicant of the loan has to fulfill certain criteria, for example, the application has to be supported by a L/C in his favor or a confirmed purchased order. The approved loan will only cover the costs of goods for export or a percentage of the L/C submitted.

The bank provides short-term credit facilities, called trust receipt loans, to the importer when a L/C or collection is due for payment. Trust receipt facility granted to the importer enables him to take delivery of the goods prior to payment. As a security, the goods title is with the bank, and the importer will undertake to hold the documents, the goods, and the sale proceeds in trust for the bank. A credit trade line is required before both a packing credit or trust receipt loan can be utilized.

AYA bank also provides invoice financing which is also called "bill purchase" service. Exporters can discount bankers' acceptance at the AYA bank for better cash flow and liquidity

for trading business. Though, Yoma bank also provides other types of loans, there is no specific trade financing facilities for exporters and importers.

Competitive trade facilitation and financing services are crucial for Myanmar trade sector competitiveness. Myanmar trade sector, especially Myanmar export competitiveness, largely depends on Myanmar financial sector competitiveness. Limited trade services by banks in Myanmar and limited banks providing trade services challenges Myanmar banking sector's development and Myanmar financial sector's competitiveness, as well.

Trade facilitation and financing services in Thailand

Banks in Thailand give a wide range of trade facilitation and financing services to exporters and importers. As the confidence increases between exporters and importers, they try using cheaper and easier methods of payments. In L/C payment

method, since traders use a lot of services from the bank, such as L/C opening, L/C advising, L/C confirmation (if needed), L/C amendment (if applicable), collection under L/C, and/or remittance services, bank service fees are comparatively higher than other payment methods. Bank services, such as Documents against Payment (D/P) or Document against Acceptance (D/A) under collection payment method, are also available in almost every bank in Thailand. Thus, bank's export/import bill collection service is not only limited for L/C payment methods, but also for collection methods. In addition, in order to help traders with liquidity, traders can discount bankers' acceptance or D/A at the banks.

Banks' services are available not only to manufacturer exporter, but also to middlemen exporters. Bank services, such as transferable L/C with or without substitution, back-to-back L/C, assignment of proceeds, and proceeds under L/C, are also available for middlemen exporters. Shipping guarantee service is also available for late arrival of documents. To help minimizing export credit risk, banks also provide export credit insurance. Traders can also manage their exchange risk exposure for their payables and receivables by engaging forward contracts with the banks in Thailand.

Both direct and indirect forms of trade financing, such as packing credit for exporters, trust receipt arrangement for importers, and bank guarantee services for payment are among the others. Most of the commercial banks in Thailand provide comprehensive and competitive trade facilitation and financing services to their exporters and importers.

Export Import Bank of Thailand provides short-term trade financing loans with low interest rates to exporters and importers through commercial banks. Loan period is a maximum of 180 days. The interest rates applicable to packing credit loans and trust receipt loans are not at fixed rates. The rate depends on the rate agreed upon (depending on the riskiness of the borrower) between the customers and their relationships with managers. To get the loans, exporters need to produce trade-related documents, such as letter of credits or purchase order if international settlement is made with other methods of payment, such as collection, advancement, or open account. Usually, banks give 70-80% of the credit value in the purchase order or letter of credit. Most of the loans are in revolving nature with the credit line.

I Recommendation and Conclusion

It is obvious that the limited trade financing and facilitation

services received by Myanmar SMEs, as compared to Thai SMEs and many more from other countries, are one of the major factors undermining Myanmar's product global competitiveness. Trade facilitation facilities, such as transfer L/C, back to back L/C, revolving L/C, red clause L/C, bill purchase, forward exchange bought and sold, and export credit insurance, are essential to increase the competitiveness of Myanmar exporters and importers as Myanmar SMEs enter into global supply chain networks.

L/C transfer service benefits exporters who act as middlemen, the first beneficiary of the L/C. The bank will transfer the rights and benefits of the first beneficiary under the terms and conditions of the transferrable L/C to the second beneficiary (supplier or manufacturer) as requested by the first beneficiary of L/C. Transfer L/C with substitution allows the first beneficiary to substitute his or her invoices and drafts for those of the second beneficiary/ beneficiaries. The right to substitute invoices and drafts enables the first beneficiary to claim his or her profit (Theingi, 2013).

In back-to-back L/C, the first beneficiary who is the middleman exporter, use the original L/C as security to issue a separate credit in favor of the ultimate supplier, the second beneficiary. It may become necessary when the ultimate buyer is not ready to open transferable L/C, or the first beneficiary is not ready to disclose to the buyer the source of his supply, and the ultimate supplier insists on payment against L/C, but the first beneficiary is short of funds (Theingi, 2013).

Revolving nature of L/C is also beneficial to traders as well. In red clause L/C, the applicant (the buyer) instructs the issuing bank to make advances. A certain percentage of the credit amount mentioned in the L/C to the beneficiary (the seller) is at the risk and expense of the buyer. It is similar to advance payment method (advance payment of certain percentage of the L/C amount), however, with red clause L/C, the exporter has to fulfill the L/C conditions in order to receive the rest of the payment. Thus, red clause L/C gives advantages to both the exporter and importer. The exporter receives some advances for exports while the importer can be assured that the exporter will not breach the contract. It is riskier than normal L/C but safer than advance payment.

Today, Myanmar uses a managed float exchange system, thus the challenges faced by Myanmar exporters and importers are of foreign exchange risk exposure of their foreign currency receivables and payables. Forward exchange of bought and sold services of banks are vital for exporters and importers in managing their foreign exchange risk exposure. In addition, export

credit insurance is also an essential service for entrepreneurs exporting to high risk markets. Lack of these facilitation services undermines the export/import sector development in Myanmar. Banks, as lenders, need to manage their liquidity risk and credit default risk. Providing packing credits upon L/C or purchased order assure that the loan serves its purpose. In international trade, the trade credit usually varies from 30 days to 180 days. Limiting the loan maturity to a maximum of 180 days also discourages the borrowers' misuse of the loan in long-term projects. Trust receipts also inject liquidity for the importer. Especially, under L/C payment method, the consignee has to surrender the original L/C to take custody of the goods from the carrier. In the absence of the trust receipt arrangement, the importer has to make payments to the bank in order to get the original L/C. With a trust receipt arrangement, the importer just writes a promissory note with the stated interest rate, which

is usually lower than that of a normal loan with a maximum of 180-day loan period, the bank then releases original L/C to the importer. This benefits not only pure importers, but also to importers who use these imports as raw materials in producing export products.

In order to position Myanmar products competitively in worldwide basis, trade facilitation and financing facilities play one of the critical roles. The efforts to be undertaken is not only limited to the banks and ruling body, but also to all stakeholders concerned. Development of physical trade banking infrastructure, such as banks trade instruments and soft infrastructure, such as banking software, are instantly needed in tandem. In addition, the trade facilitation and financing knowledge of people including exporters, importers, bank staffs, and regulators should be enhanced.



About the author

Dr. Hla Theingi an assistant professor at the Assumption University of Thailand, obtained her PhD in International Business from the Asian Institute of Technology where she was a JJ/WBGSP scholar. Her recent research, journal, book and book chapter publications are in the area of ethnic business, SMEs, international trade and international business management, corporate governance, labor migration and supply chain.

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12 The Views of Myanmar Bankers on the Progress of Domestic SME Finance

by Sophie Waldschmidt and Marga Scheck²⁹

“SME development has become vital in strengthening national competitiveness and economic integration into the ASEAN region. SMEs are, however, hindered by numerous factors, such as (...) a lack of financing from external sources. The lack of funding is one of the biggest constraints for SMEs (...)” described Myanmar President, U Thein Sein, on the importance of and challenges for the development of Myanmar’s small and medium-sized enterprises (SMEs) in a recent interview with the Oxford Business Group³⁰. Since the Myanmar government made SME development a reform priority in 2012, a number of actions to promote SMEs’ access to finance, namely credit (in the following referred to as SME finance), have been undertaken by the Myanmar international organizations and non-governmental organizations, as well as financial institutions including banks³¹. However, how is SME finance doing now?

We were curious to learn how Myanmar banks - institutions that play a key role in effectively providing external funding to SMEs - see the progress which has (or has not) been made over the past three years. Which changes do Myanmar banks notice in serving SMEs? What are the challenges they still face on various levels hampering effectively serving SMEs? Also, which opportunities do they see for the future of financing SMEs?

The findings presented in this article are based on semi-structured interviews with 16 bankers in Yangon which were conducted in mid-2015.

1 Changes, challenges and opportunities

In a growing economy and expanding banking sector, SMEs are becoming a target group for Myanmar banks. This section summarizes major economic changes since 2011 and how these positively and negatively affect the banking industry.

1.1 Economic changes

Since Myanmar embarked on its way out of more than 50 years of isolation in 2011, the country has succeeded in a yearly GDP-growth of 7-8% on average and foreign direct investment has increased by a factor of 25 over the past five years and now stands at over 8 billion USD³². The country is changing fast. For instance, foreign direct investment has resulted in bringing affordable phone and internet connections to Myanmar. The number of foreign visitors has almost quadrupled over the past five years. The real estate

market, particularly in economic hubs like Yangon, has seen extraordinary growth rates over the past years³³. The banking sector keeps growing as well. The presence of foreign banks has increased, and first foreign banks have set up branches – even if their activities in Myanmar are still limited.

In the past two years, credit to the private sector (as % of GDP) grew by over 30% year-on-year and the accumulated assets of private banks more than sextupled between 2010 and 2014³⁴. In the wake of first liberalization measures, most private banks have tripled their branch network over the past two years, even if, recently, the opening of additional branches and mini-branches seems to have become, once again, somewhat more challenging. On November 8, 2015, Myanmar will hold its first general elections since the military started withdrawing from government in 2010/2011. These elections are considered an important step in Myanmar’s political transformation.

Notwithstanding this success, Myanmar is starting to face economic and political challenges that may affect future growth and reforms. Myanmar is experiencing a depreciation of the local currency, kyat, and a negative trade balance with a deficit of 5 billion USD for the financial year 2014/2015³⁵. Furthermore, in May 2015, the inflation rate reached over 8%, which is higher than the minimum deposit rate set by the central bank³⁶. The 2015 monsoon season has brought exceptionally dire flooding to almost all of the 14 Myanmar states and has destroyed infrastructure, housing, and farmland.

It is this environment in which banks in Myanmar operate - impressive growth rates on the one hand and a number of (old and new) challenges on the other hand.

1.2 Challenges and opportunities for the Myanmar banking industry under the economic changes

One of the most relevant changes for the banking industry, according to interviewees, is the kyat depreciation which is currently restricting, among others, foreign exchange operations for Myanmar banks. Additionally, bankers interviewed commented on Myanmar’s rising inflation rate which makes attracting deposits increasingly difficult, especially, given the regulatory restrictions on interest rates.

This, in turn, is limiting the banks’ ability to extend loans. Finally, interviewees indicated that the real estate sector seems to be “cooling down,” and some believe that with real estate prices coming down, a number of real estate developers might default. This could then potentially result in higher default rates for banks as loan clients investing in construction and real estate might default, as well. Furthermore, land and buildings secure the vast majority of credit in Myanmar, so the decreasing real estate prices may leave banks with insufficiently secured loans.

Myanmar banks seem to believe that a physical presence, such as a branch, is of fundamental importance for attracting potential clients, especially new depositors. The facts support this: within the year 2013, the total branch network and the total volume of deposits in the banking sector grew by approximately one third³⁷. Bankers interviewed stated that they plan to further increase their outreach. One part of this is to open new outlets. However, the opening of new locations is costly. Hence, a number of banks are working on finding easier and cheaper ways of reaching out to potential clients, especially in more remote areas. In this regard, they see an opportunity in offering mobile banking services³⁸.

In the long run, and if allowed to compete under the same terms, Myanmar banks consider foreign banks operating in Myanmar a serious threat and fear that smaller, local banks may not be able to compete in terms of skills and capital. With a view of being prepared, of accessing funding, and know-how, local banks are striving to engage in more partnerships with foreign banks.

During our interviews, we noted that Myanmar banks differ with regard to their growth strategies and strategic focus. This includes a variation among Myanmar banks with regard to the strategic commitment to working with SMEs and the degree of understanding of the financial needs of SMEs. A number of Myanmar banks have realized that the pool of domestic and foreign, corporate clients from which they can draw is limited. In addition to macro-economic and political reasons regarding the significance of SMEs for the future economic development of Myanmar, it is this limited pool of corporate clients that makes some banks see serving SMEs as a good opportunity.

Many banks have also realized that they are already serving SMEs on a commercial basis. Several banks interviewed stated that SMEs probably accounted for around half of their clients in the past (mainly tracked and processed as individuals). In

practice, however, only a few banks in Myanmar seem to have actually begun to specifically classify, track, and monitor SMEs in their loan portfolios. They have set up dedicated SME finance departments, in some cases even pilot branches, and have specific commercial banking products for SMEs. At the same time, when asked in a bit more detail about these SME products, bankers acknowledged that available SME products (due to the current regulatory environment) are quite similar to regular products and do not truly match the needs of SMEs in terms of maturity, loan security, and repayment options.

Thus, while there are banks that have made SMEs a target group of strategic interest, other banks are considering working with SMEs, although this segment is not their explicit strategic business focus. For some banks, this lack of strategic business focus on SMEs may also be due to the fact that the Myanmar government is currently providing subsidized financing schemes for selected SMEs through state banks. Several private banks interviewed described this as a disincentive for them to invest in providing financing to SMEs on a broad and commercial basis.

2 Challenges and constraints in serving SMEs

In order to successfully serve SMEs, Myanmar bankers seek to overcome four major internal and external constraints: capacity constraints of their staff, collateral restrictions, low interest rate spreads, and the absence of affordable funds to enable their banks to offer longer loan maturities.

2.1 Capacity constraints and collateral restrictions

In terms of capacities and skills, a number of shortcomings can be observed, and bankers clearly acknowledge shortcomings in terms of the capacities and skills of their own staff. This includes skills and capacities to analyze the financial and business situation of potential clients, as well as skills and capacities related to assessing and managing credit risk³⁹.

Typically, banks currently rely on securing loans fully with hard collateral, namely land and buildings with an average collateral-to-loan ratio of 200%⁴⁰. The credit amount approved by the respective bank usually depends on the value it estimates for the collateral provided, rather than on the customer’s financial needs, planned project, and individual risk profile. Repayment schedule and maturity are governed by usual modalities among Myanmar banks and/or central bank restrictions, not the actual repayment capacity of the client, which, in our view, in itself makes loans additionally risky for the respective bank and borrower. Furthermore,

many clients, particularly SMEs are often not in the position to pledge hard collateral.

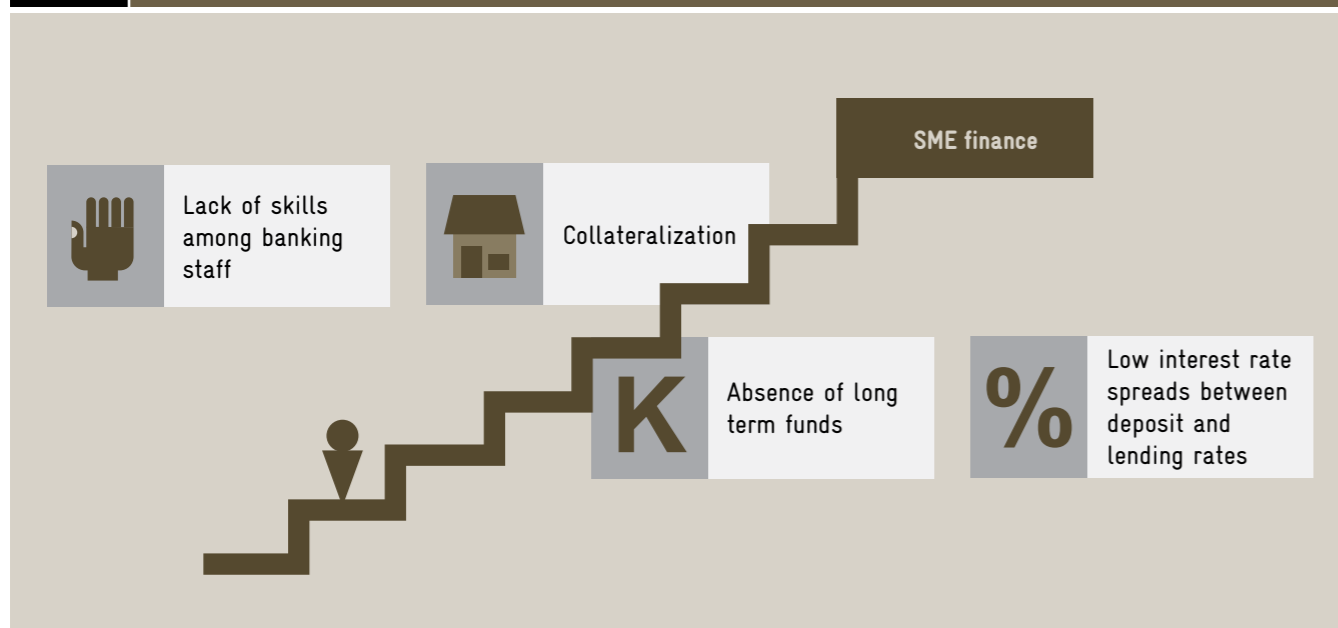
Thus, while the vast majority of bankers interviewed stated that they would be reluctant to introduce partly collateralized or uncollateralized loans any time soon, they would, however, be ready to accept moveable assets, such as vehicles and machinery to secure loans once they have the respective capacities and institutions in place to manage risk related to movable collateral.

In this context, some bankers have high hopes for two new institutions: non-commercial credit guarantee groups on a

local or association-level and a nation-wide credit information bureau. The latter is currently being set up with support of Singaporean NSP Holdings and is expected to be launched at the end of 2016.

To build and develop in-house skills in different areas, some banks recruit expatriate and repatriate bankers, as well as contract other experts and team these up with local staff. However, most banks interviewed stated to count on partnerships with foreign banks and, especially donor support for their capacity development, specifically for areas that, due to the current regulatory environment, do not promise immediate returns on investment, such as SME finance.

Chart 1 Key Constraints to SME Finance Identified by Myanmar Bankers



Source: IPC (2015)

2.2 Low interest rate spreads and absence of long-term funds

Other challenges bankers highlighted are less SME finance-specific but essential for any lending operation - interest rate spreads and longer-term funds.

Under the current regulation, as a measure to safeguard deposits, Myanmar banks are only allowed to lend out a maximum of 80% of their deposit base. Additionally, maturities of funds need to match, but most deposits in Myanmar are held in current accounts and as 'savings,' which in fact are called deposits. In the absence of other long-term funding, this precludes extending longer-term loans.

In this context, interviewed bankers pointed out a "race for deposits" in the local market with banks under pressure to increase deposit interest rates to attract, particularly long-term depositors. Given the central bank interest rate caps and increasing inflation rate, the banking sector faces a situation where placing deposits with banks is becoming increasingly more unattractive for depositors while the gap and spread on loans is shrinking. These "terrible margins," as one interviewee put it, make banks even more reluctant to lend their funds to smaller clients as lending to a large number of small clients means higher operational costs for a bank than lending to a small number of large clients. Therefore, the vast majority of bankers interviewed hopes for a liberalization of interest rates.

Some banks interviewed stated to have access to a long-term loan from a foreign bank, but most interviewees said that the lack of access to (commercial or subsidized) long-term funds is a key constraint for the expansion of their credit operations in principle.

3 Conclusions

SME finance in Myanmar is doing so-so. "SME finance is the lifeline of all Myanmar banks," one banker stated during the interview, "but the initiation in the market is still missing." While we could observe that some banks interviewed have started to engage in working with SMEs, all interviewees believe that offering financial services which really fit the needs of SMEs is not yet possible in Myanmar.

The reasons bankers identified for this are of an internal and external nature and include four main areas, which shall be reflected upon to conclude this paper:

- **A lack of banking business-related and financial skills, such as credit analysis and risk management;**

Building capacities for banking staff is one key to modernizing the sector and increasing SMEs' access to bank loans in Myanmar. However, this needs to be linked closely to other reform areas, such as the regulatory environment, in particular central bank regulations, interest rates, and loan security requirements. Only when changes in the right direction in these areas will become more 'tangible' will it become more interesting for banks to get ready for future business with SMEs and make necessary investments and changes on their own. Meanwhile, they prefer to rely on subsidized external support, mostly in the form of grants and technical assistance.

This reliance on grants and technical assistance has an additional dimension, as some international organizations which provide such support have pointed out, a scenario in which banks foremost hope for donor support might lead to price and market distortions that could prevent training and advisory service providers to sustainably develop a high-quality private sector offer that adequately responds to the needs of the Myanmar market.

- **Strict collateral requirements, closely linked to the lack of skills, which exclude most Myanmar businesses from accessing banks;**

Without qualified staff or any other changes in the banking sector, accepting movable collateral, which usually has a lower value than immovable collateral for the purposes of

collateralizing a loan, will most likely only lead to a situation where clients are asked to provide even more collateral (at even lower forced sales value) than they currently have to.

Some bankers interviewed believe that credit guarantee groups might enable specific client groups to access credit more easily through banks. However, in our view, this does not replace the need to develop adequate financial and credit risk skills in the banking sector. Using credit guarantee groups, again, makes the lending decision dependent on loan security. Someone, somewhere has to be able to judge the reliability and 'value' of the guarantee provided - aside of the fact that not all entrepreneurs would want to be dependent on other entrepreneurs. Therefore, a true 'relaxation' of loan security requirements should go hand-in-hand with the build-up of risk assessment skills and changes to the regulatory environment. Only if these skills and regulatory changes are in place, loan security requirements can be 'safely' relaxed, and hence, access to finance increased for the vast majority of SMEs in Myanmar.

A number of bankers have high hopes for the credit information bureau. While a functioning credit information bureau clearly can support and ease the work of financial service providers, it will most likely take a few more years before the bureau will be fully operational and command the information needed to reliably support financial institutions in their credit risk assessment. Again, typically, a credit information bureau can assist in decision-making but not replace the bank's own credit risk assessment.

- **Low interest rate spreads that prevent generating the profits needed to justify the higher costs related to risk assessment and management, foremost for better qualified staff and additional processes and procedures;**

A liberalization of interest rates would not only give banks more freedom, but also put pressure on them to innovate. The current spread between deposit and loan interest rates is low and does not justify incurring the increased operational costs which comprehensive credit risk assessment and risk management would require. Given the current environment and capacity of banks, it is unlikely and would also not be advisable to liberalize interest rates completely and rapidly. Then again, we believe that allowing for a broader spread and a step-by-step liberalization of interest rates deserve consideration. In this way, the current 'Gordian knot' could be unraveled and a true incentive created for banks to build up credit risk assessment capacities, which would, in turn, allow for more liberalization of regulations.

- **Limited access to long-term funding (deposits and loans) at acceptable conditions.**

Apart from tackling the funding issue by attracting new depositors, Myanmar banks stated to look into receiving loans from foreign banks, international financial institutions, or national development banks. However, the negotiation processes are long and not always successful, which according to a few interviewees is partly because local banks could not receive funding at the conditions they were hoping for. This ties in with the comments bankers made regarding government-subsidized SME finance programs. Given the current interest rate regulation in Myanmar, some funding offers might seem commercially interesting

but in reality would not permit for sufficiently high margins to make the offer viable for the bank. So engaging in this lending would not be sustainable. At the same time, the subsidized programs and the very low interest rates they offer are creating certain expectations in the market which are counterproductive to establishing commercially viable SME lending on a broad and sustainable scale.

It remains to be seen how future legal and regulatory reforms will support banks in overcoming the constraints identified and which further efforts to serve SMEs - the majority of Myanmar's business clients - will be made by banks themselves to eventually serve more SMEs on a broader scale.

End Notes

- 29 Sophie Waldschmidt, Bank Advisor, and Marga Scheck, Senior Consultant, International Project Consult GmbH (IPC). IPC has 35 years of global experience in development finance consultancy services. Our clients include major international development organizations and international financial institutions, foundations, and banks in emerging and developing economies. Our expertise covers micro, small and medium-sized business finance, environment and energy finance, and training and skills development (www.ipcgmbh.com).
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- 39 At the same time, a few banks interviewed also commented on the lack of financial skills on the part of potential clients, i.e. the lack of providing comprehensible financial statements.
- 40 In some cases, banks also accept gold or savings and in rare cases selected crops as collateral.



About the author

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13 Retail Payment: Current Status and Beyond

by Zaw Lin Htut

What is the extent of the development of retail payment in Myanmar, in terms of infrastructure, awareness, readiness, etc.?

After the country began opening up, many changes took place in the banking sector. The payment sector has been one of the significant reforms of the financial industry. Economic functions were largely dependent on cash and payment cards were introduced in late 2012. Transforming the cash-based society to a card-based society is the first priority not only for payment sector development, but also for the growth of the nation's economy. The development of retail payment in Myanmar is gradually growing. Myanmar Payment Union (MPU) was established in late 2012 to upgrade retail payments from cash-based transactions to card-based, cashless transactions by sharing banking services among member banks.

The card industry in Myanmar has developed remarkably. The Central Bank of Myanmar (CBM) issued the electronic payment card regulation in 2012 for the development of electronic payments. Since October 2012, our member banks have issued over 1.1 million debit cards, and we are preparing to issue credit cards this fiscal year. The CBM approved the issue of credit cards to the market in July 2015, which will boost the usage of cashless transaction by credit cardholders. When Myanmar Payment Union started operations in 2012, there were 17 member banks, and now there are 23 member banks of which 15 members have already issued cards and installed ATM and POS (Point of Sales) in markets. Currently there are over 1,600 ATMs and over 3,000 POS devices in the market.

In terms of infrastructure, the internet connection has improved considerably since 2012. In 2012, we used mostly IP star (c-band) for connecting our ATM-POS network, but it was not stable and lost connection often, and our member banks and MPU received many complaints from cardholders. Now, we can use 3G and GPRS wireless-faced communication to connect our network, but still there is an issue of unstable connectivity and some areas are not yet covered for communication. Another issue of infrastructure is power cuts and a lack of electricity in some areas. Power cuts will affect the cardholder during transactions, and it causes a lot of disputes between our member banks.

We can say that the readiness of infrastructure for card-based transaction is at a low stage in Myanmar.

We need all stakeholders' involvement to move into a card-based society. To create more cashless transactions, the government should give benefits for using electronic payment cards such as tax incentives (discounting of tax amount) to merchants and cardholders. Merchants will be willing to accept them for their sales of goods and services if there is an incentive. Banks and the MPU have to promote their customer services with educational campaigns, explain the benefits of payment cards, and explain why customers are recommended to use them. Providing a safe and secure communication service is also a very important role in payment sector development. Without a stable connection provided by the communication sector there will not be a successful transformation from cash society to card-based society.

Modern technology is vital to improving the payment sector, and IT service providers play an important role in this area. Without their support and service to financial institutions, card-based payment system will not grow quickly to meet our customers' demand.

Do you feel there is a need to encourage retail e-payment usage in Myanmar? Why so?

Nowadays, retail e-payment is very popular, easy and convenient, reduces overhead expenses, and saves time for both merchants and consumers. Consumers can easily order an item online and merchants also save the money for rental costs as they do not need display areas. Payment and logistics are very important towards the success of e-commerce. As Myanmar sees this opportunity, MPU creates a gateway to facilitate easy payment for online sellers and buyers, and MPU e-commerce payment was launched in February 2015. Before MPU e-commerce was launched, if merchants wanted to sell goods online, they needed to open bank accounts at different banks to accept the consumer payment, and it is not easy to manage their cash flow. Now, merchants can open their bank accounts at any MPU member bank and they can accept their consumers' payments through MPU e-commerce. All cardholders can buy goods online and easily make payments using MPU cards.

Payment Statistics

The following table illustrates the current payment statistics of the country. The monthly average value of cash withdrawal via ATM transaction is about 18 billion Myanmar Kyat (MMK). The monthly average value of debit card payment at POS is about 170 million MMK.

Description	Unit(s)
Local banks	23
Local bank branches	1,500
Foreign banks	9
ATMs	1,600
EFTPOS terminals	3,000
Debit (MPU) cards	1.1 million
Credit (MPU) cards	Going to issue in the future

What is the government's strategy for supporting e-payment development?

The government is establishing the rules and regulations for electronic payments, and they should promote it further by offering incentives both to merchants and consumers. It is good for the government if e-payment is growing as they can save on printing money costs and easily monitor money circulation in the market electronically. Additionally, the collection of tax will be more accurate because all transactions will be visible in bank accounts. Card-based transactions are good for the development of a country's economy.

What are the factors responsible for the promotion and/or hindrance of e-payment usage? Please explain in detail for each factor.

Infrastructure development is still challenging, internet connectivity is unstable, and communication costs are very expensive compared to neighboring countries. Investment for communication is a burden for financial institutions and service

level agreement (SLA) has not yet met our customers' demands. The communication network is not yet covered in some areas. To establish the effective and reliable payment system, Myanmar needs centralized infrastructure and the real-time nature of the system, combined with the flexibility of payment messaging, ability to carry additional remittance information, and easy addressing capability. This means that payments can be better integrated with many other aspects of our lives. We need good internet connectivity for centralization, and only with real-time processing, businesses will be able to achieve substantial efficiency gains and there will be significant improvements to the timeliness, accessibility, and usability of the payments system for consumers.

Power supply is another issue needed in order to improve e-payments. There is no economy of scale for using generators to produce power 24 hours, 7 days a week, especially in rural and village areas which is most of our population.

Merchant and customer participation is vital for the development of e-payment. If there is no acceptance, users cannot make payments by cards, and if there are no card users, merchants will

have to accept cash. Awareness of the benefits and acceptance of debit and credit cards is necessary, and banks and MPU have to promote and educate about the advantages of payment cards, as well as encourage media involvement. Prudential regulations and regulator involvements are vital for the development of the payment industry. The rules and regulations need to protect merchants and consumers in promoting e-payments. When cardholders begin to be aware, the benefits of e-payments, such as security and convenience of cards, e-payment is likely to become popular in Myanmar.

What are the benefits of e-payment development to local businesses, especially SMEs? Please elaborate.

The primary benefit of e-payment is reducing the overhead expenses for their operation. For example, instead of running a mini-mart, opening an online retail store can cut down the number of staff. The cash-handling burden is also reduced in e-payment. Fraud is also less likely to occur in e-payments, too, as every sale transaction will appear in bank accounts. It is also easier to monitor cash flow, and there will no longer be a scarcity of notes. E-payment can also protect merchants from fake notes and businesses can also get credit line easier from banks because banks can check their business potential and growth from businesses transactions.

What are the risks businesses will have to bear when moving to e-payments?

One major risk is the reluctance of employees and employers to change from a cash-based system to a card-based system. Since e-payment is mainly a technology-driven service, basic knowledge of technology is required for e-payment users. The cost to acquire e-payment technology also poses a major threat, but changing human behavior from using cash-based system to card-based system is a major challenge.

Has the demand for retail payment grown since its introduction?

The Myanmar retail e-payment has just started, and there is a lot of opportunity to grow. Out of a population of 52 million, only just over a million has payment cards and 8-10% of the population has a bank account, meaning there is a huge potential for payment industry and banking sector. The growth of banking populations from time-to-time and increasing mobile penetration will help to promote e-payment systems, too. Now, ATM transactions are growing four to five times and POS transactions are gradually growing by 30-40%. After member banks launched their credit cards, we expected there would be a drive in demand to accept payment cards at retail outlets and more retail shops are going to accept payment cards. Mobile penetration will help for our payment sector development and in the future, we will see the growth of Near Field Communication (NFC) technology and mobile payments in the retail payment industry.

What do you think the impact will be on retail payment when AEC starts? Does Myanmar stand to benefit or lose due to a lag in e-payments?

MPU plans to integrate Asian Payment Network (APN) and ASEAN Payment Community to facilitate our card users. It is one of our objectives to integrate with regional and international payment organizations. To connect to regional payment hubs, a national payment switch must be well established and only this can connect to regional payment networks.

Conclusion Comments

To develop and promote our retail payments, we need the government's and local financial institutions' cooperation, which is the most important for transforming the payment sector effectively and efficiently. In order to achieve nationwide financial inclusion, infrastructure development is vital. Furthermore, the public's financial awareness needs to be promoted through educational campaigns. We need to build public trust through media campaigning and communicating the benefits of using financial services and payment through digital channels, which is more secure, convenient, and easy for them in daily life.



About the expert

Zaw Lin Htut is heading the Myanmar Payment Union (MPU) as CEO, and before he holds the current position, he served as Deputy Managing Director at KBZ Bank and has been in the banking industry for more than 9 years. He earned his Bachelor Degree from Yangon University majoring in Geology. He also got three Master degrees; MBA in 2001 from Yangon Institute of Economics, MA (Business Law) in 2005 from Faculty of Law, Yangon University and Master in Management of Banking and Finance which is accredited by the Solvay Brussels School of Economics and Management, Universite' Libre de Bruxelles and organized at National Economics University, Hanoi in 2013. His contribution to the payment industry in Myanmar has been crucial and his vast knowledge in the payment domain has helped Myanmar become the next country to invest in ASEAN.

14 Mobile Money: The Way towards Financial Inclusion

by Thura Soe Paing

Let's start our conversation with my Kyat and its mobile money service.

First of all, Central Bank of Myanmar currently adopts a bank-led mobile money model, and accordingly, myKyat is bank-led. This means that mobile money services are offered from a bank to their account holders through a network of agents. In our case, our partner - First Private Bank - holds the license and Frontier Technology Partners is the authorized service provider for mobile money. Our solution has been verified and approved by Central Bank, as well as Ministry of Communications and Information Technology (MCIT). So you can say that myKyat is a product of First Private Bank (FPB), and we are the service provider (including the technology) for FPB. Normally, in other countries, we might simply provide the technology to our clients not involving in the operation of the business. However, here in Myanmar IT teams and backend facilities are not in place so we are more than just a technology provider; we are helping our partner in every front, including planning for growth, defining agent requirements, agent-network expansion, etc. One thing to note here is agents will be dealing with us, but the legal contract will be between the bank and the agents.

So for Myanmar how would you define “mobile banking” and “mobile money”?

When we started this mobile money people often confused the terms “mobile banking” with “mobile money.” For example, a local bank is offering a banking solution on its mobile platform. You can access your account opened with the bank via mobile phone or the Web. That's mobile banking, my Kyat is purely “mobile money.” There are many terms to that - “mobile money” or “branchless banking.” Why we started this is down to the fact that local banks find it difficult to expand their branches throughout the country - land is expensive, technology is hard to acquire, and the infrastructure is also costly. These lead to a much higher cost to serve those living in rural areas of the country and ultimately leave them out of financial inclusion. To my knowledge, Myanmar has an unbanked population around 95%. Yet mobile money is a branchless model, and therefore

everybody can easily use it. Also, people such as general workers or trishaw drivers would not have enough confidence to enter a bank and open a bank account. Opening an account in a bank would only cost 1,000 kyats, but they just don't feel comfortable to enter. So it is important that we remove this kind of barrier to financial services. Mobile money can achieve that.

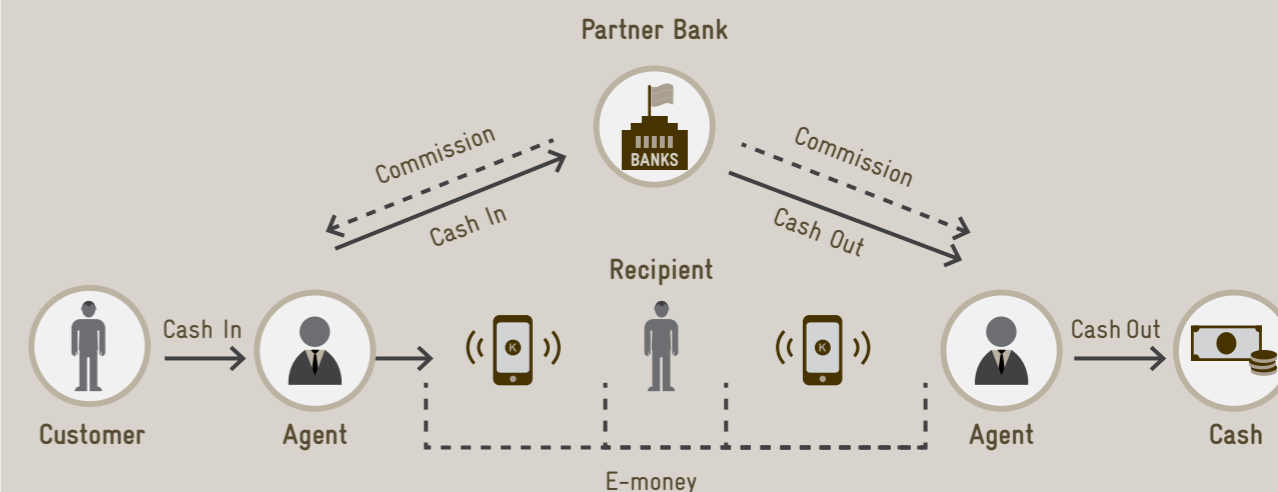
There is also the term “mobile payment”. Could you define the term for us as well and how is it different from “mobile money”?

Again, the definition of mobile payment is changing all the time. Mobile payment is essentially a solution allowing you to make payments through mobile phones. Apple, Google, and even Microsoft are developing this, but for mobile money, my personal definition is a mobile bank account or mobile account attached to a mobile number. A difference from mobile-airtime credit, say, from Ooredoo is that you cannot spend it as money it is just a credit. Mobile money credit is what we call SVA - stored value account. Payments can be done through this account. That's the difference.

Now that you mentioned mobile money is essentially a SVA. What else are the characteristics of mobile money?

Generally speaking, mobile money is a pre-paid account. It is the same concept as buying mobile airtime, where you need to top-up first before you can use. The account can also serve as a saving account. The account's security is there with PIN numbers, though it might not be as strong as the banks, where you need to show ID of some sorts for any transaction. Another defining characteristic is that basically the account is attached to your mobile number. So you may lose your mobile phone, but once you recover your phone number with a new SIM, you automatically activate your mobile money account. The money in the account is not lost with the phone, which cannot be true for a lost wallet.

Box 1 Mobile Money Ecosystem



HOW IT WORKS

Sender

To start a transaction, a sender has to deposit some amount of cash at the nearest agent. The agent will then transform the cash into electronic cash and deposit into the sender's mobile account. The sender may then transfer the electronic cash over the phone to the other recipient. Upon completion of the transaction, the sender will receive a confirmation SMS. The sender does not necessarily need to visit the agent at every time of transaction as he may transfer directly to the recipient without having to deposit cash at the agent if there is sufficient electronic fund in his mobile account. The sender is not always an individual customer as it can be a business as well. Transactions are not limited only to P2P (person to person) transfer as they also allow purchases, bill payment, and even salary disbursements. There is a daily limit of 1,000 USD for the transactions.

Recipient

Within a few minutes after the transaction has taken place, the recipient will receive a SMS signaling the receipt of electronic cash transferred from another account. The recipient may then go to the nearest agent to cash it by presenting his ID or PIN from the SMS.

Agents and the bank

There is no involvement of banks in every transaction as it does not require customers to interact directly with the bank. Agents act as the medium between the customers and the partner bank. Agents are required to open a bank account at the bank and deposit a certain amount (varies depending on the minimum deposit amount required by the mobile money operator). Every cash-in and cash-out transaction at the agents will be reflected in their bank accounts. Agents enjoy commission upon each and every cash-in and cash-out transaction, and it will be transferred to their accounts.

So how successful can mobile money become in Myanmar?

Looking at Myanmar, we see that the conditions are just perfect for mobile money. Bank penetration is low with 90% unbanked. Mobile penetration is low as well but growing very fast. The geographical area of the country is quite large, and it is not easy for the banks to open new branches. All these conditions should make mobile money successful in Myanmar. However, just because conditions are correct, it doesn't mean mobile money will be successful. All over the world there are so many mobile solutions and 80% of the transactions happening in mobile money is in East Africa. The population there is not that much – Tanzania has around 49 million and Kenya has 44 million – so all-in-all over 90 million people perform about 80% of the total transactions. Countries like India, Bangladesh, and Pakistan also have mobile money solutions. These countries have relatively much higher populations. However, mobile money is not very successful there compared to East African countries. Hence, I would say optimal demographic structure or the right market conditions cannot guarantee a success in Myanmar.

Now we understand that mobile money has potential and many companies in Myanmar are now offering mobile money services. How is the current status of local people picking up or embracing this technology?

This will take time. In East Africa, people use mobile money basically to transfer money and see this as the most useful feature of mobile money. Here, sending money home via chance messengers is quite the norm and to start using mobile money is going to be like changing a habit so it is going to be difficult and take some time. Another matter is when I send money home. I might not be sending it to my siblings, but to my parents, who might not understand how to use mobile money. Even worse, they might not have mobiles. Another issue is related to convenience. Let's say I want to send money to my parents via mobile money, but if I am not sure whether there is any agent around where they can withdraw the money I send, it is going to be difficult to adopt this. What's more, the agent might not have enough cash to withdraw. This is the current status and so that will take time (for people to conveniently adopt the technology).

So what are some reasons for people to use mobile money?

We expect using mobile money for remittance will take time, but what we find is Myanmar does not have a good payment solution yet. For example, local app stores do not have a good way to process locally produced apps' purchases. Many online shops have to resort to COD (Cash on Delivery), so we see that there is a healthy demand from business users and they want a good payment solution. Sometimes cash payment is not that convenient (as in the case of app stores). How local apps will monetize their products is a challenge, and they need a reliable digital payment solution. In that sense, we can say that mobile money is a superior platform. Another reason is bill payment. For instance, one can use mobile money to pay electric bills. Paying electric bills is not straightforward here. You will have to go pay the bill only during specific hours or you might forget totally sometimes, then your power will be cut off. So the electricity bill, phone bill, and internet bill can all be paid easily and conveniently using mobile money platform.

What are the current constraints for mobile money and mobile payment ecosystems?

The main constraint, or the major worry, that I have is that while there are quite a few mobile money operators currently in the market, not everybody is operated under the regulation of the Central Bank of Myanmar (CBM). Everybody should operate under the regulation of the CBM.

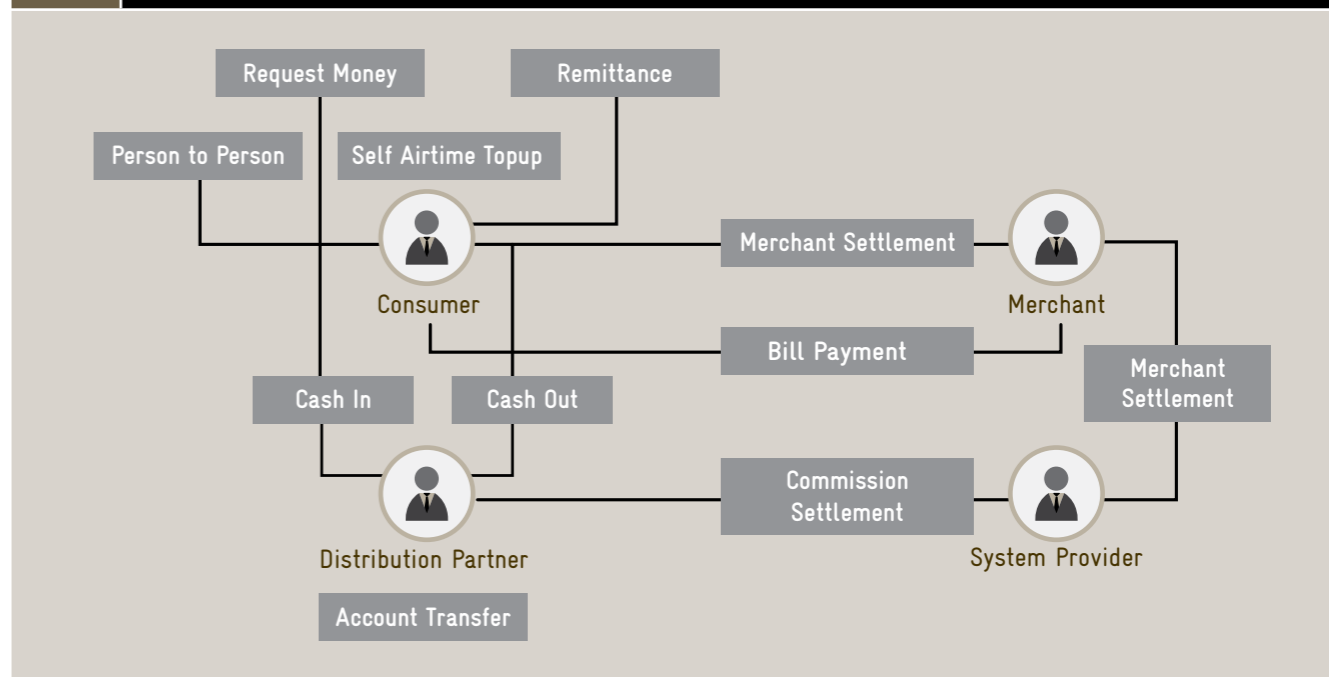
Another challenge is to expand the agent network organically. This is like the problem of the chicken and the egg. Agents would only want to be part of the mobile money service when there is a significant number of users in the network, and the same is true for customers. They will use mobile money only when there is a vast agent network.

So far, the current regulatory framework from CBM is fair enough, and we find it poses no major problem to operate the business. Thus, expanding the agent network organically is quite a challenge for us, and I believe it will be the main hurdle for the other firms as well.

With 90% of the people unbanked and with no familiarity with the payment system, is "trust on financial services" an issue here as well? How is the "take up" rate?

Our advantage, in this sense, is that our partner is a trusted and reliable bank, and we are operating with their supervision. So,

Box 2 Financial Use Cases



trust is not an issue here for us, however, it is proper to say that it will take time for the local people to take up on the payment solution. At the moment, we can say take-up rate of our platform is quite good for two reasons. One is the regulation from Central Bank is not legislated yet. A draft version was out recently, so we are now in the space of where we are optimizing our solution. The second is that a significant number of customers are using myKyat to top up their airtime although, we are not even a one year old yet.

Mobile phones play an important role in mobile money's popularity (Mobile penetration, Network Coverage, Data services). So is Myanmar really ready for mobile money services?

I don't think we have an issue here. Simply put, mobile coverage is growing so fast, and we cannot grow faster than mobile network coverage as a small company. We are neither Telenor nor Ooredoo. Their network is growing faster than our agent network can cover; therefore, this is not an issue here.

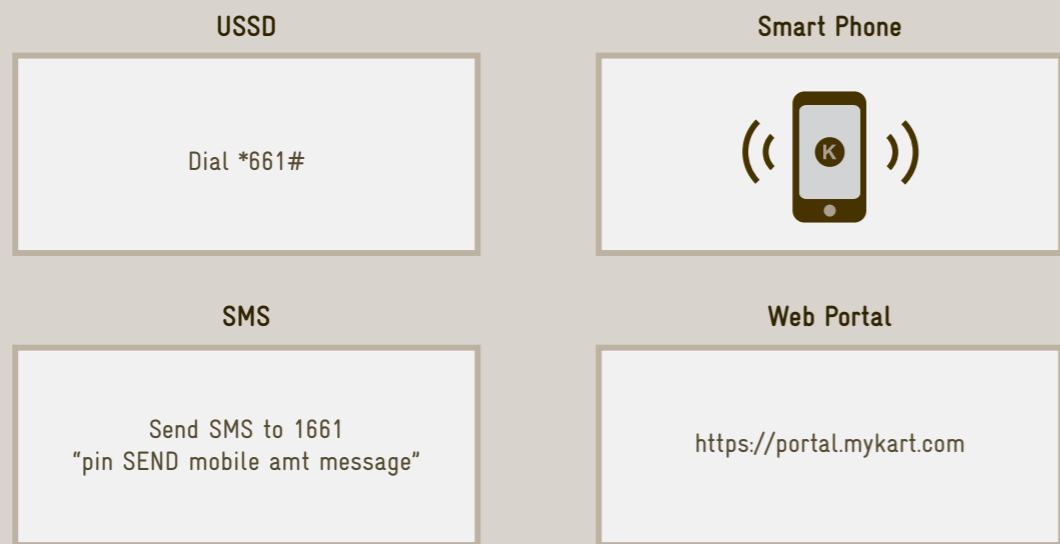
Now that Ooredoo and Telenor will have their own version of mobile money, and with the incumbent players in the market, how is the level of competition?

For me, I welcome the competition and I think it is needed. Why? Firstly, our market is big enough for more than one mobile money solution. It is not just one guy wins and everybody loses. The market is big enough with 50 million people. Even Tanzania with 16 million people has 4 service providers. So I have no worry on that. Secondly, we also need Ooredoo and Telenor to enter the market and work under CBM's regulations. Only then can we grow the market together (We grow the agent network and they grow the agent network as well.). The most important thing is what we call "interoperability" which is essentially being able to send money from Ooredoo customers to myKyat customers and vice versa. Since the beginning, we held talks with the other companies to have this interoperability in place.

What are the main challenges that could hinder mobile payment development in Myanmar?

Not much more than what I have already covered. The only thing that might be a problem is due to the nature of what mobile money is. Basically, when a transaction occurs, a confirmation SMS needs to be sent to the receiver. This costs money and could either be paid for by us, the service provider, or the customer. As revenue model is based on a very small percentage of the transaction, we ideally need this to be as cheap as possible.

Box 3 Channels for assessing mobile money services



Channels like SMS, USSD, mobile app and web portal can be used for accessing the mobile money services although SMS and USSD are not strongly encouraged as they are not encrypted.

What are the most practical solutions to deal with this?

As we are dependent on the mobile network, we would like the Telcos to make these costs the cheapest possible. Let's say if we or the consumers have to pay a SMS fee of 15 Kyats or so for every transaction, this will become unattractive. The cheaper the SMS cost, the cheaper the transaction becomes, and thus, the cheaper it is for the consumers.

I could ask help from the government, I would request to make the Telcos charge the lowest rate on SMS and USSD. Another help we would need from the government is to ensure that all the mobile money operators operate under the same regulation and that they have a bank partner leading the project to guarantee the money put into the solution by the consumers. For example, the money that is in the myKyat account is guaranteed by our partner bank and it is as good as it is in the bank.

What is the government's role in mobile payment development?

Putting a regulatory framework that lowers the barrier to access this mobile money service would really help the market to grow. The idea of mobile money is to provide easily accessible financial services to a wider audience who cannot access services from a bank. So, in this sense, the regulation of mobile money cannot be at the same level of stringency as the banks'. For instance, mobile money regulation should allow a lower level of KYC (Know Your Customer) check at the agent level than what a bank would need. The draft regulation is generally acceptable, and if

Apart from being able to transfer money easily, what kind of other benefits could mobile money bring to the users?

Two primary benefits, apart from remittance, are convenience and value for money. In terms of value for money in remittance, mobile money is legal, and it is cheaper than a bank. By convenience, I mean money transfer, bill payment, or mobile top-up becomes very hassle free because you don't need to wait for banks to be open to make a transfer; you don't need to go and lineup to pay the bill; you can even pay the bills on behalf of someone else, and you can top-up on the go.

How can the mobile payment system impact the whole economy?

We hope a lot. Since day one, I have been saying that this is a good business for everybody. Rural people do not need to save under their mattresses and can now save on their mobile money account (which is guaranteed by a bank). Also, payments among the local small businesses will become so much easier. These are just a few examples, but there are many more benefits mobile money can bring to the economy. So we hope there is a huge impact on the whole economy. Not just myKyat, but all mobile money can help the economy grow.

Our last question to you is - Can mobile money be a success?

You are asking the right question to the wrong person! We expect mobile money to be successful, not just myKyat, but all mobile money operators. Most importantly, we have to make sure whoever is doing mobile money is regulated by the same rules and regulations. My concern here is if any one of the mobile money operators goes sour, people will lose trust on the system, and that will hurt all. In my personal opinion, it should be successful. There is no reason why it should not be successful.



About the expert

Thura Soe Paing is the Co-founder and Managing Director of Frontier Technology Partners (FTP) – an IT solutions provider in Myanmar. He is also a partner of a Myanmar-focused private equity firm Golden Rock Capital (GRC). GRC made its first investment into Myanmar in second quarter of 2015 through its Myanmar Strategic Opportunities Fund. As the founder of one of the first investment advisory firms in Myanmar, Thura is involved in providing briefings and consultations for institutions such as the World Bank, IFC, Asian Development Bank, OECD and UKTI. He spent most of his career in the UK and worked for companies such as Citibank and Boston Consulting Group. Thura holds a Masters in Management Science from Boston University and a B.Sc (Hons) in Economics from London School of Economics.

15 Building the Five Pillars of Financial Foundation

by Maung Maung Hla

I Brief History of Myanmar's Banking Sector

Myanmar's banking sector, once the envy of Southeast Asia, has just awakened and is starting to struggle with an immense effort to recover its former glory. In February 1963, the then military government by the name of Revolutionary Council, nationalized all 24 banks in the country comprising 10 domestic and 14 foreign banks. There had been no disciplined monetary and fiscal policy between 1962 and 1989. To counter excessive money creation and double-digit inflation, the Kyat was demonetised three times. The last one, which triggered the social uprising in 1988, was so severe that it impoverished the people and country. The total failure of the unfortunate introduction of the socialist system in Myanmar's lasted for 26 years (1962-1988) and came to an end in 1988. The only fruit the country could have enjoyed in 26 years was to turn the once Asian granary to the poorest country in Southeast Asia, and allow its status to descend to a least developed one in the world by the UN standard.

II Impact of Economic and Financial Reforms since 2011

After the democratic election in 2010, President Thein Sein's government has implemented a series of significant economic and financial reforms to move the country towards a market-based economic system. Among the reform measures taken by the Government of Myanmar includes the following:

1 Adoption of a managed floating exchange rate system in April 2012

Turning a new chapter in its exchange rate system, the Myanmar authorities launched a new 'managed floating exchange rate' system on April 1, 2012. In this way, it has abandoned its 35 year-old regime where the official rate had been pegged at 8.50847 kyats per SDR since 1977. In its statement released on April 2, 2012, the Central Bank of Myanmar announced that, "Myanmar kyat will be determined by the financial markets with the Central Bank of Myanmar reserving the right to periodically intervene to mitigate against unusual exchange rate volatility and to support the liquidity of the Kyat in the foreign exchange market." This arrangement is part of reform program of the government for modernizing the economy.

2 Revision of the Foreign Investment Law to attract additional foreign direct investments

The foreign Investment Law was enacted in November 2012 with the following objectives -- to exploit the nation's rich natural resources for the benefits of the people and to sell the surplus abroad; to create job opportunities for the people and to develop human resources; to promote the country's infrastructure such as banking and financial sector, highways, transport and communication, electricity, and energy, etc. -- to international standard. Incentives of tax relief and up to 70 years of land lease are given to the investors. Revision of the Foreign Investment Law is underway with the intention of attracting additional foreign direct investments.

3 Establishment of an autonomous Central Bank of Myanmar in June 2013, with wide powers and responsibilities in managing financial affairs

The new Central Bank of Myanmar Law was enacted on July 11, 2013. It gives the CBM an autonomous power to perform its duties and responsibilities independently. It also upgrades the status of the CBM's governor to the level of a union minister. The Law also entrusts the CBM to manage money markets and foreign exchange markets. Salient points of the law are:

- primary objective of the CBM is price stability in the country and thus inflation must be kept under control;
- in conformity with its primary objective, CBM shall strive monetary and financial system stability while promoting efficient payments and clearing mechanisms to support the government's economic policy to attain a sustainable economic development;
- acting as a banker to the government, CBM is the sole authority to issue domestic currency; and
- CBM can allow establishment of a credit information bureau to gauge the credit worthiness of a borrower.

4 Liberalisation of trade and foreign exchange restrictions to help private businesses

Series of liberalization measures, including dismantling of trade barriers and the opening of financial sector, have been

taken to support the economy. Export first system has been abolished. Restriction on payments of goods and services has been lifted. The central bank has allowed local banks and non-bank private money changers to deal in foreign currencies. Local private banks have been granted with authorized dealer licenses to engage in foreign trade. Mobile banking and payment systems have been allowed. Nine foreign banks have been allowed in the country to help upgrade the Myanmar banking sector and to facilitate trade payments.

5 Enactment of Micro-finance Business Law in 2011 to alleviate poverty in rural areas

With the objective of alleviating poverty in the country, Micro-Finance Business Law was enacted in November 2011. By the end of June 2015, there were 244 microfinance institutions in Myanmar (7 INGOs, 23 NGOs, 77 Cooperatives, 21 foreign companies, 114 local companies and 2 JVs). They extend small credits (around 40,000 MMK to 5 million MMK) to the poor. The interest rate on loans is capped at 30% per annum, compared with informal market rates of 120 – 240pa. It also helps grow financial inclusion among the poor.

The impact of the reforms on the economy was dramatically positive:

GDP grew by an average of 7 to 8% annually in the past three years. According to IMF, real GDP of the country grew by 7.3% in 2012/13 and 8.4% in 2013/14 from the low level of 5.6% in 2011/12. According to the recent World Bank Report, Myanmar's economy grew at 8.5% in real terms in 2014/15, but growth is projected to moderate to 6.5% in 2015/16 due to severe flooding in July and August 2015 and slowing investments. FDI flows into the country, averaging 3-4 billion USD a year, have been providing larger employment in the tourism, manufacturing, and construction sectors.

Despite these developments, Myanmar still has fundamental economic problems: its persistent fiscal deficit remains at 2-5% of GDP, while year-on-year inflation rate was moving towards 8% in April 2015. Its external current account deficit rose from 2% of GDP in 2011/12 to 6% in 2014/15. Consequently, on one hand, the Kyat has been depreciating against the country's trading currencies especially, the US dollar and, on the other hand, encouraging the speculative motives to hedge rising inflation and lowering the external value of the kyat.

Myanmar, therefore, needs to restore its macroeconomic stability and business confidence through combined and coordinated efforts between the Central Bank of Myanmar (CBM) and all relevant Ministries by implementing bold and pragmatic monetary and fiscal measures as well as, boosting exports under a National Export Strategy (NES) as soon as possible. With the view of developing a firm and durable foundation for the financial sector, which is the engine of an economy, the following five pillars are proposed:

Building Five Pillars of Financial Foundation:

Pillar No. 1 - A strong and effective Central Bank of Myanmar

As the regulator and supervisor of the banking sector, the Central Bank of Myanmar should be strong and effective in performing its mandatory responsibilities. To achieve its aims and perform its responsibilities as mandated, CBM needs to rapidly build up its capacity especially, in the area of bringing in a smooth, efficient regulatory and supervisory framework, and promote its capabilities in its research work to enable it to lay down a right and an effective monetary policy for timely implementation. In this regard, the following tasks are proposed to be carried out in a proper and effective way:

- To develop an effective automated payment and settlement system (PSS) with appropriate technical assistance.
- To contain inflationary pressures and maintain external stability through coordination with Ministry of Finance and NES committee.
- To establish a Crisis Management Committee, macro monitoring, and forecasting mechanism with appropriate technical assistance.
- To build up international reserves to at least 5 to 6 months of imports to meet external shocks. The bulk of the nation's foreign exchange reserves should be under the management of CBM to manage the exchange rate stability as required by law.
- To integrate with ASEAN Central Banks and financial markets and facilitate development of domestic financial institutions and markets.

Pillar No. 2 - A stable and modern banking system

Another important pillar is to establish a stable and modern banking system. To be able to do so, the following steps are recommended to be taken:

- Of the four state-owned banks, modernization of Myanmar Agricultural Development Bank (MADB) needs to be prioritized and transformed into a public-private corporation bank for effective development of the

agriculture and primary sector which is lagging behind other sectors.

- Features of modernizing MADB include: recapitalizing with funds from private banks and international banks, such as WB and ADB, improving corporate governance, and lending to agriculture value chain enterprises from farmers to agri-business and exporters.
- Strengthening and modernizing domestic banks through employment of consultants, transforming into public banking corporations, and listing in the Yangon Stock Exchange.
- Foreign banks that recently have been granted license should initially focus on financing foreign trade and foreign investors, supplement domestic banks, and attract additional foreign investments. The authority should make the best use of the presence of foreign banks in promoting human capacity and transfer of experience and technology.

Pillar No. 3 - Building strong and modern financial markets

Strong and modern financial markets would facilitate a stable financial system to support a sustainable growth and create a healthy financial environment where the central bank could effectively use its monetary instruments. The following measures are recommended to establish a strong and modern financial market:

- For CBM to conduct monetary policy instruments, such as Open Market Operations and Interest Rate Policy to maintain financial stability, well-organized financial markets within a statutory frame-work are essential.
- For efficient mobilization and allocation of financial resources, and to finance start-up businesses and expansion of existing enterprises, it is necessary to establish capital markets and stock exchanges where different securities with different maturities can be bought and sold.
- Capacity building and know-how to operate a Securities Exchange Commission and Yangon Stock Exchange will be needed with technical assistance to protect the investors.
- A new Companies Act to replace the present archaic law is needed to modernize domestic companies to reach international standards.

Pillar No. 4 - Extend the Outreach of Microfinance Institutions

Microfinance institutions (MFIs) are the main drivers for poverty alleviation in Myanmar. Appreciating the efficiency of private sector, the government of Myanmar has allowed private MFIs to play a significant role in poverty alleviation. It has already given licenses to 244 MFIs making a total amount of small-credits of over 1 trillion MMK to more than 1.3 million borrowers in 209 townships across the country.

MFIs help generate income and create employment. They also promote financial inclusion and financial literacy. More MFIs should be allowed with proper management to expand their outreach. The following measures are recommended for the expansion of the network of MFIs in Myanmar:

- Under the Microfinance Business Law of 2011, nearly 300 Microfinance Institutions (MFIs) have been established to extend micro-credits to rural and urban small enterprises that have no access to formal bank credit and with a view to alleviate poverty.
- MFIs are to be extended to ethnic regions when peace and stability are realized.
- Funds should be raised to assist MFIs; the Myanmar Microfinance Bank should be reorganized to enable it to give proper financial assistance to MFIs.
- NGOs to cooperate with MFIs in educating and training skills to become credit-worthy clients.
- An effective supervision should be established to develop a strong and sustainable Microfinance system

Pillar No. 5 -A strong and coordinated Monetary and Fiscal policy to maintain macro-economic stability in the long run.

To be able to maintain a stable, inclusive, and sustainable financial system, Myanmar needs strong and coordinated monetary and fiscal policies. The following measures are recommended to be considered:

- As financial and market institutions mature, CBM is to liberalize interest rates and regulations from direct controls to market driven monetary instruments.
- CBM is to adopt the Reserve Money Targeting Framework Monetary Policy at the present stage, and may consider adopting a Liquidity Targeting Framework and Inflation Targeting Framework at a later stage, in coordination with Ministry of Finance by agreement on a specific range of inflation rate (PTA).
- As Myanmar banking sector is growing in terms of size and complexity, more and more well-trained bankers are needed for the sector. A proper training center with qualified staff from academia, international finance organizations, and foreign bank experts should be established.
- A relatively stable exchange rate should be ANCHORED to sound macroeconomic policies including:
 - 1 monetary policies such as interest rate policy and inflation targeting policy;
 - 2 fiscal policies such as taxation and prioritized expenditure policy and debt management policy;

- 3 trade policies such as diversifying exports and markets, NES policy, and
- 4 output policies, such as closing the output gap to potential growth rate. These combined policies will contribute to business confidence and increase investment, both domestic and foreign, and employment.



About the author

Maung Maung Hla holds a B.A. (Hons.) in Economics from the Yangon Institute of Economics; and M.A. in Economics from the George Washington University. He joined the Central Bank of Myanmar (CBM) in 1949 as the Director of the Research & Training Department and was deeply involved in the research activities. He worked for CBM for 38 years and retired as the Governor of the Central Bank in 1987. While working for CBM, he got short-term foreign assignments: (a) Economic Affairs Officer at UN ECAFE (1954 & 1958); (b) Economist at the World Bank (1961-1964); (c) Research Manager at the Central Monetary Authority under IMF TA program (1978-1981); and (d) General Advisor at Maldives Monetary Authority (1988-1991). He was also a Director of Tun Foundation Bank (1994-2000).

OTHERS

16 Paradigm Shift of Microfinance in Myanmar by Myint Kyaw

Most financial institutions do not serve poor households because they are unable to provide the collateral and are perceived as high risk with low relative profitability. In Myanmar, microfinance is the only regulated business that provides credit and other financial services to low-income people without requirement of collateral.

In the past, microfinance was known as non-profit business where the UN and NGOs provided small loans to the poor people in rural areas. After the introduction of microfinance to Myanmar by UNDP's Microfinance Program in 1997, Pact Global Microfinance Fund (PGMF), World Vision, Save the Children (Dawn Microfinance), and Gret became major microfinance NGOs providing microfinance services mainly in rural areas. In November 2011, the Microfinance Law was enacted for the first time in Myanmar, allowing people with low incomes to access microfinance services. Since then, microfinance companies have entered into the market. By September 2015, the Government has already issued microfinance licenses to 251 microfinance institutions,⁴¹ 85% of which are private companies, and the rest are NGOs and Cooperatives. They all have reached to 1,541,198 clients⁴².

What is Microfinance?

Microfinance sector is the smallest contributor to the financial sector in Myanmar in terms of total assets (6.5 billion MMK⁴³) while the banking sector stands at the highest (30147.7 billion⁴⁴ MMK). However, microfinance sector is the largest service provider to the low-income people in terms of providing regulated financial service without collateral requirements. The

Microfinance Law is the only law that does not allow providing credit with collateral.

Consultative Group to Assist the Poor (CGAP⁴⁵) defines microfinance as the provision of financial services to low-income people. Myanmar Microfinance Law aimed for poverty reduction for the people at grass-root level, social development, and improvement of education and health. In the law, microcredit is defined as: small amount of credit provided without requirement of collateral to the low-income people for poverty reduction and improvement of their socio-economic status.

Although attribution of microfinance to the impact is debatable, there is a general consensus that the social and economic status of the clients was improved by participating in the microfinance programs. A study of Mongolia and Bosnia showed that microcredit spurred both new business creation and benefitted existing micro businesses. In addition, access to microcredit increased the ability of micro-entrepreneurs to cope with risk⁴⁶. As per ADB's study, microfinance services have triggered a process toward the broadening and deepening of rural financial markets, and strengthening the social and human capital of the poor community and the enterprises⁴⁷.

Studies in Myanmar on microfinance also support the fact that microfinance helped the low income people to improve their livelihoods. A UNDP's study highlighted that its Microfinance Program implemented by PGMF has had a very positive impact on the lives of the clients it serves. It also appears to be contributing to an increase in the level of economic activity of

villages where it operates by providing more employment and better services to non-clients⁴⁸. World Vision's study indicated that larger loan amounts had more impact on business than smaller loans. In addition, household incomes of the clients increased and their house conditions improved⁴⁹. A recent study of LIFT (Livelihoods and Food Security Trust Fund)⁵⁰, indicated that the microfinance impacted the business of the clients by an increase in profits and incomes, diversification into new businesses, more productive businesses, and diversification of product lines into more profitable products⁵¹.

I Challenges of Microfinance Legal Framework

Microfinance is more than just credit. Poor and low-income people need a variety of basic financial services. The sustainability of microfinance institutions plays an important role to develop low cost ways of providing diverse and responsible financial services. This cannot be achieved without enabling policy and regulatory framework. Therefore, appropriate regulation and supervision of microfinance institutions is critical in bringing financial services to poor and low income people⁵².

Unlike other countries, Myanmar's Ministry of Finance regulates and supervises the microfinance institutions while the Central Bank does the same for the banking sector. In most cases, the Central Bank regulates and supervises both microfinance institutions and banks in other countries. Within 4 years, the Ministry of Finance issued the regulations to reflect the market situation. The followings are key highlights of regulations and challenges.

- **Minimum paid-up capital: 15 million MMK (~11,710 USD) for non-deposit taking licenses and 30 million MMK (~23,419 USD)⁵³ for deposit taking licenses.**

Institutional capacity plays an important role for a microfinance institution to provide quality microfinance services. Facilities, such as information technology, accounting software, and skill human resources are required. Compared with neighboring countries, this amount is much lower. Minimum paid-up capital for microfinance business is 250 million KHR (equivalent to approximately 62,000 USD)⁵⁴ in Cambodia. However, the relatively low paid-up capital brings many small, local NGOs and companies into the market. Currently, 88% of total microfinance institutions are locals⁵⁵.

- **Maximum single loan amount an MFI can lend: 50 million MMK (~3,900 USD)**

The governments impose prudential regulations to oversee the financial soundness of microfinance institutions and take action when there are problems. Initially, the government

imposed the maximum loan size at 500,000 MMK (~390 USD). After the consultation with the microfinance institutions, it was increased to 50 million MMK. Limiting loan size can fail to serve demands for higher loan size from successful clients. Difficulty to balance between high cost small loans and low cost larger loans is another disadvantage. Therefore, limiting average loan size instead of limiting single loan amount is an appropriate regulation⁵⁶. However, increasing the loan limit preserves some level of flexibility as well. This allows microfinance institutions to provide financial services to micro, small, and medium enterprises. PGMF has been providing small and medium enterprise (SME) loans (2 million MMK [-1,560 USD]) to the successful clients.

- **Interest rate cap: 30% over loan and 15% over deposit (or savings) per annum.**

CGAP highlights that interest rate caps can restrict access by making it impossible to serve small or remote borrowers. However, interest rate policy varies from one country to another. Cambodia opened the interest rate to the market rates, while Bangladesh capped it at 27% per annum on loans⁵⁷. In Myanmar, the interest rate of informal money lenders is ranging from 60% to 120% depending on collateral and relationship, and registered pawn shops are charging 36% per annum for the loan with gold collateral. At the same time, the government agencies are providing micro-credit at low interest rates (i.e. The Department of Cooperatives at 15% per annum and Myanmar Agricultural Development Bank at 5% per annum.).

Despite increased advocacy from international microfinance institutions to remove the interest rate caps, the local microfinance institutions kept silent on this issue. The government has underlined the need for policy research to address the issue of microfinance interest rate and has suggested that it will not be possible to revise the interest rate in the near future.

- **Requirement of a minimum 50% of microfinance clients in rural areas**

This is an attempt of the government to enforce the microfinance institutions to serve the rural market which make up 70% of the population. Most of the microfinance institutions which came in to Myanmar after microfinance law were operating the business with equity investment. CGAP estimates that the operation cost of a microfinance business is ranging from 17% to 27%. With the interest cap, the profit margin is too small to break even. Therefore, for the short

term (1 to 3 years) they target the urban market which has higher economic potential, especially in the Regions such as Yangon, Bago, and Ayeyarwaddy⁵⁸. They plan to expand the market in rural areas later. The time frame of 50% coverage in rural area was not defined in the regulation, however the progress on this is important for the license extension⁵⁹.

- Permissions go to international microfinance institutions for borrowing from international source of funding at a maximum of 3 million USD per loan and to local microfinance institutions for borrowing from Myanmar Economic Bank and Myanmar Microfinance Bank, only.

The Ministry of Finance, in fact, regulates and supervises the microfinance institutions. However, the approval from the Central Bank Myanmar (CBM) is required for the loan to microfinance institutions. For the international loan, the CBM limits the interest rate to 10% per annum for local currency and 8% per annum for foreign currency. On the other hand, the international lending market is higher than those rates due to high cost of currency exchange risk.

The local microfinance institutions can borrow from the Myanmar Economic Bank and Myanmar Microfinance Bank which are both regulated by the Financial Institution Law. Those banks ask for land and building as collateral⁶⁰ and provide a loan at around 40% of the collateral value, while the local microfinance institutions have difficulty to put the collateral.

I Implications in the Microfinance Market

A CGAP focus note highlights that financial sustainability is crucial to the success of microfinance institutions. According to the Microfinance Information Exchange (MIX)⁶¹, since 1999, the annual growth of clients of 400 microfinance institutions from various countries was 13%. Financial sustainability plays a crucial role for large part of this growth, but reaching to more poor people is also important to achieve this growth. In other words, both financial performance and social performance that positively affects the clients' lives matter to the sustainability of microfinance services⁶². Otherwise, the main objective of microfinance to serve financial services to low income people will not be achieved.

Subsidized funding or donation-like cash grant assistance to microfinance institutions has been on the limitation in Myanmar. Major donors to microfinance sector changed their policies and funding strategies. UNDP changed its microfinance policy in 2013. Another major donor,

LIFT introduced the debt financing mechanism. Other development partners such as IFC⁶³, the World Bank, DFID⁶⁴, and ADB broadened their support to financial sector development in Myanmar – support to Financial Inclusion rather than just microfinance.

Social lenders and commercial lenders have started their investments in the microfinance sector. In 2014, the loan agreement between NorFund⁶⁵, a social investor, and Proximity Designs, a social enterprise type of microfinance institution, was the first debt financing approved by the Central Bank. Starting from early 2015, some international microfinance companies have taken loans from their mother companies. For the local microfinance institutions debt financing still remained as major challenge.

For financial self-sufficiency and reaching to more people, access to funding is important for the microfinance institutions. In Cambodia, after seeing opportunities of institutional growth through commercial financing (both debt and equity), several microfinance NGOs were transformed into commercial microfinance institutions⁶⁶. World Vision Myanmar's transformation of NGO microfinance to the commercial microfinance, Vision Fund in 2014 was the first case of microfinance transformation in Myanmar. Proximity Designs is under preparation for establishment in commercial microfinance, Proximity Finance. One of microfinance pioneers in Myanmar, Dawn Microfinance, managed by Save the Children is also under the transformation process of divesting to Accion⁶⁷. The major driving force for these transformations is access to commercial financing.

I Conclusion

The microfinance industry in Myanmar has started moving forward to commercialization of the services with high motivation to serve the gap of the financial sector, especially low-income people. In fact, not only low-income people, but also, the micro small and medium enterprises (MSME) are demanding the microfinance services. They joined the microfinance schemes with expectation of receiving higher loan size in next loan circles. At the limitation of subsidized funding, the private sector has been actively engaging in the microfinance market, especially in debt financing for the international microfinance institutions. However, access to debt finance for the local microfinance institutions still remains unsolved. When speaking with private banks, they have showed high level of willingness to lend the local microfinance institutions. Legal framework is a key to enabling the market. Therefore, microfinance law should be streamlined in the legal

framework of the whole financial sector. This can be achieved through more effective coordination within the government mechanism, especially between the Ministry of Finance and the Central Bank.

End Notes

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About the author

Myint Kyaw has been working as Microfinance and Business Development Officer for Livelihoods and Food Security Trust Fund (LIFT) since 2010. He has worked in the financial sector over ten years. His experience covers managing micro-credit projects with UNOPS, UNDP and UNHCR in Myanmar, developing microcredit monitoring system in Indonesia with Forum Bangun Aceh, Banda Aceh, and financial management with UNDP Laos. He received his Bachelor's Degree in Economics from Yangon Institute of Economics (YIE) and a Master's Degree in Public Policy from Lee Kuan Yew Public Policy School, Singapore. He also holds a Diploma in Market Development from ITC/ILO Italy; a Diploma in Development Studies, and a Diploma in Management and Administration from YIE.

17 Health Insurance: Impact and Insight by Myo Min Thu

What is health insurance?

Besides education, health is considered one of the most important factors in building a dynamic country. As such, while developing countries embark on getting their health systems in place, developed countries are at the stage of improving their health systems. There is a tremendous amount of pressure placed on national healthcare systems by the recent changes in demographics as quality health care is demanded by the increasingly educated and affluent population in the region.

In simplest form, health insurance is a solution that enables a policyholder to claim healthcare expenses from an insurer protecting the policyholder from paying the full cost of medical services. Just like car or home insurance, you choose a plan and agree to pay a certain rate, or premium, each month, and in return, your health insurer agrees to pay a portion of your medical costs.

It reduces uncertainty for individuals and gives them financial protection against poverty as a consequence of illness. It is popular in both developing and developed countries because it provides protection for households against destitution from out-of-pocket expenditures.

There are various forms of Health Insurance:

- Hospital Cash-only Insurance
- Medical Expenses Insurance
- Disability Income Insurance
- Critical (Catastrophic) Illness Insurance
- Long-Term Care Insurance

In general, the whole idea of health insurance is to share health risks and the burden of health care.

Myanmar health insurance? When was it launched? A brief history.

The first ever Myanmar Health Insurance (Hospital Cash-only Insurance) was launched on July 1, 2015, as part of a one-year pilot project approved by the Insurance Business Regulatory Board (IBRB) under the Ministry of Finance. A standard premium rate of 50,000 kyat (\$45 USD) per unit per year was

set, with a maximum of five units, and a maximum payout of 15,000 kyat (for one unit) per day for up to 30 days of treatment for policyholders. This Hospital Cash-only Insurance provides coverage for illnesses and accidental death benefit of 1,000,000 for a unit, allowing policyholders to purchase up to five units.

All healthy citizens between the ages of 6 and 65 years will be eligible during the one-year trial. Limitations include: coverage not extended to cases, such as abortion, child delivery, dental, eye or cosmetic surgery, and treatment for mental illness and drug addiction.

An overview of health insurance systems in Southeast Asia and neighboring countries? Other factors affecting the need for health insurance.

There are various types of health insurance in other countries. **National or Social Health Insurance (SHI)**- This program is based on an individual's mandatory enrollment. Several low and middle-income countries, including in the Philippines, Thailand, and Vietnam have established SHI.

Voluntary insurance mechanisms include **Private Health Insurance (PHI)**, which is implemented on a large scale in countries like Brazil, Chile, Namibia, and South Africa, and **Community-Based Health Insurance (CBHI)**, which is now available in countries such as the Democratic Republic of the Congo, Ghana, Rwanda, and Senegal.

The various types of health insurance have different impacts on the populations they serve. For example, PHI is said to mainly serve the affluent segments of a population, but CBHI is often put forward as a health-financing mechanism that can especially benefit the poor, which could be considered for a developing country like Myanmar.

According to statistics from World Health Organization (WHO), more than 2 billion people live in developing countries with health systems afflicted by inefficiency, inequitable access, inadequate funding, and poor quality services. These people account for 92% of global annual deaths from communicable diseases, 68% of deaths from non-communicable conditions, and 80% of deaths from injuries. An estimated more than 150

million of these people suffer financial catastrophe every year having to make unexpected out-of-pocket expenditures for expensive emergency healthcare.

In many countries, the burden of dysfunctional health systems is felt by the poorest households. Their access and use of services, such as immunizations and attended deliveries tend to be half those of richer households. They have limited recourse to purchase quality services from private health service providers. Their enrollment in health insurance tends to be marginal and they are often unable to shield themselves from unexpected health expenditures.

What are the benefits of Health Insurance in Myanmar? How does it differ from neighboring countries?

Health insurance plans in Myanmar are still very basic and fall under the category of Hospital Cash-only Insurance, which offers coverage on hospitalization expenses depending on the number of units purchased. In developed countries like Singapore, health insurance plans provide a wide range of benefits that vary across different plans. These benefits include: hospitalization benefits, surgical benefits, overseas medical treatment benefits, and living organ donor transplant benefits. Some also cover pre and post-hospitalization benefits and outpatient hospital benefits.

A study on India shows that it has experienced growth in micro-insurance schemes since the year 2000. Private insurance companies are permitted to operate in the Indian market on condition that they also offer insurance to low-income households. Of 14 micro health schemes listed in 2005, 9 covered hospitalization expenses. However, 12 schemes excluded childbirth and pregnancy-related illnesses and most excluded people living with HIV. A field study of six health insurance schemes in India indicated that they played a positive role in reducing catastrophic health expenditures in the case of hospitalization but had only a limited impact on out-of-pocket expenditures as hospitalizations represented only 11% of total household expenditures on health.

The need for a developed insurance system in Southeast Asia and neighboring countries

Southeast Asia contains about 600 million people, or 9% of the world's population, with Indonesia having the region's largest

population (and fourth largest in the world) and Brunei the smallest. 43% of the region's population lives in urban areas, but there is a large difference between countries (from 15% in Cambodia to 100% in Singapore). Population densities range from a low of 27 people per square kilometer in Laos to a high of 7,022 people per square km in Singapore.

Southeast Asia is one of the most disaster-prone regions in the world. The Indian Ocean earthquake off the coast of Sumatra in 2004 caused a devastating tsunami in Aceh, Indonesia, and countries on the fringe of the Indian Ocean — one of the worst natural disasters ever recorded. Countries in the northern part of the region, such as the Philippines and Vietnam, are badly affected by seasonal typhoons that have increased in intensity over time. The Philippines and Indonesia are located on the Pacific Ring of Fire, a zone prone to earthquakes and volcanoes where around 90% of the world's earthquakes occur.

With above risk of disasters, it is crucial that we work towards developing a comprehensive insurance system that could protect the country, particularly the people from negative impacts arising from unexpected risks.

Major challenges in selling health insurance

There are challenges in pushing out Health Insurance products to the general public.

- **Low disposal income:**

Given the current low GDP per capita in Myanmar, it is challenging to give the general public access to healthcare and health insurance. According to World Bank data, Myanmar's GDP per capita in 2014 was 1,203.8 USD, compared to 56,286.8 USD in Singapore. This data illustrates a huge disparity on overall spending power for the general public. On the bright side, we foresee this number to grow significantly as the country opens up to more foreign direct investment, and it is forecasted to grow at 8% per annum.

- **Awareness among general public:**

Communicating the benefits of health insurance is one of the critical issues we need to look into at the moment. Most of the people in Myanmar tend to have a different perception when it comes to buying insurance. Due to the wide geographical area, there is a need for mutual collaboration between the public and private sectors to ensure the general population has sound knowledge of the benefits insurance brings to each individual and household. This responsibility is to be shouldered by various stakeholders such as the

government, state-owned and private insurers, health care services, and hospitals.

- **Accessibility:**

The last major concern is accessibility of the product to the people. There is a need to look into what methods should be adopted to ensure accessibility. It is cost inefficient for insurance companies to open up branches in every state. Instead, we should look into leveraging on established distribution channels. In Thailand, selected insurance products can be purchased in banks, convenience stores, kiosks, travel agencies, and even through various websites. This helps to cover both awareness and accessibility.

One of the solutions would be to engage Social Health Insurance (SHI) which is said to have the most potential to achieve universal coverage. The main distinguishing features of SHI is that membership is mandatory and premiums are set in proportion to income. Payment into the system is generally shared by employers, workers, and the government.

Thailand is a good example of a middle-income country that has managed to provide near-universal coverage to its population. The universal coverage scheme offers any Thai citizen not affiliated to schemes for formal or public workers full access to health services operated by designated networks of providers. Eligible individuals receive a free insurance card and pay a nominal co-payment of 30 baht (0.94 USD) for each visit. The scheme combines insurance elements (legal benefit entitlements) and public service elements (general revenue financing). Since 2001, the scheme has covered 46.5 million beneficiaries, or 72% of the population.

Future Outlook of health insurance in Myanmar

Myanmar is on the road to opening up. Social, political, and economic development during the past few years have facilitated changes in some sectors, especially in the financial services. Public policies by the government cannot ignore risks to health, which could have important social and economic consequences.

I truly believe that as the country grows, with the right publicity and awareness programs, we will be able to achieve higher penetration in life insurance, particularly on health and hospitalization benefits. There is no argument that we should look at making necessary adjustments to the current healthcare and protection system and introduce measures that help the people. This needs to be done in tandem with the health care sector including all stakeholders in the insurance industry.

Additionally, all countries in the region are faced with large or looming chronic disease epidemics. Even in the poorest populations of the region, non-communicable diseases already kill more people than communicable, maternal, and perinatal conditions combined with many of these deaths occurring before old age.

A strengthened health system and insurance coverage are urgent priorities if the country is keen on moving forward in opening up to the world. Further growth and integration of ASEAN should prioritize enhanced regional cooperation in the health sector to share knowledge and rationalize health systems operations leading to further public health gains for a developing country such as Myanmar.



About the author

Myo Min Thu is the Managing Director of Ayeyar Myanmar Insurance (AMI), a fully-licensed composite and leading insurer of the country. He graduated from the University of London (London School of Economics) with a Bachelor's Degree in Banking and Finance in 2009. Being a finance professional, he has been playing a role as a key figure in Myanmar's newly opened insurance sector. Prior to joining AMI, he held various management positions at overseas stations as Country Manager at SilkAir, regional wings of Singapore Airlines. With over 4 years of working with SilkAir, he also possesses corporate and field experience of the airline industry.

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18 Implementation of SME Development Law in Myanmar

by Dr. Ei Shwe Sin Tun

Important Role of SMEs in Myanmar

Being a developing country, most of the business establishments in Myanmar are small and medium-sized enterprises (SMEs). While striving to become a modern, developed nation, a well-articulated development program for SMEs should carefully be launched in a systematic way since they play a pivotal role in economic development. In fact, they are the engine for economic growth. They make a significant contribution to GDP. They play a central role in poverty reduction by creating employment opportunities and generating income for the poor. They produce value-added goods and innovated products. They are flexible in dealing with their customers and adaptable to the changing market demand. They also play an essential role in promoting and diversification of exports which at the moment are largely of agricultural and primary products.

However, most SMEs have the following weaknesses:

- Weak business management
- Stiff competition from rival businesses
- Low level of technology
- Lack of brand development
- Lack of market access and contacts
- Lack of resources to upgrade skills and production processes
- Weak financial support and inability to have access to finance

Acknowledging the essential role played by SMEs, the Ministry of Industry (MoI) has assigned one of its departments, the SME Development Department to the task of nurturing and promoting SMEs in the country. This paper tries to explore a possible role of the SME Development Department in implementing the recently enacted SME Development Law.

Enactment of SME Development Law

Acknowledging that the small and medium enterprises (SMEs) are the backbone of the economy, the Government of Myanmar enacted SME Development Law as the Pyitaungsu Hluttaw Law No. 23/2015 on April 9, 2015. The main aim of the law is to effectively support SMEs in their business venture. To be able to achieve this aim, the law outlines the following objectives:

- To support SMEs to have easy access to business information, technology, and finance;
- To enable them to have access to international markets; and thereby, enhance their competitiveness;
- To increase employment opportunities and generate income of the people by supporting SMEs; and
- To help SMEs reduce their difficulties and obstacles in business operation.

Under the new SME Development Law SMEs are defined and classified as follows:

Sr. No.	Categories	No.of Employees	Capital (Kyats in Million)	Turn-over(Kyats in Million)
1	Small	Up to 50	Up to 500	
a.	Manufacturing sector	Up to 300	Up to 500	
b.	Labor-intensive manufacturing sector	Up to 30		Up to 100
c.	Wholesale Business	Up to 30		Up to 50
d.	Retail Business	Up to 30		Up to 100
e.	Servicing Business	Up to 30		Up to 50
f.	Except from above Business			

Sr. No.	Categories	No.of Employees	Capital (Kyats in Million)	Turn-over(Kyats in Million)
2	Medium	From 51 - Up to 300	From 500 - Up to 1000	
a.	Manufacturing sector	From 301 - Up to 600	From 500 - Up to 1000	
b.	Labor-intensive manufacturing sector	From 31-Up to 60		
c.	Wholesale Business	From 31-Up to 60		From 100-up to 300
d.	Retail Business	From 51-Up to 100		From 50-up to 100
e.	Servicing Business	From 31-Up to 60		From 100-up to 200
f.	Except from above Business			From 50-up to 100

I Main Principles of SME Development Law

The main principles are outlined in Chapter 3 of the Law. They include the following essential points:

- To provide SMEs with financial and legal assistance, and to adopt a proper administrative policy;
- To promote their competitive skills; and thereby, to get more market shares;
- To encourage non-registered SMEs for getting registration;
- To assist them in accessing market information, technology, and finance;
- To make them social and environmental friendly;
- To support them in producing new products, to increase their efficiency in production, and distribution by using modern technology and equipment;
- To expand business opportunities and to develop human resources; and
- To get coordination among public, private, and international organizations for SME development.

I Institutions and Infrastructure

Central Committee

It is the main policy making body. It gives guidelines for SME development. The Central Committee headed by the President, U Thein Sein, was formed on January 9, 2013 with 27 members.

Working Committee

It is the second highest authority after the Central Committee. Its main responsibility is to implement the policy guidelines adopted by the Central Committee. The Working Committee headed by the Vice-President, U Nyan Tun, was formed with 15 members on January 9, 2013.

Reviewing & Reporting Body

It is to be formed with suitable persons appointed by the Central Committee. Its main responsibility is to review all aspects SME developments.

Fund Management Body

A fund management body shall be formed with suitable persons and the chairman appointed by the Central Committee. It will be the main body for SME-Finance. Its main responsibilities include: submitting proposal for budget allotments for providing concessional loans to SMEs, raising funds for SME development locally and internationally, conducting business matching between local SMEs and local and foreign investors, providing funds (government policy loans, cheap loans, grants, and aids) to SMEs through local banks, and coordinating with credit guarantee corporations for reducing risk on loan default.

Agency

It is an important institution for successful implementation of the Law. It shall have its branch offices across the country. It is to be formed with heads of government departments, representatives from various organizations, and technicians. With the approval of the Central Committee, chairman of the Agency, equivalent to the deputy minister status shall be appointed. The director general of the respective ministry shall serve as its secretary. It is the main institution responsible for the development of SMEs in the country. It will have to solve any problems facing SMEs. Its offices will have to give one-stop services and legal advices to SMEs. It shall have to organize seminars and workshops for SMEs to disseminate knowledge and experience on modern techniques and business opportunities. It shall coordinate with other organizations for getting funds, technical assistance, etc. In fact, Agency is the key

institution to implement the Law and guidelines adopted by the Central Committee and the Working Committee.

Main activities to be conducted by the Agency can be observed below:

- Implement policy framework and submit annual reports on its performances for the development of SMEs to the Central Committee via the Working Committee;
- Assist SMEs in solving their problems and issues;
- Give one-stop service to SMEs through its branch offices across the country;
- Give legal and other technical advices to SMEs and organize trainings and workshops for them;
- Coordinate with respective ministries, organizations, companies, and banks to provide financial and technical assistance to SMEs;
- Coordinate with local and foreign organizations for establishment of a business network for local SMEs;
- Encourage SMEs to innovate new products and expand their markets by promoting competition among themselves and holding various trade fairs;
- Assist SMEs in solving their dispute and establishing new business entity;
- Register all eligible businesses as SME and keep records of them as status of SMEs for three years; and
- Closely coordinate with local and foreign government and non-government organizations for getting technical and financial assistance

Possible Role of SME Development Department Under the New Law

After studying the above functions of Agency, one would come to realize that the SME Development Department with its well-trained personnel would be most suitable to step in to conduct the above functions.

Established under the Ministry of Industry in April 2012, the SME Development Department is the main institution to effectively support SMEs in the country. The department has sufficient experience in assisting SMEs, especially in the following areas:

- Human Resource Development
- Technology Development and Innovation of new products
- Access to Finance
- Infrastructure Development (including Policy and Law)
- Access to Market information
- Information on Taxation and Rules & Regulations

The SME Development Department carries out various promotional activities on SME development. It organizes various trainings, workshops, and seminars for private entrepreneurs in cooperation with a German federal enterprise (GIZ) and other international development partners. It supports local business entities in promoting their managerial skills. It coordinates with the Small and Medium Industrial Development Bank (SMIDB) in disbursing loans to SMEs.

It plays a central role in drafting the new SME Development Law. Currently, it is drafting by-laws, rules, and regulations by getting technical advices from local and foreign experts and organizations.

Having the experience in supporting SMEs, it has the expertise and knowledge to assume the role of Agency Office in implementing the SME Development Law.

I Prospects of SMEs

The government is giving financial support to SMEs through the Small and Medium Industrial Development Bank (SMIDB), which is a local commercial bank established under the auspice of the Ministry of Industry. It makes SME loans to local enterprises at a rate of 8.5% per annum. The amount of the loan is 30 billion MMK in total. A two-step loan from the Japan International Cooperation Agency (JICA) is in the pipeline. It will provide 5 billion JYP worth of ODA loan to the Government of Myanmar to be used for extending low interest long-term loans to SMEs. The loans will be channeled through the Myanma Economic Bank to five local banks including SMIDB. These banks will extend loans to SMEs for a duration of five years. The lending interest rate will be set at a minimum deposit rate, plus 0.5% (i.e. 8.5%). A German development bank, KfW, has selected the Cooperatives Bank for extending SME loans to local businesses. International organizations such as GIZ and Kasikorn Bank are giving technical support to SMEs. This financial and technical assistance will create a favorable condition for SMEs in the country.

Beyond 2015, there will be ASEAN Economic Community (AEC) where there will be free flows of goods and services among ASEAN member countries. At that time, local SMEs will face stiff competition from other countries; there will be challenges as well as opportunities for them. With the SME Development Law in place, we expect that the SME Development Department will have an opportunity to play an important role in implementing the Law effectively.



About the author

Dr. Ei Shwe Sin Tun is a director of SMEs Development Department, Ministry of Industry. She got her Ph.D in engineering from the Yangon Technological University. She also received a diploma in ESL (USA) and a diploma in Business Law. She is a lecturer at the food sanitation training program organized by Union of Myanmar Federation of Chamber of Commerce and Industry (UMFCCI) as well as at the certificate course of ASEAN Economic Study Program at the Yangon University of Economics and at the Trade Training School under Ministry of Commerce. She has made presentations on ASEAN Economic Community at various workshops. She plays a role in the ASEAN Small and Medium Enterprise Working Group as well as in the Women Entrepreneurs programs.

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19 Corporate Governance: What and Why Myanmar Needs It

by Thuta Aung

Let's start with the definition of corporate governance.

The bottom line is governance. Whatever good initiative anyone is going to be involved in needs good governance. The way you define a word is to break down the definition. So, if you leave the word "corporate" alone, "governance" in itself is the process to govern something, like we have the governor, we have the governance of the country. A country can be a poor country where there is bad governance or no governance at all. Usually, there is a lot of literature around bad governance of a country but not much literature on corporate governance. By definition of the business owner, you want independence and you set up your own business. You basically get to do whatever you want. That's the nature of the startup. That's the nature of the "gung-ho" or maverick-style entrepreneur. The startup becomes someone established. The entrepreneur, the owner, or the business manager has to start employing people; then, it's not just you or the business owner alone. Additionally, you need a fair structure because the business owner has the ultimate power, especially in a country like Myanmar where we hear of government officials misbehaving or being dictatorial. Business owners can be dictators, too. They can bully someone, and what trouble can they get into? Not much, unless you are running a factory with 1,000 workers, it is very visible, and you have a trade union. In this case, you can get into trouble because the number of employees is so huge; they can turn against you. However, if you are in a small factory or office (i.e. 30 people), and you are the managing director or the CEO, you are like the "God" of the office. People will have to listen to you and you have the power to practice - "Listen to me or else." Initially, as the founding entrepreneur or the owner/manager, that kind of independent-spirited approach will work. When you want to grow further, it is necessary to govern yourself and have a proper structure in place. One obstacle for Myanmar SMEs is the lack of governance structure which, in turn, leads to lack of growth (or slow growth) because they can be family owned enterprises where the head of the family has the ultimate power. Even the children can't say much, let alone the non-relative employees. That unequal power leads to bad governance and bad business in general.

So basically corporate governance is how a company or organization is run by its owner.

Yes, it is the enabling structure where the business owner is also accountable, but if you are an assistant manager, you are responsible to your manager who, in turn, is ultimately responsible to the general manager. Then, who is the CEO or managing director responsible to? In the Myanmar Company Act, we have the board of directors. For instance, the managing director is also the chair of the board of directors. Even if we don't want to change the law, that board can act as a control to the managing director. The role of the chairman or chairwoman and the managing director should be different. When the board of directors meet it should not be the managing director who is dominating the discussion; this is the first step to corporate governance. What we have in our company is the board of advisors. I'm the business owner and I'm not too old, but there are some grey-haired people that I speak to regularly (once every month). However, I don't necessarily report to them. I use them as my sounding board. I share my ideas with them and they give feedback. They can be pretty ruthless to me as well, in which case, I take their advice very personally and very dearly, and I share the details with my key employees. So, in case I misbehave or in case I am not performing, they can write a report to the board of advisors who will give me feedback.

So, you just mentioned that corporate governance is important for company growth or expansion. How is it exactly important in achieving financial objectives?

In terms of the growth and financial sustainability of a firm, in the beginning, the role of the founder is very important, but that is the startup stage. For the firm to grow, it needs structures, and the founder should build those structures making he/she less powerful. By being the most powerful person, the company becomes dependent on one person, or maybe three people, and that is not good for growth because that person still has to sleep, go on holidays, etc. Otherwise, a person who doesn't go on holiday or who doesn't relax is not going to be a good businessperson for a very long time. Human creativity or entrepreneurial creativity needs breaks, and if the company relies on you entirely, then you can't have breaks. It's a circle of mediocrity. One can become a

mediocre entrepreneur if the structures are not in place. Ergo, my definition of good governance is setting a structure where everyone is accountable including the most powerful person.

Next question, how can a firm benefit from such good corporate governance apart from growth and expansion?

To have good governance and by having those structures in place, the by-product of a good governance is that you begin to get a system - the system who is not you. Sometimes what happens is you have the company, you are the company, and the founder is the company. So, you can't grow. The growth is the problem and we have discussed that. What if you want to receive the investment into the company? How about the exit strategy? What if you want to take your company public? When people are going to put in money, they have to put the money into something which is not a person. By having good governance, you make the company more "investable." There are some very promising Myanmar companies that we work with, but they have no structure. If they are a family business, it's usually the father or the grandfather who is the overall executive. Even the children sometimes don't receive salaries; they ask for allowances. With that kind of structure, even if the business is a good business in agriculture or organic agriculture, and the banks or venture capitalist want to put money in, they have nowhere to put the money. There is no system to actually manage the inflow of investment. So, what happens is this business cannot receive investments. It may be a medium-sized company, but it can't become a large enterprise that can compete at the ASEAN level. That's why when a Thai company or Singaporean company comes into Myanmar and compete with the local company, it is going to lose. The lack of corporate governance means the lack of systems to expand.

On a macro level, how can Myanmar benefit from corporate governance?

I had this very interesting conversation with a chairman of the sector-level association. We are close so he was also sharing very personal stories. He said business people complain about the government and workers. The government should be allowing this and that. The workers should work more, but what business owners sometimes forget is themselves. The reform should also be kept at their level. If business owners at the UMFCFI level apply corporate governance – if all of them collectively

apply - then a whole new Myanmar-way of doing business will emerge. Then, I believe that can happen at the macro level if good corporate governance is instilled into the country. It is much needed. I was speaking at a conference in Mandalay a few months ago on corporate governance, and PwC was also there. We were talking about lack of corporate governance. It is not that depressing because if you look at the companies from mainland China, they didn't have corporate governance before. Some of them were family-owned companies and they grew large because they knew they had to change. Sometimes it's not just growth. You might have expanded accidentally and you need to sustain or maintain the current size in which case you will need good corporate governance.

At the macro level, as well at the meso level, the business owners (through the chamber of commerce or industrial associations) should disseminate this knowledge of corporate governance. Corporate governance is a hard thing to do because you actually have to do something in the company. If I say I want corporate governance in the company, HamsaHub, I will actually have to put systems in the company. So, this is the real work for me. I actually have to let go of some of my power. It's hard. Most people are talking of more popular topics, such as CSR. We also work in CSR. Everyone likes dressing up exercises. CSR dressing up is easier because you may do events, you may do donations, or philanthropy. People confuse CSR and corporate philanthropy. You can get away with being confused of CSR. Now, Professor Aung Tun Thet is pledging that the companies should pay 2% of the annual net profit for CSR. That is easy. I can be very evil in doing business, be very profitable, and use that 2% out of my net profit; by doing that I've externalized the problems. Good governance is about internalizing the problems, or owning the problems, and you as the business leader are solving it in a systematic way.

What about on the risk side? Apart from not being able to grow too much or too fast because of poor corporate governance, what else can you say that poor corporate governance brings to the company?

You can have a continuity problem. Even if it is a family business, you will have a father who will be the top person. There are three sons. They might work together as directors while the father is around. If the father is ill, who is going to continue? The three brothers might get into a fight and break up the company, or they might love each other, but they don't know how to run the business like their father did. If the father brought in a system during his time, then they might be able to hire a professional

CEO to continue the business as usual. It is bringing more outsiders into the picture. However, in Myanmar, we should also be aware that there was nationalization in the late 60s and 70s. Such an unfortunate event made most business people insecure, and consequently, put everything within the family. However, that kind of trust can be built if there is a system. By having a system, no one person is more important than another. For example, if your company is without a system, you have a general manager who you rely on too much or a finance manager who is external and you rely on him too much. You have to be afraid of that person, and that person can destroy you as well. For that fear, people will appoint relatives for management positions, but if there is a system, those managers will have to report to a certain structure, or the outside/external directors will have a mechanism to report to. In this way, the power of the individual will be contained, and greater trust can be achieved.

What are the most important corporate governance mechanisms that are available to a company?

It can start from a basic financial instrument, so start using proper accounting systems like IFRs. Then, you will have a clearer flow of money because the whole business is about money. If there is a proper control of funds and visibility (certain things will have different levels of confidentiality, which is understandable), or if there is an internationally accepted standard, the company becomes more manageable. It's hard to achieve. There are some companies that we have advised to acquire investments. They cannot get investments because of a lack of an accounting system. So, an accounting system is the first, practical start of good governance. The next step is human resources. If there is a system to assign people to their own job descriptions, there is a proper analysis of functions and a clearer division of labors. It becomes easier to manage. Again, that is good corporate governance. In unhappy companies, what happens is you don't know when you will be called to do a job that you don't know. By not knowing your job clearly, it creates dissatisfaction at work. That is also one reason why Myanmar companies lose capable stuff to international NGOs or foreign companies.

What do you think are the challenges for the local companies to achieve such corporate governance apart from the things that we have just discussed?

The challenge for Myanmar business owners right now is time. A lot of Myanmar businesses are very busy right now. The country is

in a transition period. Everyone is extremely busy. Also, business owners, in general, are excited about extroverted activities, such as selling. By the way, I think this is acceptable. The job of the CEO or the Managing Director is to do marketing or sales jobs for the next five years, so the business will have "business" to go on. That is the enjoyable activity for most entrepreneurs. I'd rather be outside meeting prospective clients or doing contracts than sitting in my company+ having meetings and setting up corporate governance. Time is rare, and this requires investment in terms of time for the business leader to set it up. That's the first challenge. The second challenge is trust. Can I really trust my colleagues to devolve some of my power? Will that mean I'm losing control? That's a trust issue. It is human nature. What can counter that challenge is the Chamber of Commerce and Business Association Level having a pilot project where maybe ten most adventurous business owners will experiment having corporate governance. They should all meet and say, "Hey, we are going to test this in our company to have this system in place." I am talking about the people who don't have that system yet. That can be a way forward. There is a locally-owned energy company that started not too long ago and became one of the top companies in Myanmar. This is because the founder realized he should be doing business with people who are more experienced than he is and have a structure where he will have the overall decision making power but give authority to people who have the capability to do so. That actually facilitates the growth tremendously.

How can we really know whether or not the good corporate governance is in place in a company?

If people know what they do, and if people know what they have to do, that's a sign of the beginning of corporate governance. If they know everything is functioning, that's the basic level of it. From the human rights perspective, everyone has to know that they will be treated equally. If they have been wronged or if they are bullied, they have a channel to make that complaint, but not to the police. Then, that is the sign of good corporate governance.

What about the accounting perspective, is it easy to see that the company has fully set up good corporate governance?

One reason why there are no systems is because the owner or the managing director wants to get hold of all finances and control all financial data, which is bad governance or no governance.

Another question is more on the upcoming stock exchange. What's your opinion on it in relation to corporate governance?

For a public company, this is a necessity. It's somehow laughable that there are now new "wannabe" public companies. I call them "wannabe" public companies because they are, by definition, not public companies yet. It's just sector associations and all the rich folks putting their money into a public company which has no sign or characteristic of a public company. They need governance. They need basic things, such as an employee handbook. They need to ask basic questions, such as: How will we manage the money? How will we manage the profit? When do we share the profit? When will the dividends be given? From my experience, most companies have not set up what they will do. Everyone is over excited because we don't have a stock exchange here yet. So, everyone is looking forward to it. In Myanmar, you don't have many investment options, so some people may just throw money into it because this is the new thing. There are so many "wannabe" public companies, but I'll be surprised if there are more than ten companies listed on the stock exchange when it opens.

The ones who will manage to make the list will have some corporate governance. I don't think any Myanmar company will have adequate corporate governance yet. As a country, we are all learning along the way, so public companies will also do the same. What we all hope for is that they will remain acting as good businesses, because when you have public or external money there's so much risk involved.

Getting back to the local companies trying to raise the capital, what are the points that the investors are looking at regarding the corporate governance?

One is Corporate Finance. The whole financial system reporting line, the whole accounting system, that's the finance part. The second part is corporate structure or organizational structure - who reports to who. The external investors will start raising their eyebrows when a very junior person has to report to a managing director. This means there is no middle management, and that becomes worrisome.

What are the other corporate financial points that are important for investors when they are going to invest into a company?

They will look at whether this company is a profitable company or if this company has the potential to become profitable. For example, consulting firms which are very dependent on consultant hands cannot get much investment, but training companies, if they have curriculum, are a lot more investable because it is the curriculum that they sell together with the trainer - not just the brand of the qualification. They deindividualize the offering in which case makes the company more "investable." In general, it has to be a strong team. Even when I said it is the potential profitability, not real profitability yet. The only way potential profitability will become the real profitability is if you have a strong team to deliver. By having good corporate governance, you will have a structure to replace the individuals within that team. You will have a team, and even if someone or something happens, you will have a system and a good name to replace them.

When you look at Myanmar companies, they will have some sort of organizational structure (on their websites or in their profiles); can you say that they have good corporate governance?

If there is some structure, I think this is a good beginning. By looking at the structure, some further questions need to be asked. How much financial decision can a general manager make? Can a general manager make a decision regarding twenty lakhs or \$2,000 without consulting the board of directors? Can he or she spend it? I mean it's not just throwing money away. Can that person spend that money? Does that person actually have that decision-making power? In some companies you can have a general manager and they will still ask for clearance from the managing director for 100,000 kyats. Then your structure is meaningless.

For those local companies that don't have good corporate governance, what can they do to start corporate governance?

From the founder's point of view, they will have to start looking for deputies who will take on the operations - people who will have complementing skill sets, and then you actually can devolve

your power to them. Having a proper functioning organizational structure, that is the first part of it, and then having a mechanism where you will meet with the other directors, or the external advisors (the board of advisors, like I mentioned), is the second part. The board of advisors doesn't actually have the power, but you use them as your sounding board. I think it is a healthy way for founders and managing directors.

We'll move on to the regulation side. In other countries, does government provide acting laws, frameworks, and guidelines to provide the corporate governance? What about Myanmar?

Actually I do not I think it is the role of the government to provide the guidelines. Maybe business associations or chamber of commerce can give the suggestions because what works as a corporate governance for a company: a.) might not work for the company and b.) you must have good financial reporting in place. Human resource (HR method) is also very common sense. You must have clear roles and clear job descriptions, which can lead to a good team. So, it is clarity and clarity in doing business that can lead to good governance. Sector Associations or the Chamber of Commerce can disseminate that information to companies. For companies that want to become public, what you need is job descriptions plus SOPs (Standard Operating Procedures). For someone who took the position as a procurement officer, there should be job description what he or she must do. When he or she comes to the office, what are the things he or she has to do? At 8:30 am, what should be checked? When the tender documents come, what should be the first thing to do? Simple procedural things have to be clear. By putting that in the SOP, even if that person leaves without instructing the next procurement officer, it can be done because the next person can just open the book. So, that employee hand book which contain the standard operation procedures is a necessity.

A company is a collection of people. People come first. The people have to do should be crystal clear. Governments can provide guidelines, but they do not require making it into regulation. For the stock market, yes, they have to make the regulations (e.g. Every company must report in this IFRS standard.). You cannot really dictate on the HR side, but you can dictate on the employee handbook. You can dictate on having a prospectus, such as how the prospectus needs to be prepared. Those are the typical stock exchange requirements, and there is no need to reinvent the wheel. Look at the nearest stock exchange, the Singapore and Hong Kong stock exchange, and the other stock

exchanges we can look are New York and London. These are requirement: If you want to list (on the exchange), you need to have a certain amount of capital; you need to have a certain level of reporting. How that level of reporting will actually be reported is internal. How you make that happen within the company is on your own. The government can only dictate what is required for the sake of the public investors.

So basically the government cannot dictate the private companies on how they should run their companies.

It can be intertwined. If you are a health-related company or if you run a hospital, there are laws that govern private clinic and hospitals. There are laws on patient safety. What you can do is translate the law into the employee handbook and the standard operating procedures, so that whatever you do, it is lawful. What do you do if a patient dies in the operation room in a private hospital? Will the nurses know? Will the doctors know? That collective awareness or corporate awareness should be there. That is what good corporate governance is.

Is there any progress in corporate governance practices in Myanmar right now after transition?

Personally, I think some companies are aware of it. The companies that are doing well seem to be aware of it, and they make sure that the companies do not rely on individual business owners. However, not everyone is aware. Still, there is this "Lu Gyi" syndrome, meaning that "I am the ultimate, powerful boss." I think this is a human syndrome rather than just a Myanmar syndrome.

So, what can we expect in the next five years?

In next five years, we will have the ASEAN Economic Community active. Myanmar companies will have to act up, make sure good structure is in place, become more "investable," and become more competitive, or they will be out of business. So, what we will see is a lot more competitive Myanmar businesses. Businesses will transform from family-run business to a more professionalized business. Some businesses will disappear. Corporate governance is a lot more important than CSR. What frustrates me is that people confuse CSR as donation or philanthropy which are external. All successful companies are internally conscious. We Burmese Buddhist, talk about mindfulness and that companies

should be mindful, too about what is happening internally. When the internals are solved and are in good order, externals are easier. As a country, that is what we have to do if we want to succeed in the ASEAN.

Is there anything that you would like to add or comment?

To me, a responsible business and a company with good corporate governance are all good businesses, and they have to be. In the long run, to become a good business and a profitable business, you need to be well-governed and responsible.



About the Expert

After completing his Research Master's Degree with a focus on social entrepreneurship on a full scholarship in the UK, **Thuta Aung** worked briefly as a university researcher before being contracted by the International Labour Organization (ILO) in Geneva, Switzerland, where he worked on web communications and social protection. After returning to Asia, Thuta benefited from his academic skills and became head of the undergraduate entrepreneurship program in Malaysia. Upon returning to Myanmar, he has given talks and seminars at the National Defense College as an advisor of MISIS, senior technical expert for the SME Centre of the Ministry of Industry and the UMFCCL.

Today, Thuta works across a spectrum of activities, focusing in particular on CSR and private sector development, engaging NGOs, large companies, government contracts (as for example DFID) in addition to think tanks in Myanmar and the region. This involves political as well as civic actors operating within the entire spectrum of CSR, and Thuta strives to play in the nexus between businesses and political development. In 2012, Thuta set up HamsaHub, with the intention support and create bridges between the world of civil society, the private sector in Myanmar, foreign corporations and governments. His work in HamsaHub also includes functioning as the head of Business Facility Initiative (BFI) – a multimillion pounds project with a focus on poverty reduction through private sector development. Thuta Aung has been recently selected for New Zealand Government's ASEAN Young Business Leaders Initiative, which selects the most promising entrepreneurs under the age of 40 from the ten ASEAN States. He is married to an artist and father of a daughter.



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