MAKING ACCESS POSSIBLE

map

cenfri
The Centre for Financial Regulation & Inclusion

FINMARK TRUST
Making financial markets work for the poor

UNCDF
Microfinance • Capital Development

ကျပ်

Myanmar

DEMAND, SUPPLY, POLICY AND REGULATION

Myanmar Country Diagnostic report

2014

THIS REPORT WAS PRODUCED BY THE CENTRE FOR FINANCIAL REGULATION AND INCLUSION (CENFRI) WITH SUPPORT FROM BANKABLE FRONTIER ASSOCIATES (BFA).

AUTHORS

Doubell Chamberlain, Hennie Bester, Herman Smit, Christiaan Loots, Shirley Mburu, Ahmed Dermish (Bankable Frontier Associates) and Lara Gidvani (Bankable Frontier Associates)

Editorial support: David Saunders

PARTNERING FOR A COMMON PURPOSE

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recom-mended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and enti-ties impacting on financial inclusion, using the evidence gathered at the country level.

At country level, the core MAP partners, collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Myanmar represents a partnership between UNCDF, UNDP, LIFT, Cenfri and FinMark Trust for the Development of a Strategic Framework for Financial Inclusion in Myanmar. This report was produced by Cenfri.

ACKNOWLEDGEMENTS

The authors of this report would like to thank those who reviewed the report and provided invaluable comments: Tillman Bruett (UNCDF), Eric Duflos (CGAP), Thomas Foerch (GiZ), Anthony Githiari, Myint Kyaw (LIFT), Paul Luchtenburg (UNCDF), Kammy Naidoo (UNCDF), Gillian Pattison (Proximity), Heinz William (UNDP), Neal Youngquist (World Vision) and the members of the MAP Myanmar Steering Committee.

A special mention and further gratitude is required for our local guide, U Thein Myint, and to the various translators who provided us with a unique window of insight into the Myanmar people. Lastly, we would like to thank the 178 individuals from government, donor agencies, financial services providers, industry bodies, technology providers, telecommunications operators and academia for your inputs into this research process and your efforts to extend financial services to the excluded.

Table of Contents

List of tables

List of figures

List of boxes

List of Abbreviations and Acronyms

ACH	Automated Clearing House
ADB	Asian Development Bank
AGD	Asian Green Development Bank
AML	Anti-Money Laundering
ASEAN	Association of Southeast Asian Nations
ATM	Automatic Teller Machine
AWP	Annual work plan
BFA	Bankable Frontiers Associates
B2B	Business to Business
CARAM	The Coordination of Action Research on AIDS and Mobility Cambodia
CBM	Central bank of Myanmar
CBO	Community-based organization
CCS	Central Co-operatives Society
Cenfri	Centre for Financial Regulation and Inclusion
CSO	Central Statistical Organization
DANIDA	Danish International Development Agency
DFID	Department for International Development
FATA	Financial Action Task Force
FMT	FinMark Trust
FGD	Focus Group Discussions
FinScope	Myanmar FinScope Survey 2013
FSS	Financial Self-Sufficiency
FESR	Framework for Economic and Social Reform
GDP	Gross Domestic Product
GRET	Groupe de recherche et d'échanges technologiques
G2P	Government to Person
G-20	Group of Twenty Finance Ministers and Central Bank Governors
HV	Home Visits
IBSB	Insurance Business Supervisory Board
IFAD	International Fund for Agricultural Development
IHCLA	Integrated Household Living Conditions Assessment
INGO	International Non-governmental Organization
JICA	Japan International Cooperation Agency
KBZ	Kanbawza Bank
KII	Key Informant Interviews
LIFT	Livelihoods and Food Security Trust Fund
MADB	Myanmar Agricultural Development Bank
MAP	Making Access to Financial Services Possible
MAPCO	Myanmar Agribusiness Public Corporation
MSC	Microfinance Supervisory Committee
MEB	Myanmar Economic Bank
MFI	Microfinance Institution
MIS	Management Information Systems
MIC	Myanma Insurance Company
MICB	Myanmar Investment and Commercial Bank
MMSE	Myanma Microfinance Supervisory Enterprise
MNO	Mobile Network Operator
MOU	Memoranda of Agreement

MPT	Myanmar Post and Telecommunications
MPU	Myanmar Payments Union
MSLE	Myanmar Small Loans Enterprise
NER	Net Enrolment Ratio
NESC	National Economic and Social Advisory Council
NGO	Non-governmental Organization
NPL	Non-Performing Loan
NPS	National Payment System
OLC	Oriental Leasing Company Limited
OSS	Operating Self-Sufficiency
PACT	Private Agencies Collaborating Together
PGMF	pact global microfinance fund
POS	Point of Sale
P2P	Person to Person
P2B	Person to Business
RSC	Rice Specialisation Company
RTGS	Real Time Gross Settlement System
SC	Steering Committee
SFI	State Financial Institution
SME	Small and Medium Enterprises
SMIBD	Small and Medium Industrial Development Bank
SPMB	State Pawnshop Management Board
UAB	United Amara Bank
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VLSA	Village Level Savings Association
WV	World Vision
YSE	Yangon Stock Exchange

USD/Kyat exchange rate

Foreign exchange. The local currency in Myanmar is the Myanmar Kyat (K). USD equivalent shown throughout this document was calculated using a six month average exchange rate (between 1 April to 30 September 2013) of Kyat 946 /USD.

The government objective is to reduce poverty from 26% to 16% by 2015

Key drivers

Myanmar is the poorest country in Southeast Asia

$3.50 per day average income

7% of adults have higher education

400 000 new jobs will be needed in the financial sector by 2030

Myanmar's population 24th largest in the world

60.9 million people, 39.8 million adults

7 out of 10 adults are rural

Urban average income twice that of rural

Government Policy Objectives to improve financial access in Myanmar

"Task 1, to increase agricultural output"

...19 million adults in Myanmar reported to be involved in farming

"Task 2, to increase rural productivity and establish cottage industries"

... 7.2 million adults in Myanmar reported to be self-employed, 65% of which are informal

"Task 3, the development of micro saving and credit enterprises"

... 189 microfinance institutions have been registered since December 2011

"Task 4, the to strengthen cooperative outreach"

... 7 490 co-operatives offer financial services in Myanmar

Overview of Financial Access in Myanmar

30% of adults reported to use at least one financial service from a regulated financial service provider....

..... 6% make use of more than one regulated financial product class

33% of adults make use of unregulated financial services ...

... 21% of adults make use of unregulated services only

Breakdown of Financial Access in Myanmar by Product Market

19 % of adults borrow from a regulated institution

... 5.9 million adults borrow from unregulated money-lenders with total outstanding debt of $3.9 billion

3% of adults have insurance from a regulated institution

... 34% of adults respond to risk events using credit or savings

10% of adults make payments through a regulated service provider

... 1.9 million adults make payments through an informal network of payment brokers

6% of adults save with a regulated financial service provider

... 26% of adults report saving, but do not save with a regulated or unregulated service provider

.....6% make use of more than one regulated financial product class

32.6% of adults make use of unregulated financial services ...

... 21.1% of adults make use of unregulated services only

Executive Summary

As Myanmar modernises its financial sector to better serve its economy and people, a growing opportunity to extend financial services to the majority of its people has opened up. MAP found that 30% of the 39 million adults use regulated financial services, but only 6% use more than one service. Fewer than 5% of adults have bank accounts. The majority of citizens rely on unregulated providers or family and friends to meet their need for financial services. The cost of services provided by unregulated providers is usually substantially higher than those offered by regulated providers. MAP also found that rural areas are slightly better served than urban areas. This is the result of targeted credit provision to rural areas by state financial institutions coupled with a nascent commercial banking sector. Microfinance institutions, operating under a legal framework since 2011, have made some headway and currently serve 700 000 clients.

As part of MAP a comprehensive household study on the demand for financial services was undertaken. Based on this study and qualitative demand-side research, MAP could segment the adult population into five target groups, each with distinctive patterns of financial usage and financial needs. The largest target group is **Farmers** (12 million). This group is the largest user of regulated credit thanks to rural loans disbursed by Myanmar Agricultural Development Bank and Microfinance Institutions. **Formal enterprises** (2.5 million adults) had the highest average income of all target groups. The bulk of this group (75%) live in urban areas. However, they have the lowest use of regulated credit, suggesting a major opportunity to improve growth and employment creation if regulated credit to this target group can be extended. Adults receiving their income from **Informal enterprises** (4.7 million) use more credit, both regulated and unregulated, than their compatriots with Formal enterprises.

The smallest target group is **Formal consumers** (1.7 million), being persons employed by the state and private companies. They form the kernel of the emerging consumer class, yet less than a quarter of them make payments through regulated institutions. **Informal consumers** (7.5 million) have an average income about half that of Formal consumers and are the most excluded target group from a financial access point of view. It is also the group with the lowest mobile phone ownership at 11%.

The MAP analysis of the retail financial services market found key trends in the overall usage and supply of financial services. Firstly, that the usage of both regulated and unregulated financial services by households is quite thin, i.e. **very few households use a broad spectrum of financial services**. Where persons do have long-standing relationships with financial institutions, these are usually state-owned financial institutions and the relationship is driven by consecutive loans. Relationships built around deposit accounts are rare.

The **high level of informality** in the broader Myanmar economy is mirrored in the financial sector. MAP revealed 9.2 million adults who have a loan from an unregulated provider with a total outstanding debt as high as K5.4 trillion (USD5.7 billion). Nearly all transactions in Myanmar are conducted in cash. Focus Group Discussions revealed positive perceptions about using financial services offered by unregulated providers such as money lenders because consumers felt that they were more convenient and that the requirements set by regulated providers excluded low-income earners.

The **regulated retail credit market is restricted by limited capital for on-lending**. This is particularly acute for MFIs who are not permitted to raise voluntary deposits and experience difficulties in bringing foreign capital into the country. Only commercial banks and the MEB have proven able to attract voluntary deposits. MADB relies on wholesale funding from MEB to fund its loans.

The Myanmar financial sector experiences serious **infrastructure weaknesses**, which constrain the business models and product offering of financial institutions. Most providers do not have electronic or automated management information systems and the footprint of the electronic payment system is very limited. A national switch for ATMs only started operating in 2012 and a real time gross settlement system is still under development. The absence of a capital market impacts funding possibilities. The branch infrastructure for especially commercial banks remains very limited. The mobile networks being developed offer the possibility of real time connectivity and a potential platform for electronic payments.

The **product offering available to customers is limited**, undermining the value that clients receive from financial services. In the first instance, customers are forced to use inefficient financial services types simply because the more efficient services are not available. For example, they have to use credit and savings to manage risks in the absences of insurance products. Secondly, many products have features that do not meet the needs of clients. For example, only short term credit is available which is unsuitable for investment purposes. There are particular problems around the timing and repayment schedules for MADB loans.

MAP also found that the **current regulatory environment** does not enable the expansion of rural financial services, to the extent that is possible, and further inhibits certain urban delivery opportunities. The differential treatment of urban and rural areas is determined by the government's strong poverty reduction focus on rural areas. The level at which interest rates are set, loan size restrictions and capital controls and the higher cost of rural provision has resulted in the withdrawal of certain MFIs from rural areas and has deters these institutions to serve, predominantly urban, MSMEs. At the same time the ongoing regulatory reforms are opening up new opportunities especially for commercial banks and the provision of mobile banking services.

MAP identified seven priority opportunities to extend financial access to the people of Myanmar:

- *Dramatically increase the supply and availability of electronic payments*. This can be delivered through mobile payments platforms and also through electronic payments networks developed by commercial banks.
- *Provide low-cost savings vehicles for short term saving.* Emerging retail payments networks and agents can be leveraged to enable convenient store of value services.
- *Extend the availability of account-based savings options.* This will require an improvement in transaction functionality and proximity to entice savings into the regulated sector. While there is an urban opportunity for bank-based deposits, the modernisation of MEB's systems offers a major opportunity to strengthen its role as savings mobiliser in both urban and rural areas.
- *Improve the quantity, terms and risk profile of agricultural input credit*. MADB will play a leading role here, but there is also opportunity for agricultural input providers and MFIs.

- *Increase the availability of unsecured credit.* There are opportunities to increase the lending of providers permitted to extend loans without collateral, such as MFIs and co-operatives. There is also the option to relax the collateral requirement for personal loans once a credit bureau is in place.
- *Grow the insurance product portfolio to meet the risk mitigation needs*. There is a large opportunity to provide regulated insurance for especially health and life, mostly funeral, risks. This will require regulatory adjustments to allow both MIC and new private insurers to offer such products.
- *Develop insurance products to provide security for credit extension and protection of consumers, particularly for agriculture*. Insurance can take the place of collateral for credit extension, especially for agricultural input credit. This will require the development of appropriate products.

1. Project scope and objectives

1.1. About MAP

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The initiative aims to:

- Identify opportunities to expand financial inclusion and the obstacles to doing so for individuals as well as micro and small enterprises;
- Provide an integrated view of financial services covering demand, supply and regulation across savings, payment, insurance and credit;
- Identify the drivers of market development in order to enable stakeholders to manage changing environments and systems in transition;
- Focus on improving welfare through financial services that offer value to consumers and not just extending the coverage of financial products; and
- Engage a wider set of stakeholders (including some not traditionally involved in the delivery of financial services) in the stakeholder process to encourage market development.

The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level.

The MAP framework has been developed by UNCDF in partnership with FinMark Trust and Cenfri and is intended to become a public good that can advance the global financial inclusion agenda. The partnership leverages the partners' experience in financial inclusion development, aligning their respective strengths in implementation, primary demand-side research and diagnostic composition.

1.2. MAP Myanmar

Preparation for MAP Myanmar was approved by the President of the Union of Myanmar in January 2013. The programme has been developed by United Nations Capital Development Fund (UNCDF) in close cooperation with the United Nations Development Programme (UNDP) office in Myanmar and is embedded in the UNDP Country Programme and Action Plan (CPAP), which has subsequently been approved by the Government of Myanmar. MAP Myanmar is funded by the UNCDF and Livelihoods and Food Securities Trust Fund (LIFT). The project is governed by a Steering Committee chaired by U Htein Linn, Manager Director of the Myanma Microfinance Supervisory Enterprise (MSE) and consisting of 10 members representing government and project sponsors.

1.3. About this document

This diagnostic document presents the comprehensive findings of the demand, supply and regulatory analysis. Additional outputs from the study include a synthesis note, agricultural note, policy and regulatory note, qualitative demand side report, quantitative dataset (see **Box 1**) with summary findings and country roadmap.

The supply-side analysis was informed through in-country consultation with industry, local expert consultants and desktop research. The bulk of the data and information was collected during two missions conducted in 2013 between February 4 and 12 and May 20 and 31. The consultation process included a wide variety of players including the private sector (both regulated and unregulated financial services providers), government, community organisations, donor community and technical experts (see **Annex B**: Meeting list for a comprehensive meeting list). The demand-side analysis draws from quantitative data provided by the Myanmar FinScope Survey 2013 (henceforth referred to as FinScope) and qualitative research. For more information on the research methodologies and scope of the quantitative and qualitative research conducted, please see **Box 1** below.

The remainder of the document is broken up into 10 sections:

- **Section 2** provides background to financial access in Myanmar and describes the deliberate policies of the government of Myanmar to extend access to financial services, as well as the policy objectives to which financial inclusion contributes.
- **Section 3** list the key macroeconomic drivers that have influenced and will in the future increasingly shape the nature of financial provision for low income households in Myanmar
- **Section 4** identifies the target groups for which improved access to appropriately designed financial services has the greatest potential livelihood and welfare impact; and evaluates the demand for financial products and services.
- **Section 5** describes the relevant policy and regulation intended to promote access to financial services for the target market as identified by the Government of Myanmar or that has a substantial impact on such provision, as well as the supervisory framework for entities that provide financial services to the target groups, including regulated and unregulated financial services providers.
- **Section 6** provides a brief overview of financial sector infrastructure as well as other networks that could be used to distribute financial services.
- **Sections 7-10** provides details on the four product markets for credit, savings, payments and insurance.
- **Sections 11** and **12** summarises the overall conclusions and highlights potential actions relating to the identified target groups.

Box 1: Primary quantitative and qualitative research used in MAP Myanmar

Quantitative research

FinScope, developed and administered by the FinMark Trust, is a nationally representative study of consumers' perceptions on financial services and issues, which creates insight to how consumers source their income and manage their financial lives. The sample covers the entire adult population, rich and poor, urban and rural and looks at financial services usage across formality and regulatory status. Since FinScope is a perceptual study, it also encompasses attitudes, behaviours, quality of life factors and consumption patterns. To date, FinScope surveys have been conducted in 18 countries in Africa and Asia.

FinScope was conducted in Myanmar in August 2013 to benchmark the state of financial access and usage. In brief, the sample methodology for the FinScope survey in Myanmar was as follows:

- Target area: Nationally representative for both urban and rural areas
- Age group: population 18 years and older
- Sample size = 5 100
- Number of sample townships: 51
- Number of sample wards: 153
- Number of sample villages: 480
- Total number of sample areas (wards and villages): 633
- Sample allocation per township: 100 (5100/51)
- Average sample allocation per sample area (ward /village) or Enumeration Area (EA): 8 (5100/633)
- Urban sample (total number of interviews in wards): 1 246 (24% of sample)
- Rural sample (total number of interviews in villages) : 3 854 (76% of sample)

The population can therefore be segmented by **urban and rural** based on the classification of the ward or village (ward: urban, village: rural). Urban can be further split into Metropolitan, Semi Urban and Towns. Metropolitan only includes adults from Yangon and Mandalay city areas, while Semi Urban includes adults from chief cities in Ayeyarwady and Magway. Towns and rural villages include adults from all states and regions.

A listing was performed in each of the sampled wards/townships/villages in order to up-date the population estimates due to the lack of current census data. Eight households were selected in each of the selected sample areas. One individual was randomly selected within the household using the Kish Grid methodology.

It should be noted that the last official census in Myanmar was conducted on 31 March 1983. All population figures and survey weighting is based on the latest 2012/2013 demographic estimates provided by the Central Statistics Office (CSO). The CSO estimated a total adult population of 39 777 041 at the time of the 2013 FinScope Survey.

A summary report and presentation on FinScope Myanmar is available as a separate deliverable to the MAP Myanmar country diagnostic and the FinScope dataset is available on request for future research.

Qualitative research

Primary qualitative research was commissioned specifically as part of the demand-side research component of MAP Myanmar. Myanmar Survey Research (MSR) was commissioned to do the fieldwork, conducted between 11 and 21 March 2013, and to produce a qualitative research report. In-country field visits to inform and guide the qualitative research process were conducted between 11 and 22 March 2013. The qualitative research report is available as a separate deliverable to the MAP Myanmar country diagnostic. The qualitative research process was based on the MAP demand-side methodology and used a mix of FGDs, HVs and KIIs to engage with the target market:

1. Ten (10) FGDs were conducted and participants were selected based on gender, age, usage of formal financial products and geographical areas;
2. Thirty four (34) HVs individual interviews were conducted in respondents' own homes, split according to gender, age and usage of formal financial products; and
3. Sixteen (16) KIIs were conducted with money lenders, brokers, dealers, shop owners,

pawnshop owners etc.

Age for FGDs and HVs was split between 22 to 30 and 30 to 50 years of age.

Geographical areas for FGDs were split between: the Dry area (Pakokku town and surrounding villages) and the Delta area (Phyapone town and surrounding villages).

The recruiting criteria used for determining **financial product usage** were the following:

1. To qualify as using **regulated products**, respondents had to use a range (two or more) of regulated financial products (these could be credit, remittance, saving or insurance products); they could use informal products as well;
2. To qualify as using **some regulated products**, respondents had to use only one regulated product, but mainly rely on unregulated mechanisms as well (e.g. group saving, group funeral, lottery, etc.); and
3. To qualify as using **no regulated products,** respondents had to rely only on unregulated financial products.

2. Public Policy Objectives for Access to Finance

Financial inclusion, as defined by the G-20, refers to a state in which all working adults, including those currently excluded by the financial sector, have effective access to the following financial services provided by formal[1] institutions: credit, savings (defined broadly to include current accounts), payments, and insurance. "Effective access" involves convenient and responsible service delivery, which is at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers who use formal financial services rather than existing informal options (GPFI 2011).

Myanmar experiences moderate levels of access to regulated financial services, with take-up driven largely by regulated credit extended through government-led initiatives. There is however very limited usage of regulated savings, insurance and electronic payment services (see **Section 4.3**). Although increasing access is not an end in itself, the Government of the Union of Myanmar seeks to achieve the higher order policy objectives of poverty reduction, rural and social development through improved access to appropriate financial services (see **Section 2.1**).

2.1. Overview of financial sector interventions in Myanmar

Government-led interventions to promote financial access in Myanmar started at the community-level, with interventions to provide alternative sources of credit for Burmese citizens who relied on foreign money lenders who charged exorbitant interest rates. The first intervention was in 1904, when British colonial authorities introduced co-operatives under the *Indian Co-operatives Society Act*. Co-operatives would have a mixed history in Myanmar but would remain a tool of the state going forward. Following the country's independence in 1948, the government positioned co-operatives as a means to "promote socialism and prosperity". The focus on providing alternatives to money lenders was extended beyond co-operatives in 1949 with the introduction of regulated state pawnshops[2]. The regulated pawnshops were initially under the Co-operative Ministry, but in 1955 management passed to the State Pawnshop Management Board (SPMB). The Government authorised the SPMB to assume the licences of all private pawnshops as they expired, taking ownership away from private owners (the majority of which were Chinese foreigners) and bringing it under the control of the state.

Figure 1 below shows how the government-led financial sector interventions have evolved over that past century.

[1] For the purpose of this report, formal institutions are referred to as regulated financial services providers. Please see Box 1 for further details.
[2] Pawnshops fill the needs of low-income households who needed to borrow small amounts to meet their day-to-day needs.

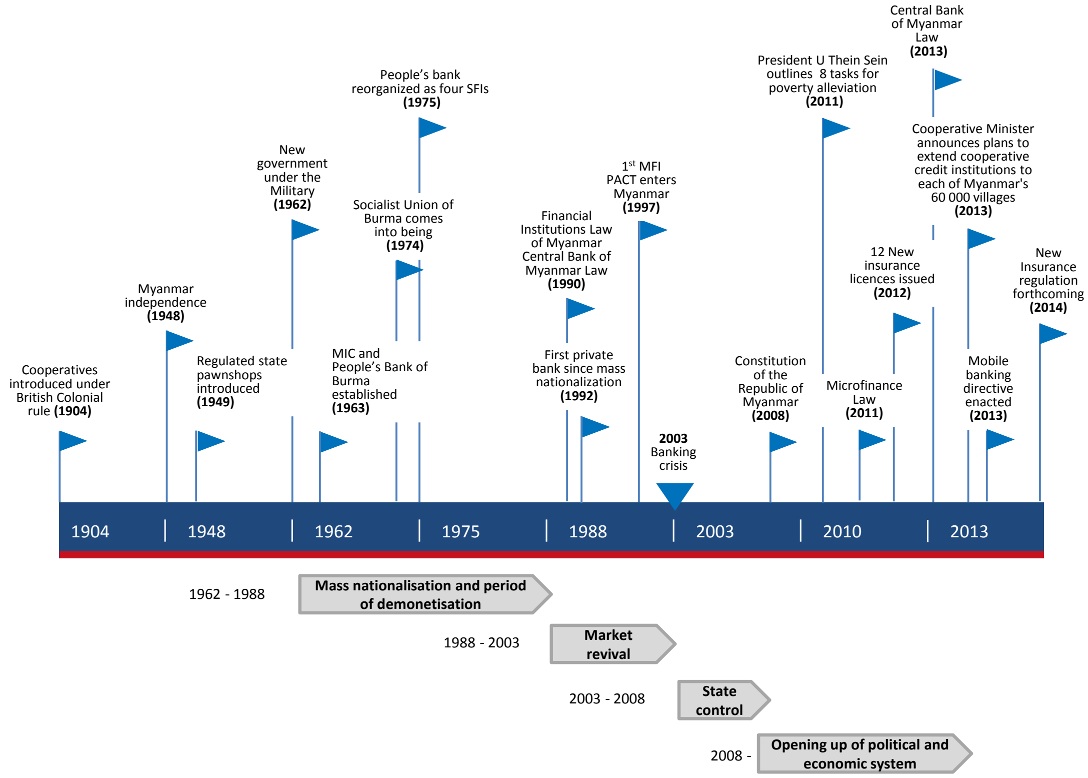


Figure 1: Timeline of the evolution of government-led financial sector interventions

Source: Various

In 1962, the new military government came into power and played an increasing role in the national economy. In 1963 the nationalization of the economy, including the financial sector commenced. Twenty-four banks (fifteen foreign and ten local) were nationalized and merged into the People's Bank of Burma and seventy-eight foreign insurers were merged into the state-owned Myanma Insurance (MIC). There would be no private banks under the state-economy from 1963 to 1992 and no private insurers for 50 years. The following year, 1964, Myanmar's government began the period of demonetisation that would proceed into the late 1980s. It was during this period that the government phased out larger bank notes from being legal tender, meaning that they were no longer redeemable. The demonetisation resulted in reduced confidence in holding the Kyat (K). A second and a third demonetisation followed in 1985 and 1987 respectively. The later resulted in the famous "8888" demonstrations where Aung San Suu Kyi emerged as spokesperson for democracy.

In 1970, the remaining state-owned banks, including the SPMB were merged with the People's Bank of Burma to form one monolith bank. The reach of the state expanded to the community-level with the *Co-operative Law of 1970* which took away autonomy from many of the co-operatives by having government officials or sympathisers placed in executive positions within the co-operatives.

In 1974 the Socialist Republic of the Union of Burma came into being and formal political power was transferred from the military. This saw the restructuring of the People's Bank of Burma into four state-owned banks in 1975. These included the Myanmar Economic Bank (MEB), the Union of Burma Bank, the Myanma Foreign Trade Bank and the Myanmar Agriculture Bank. The latter subsequently changed twice; first to the Myanmar Agricultural and Rural Development Bank, and then to the Myanmar Agricultural Development Bank

(MADB). It was during this restructuring that MADB was given the broader mandate to become the primary source of short term and seasonal loans for agriculture over and above the medium and longer term development loans mandate. This has been one of the key drivers behind extending access to financial services to subsistence and self-employed farmers.

In 1990, responding to external pressure from the international community and internal domestic issues, the government enacted a brief market revival. The passing of the *Central Bank of Myanmar Law* and the *Financial Institutions Law of Myanmar* paved the way for the increasing role of the private sector in promoting financial access. In 1992 the first private bank was permitted since nationalisation began in 1963.

Increased efforts by the state to serve the rural population were demonstrated by the introduction of MADBs "Rural Savings Promotion" initiative in 1993. The initiative brought mobile savings units to the doorsteps of MADB loan clients, and enabled farmers to open savings accounts in MADB branches and agencies all over the country. Microfinance was introduced in Myanmar in 1997 by the UNDP as part of its Human Development Initiative (HDI) programme. Project implementation was initially subcontracted to three implementing partners – Private Agencies Collaborating Together (PACT, USA) for the Dry Zone, GRET (France) for Shan State and Grameen Trust (Bangladesh) for the Delta Zone.

However, state control remained at the community level. In 1992, the Co-operatives Act was introduced which "enshrined a top-down, imposed co-operative structure, with a minimal sense of ownership of secondary, tertiary and apex structures" (Ferguson, 2013). The top-down structure was reinforced in 1998 under the Co-operatives rules.

The opening up of the financial sector was met with a rapid expansion up until the banking crisis in 2003. In 2002, the *Law to Control Money and Property Obtained by Illegal* means was issued following the Financial Action Task Force (FATF) announcement that declared Myanmar a "non-co-operative" jurisdiction and that two of Myanmar's largest banks were of 'primary money-laundering concern'. Following the announcement, the United States instituted sanctions against Myanmar's financial system. This saw a re-emergence of the state run financial sector, with banks being placed under the Central Bank of Myanmar (CBM) during the height of the crisis. In addition, the licences of the two largest private banks were revoked, reinstating the MEB as the largest bank in terms of assets.

In 2008, the government of Myanmar passed a new constitution paving the way for democratic elections in 2011. This brought about reforms looking to stimulate economic activity and reduce the incidence of poverty in Myanmar. The financial sector was thus opened up and in 2011 ushered in the following developments: eleven banks were licensed as authorized foreign currency dealers trading with each other and domestic customers, six private banks were issued licences to operate money market counters, and the first ATM was launched in Myanmar since 2003. In 2012, Visa cards were introduced at two private banks, Western Union officially started operations on its money transfer services and MasterCard became the first payments network to issue a licence to a Myanmar bank to issued branded cards. In 2013, the government ended a 50 years of state-run insurance monopoly and issued licences to private insurance companies. New insurance regulations to support the newly licenced private insurance companies are currently under review and are expected to be released in 2014. However, the government is still cautious about protecting local ownership during reforms. The government will not allow foreign investors to enter the insurance market until at least 2015, which is similar to the policy around banks where joint ventures will only be allowed starting in 2014.

The new constitution and democratic elections brought about a renewed policy focus on poverty alleviation through increasing and improving financial access by means of MFIs and co-operatives. In 2011 the government set up the Microfinance Supervisory Committee (MSC) to oversee the development of the regulatory framework introduced in 2011. Following the introduction of the *Microfinance Law*, 189 microfinance institutions have been registered. They include a mix of International Non-governmental Organisations (INGOs), domestic Non-governmental Organisations (NGOs), co-operatives and for-profit local and foreign companies. In 2013, the Ministry of Co-Operatives officially announced their plan to have a co-operative in all the 60 000 villages in Myanmar by adding 5 000 each year in order to expand access to financial services. In December 2013, CBM passed a new directive on mobile banking.

2.2. Public policy objectives

Increasing access to financial services is a major goal of the Government of the President of the Union of Myanmar, U Thein Sein. Although increasing such access is not an end in itself, improving access to financial services achieves higher policy objectives. Such objectives are reflected in Article 3 of the *Microfinance Law* and include: reducing the poverty of grass root communities, social development, improved education and health of such communities as well as assisting them with other means of earning a livelihood including agriculture and livestock breeding, creating jobs, nurturing and cultivating a savings habit, encouraging emergence of Small and Medium Enterprises (SMEs) and facilitating cottage businesses as well as acquiring and disseminating technical know-how from local and abroad. In order to design an appropriate national strategy for financial inclusion, it is therefore important to understand the overarching policy objectives which financial inclusion is intended to achieve. From recent pronouncements of the government of Myanmar[3], the following are suggested as the primary policy objectives the government seeks to achieve through improved access to financial services over the next few years:

1. *Improved household welfare, especially in rural areas.* FinScope revealed that nearly 69% of the Myanmar population lives in rural areas, where poverty is reported to be twice as high compared to urban areas (UNDP, 2011). Although contradicting signals exist, multiple sources report declining standards of living in rural areas over the past decade. The Myanmar Government recognises rural poverty as an area that needs addressing and has set a goal to reduce poverty from 26% (UNDP, 2011) to 16% by 2015 which is in accordance with Millennium Development Goal-1. This was relayed in an address to the Central Committee in 2011 by the Chairman of Rural Development and Poverty Alleviation Central Committee, President U Thein Sein (President Office, 2011).
2. *Increase agricultural productivity to enhance food security.* Channelling productive credit and related financial services to Myanmar's farming population is of critical importance. Increased food production will safeguard the country's limited foreign exchange

[3] At the opening ceremony of the Rural Development and Poverty Alleviation Committee, His Excellency President U Thein Sein presented eight fundamental poverty addressing tasks to be performed by ministries and state organs. The development of micro savings and credit enterprises, one of the eight national development priorities, was assigned to the Ministry of Finance and Revenue. The *Microfinance Law* also states the first duty of the Microfinance Business Supervisory Committee as implementing the microfinance-related policy objectives.

reserves in that domestic food security would enable the channelling of foreign exchange reserves to investments instead of using them to import food to supplement shortages. As result, interventions to extend credit to the agricultural sector (for example through the MADB) should not just be evaluated from a financial inclusion perspective. The larger strategic objectives being pursued should also be considered.

3. *Improve development opportunities for SMEs.* Most of Myanmar's informal economic activity, which constitutes approximately 57.4% (2005) of Myanmar's overall economic activity – or Gross Domestic Product (GDP), is operated through micro and small enterprises. These are found in rural and urban areas where they face similar operational and growth challenges. In both areas, most micro and small enterprises currently have to utilise expensive unregulated credit to buy stock and equipment and expand their businesses, their business risks are not covered by insurance and they typically utilise unregulated payment services for trade purposes.
4. *Improve levels of formal financial intermediation to fund growth and development.* The ability of a country's financial sector to intermediate funds efficiently between those who wish to save and those who wish to invest in productive enterprises is critical for the country's growth. This deprives the country of the growth potential facilitated by formal sector intermediation. Migrating pent-up or privately intermediated savings into the formal financial sector is therefore critical to the country's future growth.

For financial services to facilitate the achievement of these four objectives, strategies targeting all four financial services (credit, savings, payments and insurance) and the spectrum of providers (both formal and informal) will be required to engage with the issue. Our current assessment is that no single provider category will be able to realise the aforementioned objectives on its own and we therefore currently assess that a co-ordinated approach would be advisable. Moreover, additional benefits could be derived from co-ordinating financial services development strategies and broader development strategies in achieving these objectives.

3. Macro drivers for market development

To achieve the broad public policy objectives stated above it is critical to understand the underlying drivers or currents that will determine the evolution of financial services over the next five to ten years, as well as the macroeconomic context within which it develops. These underlying currents in the non-financial sector will not necessarily be affected by the financial sector policy but will determine the impact of such a policy. Identifying and understanding these drivers can assist in drawing the bounds of possibility for financial access initiatives.

3.1. Impact upon the demand for and nature of financial services

The first set of drivers will tend to increase the absolute demand for financial services and also shape the nature of this demand:

Strong economic growth and rising personal incomes. Myanmar's economy has shown substantial growth since its liberalisation and is predicted to continue on this trend. GDP is on track to grow by 6.5% by the end of the fiscal year 2013 (ending 31 March 2014) and is predicted to grow by 6.8% in 2014. McKinsey (2013) predicts that the size of the economy has the potential to quadruple from USD 45 billion in 2010 to over USD 200 billion in 2030 This would translate into an increase in per capita GDP (PPP) from USD 1 300 in 2010 to USD 5 100 by 2030 and move around 18 million people out of poverty. Growth is supported by investor optimism following policy reforms, the reinstatement of Myanmar in the European Union's Generalized System of Preferences for duty-free and quota-free market access, and a gradual easing of restrictions on financial institutions that facilitates credit to the private sector (ADB, 2014). Higher incomes and the accumulation of assets increase the demand for financial services across payments, savings, credit and insurance. It also leads to an increasing demand for more sophisticated financial services.

Movement of people, goods and services. Myanmar has traditionally enjoyed substantial cross-border trade, especially in agricultural goods, with China to the Northeast and Thailand to the South. The estimated number of Myanmar citizens working outside of Myanmar is indicated to range between 2 and 6 million (Hall, 2012). These trends (trade and migration) will further be strengthened by the formation of the Association of Southeast Asian Nations (ASEAN) common market, which is foreseen to take place in 2015. Internal migration within Myanmar from rural areas to the cities to seek employment is also significant given the growing incidence of landlessness in rural areas (Integrated Household Living Conditions Assessment (IHLCA, 2011). McKinsey (2013) estimates that the share of Myanmar's population that live in large cities (more than 200 000 inhabitants) could double from just 13% today, to around one-quarter of the total population in 2013. The extensive movement of people and goods across the borders and within the country can create strong demand for money transfer services and remittances.

Consumer culture taking root, particularly in urban areas. Industry consultation with retailer groups indicated that higher levels of urban confidence in the economy were leading to increased levels of discretionary expenditure. International brands have been moving into Myanmar to create a presence in the hope of capturing one of the last untapped markets left. The Myanmar population have shown a liking to South Korean culture which has been used to sell goods such as cars, beauty products (fastest growing consumer market) and other luxury goods. The growing consumerism in urban areas will create a strong demand for retail credit services as well as new electronic payment instruments.

Rural population heavily employed in agriculture susceptible to price fluctuations. Although agriculture as a proportion of GDP has been declining over the past decade, it contributed to as high as 36.4% of the GDP as of 2010 (Kudo et al., 2013), and as such is still the single largest sector in the economy. Of the economically active, about 54% are employed in agriculture, which provides a livelihood to 70% of the population (World Bank, 2013). Up to 80% of agricultural GDP is derived from crop production, with the remainder coming from livestock and fisheries (Cho et al., 2013). The proportion of the population that is dependent on the sale or exportation of agriculture products as their primary source of income affects the financial products needed in the households. Agricultural activities are high risk as the yield is weather dependent and profits are a function of volatile prices. Historically, prices have been impacted by fluctuations in the foreign exchange rate and inflation driven largely by oil and gas sales. This is commonly known as "Dutch disease"[4] and has resulted in depressed agricultural prices and impacted the profitability of many farmers. This has forced many farmers and businesses to curtail output and close all together (Myanmar Agriculture in 2011, Harvard Ash Centre 2011). This problem will not dissipate if managed incorrectly as gas exports have been increasing and were estimated to reach a high of USD 3.6 billion in 2012/2013, surpassing the 2011/2012 record (World Bank, 2013).

High levels of informality. The majority of economic activity is conducted outside of the formal sector. A global study examining 162 countries ranked Myanmar as having the 9th highest level of informal activity[5] as a ratio of total economic activity. The profiles of self-employed and informally employed individuals often do not permit them to access commercial banking services with ease, because, among other reasons, they are not able to provide proof of a regular income. These citizens need specially adapted financial services that allow for their inclusion, given their circumstances.

Inflation undermines the value of certain financial services. Myanmar has experienced high price volatility, with inflation varying between 0% in 2000 and 58% in 2002. Inflation averaged 2.8% in 2012/2013, but has been on the rise in recent months reaching 7.3% in August 2013 (World Bank, 2013). High inflation can have several effects on how a population interacts in the financial sector. It disincentives savings as money loses its function as a store of value and change behaviour. In times of high inflation, people tend to restrict the amount of wealth held in money and prefer to only hold money that is necessary for immediate needs. Insurance is affected in a similar way as the value of insurance is devalued as the currency diminishes.

Second round effects of the global financial crisis. The financial crisis did not affect Myanmar directly but the second round affects are proving to be significant. These effects have led to a decrease in exports, remittances and migration. Farmers, particularly in cyclone-affected areas, are being hit by fluctuating prices for agricultural products and inputs. Migrant workers who worked in neighbouring Asian countries where the wages are higher than those received in Myanmar are losing jobs and being forced to return home. Newspapers have reported on migrants returning home from Singapore, Malaysia, South Korea, and Middle Eastern countries. This has a significant effect of decreasing household income as well as flooding the labour market.

[4] Dutch disease commonly occurs when a country exports a single commodity to the world market. The demand for the commodity pushes up the value of country's currency relative to other currencies. This in turn drives up the cost of other goods and services that they are exporting, namely agriculture and/or manufacturing.

[5] The informal economy refers to activities and income that are partially or fully outside government regulation, taxation, and observation. World Bank, 2013. *Workers in the Informal Economy*. [Online] Available at: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTLM/0,,contentMDK:20224904~menuPK:584866~pagePK:148956~piPK:216618~theSitePK:390615,00.html [Accessed 19 12 2013].

3.2. Impact upon the delivery of financial services

Then there are factors that will have a strong influence on the manner in which financial services are delivered. The most important ones are as follows:

Limited infrastructure and connectivity drives up the cost of expansion for the financial sector. FinScope revealed that 69% of adults in Myanmar are found in rural areas where infrastructure is limited, restricting the reach of the formal financial sector. Myanmar has the lowest road density in Southeast Asia with 41.3 km of road per thousand square meters in 2005. This is compared to 352.4 km in 2006 in Thailand (ADB, 2012). Only 11.9% of the 27 000 km road network is paved. It has the lowest per capita electricity production in Southeast Asia. Similarly, although mobile phone penetration is expected to grow rapidly to reach 50% by 2015, mobile and fixed line penetration is still low. In 2013/14 mobile penetration rates reached 27%[6] (Eleven, 2014), while fixed line penetration was slightly above 1% in 2013 (Deloitte, 2013). The limited infrastructure increases costs for banks to expand as the building of new branches would also require the building of infrastructure to support the branch. The lack of physical infrastructure would render the traditional "brick-and-mortar" approach unfeasible and would require alternative channels. Telecommunications technology would be one means in which this could be done. Myanmar has an opportunity to roll out mobile-based distribution solutions more cost-effectively than "brick-and -mortar" branches and touch points. The awarding of two mobile licenses to Norway's Telenor and Qatar's Ooredoo in June 2013 opened the race to expand mobile infrastructure.

Limited pool of skilled labour for the financial sector to draw upon. McKinsey (2013) estimates that the financial services sector could contribute up to USD 11.1 billion to GDP by 2030 and generate 400 000 jobs The financial sector is heavily dependent on skilled labour, particularly the nascent insurance industry and it is doubtful whether Myanmar can produce enough skilled labour to meet this demand. FinScope revealed that only 7% of respondents reported having a higher education degree. This is supported by McKinsey's study that found that in 2010 only 5% of the country's workers had tertiary and higher education credentials, and only 15% had finished secondary education. This is extremely low compared with other developing countries in the region[7] and has the potential to restrict growth of the financial sector.

Strong culturally stable communities with local services and local institutions. The traditional Buddhist culture is perhaps the strongest single influence in Myanmar life with 89.4% of Myanmar's citizens being Buddhist (Kuppuswamy, 2013). This has a profound influence on financial behaviour. For example, respect and care for parents are highly valued (with consequences for pension provision), the poor and orphans are often taken care of in communities and health care is often a shared community responsibility. As a result, many of the financial needs are met at the community level. In addition, there is a strong discipline towards debt repayment. This strong community structure influences local services and institutions.

Pervasive state structures down to local level. Myanmar has strong community based structures established for the purposes of administrating or performing government, religious, relief, finance or production functions. State structures are divided into seven

---

[6] Global mobile penetration stood at 96% in 2013. Source: ITU, 2013. ICT Facts and Figures. [Online] Available at: http://www.itu.int/en/ITU-D/Statistics/Documents/facts/ICTFactsFigures2013-e.pdf [16 04 2014]

[7] 30 percent of workers in Vietnam and Thailand have a secondary education; in Indonesia, the share is almost 50 percent, and in China and Malaysia, it is about 60 percent.

regions, seven states and the Union territories. These state structures are constituted at the lowest levels by village tracts and wards[8] and are staffed by individuals who comply with certain criteria (namely residing in that area and having lived there for more than ten years) and elected by the community[9]. These ward committees play active roles in community development activities such as immunization campaigns, religious events, election, sports activities, and literacy education[10]. The state structure is a well organised hieratical structure. This is one of the greatest assets to the financial sector as these state structures and line of communication are already used by financial institutions.

Partly-led credit provision in the run-up to the 2015 general elections. General elections in Myanmar are due to take place before or on 07 November 2015. Industry consultation revealed that during and shortly after the by-elections in 2012 political parties had been active in extending credit. CGAP/IFC estimated the Union Solidarity Development Party (USDP) extended credit to 500 000 clients in 2012 (Duflos et al., 2012). Interviews with USDP ward leaders during May 2013 revealed that credit extension through these channels had concluded or significantly tampered off. The absence of appropriate distribution incentive for ward leaders was sighted as the predominant reason for this. FinScope, which overlapped with this period, registered party credit from USDP and NLD but uptake numbers were insignificant. While party-led credit is unlikely to change the long run landscape of credit provision in Myanmar, it is worth monitoring in the run-up to the 2015 elections.

3.3. Impact upon the regulation and supervision of financial services

Finally, recent history has also shaped the attitudes to regulation and supervision of financial services:

Local ownership and indigenisation underlying political reform and opening up. Myanmar has cautiously introduced reforms that open up the economy and financial sector, while retaining local ownership. Current regulation does not allow for foreign ownership of banks or insurance companies. The government intends to open up the banking sector to foreign entrants in 2014, but only through joint-ventures. The insurance sector will only be opened up to foreign investment in 2015. This drive to protect local ownership and indigenisation has been a constant of the government of Myanmar since its independence (see **Section 2.1**) and will be an underlying driver of economic reform.

Impact of 2003 banking crisis. The government authorities may feel overly cautious during the process of liberalisation, as the previous attempt to open the economy lead to the banking crisis in 2003. The banking crisis followed a period of market revival and economic reform. The government would be concerned about a reoccurrence of this crisis and it may cause the supervisor to apply very strict prudential controls to protect the solvency of the banking sector, while potentially undermining the use of innovative distribution channels for the provision of financial services (Turnell, 2003).

[8] Constitution of the Republic of the Union of Myanmar (2008). Chapter 2 Section 49,pg 13-18 [online] Available from: http://www.burmalibrary.org/docs5/Myanmar_Constitution-2008-en.pdf Accessed: 13 March 2013

[9] Republic of the Union of Myanmar: Ministry of Home Affairs (2012). The Ward or Village Tract Administration Law. Chapter 3 - 4 Section 3 – 8. [Online] Available from: http://www.burmalibrary.org/docs15/2012-Ward_or_Village_Tract_Administration_Bill-2012-02-24-en.pdf [Accessed: 16/07/13.

[10] Qualitative demand-side summary report. MAP in Myanmar (2012). Section 2.1.2.

4. Demand for financial services

The following section will provide an overview of the relevant demand-side characteristics of the adult population of Myanmar in order to better understand the nature of demand for financial services. These characteristics include demographic, employment and income considerations that will influence the current uptake and potential future demand for financial services. This view is supplemented by **Section 4.2**, where target groups for financial inclusion interventions have been identified based on key economic groups.

Within this section, if no specific references are made, it should be assumed that data was obtained from the 2013 FinScope Survey.

4.1. Demographic and income information

Myanmar has a large, predominantly rural and aging population. Myanmar's population of 60.9 million (NSO, 2013) ranks as the 24th largest population in the world (World Bank, 2013) and the 5th largest population of the 10 Southeast Asian countries. It is estimated that 69% of the population is located in the rural areas, making it the 2nd largest rural population in Southeast Asia. The remainder of the population, classified as urban for the purpose of this study, are located in metropolitan areas[11] (9%), semi - urban[12] (2%) and towns (19%). Only 29% of the population are younger than 14 years with the majority of the population (62%) between the ages of 15 to 59 and 9% of the population 60 years and older.

The population is predominately Buddhist, Burman and function within a strong family structure. Qualitative respondents cited religion as a fundamental driver of behaviour in Myanmar. The Institute of Peace and Conflict Studies (IPCS) found that 89.4% of the adult population reported to be Buddhist. The remaining religious groups were Christian (4.9%), Muslim (3.9%), Animist (1.2%) and Hindu (0.5%). Myanmar has 135 ethnic groups, of which Burmans (69%) are the most predominant. The population is made-up of approximately 14 million households with an average household size of 4.8 individuals[13]. Of the adult population, 72% reported to be married and qualitative research revealed that it is common for up to three generations to live and contribute to the same household.

[11] Yangon and Mandalay
[12] Chief cities of states and regions
[13] 4.7 urban and 4.9 rural

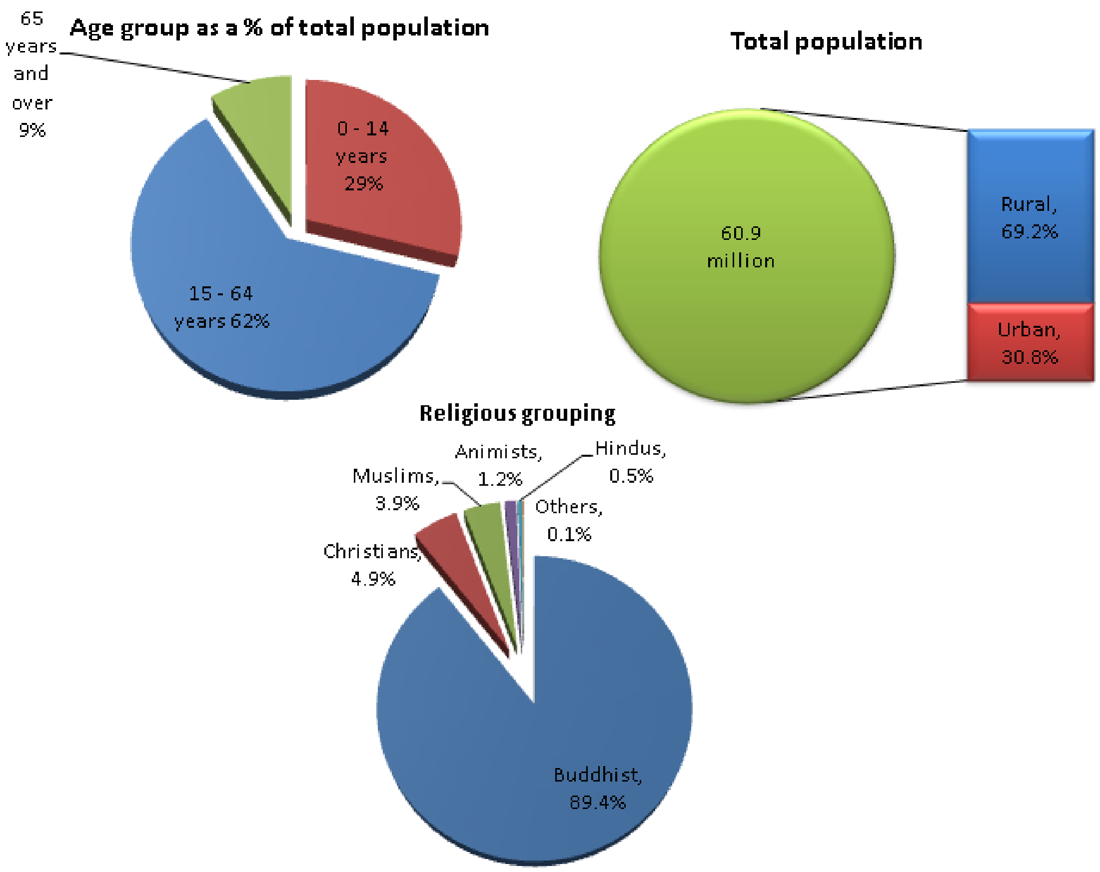


Figure 2: Demographic breakdown by religion, ethnicity, age and rural vs. urban.

Source: Institute of Peace and Conflict Studies (IPCS) and FinScope 2013

Low levels of skilled labour. According to the UNDPs Human Development Index, in 2012, Myanmar ranked 149 (out of 185 countries rated) for the average number of years of education completed by people aged 25 years and older (UNDP HDI, 2013). Myanmar's average stood at 3.9 years. An alternative assessment by the Asian Development Bank (ABD) indicates that the number is 4.8 years. According to FinScope, 63% of the population have no education or only have basic education, 30% reported having secondary education and 7% reported having higher education. Primary school (grades 1 to 5) Net Enrolment Ratio (NER)[14] stands at 84.6%, despite it being compulsory (JICA, 2013). In addition, less than 60% of these pupils complete grade 5. Lower secondary (grade 6 to 9) school NER stands at 47.2%, upper secondary (grade 10 to 12) school NER stands at 30% and tertiary NER stands at 15%. The regional NER averages for primary, secondary and tertiary schooling are 96%, 73% and 30% respectively (UNESCO 2011).

Large and potentially growing group of domestic and international labour migrants. Large portions of the economically active population have migrated to urban centres or abroad to seek better employment prospects. Myanmar has a relatively high rate of urbanisation at 2.6% per annum[15]. This is above the global annual average of 1.9%a, as well as the rate of more advanced economies such as Thailand, which has an urbanization rate of h 1.4% per

[14] NER is the number of pupils in the theoretical age group who are enrolled expressed as a percentage of the same population.
[15] It's not possible to deduce from the data if rural to urban migration is primarily driven by migrant workers or relocated families. Various studies do however indicate to the prevalence of migrant workers.

annum. However it is lower than Myanmars' less developed Southeast Asian peers such as Laos which has a rate of 5.1% per annum (CIA, n.d). The estimated number of Myanmar labourers working outside of Myanmar ranges significantly, between two and six million (Human Rights Document Unit, 2008). According to CARAM (2010) 48% of all Immigrants are women. Industry consultations suggest that the largest remittance corridors are with Thailand, Malaysia, Singapore and the United Arab Emirates. This was confirmed by FinScope which estimates 1.9 million adults received remittances in the last twelve months from Thailand, about 700 000 from Malaysia and about 120 000 from Singapore. IFAD estimated the total 2012 remittances at USD 566 million, which is approximately 1.1% of GDP (IFAD, 2013).

Thailand home to largest number of Burmese migrants. There are an estimated two million Myanmar labourers in Thailand, employed predominantly in low-skilled occupations in the agricultural, construction and fisheries industries (Chantavanich, 2012). The majority of this migration takes place along the border of Thailand via the Kayin and Tanintharyi states. Of the remittance sent from Thailand, about 68% goes to parents, 15% goes to siblings, 10% goes to children and 7% goes towards the support of spouse(s) and others (Deelen & Vasuprasat, 2010).

Lowest income levels in region with high incidences of poverty. According to World Bank Myanmar is the poorest country in Southeast Asia. FinScope estimates the average monthly income to be K 93 527 (about USD 99 per month or just more than USD 3.5 per day). **Figure 3** below indicates that, of those adults who responded to the income question in the FinScope questionnaire, 19% live on less than USD 1 per day and 43% live below the acceptable minimum wage for day labourers of USD 2[16] per day. The Gini coefficient was determined to be 0.49 (IFPC, 2013).

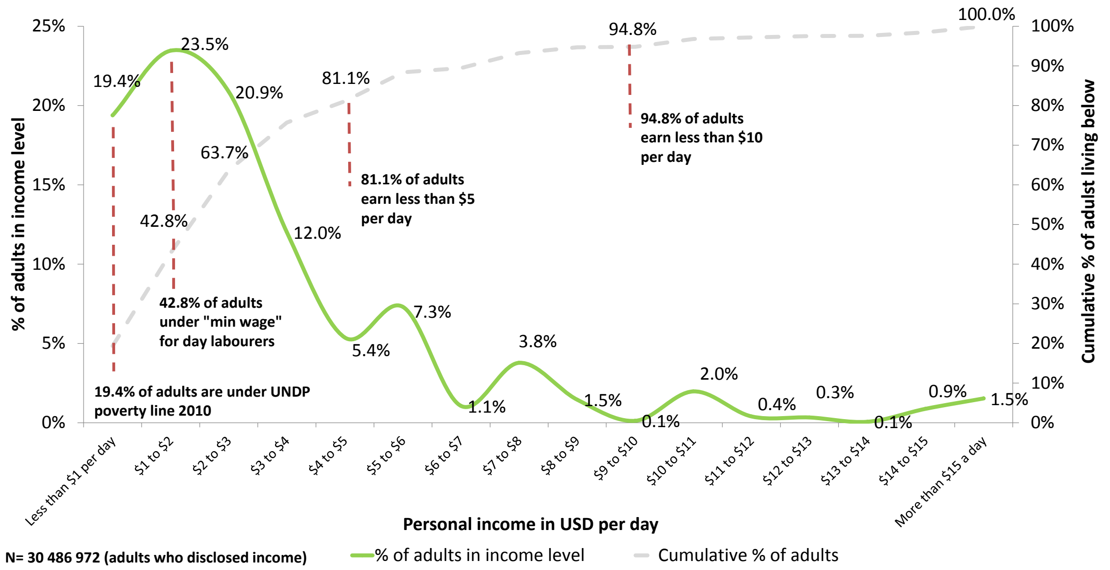


Figure 3: Income distribution

Source: Finscope 2013

[16]Note that the exchange rate has not been adjusted for Purchasing Power Parity (PPP). And exchange rate of USD 1 = Kyat 946 Kyat was used to calculate the dollar equivalent.

Urban wages significantly higher than rural wages. The reported average monthly income in urban areas (K 126 004/USD 133) was 59% higher than rural areas (K 79 351/USD 83.9). In addition, the number of individuals in urban areas living below USD 1.00 (9%) and USD 2.00 (12%) a day is significantly less than their rural counter parts (17% and 21% respectively). The average income is significantly different within urban areas with the larger metropolitan areas of Yangon and Mandalay average income of K 165 366 (USD 175), semi urban areas with K 108 576 (USD 115) and towns with K 112 556 (USD 119). This represents an intra-urban variation between lowest and highest average of nearly 50%. Wage differentials between provinces are also significant with the highest income province of Tanintharyi, which boarders Thailand, where the average income is in excess of 250% of the average income of the lowest income province of Rakhine. Lastly, significant wage differentials exist between agricultural zones with the highest average income in the Plain and Delta Zone, with K 103 200 (USD 109), compared to the lowest income agricultural zone, which is Coastal Zone, with K 85 822 (USD 91).

Agriculture is the largest economic activity by number of participants. 19.8 million adults or 6.97 million households (50% of the adult population) report being involved in farming. This figure only includes adults who are involved in farming and does not include adults who are farm workers, although there may be overlaps between the two groups[17]. Adults involved in farming can be divided into 3 groups, described in **Table 1** below: (i)Those whose main income is from farming; (ii)those for whom farming is a secondary income source; and (iii) those who are dependent on other household members for income but whose households are involved in farming (family dependents of farming households). Those whose main source of income is from farming constitutes 61% of all adults whose households is involved in farming, or 30% of all adults.

Farming groups	Number of adults	% of adults whose households are involved in farming
Main income farming	12 098 928	61%
Farming as secondary income	3 264 502	17%
Family dependents of farmers	4 412 523	22%
Total	**19 775 953**	**100%**

Table 1: Farming groups

Source: FinScope 2013

For an overview of the agricultural activities as reported by all adults whose households are involved in farming, please refer to **Section 14.5**, **Annex A**: Credit products. An Agricultural note summarising the agricultural content and main findings from the MAP Myanmar Country Diagnostic report will also be available as a separate deliverable.

[17] Our analysis deal with adults who are farm workers as a separate economic group (see **Section 4.2**).

4.2. Segmenting the market

In order to assess the nature of take-up and to identify key priority areas for future extension of financial services, it is important to understand the key parameters of priority economic groups and identify target groups. The parameters of the target groups will form the basis for assessing the appropriateness of institutions and the products they offer to meet the needs of the target groups.

The segmentation was derived in two stages. Firstly, economic groups were identified based on the **main sources of income** as reported by FinScope. Nine economic groups were identified: Farmers, Formal enterprises, Informal enterprises, Farm workers, Government employees, Employees of formal private employees, Salaried private individuals (private employees not working for companies or government), Piece or casual workers, and Remittance dependents. These economic groups were evaluated based on key parameters as they influence the nature of the groups demand for financial services (income, gender, geography, age, education levels, use of mobile phones and take-up of financial services). Based on this evaluation the economic groups were grouped into five key target groups for financial services:

- **Farmers –** are adults that reported to be self-employed (farming their own land or family land) in engagements involving crop cultivation and livestock keeping.
- **Formal enterprises –** are enterprises that are considered regulated or licensed to operate. This segment represents adults who are self-employed and own and operate their own enterprises.
- **Informal enterprises –** are enterprises that are not licensed to operate. This segment represents adults who are self-employed and own and operate their own enterprises.
- **Formal consumer market –** consists of employees who are employed in the formal private sector (Employees of formal private companies) or in the public sector (Government employees).
- **Informal consumer market –** consists of adults who receive wages from the informal market (Piece or casual workers as well as Farm workers), adults who receive a salary from the informal market (Salaried private individuals) and those who rely on remittances (Remittance dependants.

Table 2 below compares these different target groups based on the following parameters:

1. *Number of adults in a group* – Farmers make up the largest category of economic activity and represent their own defined target group. They represent 12.1 million adults or 30% of the adult population. Adults considered as Informal enterprises (12%) are almost equal to those who receive wages as casual workers and piece workers from informal institutions (10%). Remittance dependants are the smallest economic group (1% of adults).
2. *Average monthly income*[18] – Formal enterprises reported having the highest average monthly income at K 211 891 (USD 224) followed by Employees of formal private companies at K 129 288 (USD 137). Informal enterprises and Government employees followed closely at K 125 676 (USD 133) and K 115 909 (USD 123) respectively. Farmers

[18] Of those adults who reported their monthly income

and adults in the Informal consumer market all received a monthly income below K 100 000 (USD 106).

3. *Percentage of group not using any regulated/unregulated financial* services – Government employees registered the lowest level of use (35%). Adults in the Informal consumer market registered the highest level of financial services use (62% for Salaried private individuals, 57% for Remittance dependents and 54% for Piece or casual workers).
4. *Percentage of group currently owing* - the proportion of adults that have debt in each segment at the time of the study. The segment with the highest proportion of debt was Farmers at 62% compared to all the other segments, which was below 50%.
5. *Percentage of group that resides in rural areas* - represents the rural urban distribution. Farmers and the Piece or casual workers groups had the highest percentage of adults residing in rural areas (93% and 70% respectively). The lowest percentage of adults residing in rural areas includes Formal enterprises (25%), Employees of formal private companies (27%) and Government employees (32%).
6. *Percentage of group that are male* – demonstrates the gender split in every segment. The segments that have the highest proportion of males include Employees of formal private companies (72%), Salaried private individuals in the Informal consumer market (69%), Farmers (62%) and wage recipients in the Informal consumer market (61%), which includes Piece or casual workers.
7. *Percentage of group aged less than 35 years* – provides an overview of the age distribution. The highest proportion of individuals under the age of 35 include Farm workers (46%), Employees of formal private companies (37%), Piece or casual workers (36%) and Salaried private individuals in the Informal consumer market (35%).Remittance dependants are the oldest group with only 7% of adults under the age of 35.
8. *Percentage of group that reported owning a mobile phone* – represents ownership of mobile phones. Those who are self-employed in formal enterprises (Formal enterprises group) contain the highest proportion of mobile phone ownership (63%). Government employees and employees of private companies follow with 48% and 43% mobile phone ownership. Farm workers and Piece or casual workers have the lowest mobile phone ownership at 5% and 12%.
9. *Percentage of group that has no or only basic education* – demonstrates literacy levels. The largest proportion of adults with no or only basic education includes Farmers (70%), Piece or casual workers (69%) and Remittance dependents (68%). Government employees followed by Employees of formal private companies have the highest education levels (secondary and/or tertiary education. with 82% and 67%, respectively.

Note on segmentation methodology: The goal of the segmentation exercise is to identify key priority target groups for the extension of financial services. Although a large proportion of the population was captured in the segmentation exercise (72% of adults) the use of economic groups and remittance receivers to identify priority target groups resulted in the exclusion of the economic inactive. This is in-line with the G-20 definition of financial inclusion which focuses only on working adults (see **Section 1**). The largest group of individuals excluded from the segmentation exercise were adult household dependents who account for 27% of the adult population. This group is mostly female (76%), and are mostly spouses (44%), parents (19%) or other family members (9%) of the head of household.

Metric	Total adult population	Farming	Formal enterprises	Informal enterprises	Formal consumer market: Employees of formal private companies	Formal consumer market: Government employees	Informal consumer market: Piece/ casual workers	Informal consumer market: Farm workers	Informal consumer market: Salaried private individuals	Informal consumer market: Remittance dependents
Number of adults in group	39 777 041 (100%)	12 098 928 (30.4%)	2 521 343 (6.3%)	4 687 722 (11.8%)	765 505 (1.9%)	968 030 (2.4%)	4 028 021 (10.1%)	2 178 101 (5.5%)	725 503 (1.8%)	520 829 (1.3%)
Avg. monthly income of those in group who reported income (ratio to average income)	K 93 527/ USD 99 (1)	K 89 723/ USD 95 (0.96)	K211 891/ USD 224 (2.3)	K 125 676/ USD 133 (1.3)	K 129 288/ USD 137 (1.4)	K 115 909/ USD 123 (1.2)	K 66 836/ USD 71 (0.7)	K 48 611/ USD 51 (0.5)	K 86 319/ USD 91 (0.9)	K 62 309/ USD 66 (0.7)
% of group not using any regulated/ unregulated financial services	48.8%	41.0%	45.7%	48.4%	44.5%	35.3%	53.6%	55.4%	62.4%	56.7%
% of group currently owing	47.4%	61.8%	26.0%	41.7%	26.7%	37.7%	49.5%	59.1%	44.1%	21.6%
% of group that resides in rural areas	69.2%	93.3%	24.8%	52.4%	26.6%	32.2%	70.0%	95.8%	45.1%	64.3%
% of group that are male	48.7%	61.9%	55.6%	46.5%	71.8%	47.6%	61.2%	56.3%	69.0%	42.6%
% of group aged less than 35 years	28.9%	25.9%	23.0%	24.9%	36.9%	22.7%	36.3%	45.8%	35.1%	6.7%
% of group that reported using a mobile phone (own phone)	41.8% (23.5%)	34.8% (15.7%)	73.3% (63.2%)	54.1% (36.6%)	72.6% (43.2%)	67.6% (47.8%)	33.7% (11.8%)	28.6% (5.2%)	35.5% (22.6%)	30.6% (17%)
% of group that has no or only basic education	63.2%	69.6%	32.9%	55.5%	33.4%	12.3%	68.8%	86.3%	50.8%	68.0%

Table 2: Key parameters of economic groups and target groups

Source: FinScope 2013

Economic activity strongly correlated to geography. As can be expected, the majority of farm workers and farmers are located in rural areas. Formal enterprises, Government employees and Employees of formal private company were predominately urban. Informal enterprises were evenly split between rural and urban areas with Remittance dependents and Piece or casual workers located primarily in rural areas. The largest economic groups are located predominantly in rural areas and have lower incomes than their smaller urban counterparts.

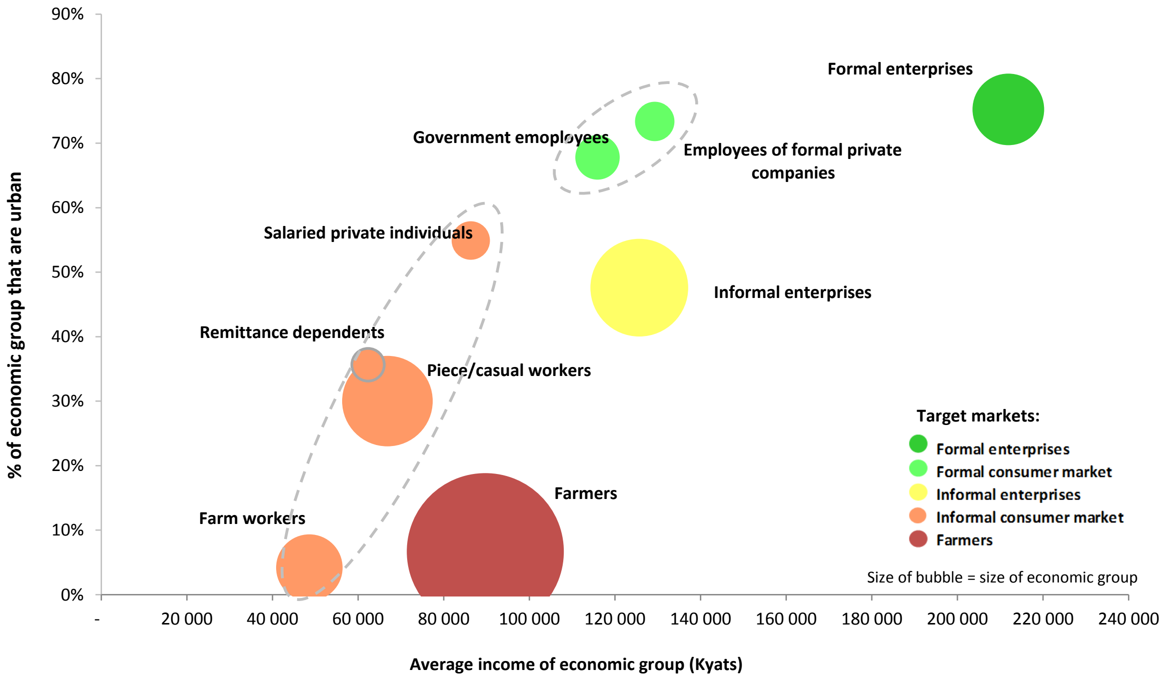


Figure 4: Comparative profile of economic groups

Source: FinScope 2013

Significant variation in income between economic groups. Average reported monthly income of economic groups differs significantly based on the main source of income (See **Figure 4** above). Formal enterprises reported the highest income levels while farm workers reported the lowest monthly income.

Key differences in economic activity, regularity of income, geography, age, gender and mobile phone usage of the target groups, will need to be incorporated into any financial inclusion initiatives to reach and meet the needs of each market.

4.3. Take-up and usage of financial services

For the purposes of this discussion, usage of financial services will be categorised according to the type of financial service provider through which the financial product or service is accessed. The type of financial service provider can be broadly classified as regulated and unregulated providers (see **Box 2**, below). Regulated providers in the general take-up section (**Section 4.3.1**) will cover institutions regulated for the provision of financial services such as State Financial Institution (SFI)'s, MFIs, commercial banks, co-operatives and pawnshops. Unregulated providers include individuals and institutions such as: employers, savings groups, money lenders, village funds, religious institutions and agricultural buyers. This category does not include loans obtained from friends and family. Product specific take-up and usage will be dealt with in each individual product sections (**Sections 7 - 10**). Regulated institutions in the product sections will include institutions that are regulated for the provision of the financial services in question (e.g. credit or insurance).

Box 2: Categorisation of financial institutions and the revised access strand

Financial services providers in Myanmar can be broadly categorised into regulated and unregulated providers:

Regulated financial services providers are registered legal entities that are regulated for the provision of financial services. If a financial services provider is registered with a public authority and its activities are subject to regulation which permits it to provide financial services, whether a public authority supervises its provision of financial services from a prudential or market conduct perspective or not, it is considered a regulated financial services provider.

Unregulated financial services providers are not registered with any public authority for the provision of financial services and are not subject to any institutional, prudential or market conduct supervision in their provision of financial services. Even though legislation or regulation may exist that govern their provision of financial services, unregulated providers do not comply with such regulation and are therefore not subject to any public supervision or control. Likewise, if an entity is registered with a public authority, but not for the provision of financial services; and no regulation exists that govern their provision of financial services, the entity will be an unregulated provider.

An access strand is a tool used to illustrate take-up of financial products or services from different categories of financial services providers based on the level of public control and supervision applied to the financial services provider, while placing an emphasis on regulated financial services providers. The access strand consists of four distinct groups:

- **Financially excluded**: This group consist of adults who do not access financial products or services from either regulated or unregulated financial services providers, and who do not demonstrate financial activity with family, friends or themselves.
- **Individuals who only demonstrate financial activity with family, friends or themselves:** This group consists of adults who illustrate financial activity through friends, family or themselves. This financial activity includes saving at home or with family or friends, borrowing from family or someone you know, sending money to someone via family or friends, or using a savings or borrowing mechanisms in response to having experienced an insurable event (ex-post financial mitigation)[19].
- **Financially included through unregulated financial products and services only**: This group is comprised of adults who are financially included through the take-up of financial products or services from unregulated providers. However, this group does not include individuals who also have any financial products or services from regulated providers.
- **Financially included through regulated financial products and services:** This group is

[19] This last category is captured as individuals who only demonstrate financial activity with family, friends or themselves in the insurance access strand regardless of the regulated or unregulated nature of the saving or borrowing activity employed., because they are not using a regulated or unregulated insurance product to mitigate the risk, but are employing their own financial mechanism to mitigate the risk. The use of regulated or unregulated saving or borrowing to mitigate the risk would still reflect as regulated or unregulated use of saving or borrowing in the saving or borrowing strand, and overall financial access would therefore still reflect the true extend of regulated and unregulated take-up.

made up of all adults who are financially included through the take-up of financial products or services from regulated institutions.

Please note that the access strands do not show overlaps between the categories of providers, so that an adults with both a regulated and unregulated financial product is not distinguishable from the access strand and would only appear under regulated take-up. Similarly, an adults with no regulated product but who has an unregulated product and who (for example) saves with a family member, would only appear under the unregulated take-up.

The access strand can further be used to illustrate take-up across particular product groups (i.e.: credit, savings, insurance or payments). Particular financial products, services, mechanisms and activities that have been included for each category of the product group access strands are listed under each product group below:

Credit access strand

- **Regulated take-up:** Having a loan product or credit account with an SFI, commercial bank, formal (non-bank) financial institution, MFI, government scheme, co-operative or pawnshop.
- **Unregulated take-up:** Borrowed money from an employer, savings group, money lender, religious institution, village fund, community based organisation or a registered institution which is not being supervised for the provision of financial services. Received goods in advance from a farmer/shop/store/supplier or agricultural buyer and had to pay back later.
- **Borrowing with family or friends:** Borrowed money from family or friends that you have to pay back. Received money from family or friends that you did not have to pay back.

Savings strand

- **Regulated take-up:** Saving with or having a savings account with an SFI, commercial bank, formal (non-bank) financial institution, MFI or co-operative.
- **Unregulated take-up:** Belonging to a savings group or having savings with a savings group, money donations group, or another institution that is not supervised for the provision of financial services.
- **Saving with family, friends or self:** Saving within the household, family or community who keep it safe for you, saving in a secret place at home (like a piggy bank), saving in jewellery or gold, saving in livestock or saving in kind.

Insurance strand

- **Regulated take-up:** Any regulated insurance product (like motor vehicle insurance) with an insurance company or bank.
- **Unregulated take-up:** Saving with or borrowing from an MFI that has a mandatory welfare fund, belonging to community funeral assistance or health assistance groups, a free funeral society/ward clinic or health association, or a donation group.
- **Self-mitigation** (after having experienced an insurable risk): Those who experienced an insurable risk over the past 12 months and used savings or borrowed in order to mitigate the impact of the event. Insurable risks include: Death of or loss of income from main

income earner, death of a family member (who is not the main income earner), illness within your household or family that requires medical expenses, disability (self or household member), loss of job (self or household member), fire or destruction of household property, loss of your home, loss of your savings, drought, poor rainfall or loss of access to water for farming, flooding/storms, harvest failure or losses of crop harvest (including plant disease), death or illness of livestock, loss of your land or access to land you use, loss/failure of your business or an earthquake.

Payments strand

- **Regulated take-up:** Having sent or received remittances in the last 12 months via bank transfer (or paying into a bank account), ATM, the Post Office, Western Union, MoneyGram, internet/online banking or mobile phone or having one of the following accounts/products from a commercial bank: Debit Card/ATM card/Myanmar Payments Union (MPU) card, current/cheque account, foreign currency account, bank account outside the country, internet/online banking.
- **Unregulated take-up:** Having sent or received remittances in the last 12 months by motorcycle, taxi or via a *hundi*.
- **Sending money with family or friends:** Having sent or received remittances in the last 12 months directly via friends or family.

4.3.1. General take-up and attitudes towards financial services

Half of Myanmar's adult population report to use financial services from regulated and unregulated sources. FinScope reports that 51% of adults use financial services from either a regulated or an unregulated institution. **Figure 5** below shows that 30% of adults use at least one financial service product from a regulated financial service provider, while 21% use unregulated services only. The remaining adult population rely on meeting their financial needs from friends, family or themselves[20] only (30%) or do not use any form of financial services (19%).

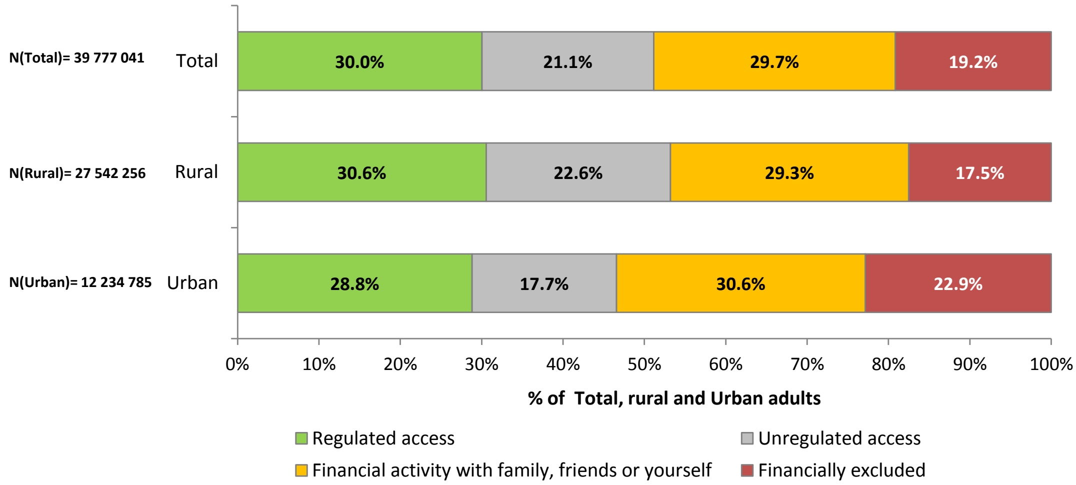


Figure 5: Financial services usage by source of provision

Source: FinScope 2013

Majority of adults with access to regulated financial services only make use of one product class. Although 30% of adults reported to use at least one financial service from regulated financial services providers, only 6% make use of more than one regulated financial product class (a combination of credit, savings, insurance and payments). The remaining 23% of adults (or 9.4 million) reported only using one financial product class from a regulated financial services provider. **Figure 6** below shows this breakdown of adults using financial services from regulated financial services providers and classifies adults that make use of more than one financial service as **broadly served** and those who only make use of one financial service from a regulated provider as **thinly served**. This highlights that most adults that are considered to be served by regulated financial services providers are only **thinly served** and are still candidates for financial inclusion.

[20] This category consists of individuals who only demonstrate financial activity with family, friends or themselves. This financial activity includes saving at home or with family or friends, borrowing from family or someone you know, sending money to someone via family or friends, or using a savings or borrowing mechanisms in response to having experienced an insurable event (ex-post financial mitigation).

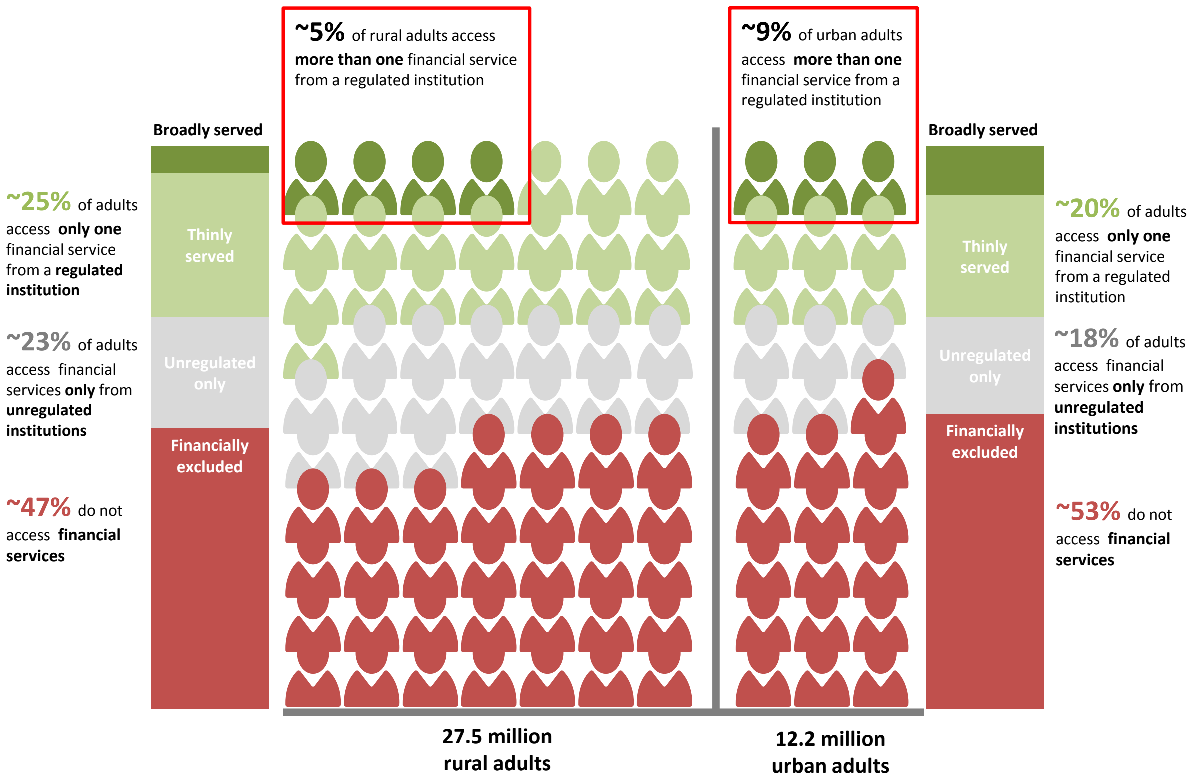


Figure 6: Nature of financial services usage

Source: FinScope 2013

Thinly served driven largely by regulated borrowing without an account and non-account based payments. Of the 23% of adults identified as **thinly served**, 61% (or 5.8m adults) only borrow from regulated financial services providers and 27% (2.5m adults) use only payment services from regulated financial services providers (see **Table 3** below). Adults who report only borrowing from regulated financial services providers are largely rural farmers who access agricultural credit only from MADB[21]. Adults who report using only payments from a regulated financial services provider consists almost entirely of adults who indicated that they use a bank to send or receive remittances, but do not report having a bank account[22]. Regulated payments as captured in our analysis are therefore largely non-account based. These two services (adults only borrowing from regulated financial services providers and adults using only payments from regulated financial services providers) make up 88% of the **thinly served** category.

Regulated usage	Nr of adults	% of adult population
Regulated borrowing only	5 763 519	14.5%
Regulated savings only	746 489	1.9%
Regulated insurance only	388 714	1.0%

[21] FinScope reports that of the 5.8 million adults who only have a regulated credit product (see **Table 3**); 3.8 million only have access to a MADB loan (adults in households who have an MADB loan

[22] In Myanmar it's common to use bank branches to remit money without holding an account with a bank. Only about 40 000 or 1% of remittance senders and receivers have a transactional bank account, while only 12% of adults who indicated they use banks to send or receive remittances indicated that they have any account with a commercial bank or MEB, or that they currently save or borrow from a commercial bank or MEB.

Regulated usage	Nr of adults	% of adult population
Regulated payments only	2 538 376	6.4%
Two types of regulated financial services (e.g. savings and borrowing)	2 001 248	5.0%
Three types of regulated financial services (e.g. savings, payments and insurance)	455 736	1.1%
All 4 types of regulated financial services	51 692	0.1%
Total regulated access	**11 945 774**	**30%**

Table 3: Breakdown of regulated financial services usage

Source: FinScope 2013

Interpreting agricultural credit uptake for MADB using FinScope data. In FinScope, 5.3 million adults from farming households reported having an MADB loan. With an average of about 3 adults per household, this translates to about 1.8 million households with a loan from MADB. This accounts for the discrepancy between the number of adults reporting to have an MADB loan in FinScope (5.3 million adults) compared to the number of loan clients reported by the MADB during supply-side consultations (at least 1.6 million clients and 2.3 million loans)[23]. The qualitative research findings suggest that farming is a household activity in Myanmar. Farming households' functions as an enterprise and agricultural credit decisions tend to be made at a household level. There would therefore likely only be one MADB loan per household. Because FinScope is an individual questionnaire conducted at a household level, but extrapolated for the total adult population, uptake of agricultural credit therefore reflects adults living in households who report having access to agricultural credit, rather than the number of actual agricultural loans. MADB loans are the only credit that can specifically be identified as being solely agricultural from FinScope, and to which this reasoning can therefore be applied. Because of the nature of farming households in Myanmar explained above, adults in farming households with a MADB loan are therefore considered to have access to a regulated financial service.

Rural take-up exceeds urban take-up for both regulated and unregulated financial services. Rural areas reported greater take-up of financial services (53%) than their urban counterparts (47%). While the bulk of rural financial services are obtained from unregulated providers (36% of rural adults have an unregulated product or service), the take-up of regulated financial services is still higher in rural (31%) areas than in urban (29%). This is largely driven by the rural penetration of credit provision by MADB and PACT (as explained above; also see **Section 7.3**).

Large overlap between usage of financial services from regulated and unregulated institutions. It was found that 12% of adults, or 4.6 million people, in Myanmar make use of financial services from both regulated and unregulated financial services providers. This was most prevalent in rural areas where 14% of adults, or 3.8 million people, make use of both providers.

Take-up of regulated financial services is positively correlated with income levels. As depicted in **Figure 7** below, financial services obtained from regulated financial services providers is directly correlated to income. Higher income levels increases the likelihood of using a

[23] Although FinScope's implied number of households with an MADB loan roughly correlates with the supply side figures (1.8 million vs. 1.6 million).

financial service from a regulated financial services provider, but only marginally decreases the likelihood of using financial services from an unregulated financial services provider.

Regulated financial services penetrate even the lowest-income categories. While take-up of regulated financial services correlates with income, **Figure 7** also shows that regulated financial services have penetrated into even the lowest-income categories. FinScope found that 19% of individuals earning less than USD 1 per day report to use financial services from a regulated financial services provider. This increases to 27% for those earning between USD 1.00 and USD 2.00 and to 31% for those earning between USD 3.00 and USD 4.00 per day. As with the case for rural take-up of regulated financial services, penetration into low-income segments is largely driven by MADB and PACT.

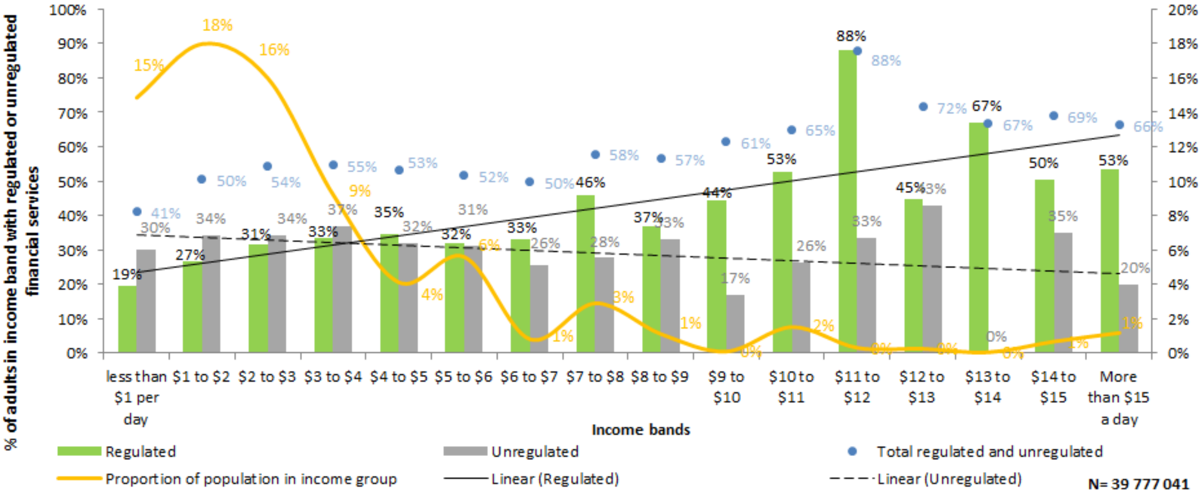


Figure 7: Total take-up of financial services from regulated and unregulated providers.

Source: FinScope 2013

Figure 8 below shows the take-up of specific product classes (credit, savings, payment and insurance) from regulated financial services providers across income (discussed further in each of the market discussions in **Sections 7 - 10**). Credit is the most pervasive financial offering across most income groups followed by payments and savings. All income groups reported using financial services from a regulated financial services provider with take-up as a percentage of the total adult population in a specific income group increasing with income.

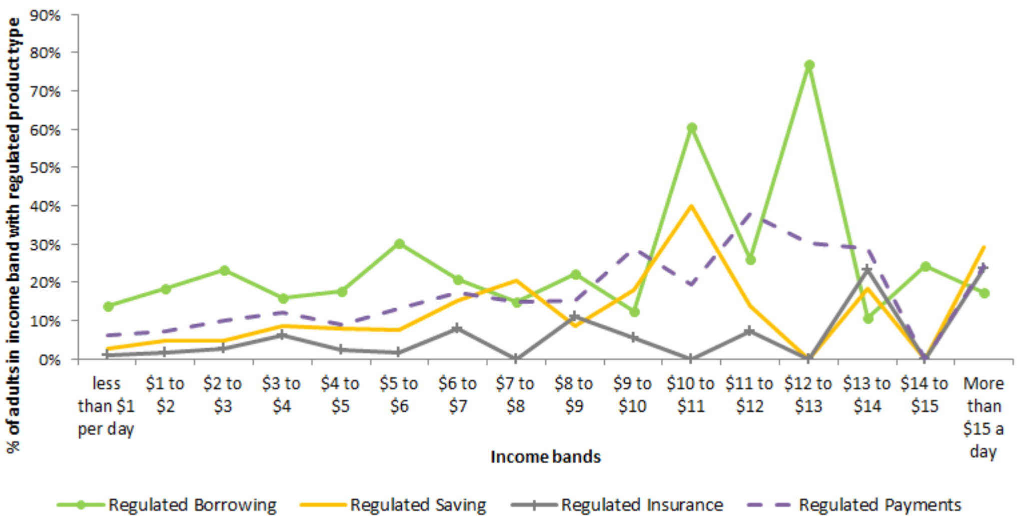


Figure 8: Take-up of regulated products across income

Source: FinScope 2013

Proximity to financial service providers is a key driver for financial services take-up. Proximity to a financial services provider, measured by proximity to bank branch[24], is a key driver to the take-up of commercial bank products (See **Figure 9** below). It was found that 72% of commercial bank clients were located within 30 minutes of a bank branch. Similar parameters apply to take-up of MEB products with 67% of clients living within 30 minutes from a bank branch. The only bank exception was MADB where no significant correlation between proximity and take-up could be established. While MADB follows a microfinance distribution approach that includes group loans and local loan screening committees (see **Section 7.3.3** for a description of MADB) farmers are still required to collect funds and repay loans at the MADB branch. Proximity is a critical factor for take-up of financial services but could be overcome through changes to the operational model of the financial services providers.

[24] Respondents reported distance, in time, to the nearest bank branch. The reported distance does not imply that the respondent is a client of the bank operating the branch.

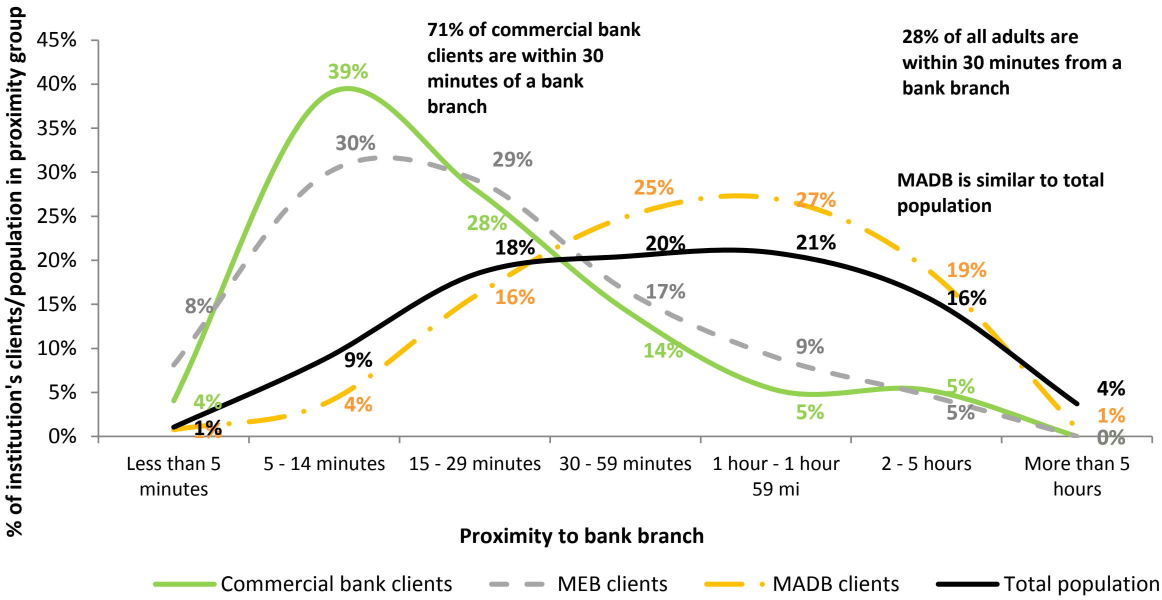


Figure 9: Proximity to a bank branch versus commercial bank, MEB and MADB clients

Source: FinScope 2013

4.3.2. Qualitative findings on take-up of financial services

Several barriers to the take-up of financial services provided by regulated financial services providers. The barriers to take-up of regulated financial services identified by the qualitative research included: insufficient delivery channels that required travelling long distances at high costs, inconvenient operating hours, long delays such as those experienced between the application of a loan and the actual disbursement of the loan or time taken to remit money via banks, burdensome application requirements (specifically those related to loan applications and account opening) and low interest rates on savings especially when such interest rates are compared to alternative unregulated investment opportunities. Moreover, respondents from both the urban and rural areas felt that requirements set by regulated financial services providers excluded low-income earners. For example, banks only accepted specific types of property as collateral.

Some regulated financial products are gaining acceptance and usage. The most utilised regulated financial products are money transfers via banks and agricultural loans (predominantly from MADB). Supply-side interviews revealed that in order to remit money via banks, one is neither required to submit onerous paperwork, nor did it require being an account holder. Money transfers via banks were also considered to be safer than the unregulated *hundi* system.

MADB products appreciated but service levels require attention. With regards to MADB loans (see **Box 4** for a discussion on MADB) farmers were appreciative of the low interest rates charged on the loan. However, they complained that the process was lengthy, the requirements were rigorous, the loan amounts were insufficient and not always available, loan disbursement was not prompt enough and the repayment period was not suitable as it forced farmers to sell their produce right after harvest at low market prices in order to make the repayments.

Unregulated financial services and products are ultimately preferred. The discussed negative attitudes coupled with insufficient delivery of regulated financial products results in high usage of the alternative unregulated financial services products. The benefits of regulated financial services were unclear to most people, especially those in the rural areas. The risks and extremely high interest costs associated with unregulated products such as unregulated lending were widely known but this did not discourage users of unregulated services or products (MSR, 2013). Respondents were very comfortable using unregulated services offered by the money lenders, (unregistered) pawnshops, savings groups and *hundi*. Respondents especially preferred unregulated providers because they had flexible operating hours and they provided immediate relief and the borrowing terms were negotiable.

4.3.3. Summary of economic groupings

Inverse correlations between credit usage and average income. When comparing take-up of credit between the nine economic groups it becomes evident that, with the exception of adults dependent on remittances, credit take-up from regulated or unregulated financial services providers is inversely correlated to income. Lower income economic groups such as Farm workers, Piece or casual workers and Farmers have higher credit usage than higher income enterprise owners (Formal enterprises and Informal enterprises) and Salaried employees[25]. This picture however changes significantly when only considering take-up from regulated financial services providers. As depicted in **Figure 10** below, adults who earn salaries reported very low take-up from regulated financial services providers and high take-up of credit from unregulated sources (the distance between the mid-points of the dotted and solid circles).

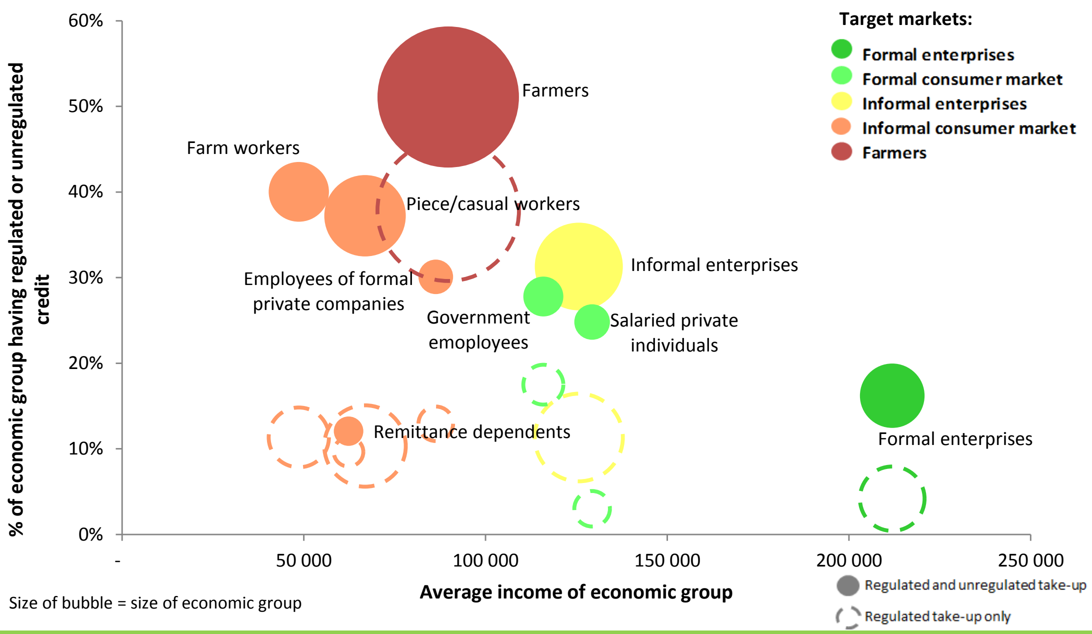


Figure 10: Comparison of economic groups by income, credit usage and region

Source: FinScope 2013

[25] Employees of formal private companies, Government employees and Salaried private individuals.

Direct correlation between rural and credit usage. The use of credit is directly correlated to location. Credit take-up is significantly higher in economic groups that are based in rural areas. When only considering credit from regulated credit providers this continues to hold for farmers, who are eligible for MADB loans, while farm workers and casual labourers use of regulated credit sources is significantly lower.

Savings directly correlated to income. The higher income economic groups, enterprises and salaried employees, have higher savings levels than lower income groups of Farm workers, Piece workers, Remittance receivers and Farmers. This trend only holds when considering the use of regulated savings products. Higher income groups did however show high levels of savings outside of regulated financial services providers. This represents “low-hanging fruits” for regulated financial services providers looking to mobilise savings as they have high savings incidences and are relatively easy to reach as they are predominately urban.

Savings inversely correlated to rural. The increased prevalence of savings was observed with groups that were predominantly urban. Farmers, Farm workers and Casual labourers had the lowest take-up of savings and the highest concentration of rural respondents. On the other hand, Government employees, Private sector employees and enterprises had higher savings incidents and were predominantly based in urban areas. Rural savings mobilisation is more challenging as these groups are harder to reach, have irregular incomes and lower incidences of savings (see **Figure 11** below).

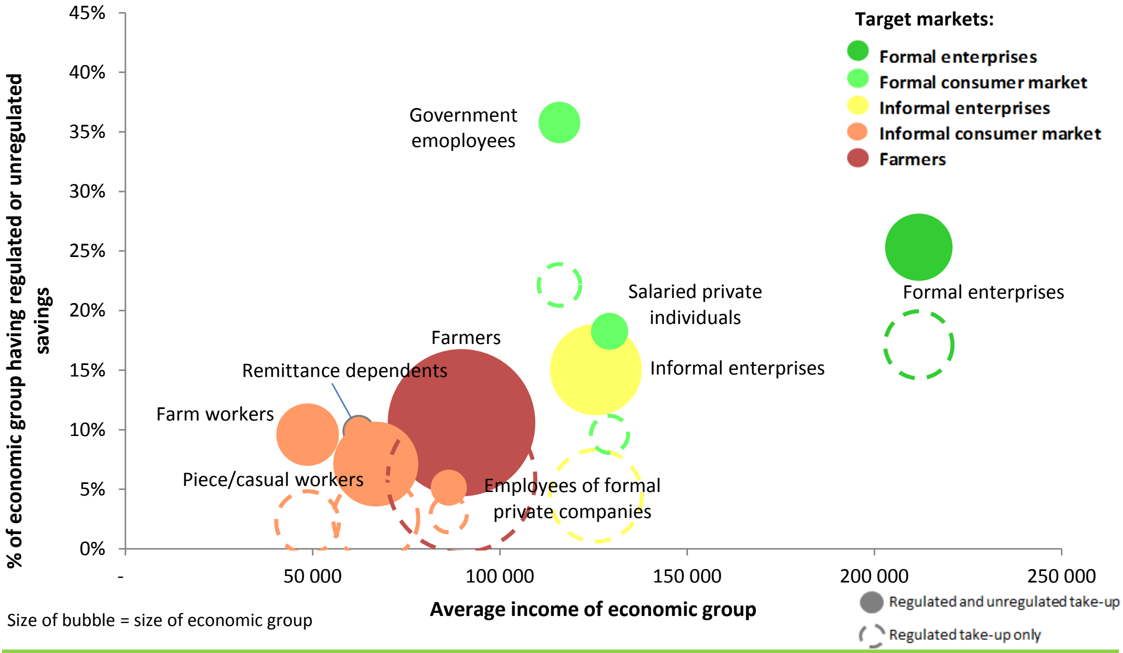


Figure 11: Comparison of economic groups by income, rural and savings usage from regulated and unregulated institutions

Source: FinScope 2013

Take-up of transactional products strongly linked to both location and economic activity. As is illustrated in **Figure 12** below, Formal enterprises and Government employees had the highest usage of payments products. This is followed, by Remittances receivers. Interestingly, only 12% of Remittances Receivers made use of regulated money transfer providers such as banks. Urban groups, with the exception of employees hired by individuals, made more use of payment services. Formal enterprises, which are located predominately in urban areas and have high mobile usage, are expected to make frequent payments and currently conduct a large part of this through unregulated financial services providers.

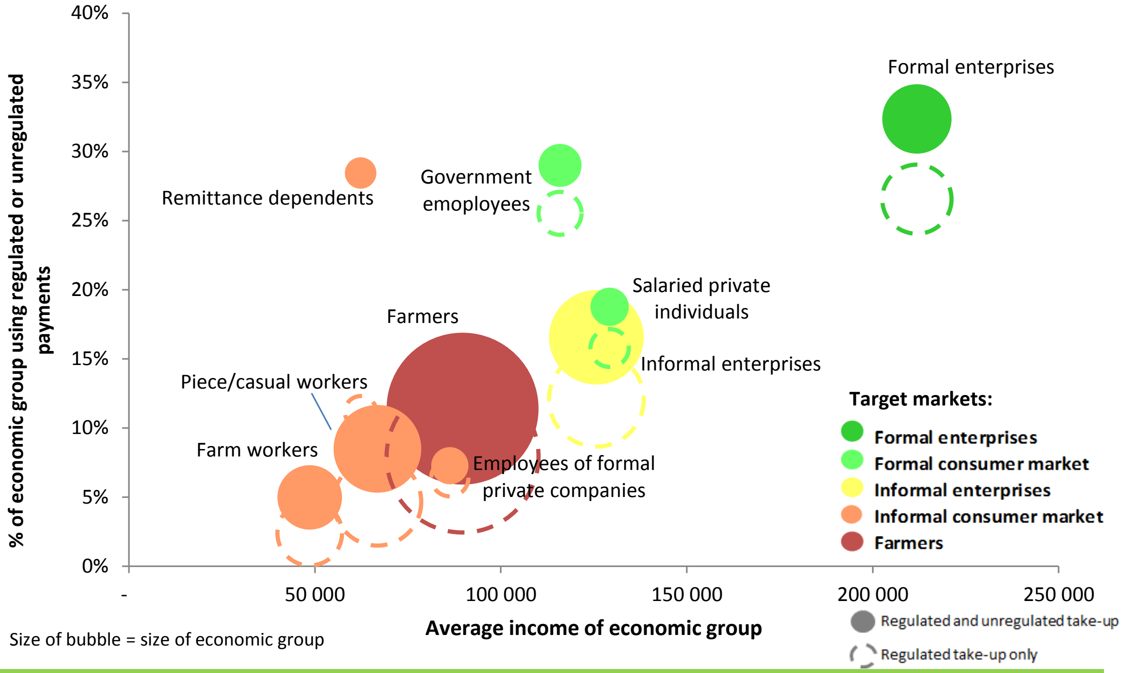


Figure 12: Comparison of economic groups by income, rural and transactional usage from regulated and unregulated institutions

Source: FinScope 2013

Summary of take-up and needs by economic group:

Farmers have high take-up of regulated credit, but unmet demand still exists. Farmers reported high levels of access to regulated credit with 37% of Farmers reporting that they borrow from a regulated financial services provider. However, this high use of regulated credit does not translate into high take-up of other regulated financial services, with Farmers reporting low levels of regulated savings, payments and insurance. Furthermore, regulated borrowing correlates with plots size, increasing from 24% of Famers with plots smaller than 2 acres to 54% of Farmers who have plots 10 acres or larger. While Farmers are the best served group for regulated credit, high levels of unregulated credit usage indicates demand for additional credit and credit products.

Farmers reported a high need for regulated insurance products. Farmers reported low take-up of insurance from regulated (2 % of Farmers) or unregulated financial services providers (6% of Farmers). FinScope revealed that 42% of Farmers only rely on savings or borrowing to manage the impact of insurable risk events[26]. With regards to savings, Farmers did not report to use regulated savings extensively (only 6%), however 29% of Farmers reported saving with family, friends or themselves only. This includes saving at home in cash, saving in

[26] Please note, these are risks which are normally considered insurable. Insurance products that address these risks are not necessarily available in Myanmar.

livestock, as well as saving in gold. The credit lines and savings used for responding to a risk event could be used for productive purposes if appropriate insurance products were in place. For example, Farmers represent an aging population and this savings could better serve the need for retirement provision.

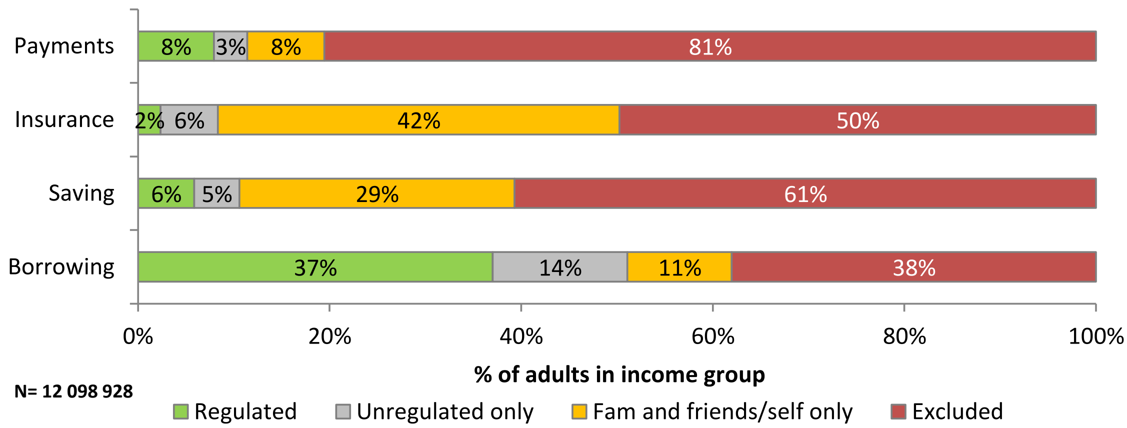


Figure 13: Usage of financial services by Farmers

Source: FinScope 2013

Formal enterprises reported low credit usage for productive purposes. Take-up of credit from either regulated or unregulated financial services providers is low for Formal enterprises, with 74% of Formal enterprises reporting to not use any form of credit. These enterprises thus rely heavily on savings, held largely with family, friends or themselves, and income to fund expansions. This represents an opportunity to develop these enterprises through the provision of working capital and asset finance. Similar to Farmers, Formal enterprises rely heavily on savings and credit to manage risk events. Developing appropriate insurance products will further allow enterprises to allocate capital to operations.

Formal enterprises reported comparatively high use of savings, payments and insurance products. Formal enterprises reported high usage of savings products with 63% reporting to save. This includes adults that save with regulated or unregulated financial services providers, as well as adults who save with family, friends or themselves. This is compared to 38% of the total adult population. Furthermore, Formal enterprises are also more likely to use regulated transactional and payment services and insurance products than the general population. FinScope reports that 27% of adults in the Formal enterprise segment used regulated payments, compared to 10% of the adult population. For insurance, 11% of adults in the Formal enterprise segment report having an insurance product with a regulated financial services provider compared to 3% of the adult population.

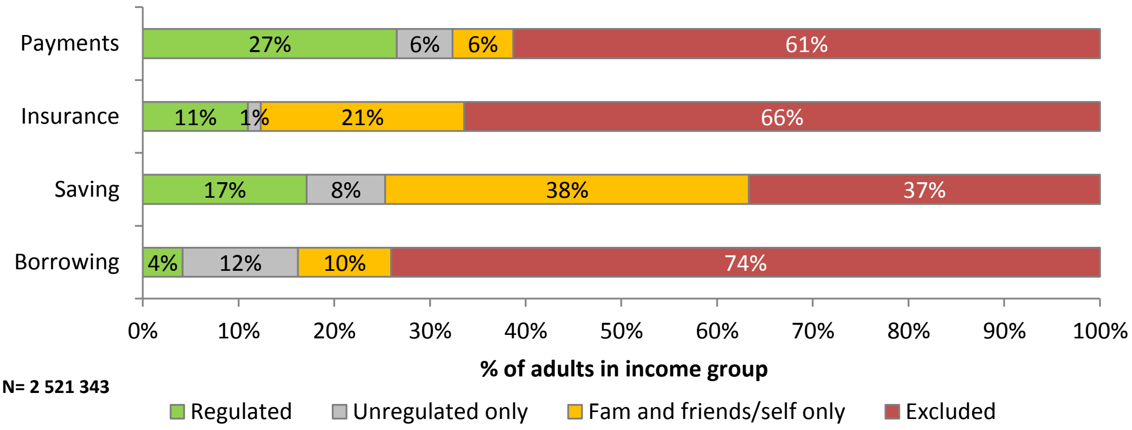


Figure 14: Usage of financial services by Formal enterprises

Source: FinScope 2013

Informal enterprises usage of unregulated credit is nearly twice that of regulated. Informal enterprises earn half of the income their formal counterparts earn, but rely much more on credit to manage their enterprises. Currently, nearly twice as many adults obtain credit from unregulated financial services providers, and given the nature of Informal enterprises, it will be difficult for commercial banks to serve this group. As Informal enterprises are located in both urban and rural locations, more than one category of provider is needed to meet the needs of this target group.

Informal enterprises have high reliance on family, friends or themselves for savings and risk mitigation needs. Take up of insurance and savings products with regulated and unregulated financial services providers is low for Informal enterprise. Adults in this target group rely on family, friends or themselves to meet their financial service needs. Of all target groups, Informal enterprises report the second highest use of savings with family, friends or themselves (40%)[27].

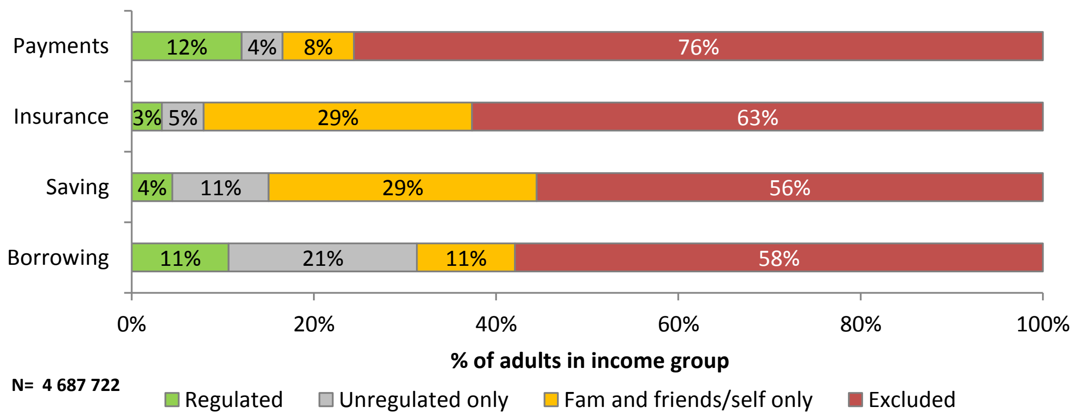


Figure 15: Usage of financial services by Informal enterprises

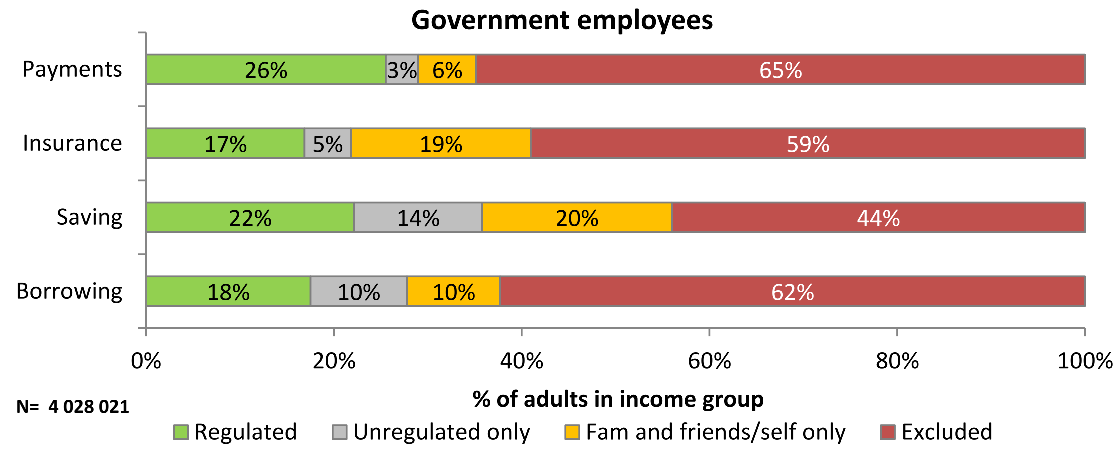
Source: FinScope 2013

[27] Note that 11% of Informal enterprises make use of savings with friends, family and self **also** use regulated or unregulated products.

Formal consumer market:

Government employees have highest take-up of regulated financial services. Government salaried and wage employees show the highest take-up of regulated insurance (17% of group) and savings (22% of group) and the second highest take up of regulated payments and credit and did not appear to have significant barriers to their usage. However, high usage of unregulated savings and savings at home with family, friends or themselves, as well as unregulated risk mitigation does signal demand for additional regulated products.

Private employees have low levels of borrowing, but high take-up of insurance and savings. Private company employees have low take-up of credit from regulated financial services providers (3%). However, 10% of this group has regulated savings and 9% have regulated insurance. This group is younger, more urban and have regular incomes. Their credit needs would predominately be asset finance and consumer credit which could be provided by private banks and leasing companies. Private banks could also be a future provider for current large unregulated savings and savings at home with family, friends or themselves. From a payments perspective, this group is likely to lead the shift to a more consumer driven market and would possibly be the first group to adopt electronic payment instruments.



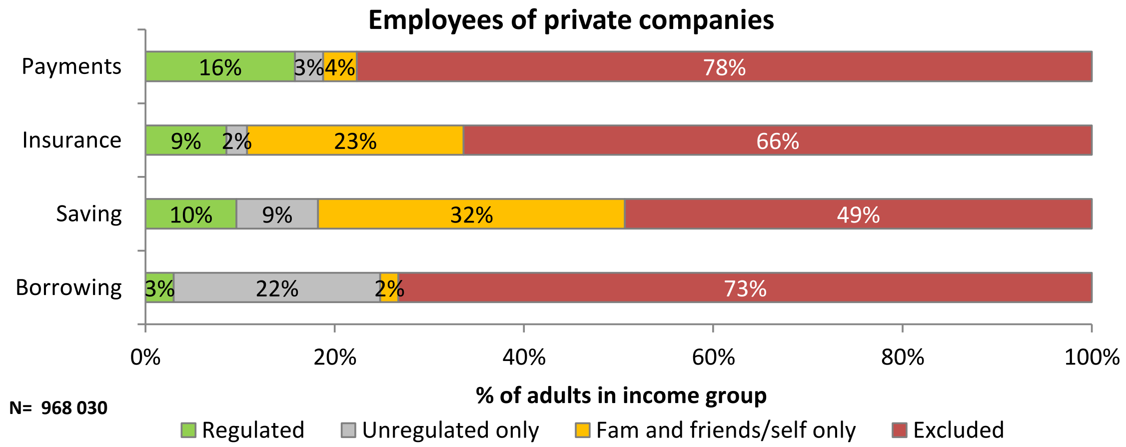


Figure 16: Usage of financial services by the Formal consumer market

Source: FinScope 2013

Informal consumer market:

Informal consumers have the lowest take-up of financial services from regulated or unregulated financial services providers. Outside of borrowing, very few adults have access to financial services from regulated or unregulated financial services providers. Almost a third of adults or 31% rely on family and friends or themselves for risk mitigation, 18% save at home or with family and friends and the bulk of the group still utilize cash for payments. Approximately 74% of the group do not save and adults rely on credit, either from an unregulated financial services provider or family and friends, to meet most of their financial needs. Farm workers and Piece or casual workers[28] had low levels of regulated savings, payments and insurance but high levels of unregulated credit, risk mitigation and savings. Given Farm workers' low income levels and location this group will remain challenging to reach in the short term. Piece or casual workers reported residing in both urban and rural areas and had higher income levels. Private employees working for an individual showed very similar usage patterns as Farm workers. This group is however more evenly split between urban and rural areas and had higher income levels. These adults will thus be more accessible to financial services providers and expressed demand for savings and insurance which can be more easily met by regulated financial services providers.

The exception in the Informal consumer market is Remittance Receivers, who receive payments though a regulated institution. Remittance receivers are predominately rural and use of cash payments is problematic over long distances. A large portion of these payments are also foreign, which indicates the need for foreign exchange functionality to payments.

[28] The Informal consumer market consists of Farm workers, Salaried private individuals, Piece or casual workers and Remittance receivers.

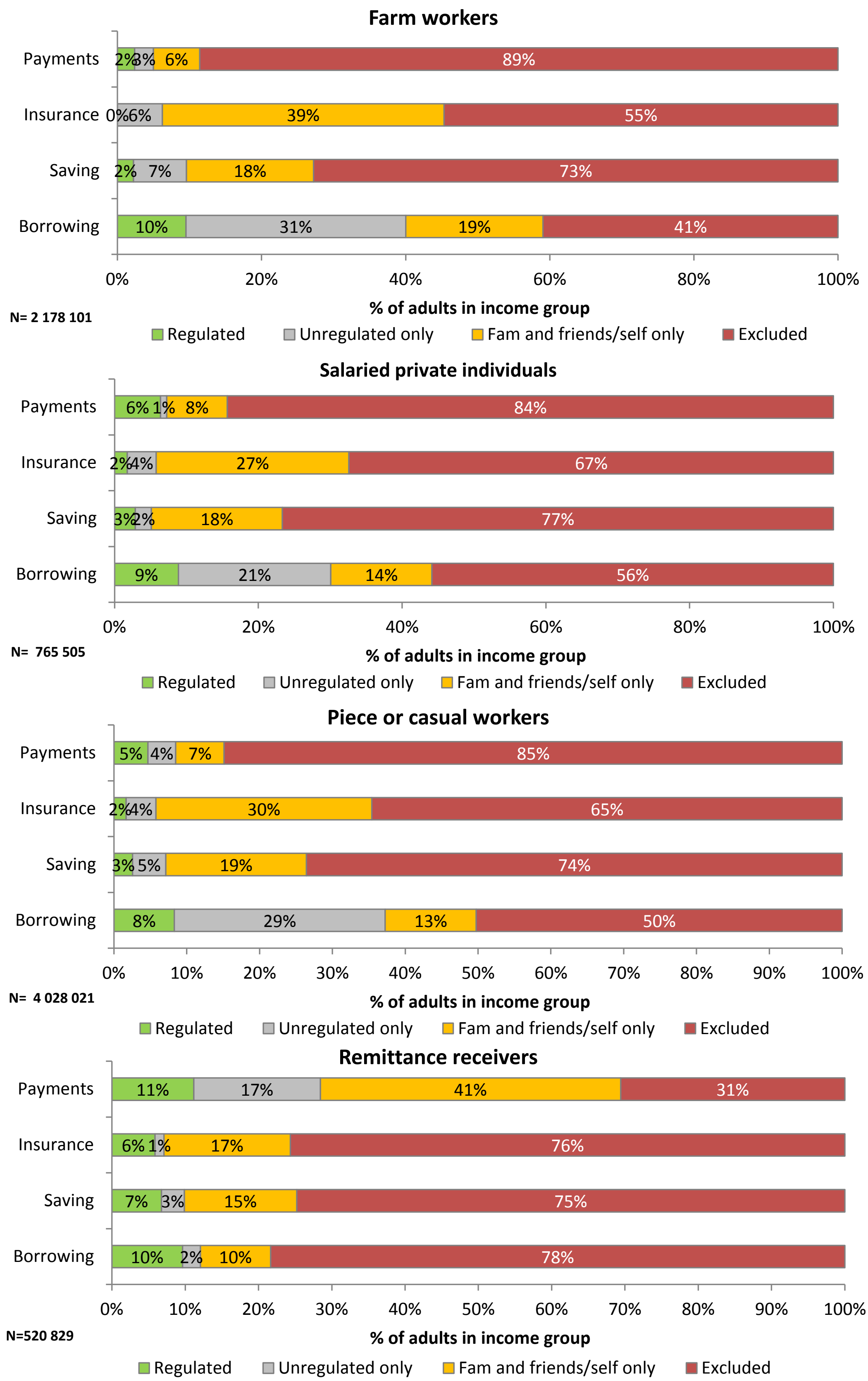


Figure 17: Usage of financial service by Informal consumer market.

Source: FinScope 2013

5. Regulatory framework to promote access to financial services

This section provides a brief description of the policy, regulatory and supervisory framework that impact upon access to financial services in Myanmar. Policy, regulation and supervision play a determining role in the development of a financial sector. It determines who can enter and operate in the market; the level of regulatory compliance and thus the cost of providing financial services; it sets registration requirements for clients that determine their ability to access financial services; it can compel and/or subsidise the provision of certain financial products and services to defined target markets; and it gives structure and direction to the evolution of the domestic and cross-border payment systems.

An analysis of how the policy, regulatory and supervisory frameworks enable or constrain financial services in Myanmar will be laid out in each of the relevant product markets. See **Section 7.7** for regulatory constraints and enablers in the market for credit, **Section 8.6** in the market for savings, **Section 9.5** in the market for payments and **Section 10.7** in the market for insurance.

5.1. Policy

National development policy. Since the adoption of the new constitution in 2008, virtually every aspect of life in Myanmar has been subjected to far-reaching reform. The financial sector has been a prime candidate for numerous reforms. However, these reforms must be viewed through the wider lens of the Framework for Economic and Social Reform (FESR). The FESR is the Government of Myanmar's development roadmap prepared by the National Economic and Social Advisory Council (NESC). The overarching priorities of the FESR are agro-based industrial development, an equitable sharing of resources between different regions of the country, the promotion of local and foreign investment, a people-centred approach and poverty reduction. Key measures to implement these priorities include (i) land reform, (ii) improving access to credit, and (iii) creating new job opportunities.[29]

Financial sector reform. Promoting access to financial services must in turn be viewed against the broader programme of financial sector reforms. The platform for financial sector reform implemented since 2012 include the following:

- The adoption of a managed float exchange rate system in April 2012 and the unification of the exchange rate, which previously had different values in different domestic foreign exchange markets. Since then, the exchange rate has floated within a band of K 848/USD to K 989/USD[30]. A number of forex controls were lifted, including all restrictions on the current accounts.
- The enactment of the new *Central Bank of Myanmar Law* in July 2013 (No 16/2013), which is designed to provide the CBM with the necessary autonomy to conduct monetary policy. The law also empowers the CBM to undertake a number of core central banking functions, some of which were previously undertaken by state-owned banks. For example, the stock of official forex reserves at state banks are now being transferred to the CBM.

[29] Country Presentation: Myanmar – "Progress of Reforms in Myanmar" 4 May 2013 Policy Document, p2
[30] This reflects historical exchange rate data for the period July 2012 to Sept 2013. The rate reached an all-time high of K 848/USD in October 2012 and an all-time low of K 989/USD in July 2013.

- The banking laws, the most important one of which is the *Financial Institutions of Myanmar Law* (No.16/1990), are being redrafted. However, in terms of its current powers the CBM has already liberalised bank deposit rates, expanded eligible collateral, lifted additional capital requirements for branch expansions and eliminated the deposit/capital ratio that previously applied.
- To promote payment system development, the Myanmar Payment Union (MPU) was established in September 2011 and has 17 member banks. The CBM encouraged the issuance of an MPU debit card, and promoted the entry of international credit card services. An Automatic Clearing House (ACH) and a Real Time Gross Settlement System (RTGS) for large value payments are planned (Hpaw, 2013).
- CBM issued a *Directive on Mobile Banking* (No. 4/2013) in December 2013 to govern the provision of mobile banking services by banks and non-bank financial institutions, In February 2014, the CBM publicly stated that it plans to issue a further directive for non-bank mobile money providers.
- On the fiscal side, the 2012/13 budget was the first budget to be debated and approved by Parliament. To reflect the new Constitution, certain public expenditure functions have been delegated to the regions and the states, signifying the stronger fiscal role played by regional and state governments. The Government also widened the tax base to include government employees, amongst others, as well as abolished the withholding of tax on imports, simplified the domestic sales tax and eliminated a tax on key agricultural exports.
- A new *Foreign Investment Law* was passed in 2012 to facilitate and structure growing foreign investment in Myanmar, including investment in the financial sector. Underlying the opening up of the economy is a strong drive to maintain indigenous ownership of financial institutions.

Policy on financial access. Since the new government was elected in 2011, they have pursued a number of specific policies to promote access to financial services. In the first instance, these policies fall under the broader rubric of poverty alleviation. At the first national workshop on rural development and poverty alleviation held in May 2011, President U Thein Sein in his capacity as Chairman of the Rural Development and Poverty Alleviation Committee outlined eight tasks for the various ministries and state organs to address poverty alleviation. The Government objective is to reduce poverty from 26% (UNDP, 2011) to 16% by 2015. They are thus targeting Government actions towards the states, regions and townships where the prevailing poverty incidence is the highest. Four of the eight tasks require initiatives to increase the provision of financial services. These are:

- *Task 1*, the "*development of agricultural productivity*", requires substantial increases in agricultural credit;
- *Task 2,* the "*development of rural productivity and cottage industries*", cannot be realized without improving financial services to SMEs;
- *Task 3*, the "*development of micro saving and credit enterprises*", requires the development of community based financial services providers; and
- *Task 4*, the "*development of co-operative tasks*", includes the establishment of co-operatives to deliver, amongst others, financial services.

These tasks have already triggered several implementation actions by government bodies. For instance, a new *Microfinance Law* (No. 13/2011) was enacted in November 2011. The objectives of this law closely follow the tasks outlined above (*Article 3* of the *Microfinance*

Law). In line with the strong regional focus, each region or state government is required to form a microfinance development working committee whose functions and duties are defined in the law. The government has also converted the Myanmar Industrial Development Bank into the Small and Medium Industrial Development Bank (SMIDB), which is tasked with the distribution of credit to SMEs through the distribution network of the Ministry of Industry.

The Ministry of Co-operatives is tasked with the implementation of task 4, which includes the objective of establishing a co-operative in every village in Myanmar. A microfinance bank has been established to provide wholesale capital to co-operatives. The government is also considering pawnshops and money-lenders as an integral part of its broader strategy to distribute credit to the low-income population. In this regard a number of City Development Laws mandate municipal governments to oversee pawnshops. Similarly, the government maintains the currency of the *Money Lenders Act* (1945) to oversee the conduct of money lenders and protect clients[31].

Although the land reform process is not primarily implemented as a financial access measure, the passing of the *Farm Land Law* in 2012 and the consequent granting of rights of use to existing farmers will have a huge impact on the potential to extend credit to farmers. For the first time they now have permit certificates as evidence of the right to work on farm land that can be used as collateral for loans.

5.2. State structures

Public institutions at national, regional and local level are the strongest structures currently available to promote development and coordinate government action throughout Myanmar. Many of these structures are managed by retired military staff able to inculcate a culture of discipline and efficiency. The national Ministry of Planning and Economic Development is responsible for guiding, coordinating and monitoring the actions of the various state structures. Government structures operate at five levels:

- National Government;
- Seven state governments, seven regional governments and the Nay Pyi Taw Council;
- The regions and states in turn are divided into 73 districts;
- The districts consists of 330 townships in total;
- At the lowest level are approximately 60 000 villages organised in ward committees that play a significant role in the approval of credit provided through state-owned financial services providers.

5.3. Categorisation of financial providers

Financial service providers in Myanmar can be broadly categorised as **regulated and unregulated** (also see **Box 2** and summary in **Section 4.3):**

Regulated financial services providers are registered legal entities that are regulated for the provision of financial services. If a financial services provider is registered with a public authority and its activities are subject to regulation which permits it to provide financial services, whether a public authority supervises its provision of financial services from a

[3131] Answer by the Deputy Minister for Finance and Revenue, U Win Shein, to a parliamentary question, 17 August 2013.

prudential or market conduct perspective or not, it is considered a regulated financial services provider. Regulated financial service providers include banks, Microfinance Institutions (MFIs), co-operatives and state-regulated pawnshops.

Unregulated financial services providers are not registered with any public authority for the provision of financial services and are not subject to any institutional, prudential or market conduct supervision in their provision of financial services. Even though legislation or regulation may exist that govern their provision of financial services, unregulated providers do not comply with such regulation and are therefore not subject to any public supervision or control. Likewise, if an entity is registered with a public authority, but not for the provision of financial services; and no regulation exists that govern their provision of financial services, the entity will be an unregulated provider. Unregulated financial services providers include rice specialisation companies, agricultural input providers, unregulated money-lenders, community-based assistance groups, *hundis* and unregulated pawnshops.

5.4. Banks

Categories of banks: Banks are regulated under the *Financial Institutions of Myanmar Law* (No. 16/1990, also referred to as the *Financial Institutions Law*). This law is currently under review. It classifies financial institutions into four categories: Commercial banks, investment or development banks, finance companies and credit societies. No credit societies are currently licenced by the CBM, and we therefore do not discuss these further. Finance companies are dealt with as part of non-bank financial institutions below. The respective banks are permitted to do the following business (*Article 6* of the *Financial Institutions Law*):

- *Commercial banks* are permitted to provide demand deposits, cheque accounts and time deposits with a term shorter than one year. They are only allowed to extend short term loans.
- *Investment or development banks* are permitted to engage in time deposits with a term exceeding one year and longer term credit with terms commensurate with capital available to the bank.

Licensing of banks. Only limited liability companies registered under the *Myanmar Companies Act* can be licenced by the CBM (*Articles 3* and *12*). A bank may hold a commercial bank license and an investment bank license at the same time, which is indeed the case for most private banks in Myanmar. To obtain a licence, banks must comply with the minimum capital requirements set by the CBM (*Article 15*). The minimum capital is determined according to the proposed location and financial activities of each bank. In terms of the CBM Banking Directive, banks wishing to operate full branches in Yangon or Mandalay require Kyat 700m in capital for each full branch. Lesser capital requirements (varying between Kyat 200m – 400m) apply for the establishment of branches in other cities. Even lower capital requirements apply for the establishment of mini-branches – Kyat 10m in Yangon and Mandalay and Kyat 5m in other cities. The establishment or change in location of branches, agency offices and other offices by financial institutions must receive the prior approval of the CBM (*Article 19*). SFIs are exempt from these branch-related requirements.

Foreign banks. The CBM may grant permission to foreign banks to open representative offices in Myanmar (*Article 13*). However, such representative offices may not perform any banking functions. As of May 2013, the CBM plans to allow foreign banks to establish joint ventures with domestic banks as from 2014. Draft regulations governing the setting up of such joint ventures are being prepared.

Product regulation and collateral. The functions that can be performed by banks are set out in *Article 25* of the *Financial Institutions Law*. However, the ability to perform each of these functions is subject to the prior approval of the CBM. For example, although *Article 25(b)* provides that banks can lend money "either upon or without security", the CBM requires banks to secure collateral for all loans. Originally collateral was confined to immovable property. However, in 2011, permissible collateral was expanded to include such movable assets as certain exportable crops (rice, beans and pulses and sesame), bank deposits, gold and personal and corporate guarantees (CBM, 2012: p18).

Supervision of banks. Banks are supervised by the CBM (*Article 68* of the Central Bank *of Myanmar Law*, 2013). This includes the authority to give such directives as may be necessary to "ensure the solvency and soundness of such institutions". The CBM further has the authority to set interest rates, and also to issue work permits for the employees of banks and financial institutions (*Article 41* of the *Central Bank of Myanmar Law*).

Payment system oversight. In the absence of a dedicated payment systems law the CBM has a mandate to licence and supervise any organisation engaged in the payment system (*Article 79* of the *Central Bank of Myanmar Law*).

5.5. State-owned Financial Institutions

Three of Myanmar's SFIs are deemed to be established under the *Financial Institutions Law* (*Article 16*, 1990). These are the Myanmar Economic Bank (MEB), Myanmar Foreign Trade Bank and the Myanmar Investment and Commercial Bank. These SFIs and any others to be established must also receive authorisation from the CBM (*Article 12*). The *Financial Institutions Law* does not apply to the MADB (*Article 86*), which is established under the *Myanmar Agricultural and Rural Development Bank Law* (No. 17/1990).

Corporate governance. The *Financial Institutions Law* regulates in particular the corporate governance of state-owned financial institutions, as well as its shareholding. The board of SFIs shall consist of a minimum of seven members (*Article 65*), six of which shall be appointed by the government if it owns more than 50% of the shares.

State treasury functions. The MEB has to date, over and above its retail banking functions, performed the treasury function for the state. It also handles cash for the entire banking system and is responsible for government pay-outs. Under the *Central Bank of Myanmar Law* 2013, the state treasury function is allocated to the CBM (*Article 90*). However, the CBM may assign this function to another bank.

MADB. The *Myanmar Agricultural and Rural Development Bank Law* describes the main aim of this bank as being; "to effectively support the development of agricultural, livestock and rural socio-economic enterprises in the country by providing banking services" (*Article 5*). To realize this aim, the bank is mandated to pursue the following specific objectives (*Article 6*):

- Provide loans for agricultural enterprises, utilizing "a simple procedure";
- Promote rural banking;

- Encourage a savings habit and bring about a self-help spirit among the rural population;
- Support socio-economic development in rural areas; and
- Cultivate a habit of using banking services.

For an overview of MADB and their services, please see **Box 4.**

In terms of products, the bank is permitted (*Article 20*) to advance both short-term and long-term loans, to receive deposits and to extend loans and overdraft without security. It is also authorized to "organize, recognize and supervise village banks and prescribe their functions and duties" (*Article 20(c)*). It is further permitted to provide payment services.

5.6. Non-bank financial institutions

Two categories of non-bank financial institutions exist under the *Financial Institutions Law,* finance companies and insurance companies.

Finance companies. Finance companies are licensed under *Article 6(c)* of the *Financial Institutions Law* and the same supervisory framework that applies to banks also applies to finance companies. They are permitted to engage only in the extension of credit for the purchase of goods and services. They therefore specialise in hire-purchase agreements.

Insurers. Insurers can be formed under the *Insurance Business Law* (6/1996). The Insurance Law provides for three types of entities engaged in insurance, i.e. an insurer, an underwriting agent and an insurance broker. An underwriting agent is defined as a company with the right to underwrite on behalf of an insurer (*Article 2(c)*), while an Insurance Broker is an intermediary company which makes contact with the insurer to effect insurance on behalf of the insured (*Article 2(d)*). Only companies registered under the *Myanmar Companies Act* are entitled to obtain licenses as insurers, underwriting agents or brokers.

Supervision. The Insurance Business Supervisory Board, established in terms of *Article 4* of the *Insurance Business Law*, is responsible for the supervision of insurance companies, including the licensing of all three categories of insurance entities. The administration of the Insurance Business Supervisory Board is undertaken by the Myanmar Insurance Company (*Article 6*).

Products. The *Insurance Business Law* provides for only six product lines to be undertaken by insurers: life insurance, fire insurance, comprehensive motor insurance, cash-in-transit insurance, cash-in-safe insurance and fidelity insurance (*Article 8*). However, the Ministry of Finance and Revenue may permit additional types of insurance from time to time. With regards to life insurance products, their premiums must be determined by an actuary (*Article 12*)

5.7. Mobile banking providers

The *Directive on Mobile Banking* (No. 4/2013) limits the provision of mobile banking services to "banks and financial institutions". These mobile banking services providers can then appoint NGOs, Mobile Network Operators (MNOs) or government postal offices to perform as the Cash points, Agents and Partners. It is the responsibility of banks and financial institutions to monitor the conduct of the later parties.

With permission from the CBM, banks and financial institutions can provide domestic and international remittances, cash withdrawal, cash deposits into interest earning mobile banking accounts and various forms of payments (e.g. P2B, P2G and P2P). For the convenience of users, all mobile banking services between different banks must be linked. Moreover, the CBM shall determine a fixed mobile banking service fee to be charged and it can also limit P2P payments to a maximum of three transactions a day of K 500 000 (USD518) each and totalling a maximum of K 1 000 000 (USD 1,035).

With regards to procedures, banks and non-bank institutions are required to collect KYC information and have IT infrastructure to detect any contraventions to AML/CFT legislation. They must also uphold consumer protection by clearly conveying and disclosing information to clients and having procedures for dispute resolution.

5.8. Microfinance Institutions

The *Microfinance Law* (No. 13/2011) as well as regulations issued by the Ministry of Finance and Revenue (No. 277/2011) and three directives issued by the Microfinance Supervisory Committee (Directives 1/2011, 2/2011 and 1/ 2014) provide the current regulatory framework for microfinance in Myanmar. Prior to the promulgation of the *Microfinance Law*, foreign microfinance entities were permitted to operate in Myanmar in terms of a Memoranda of Understanding (MoUs) with the Government of Myanmar. These MoUs, which included several government departments, determined the areas of operation and were also utilised to grant access to various parts of the country.

Target market. The *Microfinance Law* identifies the main target market for microfinance as "grassroot people". These refer to "low-income farmers, labourers and vendors who reside in rural and urban areas" (*Article 2(d)*)

Policy and Regulation. Three different entities are tasked with oversight, regulation and supervision of microfinance organisations. Political oversight is provided by the Rural Development and Poverty Reduction Working Committee with a Vice-President of the country as chairperson. The policy and regulatory function is fulfilled by the Microfinance Supervisory Committee consisting of the Minister of Finance and Revenue as Chairperson, the Managing Director of the Myanma Microfinance Supervisory Enterprise as Secretary, as well as other suitable persons. Actual supervision is the responsibility of the MMSE, supported by Microfinance Development Working Committees, established in each region, state and Nay Pyi Taw council. The functions of the Microfinance Supervisory Committee include the laying down of policy and directives, prescribing rules and regulations, granting licenses to operate, determining the minimum capital for each MFI and setting the interest rate on deposits and loans *(Article 7*).

Functions of MMSE and Regional Working Committees. The MMSE is responsible for scrutinising applications for microfinance licenses, prescribing reporting formats and undertaking general on- and off-sight supervision. They are supported in these tasks by the regional Microfinance Working Committees (*Articles 9, 10, 11*).

Institutions able to undertake microfinance. The *Microfinance Law* permits a range of legal entities to undertake microfinance activities. These include companies registered under the *Myanmar Companies Act*, co-operatives registered under the *Co-operative Society Act*, associations formed under the *Law Relating to Formation of Associations*, as well as entities established under any other law (*Article 13*). Unlike banks, microfinance institutions can be locally or foreign owned. They can also include banking or non-banking institutions. Although banks are permitted under the *Microfinance Law*, *Directive 2/2011* precludes them from applying for a microfinance license for the time being.

Categories of microfinance institutions (MFIs). Two categories of MFIs are permitted by the *Microfinance Law*, namely non-deposit taking MFIs and deposit taking MFIs. Non-deposit taking MFIs can extend microcredit with funds obtained from sources other than public deposits, but may utilise compulsory savings from members who take microcredit. Deposit taking MFIs can utilise other sources as well as voluntary savings deposits collected only from their clients.

Licensing requirements. Entities wishing to obtain an MFI license must submit a feasibility study to the Microfinance Supervisory Committee, containing amongst others a description of the geographical area in which they propose to operate, a proposal on funding and the sources of such funding, as well as the projected benefits to the clients.

Products. The *Microfinance Law* defines microfinance services broadly to include microcredit, deposits, remittances, insurance, borrowing locally and abroad, and “carrying out other financial activities” (*Article 29*). However, this wide product portfolio is subject to the approval of the Microfinance Supervisory Committee. For the time being, *Directive 2/2011* limits the types of services that can be rendered by MFIs to microcredit and deposits. Microcredit is defined as loans without collateral (*Article 2(c)*). Deposit-taking MFIs are not yet allowed to take deposits from non-loan clients.

Loan caps. *Directive 1/2014* stipulates that the maximum loan amount disbursed by MFIs must not exceed K 500 000 (USD 518).

Minimum capital and interest rates. *Directive 1/2011* of the Microfinance Supervisory Committee defines minimum capital for MFIs as Kyat 50m for non-deposit taking MFIs and Kyat 30m for deposit taking MFIs. Interest rates for microcredit shall not exceed 2.5% per month, or 30% per year. Interest rates on deposits and savings must be above the threshold rate of 1.25% per month or 15% a year.

5.9. Co-operatives

Since 1904, several laws were passed in Myanmar to regulate the activities of co-operatives. The current law is the *Co-operative Society Law* (9/1992). In terms of the *Co-operative Society Law*, the Ministry of Co-operatives has the power to issue rules and regulations governing co-operatives. A set of *Co-operative Society Rules* was issued in 1998.

Levels of co-operatives. The Co-*operatives Society Law* provides for four levels of co-operative societies: a primary co-operative society, a co-operative syndicate (consisting of not less than three primary co-operatives), the union of co-operative syndicates (to be established by the individual syndicates), and the Central Co-operatives Society (CCS). The

CCS is the apex body for all co-operatives and is placed directly under the Ministry of Co-operatives.

Types of co-operatives. The *Co-operative Society Rules* of 1998 provides for four different types of co-operative societies: commodity production co-operatives (which include agricultural co-operatives), service co-operatives (which will include co-operatives providing financial services), trade co-operatives and general co-operatives.

Formation of co-operatives. A primary co-operative can be formed by a minimum of five members eligible to join (*Rule 11*). Once a general meeting has adopted the by-laws for the society, these together with other documents must be submitted to the Co-operatives Department. The co-operative exists as a body corporate able to act in its own name only after being registered by the Co-operative Department (*Article 7* of the *Co-operative Society Law*).

5.10. Pawnshops and money lenders

Pawnshops are categorised into state-owned and private pawnshops. A number of municipal development laws provide for the supervision of pawnshops by municipal authorities but state-owned pawnshops are supervised by the MMSE. The general pawn shop rules govern interest rates charged, lending period, forbidden groups of customers, valuation process, record keeping, safety of collateral, processes related to unredeemed items, inspection by authorities, reporting of suspicious collateral, and even the location for setting up pawnshops.

Moneylenders are reported to be subject to the *Money lenders Act* of 1945. The *Money lenders Act* provides for the licensing of moneylenders by municipal authorities.

5.11. Other legislation

Anti-Money Laundering (AML) Legislation. Myanmar passed the *Control of Money Laundering Law* in 2002 (No. 6/2002). The law defines the crime of money laundering and provides for controls to be implemented by financial institutions. These include KYC (*Article 18*), record keeping and the reporting of suspicious transactions (*Article 19*). The Central Control Board on Money Laundering is established under *Article 6* of the *Control of Money Laundering Law* to lay down policies on anti-money laundering and oversee its implementation.

6. Financial Sector Overview

The financial sector in Myanmar has been growing since the introduction of financial sector reforms in 2008. This period has seen the rapid expansion of infrastructure by regulated financial services providers. However, the growth has been off a small base and does not yet translate into widely available regulated financial providers and products. This section provides a brief overview of the financial sector in Myanmar, as well as the alternative and supporting infrastructure impacting upon its development.

6.1. Financial sector providers

Table 4 below provides an overview of the regulated and unregulated institutions as identified in **Section 5** and the relevant product markets discussed in **Sections 7, 0, 9 and 10.**
.

✔ Regulated financial service

✓ Unregulated financial service

			Infrastructure		Product Markets			
			Institution(s)	Branches	Credit	Payments	Insurance	Savings
Regulated Providers	Banks	Private	15	485	✔	✔		✔
		Semi-private	4	92	✔	✔		✔
		State-owned (excluding MADB)	4	332	✔	✔		✔
		MADB	1	205	✔			✔
	MFIs	NGO	19	19	✔			✔
		INGO	6	163	✔		✓	✔
		Local companies	84	84	✔			✔
		Co-operatives	75	147	✔		✓	✔
		Foreign companies	5	5	✔			✔
	Insurers	State-owned (MIC)	1	39			✔	✔
	Cooperatives	Savings and credit coop society	1 469	1 469	✔		✓	✔
		Bazaar Credit Coop Society	342	342	✔			✔
		Micro-credit Coop Society	457	457	✔			✔
		Agricultural co-operatives	5 222	5 222	✔			✔
	Pawnshops	Regulated Pawnshops registered with local government	1 842	1 842	✔			
		State-owned Pawnshops	184	184	✔			
Unregulated Providers		Rice Specialisation Companies	3		✓			
		Agricultural Input Providers	N/A		✓			
		Unregulated money-lenders	400 000		✓			
		Community-based assistance groups	N/A	N/A			✓	
		Hundis	N/A	N/A		✓		
		Unregulated pawnshops	N/A	N/A	✓			

Table 4: Financial sector overview

Source: MMSE (2013), CCS (2013), FinScope (2013), Supply-side interviews (2013)

Growing private sector banking infrastructure. In total, there are 1 114 bank branches, covering all 14 regions. Private banks house the majority of payments infrastructure. This includes: 855 POS devices, 253 ATMs and 99 300 ATM cards (as at May 2013). The four state-owned banks (to be referred to as State Financial Institutions (SFIs) in this document) have the largest branch outreach of the four categories of banks. MEB has the largest branch network with 329 branches. MADB has the second largest branch network in Myanmar with 206 branches, covering all 14 regions in Myanmar. Despite this significant outreach, the combined infrastructure of the three other categories of banks is 577, larger than the total SFI branches at 537 (see **Table 5**, below).

Although the number of state bank branches has experienced a 1.8% decrease in 2012, commercial bank branches have increased by over 66.3%. The number of new bank branches is set to continue increasing rapidly with the easing of capital requirements for the opening of new branches. In 2012, the number of new bank branch applications had more than tripled from the previous financial year (IMF, 2012). Growth should be sustained and increased with as government plans to remove all capital requirements in the future.

Banking Infrastructure						
Categories	Number of banks	Number of branches	Number of regions covered out of 14	Number of ATMs	Number of POS	Number of ATM cards
State-owned	4	537	14[32]	14	-	-
Semi-private (co-ownership by government)	2	13	5	0	-	-
Private with state representation on board	2	79	11	7	-	20 000
Private	15[33]	485	14[34]	253	855	99 300
Total	23	1 114	14	274	855	119 300

Table 5: Banking Infrastructure

Source: Supply-side interviews (2013), CBM Annual report (2012)

The limited reach of regulated financial sector infrastructure is disproportionately concentrated in urban areas. While commercial bank branches appear to have the largest retail footprint for the traditional “brick- and -mortar approach”, their concentration in urban areas means that the majority of the population lacks access. **Figure 18** shows that 65% of urban adults live within 30 minutes of a bank branch, compared to 12% of rural adults. The trend is consistent for ATMs where 23% of urban adults report living within 30 minutes of a bank branch, compared to 2% or rural adults. This could be even less if it solely included private banks and not SFIs, as they lack the outreach of institutions like MADB into rural areas.

[32] Information is based on MEB and MADB. Branch distribution for other three state banks was not available
[33] May equal 17 including Rural Development Bank (former Development Bank) and Nay Pyi Daw Development Bank
[34] Information is based on 13 of the 15 banks

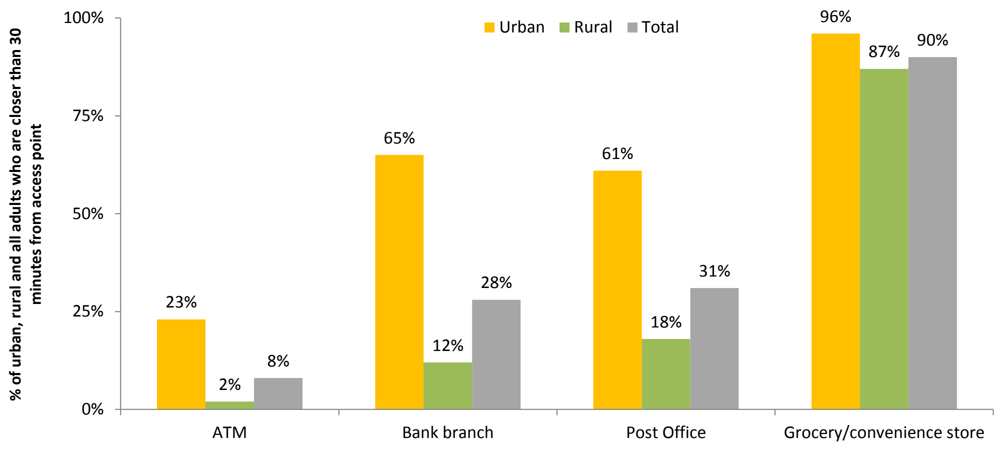


Figure 18: Percentage of adults that live within 30 minutes of access point.

Source: Myanmar FinScope 2013

Large unregulated financial infrastructure footprint to explore. The limited reach of regulated financial infrastructure in Myanmar has resulted in a large dependence on unregulated and often informal infrastructure to meet risk mitigation needs, especially amongst the rural population. As noted in **Section 5.3,** and depicted in **Table 4**, unregulated financial sector infrastructure includes rice specialisation companies, agricultural input providers, unregulated money-lenders, community-based assistance groups, *hundis* and unregulated pawnshops.

6.2. Alternative distribution opportunities

Potential use of alternative infrastructure for the delivery of financial services. While the exact number of retailers is not known, FinScope revealed that nearly 90% of the adult population in Myanmar lives within 30 minutes of a grocery or convenience store. FinScope revealed the practice of taking goods in advance from a store and paying later is already common[35]. Retailers as a group could therefore potentially constitute a substantial existing infrastructure base that is being (and can further be) utilised for the provision of financial services. However, their potential as a distribution channel is limited. There are no significant retail chains in Myanmar, despite numerous independent and small retailers. There are no formal links between outlets and no underlying payment infrastructure to facilitate transactions. **Figure 18** compares the alternative infrastructure identified in Myanmar with traditional financial sector infrastructure. Post offices have the third largest branch footprint after co-operatives and pawnshops, but FinScope reveals that this is largely concentrated in urban areas with only 18% of rural adults living within 30 minutes of one. In addition, only a portion is currently operational for financial services. Money orders can be made at 791 out of 1380 branches.

Box 3 below identifies opportunities to leverage traditional stores for financial services

Box 3: Opportunities to leverage traditional stores for financial services

Improvements in mobile telecommunication infrastructure and the development of lower

[35] With almost 3.5 million adults having taken goods on credit or in advance from a shop or store in the past 12 months.

cost point-of-sales (POS) devices has allowed financial services providers to extend their financial services offering, at lower cost and in real-time, through traditional stores and street vendors. These agent networks have been created across Latin America, Africa and Asia and are primarily driven by Fast Moving Consumer Good (FMCG) companies, banks, technology providers, Mobile Network Operators (MNO) and in some cases Pawnshops. These agent networks connect thousands of smaller retailers, who currently fall outside of the reach of the traditional payment system, and allow these traders to act as agents to financial services providers. Typical transactions facilitate by these agents include bill payments, deposits, withdrawals, insurance sales, government grant disbursements, money transfers etc. Examples of such networks include REDqiubo (Mexico), DDDEdo (Colombia), FLASH (South Africa), Zoona (Zambia) and MPesa (Kenya).

Mobile network growth opportunity for financial inclusion. Mobile phone penetration has grown rapidly but from a very small base. As of 2014, mobile phone subscribers had grown to 16.4 million mobile subscribers which puts mobile phone penetration amongst adults at 27% (Eleven, 2014). The introduction of two foreign mobile network operators, Norway's Telenor and Qatar's Ooredoo, will contribute to achieving the country's target of 80% penetration by 2016 (Thomas, 2013). Parliament officially passed the new telecommunications law on 21 October 2013, however the detailed regulation that will guide the governance of sector is not expected for another three months (Mathtani, 2013). Both operators are expected to start delivery of services in the third quarter of 2014 (Thomas, 2013).

Both providers intend to launch voice and data services simultaneously through a 3G network. In addition, both have indicated their intent to push low cost smartphones through their distribution channels rather than focusing primarily on lower cost handsets. The improvement of data services will provide opportunities for banks and MFIs alike to improve communication between branches and agencies. In addition, the rapid introduction of smartphones may offer an opportunity for innovative financial service providers to circumvent the need for the mobile network operators' USSD channels that have traditionally been used for mobile banking and instead develop applications that work over the broadband connection directly.

Both of the new MNOs have some experience in the provision of mobile financial services and both have committed in writing to the government to introduce mobile money service in the country.[36] Telenor group (2014) has extensive experience in the delivery of mobile financial services through mobile platforms with partnerships and initiatives in Pakistan (Easypaisa), Bangladesh (MobiCash), Thailand (ATM SIM Project), Malaysia (DiGi SendMoney, DiGi Simple Prepaid Card, and DiGi Insurance), India (purchase of movie tickets) and Eastern Europe (Platimo). Ooredoo has experience through its Ooredoo Mobile Money initiative although it is quite limited. If mobile penetration targets can be coupled with the delivery of financial services through mobile networks, it could have significant implications for financial inclusion in Myanmar.

[36] A further description of their plans is included in **Section 9.3**.

6.3. Supporting financial sector infrastructure

Limited supporting financial sector infrastructure. The delivery of financial services through the existing financial or alternative infrastructure is limited by the enabling supporting infrastructure. Myanmar authorities are moving towards building supporting infrastructure, evidenced by the development of a national payments network and other planned initiatives:

- **Credit bureau:** Myanmar currently has no credit bureau, which means that there is no formal mechanism to establish indebtedness of credit applicants. Plans are however underway for the establishment of a credit bureau by CBM with assistance of Credit Bureau Singapore (The Irrawadyy, 2014a).
- **Payments systems:** Payments infrastructure is still underdeveloped (current POS devices have a 90% down time) but it is slowly being redressed, mainly through efforts by the Myanmar Payment Union (MPU) and CBM. Recent developments include a national switch that started operating in December 2012 (operated by MPU), and POS devices have been in operation since March 2013. All banks required to join the switch. In the near future, a private payments processor will be appointed and a Real Time Gross Settlement (RTGS) system will also be operated by the CBM to replace the current manual payments clearing system. Moreover, Association of Southeast Asia Nations (ASEAN) aims to achieve financial integration by 2015 (ADB, 2013) and this would also require Myanmar's integration into the ASEAN Payment and Settlement System.
- **Capital market:** There is currently no formalised capital market in Myanmar, and businesses rely solely on banks to raise capital (in the form of debt). The new *Securities and Exchange Law* that was passed in July 2013 allows for the establishment of the Yangon Stock Exchange, which is expected to be operational by the second half of 2015 (The Irrawaddy, 2014b).
- **Foreign exchange market:** Although Myanmar has a regulated foreign exchange market, it is still in the early stages of development. Fourteen private banks were licensed to become authorised dealers of the US dollar, Euro and Singapore dollar in October 2011 (Global Times, 2013). In April 2012, Myanmar converted to a managed float exchange regime after having a dual exchange rate regime for decades and efforts are underway to further liberalise to a free floating exchange regime. Despite the developments, industry consultations revealed that accounting for the amount of foreign currency in the country and any time is still problematic. The exchange rate has only recently been converted (April 2012) to a managed float exchange regime after having had a dual exchange rate regime for decades, but efforts are underway to further liberalise to a free floating system. Fourteen private banks were licensed to become authorised dealers of the US dollar, Euro and Singapore dollar in October 2011 (Global times, 2013). However, during industry consultations it also became apparent that accounting for the amount of foreign currency in the country at any time is still problematic.

7. Market for Credit

The following section aims to capture the market for credit in totality and as it relates to the priority target groups as identified in **Section 4.2**. This includes providing an overview of current take-up, the providers of credit and a detailed description of the products that they offer. This section also provides the key challenges the credit market faces in further expanding provision to the identified target groups.

7.1. Credit landscape and take-up

Credit market the largest of all financial services categories with more than half of the adult population reporting to be active borrowers. A total of 20.7 million, or 52%, of adults in Myanmar have borrowed money in the last 12 months, while 48% of adults reported to have outstanding debt at the time of the survey. A total of 19% of adults currently have credit from regulated institutions, 18% have credit from unregulated institutions only and 11% have loans from family and friends only (see **Box 2** for an explanation of the access strand). It was found that 5% of adults, or just over 2 million adults, reported to have credit from both regulated and unregulated sources. Individuals who have credit from unregulated sources are more likely to have additional credit from friends and family than those who obtain credit from regulated sources.

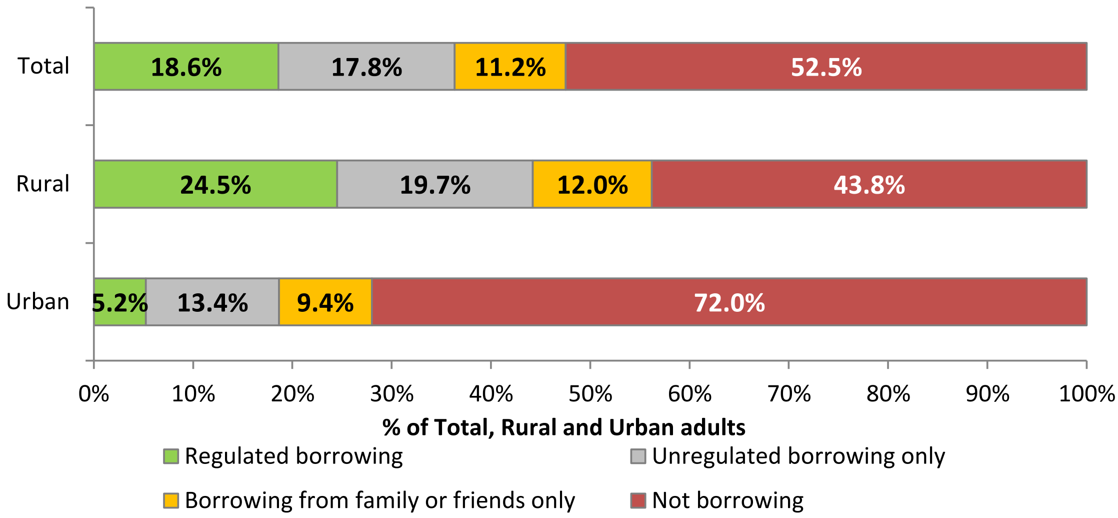


Figure 19: Credit usage by source of provision

Source: FinScope 2013

Rural credit market, as measured by loan clients, is the largest in both absolute and relative terms. The rural credit market is larger than the urban market both in terms of absolute and relative number of loan clients. This is due to a larger rural population as well as higher percentage of rural residents obtaining credit. As depicted in **Figure 19**, above, 44% of rural adults have outstanding debt from either a regulated or unregulated financial services provider. This is significantly higher than urban areas where only 19% of adults currently have credit from regulated or unregulated institutions.

Credit from regulated institutions more constrained in urban areas. Penetration of credit from regulated providers is lower in urban areas (5%) than in rural areas (25%). This trend holds when evaluating take-up across each of the target group, with regulated take-up being higher for target groups which are more rural.

Average outstanding debt higher in urban areas. While rural areas have higher take-up of credit (from any source) measured by the number of debtors, urban debtors have higher average debt stock. As depicted in **Figure 20** below, the average debt of urban debtors is 1.8 times that of rural debtors. The average outstanding debt of those who currently have a loan in urban areas is K 853 346 (USD 902) compared to K 482 295 (USD 510) in rural areas.

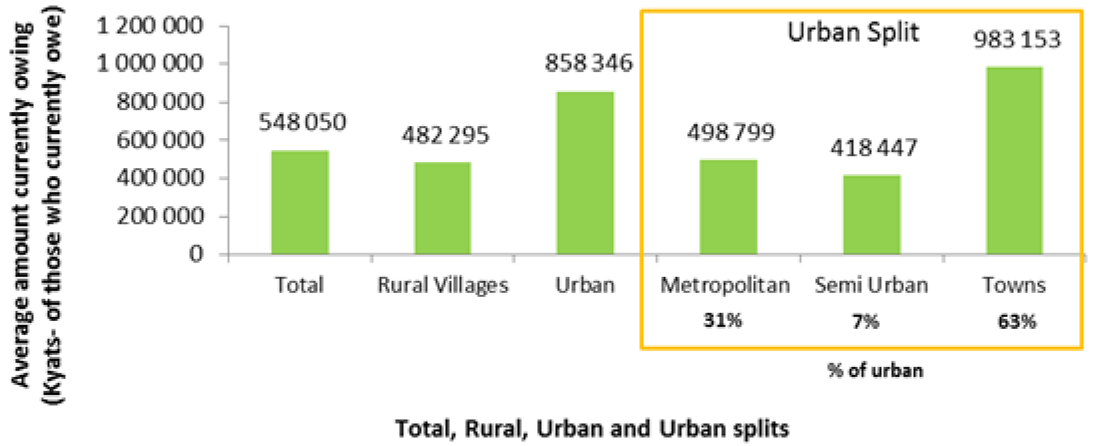


Figure 20: Average amount outstanding for all adults who currently owe money (from any source)

Source: FinScope 2013

Significant variation in take-up of credit by target groups. There is a significant variation between the take-up and sources of credit between the target groups as were identified in **Section 4.2**. **Table 6**, below, provides take-up figures of each of the target groups as well as the total debt outstanding by the debtors within each of these categories. The main points relevant to the analysis are:

- Famers have the highest take-up of regulated credit (37% have regulated credit). There are however a significant number who only access credit from unregulated sources (14%) and a large number of farmers (1.37 million or 11%) who make use of credit from both regulated and unregulated providers.
- The groups with the lowest take-up of credit are the Formal enterprises group (74% report not to have credit from any sources) followed by the Formal consumer market group (67% report not to have credit).
- The groups with the highest use of credit from only unregulated sources are the Informal consumer market group (27%) and Informal enterprises group (21%).
- Formal enterprises had the highest average outstanding debt (of USD 1 331) for those who reported to have debt. This was followed by Informal enterprises (with USD 829) and farmers (USD 678). The Formal and Informal consumer markets represented the lowest average outstanding debt for debtors of USD 320 and USD 280 respectively.

Target group	Economic groups	Average outstanding debt of debtors	Regulated	Unregulated (only)	Family & Friends (only)	Excluded
Farmers 12m adults	Farmers	K 641 234 (USD 678)	37%	14%	11%	38%
Formal enterprises 2.5m adults	Formal enterprises	K 1 259 174 (USD 1 331)	4%	12%	10%	74%
Informal enterprises 4.7m adults	Informal enterprises	K 784 563 (USD 829)	11%	21%	11%	58%
Formal consumer market 1.7 m adults	Employees of formal private companies and Government employees	K 303 021 (USD 320)	11%	15%	6%	67%
Informal consumer market 8.5m adults	Farm workers, Salaried private individuals, Piece and casual workers, Remittance dependents	K 264 717 (USD 280)	9%	27%	14%	50%

Table 6: Usage of credit by target group

Source: FinScope 2013

Use of multiple sources of credit more pervasive in rural areas than urban. The absolute number and relative percentage of active borrowers with multiple outstanding loans was higher in rural areas than urban. Of adults in rural areas, 12% obtain loans from more than one source compared to 4% in urban areas. Of the total group of adults, 2% reported having outstanding debt from three sources and 1% of adults reported to have outstanding debt from four to six sources (see **Figure 21** below).

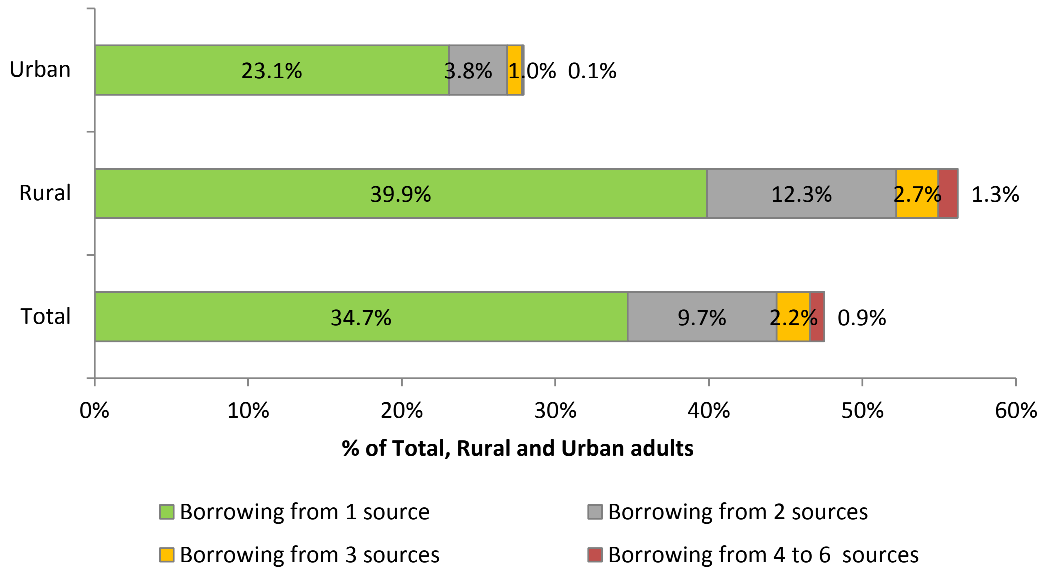


Figure 21: Number of sources for borrowing

Source: FinScope 2013

7.2. Use cases

Credit is used for multiple purposes. The most important of these use cases were identified during the qualitative demand-side research, the quantitative segmentation exercise (see **Section 4.2**) and the supply-side interviews. Brief summaries of these use cases follow:

Use of credit for agricultural production. Myanmar's agricultural production is to a large extent dependent on credit to fund inputs and to smooth consumption between harvests. Farmers represent the largest target segment for credit with 12.1 million adults, representing 4.1 million households, deriving their main livelihood from agricultural activities. Of these 12.1 million adults, only 37% report to have credit from a regulated provider and 14% make use of only unregulated providers for credit. It was found that 38% of farmers (4.6 million adults) do not use credit and 11% have to rely on credit from friends and family (see **Section 4.2**). These farmers are often in remote areas with limited choice between credit providers and products. Specific uses of agricultural financing include financing inputs (seed, fertilizer, etc.), pre-funding of outputs and financing equipment.

Asset and trade financing for enterprises. FinScope indicated that 6% of the adult population (or 2.4 million adults) obtain credit for the purposes of starting or expanding their enterprises. The segmentation in **Section 4.2** indicates that 2.5 million adults own their own registered enterprise while a further 4.7 million indicated that they operate an unregistered enterprise. The current usage of credit for both types of enterprises is low (see **Table 6** above) with 74% of Formal enterprises and 58% of Informal not having any form of credit take-up. The traders interviewed as part of the qualitative demand-side research (see **Box 1** on page 2) expressed supply-side constraints as the main driver to low credit take-up. The main sources for loans for small-scale enterprises are bazaar co-operatives, MFIs, pawnshops and unregulated money lenders. They are often repaid within 24 hours. Previous government initiatives have focused on making funding available to an estimated 126 000 Small and Medium enterprises and 40 000 microenterprises through SMIDB, but so far success has been limited.

The use of loans for consumption smoothing. The qualitative-demand side research and FinScope identified consumption as the largest driver of borrowing. A total of 10.4 million, or 26% of adults (half of those who borrowed during the past 12 months), reported obtaining loans for the purposes of funding living expenses (other than medical and/or education expenses). Consumption smoothing loans speak specifically to individuals with irregular or seasonal incomes such as famers (12.1 million), informal traders (4.7 million) and the informal consumption credit market (7.4 million). At present the majority of consumption lending happens through unregulated lenders (see **Section 7.3**). In addition, qualitative respondents further suggest that productive loans are fully or partially used to smooth consumption. Qualitative findings further suggest that inactivity during the rainy season results in increased borrowing for consumption purposes (such as food). One agricultural specialisation company also offered a consumption component to its agricultural production loan.

The use of loans for health or education expenses. Focus group respondents reported the use of loans to finance health (out-of-pocket expenses) and education. This is confirmed by FinScope where 13% of adults (5.2 million) reported obtaining credit for planned and unplanned medical expenses, and 7% of adults (2.9 million) obtained credit for education and school fees. With regards to loans for health events, respondents indicated that these were predominantly obtained from pawnshops followed by relatives or money lenders. Health and education loans are offered by some co-operative MFIs and INGOs and NGOs. However, one usually has to be an active member, e.g., they have a business loan with the institution, in order to qualify for these loans, although some INGOs (for instance World Vision) do offer these loans without requiring an existing business loan.

Credit for risk management. **Section 7** shows a substantial portion of adults using credit as a means to manage risk events. Overall, 44% (13.3 million) of adults who experienced an unexpected event that affected their income borrowed as a response in order to cope financially. The use of credit for risk management could be more pronounced due to the absence of insurance.

The use of credit for on-lending. Some focus group participants indicated that they obtained debt to on-lend at higher interest rates so as to profit off the interest rate differential.

Use of credit to repay other loans. Although only 2.3% of adults who currently owe money (417 000) indicated that they borrowed in order to pay off another debt, 10.8% (2 million) indicated that they are planning to repay their current debt by taking a new loan. The use of credit to repay existing credit was also raised as a concern during some supply-side interviews and in certain existing studies[37] on agriculture in Myanmar.

7.3. Providers

7.3.1. Overview of credit landscape

Before proceeding to discuss the individual categories of credit providers, we consider the landscape of credit providers in an overview. As noted in **Section 7.1** above, 48% of adults

[37] Ash Centre for Democratic Governance and Innovation, Harvard Kennedy School (2011). *Myanmar Agriculture in 2011: Old Problems and New Challenges.* [Online] Available at: http://www.ash.harvard.edu/extension/ash/docs/myanmar1111.pdf

reported to have outstanding debt at the time of the FinScope survey. This represents 18.9 million adults. Of these, 94% disclosed the value of their outstanding debt, and have an average reported outstanding debt of K 548 050 (USD 579). This allows us to extrapolate the total value of outstanding debt for all adults who are indebted in Myanmar to approximately K 10.3 trillion (USD 10.9 billion).

For the purposes of the supply side credit landscape illustrated in **Figure 22** below, we rely on supply side data (and estimates based on supply side data), as these are generally considered more exact than FinScope data, which is only a demand side reflection of uptake. However, as we do not have any supply side data for unregulated providers (unregulated credit), we rely on FinScope for an estimate of the size of the unregulated credit market in terms of number of borrowers and the size of the outstanding loan book.

FinScope reported that 9.2 million adults have outstanding loans with unregulated credit providers. The total value of these adult's outstanding loans are K 5.4 trillion[38] (USD 5.7 billion). There are however adults who have outstanding debt with both regulated and unregulated institutions. The total value of their debt amounts to K 1.9 trillion (USD 2 billion). The nature of debt reporting does not allow one to separate the value of regulated and unregulated loans for adults who report obtaining credit from both sources. The total unregulated usage therefore lies between the ranges of K 3.6 trillion (USD 3.8 billion) and K 5.4 trillion (USD 5.7 billion; see **Table 7** below). Unregulated lending consists of two groups: those who have loans from unregulated money lenders (5.9 million adults), and those who have loans from other unregulated providers (4.3 million adults), with the adults who borrow from these two groups of providers overlapping. The value of the outstanding loans of these two groups can be estimated by using the average outstanding debt of those who only have a loan from a moneylender or those who only have a loan from another unregulated provider and extrapolating this to the entire group in both instances. The extrapolated outstanding loan values for these two groups are K 3.7 trillion (USD 3.9 billion) and K 1.7 trillion (USD 1.8 billion; see **Table 7** below).

	Number of adults	Minimum total outstanding loans	Maximum total outstanding loans
Total unregulated borrowing	9.2 million	K 3.6 trillion (USD 3.8 billion)	K 5.4 trillion (USD 5.7 billion)
Total moneylenders	5.9 million	K 2 trillion (USD 2.1 billion)	K 3.7 trillion (USD 3.9 billion)
Total other unregulated	4.3 million	K 1.1 trillion (USD 1.2 billion)	K 1.7 trillion (USD 1.8 billion)

Table 7: Number of adults and estimated outstanding loan book of unregulated loan providers

Source: FinScope 2013 and author's calculations

If we include these two estimates (unregulated money lenders and other unregulated providers) with our supply side data on regulated providers, the following estimate of the overall credit market in Myanmar (regulated and unregulated providers) emerge:

[38] Please note: This value is extrapolated based on 94% of adults who borrowed from unregulated sources who disclosed their total outstanding debt. Similarly, all further estimates rely on extrapolations based on adults who disclosed the value of their outstanding debt. The percentage of adults who disclosed their debt varies between 92% and 95% for all extrapolations used.

Provider	Client base as % of adults who currently owe money	Total loans outstanding
Commercial banks	0.3%	39.8%
Unregulated money lenders	31.0%	36.0%
Other unregulated providers	22.9%	16.1%
Pawnshops	16.4%	4.0%
MADB	8.4%	1.9%
Unregulated agricultural input providers	7.9%	0.7%
Co-operatives	4.4%	0.6%
MFIs	3.7%	0.8%
RCSs	0.1%	0.1%
Total	**18 907 935 adults**	**K 10.3 trillion**

Table 8: Overview of the credit provision landscape in Myanmar (regulated and unregulated)[39]

Source: Supply side data, FinScope 2013, author's calculations

Using this data, the credit landscape in Myanmar can then be illustrated as shown **Figure 22** below:

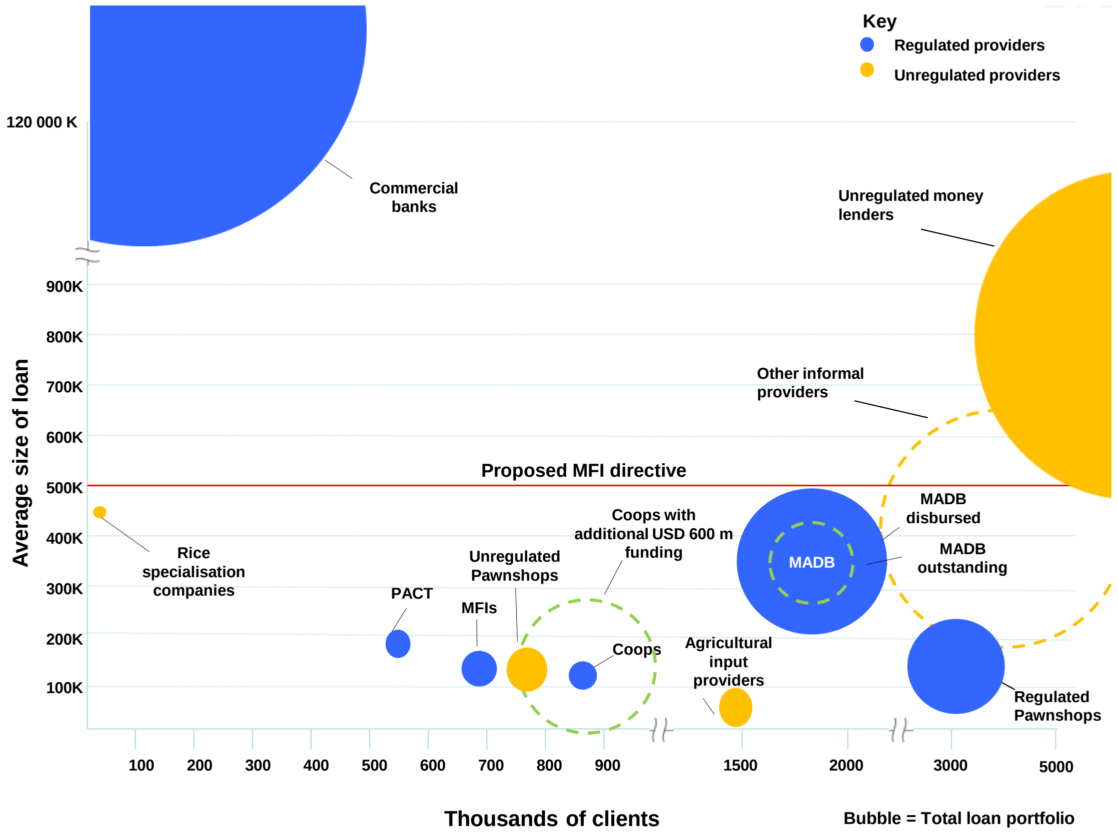


Figure 22: Credit provision landscape (loans outstanding).

[39] Estimates based on supply side data for regulated providers and FinScope data for unregulated providers. Client numbers does not account for overlaps (credit clients using more than 1 source for credit), and total adults who currently owe money as identified by FinScope is used as base for percentage of adults.

Source: Author/Supply side consultations

Commercial banks largest provider by volume. Commercial banks are the largest credit providers in terms of volume of loans outstanding, but one of the smallest in terms of number of clients with estimates of only about 60 000 credit clients[40], a large proportion of which may be commercial clients, not retail (see **Section 7.3.2** below). The average loan of commercial banks are extremely high (around 1000 times higher than most other categories of providers), but some loan products (e.g. hire purchase) start at low values.

Unregulated money lenders comparable to commercial banks in terms of loan volume. As described above, unregulated money lenders are estimated to have in excess of 5.9 million clients with an outstanding loan volume as high as K3.7 trillion (USD 3.9 billion). This means that money lenders as a group are comparable to the commercial banking sector in terms of the size of their total outstanding loan volumes.

Pawnshops have large combined client pool and loan book. Pawnshops are estimated to be one of the largest categories of providers in terms of both number of clients and loan volumes, but provide no net additional funding (only offers value of gold). The gold held by pawnshops cannot be leveraged or intermediated through the rest of the financial system.

MADB largest single regulated provider by number of clients and largest single regulated provider in low income space by loan volume. Although pawnshops as a group have more clients, MADB is the single largest regulated provider in terms of number of clients and is the largest individual regulated provider by loan book value. More details on MADB follow in **Section 7.3.3**.

Agricultural input providers offer small loans to a large number of farmers. The figure shown is estimated based on one input provider interviewed. Data for other input providers was not available and the total for this segment is therefore likely to substantially exceed this estimate.

Most average loan sizes below proposed cap, but many loan ranges exceed cap. Average loans sizes reported in supply-side data mostly fall under K 500 000 (USD 529), the proposed cap for MFI loan size, although many categories of providers have loan ranges exceeding K 500 000. For instance, some MFIs reported that their larger loans currently exceed K 500 000 and that some loans can extend to as high as K 1.5 (USD 1 586) to K 1.7 million (USD 1 797), although very few do. These are mostly clients that have started with smaller loans and have graduated to this level. With the increased loan size per acre, MADB paddy loans now extend up to K 1.2 million (USD 1 268), or K 120 000 (USD 127) per acre for up to 10 acres. **Table 6** above (page 56) also shows that the average outstanding loan sizes of some economic groups[41] exceed K 500 000[42] (Farmers: K 641 000/USD 678 and Informal enterprises: K 785 000/USD 830). The average loan size reported in FinScope for those who only have a loan from an unregulated money lender also exceed K500 000 at K 635 000 (USD 671). Regulated providers will, therefore, have difficulties competing with the unregulated providers due to the regulatory cap of K 500 000. This will encumber the absorption of the unregulated credit market into the regulated credit market.

[40] Based on actual data for 10 banks (43 550) and estimate for 9 missing banks (using average number of credit clients for 7 smallest banks)
[41] Average loan size of adults in economic group who currently owe money, not of all adults in economic group.
[42] Disbursed loans likely to exceed K500k for other categories where current outstanding loans are below K500k.

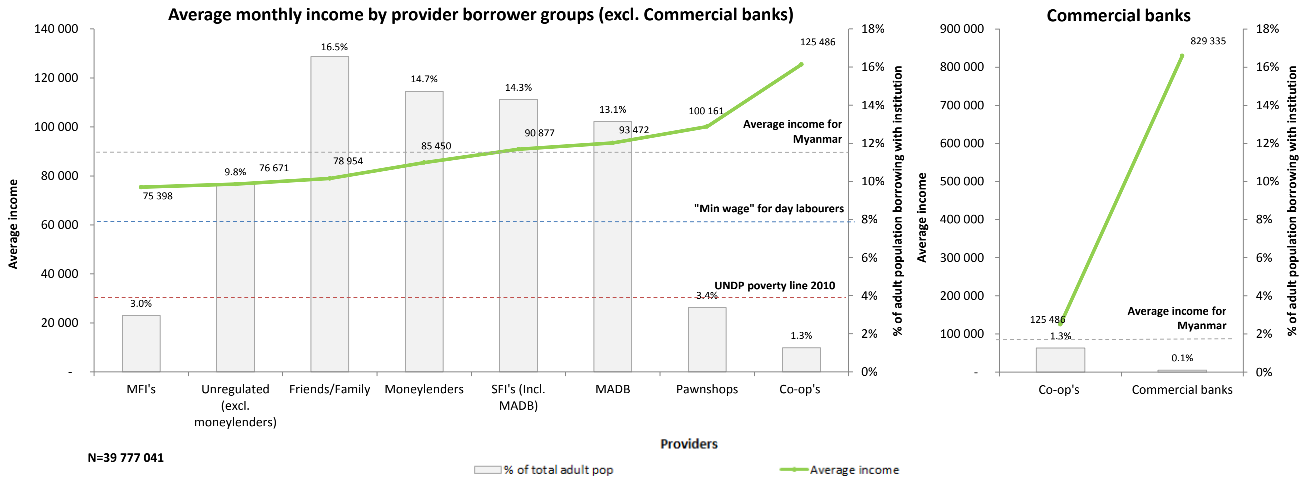


Figure 23: Take-up by institutions ordered by average income of clients

Source: FinScope 2013

Commercial banks predominantly provide credit at very high end of income. **Figure 23** shows the average income of borrowers borrowing with different types of credit providers. Commercial banks serve a very small group of credit clients, but the average income of this group is far above any other group of credit clients (K 829 335 or 8.9 times the average income of Myanmar). Co-operatives serve a higher than average income group while MADB and unregulated money lenders on average have credit clients whose income is comparable to the total adult population (they also serve the biggest clients groups at 15% and 13% of the adult population). MFI's on average has the lowest income credit clients with an average monthly income of K 75 398 (USD 80). **Figure 24** below illustrates the overlaps between borrowers from different providers.

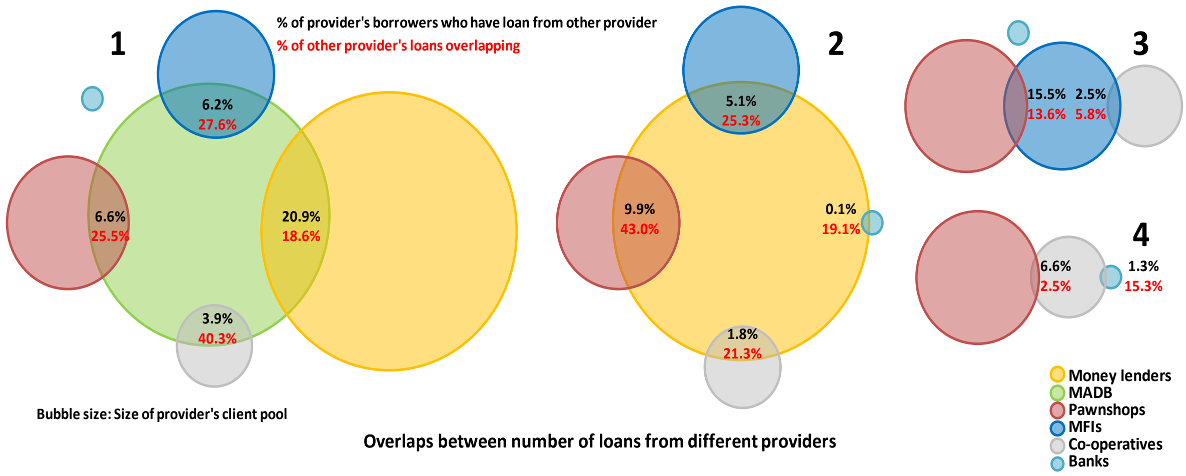


Figure 24: Overlaps between different categories of credit providers.

Source: FinScope 2013

Limited overlap between clients of commercial banks and other lenders. There is very little (to no) overlap between commercial bank borrowers and all other borrowers (except with money lenders and co-operatives). There is also very little overlap between those who have MFI loans, pawnshop or co-operative loans (illustration 3 and 4 in **Figure 24**). However, there are significant overlaps between adults who have a loan from a money lender, a pawnshop, an MFI or a co-operative and adults who have a loan from MADB (illustration 1 in **Figure 24**). Between 19% and 40% of those who have money lender loans, pawn shop loans, MFI loans or co-operative loans also have a loan from MADB. Similarly, there are significant overlaps between those who have money lender loans and those who have either a commercial bank loan, co-operative loans, MFI loans and pawnshop loans, with between 19% and 43% of individuals who have one of these loans also having a money lender loan (illustration 2 in **Figure 24**).

Regulatory cap on interest charges and high cost of unregulated credit. The cost of credit is strictly regulated in the formal sector. State financial institutions, such as MADB, charge up to 8.5% and commercial banks are regulated to a maximum of 13% (but it is common practice to also charge a 1% administration charge). MFIs are limited to 2.5% per month, or a nominal rate of 30% per annum. Co-operatives charge the same rate (30%). The unregulated sector, however, charges significantly higher rates. Regulated (by local authorities) pawn shops charge in the order of 36%, whilst unregulated pawn shops charge about 60%. The rates for unregulated money lenders vary, but if converted to an annual interest rate it would vary somewhere between 120% and 240%. The credit market therefore consists of four broad cost segments:

- Under 15% - where the only providers are the MADB (and the SMIDB) and commercial banks;
- Between 15% and approximately 36% - where regulated institutions - MFIs and regulated pawn shops - are permitted to operate at a concessionary rate;
- Below 60% where unregulated pawn shops operate within a "reasonable" rate due to the security which they hold;
- Above 60% where the purely unregulated and un-collateralised unregulated money lenders operate

Table 9 below shows the interest rate bands that different institutional categories charge on their credit products.

Institutional category	Nominal Interest rate per annum
State Financial Institutions	4 -8.5%
Banks	8.5-13%
MFIs	30%
Co-operatives	30%
Rice Specialised Companies	24%
Regulated Pawn shops	36%
Unregulated Pawn shops	60%
Unregulated money lenders	120% +

Table 9: Interest rates charged by institutional category

Source: Supply side consultations

7.3.2. Commercial banks

Small number of domestic state and commercial bank players. As at May 2013, Myanmar has a total of 24 local banks and 16 foreign bank representative offices (although the foreign offices have increased to almost 30 by March 2014). Four are purely state-owned[43], two are considered semi-private[44] (as they are co-owned by the government), two are private with government representation on their boards[45] and sixteen are purely private banks. All local banks except the four state-owned banks are considered as commercial banks in the remainder of the document. Despite there being 16 foreign bank representative offices, there are currently no foreign bank branches offering financial services in Myanmar. However, joint ventures between local banks and some foreign banks may be permitted next year.

Myanmar's banking sector is concentrated. In 2012 the market share of the three largest banks[46] constituted 60% of total net assets, 40% of the total paid-up-capital, 63% of total loans and 63% of total deposits (CBM 2012). Similarly, the five largest[47] banks constituted 73% of total net assets, 55% of the total paid-up-capital, 74% of total loans and 77% of total deposits (CBM, 2011-12).

Commercial banks are the biggest providers of regulated credit. As at March 2013, commercial banks extended loans to the value of K 4 118 billion[48] (USD 4.4 million), which constituted 78.5% of the estimated total regulated sector credit (see **Table 10** below) and 87.8% of total banking sector credit .

Regulated providers	Total loans outstanding (K billions)	% of total
Private banks	4 118	78.5%
SFIs	570[49]	10.9%
Pawnshops	412	7.9%
MFIs	86	1.6%
Co-operatives (non-MFI only)	58[50]	1.1%
Total regulated credit	**5 244**	**100%**

Table 10: Total loans outstanding by institution.

Source: Supply side interviews and authors' estimates

[43] Myanma Economic Bank, Myanma Agriculture and Development Bank (MADB), Myanmar Investment and Commercial Bank (MICB), Myanmar Foreign Trade Bank.
[44] Myanmar Citizens Bank and Yangon City Bank Ltd.
[45] Small and Medium Industry Development Bank (SMIDB), Myanmar Livestock and Fisheries Development Bank Ltd (MLFDB, soon to be Treasure Bank).
[46] Kanbawza, Myawaddy, Co-operative Bank
[47] Kanbawza, Myawaddy, Co-operative Bank, Myanmar Livestock and Fishery Development Bank and Myanmar Apex bank
[48] Estimated value. Based on actual data for 13 banks plus estimate for 6 missing banks (using average loan book for 10 smallest banks)
[49] This figure was calculated using the total loans outstanding for SFIs (excl. MADB) from the CBM 2012 annual report (K 377 billion) and adding MADB's reported loans outstanding amount for 2013 (K 193 billion)
[50] Excludes MFI co-operatives

Total banking sector (commercial and SFIs- excl. MADB)	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
GDP (K billions) IMF data	23 336	28 778	32 351	36 436	39 805	44 621
Bank assets as % of GDP	8%	9%	12%	17%	21%	n/a
Bank credit as % of GDP	3%	3%	3%	5%	8%	n/a
Bank deposits as % of GDP	7%	8%	10%	13%	17%	n/a
Loans / deposits	49%	40%	36%	39%	46%	n/a
Loans / assets	40%	32%	29%	32%	38%	n/a
Cash/assets	44%	42%	38%	38%	29%	n/a
Government securities/assets	9%	18%	24%	21%	24%	n/a

Table 11: Selected performance indicators for total banking sector (Private banks and SFIs but excluding MADB).

Source: CBM Annual Report (2012)

Bank credit extension growing rapidly. The 2012 CBM annual report shows that bank deposits (including SFIs but excluding MADB[51]) grew by between 38% and 55% per year between 2009 and 2012 while loans grew between 12.2% and 70.5% per year over the same period (**Figure 25** below). **Table 11** above also shows that the banking sector grew relative to the rest of the economy with banking assets growing from 8% of GDP in 2008 to 21% in 2012. Given that commercial banks make up almost 90% of the total banking sector loan portfolio, the bulk of loan growth should have been driven by commercial banks. Growth in 2013 remained high, with the combined loan book of the largest three banks growing by 35.6%, although individual bank loan books showed substantial variation (see **Table 13** below)[52]. The change in the growth trajectory of bank loans between 2010 and 2011 has largely been the result of a release of regulatory constraints (see **Section 5** for details on these regulatory changes).

Commercial banks lending out larger proportion of deposits and holding large proportion of assets in loans. **Table 11** above show the loans to deposit ratio for the total banking sector (excluding MADB) decreasing from 49% to 46% while loans as a proportion of assets decreased initially but then returned to 38%. This would suggest that there is still some excess liquidity that could be intermediated into loans. The balance of assets is likely to be held in government bonds. This result is, however, skewed by the SFIs (particularly MEB as discussed below). Considering the ratios private banks only, the loan to deposit ratio was 67% and loans made up 57% of assets as at March 2012. These ratios would have increased over the last year given the expansion of the loan portfolio. Commercial banks are, therefore, reaching the limits of their funding and this has been driving the expansion of deposit-taking. **Table 12** also shows that private banks are generating a substantial portion of their income from non-interest revenue. Based on our consultations with banks, fees generated from general transaction fees are still limited but fees on transfers were noted as a substantial component of revenue.

[51] MADB is excluded in data reported in CBM Annual Report.
[52] Based on our estimate of total commercial bank credit for 2013, growth in total commercial bank credit was 43% between 2012 (CBM data) and 2013.

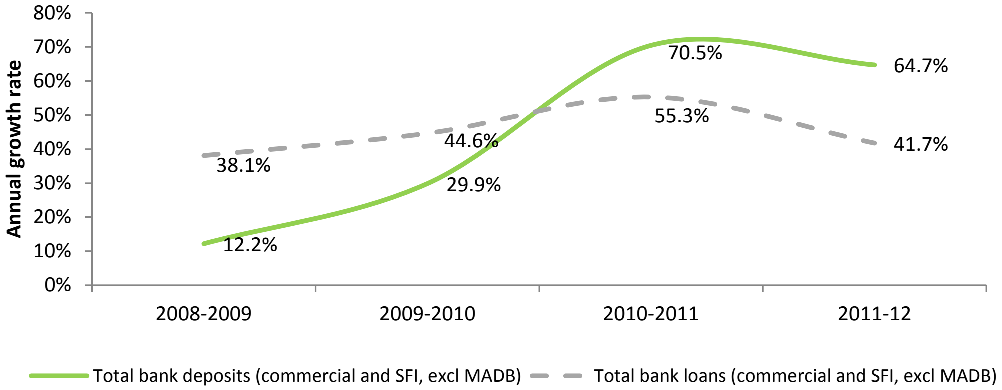


Figure 25: Total banking sector (excl. MADB) loan and deposit growth 2009 to 2012.

Source: CBM, 2012

Commercial banks	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
Operational cost ratio	52%	49%	45%	42%	41%	n/a
Net interest income as % of total income	53%	54%	49%	53%	61%	n/a

Table 12: Selected performance ratios for private commercial banks

Source: CBM Annual Report (2012)

3 largest private banks	Growth in loans	Growth in deposits
KBZ	55.9%	46.8%
MWD	10.5%	17.9%
CB	7.7%	46.6%
Average for combined book of 3 largest banks	**35.6%**	**40.2%**

Table 13: Growth in the volume of loans and deposits of 3 largest private banks (2012 to 2013).

Source: Supply side data received from banks; CBM, 2012: Table 3.1

Commercial bank credit quality of concern. The 2011/12 CBM Annual Report notes concerns over bank loan performance stating that the "huge non-performing loan portfolio has been the major predicament of banks". The current regulatory framework requires banks to report loans as sub-standard, doubtful or bad when principle or interest payments are overdue by 1-12 months, 12-24 months or more than 24 months respectively (CBM, 2012: p17). Given the short-term nature of loans, this will result in a substantial understatement of bad debt.

Private banks provide large loans to a small number of clients. Commercial banks are estimated to only have about 60 000 credit clients[53] with an average outstanding loan per credit client of around K 70 million[54] (USD 73 996). Details available for some of the banks suggest that average loans vary substantially with a number of banks reporting average

[53] Based on actual data for 10 banks (43 550) and estimate for 9 missing banks (using average number of credit clients for 7 smallest banks)

[54] Based on estimated total loans outstanding for all commercial banks. Actual data for both loan book outstanding and credit clients exist for only 10 banks, which have a combined average outstanding loan per credit client of K 75 million

loans in excess of K 150 million (USD 158 562), while the smallest reported average loan was K 5 million (AGD, USD 5 285) [55]. However, minimum loan values for individual banks appear to be much lower than average loan sizes, with some banks indicating they have clients with loan sizes less than K 10 million (USD 10 571) and some banks also offering hire purchase products that start as low as K 100 000 (USD 106; see **Section 7.5.3**). All bank loans are short-term and require collateral (see **Section 7.4** for discussion on product details).

Private banks credit extension targeted predominantly at commercial customers. Other than hire purchase products, the product offering of commercial banks seems to be largely focused on targeting commercial customers (see **Section 7.5.4** for a discussion on personal loan products offered by banks). Furthermore, the relationship between commercial banks and commercial customers seems to be long standing one, with some banks reporting only 10% turnover in their credit client base per year.

7.3.3. SFIs

SFIs contribute 12.2% of total banking sector loans. There are four state-owned banks in Myanmar (MEB, MADB, MICB and Myanmar Foreign Trade Bank) which have a collective outstanding loan book of at least K 570 billion[56] (USD 602.5 million), or 12.2% of total banking sector loans. SFIs as a group are therefore the second largest source of regulated credit based on loan volumes. However, a large proportion of MEBs outstanding loan book in 2013 consisted of wholesale funding to MADB which it uses to fund loans to farmers (so the net credit extension of this group could be overemphasised).

Rapid SFI credit growth in 2012/13. While information is not available for all SFIs, the two largest players (MEB and MADB) rapidly expanded their loan portfolio in 2012/13. MADB expanded from K 84 billion (USD 88.8 million) to K 193 billion (USD 204 million) and MEB from K 123 billion (USD 130 million), of which K 13 billion (USD 13.7 million) was to MADB, to K 341 billion (USD 360.5 million), of which K 176 billion (USD 186 million) was to MADB. The net increase of MEB and MADBs loan book for the year excluding MEB lending to MADB is, therefore, 90%, up from K 194 billion (USD 205 million) to K 368 billion (USD 389 million). MADB's growth was driven by increases in the loans per acre (See **Section 7.5.1** for product details). However, the number of SFI branches declined by 2.2% over the same period, indicating that growth has been driven by factors outside of outreach (see infrastructure discussion in **Section 6.1**). Despite the rapid growth, SFIs still only lend out 9% of their deposits base and loans make up only 11% of SFI assets[57]. Detailed information is not available but it is likely that the balance of assets is kept in government bonds. This represents a substantial amount of funding that could still be intermediated into loans. Whether this is appropriate or feasible would require consideration of the trade-off with the current fiscal support that is provided through government bonds, which falls beyond the scope of this document.

Operational efficiency is a potential concern for SFIs (excluding MADB). CBM (2012) reported cost to income ratios in excess of 90% for 2011/12 increasing from 75% in 2007/8. At the

[55] Only two out of ten banks that reported average loan value was less than K 70 million (USD 73 996), the other being MCB with an average loan outstanding of K11m (USD 11.6k).

[56] [56] Based on CBM 2012 data for all SFIs excluding MADB (K 377 billion/USD 398.5 mil) plus MADB 2013 loans outstanding (K 193 billion/USD 204 million)

[57] Cenfri calculations based on data provided in CBM Annual Report. Driven largely by MEB with a deposits to loans ratio of 11%. More detailed financials only available for MADB.

same time, the data for private banks shows cost-to-income ratios reducing from 52% in 2007/8 to 41% in 2011/12 (see **Table 12**, page 66). This suggests that the overall high cost ratios are driven by high costs of operations in SFIs (excluding MADB). MEB cost data shows a cost-to-income ratio of 88%, whereas data available for MADB shows a reduction in cost ratio from 72% in 2009/10 to 48% in 2010/11 (see **Box 4** below for a more detailed discussion on MADB). It is difficult to interpret the high cost ratios for MEB as it fulfils various other government functions (acting as government treasury) and also provide cash handling facilities to other SFIs like MADB.

MADB is the largest single regulated credit provider in terms of numbers of clients. MADB is the largest regulated provider of credit in terms of numbers of clients providing loans to an estimated number of between 1.6 and 2.3 million farmers in 2013. It also has the second largest branch network (205 branches). In 2009/2010 MADB extended loans to 1.3 million farmers (MADB, 2011) but this has increased to between 1.6 million and 2.3 million farmers in 2012/2013, consisting of monsoon loans[58] to 1.6 million farmers, winter loans to 0.7 million farmers and pre-monsoon loans to 0.01 million farmers[59]. The total number is given as a range, because there may be some overlap between the data from the three seasonal loans provided. The total client pool would therefore be somewhere between 1.6 million (monsoon loans) and 2.3 million (total loans).

MADB loans funded by subsidised funding. Until recently, MADBs loans were largely funded from deposits but following a collapse in its deposit book (see discussion in **Section 8.3.2**), the bulk of loans are now funded by a loan facility provided by MEB. MADB applied for and received K 1.4 trillion (USD 1.5 billion) from MEB in June 2013, for disbursement in the 2013/2014 financial year[60]. This represents a substantial increase from K 568 billion (USD 600.4 million) in loans disbursed to farmers during 2012/2013[61], and follows on a continuously increasing trend from 2009/2010 when loans disbursed were only K 93.5 billion (USD 98.8 million) (MADB, 2011). MADB charges 8.5% per annum interest on their loans, and funding received from MEB is in the form of a credit facility, with funding being withdrawn repayable within one year[62] (short- term loan) and charged at 4% interest per annum[63]. In addition to the funding subsidy, MEB branches are also used by MADB for much of its cash handling (as MADB branches are not all equipped to handle cash). This is an additional cost subsidy that needs to be considered in the interpretation of the financials of MADB and MEB.

Interest rates on MADB loans reduced substantially over last five years. MADB currently charges 8.5% per annum interest on their loans, which is at a substantial discount to loans by other market players. This is made possible by the subsidised finance provided by MEB. Prior to 2012, MADB charged interest rates of between 13% and 18% on its loans. During this period, the bulk of loans were funded from compulsory deposits (see discussion in **Section 8.3.2**) on which MADB paid 8% interest. The institution managed to generate a surplus during this time and was, therefore, able to operate on a sustainable basis. As noted above, this surplus did not explicitly account for the cost of using MEB branch infrastructure for cash handling.

[58] Monsoon loans also make up "nearly 80%" of loans disbursed in terms of value (MADB, Aug, 2013)
[59] Information received directly from MADB (Aug, 2013).
[60] Information received directly from MADB (Aug, 2013).
[61] Information received directly from MADB (May, 2013).
[62] Although MADB township branches have to pay quarterly interest to MEB Branches.
[63] MEB normally charges 13% interest rate per year, and the difference (9%) can be seen as a subsidy to MADB.

MADB uses group loans to overcome collateral problems. Seasonal loans make up the bulk of MADBs loan portfolio and are provided on a group-basis. Regulation allows MADB more flexibility around collateral so commercial banks (for instance) will not be able to use groups as a substitute for collateral.

Box 4: MADB

Agricultural development has been a focus area for the Government of Myanmar since its independence in 1948. Initially, agricultural development fell under the State Agricultural Bank established in 1958, but it was merged with the other state banks during the mass nationalisation period to create the People's Bank (1970 to 1975)[64]. In 1975, the Myanmar Agricultural Development Bank (MADB) was established during the restructuring of the monolith bank and its mandate expanded to provide short-term and seasonal credit to farmers. In 1997, the Act establishing MADB was amended to move MADB under the supervision of the Ministry of Agriculture from CBM.

Today, MADB provides mostly seasonal loans (97.7% of all loans disbursed for 2012/2013), the bulk of which (90% in 2012/2013) are to paddy rice farmers. Seasonal loans are structured as group loans with five to ten farmers in each group.

Short-term loans make up the remaining 2.3% (in 2012/2013) of loans disbursed by MADB. Short-term loans include loans for salt mining, sugarcane, tea and coffee farming and citronella gas production, as well as some loans for farm machinery and "special loans" which are executed on behalf of other ministries.

All loans are approved at MADB branches and the Village Tract Committee is involved in the approval process. Farmers obtain and repay loans in person and in cash at MADB branches. The capital amount together with an interest rate of 8.5% per annum is repaid at the end of loan term, which usually coincides with the harvest period.

Over the last five years, MADB's loan amount per acre for seasonal loans has expanded significantly (see **Table 35**, page 196, **Annex A**: Credit products). This expansion was initially made possible through funding from compulsory deposits for term loans (MADB has never been able to attract sufficient voluntary deposits), and savings deposits prior to the massive withdrawal of savings in 2011/2012 (see **Section 8.3.2**). MADB is able to continue meeting this growing demand at affordable interest rates through their relationship with the Myanmar Economic Bank (MEB). MEB provides funding to MADB at a subsidised 4% interest per annum. This enables MADB to charge interest at 8.5% per annum, which translates into an effective subsidy (from MEB) of USD 15 per borrower per year.

MEB provides retail lending as well as wholesale financing to various government-linked initiatives. MEB conduct retail and wholesale lending and estimates that 50% of their lending is retail with 1.4 million borrowers in 2012/13. FinScope data, however, only report 14 000 direct credit clients of MEB suggesting that the bulk of the client base is obtained indirectly through its loan to MADB. Lending to MADB makes up just over half of MEB loans at

[64] Preceded by the State Agricultural Bank (1953 to 1970).

subsidised rate of 4% but, at the same time, MEB only lends out 11% of its deposits. They also provide wholesale loan to the Small and Medium Industry Development Bank (SMIDB).

MEB has incurred substantial losses over last few years. CSO data shows that MEB losses peaked at K 28.5 billion (USD 30.1 million) in 2007/8 and reduced to K 14.2 billion (USD 15 million) in 2010/11 (the last year for which financial data is available). The loss caused by subsidised funding to MADB accounted for K 12.1 billion (USD 12.8 million) of overall registered loss in 2010/11. Given the rapid expansion of the MADB loan portfolio which it has achieved through an increased MEB loan facility, MEB losses are likely to have substantially increased in 2012/13 with an estimated interest discount to MADB of about K 21 billion (USD 22.2 million).

7.3.4. MFIs

Formal MFI sector made up of diverse set of institutions. The regulated MFI sector is made up of a diverse group of institutions including 6 INGOs, 19 domestic NGOs, 75 co-operatives[65], 84 domestic for-profit companies and 5 foreign for-profit companies[66]. **Table 14** below reveals the combined number of branches for all MFIs is estimated at 381 (this includes co-operative MFIs).

Ownership, funding and mandate differ by type of institution. For all categories of MFIs, compulsory deposits contribute a limited proportion of loan funding and they have been unable to attract sufficient volumes of voluntary deposits. As such, INGOs and NGOs are funded by donor-funding and expansion is dictated by donor interests. In a number of cases, funding comes is tied with a particular mandate or instruction, which may fall beyond the current capacity and experience of a particular MFI (e.g. to lend to particular region or sector). The remaining MFIs are either for-profit MFIs or co-operatives that have registered as MFIs. Domestic for-profit MFIs are largely funded by owners' capital and stay in areas that they can make profits (urban, densely populated, higher income). The impact of foreign for-profit MFIs such as ACLEDA and AEON, who recently registered as non-bank credit providers as there was no space for them in the banking sector, remains to be seen.

[65] Although we know the number of MFI licences for primary co-operatives (72) and that 2 more MFI licenses are held by CCS and the Union of Monetary co-operatives, we do not know the number held by federations. The total number of MFI licenses held by co-operatives are therefore estimated as the difference between the total number of MFI licenses, and the number of MFI licenses held by INGO's, NGO's local companies and foreign companies.

[66] These include ACLEDA, a foreign owned microfinance bank, and AEON, a foreign owned salary-based lender.

MFI infrastructure		
Categories	Number institutions / licenses	Number of branches
NGO	19	12
INGO	6	163
Local companies	84	61
Foreign companies	5	1[67]
Co-operatives	75[68]	144
Total	189	381[69]

Table 14: Overview of MFI categories

Source: MMSE, CCS

Registered MFIs serve a total client portfolio of 690 000. As of March 2013, MMSE reported a total MFI client pool of 690 000 with an outstanding loan book of K 85.8 billion (USD 90.7 million). The bulk of MFI clients are served by INGOs, which has 82% of loan clients. MFI co-operatives (including CCS and its 72 branches – see **Section 6.1**) serve about 15% of MFI clients, while local NGOs and for-profit MFIs serve only around 3% of all MFI clients. Domestic NGOs and for-profit MFIs are all relatively young, as they could only recently enter the market with the adoption of the *Microfinance Law* in 2011. Very little information is available on them.

PACT is the largest MFI and serves approximately 74% of all active MFI clients. PACT serves about 74% of all active MFI clients and contributed to 90% of the total INGO clients reported as of March 2013 (PGMF: 16% and PACT MF: 74%). PACT also holds 65.4% of all MFI outstanding loans as at March 2013. About 30% of its loans are agricultural, while 70% are regular loans.

Box 5: PACT

PACT was one of three MFI operators contracted by UNDP in 1997 to provide microcredit in 11 townships in Myanmar. In March 2006 the UNDP consolidated its activities and selected PACT as the sole operator of UNDPs retail microfinance operations, bringing together a combined active membership base of 164 000 Turnell (2009). In 2012 PACT started a separate programme in Myanmar called Pact Global Microfinance (PGMF).

As of March 2013, PACT (both PACT Myanmar and PGMF) provides microloans (discussed in **Section 7.3**), compulsory savings (discussed in **Section 8.5**) and microinsurance services (discussed in **Section 10.3**) to about 450 000 active clients (377 000 with PACT Myanmar and 74 000 with PGMF).

PACT Myanmar and PGMF are run on a near identical basis from the same management structure and off the same Excel-based MIS system but focus on separate geographic areas. PACT Myanmar currently has 105 branches and PGMF has 28. They both provide

[67] Currently, only ACLEDA has 1 branch. The other foreign companies were not known to have operating branches open to the public at the time of this report.
[68] CCS the Apex body for all co-operatives has 1 MFI license and 73 MFI co-operatives branches directly under its wing, the remaining 71 MFI co-operative branches are primary societies holding their own MFI licences
[69] MSE indicated that total MFIs branches equal 199 but interviews and data collected from the different MFIs yield 381 MFI branches.

uncollateralized productive loans (loans for income generation) to individuals on a group basis (the so-called "solidarity lending model", where group members are held liable for each individual's loan) and have a focus on "women and the poor".

PACT Myanmar has 377 borrowers per loan officer and has a repayment rate of 99%. It has an Operating Self-Sufficiency ratio[70] (OSS) of 301% and Financial Self-Sufficiency ratio[71] (FSS) of 81%. Its operating profits therefore would not cover its costs if it was not subsidised by donors (an MFI with a FSS above 100% would be able to cover its costs from its operating profit). However, because of its high OSS, it does not have to use its equity (loan fund from donors) to cover operational costs and the loan fund should therefore not reduce over time.

PACT Myanmar's funding is currently structured in the form of a loan fund (68% of funding) and an operating fund (32% of funding)[72]. Funding is provided by a group of five funders (UNDP, USAID, DANIDA, DFID and LIFT), the largest of which is UNDP, which is responsible for 60% of total project cost (USD 38.4 million, including the loan fund of USD 26.2 million).

MFI growth driven by funding injections. Most MFIs report strong growth over the last year. Given their inability to raise voluntary deposits as a means of financing loans (see discussion in **Section 7.3.4**) MFIs are dependent on owners' capital, donor-funding and other wholesale funding to expand their portfolio. Recent growth seems to be driven more by the availability and/or release of funding rather than an explicit expansion strategy. In some cases the constraint on capital was as a result of regulatory constraints on increasing foreign funding or increasing registered capital.

Challenging funding mandates may further stretch capacity of MFIs. In a number of cases, it was reported that donor funding comes with a particular mandate or instructions, which may fall beyond the current capacity and experience of a particular MFI (e.g. to lend to particular rural region or agricultural sector). In most cases, it will require the MFI to serve new clients, which requires new branches in new locations (presenting substantial challenges as noted below). Given the shortage of funds, some MFIs have accepted such directed funding without necessarily having the capacity to deliver to those particular regions/states and sectors (e.g. extending loans in particular rural areas where they may not have branches or experience or extending loans to agriculture without any knowledge of or experience in this sector). While it may catalyse innovation, the additional funding also places added strain on the already limited capacity of the MFIs, which can jeopardize their overall operation.

Changes in INGO MFI mandates and in relationships with international parents are resulting in a consolidation phase for INGOs. A number of INGO MFI parent organisations are re-evaluating their involvement in microfinance in general, as well as in the specific microfinance operations in Myanmar. One of the early outcomes seems to be an increasing emphasis on sustainability. At the least, it is likely to result in pressure to be less dependent

[70] Operating self-sufficiency is a percentage (%), which indicates whether or not enough revenue has been earned to cover the Microfinance Institutions (MFI's) total costs – operational expenses, loan loss provisions and financial costs.
[71] Financial Self-Sufficiency indicates whether or not enough revenue has been earned to cover both, direct costs – including financial costs, provision for loan losses, and operating expenses – and indirect costs, inducing the adjusted cost of capital.
[72] Data used for calculation refers to PACT Myanmar's external funding only.

on their primary donor for funding. The result is that these MFIs are focusing on evaluating their business, strengthening their operations (including business process design, management information systems, etc.) and considering strategies to achieve the scale required for sustainability. The implication is that these MFIs are reconsidering marginal and loss-making businesses as potential priority areas to prune. The focus on sustainability makes these MFIs more susceptible to impacts resulting from restrictions imposed by the regulation than would have otherwise been the case. As an illustration, one of the INGOs with operations in rural areas is consolidating operations and is likely to close some of its rural branches, which are considered to be unviable within the current market and regulatory constraints.

Transformation from INGO status presents challenges. Prior to the enactment of the *Microfinance Law*, many MFIs operated as programmes under specific MoUs with different government ministries without being registered as a domestic legal entity. With the introduction of the Law, the interpretation is that MFIs are required to register as domestic legal entities but that there is some uncertainty around the exact requirements. A number of MFIs have reported challenges in transforming to one of the registered legal entities permitted under the *Microfinance Law*. The first challenge relates to uncertainties around the legal identity requirement under the *Microfinance Law*. In addition there are also challenges relating to the mandate of the global institution and whether they can accommodate the restructuring required for transformation (e.g. whether a division can be sold off or whether their ownership of an NGO would be transformed into holding equity in a for-profit entity). In the case of such uncertainties, MFIs are hesitant to take on substantial new developments or opportunities even if funding becomes available.

MIS and systems capacity of MFIs evolving. MFIs operate on a variety of MIS systems ranging from largely paper-based (e.g. GRET) and Excel-based systems (Myanmar Microfinance, STC and PACT who are looking to move to a more advanced MIS system) through to more advanced MIS systems (World Vision installed the Kredits MIS system in late 2012). Some of the domestic MFIs have also noted donor support to implement microfinance MIS systems (MicroBanker Win). Moving to more advanced MIS systems will require substantial investment and also business process engineering that is presenting challenges to some of the smaller MFIs. While it may require a period of consolidation to embed the more advanced MIS systems, it seems that the MFI sector is moving faster than the banking sector with regards to improving MIS systems, which should provide a platform for future growth. Even with the more advanced systems, challenges will remain to run a distributed branch network given the limited telecoms connectivity and in some cases electricity only for short periods during the day.

Staff capacity a major constraint. Finding suitably qualified and experienced domestic staff capacity was mentioned as a significant constraint by several INGO MFIs. This relates to both head office management and technical staff (e.g. accountants) as well as branch-level staff. In initial stages of growth, MFIs are able to manage this from centralised head office staff. Beyond this, growth requires more decentralised operations, which requires higher-skilled staff at branch level. MFIs also need to build up the institutional structure to manage such decentralised system.

Increased competition from many new licensed MFIs. In the past, INGO MFIs had a relaxed relationship. In conversation with each other, they would avoid targeting the same areas in order to manage overlap. With the increase in newly licensed entities, MFIs have become more competitive and are no longer sharing information in the interest of coordination, especially regarding areas where competition are fiercest, e.g. Yangon. However, some information regarding provision is still shared through the Microfinance Working Group (an association formed by the INGO MFIs in Myanmar).

7.3.5. Co-operatives

There are three different types of co-operatives involved in the provision of financial services. Co-operatives licenced as MFIs, financial co-operatives, and agricultural co-operatives. The MMSE has awarded 75 microfinance licenses with the Central Co-operative Society (CCS), an apex organization of Myanmar's Co-operative Movement holding one licence under which it operates seventy-two of its own co-operative branches, and the other seventy-five licences being held mostly by primary co-operatives. There are 2268 financial co-operatives that do on-lending that do not hold MFI licenses. Of the financial co-operatives, the savings and credit co-operative societies are institution based and are formed in departments, factories and schools, while the bazaar and microcredit co-operative societies are community based with the former being established in market areas. Co-operatives are run by community based "boards" who administer the co-operative and who also act as a loan approval committee. These are supervised by the Department of Co-operatives. Lastly, there are 5222 agricultural co-operatives that have recently started doing on-lending to their members.

Category of co-operatives providing financial services	Types of co-operative societies	Number of branches	Number of members
MFI licenced co-operatives	CCS	73	64 263
	CCS's microfinance societies	72	37 771
Financial co-operatives	Savings and Credit Coop Society	1 469	283 723
	Bazaar Credit Coop Society	342	49 200
	Micro credit Coop Society	457	37 888
Agricultural co-operatives	Various	5 222	400 157
Total		**7 635**	**873 002**

Table 15: Infrastructure of co-operatives that provide financial services

MFI co-operatives provide credit to 102 000 members. According to MMSE (October 2013), 75 MFI licenses are held by co-operatives. One of these licenses is held by the Central Co-operative Society (CCS)[73]. Data provided by CCS for 72 MFI co-operatives as well as its own

[73] One MFI license is also held by the Union of Monetary Co-operatives, which indicated that they have 10 of their own branches. However, the size of their member base as well as loans disbursed is unclear.

MFI operations (CCS has 73 branches through which it provides its own microfinance) indicated K 24.7 billion (USD 26.1 million) being disbursed to 102 000 members during 2012/2013. Of this, CCS disbursed about K 12 billion (USD 12.7 million) to 64 000 members. As of July 2013, CCS has 72 000 members.

Non-MFI financial co-operatives provide credit to 370 000 members. As at July 2013 non-MFI financial co-operatives had 370 000 members and have disbursed K 46.7[74] billion (USD 49.4 million) from April to July 2013.

Rapid expansion of credit through agricultural co-operatives to 400 000 members. Most of these co-operatives have only started lending to their members recently as a result of funding being channelled to agricultural co-operatives which was obtained from the Export-Import Bank of China. China and the Government of Myanmar agreed to finance USD 600 million in the next 3 years for agriculture, and the funding is disbursed from the Ministry of Co-operatives to CCS who directs it to primary agricultural co-operatives through the co-operative apex structure. Farmers will be able to borrow a maximum of K 100 000 and the interest rate to farmers is 18% per annum. CCS only indicated 21 agricultural co-operatives doing on-lending as of January 2013, at which stage a loan amount of K 1.1 billion (USD 1.7 million) had been extended to 10 900 members. However, as of July 2013, agricultural co-operatives as a group (5 222 of 7 000 are providing credit to members) had disbursed K 26.4 billion (USD 27.9 million; April 2013 to July 2013) with loans outstanding of K 23.8 billion (USD 25.2 million) to 400 000 members. This represents a massive expansion of credit provision in rural areas and is the equivalent of almost 60% of the reported MFI client base. Portfolio management tools for these loans do not seem to be in place.

Seed capital expedites co-operative growth. In establishing new co-operatives, government have followed a structured approach/template where CCS provides funding and technical support and government provides supervision. CCS indicated that microfinance co-operatives were typically able to repay their seed capital in the first year, after which the co-operative would continue to provide loans from its own accumulated capital. Co-operatives therefore seem to be able to grow more rapidly if seed capital is available. Interviews with co-operatives indicated that, once established, member deposits are only able to fund about 30% of loan demand.

The number of co-operatives societies is set to expand substantially. The Ministry of Co-operatives intends to create over 5000 new co-operatives per year with the support of the Department of Co-operatives and CCS. The aim is to establish one co-operative in every village (totalling 60 000), as a means of increasing microfinance penetration and reducing poverty. Each co-operative will receive K 10 million (USD 10 571) in seed funding. A further K 50 million (USD 52 854) per co-operative will be distributed as the capacity of the co-operatives develops. A projected total of K 3.6 trillion (USD 3.8 billion) in lending will be distributed through the co-operatives by 2015.

K300 billion will be required to establish 5 000 co-operatives per year. If it is assumed that 5 000 co-operatives will be established per year and if initially only K 10 million (USD 10 571) per co-operative is needed, only K 50 billion (USD 52.8 million) will be required from those co-operatives (0.4% of government expenditure). Furthermore, from interviews with current

---

[74] This includes loans disbursed by 72 MFI co-operatives. The data is only available at an aggregated level for this period, but as comparison the 72 MFI co-operatives disbursed 12.4 billion during 2012/2013

microfinance co-operatives, it is known that established microfinance co-operatives were typically able to repay their seed capital in the first year. If this also holds for new co-operatives, the government can continue to open 5 000 new co-operatives a year while recycling the same seed capital. Adding the additional K 50 million (USD 52 854) per established co-operative, a total of K 300 billion (USD 317.1 million) will be required per year (2.5% of government expenditure). In August (2013), Myanmar received a K 94.6 billion (USD 100 million) loan from the Export-Import Bank of China which will be used "to fund co-operative programs that support farmers and the rural poor" (The Irrawady,2014). This funding is currently being funnelled to existing agricultural co-operatives and it is yet unclear how the establishment of one co-operative in every village will be funded.

Co-operatives are already growing rapidly. The Ministry of Co-operatives reported 21 138 co-operatives as of May 2013, with a total membership standing at 2.2 million in January 2013. This includes all co-operatives in Myanmar (not just loan providing co-operatives) and reflects a substantial increase from CCS figures of 11 700 co-operatives with a membership of 1 085 692 reported as of September 2012.

Co-operatives functioning well and autonomously, with good governance. Furthermore, low defaults are reported for loans provided by co-operatives. Additionally, the co-operative structure/model seems to be well embedded and regulatory supervision by government which provides additional support to co-operatives.

7.3.6. Pawnshops

2026 regulated pawn shops could provide K 400 billion (USD 422.8 million) in credit. Regulated pawnshops are divided into two categories, Myanmar Small Loans Enterprise's (MSLE) network of pawnshops and other pawnshops that are licensed by local governments all across Myanmar. There are 1 842 registered pawnshops by local governments and 184 state-owned pawnshops nationally under the MSLE. The outstanding loan book for pawnshops is difficult to estimate in the absence of concrete loan book data, but one pawnshop that was met with during supply-side consultations indicated a loan book of K 200 million (USD 211 416), which if flatly extrapolated (for about 2 000 registered pawnshops) would indicate an overall outstanding loan book of around K 400 billion (USD 422.8 million). To put this amount in perspective, the average outstanding loan book of a commercial bank in Myanmar is K 269 billion (USD 284.4 million).

Unregulated pawnshops common in most wards or villages. Although little information could be gathered on the reach of unregistered pawnshops, there are indications (from the qualitative research) that such institutions are common in most wards or villages. More research is needed to unpack the nature and reach of these institutions.

7.3.7. Rice specialised companies

Only three rice specialisation companies remaining operating in four townships only. Although 57 Rice Specialisation Companies (RSC's) registered since 2008, are currently only 3 (Gold Delta, Khittayar Hinthar Rice Specialization and Ayeyarwady Greenland) that are still in operation, as well as 1 newly established agricultural public corporation that also does contract farming (Myanmar Agribusiness Public Corporation or MAPCO[75]). RSC's have very limited reach as they usually operate in one township only, with contract farmers farming around a core or nucleus farm owned by the RSC. The four townships that the three RSC's and the agricultural public corporation operate in are the Danu Phyu Township, Phyar Pon Township and Nyaung Done Township, all three of which are in Ayeyarwadyas well as Pyay Township in Bago. The remaining RSCs provide credit to an estimated 12 000[76] farmers and charge 2% interest per month.

Failure of agricultural specialisation companies. Rice Specialisation Companies were originally created in 2008 as part of a government-initiated regime to improve access to farm inputs (including credit) whereby large investors/registered firms "were encouraged to provide paddy inputs on credit under contract farming schemes in return for rice export permits" (USAID, 2013). Initially, RSCs seemed to have a positive impact on the rice industry as Larry, Wong and Wai (2013) found an increase in rice exports from 2008 onwards. However, USAID (2013[77]]) finds that the poor performance of the RCSs in Myanmar is to be expected because "while contract farming schemes can work well for highly specialized, high value export commodities, they are unlikely to prove commercially sustainable for low-value commodities with broad market outlets, such as ordinary rice[78]." They advise that contract farming is therefore not a solution for Myanmar's "weak rural credit systems and weak input markets", given the current nature of agriculture in Myanmar.

Weather risk has further undermined the viability of production and therefore, credit provision. The failure of RSCs have at least partially been ascribed by Cho et al. (2013) to the "heavy cost of input finances and poor repayment rates resulting from crop losses, flooding and low paddy prices". Currently, the largest rice specialisation company that still provides credit, Gold Delta, has 2 000 farmers owing (a third of their farmers) who are unable to repay their current loans because of poor harvests caused by flooding[79].

7.3.8. Agricultural input providers

Substantial reach of agricultural input credit. Industry consultation revealed large scale extension of inputs[80] on credit by agricultural input providers. Exact data on take-up is not currently recorded as these entities are not regulated for the provision of credit. However, one provider reported extending agricultural inputs on credit to approximately 1.5 million farmers, with a typical credit amount of K 50 000 (USD 53) per farmer. This would put loans disbursed in a year at around K 75 billion (USD 79.3 million), although further investigation into these figures is probably warranted. This provider focus on high value crops (only starting to look at rice now) and its clients are farmers who own between 5 and 10 acres of land. As there are indications that it is likely that there are numerous companies providing

---

[75]MAPCO is a "wholly-owned non-government Public Corporation, established in 2012. MAPCO was formed to mobilise public savings and to foster broader investment in agriculture and agro-based industries of Myanma". MAPCO distributes urea fertilizer under contract farming in the Nyaung Done Township and Ayeyarwady Region. However, it is unclear whether they operate under the same agreement with government as RSCs, and could possibly qualify as a separate category of financial services providers (http://mapco.com.mm/index.php).

[76] Gold Delta is the largest with between 3000 and 6000 farmers while Kittayar Hinthar is second largest with 3000. Ayeyarwady Greenland should therefore have less than 3000 farmers putting overall contract farmers with RCS's at less than 12000.

[77] See **Box 4** on page 49 of their report for a detailed explanation.

[78] This is because of the ease of side selling by contract farmers in order to obtain higher prices, and the fact that Rice Specialization Companies cannot match these prices because they have to recover their capital costs.

[79] Understanding the scale of value chain credit as well as the apparent success of input credit compared to the failure of credit linked to agricultural processing will require further investigation.

[80] Typical inputs include seeds, fertilizers and agrochemicals.

agricultural inputs on credit, this could well be a sizeable segment of total agricultural credit provision. Given the absence of formal aggregated data, the scale of overall value chain credit is not clear. The apparent success of input providers compared to the failure of credit linked to agricultural processing warrants further investigation.

7.3.9. Unregulated money lenders

Unregulated credit market dominated by money lenders. Approximately 5.9 million adults indicated that they currently have outstanding loans from a money lender and an additional 1.5 million indicated that they have taken out loans from a money lender in the last 12 months. This constitutes 28% of all active borrowers. Money lenders are therefore providing a significant proportion of loans to the market. This is illustrated in **Figure 22** where credit extended by money lenders exceeds the number of credit clients that MADB has, and the estimated loan volume of outstanding loans with money lenders is on a level comparable to commercial banks. A direct implication of this form of unregulated provision, is that much of financial intermediation in Myanmar is individualised (i.e. individuals with savings directly extend credit rather than intermediating savings through a financial institution). This limits the financial sector's ability to aggregate savings and to facilitate large-scale investment.

7.3.10. Other unregulated providers

In addition to the providers discussed above, there are a number of other unregulated community-based providers of credit.

Community-based assistance groups provide financial and non-financial support. Community based assistance groups also exist in a limited form; although some assistance groups like free funeral societies seem much more prevalent. These groups provide assistance for health, education, the elderly etc. as well as money for various welfare purposes. Traditionally based on Buddhism, they mostly collect money from villagers as donations, but they also lend out funds (at 2% per month) to increase their funds. Assistance groups and societies that were found in the qualitative research as well as supply side interviews were religious contributions/donations groups, ward-based funeral assistance groups, voluntary health assistance organizations, self-help health assistance groups, free ward clinics/health associations and the Free Funeral Service Society.

7.4. Distribution

This section considers the distribution infrastructure and geographic reach of the various categories of credit providers.

Rural credit outreach limited to SFIs and some MFIs. Rural outreach is largely driven by SFIs. **Table 5** shows that SFIs have 537 branches covering all 14 regions of Myanmar. Although private banks also cover all 14 regions, SFIs, driven largely by MADB, have a rural focus as opposed to the urban focused commercial banks. Similarly, MFIs operate in more densely populated towns and cities that are not very rural and not considered to be low income areas. Two notable exceptions are PACT and Proximity (INGOs). PACT, the largest MFI in Myanmar, and Proximity are the only MFIs with a rural footprint, largely driven by their donor mandate.

Co-operatives and pawnshops have the largest regulated footprint in Myanmar amongst credit providers. **Section 7.3.5** revealed that co-operatives offering financial services have the largest regulated distribution footprint with 7 635 branches. Agricultural co-operatives, which account for 5 222 branches, have a greater reach into rural areas but have only recently started offering credit to its members. Financial co-operatives which account for 2268 branches operate almost exclusively in urban areas[81]. Pawnshops have the second largest footprint, but are comparable to financial co-operatives in number of branches (more than 2 000 for pawnshops and 2 400 for financial co-operatives).

Money lenders have largest distribution footprint amongst regulated and unregulated credit providers. Qualitative research indicates that money lenders are present in almost all wards or villages. . Money lenders are different from unregistered pawnshop as they do not take collateral and can almost be anyone with extra money. An interview conducted with an unregulated money lender in Yangon during the supply-side interviews also suggested that money lenders are common at a ward level, with money lenders in other (nearby) streets being discussed. Although the interviewed money lender typically only had ten loans outstanding at any time, some money lenders take on more loans than this. If a conservative estimate of fifteen loans on average for a typical moneylender is taken, FinScope take-up data would suggest as many as 400 000 money lenders are operating in Myanmar[82] with nearly 100 per 100 000 adults (by far the largest provider density).

7.5. Products and take up

Credit products in Myanmar can be grouped into four distinct categories based on their intended use. These categories of loans are: Agricultural credit, Business loans, Asset-based finance and personal loans. The nature/intended use of some of these product categories (for instance agricultural credit) also coincide with the nature of the different target groups (like farmers). The following sections consider each of these four credit product categories individually, looking at both take-up and product features for each. Some overarching distinguishing features that will be discussed are the requirements that have to be satisfied in order to qualify, physical accessibility and the way the products are structured. These three characteristics shall be examined for each of the product categories below. **Annex A**: Credit products contains additional details on credit products.

7.5.1. Agricultural credit

Agricultural context:

As described in **Table 1 (Section 4.1**), three groups of adults reported that their households are involved in agriculture. For the credit discussion below (based on FinScope data), take-up will be looked at through the lens of these three groups of adults in order to describe both take up for total agriculture, but also for those whose main source of income is from farming (the farmer segment, as described in **Section 4.2**). As noted earlier, an Agricultural note summarising the agricultural content and main findings from the MAP Myanmar Country Diagnostic report will also be available as a separate deliverable.

[81] As reported by the Central Co-operative Society and the Union of Monetary Co-operatives during supply side meetings
[82] Even if a much higher estimate of 50 loans per money lender on average is used, the number of moneylenders in Myanmar would still be substantial at 117 000.

As indicated in **Table 6**, adults whose main source of income is from farming (12.1 million) has the highest percentage of adults with regulated loans as well as the highest percentage of adults who either has a regulated or unregulated loan (37% and 51%, with total credit take-up for this group at 62% -also highest). For all adults who are involved in farming (19.8 million), the credit take-up is similarly high with 32% having a regulated loan and 47% having either a regulated or unregulated loan (see **Table 16** below). However, this high take-up is largely driven by MADB (and PACT to a lesser extend), with only 19% of adults who are involved in farming having either a regulated or unregulated loan other than a loan from MADB and PACT (or only 4% if regulated only).

	Farming groups	Main income farming	Farming as secondary income	Family dependents of farmers	Total
	Number of adults	12 098 928	3 264 502	4 412 523	19 775 953
Number of adults in each group with (loan):	MADB loan	3 748 655	470 286	895 272	5 114 213
	MFI loan	586 761	206 979	97 014	890 754
	Any regulated loan	4 478 014	776 636	1 149 954	6 404 604
	Any regulated or unregulated loan	6 181 984	1 393 378	1 802 184	9 377 546
% of adults in each group with (loan):	MADB loan	31.0%	14.4%	20.3%	25.9%
	MFI loan	4.8%	6.3%	2.2%	4.5%
	Any regulated loan	37.0%	23.8%	26.1%	32.4%
	Any regulated or unregulated loan	51.1%	42.7%	40.8%	47.4%

Table 16: Credit take up over groups involved in farming

Source: FinScope 2013

MADB loans are not saturating the market for agricultural credit. Of the 19.8 million adults who are involved in farming, only 26% indicated that their household has an MADB loan. This is mostly driven by loans to adults involved in paddy production, who have 87% of all MADB loans, while adults involved in the production of beans and pulses but not paddy have 9% of MADB loans and adults involved in cereal, but not paddy, beans or pulses account for only 2% of MADB loans. Only 0.7% of adults with MADB loans are not involved in any of the three major crops. However, even though most MADB loans are held by adults involved in paddy, only 31% of adults in paddy production have an MADB loan while 18% have a regulated or unregulated loan other than an MADB loan. In addition, adults who are not involved in paddy, have a much lower MADB loan take-up rate. Only 12% of those who are not involved in paddy or cereals, but are involved in beans and pulses have MADB loans, while only 13% of those who are not involved in paddy or beans and pulses, but who are involved in cereals have MADB loans (for the number of adults in each of these groups, see **Figure 53** in **Annex A**: Credit products. Furthermore, of the 14.7 million adults who live in households involved in farming, but who do not have a loan from MADB, 29% (4.3 million) currently has a regulated or unregulated loan (not from MADB). MADB has therefore not saturated the market for paddy loans, and it has very low penetration rates for farmers not involved in paddy production.

Not all loans taken by adults whose households are involved in farming are used as agricultural productive credit. Of those adults whose main source of income is from farming and who currently have either a regulated or unregulated loan, 75% indicated that they borrowed money for agriculture related purposes[83], while only 47% of those whose secondary source of income is from farming and who currently has either a regulated or unregulated loan borrowed for agricultural purposes. 65% of family dependents whose households are involved in farming and who currently has either a regulated or unregulated loan borrowed for agricultural purposes (69% of all adults involved in agriculture and who have a regulated or unregulated loan borrowed for agricultural purposes).

Agricultural products:

Agricultural credit largest regulated credit product. The largest regulated credit product currently being offered is agricultural production loans (including input finance, output finance and asset finance), which is offered by the MADB (providing the bulk of agricultural credit), agricultural companies, MFIs, co-operatives (only the newly credit providing agricultural co-operatives) and unregulated providers. A detailed agricultural credit product table in **Annex A**: Credit products (**Table 34**) provide an overview of agricultural credit products by provider. **Annex A**: Credit products also contain more detailed discussion on agricultural credit product offerings by provider. The immediate discussion below aims to provide an overview of agricultural credit in Myanmar, to draw out the general features for agricultural loan products, and to highlight the product related issues of agricultural credit provision.

Providers of agricultural credit fall within three categories based on the scale of outreach:

- Large providers including: MADB (1.6 million clients) and Awba (1.5 million clients; Awba is an agricultural input provider, see **Section 7.3.8**)
- Medium providers: Agricultural co-operatives (400 000 clients) and PACT (70 000 to 80 000 clients)
- Small providers: everybody else who seem to be really small with client portfolios of fewer than 15 000 each (Including INGO's other than PACT as well as RSCs).

The following are product related aspects of the agricultural credit market:

Much of MADB growth was derived from increased loan sizes per acre to farmers. MADB provides loans to farmers on a maximum amount per acres basis, up to a maximum of 10 acres, and farmers tend to take the maximum loan amount[84]. According to the Ash Centre (2011), this maximum amount per acre has increased continuously over the past five years from as low as K 8 000 (USD 8) per acre in 2009 to a current level of K 100 000 (USD 106) per acre for paddy and K 20 000 (USD 21) per acre for other crops[85] (See **Table 35**in **Annex A**: Credit products). During consultation with MADB in May 2013, they indicated that they are applying for increased finance to increase the maximum loan amount per acre for paddy to K 150 000 (USD 159) per acre and K 70 000 (USD 74) for other crops.

Different views on financing requirements of farmers. There are differences of opinion about whether MADB products are meeting farmers' financing demands (see discussion in **Section 14.1.1** in **Annex A**: Credit products). Some sources suggest that loans of K 100 000 (USD 106)

---

[83] To buy livestock or farming equipment or to pay for agricultural expenses such as seeds or fertiliser.
[84] Information received directly from MADB (May, 2013)
[85] Information received directly from MADB (May, 2013)

per acre are still not sufficient to cover production inputs. MADB's view is that farmers require K 200 000 (USD 211) to K 300 000 (USD 317) per acre to cover production costs. USAID (2013) found that a loan of K 50 000 (USD 53) per acre only cover "25-50% of the overall financing needs per acre", putting estimated production costs at K 100 000 to K 200 000. Production costs are estimated by the Myanmar Farmers Association at between K 140 000 (USD 148) to K 177 000 (USD 187) per acre (MFA, 2013). Statements by government note production costs that may go up to K 400 000 (USD 423) per acre for better quality rice. At the same time other reviews (e.g. JICA review) warns that per acre loan sizes are already exceeding what is required and also potentially farmers' repayment capacity. However, production costs for paddy vary considerably depending on the season, with dry season paddy requiring more fertiliser than monsoon paddy. A careful evaluation of farmer credit needs and capacity will be essential to inform any further expansion by MADB, and the absorption capacity for different groups of farmers to take on more debt would not be uniform (see discussion in **Section 7.6.2** below).

MADB product features could improve., MADB loans are often not dispersed in time for the necessary preparations for the planting season and repayment of loans is due when the crop prices are at their lowest (immediately after the harvest), all of which leads to the sourcing of additional credit at a much higher cost from other regulated providers or money lenders.

Input financing products not regulated. Beyond MADB, the bulk of finance seems to be provided on an unregulated basis by input providers and value chain players (e.g. Myanmar Awba). Average reported loans are very low at K 50 000 (USD 53) per client. Awba is in the process of applying for a microfinance license (see discussion in **Section 14.1.5**, **Annex A**: Credit products) with the intention of extending its lending operations beyond input finance.

Other regulated agricultural products have achieved limited reach. MFIs' agricultural portfolios are relatively small (particularly if you look beyond PACT). Some MFI products are also not particularly suited to farmer needs, for instance, the term of some loans is actually shorter than the production season, which makes it difficult to repay these loans. However, credit provision by agricultural co-operatives has grown rapidly over the last year and may also benefit from a new funding injection. Their role in this sector going forward remains to be seen but could be substantial.

Across all providers, the bulk of loans are for paddy rice. While some reviews caution against concentration of finance in the rice sector, there are still many rice farmers who were unable to access MADB loans to date (e.g. as they did not have the land registration documentation). Only 31% of adults in paddy production currently have an MADB loan (see **Section 7.5.1** above).It would suggest that there is still further room for growth in the rice sector.

Bulk of credit is provided as seasonal loans with very little to asset/equipment finance. The only asset finance products are a small portfolio of term loans by MADB and possibly a small number of loans by MFIs. In total, this is unlikely to reach more than 50 000 farmers.

Most loans are focused on plots smaller than 10 acres. Only MADB term loans are for plots greater than 10 acres. Co-operatives and MADB provide credit to farmers with more than 10 acres but only partial finance (MADB only provide per acre finance for the first 10 acres and co-operatives only provide per acre loans for half of farmers' acreage for farmers who have more than 10 acres). There are 2.1 million adults (698 000 households) involved in farming who indicated that they have farms that are 10 acres or larger. 47% of these adults indicated that they earn less than USD 5 per day.

Maximum loan sizes already exceeding K 500 000 (USD 529). In a number of cases, loan ranges already exceed K 500 000 (USD 529) and for RSCs and MADB maximum loans exceeds K 1 million (USD 1 057).

Documentation requirement possible access barrier. Both MADB and Awba require documentation to prove right of use of land in order to obtain a loan. It is estimated that 3.4 million farmers cannot provide this documentation (Harvard Ash Centre, 2011).

7.5.2. Business loans

Banks provide large loans to few while MFIs and co-operatives provide small loans to many. Business loans are provided by all commercial banks, SFIs (MEB and MICB), MFIs and financial co-operatives. Commercial banks are providing the largest loans (with average loan values as high as K 200 million or USD 211 416) at low interest rates of 13% per annum. Banks have recently introduce hire purchase lending with loan values starting at K 100 000 (USD 106). Detailed take-up information is not available for this product but it is likely to be still limited as our estimate suggests that there are only about 60 000 bank credit clients in total (split between business and personal loans are not known). MFIs mostly operate in the K 50 000 (USD 53) to K 500 000 (USD 529) space in terms of business loans, although a small proportion of individuals graduate to individual loans that could go as high as K 1.7 million (USD 1 797). All MFIs provide loans at an interest rate of 2.5% per month. They provide at least 408 000 business/productive loans (of which PACT MFP provides 93% or 374 000), but could provide as many as 487 000 depending on PGMF's loan portfolio. Non-agricultural financial co-operatives provide productive loans to between a third and two thirds of its 480 000 members. Loan sizes range between K 30 000 (USD 32) and K 300 000 (USD 317), with most loans not exceeding K 90 000 (USD 95). Co-operative loans bear an interest rate of 2.5% per month with daily or weekly repayment and a term of between 60 and 75 days. **Table 37** in **Annex A**: Credit products sets out the product details by provider groups for business/productive loans in Myanmar.

Loan gap between K 2 million (USD 2 114) and K 70 million (USD 73 996). While banks offer hire purchase loans starting at K 100 000 (USD 106), in practice (and as illustrated by average loan values), banks focus on large and mostly commercial loans. The average loan for commercial banks is estimated at K 70 million (USD 73 996), while some banks do offer loans as low as K 10 000, but only to a limited degree. MFIs, in turn, offer loans of up to K 2 million (USD 2 114) with co-operative loans being smaller than MFIs loans. The result is a potential loan gap between K 2 million and about K 70 million, but possibly effectively even higher (due to low availability of these lower value loans).

MFI and co-operative group loan products are mostly for working capital but some are experimenting with asset finance (e.g. Proximity is looking at asset finance for agriculture). These short-term loans are mostly offered on a group basis making it difficult to scale up loans. Many of these loans also have a high repayment frequency (weekly or bi-weekly) making it more suitable to high turnover trading businesses. MFIs allow for good clients to graduate to individual loans but only a small proportion of clients are able to do so. These individual loans are offered on a monthly repayment basis. Co-operatives offer smaller loans than MFIs on a group basis with high (daily/weekly) repayment frequencies. As with MFI loans this is geared towards traders with high turnover and not suitable to businesses with longer turnover cycles and asset financing.

Limited graduation of co-operative loan clients. Loans by financial co-operatives tend to be small. This is not just because of the structure of the product and limited funding but also member preference. Some co-operatives report that members have qualified for larger individual loans (with monthly repayment) but have opted not to take this. This could either be a result of the product features of co-operative loan products (which may not be suitable for clients, see paragraph above) or it could signal a limit to the trust placed in the co-operative mechanism as higher savings levels need to be kept by members to access the larger loan. It could also reflect a barrier to the development of member businesses. With the support of a co-operative loan a trader can perhaps grow their stock but graduating their business to, for example, a wholesaler or formal store may not be possible on the back of a slightly larger loan.

All loans are for short terms, mostly shorter than one year. For MFIs and co-operatives loan terms are typically shorter than one year and in most cases shorter than 6 months. Given that much of MFI funding is in the form of wholesale donor funding (and not deposits), it is not clear why loans are restricted to short-term loans only. For private banks and SFIs the loan term can range between one and three years but the indication is that most are for terms less than one year. Hire purchase products are advertised with terms of up to three years. Some SFIs (e.g. MEB) used to offer longer-term loans of up to 10 years, but have ceased to do so. Poor repayment performance was mentioned as a key reason for doing so.

Refinancing creates longer-term bank loans in practice. It seems that it is common practice to refinance both term and hire purchase loans. Bank brochures advertise the ability to "restructure" or "refinance" loans if agreed before the end of loan term. The result is that a product advertised as a one year term loan or hire purchase product is effectively rolled over to function as a longer-term loan vehicle. This would explain the ability to offer large and unusual assets such as condominiums on hire purchase. Information on how this refinancing works in practice as well as the degree to which this takes place are not available. Given the issues raised in **Section 5** around the definition of non-performing loans applied in the banking sector, it is possible that clients simply miss a number of these hire purchase or term loan payments without it resulting in the loan being classified as non-performing. The result is that the client is effectively just spreading the payments over a longer period.

Hire purchase products leverages vendor infrastructure. Bank loans (particularly HP) are providing asset finance and leverage the distribution networks of vendors (often in same group as bank) selling assets that is financed. These are still very recent and data reported by banks suggest that it is not widely used yet.

Subsidised interest rates not enabling commercial banks to attract SME portfolio. Despite offering loans at substantially discounted interest rates, commercial banks have not been able to build up a substantial SME portfolio. At the time of this report SMIDB, for example, only had 550 loans, 40% of which was to SMEs. Less than 4% of SMIDBs loans made use of discounted funding provided by the MEB for SMEs. It is not clear what the problem is in extending these loans but during our consultations, the issue of collateral was raised as the main constraint.

MFIs and co-operatives use group loans as an alternative to collateral. A small percentage of clients are able to graduate to larger individual loans and for these the MFI or co-operative would require guarantors and compulsory savings.

Banks require collateral and are constrained to formally registered businesses. Loan values are often only a limited proportion of collateral (e.g. 50% of value of land). Banks and SFIs also seem to only lend to registered businesses (based on some banks requiring proof of registration before opening an account). MFIs and co-operatives can extend finance to individuals running businesses and do not have the same requirements of proof of registration. Given the absence of MIS systems and no credit bureau, banks are dependent on collateral and business plans as basis for lending and are not able to apply more advanced scoring approaches to lending to this market.

Substantial paperwork requirement for bank loans. Based on requirements to open an account, it seems like banks require substantial paperwork in order to get a loan. This was also highlighted by qualitative research where respondents mentioned substantial paperwork in order to open bank accounts with banks but also with MFIs. Co-operatives require less paperwork but provide limited loan sizes and take long to process applications (they also do not always have funds available to lend, with some co-operatives reporting they could only lend to 30% of their members at a time).

More tailored business loan products emerging in market. At least 5 banks[86] provide various types of other specific purpose business loans. These loans include working capital financing, warehouse financing, construction financing, factoring, corporate financing, import and export financing, letters of credit and pledge loans. The specific product features as well as take up figures for these loans are not known but given their recent introduction to the market, take-up is likely to be limited.

7.5.3. Asset-based finance

Hire purchase loans seem to be a relatively new product offered by private banks. Although new as product offering by the banks, Oriental Leasing Company (a subsidiary of Myanmar Oriental Bank) has been offering hire purchase loans since 1995. Not all banks are providing hire purchase loans, but at least 5 banks are doing so (AGD, Co-op Bank, KBZ, SMIDB and UAB). Some banks may require guarantors, while most banks require at least insurance on the asset being bought on hire purchase.

Limited take-up to date but reaching into low-value assets. Despite being in the market for many years, Oriental Leasing currently only have 5400 clients on one year leases. Their average value for a hire purchase loan is reported to be K 100 000 (USD 106) while total loans outstanding is K 823 million (USD 869 979). Given the low overall credit client base for banks and the recent introduction of this product, take-up of bank hire purchase products is likely to be limited.

[86] Asia Green Development Bank, Ayeyarwady (AYA) Bank, Co-operative Bank, Myanmar Citizens bank, United Amara Bank.

Variety of assets available on hire purchase. Hire purchase loans can be obtained for the following specified goods[87]:

- Electronics,
- Cell phones and communication devices,
- Gold and jewellery,
- Furniture,
- Automobiles and motorbikes,
- Hospital and clinical equipment,
- Heavy machinery,
- Tractors and agricultural machinery,
- Machineries for business use and generators, and
- Apartments, condominiums and individual houses.

Mortgage and vehicle finance non-existent. AGD is the only bank that offers a home loan product (they offer two), and they are also the only bank to offer a vehicle finance product (outside of hire purchase loans). There is no indication of any significant degree of take up for these loans.

7.5.4. Personal loans

Our product survey has found six categories of players in this space: Banks, INGO MFIs, co-operatives, pawnshops and unregulated money lenders.

Personal loans not only for consumption. With personal loans we refer to loans that are not explicitly targeted to business or farming or the purchase of an asset. In some cases, these loans may be applied for business reasons, but it is not limited to this application by its product design or requirements. It includes emergency loans, education loans, and payroll loans. These loans may (e.g. pawn shop or bank loans) or may not (e.g. payroll loans or MFI top-up loans) be secured by collateral. In some cases it may be offered as an additional top-up loan within an existing credit relationship while in others (such as payroll loans) it could be the only loan an individual has with an institution. These loans are not necessarily used for consumption but at the same time, there may not be any restriction to do so.

MFIs and co-operatives offer some consumption smoothing/emergency loans at discount. Two INGO MFIs (PACT and World Vision) reported personal products for emergencies and/or consumption smoothing targeted specifically at healthcare and educational expenses. E.g. PACT offers these small loans for healthcare and school fees at a discounted rate of 2% per month instead of 2.5% but only have about 2 500 of these loans on their book. WV reports strong demand for their education product and they expect a spike in loans following the release of this product in 2013. Co-operatives also offer emergency loans for health and education purposes. In the case of healthcare loans our understanding is that these are additions to the healthcare benefits offer under co-operative provident funds and offer similar benefits to family members of the borrower as interest-free loans. These loans tend to range between K 50 000 (USD 53) and K 100 000 (USD 106).

AEON plans to provide retail credit in the form of salary-based loans (payroll lending). They initially plan to target staff of Japanese-owned factories with small scale finance of K 189 200

[87] Based on marketing material of respective banks.

to K 473 000 (USD 200 to USD 500). Eventually they want a loan offering of between K 50 000 (USD 53) and K 3 million (USD 3 171) in order to accommodate higher values for motorcycles and generators.

Pawn shops offer loans using gold and clothing as collateral. Clients may receive about 95% of the gold value as loan but may opt for smaller loans. Regulated pawn shops charge 3% per month interest and interest and capital is only repaid at the end of the loan period. If clients are unable to repay loan, the loan can be rolled over. In such cases the client pays only interest for the next 3 months after which the loan can be settled. Loans may be rolled over more than once and the pawn shop interviewed as part of this study noted that is not unusual for loans to be extended over one or two years. The same pawnshop estimated that about 30% of their clients request loans to be extended. Loan amounts are determined by the value of the gold or clothing pawned. For the pawn shop interviewed, typical loans against gold would range between K 700 000 and K 800 000 (USD 740 to USD 846) and loans against clothing would be around K 20 000 (USD 21).

Bank personal loans constrained by collateral requirement. The survey of bank products found two banks that offer personal loans that are not explicitly targeted for business or asset purchases. CB Bank offers a gold financing term loan and an “Easi credit” loan, while Yangon City bank offers a “Personal Loan”. Details on product features for these products are not available. The limited number of personal loan products (other than hire purchase loans) confirms the limited focus that banks have placed on the retail credit market to date. As discussed in **Section 5**, one of the key reasons for this is the regulatory prohibition on unsecured lending by banks.

Uncollateralised individual loans high cost and mostly only accessible through informal sector. A prominent feature of regulated credit products is that all loans are either dependent on collateral (commercial banks and pawn shops), group based (MFIs, co-operatives and the MADB), or a combination of being group based and membership based (co-operatives). The INGO MFI loans noted above are small in both value and number and do not make a significant contribution to the market. In reality, the only source for uncollateralised individual-based loans is unregulated money lenders. AEON may change this going forward by offering individual loans secured against payroll. At the time of this study, they have, however, not yet started their operations.

Unregulated credit charged at a premium. Despite the fact that interest rates in the unregulated market is much higher than the regulated market (as much as 10% to 20% per month for unregulated money lenders), people still seem to utilise the unregulated market to a large extent possibly indicating that the regulated credit market is not accessible and/or unable to meet demand. Despite these high interest rates, consumers interviewed during the qualitative research held a positive view of these money lenders and considered them supportive when few other options are available.

7.6. Demand for credit and levels of indebtedness

A key question in the current analysis is the demand for credit. It is not possible to consider estimates of demand for credit without also consider levels of indebtedness and we consider both these issues in this section.

7.6.1. Demand for credit

The demand for credit can be estimated in a number of ways. For the purposes of this study, we will use total unregulated money lending as a static estimate for the demand for credit currently not met by regulated providers.

Demand for credit estimated between K 3.6 trillion and K 5.4 trillion (USD 3.8 billion and USD 5.7 billion). As explained in **Section 7.3.1**, 9.2 million adults have outstanding loans with unregulated credit providers with an estimated total outstanding loan value of between K 3.6 trillion and K 5.4 trillion[88] (USD 3.8 billion and USD 5.7 billion). The total unregulated usage, and proxy for demand, thus lies between this ranges of K 3.6 trillion and K 5.4 trillion. The same process (described in **Section 7.3.1**) also allows an estimate of the demand for rural credit as a sub-component of overall credit at between K 1.9 trillion and K 3.5 trillion (USD 2 billion and USD 3.7 billion). Please note that this estimate is for loans outstanding; loans disbursed would be higher.

	Number of adults obtaining loans from unregulated providers	**Total value of outstanding unregulated loans (range)**
Total unregulated lending (proxy for demand)	9.2 million	K 3.6 trillion –K 5.4 trillion
Total rural unregulated lending (proxy for rural demand for credit)	7.1 million	K 1.9 trillion –K 3.5 trillion

Table 17: Demand for credit

Source: FinScope 2013

7.6.2. Debt burden

The estimates of credit demand provided above needs to be contextualised by also considering the current levels of indebtedness. This is particularly the case as some warnings have been raised about debt levels for some consumer segments in Myanmar. Current levels of regulated and unregulated debt may, therefore, exceed the debt capacity for some borrowers.

The information available does not allow us to come to a definitive conclusion on indebtedness but allows an exploration of current levels of debt and relative debt levels for different consumer segments. Certain factors make it difficult to draw definitive conclusions on debt levels. For instance, the short term nature of debt in Myanmar could mean that a higher debt ratio would be more problematic. Whether debt is used productively or for consumption would also have an impact, as productive debt should be measured against revenue and not personal income. Unfortunately FinScope only allows us to measure debt

[88] This would represent more than 450% our estimate of total regulated retail credit (total regulated credit excl. credit from banks; see **Table 10**, page 59)

against personal income. In the following section we explore the debt burden by calculating total (1) debt stock to annual income and (2) estimated monthly debt repayments as a percentage of monthly income.

Debt stress as a ratio of debt stock over income[89]. As is shown in **Figure 26** below, there is a strong inverse relationship between indebtedness (using this measure) and level of income. In the lowest income groups, adults earning less than USD 1 per day, total outstanding debt to annual income was 237%. This was followed by indebted adults earning between USD 1 and USD 2 a day at 84%.

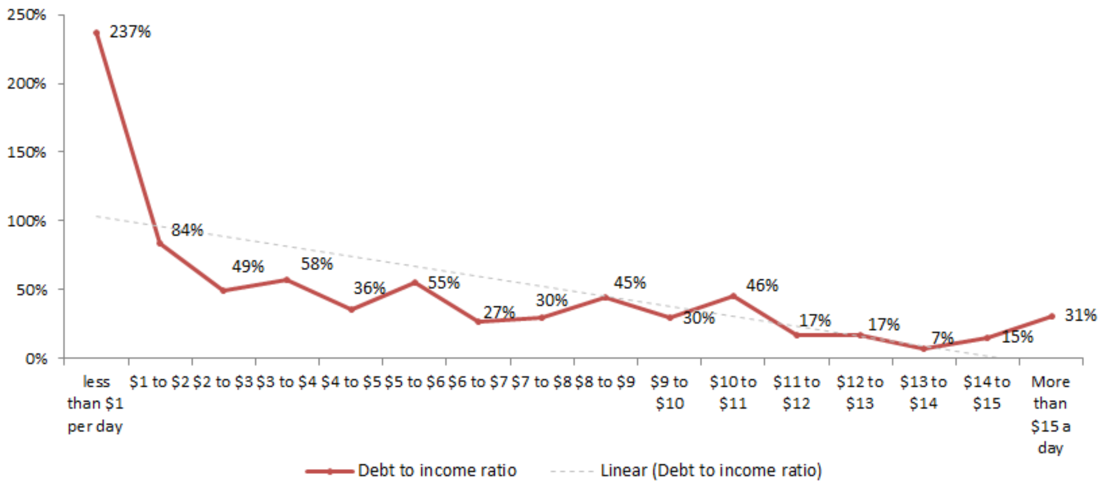


Figure 26: Outstanding debt to income ratio across income distribution

Source: FinScope 2013

Debt stress calculated as a ratio of debt repayments to monthly income. Debt stress levels were also calculated for each of the target groups by estimating the monthly repayment as a ratio of monthly income. For the purposes of comparison, only a best case scenario is calculated where it is assumed that all loans are taken over 12 months and at 8.5% interest per year[90]. This provides a baseline comparison of ability to repay and service debt burden. In reality repayment burden will be higher as a large proportion of loans are taken over shorter terms and at higher interest rates.

As mentioned in **Section 7.3.1**, 94% of adults who owe money disclosed the value of their outstanding debt. This allows us to extrapolate the total value of outstanding debt for all adults who are indebted in Myanmar (48% of adults), to approximately K 10.3 trillion (USD 10.9 billion), or an average of K 548 050 (USD 579) per indebted adult. Furthermore, the average reported monthly income of all indebted adults in Myanmar is K 86 756 (USD 92). Based on a best case scenario (described above, where all loans are taken over 12 months and at 8.5% interest per year), the average indebted adult in Myanmar would spend 55% of their monthly income repaying their debt obligation (see **Table 18** below).

[89] In a more diversified credit market it would be difficult to compare this measure across income groups as different groups would have loan products with different maturities. In the case of Myanmar all debt is short-term making this a more reasonable comparison.

[90] Although total interest repaid would be lower for shorter term loans, the total size of the monthly repayment decreases as the loan term increase. For the purpose of a best case monthly affordability assessment, a 12 month term is therefore used instead of a shorter term.

Target group	% of adults currently owing	Average monthly income of indebted (Kyats)	Average total debt outstanding of indebted (Kyats)	Estimated monthly repayment (Kyats)	Affordability (Monthly repayment as % of monthly income)
Farming	61.8%	91 534	641 234	55 928	61%
Formal Enterprises	26.0%	212 839	1 259 174	109 825	52%
Informal Enterprises	41.7%	100 730	784 563	68 429	68%
Formal consumer market	32.9%	128 806	308 045	26 868	21%
Informal consumer market	49.8%	55 862	264 907	23 105	41%
Other	39.7%	74 353	452 782	39 492	53%
Total	**47.4%**	**86 756**	**548 050**	**47 801**	**55%**

Table 18: Repayment affordability of indebted adults

Source: FinScope 2013

Debt stress level highest for farmers. While indebted adults in the Formal enterprises group has the highest average outstanding debt (K 1.26 million/USD 1 331), the proportion of this group's adults who are indebted is the lowest (only 26%). Conversely, indebted adults in the Informal consumer market has the lowest average outstanding debt at (K 264 907/USD 280), while 50% of adults in this market group is indebted. Farmers are the group with the largest proportion of indebted adults at 62% and they have an average outstanding debt of K 641 234/USD 678).

Using this information, affordability of monthly debt repayment can also be calculated for each economic group. Indebted adults in the Informal enterprises target group on average would spend the highest proportion of monthly income to repay their debt obligation at 68% of monthly income, followed by Farmers at 61% of monthly income. On the other hand, indebted adults in the Formal consumer market will spend the lowest proportion of their monthly income on debt repayment at only 21%, followed by indebted adults in the Informal consumer market at 41%. If a typical rule of thumb for indebtedness of 30% as the affordability threshold is applied, this would suggest that several target groups are exceeding this. However, this rule only applies to consumption debt, and not to productive credit (see discussion on productive indebtedness below).

NPLs may not accurately reflect indebtedness. Despite these apparent high levels of debt stress, reported Non-Performing Loan (NPL) ratios are low for all financial institutions in Myanmar (in the order of 1% - 2%)[91]. Current NPL ratios may however, understate actual levels of non-performance (see **Box 6** below for a discussion on why NPLs may be underreported). This makes it difficult to verify levels of indebtedness using repayment rates, however there have been reports of repayment problems with old agricultural loans delaying the disbursement of new loans (Sar, 2013). Furthermore, qualitative research revealed that on average, Myanmar households in the areas covered dedicate 30% of monthly expenditure to interest payments. In addition, FinScope indicates that 2% of adults (418 000) that currently have a loan took the loan in order to repay outstanding debt, while

[91] The only apparent exceptions are the specialised rice companies. These were about 60% at the beginning of 2012, but there was only 1 remaining as of June 2013. These specialised rice companies are reported to have folded as a result of non-payment of loans.

11% indicated that they plan on repaying their current loan with a new loan. Finally, it was also noted above, that the CBM has raised some concerns on credit quality for some banks. In an environment where an increasing number of credit providers serve the same client groups, it is appropriate that the credit bureau is prioritised to enable more careful debt monitoring.

Box 6: Reasons why NPL ratios may be underreported

Reasons why NPL ratios may be under reported:

- The official definition used for reporting non-performing loans may be too generous and thus result in under reporting. The current definition classifies loans as doubtful if they are overdue for more than 12 months and bad debt only once overdue by 24 months[92].
- The indications of debt refinancing (sourcing new credit to repay old credit, both within an organisation but also between organisations) may potentially obscure the true debt performance. This ensures low NPL ratios for the providers but potentially significantly increases borrowing costs to the concerned households, increasing debt levels but also causing significant financial stress. If financial services providers follow international standards, this would not be possible.

Interpreting debt to individual or household income. While the above analysis flags high levels of debt particularly for some target groups, it is not possible to conclude on the degree of indebtedness based on this information. The first issue is whether debt levels should be considered relative to household or individual incomes. The current analysis considers debt levels relative to individual income. Consideration could be given to whether the debt burden should be considered relative to household income rather than individual income.

Considering debt relative to revenue generated. For farmers and owners of Formal and Informal enterprises, it may also be misleading to state debt relative to reported income. For farmers, it would for example be more appropriate to evaluate debt relative to the farming revenue generated using the credit, assuming the reported income is likely to reflect the net yield from farming activities (after debt has been repaid and other costs covered).

To evaluate this, it is possible to construct a model of farm revenue using an estimated range for yield per acre (baskets) for paddy farmers. Assuming a price per basket of K 3 500 (USD 4), **Table 19** below illustrates a revenue range by farm size based on two scenarios: a comparatively low yield and comparatively high yield estimate (it is typical for Myanmar paddy farmers to have yields of between 30 and 70 baskets per acre, but can be as high as 100 baskets for dry season paddy, but much less dry season paddy is grown). Based on this model, farmers with a farm size of 1 acre would have revenue (on one crop cycle) of between K 105 000 (USD 111) and K 245 000 (USD 259) while farmers with a farm size of 10 acres would have a revenue of between K 1 050 000 (USD 1 110) and K 2 450 000 (USD 2 590).

[92] This issue of alignment with internationally accepted definitions for loan classification and provisioning was also raised in the IMF Article IV consultation.

Acres	Revenue if yield is 30 baskets per acre	Revenue if yield is 70 baskets per acre
1	105 000	245 000
2	210 000	490 000
3	315 000	735 000
4	420 000	980 000
5	525 000	1 225 000
6	630 000	1 470 000
7	735 000	1 715 000
8	840 000	1 960 000
9	945 000	2 205 000
10	1 050 000	2 450 000

Table 19: Revenue estimates by farm size

Based on this revenue model, the following indebtedness ratios (debt to revenue) can be calculated for farmers based on farm size and a yield range of between 30 and 70 baskets per acre. Please note this calculation uses reported debt levels and reported farm size:

Acres	Debt to revenue ratio if yield is 30 baskets per acre	Debt to revenue ratio if yield is 70 baskets per acre
Own less than 1 acre	298%	128%
1 to 2 acres	178%	76%
2 to 3 acres	159%	68%
3 to 4 acres	124%	53%
4 to 5 acres	103%	44%
5 to 6 acres	101%	43%
6 to 7 acres	74%	32%
7 to 8 acres	99%	42%
8 to 9 acres	110%	47%
9 to 10 acres	69%	30%

Table 20: Debt to revenue ratios based for indebted farmers over farm size and yield range

Debt to revenue analysis suggests challenges for smaller plot sizes. To evaluate debt relative to revenue, we assume that the debt is utilised to cover input costs of farming. Farming revenue should, therefore exceed debt levels by a sufficient margin to provide a sustainable income to the farmer. As can be seen from **Table 20** above, under low-yield conditions and current indebtedness levels, farmers with farms less than 6 acres in size would have debt levels that exceed their harvest revenue (based on assumption of K 3 500/ USD 4 per basket). However, under higher yield conditions, current indebted farmers have debt ratios of only about three quarters or lower of their harvest revenue. However, farmers with farms smaller than one acre would have debt levels which exceed that of their harvest revenue under both low and high yield conditions. Furthermore, this ratio remains above 100% for this segment even if price per basket assumptions are significantly adjusted upwards. This group therefore raises some questions on sustainability of debt consumption, which warrants further investigation.

7.7. Regulatory constraints and enablers

MFI regulations may potentially discourage entry and expansion in more challenging markets. All MFIs are still adjusting to the new regulatory environment and its implications for businesses. It is also likely to still take some time to process the full implications. Three areas of regulation that may discourage and possibly inhibit expansion of credit to priority areas such as rural and agriculture have been noted. These are interest rate (spread) caps, loan size caps and access to capital.

- One of the key areas of impact reported by MFIs is the reduction in interest rates charged by MFIs as result of the regulatory cap. Prior to the cap, INGO interest rates were reported to be in the order of 3.5% per month. This rate yielded a nominal annual rate of 42% (effective rate of 51%), well below the private pawnshops and comfortably in the third cost segment indicated above. Further interaction with other categories of MFIs will be required to come to firmer recommendations on the cap. Even at this rate there were some questions about sustainability but the INGOs indicated that they could maintain their business and explore growth in some challenging priority areas such as rural and agricultural loans. Under the current regulatory dispensation, which caps interest rates that can be charged by MFIs at 2.5% per month, MFIs will be largely confined to urban areas and will struggle to grow substantially unless subsidised. There is ample need for lower-cost credit in urban areas and MFIs can meet some of this. However, if expansion into rural areas remains a public objective, the current interest rate spread ceiling may have the unintended adverse effect of hindering achievement of that objective.
- Based on current findings, we suggest that careful consideration should be given to the caps on loans sizes being considered. At the current stage of development of the market it may beneficial to allow MFIs to determine the maximum size of loans extended by their organization except for considerations of prudential supervision (particularly related to single borrower risk and related party risk). Consultations with industry stakeholders have noted discussions on a potential cap on loan sizes for MFIs. Setting such a cap too low may undermine the outreach, poverty impact and sustainability of the microfinance sector. A cap on the size of loans may risk of cutting off existing MFI clients and excluding small and microenterprise from non-collateralised funding sources. The exact target group for microfinance, however, remains undefined. Based on the information received to date, existing MFI loans extend up to K 3 million (USD 3 171). Industry consultations revealed that as many as 10% of current industry clients may be excluded by the proposed loan cap. While one interpretation of this information may suggest that these MFIs are moving away from the poorest clients, it may also reflect the success of these MFIs in lifting their clients out of poverty. MFIs interviewed reported that these clients have graduated over time to larger loans. The MFIs offering such loans noted that these clients are still low income with little access to other regulated sources of credit. In addition, evidence provided by MFIs suggests that loans larger than K 500 000 (USD 529) may have higher impact than smaller loans as they tend to create more employment opportunities. Some of the newly registered local for-profit MFIs also noted that limiting extended loans to smaller amounts, such as for example below K 500 000, would be too restrictive for their intended target market. This would not allow the MFI to grow with its customers and it would not allow the MFI to have a balanced portfolio of still low-income people. In addition, the potential cap on loan sizes may exacerbate the already substantial financing gap between loans offered by MFIs and those offered

by commercial banks. Loan data for banks suggest that the average outstanding loan for banks are around K 70 million (USD 73 995), i.e. the average loan disbursed will be higher. The result is a substantial gap between current maximum loans offered by MFIs of K 3 million and the loans of commercial banks. Government has previously recognised this funding gap and has made subsidised wholesale funding available to SMIDB to fund these entities (an estimated 126 000 MSMEs and 40 000 microenterprises). This has however failed to achieve significant scale due to collateral requirements imposed by SMIDB with only 40% of its current client base of 550 obtaining MSME loans to-date. Sufficient information is not available to judge the levels of loans required by micro, small and medium enterprises respectively and this will be another important consideration in determining target market segments for MFIs and loan-sizes demanded by poor and low income people.

- All MFIs currently find it difficult to raise capital and indicate that this is at least in part due to regulatory and supervisory complications in sourcing both foreign and domestic capital. Regulatory practice currently requires Myanma Microfinance Supervisory Enterprise (MMSE) to approve all increases in capital. Several MFIs (across all sub-categories) have reported delays and challenges in obtaining approval for such capital increases. Deposit-taking MFIs are also limited in their ability to use deposits as funding for loans.

7.8. Gaps and opportunities

Commercial banks serving insignificant proportion of retail credit market despite accounting for largest proportion of credit market by loan volume. The total credit market is estimated as K 10.3 trillion (USD 10.9 billion) and 18.9 million credit clients. Commercial banks are providing the largest proportion of credit by volume (39.8%% of the total credit market, see **Table 8** on page 60 **(Section 7.3.1**), but is almost negligible in terms of the proportion of the overall credit client base that they serve (0.3%). This is the result of commercial banks' focus on corporate clients as well as the regulatory requirement for collateral, which will only be removed once the credit bureau is in place. Furthermore, the current systems and capacity constraints experienced by virtually all commercial banks (absence of MIS systems and credit assessment technologies) militate against the delivery of large-scale retail credit in the short to medium term. While commercial banks are expanding their branch infrastructure for savings (see **Section 8.3.1**), this will therefore not result in commercial banks reaching a significantly larger proportion of the retail credit market over the short term.

Dynamics of commercial banking landscape may change significantly. The introduction of hire purchase products and the potential of banking company payrolls that may result as spin-offs of banking large corporates may present interesting opportunities that could change retail banking landscape. The dynamics of the banking landscape will also change substantially with the introduction of joint ventures with foreign companies expected to be allowed within the next year. CBM has also announced that it will consider opening up unsecured lending for banks once the credit bureau is implemented, which would also drastically change the banking landscape.

Outside of commercial banks, most credit provision happens in unregulated market. Unregulated credit providers account for 87% of non-commercial bank loan volumes and 54% of non-commercial bank credit client volumes (see **Table 21** below). FinScope and qualitative research indicates unregulated credit is not only used for consumptive purposes, but also as productive credit.

Providers	Proportion of total loan volumes of selection of providers
Unregulated money lenders	60%
Other unregulated providers	27%
Pawnshops	7%
MADB	3%
Unregulated agricultural input providers	1%
Co-operatives	1%
MFIs	1%
RCSs	0.1%

Table 21: Comparison of credit providers excluding commercial banks

Source: Supply side data, FinScope 2013, author's calculations

High cost of unregulated credit. As discussed in **Section 7.3.1**, unregulated credit is provided at much higher interest rates than regulated credit (60% to 240% and higher versus 8.5% to 36% for regulated). Although no indication of widespread consumer abuse (through for example lending and debt collection practices) was found, unregulated credit clients still pay a much higher cost for unregulated credit then they would did they have access to the lower-cost regulated products. Migrating unregulated credit clients to regulated products could therefore have significant economic (and welfare) benefits for this market.

Pawnshops not providing intermediation of capital. Although pawnshops as a group are the biggest regulated providers other than commercial banks, they essentially do not provide intermediation of capital, and only provide a liquidation facility for saving held in gold.

Substantial provision of agricultural credit. **Table 22** below shows the share of the regulated credit market other than commercial banks or pawns shops (but including unregulated agricultural input providers). Agricultural providers as a group (MADB, Input providers[93] and agricultural co-operatives) account for 75% of non-commercial bank (and non-pawnshop) clients and for 64% of the of non-commercial bank (and non-pawnshop) loan volume. This group is also the biggest of all regulated providers in terms of number of clients, with a combined client pool of at least 3.5 million (assuming no overlap), almost rivalling unregulated moneylender credit clients as a group. Furthermore, regulated credit penetration is highest in rural areas, due to high take-up amongst Farmers (driven largely by MADB credit) and Farmers being the largest group in the population. As Farmers constitute the biggest economic group, expanding access in this target group will have a big impact on overall access to finance in Myanmar.

[93] Input providers are semi-formal

Providers	Proportion of total loan volumes of selection of providers
MADB	46%
Unregulated agricultural input providers	18%
Co-operatives	15%
MFIs	20%
RCSs	1%

Table 22: Comparison of regulated credit providers excluding commercial banks and pawnshops

Funding constraint for regulated lenders Other than commercial banks and MEB who have demonstrated the ability to raise voluntary deposits, all major regulated providers are experiencing funding constraints based on the inability to raise voluntary deposits. In some cases regulation is also constraining funding (like MFIs).

Regulated credit take-up mostly driven by subsidized credit. Due to the largest take-up of regulated credit being state-owned (MADB), as well as the presence of INGO's (and NGO's) in this market, the majority of the regulated non-commercial bank credit market is provided on a subsidised basis. Together, MADB and INGO's[94] represent 68% of the regulated non-commercial bank credit market[95] client base and 74% of the loan book for this group.

Under current conditions rural outreach depend on access to subsidised funding. MADB (and PACT to a lesser extent) are also the only providers with already demonstrated ability to provide rural credit at scale. Agricultural co-operatives have recently started to provide credit to members, and their credit portfolio seems to have expanded rapidly over the last year. Although still very small compared to MADB (1% of MADB's loan book, 25% of clients), their agricultural credit portfolio is already comparable to that of PACT (64% of loan book, 74% of clients). Both MADB and PACT are benefitting from subsidised wholesale funding and would otherwise not have been able to raise sufficient deposits amongst its clients.

The largest priority market in Myanmar is Farmers. FinScope revealed that almost half of all adults in Myanmar are involved in farming and farmers as a group already has the highest take-up of regulated credit (38%). Despite this outreach, 40% of farmers borrow from unregulated providers or from family and friends. Qualitative research confirmed that there is scope to both increase the quality of credit provision to this market, as well as extend access to regulated credit provision. Increasing the quality of regulated provision is intended to mitigate the need to borrow from multiple sources including the unregulated sector, while increasing access to regulated credit is intended to migrate current unregulated borrowers into regulated provision.

Current debt levels should be taken into account. Before actions can be recommended, it is important to understand the current capacity of the target group to take on more credit. There are some indications that current levels of credit are unsustainable for some segments of households in Myanmar (for instance indebted farmers with less than one acre of land). In order to confirm this, a further evaluation of their capacity to take on more debt should be conducted as part of the financial inclusion strategy and may require a more detailed diaries exercise to understand the use of credit and particularly the interaction with both regulated and unregulated credit. This is particularly critical as there is no credit bureau that can track

[94] Of which PACT constitutes 74% of the (INGO) client base
[95] Not including unregulated agricultural input providers.

clients taking loans from multiple (including unregulated) sources. However, it should be noted that the debt burden on credit consumers is to a significant degree a function of the returns on their investment (e.g. there is a need to increase the returns from agriculture production). This can only be partially addressed by the financial sector and financial sector policy. Although there is obvious need for increased incomes, especially for farmers, such recommendations do not fall under MAP's mandate.

High risk exposure of agricultural credit. The demise of many specialised rice companies is attributed to the severe 2011 floods which destroyed crops and thus the ability of farmers to repay debt. Insuring credit against disaster risk could mitigate this situation and stabilise credit providers operating in the agricultural market.

MADB as largest aggregated provider. MADB is the largest single provider of credit based on number of clients and is perfectly positioned within the priority market (agriculture). Furthermore, they provide the most affordable credit in this market (MADB is up to 30 times cheaper than some unregulated providers), therefore existing unregulated credit clients would benefit significantly from gaining access to MADB provision. Although MADB is currently subsidised, they would still be significantly cheaper than any other provider able to operate in rural areas should they revert to former unsubsidised interest rate levels. MADB's portfolio has also been consistently growing over the last 5 years, and no other provider has yet been able to serve the target group to the same extent. MADB have the largest infrastructure outreach in rural areas and current clients have a positive attitude towards MADB. Their products are suitable and appropriate to the current low-income environment. They operate on a decentralized basis allowing them to manage their portfolio at source by relying on village loan committees for loan approvals or group lending models to ensure reasonable repayment rates. This is critical in the absence of an electronic management information systems or a credit bureau.

Other critical target groups not in MADB's focus. There are other critical (if comparatively smaller) markets in Myanmar that also requires access to credit in order to facilitate important aspects of development. The creation and development of small enterprises for instance is critical to facilitate the long term transformation from and agriculture based economy to production. Informal enterprises are in fact the next largest economic group (although Informal consumers are the largest target group) after Farmers consisting of 4.7 million adults, 52% of whom are in rural areas. Regulated credit take up among Informal enterprises is only 11% while 36% borrow from unregulated sources or from family and friends. MFIs can also offer more advanced and longer term agricultural finance to compliment MADB.

The challenge of rural expansion. Even though the largest segment of the population is rural, and any major attempt to accelerate the expansion of access should also include a rural focus, some providers are unlikely to serve the rural market soon due to several factors. The major challenges are discussed in the remainder of this section.

Within current constraints, MFIs are unlikely to provide rural credit at scale. Although the Myanmar government's intention is for the MFIs to focus on rural areas, the majority of MFI clients are reported to be urban. This is in part due to regulatory constraints, as current interest rate and loan caps do not enable or incentivise formal MFIs to enter into new and more challenging markets (even those with developmental mandates). However, MFI capacities are also limited. With a few exceptions, MFIs (and particularly INGO and NGO MFIs) may find it difficult to absorb large increases in funding. Their systems and capacity seem to be limited and they appear not yet to have the operational infrastructure to achieve scale (or may face operational risks if they do push scale too quickly). As noted, most MFIs are in the process of implementing MIS systems or considering this. Combined with strengthening of operations and business processes, this may over the medium term put them in a position to accommodate further expansion. Even if feasible, expansion of capacity needs time and can only be achieved through intense and extensive capacity building efforts the availability of which is also limited and further constrained by generally low levels of education. Given the current regulatory and market situation, initial indications are that MFIs are unlikely to rapidly expand credit provision on a large scale, not only in urban areas, but more so for rural areas which is more challenging.

PACT is the exception. PACT seems to be an exception when constraints noted by other MFIs are considered. PACT is much closer to self-sustainability than other INGO's/NGO's, although it is still dependent on its current subsidised donor funding and the transformation of the investment will have a significant impact on its ability to operate and expand. PACT also has an extensive footprint, which includes outreach to rural areas. Furthermore, PACT believes it can rapidly increase scale and has plans to do so going forward.

Co-operative credit confined to urban areas and loan volumes limited by funding. Co-operatives have been working under similar regulatory restrictions as MFIs (e.g. the interest rate cap of 2.5% per month). Even before the *Microfinance Law* was passed, such regulations already applied to non-MFI co-operatives. Similar to non-co-operative MFIs, these circumstances have resulted in most of the financial co-operatives operating in urban areas as a result of low real returns in rural areas versus the higher returns in urban areas due to lower transaction costs for providers and clients alike. Current information also suggests that existing co-operatives may not grow their loan portfolio rapidly if left unassisted. Funding for on-lending has been noted as a key constraint. It results in co-operatives only providing loans to a limited proportion of members at any point in time. Ultimately, while the bulk of the growth in the regulated MFI sector in the near future is likely to come from existing co-operatives registering as MFIs, the organic growth of these co-operatives is likely to be limited and urban-based. In this respect, the seed capital raised by the Central Co-operatives Society (CCS) has provided valuable loan capital to catalyse the development of MFIs. The CCS funding was, in turn, sourced from the Co-operative Bank and collateralised by the assets of CCS and some of its member co-operatives. Establishment of new co-operatives using this seed capital may generate new clients that may ultimately be transferred into the MFI space if they become large enough.

Nature of co-operative products not suited for longer term investment. Although the nature of provision by agricultural co-operatives is not yet understood, current credit provision by financial co-operatives is not suited for longer term investment or asset finance. Such longer term financing would be required for further development of both the agricultural but also the Formal and Informal enterprises markets. Current co-operative loans are limited to working capital with a high repayment frequency, low values, short term and the group repayment guarantee structure. These loans are useful for traders and other businesses with low values and high turnover. The loans enable these to grow to larger micro-enterprises but it will then require larger and longer-term loans to grow further. There is also an overall heavy reliance on group loans by many regulated providers (MFIs, Co-operatives, MADB) in the absence of collateral and formalised businesses (i.e. no formal financials and business plans).

Substantial loan gap between MFIs and banks. There is also a substantial gap in the credit market in terms of loan size. Co-operatives only provide loans up to K 300 000 (USD 329). MFIs mostly provide loans of up to K 500 000 (USD 529) due to Government focus on implementing a cap at this level, but with some isolated cases of loans as high as K 1.7 million (USD 1 797). Although banks now have introduced a product that start as low as K 100 000 (USD 106), average bank loans is estimated around K 70 million (USD 73 995) suggesting that the bulk of loans are at very high values.

Pent up demand for credit. As discussed in **Section 7.6**, unregulated credit take up can be used as a proxy for latent demand for credit. The substantial proportion of current unregulated provision indicates significant absorption capacity for regulated credit (moving from unregulated to regulated). With the size of current unregulated loan volumes estimated at more than 450% of total regulated retail credit, i.e. total regulated credit excluding credit from commercial banks, the regulated market for credit would have to expand substantially in order to absorb unregulated credit clients (see **Table 5**, page 56 and discussion in **Section 7.6.1)**.

8. Market for Savings

This section considers the current take-up of savings and potential use cases for savings, as well as the providers, products, distribution, and regulation that drive the supply of services. An assessment of these critical dimensions leads to an identification of gaps and opportunities in the market for savings.

8.1. Savings landscape and take-up

Low savings measure by number of savers and as percentage of GDP. Of the total adult population in Myanmar, 62% do not report any savings and amongst those who do save, saving with self, family or friends dominates the savings landscape. In the formal sector, Duflos et al. (2012) reports a very low deposit to GDP ratio of 12.6% in 2011, as compared with bank deposit to GDP ratios of 32% in Indonesia, 32% in Cambodia, 28 % in Lao PDR, and 99.7% in Thailand (DataMarket, 2014). However, there are several forces currently in play that are playing a positive role in driving regulated savings deposits.

Microsavings a government priority. The public policy imperative to boost domestic savings is undeniable. Myanmar will need to meet significant funding needs through both domestic savings and foreign capital to channel into investments to fuel GDP growth (McKinsey 2013). Furthermore, the banking sector in Myanmar is dependent on deposits as their primary source of funds (because of the lack of domestic capital markets), with the exception of some SFIs which receive budgetary support. President Thein Sein and his government have identified microsavings and credit enterprise as one of the eight tasks for the Government of Myanmar to address poverty and the Ministry of Finance and Revenue has been charged with this initiative.

Many drivers of the preference for saving with self, family or friends. There are several historical factors that may contribute to the prevalence of saving with self, family or friends. A preference for holding savings in cash, gold, and livestock appears to be a response to persistent, high inflation rates of above 20% (prior to 2009) which eroded the value of monetary savings. The current low incidence of crime and lack of easily accessible savings infrastructure may not incentivize clients to deposit their funds in regulated institutions for safe-keeping. Furthermore, savings clients in Myanmar have been subject to many historic upheavals that have caused them to lose trust and confidence in the regulated financial sector. Notably, demonetisation that accompanied nationalisation of the banking sector and a banking sector crash in late 2002 where depositors were adversely affected (see **Section 2.1**), are likely to have affected attitudes towards savings.

Take-up of savings

Low levels of absolute savings in Myanmar. While 56% of adults plan to save in the next 12 months, only 38% of adults indicated that they currently have savings in some form. 62% of the adult population of Myanmar does not report any savings. Use of regulated financial institution to save money is uncommon with the majority of savings conducted at home or with someone they know (see **Figure 27** below).

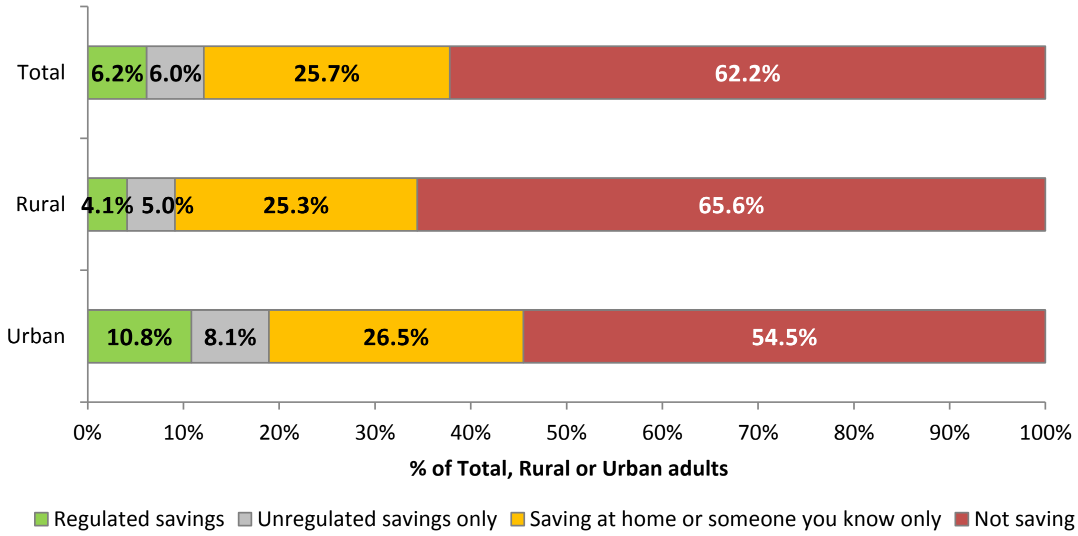


Figure 27: Use of savings by source of provision

Source: FinScope 2013

Savings more prevalent in urban areas and urban savers save more. While credit usage is higher in rural areas than in urban areas, the total use of savings (from all sources of provision), is lower in rural areas than in urban areas. Urban areas also had higher take-up of regulated savings instruments, 11% of adults, while rural areas only had 4% of adults holding savings with a regulated institution. Urban savers also disclose an average total savings amount at K 435 254 (USD 460) which is higher than the rural average of K 279 989 (USD 296) and the total average of K 340 346 (USD 360), as seen in **Figure 28** below.

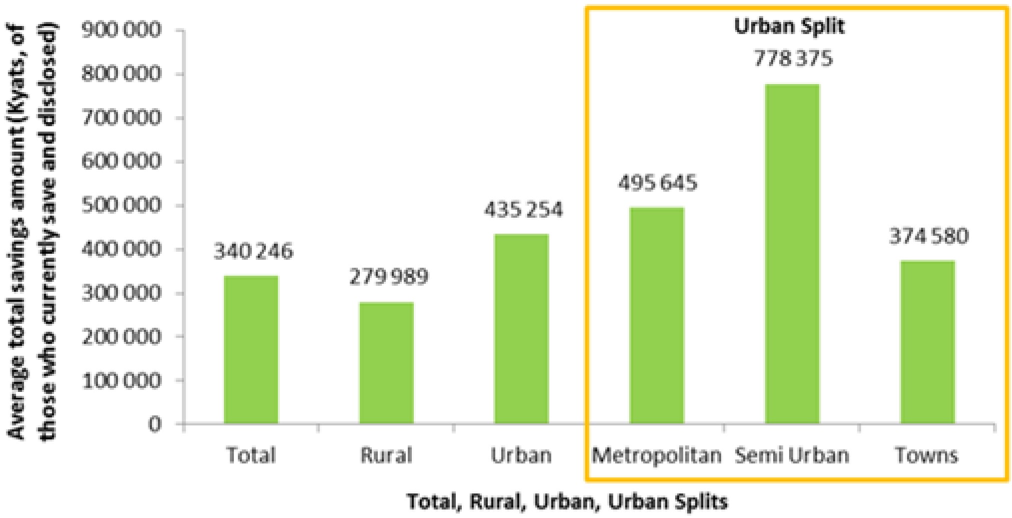


Figure 28: Average total savings by region.

Source: FinScope 2013

Saving at home is pervasive. Approximately 16% of adults indicated that they save in cash at home while an additional 14% indicated that they have saved in this manner in the past.

Focus group discussions revealed that it was common to have a "piggy-bank" at home to save money. Savings in livestock was the second largest savings vehicle with 11% of the population indicating that they save by purchasing livestock and an additional 5% indicated that they have used livestock as a means of savings in the past. Savings in gold was the third largest savings category with 10% of the population reporting to save in gold and an additional 14% indicating that they have saved in gold in the past.

Preference for savings outside of regulated institutions. Qualitative research revealed that bank accounts were viewed as burdensome, in terms of requirements, inconvenient and the interest rates offered were considered too low to justify the use of accounts. Some respondents also felt that the amounts they saved were too small for banks and that should they require the money for emergencies, obtaining the funds from the bank would take time and effort such as travelling long distances. Saving in gold and in piggy-banks were preferred due to low transaction cost and the ability to pawn gold if cash is required. The use of these savings mechanisms is further reinforced by relatively low crime rates as none of the respondents mentioned being robbed as a concern.

The target groups vary in their take-up of savings products. Savings levels and means of savings differ significantly by target group and provide indication of opportunities for mobilizing savings. **Table 23** below captures the basic features of savings behaviour for each group: Average total savings, average monthly savings, and percentage take-up of savings product by source of provider. Notably, across the groups we see:

- Average total savings across the groups, varies from K 609 147 (USD 644) for people for individuals who work at Formal enterprises down to K 156 183 (USD 165) for the Informal consumer market.
- Average monthly savings across the target groups, ranges from K 20 116 to K 75 905 (USD 21 to USD 80). By group, this represents a substantial portion - between 23% and 46% - of average monthly income for those who save.
- Informal enterprises report the highest monthly savings both in absolute amount, and as a percentage of average income of those target group members that report savings. However, they report the second lowest level of (4%) regulated savings.
- Those who work in the formal sector (Formal enterprises and the Formal consumer market) save more than the other target groups and save more commonly in regulated institutions than the other target groups.

Target group	Economic group	Average total savings	Average monthly savings	Savings as % of average income[96]	Reg-ulated	Unregulated (only)	Family, friends or self (only)	Excluded
Farmers 12m adults	Farmers	K 309 412	K 25 805	23%	6%	5%	29%	61%
Formal enterprises 2.5m adults	Formal enterprises	K 609 147	K 67 108	28%	17%	8%	38%	37%
Informal enterprises 4.7m adults	Informal enterprises	K 426 282	K 75 905	46%	4%	11%	29%	56%
Formal consumer market 1.7 m adults	Employees of formal private companies and Government employees	K 244 554	K 28 898	24%	17%	11%	26%	46%
Informal consumer market 8.5m adults	Farm workers, Salaried private individuals, Piece and casual workers, Remittance dependents	K 156 183	K 20 116	25%	3%	5%	18%	74%

Table 23: Savings by economic group.

Source: FinScope 2013

8.2. Use cases

Both regulated and unregulated savings behaviour is limited in Myanmar: only 38% of adults report saving in some way. A total of 57% report that savings is about putting money aside to stop it from being spent immediately. Connecting the take-up of regulated and unregulated savings products with the motivations and use for savings allows us to formulate and consider four relevant use cases for individuals' savings in Myanmar, recognizing that individuals will identify and have to fulfil more than one use case for savings.

Use case 1: *Short-term savings for consumption smoothing.* Short-term savings behaviour with a demand for a savings tools with generally high liquidity appears to dominate. Of the total respondents, 20% report saving for their living expenses (consumption). Only 4% of the population report using savings to respond to adverse changes in the price of goods such as basic groceries. Focus group discussions reveal that savings are often considered necessary to smooth incomes for the large proportion of the labour force with cyclical income. Savings are critical to cover expenses during the rainy season when income decreases significantly. For example, farmers (a target group), reported buying gold at harvest time which would

[96] For those who save only. Monthly reported savings as a percentage of monthly reported income.

then be pawned or sold later when money was needed. To meet this use case, proximity and easy access of savings appear to be paramount to cope with short-term needs.

Cash savings is accumulated, often in a piggy-bank in the house, with 16% of adults saving this way. Home-based savings have virtually no restriction on liquidity and appear to be low-risk for Myanmar households given the low incidence of crime. The relative popularity of savings accounts at SFIs and commercial banks (see below) as opposed to more liquid current accounts and less liquid fixed deposit accounts at commercial banks is testament to the need for short-term savings. This would suggest that some clients do see bank deposits as a reliable store of value for savings, or that clients are attracted by the interest earned, which is a drawback of saving at home. Saving in physical assets, such as gold, is often characterized as a larger value, long term savings device with low liquidity. However, in Myanmar 10% of adults save in gold or jewellery, some in the smallest of gold trinkets such as earrings. The ubiquitous presence of pawnshops (there are 1842 registered pawnshops by local governments and 184 state-owned pawnshops nationally under the MSLE, see **Section 7.3.6**) that are at least somewhat trusted, has allowed individuals to use gold as collateral and easily liquefy savings to meet consumption smoothing needs.

Use case 2: *Larger, medium-term savings for unplanned eventualities such as health emergencies or anticipated needs such as education.* Unplanned eventualities (risks) and expected larger expenses are amongst the top reasons for saving: 11% of adults save for medical expenses (planned or emergency), 8% save for a non-medical emergency and 6% save for education. The most popular reported uses of savings to respond to risks also highlights the use case for larger savings for unplanned incidents: 8% report using savings to cope with needs for medical attention in the household, 4% report using savings to cope with harvest failure of crop loss, 3% report using savings to respond to drought, poor rainfall, or lack of access to water for farming, and 6% have used savings to pay for unforeseen education fees. These risks were also amongst the risks that respondent had experienced.

Saving in gold ornaments and jewellery is also used to meet needs for larger savings of a longer duration, which may benefit from some restrictions on liquidity. As a physical asset with greater restrictions on liquidity, this may be the more traditional use for savings in gold and more relevant to higher income segments: as income levels increase, pawning gold may not be a desired choice except in dire circumstances. At the same time, savings in gold may become larger (bigger ornaments) and less divisible so they are considered as longer term instruments. Savings accounts are the most popular banking product (though still small at 4% of adults in Myanmar), and this tool may also be used for building up savings for the medium-term.

Use case 3: *Compulsory savings for loans.* MFIs and co-operatives collectively report around 1.1 million clients with compulsory savings (as requirement for accessing loans). These entities report challenges in attracting voluntary savings from these same members. SFIs such as MADB have also been most successful in mobilizing savings tied to the promise of credit for agricultural inputs through their rural savers programmes. A total of 0.4% of adults in Myanmar report holding an MADB account when surveyed but 3% report having an MADB savings account in the past (presumably when MADB still offered this service). At the level of take-up, MADB savings were the second most used regulated savings product, just behind take-up of co-operative savings products. Similarly, savings in co-operatives are tied to the promise of loans and are withdrawn when they are not required.

Use case 4: *Longer-term saving for investment and productive use.* Focus group discussions showed that respondents have a keen awareness of the difference between savings and investment activity, and respondents felt that investment provided a much more lucrative return than regulated savings. It was reported that 4% of adults save to start or expand their business, and 4% save to buy farming equipment. Buying a home was not highlighted as one of the reasons respondents save. However, of the adults surveyed that indicated that they own the house they live in, 81% report that they bought their home with their own savings.

The demand for a long-term savings tool is illustrated by the high popularity of livestock as an unregulated savings product: approximately 11% of the adult population currently save through livestock. Of the total adult population 94% that buying livestock with surplus cash is a profitable form of savings, 64% did not believe that buying livestock for savings was risky and 94% were comfortable with selling livestock for cash when needed. As mentioned above, gold may also be a long term form of savings. An interview with one household[97] revealed that the household actively saved in gold over the longer term, in order to get enough money to invest in building a dwelling from which they can receive rental income. Investments in small businesses, which constitute a large part of Myanmar's predominantly informal economy, also seem to be a lucrative use of savings.

The range of use cases demonstrate a need for a variety of savings products offered by a variety of providers that are explored later on in this section.

8.3. Providers

Only banks and SFIs are allowed to mobilise savings from the general public. Though savings mechanisms with self, family and friends are prevalent, the regulated financial sector - commercial banks, SFIs, regulated MFIs, and financial co-operatives also offer savings and deposit facilities. The FinScope survey results indicate that SFIs serve the largest group of adults in terms of savings products (4% of adults save with an SFI), followed by MFIs (1%), private banks (1%) and finally co-operatives (0.5%)[98].

[97] Demand side interview during a supply side consultation with an unregulated money lender

[98] Please note: these four groups adds up to more than the regulated savers as per the savings access strand (6% of adults save with regulated financial services providers) as there are overlaps between the 4 groups.

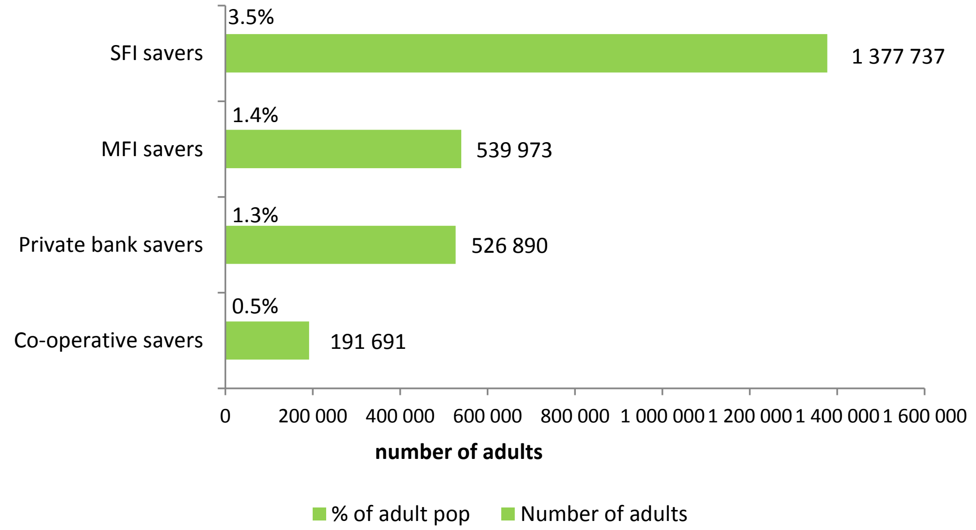


Figure 29: Usage of regulated savings products

Source: FinScope 2013

Data from providers highlights the large number of accounts at private banks, which may be indicative of clients holding multiple accounts, the presence of dormant accounts, and corporate accounts at the private banks that may not be identified in the survey of individuals.

	Commercial banks	*SFIs*	*MFIs*	*Co-operatives*	*Total*
Number of accounts	2 000 000	4 450 000	690 000	880 000	8 020 000
Deposit volume (K millions)	6 060 430[99]	2 990 685	12 126	35 212	9 098 453

Table 24: Number of deposit accounts by provider type

Source: Author's estimates based on annual reports and interviews.

It is important to highlight that only the banks and SFIs are able to mobilize savings from the general public, while MFIs and financial sector co-operatives are limited to taking deposits from their members. Across the providers that offer deposit services, it is clear that low income clients are more often served by the MFIs and co-operatives. To better understand which client segments are served by which providers, we look at the average monthly income of users/clients by regulated provider type (regulated and unregulated) as depicted in the graph below. Users of MFIs and co-operatives report the lowest monthly income, on average (lower than K 100 000 (USD 106) per month which falls both below the average monthly income estimated for Myanmar and below the minimum wage for day labourers. Banks and SFIs report average monthly incomes of K 275 241 (USD 291) and K 175 448 (USD 185) respectively, both much higher than the average income for Myanmar of K 93 527 (USD 99) per month. The low average income of MFI and co-operative clients is indicative that these providers are serving a lower income market segment.

[99] Author estimates for 2013 based on bank annual reports, supply side interviews, and 2012 CBM Annual report. Please note the high growth rate of bank deposits as illustrated in **Figure 25** in **Section 7.3.2**.

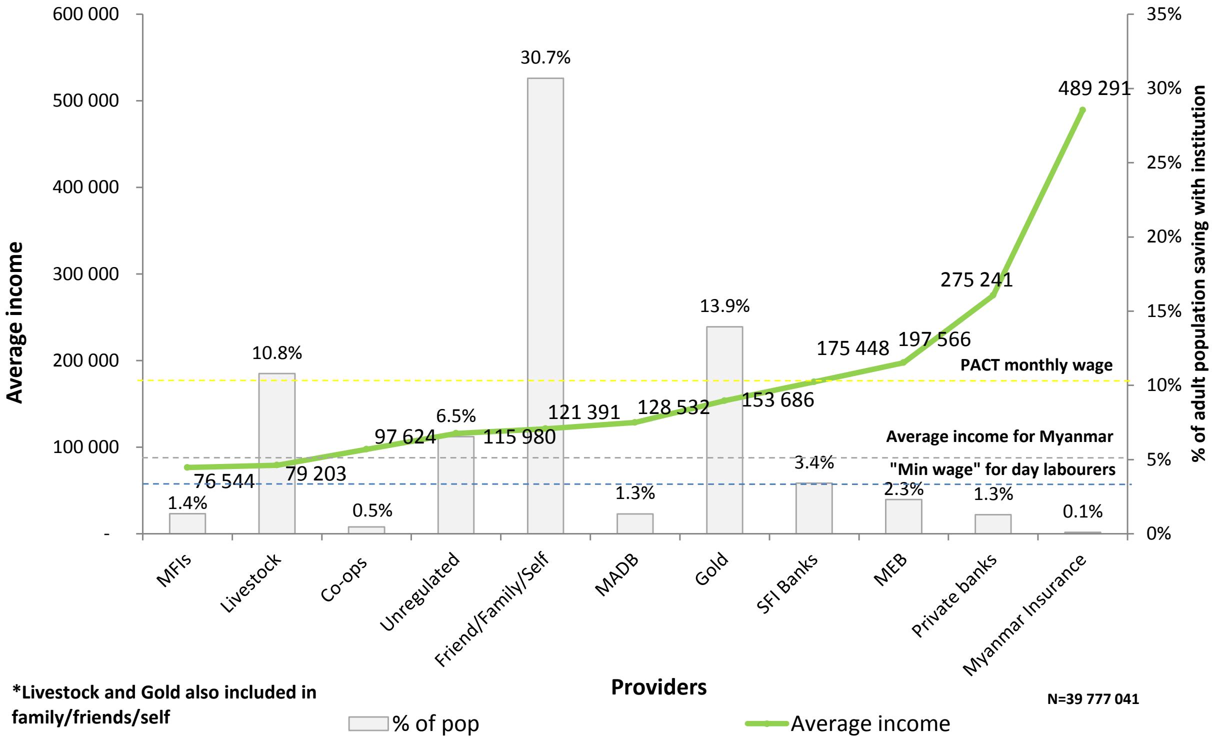


Figure 30: Average monthly income by savings groups.

Source: FinScope 2013

8.3.1. Commercial banks

Commercial banks largest deposit takers from largely high-income and urban population. The FinScope survey indicates that approximately 526 890 adults hold accounts at commercial banks. At the same time, estimates show that as a group, commercial banks have the largest number of deposit accounts, numbering roughly 2 million. This discrepancy is either a reflection of multiple account holders, the prevalence of corporate accounts, or possibly reflecting some dormant accounts. Using total bank deposits as reported in the CBM Annual Report 2011- 2012, we estimate the average deposit size in the private banking sector is K 2.1 million (USD 2 262) – a relatively high balance indicative of higher value account holders.

Removal of regulatory constraint triggered commercial bank expansion to raise deposits. It is important to note that the banking sector in Myanmar is dependent on deposits as their primary source of funds (because of the lack of domestic capital markets). Still, to date they have reached a limited segment of the population. Until recently, banks faced several hurdles in increasing the outreach of deposit services. Until 2011, the banks faced regulatory limits on the deposits they could mobilize relative to bank capital, which contained deposit growth. Banks were only permitted to hold deposits equal to seven times their paid-up capital. In turn, banks' lending was constrained by a ceiling on banks' loan to deposit ratio of 80%. Banks reached these limits as lending to corporate clients grew quickly and had to be curbed due to capital constraints. After gradual decreases, the limit on the deposits a bank could hold was abolished in 2011. Spurred by the removal of these limits and encouraged by early successes, banks such as Yoma and KBZ are pursuing branch (and mini-branch) expansion strategies to townships to attract new depositors to fund their lending. Growth in deposits of 86% and 64% year on year in 2010-11 and 2011-12 respectively appears to confirm this strategy.

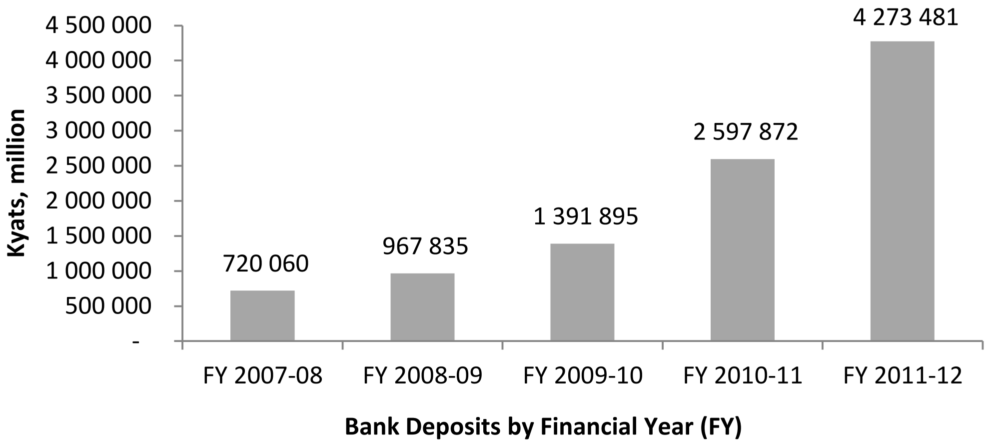


Figure 31: Private bank deposits

Source: CBM annual report

8.3.2. State Financial Institutions

MEB leverages branch infrastructure and brand to raise voluntary deposits. Wholly state-owned financial institutions, the MEB and MADB play a significant role in mobilizing savings with 2.1% of adults (826 940 adults) report savings at an SFI (one of these two institutions). However, supply side data from these two SFIs indicate a much larger client base: MEB report approximately 1 million deposit accounts while MADB reported 3.45 million deposit accounts and a saving deposit balance of K 14.7 billion (USD 15.5 million) in August 2013. This may be a sign of a large number of dormant accounts, which may be explained by a recent decrease in the savings held in MADB in particular. SFIs are not under the jurisdiction of the CBM and are often subject to different regulations or accounting standards.

MADB recently faced a massive withdrawal of savings. MADB has an explicit mandate to mobilize savings, however, it has succeeded mainly to mobilize compulsory deposits and recently faced a collapse of savings in this area. In August 2013, MADB reported a savings deposit balance of K 14.7 billion (USD 15.5 million), a significant decrease from the deposit base of approximately K 87.6 billion (USD 92.6 million) reported at the end of 2011/12. There are two reasons offered for the collapse in savings: The bulk of MADB deposits are classified as “rural savings deposits” and collected by MADB under a 1993 scheme to encourage farmers to open MADB savings accounts to mobilize rural savings. Under this ongoing scheme savers are attracted by their ability to borrow a multiple of their savings to finance farm development expenses such as fertilizer and machinery. In the early days 25% of the loan amount had to be saved to access a loan but this ratio has changed over time. Mobile savings units were instrumental in extending outreach to clients of the rural savers program.

MADB indicates that in 2012 farmers faced low prices for their paddy and crop failures which caused many of them to withdraw their savings. In addition, the Minister of Agriculture and Irrigation decreased the 50% compulsory savings needed to take out a loan under this scheme to 30% as a response to paddy crop failures, contributing to the massive withdrawal of savings in 2011/12. This lower level of deposits is likely to persist: in 2012, the Ministry of Irrigation and Agriculture decreased the interest rate on loans while maintaining the same retail deposit interest rate, causing the MADB's interest margin to shrink from 5% to 0.5% forcing MADB to curb its deposit mobilization and seek out funding through wholesale deposits from MEB instead (World Bank, 2014b). This shift in the funding strategy has made MADB reliant on MEB, which has not been able to provide enough funds for the loans for farm development expenses. Furthermore, MADB indicates it is difficult to mobilize the necessary voluntary savings to fund this scheme.

Client trust and access to loans has supported SFI deposit mobilization. MEB offers deposit products on the same terms as the commercial banks and is not formally mandated to play a role in mobilizing savings, but accredits this to its relatively large branch network and client trust in state-owned banks. FinScope results seem to confirm the popularity of the SFIs: when adults were asked what they would do with a large sum of money they could not spend, 47% (the most popular option) responded that they would put it in a SFI. As noted above with the rural savers program, the state banks have been most successful in mobilizing savings when tied to credit, and an effort has been made to bring these services closer to rural clients.

8.3.3. Co-operatives

Co-operatives are only attracting member savings through compulsory products. FinScope results indicate that co-operatives are the least popular regulated savings provider by proportion of adults: Only 0.5% of adults report using a co-operative to save. However, they serve a low-income client base. The total number of financial co-operatives and agricultural co-operatives who provide financial services is 7 635 (see **Table 15**: Infrastructure of co-operatives that provide financial services in **Section 7.3.5**) and its membership base is 873 000. Only members are able to save at co-operatives, but savings are mandatory only for current loan clients, and it is therefore unclear exactly how many members currently save. Co-operatives are not a significant source of savings mobilization in the rural areas where banks are scarce.

Co-operatives report that clients do not accumulate savings at their co-operatives beyond the amounts needed to graduate to larger loan sizes and compulsory savings from their members which builds over time and loan cycles. Co-operatives offer useful compulsory savings, but do not provide more sophisticated savings products or reach significant scale. One of the objectives of the Ministry of Co-operatives is to encourage savings practices and job creation. Seventy-five co-operatives have sought MF Licenses under the *Microfinance Law*.

8.3.4. Microfinance Institutions

MMSE reports 691 860 Microfinance accounts and deposits of K 12.1 billion (12.8 million USD). Slightly more than 1% of adults report they have savings at an MFI, representing 539 973 adults. The discrepancy may reflect co-operatives now licensed as MFIs by the MMSE, or simply multiple account holders.

MMSE does not allow MFIs to take deposit from non-borrowers. Both MFIs and co-operatives have sought deposit taking licenses under the *Microfinance Law* to accept deposits from their borrowers and the public to fund their loan portfolio. However, in implementation of the law, the MMSE does not yet allow these institutions to take savings from non-borrowers, and savings cannot be taken in amounts exceeding the client's loan. In the long term this will be a significant challenge for mature MFIs that have the potential to be a key player in providing savings services, and are likely to harm the sustainability of some newly-licensed institutions by denying them a source of funds. From a market perspective, despite the dispensation for deposit-taking microfinance, deposit taking MFIs are effectively unable to mobilize deposits beyond their members, and will not be able to stir up competition amongst providers of savings services. This is appropriate at this time, as most MFIs in Myanmar are small, unprepared, and not mature enough to take deposits from the general public and intermediate funds. However, there are signs of a small number of maturing MFIs often with international experience that if properly regulated under a separate tier with higher prudential standards should be able to mobilize deposits.

8.4. Distribution

Extensive distribution networks are critical for regulated providers to cost-effectively meet lower-income client needs to save frequently and conveniently in small amounts. In Myanmar, all providers have limited physical outreach and distribution networks and have been unable to leverage technology to lower costs. To date, expansion of a distribution network into new areas has attracted more depositors, and banks' branch expansion plans for the next period indicate an understanding of this dynamic.

The current physical distribution network of regulated provider branches is limited and there is a stark urban - rural divide. Financial co-operatives have the largest footprint (2 413 financial co-operatives, including CCS branches), followed by commercial banks (577 branches), SFIs (537 branches), and MFIs (418 branches). The commercial branch network has been limited in part because of regulations requiring banks to increase paid-up capital for each new branch and to seek approvals and on-site inspection for each new branch. As such, to date they have been largely urban. SFIs have had a head start in building a larger distribution network, as the MEB is exempt from these additional capital requirements. MEB therefore have a large full-branch network which it uses to support the government and disburse retail banking services and as such have had greater penetration into the rural areas. MFIs are largely acknowledged to have the widest distribution outside of the cities, both in the border areas and the interior of the country. However, MFI branches make up only approximately 4% of the existing branch network.

On the other hand, financial co-operatives do not have branches and are found close to their members and are limited to urban areas. For example, vendors at a particular bazaar or neighbourhood are served by a local co-operative located within the market or neighbourhood. CCS reports 2 413 financial co-operatives (including 73 CCS branches), although 5 222 agricultural co-operatives have recently started on-lending to its members. It is unclear at this stage whether, or to what extent, these agricultural co-operatives also takes deposits from their members. Through the Government of Myanmar's interest to have a co-operative in each village, the distribution of financial co-operatives may increase, however, as noted above, their contribution to providing savings services is limited to compulsory savings.

Discrepancies in savings behaviour mimics the urban-rural divide in branch access points. Savings levels are low in rural areas: Rural villages have the lowest level of savings in regulated institutions at 4% of adults. In contrast, 11% of adults in urban areas save in regulated institutions. The proximity of a branch, and hence the outreach of their branch network in rural areas does influence take-up. FinScope results show that there is a high correlation between proximity to a bank branch and the likelihood of being a commercial bank client. Adults living within 5 minutes of a bank branch are 3 to 4 times more likely to be a private bank client (than the average for Myanmar). Currently, 71% of commercial bank clients are within 30 minutes of a bank branch. Yet, respondents still rank proximity barriers below income related barriers to savings: of the 93% of adults that have never had a savings account, only 3% indicate that banks are too far away or transport too difficult to have an account. Physical proximity has also supported the MADB in the past: in the 1990s MADB began using mobile vans to distribute its financial services in rural areas, and in particular to launch a seemingly successful service for remote rural savers. It is likely that these distribution systems have contributed to the large number of SFI depositors to date.

Banks are driving an expansion in deposits by growing their branch and distribution networks. Banks have recognized the potential to increase their deposit base through an expanded branch network. Regulatory limits on the amounts of deposits banks can hold were lifted in 2011 and in early 2013 new regulations allowed for new, mini bank branches with less onerous capital requirements that can accept deposits and open accounts. Both these regulatory developments open the door to an expansion of the distribution network. At the same time, banks seek to grow their deposit base to fuel growth of their loan portfolios, which are currently limited by regulation to have a loan to deposit ratio of approximately 80%. As a result, the banks appear to see the potential for deposit mobilization in new and rural areas for their commercial sustainability, as many banks reported they were close to this threshold. This mobilization will be driven by banks interest in growing their loan portfolios. Both large banks such as KBZ and Co-operative Bank as well as new growing banks such as Yoma have indicated that they have significant branch (and mini-branch) expansion plans into the rural areas to grow deposits to fuel the growth of their loan portfolios.

The use of information systems and payments technology to expand distribution and cost-effectively manage small accounts is largely absent in the banking sector, but change is underway. In May 2013 four of the commercial banks, driven by an interest in foreign exchange transactions, were in the process of adopting core banking systems and were transitioning to their use. At all other banks, branches are "offline," except for a subset of branches in particularly active commercial (urban) areas that were connected through internal online platforms. This landscape is changing rapidly and will open the door for the cost-effective, secure, administration of deposit accounts at scale and allow for the use of online mini- branches or agents capable of performing real-time transactions.

To date, MADB and MEB have administered the largest number of savings accounts country-wide, without core banking systems. However, account management has been highlighted as a challenge. Both MEB and MADB require significant government funding to update their limited IT systems to install systems that will allow them to cost-effectively grow their retail savings base and leverage their strengths: trust by the population, a significant existing branch network, and favoured treatment on capital for bank branches. SFIs will struggle with existing systems to contribute to a deliberate drive for savings mobilization without this investment. Commercial banks may even eclipse their dominant position.

This lack of basic IT has also contributed to providers' limited use of payments technology to expand distribution or convenience for most clients. The current use of ATMs and POS devices for accessing bank accounts is limited to urban areas (generally on site at the branch) and only offered to account holders from urban branches. As such, ATMs and POS are simply employed to provide convenience to limited urban customers (and foreign visitors) rather than to make significant advancements in physical access that encourage new clients and easy savings in small amounts. However, upcoming improvements in bank information systems and payment systems infrastructure can expand the use of ATMs, POS, and other payments channels such as the mobile phone and provide a platform for banks entering the low income market. At this time, regulated MFIs are not permitted to be members of the MPU (national switch) and as such their use of payments technologies to enhance the convenience and utility of accounts for their deposit clients is limited.

Existing distribution partnerships are not leveraged for savings. Despite the limited distribution network, the only evidence of partnerships amongst financial institutions to enhance distribution networks has been in banks' provision of remittance services. Banks work with established partner banks to use their rural branch network to reach clients who need to send or receive a remittance payment. These partnerships appear to work well, and could potentially be used to support savings collection as well. However, currently, remittance transfers are not account-based transactions, and remitters do not require a store of value account, to perform the transfer.

The use of agents for mobile banking schemes shows promise for extending bank distribution networks into the rural villages through the use of third party non-bank agents. Interviews with CBM in May 2013 reveal that the draft mobile banking regulations allow banks to engage with non-bank agents to offer banking services. The use of agents has the potential to extend banks' reach into the villages to perform bank account based transactions. Banks have acted quickly to develop plans for this new service, and some banks have begun to consider their selection criteria for agents. It is expected that qualified MFIs will be permitted to serve as agents – offering the potential for significant physical outreach once MFIs are permitted to offer payments as allowed by law (see **Section 5**). Furthermore, the integration of the electronic payment channel (mobile phone) into bank operations may take considerable time given the banks' current IT infrastructure.

Banks are taking initial steps to launch mobile banking and the use of agents to expand distribution. Co-operative Bank plans to introduce bank agents in 2014 and is one of several banks to launch a mobile banking application. They have identified and are training 100 retail agents, to be equipped with POS, pending CBM approval (as of March 2014). Regulation permitted agents will provide cash-in / cash-out services as well as account opening. Other banks have launched mobile banking through SMS, applications or USSD channels and several, including Co-operative Bank, are in discussions with Telenor and Oreedoo to partner.

8.5. Products

The use cases for savings developed above outlined the need for a variety of savings products to meet consumer needs. Currently, savings such as livestock, gold, and in a piggybank at home meet these needs, while regulated savings providers offer a limited range of basic deposit or savings products that are not tailored with features that support these use cases to attract new rural and low income clients. Co-operatives and MFIs savings products are geared towards attaining loans. To drive adoption and usage and migrate these savings into the regulated sector, providers will be challenged to improve their product offering as they improve their physical outreach. In this section, we provide an understanding of the deposit products available before considering their ability to meet the use case.

Regulated deposit product offering is limited. SFIs and commercial banks offer a full range of similar deposit products – savings, current, and fixed deposit accounts. SFIs report the largest number of deposit accounts and client take-up of deposit products at SFIs is the largest. Currently, MFIs (regulated and unregulated) are limited to taking savings from their members and the savings products offered were not diverse. Non-deposit taking MFIs and financial co-operatives are only permitted to take compulsory savings from their members. However, even with this limited offering, FinScope results show they attract the largest number of savers after SFIs. **Table 25** below summarizes the type of deposit products offered by different providers

SFIs and commercial banks offer three deposit products and they are identical. SFIs and commercial banks offer identical deposit products with a fixed interest rate floor and there are three main products: Current accounts, savings accounts, and fixed deposit accounts with terms of 3, 6, 9, and 12 months. Banks report that the majority of their deposit accounts are savings accounts (60 to 75% of accounts), 20% are current accounts, while fixed deposit accounts make up only 10% of accounts. It was noted that current accounts are mostly used by loan and business clients. Salary accounts are limited because of the informal nature of most employment, though some industries are now experimenting with accounts and on-site bank ATMs to disburse salaries to avoid cumbersome cash transactions. However, these clients largely receive their salaries and withdraw the entire amount rather than use the account to store funds. Some banks, such as CB Bank, increase their outreach by providing group accounts for co-operatives. A few banks have youth savings accounts, but these seem largely geared towards the children of existing clients.

Low-income savers face affordability and eligibility barriers to product take-up at the banks. Banks do not offer basic bank accounts or similar "no-frill" accounts targeted at small savers through specific product features such as low eligibility requirements, low fees, or no balance requirements. At the commercial banks, many savings and fixed deposit accounts do have minimum opening balance requirements ranging from K 500 to K 10 000 (USD 0.5 to USD 11) at the discretion of the bank. At the higher end of this range, the minimum balance is almost 10% of an estimated average monthly income of K 93 527 (USD 99). For the average income level of an MFI client, even a mid-range fee of K 2 100 would translate to 2.7% of average monthly income of K 76 544 (USD 81). As such, this type of opening balance at the bank may be prohibitive. For SFIs, there is no indication of such an opening balance, or high fees. Transaction fees and the cost of account maintenance we found difficult to investigate based on publicly available information. Given that adults largely cite income barriers to savings, it is likely that consumers would be very sensitive to any fees or charges related to savings.

According to regulation, a prospective bank client must have (1) two existing clients of the bank serve as references to be able to open an account; (2) provide proof of household residency from immigration department at the district level; and (3) present a photo ID document which could be a national ID, passport, employee card, driving license or household registration. In practice, commercial banks indicate that the two references rule, which could be a major barrier to account opening, is not practiced. Rather, bank staff will often serve as the references when needed. Though these requirements may only be enforced selectively, they are likely to contribute to client perceptions that banks are for high income clients or that there is too much "red tape" associated with opening a bank account.

	Banks	SFIs	Deposit MFIs	MFIs	Co-operatives
Current Account	All	Yes	No	No	No
Savings	All	Yes	Members only	No	No
Fixed deposit	All	Yes	Members only	No	No
Compulsory savings	-	Yes	Yes	Yes	Yes

Table 25: Savings Products by Provider

Source: Author's own

High fixed interest rates on savings are not enough to draw in small savers. Both banks and deposit-taking MFIs offer a high return on savings and fixed deposit accounts. The interest rate floors on bank savings products are set by regulation – beginning June 1 2012, the CBM set the interest rate on deposits to be no less than 8% per annum. As such, commercial banks and SFIs offer rates of 8% per annum on savings accounts and 8.5% to 10% per annum for fixed deposits (see **Table 26** below). MFIs face a higher interest rate floor of 15% per year, which is specified as not less than K 1.25 per month or K 15 per year on K 100.

Myanmar's interest rates of 8 to 15% per annum appear high when compared internationally to Indonesia of 5.94%, Cambodia 1.33% and the Philippines of 3.1%, though they are similar to the 7.98% offered in Pakistan. However, clients in Myanmar may not find these interest rates as attractive as they were subject to high, persistent inflation for 10-15 years prior to 2009 which made for real negative returns that would have wiped out and discouraged savings in regulated institutions. Client perceptions should adjust if inflation rates continue to stabilize in the medium term as expected. It should also be noted that interest on savings accounts at banks and SFIs may be less attractive to clients as it is accrued based on the account balance during the first five days of the month and credited to the account only quarterly. New bank successes in mobilizing deposits in the rural areas may already indicate this shift as physical access barriers are overcome.

Account Type	Interest % (May 2013)
MFI Savings Account	15%
Bank Current Account	0%
Bank Savings Account	8%
Bank Fixed Deposit 3mths	8.50%
Bank Fixed Deposit 6mths	9%
Bank Fixed Deposit 9mths	9.50%
Bank Fixed Deposit 12mths	10%

Table 26: Interest rates on bank deposits.

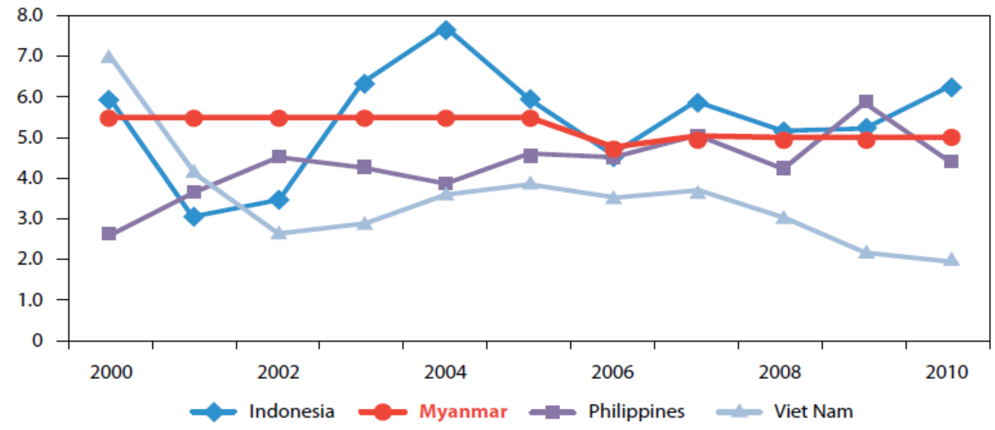
Source: Interviews with banks and MFI regulation

Despite these relatively high returns, many potential savers opt to intermediate funds themselves and loan out their excess capital, both to friends and family or other members of the community. Nearly all affluent focus group respondents reported that they earned interest income from this type of unregulated intermediation of funds. As unregulated lenders, individuals earn income at rates higher than the interest rates set for savings: for friends and family interest ranged from 3% to 8% per month while for others in the community, rates ranged from 10% to 30% per day. The sustained high interest rates for this common unregulated intermediation, indicate a scarcity in the availability of capital for intermediation in the regulated sector (please see **Section 7**). As such the interest rates on savings may be artificially low. The existence of 'brokers' in the market for unregulated credit who are able to command high fees (10% of the interest) to introduce prospective clients to unregulated moneylenders further highlights the true return that would be earned on savings if interest rates on regulated credit and savings were not constrained.

Interest rates may also not compensate for other transaction costs or hurdles for client take-up and use of regulated accounts. Focus group discussions revealed that the interest earned on savings did not appear to compensate for the effort involved in account opening. Similarly, the low perceived security risk changes the client's perception of relative benefits of using savings mechanisms that are not regulated. Limited physical outreach noted in the previous section is also likely to contribute to high client transaction costs.

Providers can sustain current interest rates, but these do not support outreach to underserved areas. Some interviewed banks were concerned about the high cost of servicing small savings and deposit clients because of the high set floor on interest rates. However, from a macro perspective the interest rate spread in Myanmar is high when compared to other ASEAN countries such as Indonesia, Philippines, and Vietnam. Basic analysis of some commercial bank annual financial statements show that interest payments make up more than 70% of operating expenses, with interest payments on deposits representing the bulk of bank liabilities (81%-92%). While this is high, the net interest margin (NIM) is still 5% to 7%. Though interest rates offered on savings are high, they do not seem to impact bank performance in a way that would dissuade banks from taking savings. However, if high investments in physical infrastructure are needed to expand deposits, provider margins may disappear quickly in the short run.

At MADB for 2010/11 interest paid on deposits is much lower as a percentage of total operating expenses at approximately 26% and the NIM is higher at 9%. However, the structure of MADB liabilities differs from the commercial banks: since 2011 MADB receives significant subsidized funding (wholesale deposit) from MEB at 4% per year, which is likely to create a disincentive to mobilizing deposits which must be paid at 8%+ per annum. In 2012, MADB was further discouraged from mobilizing deposits when the ceiling on loan interest rates was decreased to 8.5% per annum. This left, MADB with a very low interest margin, barely sufficient to cover operating expenses and losses. Thus, interest rate floors on deposits may curb any gains in savings mobilization through the SFIs, particularly where increased physical outreach is required.



ASEAN = Association of Southeast Asian Nations.
Note: Interest rate spread is lending rate minus deposit rate.
Source: WB-WDI 2012

Figure 32: Interest Rate Spread of Selected ASEAN Countries, 2000-2010 (%)

Source: WB-WDI 2012

The analysis for MFIs is distinct from that for the banks because of the high transaction and operational costs associated with serving rural areas. MFI lending rates are capped at 30% per year while interest on deposits taken is set at 15% per year. Though the lending interest rate does not diverge greatly from international norms, given inflation and the high operational costs associated with reaching remote areas, the spread may be low. Furthermore, MFIs face a limit on the portion of deposits that can be lent out and are unable to earn interest on those funds that are not lent out (reserves), which further erodes MFI margins. As such, MFIs may be discouraged from funding their loan portfolios via savings and seek out other sources of funds, or MFIs may simply be unable to serve rural populations in a sustainable way. This would explain why only one MFI, PACT, has strong rural outreach upheld by subsidised wholesale funding[100].

Synergies with other product lines such as remittances and credit can be developed to promote savings. Despite gaining a significant portion on their revenue from remittances fees, banks have not yet recognized the potential to convert their remittance clients into savings or current accounts clients by encouraging account opening to send and/or receive remittances. Bank incentives to continue non-account transfers are still unclear, but the analysis above indicates that it is not related to the high interest rates. The use of accounts

[100] Proximity's outreach is entirely rural, but very small compared to PACT.

would allow savers to take advantage of the partnerships between banks that has created a fairly robust distribution network for remittances, and would allow savers more proximate locations to make deposits. As payments and remittances become digital or electronic, account based remittances will become more viable as the costs of account administration fall, and in turn, clients will have access to accessible store of value accounts that they can use for small savings, and payments - if this vision is adopted by the sector. The remittance receivers, accounting for roughly 1% of adults and part of the Informal consumer market target group, would benefit from this transition. MFIs, co-operatives, and MADB have been successful in mobilizing savings when they are tied to the provision of credit. As such, there is potential to adapt new mobile credit products developed in other countries (such as M-Shwari in Kenya). These products promote savings by offering short-term credit based on savings (and payments) behaviour over mobile money platforms. The credit offering is determined using sophisticated scoring models.

8.6. Regulatory constraints and enablers

The regulatory environment is critical for deposit-taking and savings mobilization. Expected large-scale changes in the legal and regulatory environment will continue to transform the existing landscape for the supply of deposit services from regulated providers. At this time there are both existing constraints to savings mobilization and new changes that show promise, particularly for increased outreach by the banks.

Banks were previously limited on the size of their deposit base and therefore their lending. As highlighted above, until recently, private banks faced limits on the amount of deposits they can hold. In the early 1990s banks were only allowed to hold seven- times their paid-up capital. This was then increased to 10 times and finally 25 times their paid up capital before the limit was abolished altogether in 2012. This has opened the door for banks to mobilize more deposits. This mobilization will be driven by banks interest in growing their loan portfolios, which are currently limited by a loan to deposit ratio of approximately 80%. Interviews and bank balance sheets indicate that most banks are very close to this limit (75% to 80%) and will benefit from additional deposits to increase their lending.

Branch expansion is critical for savings mobilization but still dis-incentivized due to capital requirements and onerous licensing procedures. As mentioned above, thin margins may still discourage savings mobilization (particular amongst smaller depositors) that requires substantial new investments in distribution. Though the CBM encourages the expansion of bank branches into the rural areas in principle, banks report that all new locations for banks branches must be approved on-site by the CBM and additional capital deposited. However, there are some promising changes. The permissions for new branches are now granted in as quickly as 2 to 3 weeks. Banks are optimistic about the potential for a larger branch network under new regulation for mini-branches released in the first half of 2013 that allow banks to open mini-branches that can accept deposits for accounts formally maintained at the full branch. Mini-branches are lower cost as the bank need not own the premises and they do not require a vault. It is still too early to judge its impact.

'Deposit-taking' MFIs authorized under the microfinance law are treated in a uniform manner and only permitted to take deposits from their loan clients. MFIs that have sought out deposit taking microfinance licenses have not been permitted to mobilize deposits from beyond their loan client base, despite their new legal status. MFIs are only able to take

compulsory deposits, which amount to a form of collateral. This approach in implementation of the law has been a source of confusion and challenges for some new entrants looking to mobilize savings to fund growth in their loan portfolios. Existing players also expressed a need for deposit growth in the longer term. The CBM has voiced concerns that MFIs will engage in shadow banking if permitted to take deposits outside their membership base. It is also likely that the CBM and MSE are not yet confident in the prudential soundness of the MFIs which should be a precondition to any regulated body taking large scale deposits. Developing the management and infrastructure capacity to take savings, may be beyond the reach of many providers at this time. However, select experienced local and international players in the MFI market may find this wait for deposit-taking unnecessary. A timeline for the development of deposit-taking in the sector should be determined. Otherwise, here may be a missed opportunity for MFIs to serve their low income target market with savings services and without deposits as a source of funding, some MFIs may have trouble growing their loan portfolios.

Furthermore, liquidity ratios applied to MFIs discourage savings mobilisation. MFIs have reported varying but high liquidity ratios (loan to deposit ratios) required ranging from 50% to 100%. The result is that, while MFIs must pay the high floor interest rate on all deposits, they are only able to generate returns from lending out a proportion of deposits. In addition, non-profit MFIs report that they are not allowed by the Ministry of Finance to earn interest on deposits as non-profit organisations are not aimed at “making money.” As result, they have to keep the liquidity reserve (as well as any other free cash) in a non-interest bearing current account. The combination of these two factors serves as a significant deterrent for MFIs to raise deposits, when they are permitted to taking more deposits. This topic should be discussed with the industry when developing a plan for deposit mobilization by MFIs.

Take-up of deposit insurance is growing for small amounts. Deposit insurance has been introduced by Myanmar Insurance which will be compulsory for commercial banks. However, only 16 of the 19 private banks are currently offering deposit insurance[101]. The product only covers small deposits up to K 1 million (USD 1 057). In May 2013, the premium for insurance was 0.125%, which was down from the initial 0.25%. The banks would like a further decrease in the premium. Deposit insurance may play an important role in restoring small savers’ trust in keeping their funds in the private banks and support the growth of small deposits if the public is aware of the insurance and how it works.

8.7. Gaps and Opportunities

The above analysis of the landscape, use cases, providers, distribution, and regulatory picture for increasing access to savings in Myanmar uncovers missing pieces and opportunities for significant gain.

The four use cases outlined above provide a helpful guide for how client needs would determine gaps and opportunities for increased savings:

Short-term savings for consumption smoothing: To compete with the convenience of at-home savings in a piggy-bank, savings products must allow for easy and frequent access in the form of proximity and low transaction fees. There are no limited transaction accounts available in the market, and savings accounts at banks and SFIs are generally not proximate

[101] According to Myanmar Insurance

enough to meet the frequent cash needs under this use case, regardless of their product offering. Checking accounts at the banks were largely used by corporates. Furthermore, fees on banks' savings products likely make them too costly for regular use, but SFIs may not impose these costs, giving them a slight edge. Banks and SFIs have the opportunity to capture savings by developing this type of a frequent use product if they are able to extend their distribution networks to facilitate its use.

Larger, medium-term savings for unplanned eventualities or anticipated needs such as education: Banks and SFIs savings accounts appear to be suitable for this use case which should not require daily access or transactions. However, there is strong competition here with savings in gold where the widespread network of pawnshops may be more convenient than the bank or SFI branches. The bank and SFI networks will need to meet that level of ubiquity at a minimum. Furthermore, consumer trust in the value of gold may surpass trust in the banks and SFIs. Continued high interest rates on banks/SFI deposits may be needed to encourage movement to the regulated sector, coupled with increased physical presence to improve visibility and familiarity with banks and SFIs. Banks and SFIs have the potential to target Employees of formal private companies and Formal enterprises (two of the target groups explained in **Section 4.2**) with salary accounts – to take advantage of their familiarity with the formal sector, even if in the initial stages balances remain low.

Compulsory savings for loans: Co-operatives and MFIs are exclusively gathering compulsory savings and increasing the number of savings accounts for many low income individuals by leveraging their need for loans. Though the demand for voluntary savings via MFIs and co-operatives is still uncertain, MFIs and co-operatives are the only providers to have created a relationship with this low income end of the market through loans, and as such present an opportunity to build that relationship into voluntary savings. MFIs and co-operatives may have the opportunity to serve as agents to collect savings as agents for the bank. Alternatively, upgrades in capacity and regulatory change may allow certain mature MFIs to mobilize savings too. Mobile credit products linked to savings behaviour may also encourage increased savings.

Longer-term saving for investment and productive use: Bank and SFI fixed deposit products with flexible durations beginning at 3 months would seemingly be a good regulated substitute for saving in livestock which implies a restriction on liquidity, a larger value, and longer duration of savings. However, these regulated sector products have faced a very low take-up (based on supply side data). This low take-up may indicate an inability to meet consumer needs, a lack of awareness, low understanding of these more complicated products, or a heightened perception of risk if trust levels in regulated providers are indeed low. Furthermore, livestock often provides non-monetary pay-outs such as milk, eggs, offspring, transport etc. that improve the welfare of the household and farm that may go beyond what monetary savings can offer so it should not be assumed that all savings in livestock could be replaced. Notably, it does not seem that banks and SFIs are reaching the same type of client that is saving in livestock: there is a market difference in the average income level by user group, and banks will need to make a concerted effort to serve a new client segment. Incremental house construction is sometimes also considered as a form of savings, which would be hard to duplicate with a regulated savings product.

Existing regulated providers will play a critical role in attracting unregulated savings into regulated institutions, and providing a useful place to save for the 62.7% of the population that do not save at all. Based on their current contributions and competencies, each of the existing regulated providers has a role in meeting the needs identified in these use cases.

For MEB to maintain their dominant position and leverage their existing outreach to mobilize more savings, they will require support from the government to renew their mandate for savings mobilization, as well as to modernise. In particular, disincentives for savings mobilization based on low interest margins for MEB must be contended with or there will be no growth. With that, MEB will need to invest in their core banking platform to power account management without which they may be weary of increasing their physical presence or taking on more accounts. These updates are likely to be part of a more comprehensive set of reforms aimed at the state banks.

Banks seem to be poised to mobilize significant deposits from higher-income groups[102], but may stop short of reaching beyond their traditional client groups without further changes. The removal of limits on the size of banks' deposit base coupled with new regulations allowing mini branches are driving banks' interest in mobilizing savings in new geographic areas through increased physical outreach of the banking sector into the townships. However, bankers' continued concerns about the low interest rate spread, driven by imposed floor on savings interest rates and ceilings on lending rates, make it unlikely that this expansion can be sustained into harder to reach areas that require substantial investment. Furthermore, tight margins will not sustain servicing lower-income small savers if the banks are reliant on high-cost traditional brick and mortar infrastructure and rudimentary account management systems. Banks interested in mass savings mobilization will likely need to gain efficiencies through appropriate technology to enable account management and payments that will allow distribution to go further into un-reached, lower-income areas.

New payments systems and providers have the potential to cost-effectively add convenience and safety which is essential particularly for small savings clients. Mobile banking and non-bank mobile money through agents shows great potential to serve bank and SFI clients who are low-income, remote, and costly to serve with transactional accounts. With small average monthly savings across the target groups, this is an opportunity to serve a broad set of clients more profitably. Farmers, in particular, the smallest average monthly savers located in the rural areas would greatly benefit from these services.

MFIs in Myanmar have a demonstrated interest in providing financial services to lower income clients. A plan and timeline is needed for certain sound providers to be permitted to offer savings outside their membership base in line with global good practice to safely bring them into the regulated financial sector, under a new regulatory tier with higher prudential requirements. Regulators' concerns about unscrupulous MFIs, shadow banking, and regulatory arbitrage should be addressed with effective but enabling regulation and supervision. A diversity of regulated deposit taking institutions are instrumental in providing accessible, appropriate savings services for lower income clients for whom they may already be familiar or trusted institutions. In particular, largely rural target groups like Farmers and Informal consumers would benefit from the outreach of microfinance providers who would be well-placed to meet their needs for proximity and the development of specialized products.

[102] As indicated in section 8.3, FinScope results show that banks serve clients with the highest average monthly incomes (K 275 241 (USD 291). Only clients of Myanmar Insurance report higher monthly average incomes.

The fundamental challenge of building trust in the financial sector will only happen as potential clients gain awareness and gain benefits from the savings products offered over time.

9. Market for payments

9.1. Payments landscape and take-up

Cash-based society. The payments environment in Myanmar can be characterised by the fact that nearly all retail payments are made in cash, by customers and businesses alike. Only a small portion are made via domestic inter-bank transfers and even in these cases payments are most often deposited by the sender in cash and withdrawn by the receiver in cash. Due to the lack of infrastructure, there is virtually no explicit demand for electronic retail payments. Customers suffer from an unreliable power grid, inconsistent communications networks, and low penetration of electronic touch points (such as ATMs and POS).

Use of family and friends the predominant method of remitting money. The landscape for domestic retail payments is dominated by regulated and unregulated remittance payments, occurring between geographic regions and serving a variety of industries. More than 7 million adults reported receiving remittances and 3.9 million reported sending remittances. Bank transfers account for 38% of remittances received (despite a bank account penetration of less than 5%, so most remittances is not account-based) and 41% receive remittances via friends or family. A further 21% of payments are received via an unregulated network of payment brokers, or *hundis*. Comparatively, of the remittance senders, 55% use bank transfers, 36% friends or family, and 8% *hundis*. All of these transactions occur in cash.

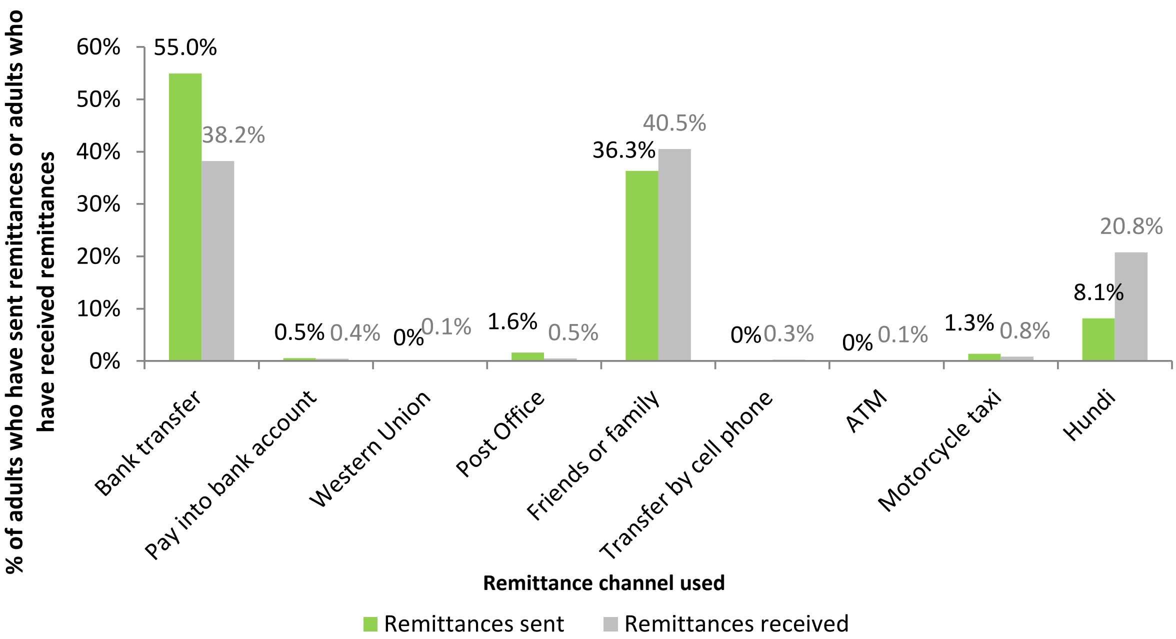


Figure 33: Channels used to send and receive remittances

Source: FinScope 2013

Usage of remittances varies between target groups. Looking deeper into the origin of domestic remittances, 7% of adults send remittances, of which Farmers and enterprises (Formal enterprises and Informal enterprises) account for the bulk of total remittances sent. However, Formal enterprises and the Formal consumer market have the highest proportion of adults sending remittances (25% and 14% of these two target groups reported sending remittances). However, across all target groups there are a significant number of adults sending remittances. This relative diversity in origin of payments begins to give shape to the purpose of the remittance payments and highlights where efforts can be focused to create a more efficient and robust payments system.

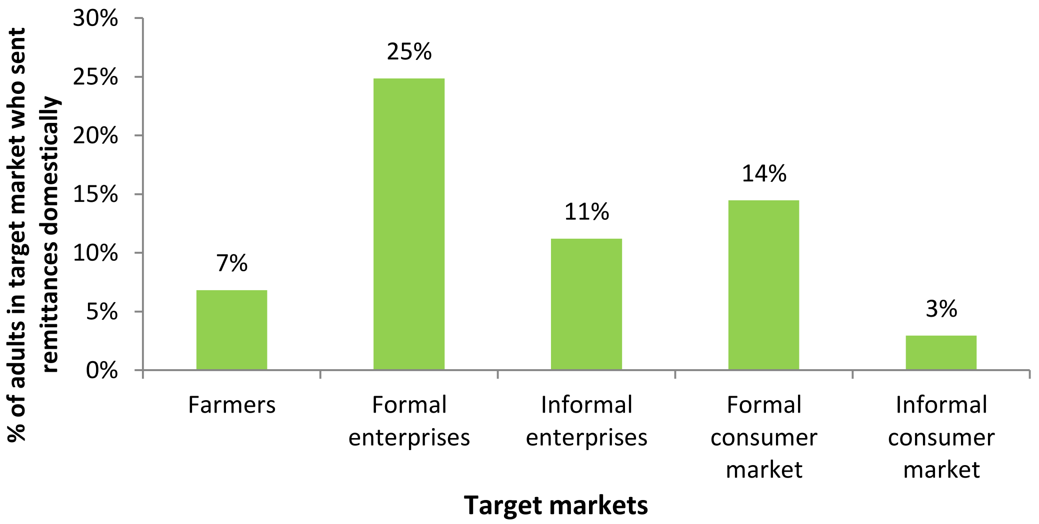


Figure 34: Proportion of target groups sending remittances

Source: FinScope 2013

Rapid changing payments infrastructure will change payment behaviour. The landscape of retail payments will rapidly change as improvements in the central power and communications infrastructure enable investments in modern electronic payment mechanisms. It is likely that this change will encourage providers to begin offering service propositions that can deliver added value to existing cash based payment use cases. The future of inclusive payment services in Myanmar lies in a shift from a "cash only" payment network to one where customers have greater choices in how they send and receive money. This will require an understanding of how customers currently make payments (use cases) and from there identifying possible alternatives that are equal to or better than cash.

9.2. Use case for payments

From the research conducted for this report we can identify several use cases[103] for electronic payments in Myanmar. These use cases can be described as an interaction between a product and the retail market, where a clear demand from customers is reflected in the usage of existing products or services. The use cases below are not exhaustive but rather focused on those that have the greatest potential to achieve scale using electronic payment platforms.

Use Case #1: Sending and receiving remittances (P2P; P2B). Myanmar has a large migrant population who remit money either locally, between urban and rural areas, or

[103] In other markets these use cases have been identified as potentially the greatest drivers of financial inclusion where it leverages the payment channel as a means of access to a broader range of services. The infrastructure and business rules required to make remittance and bill payments function effectively and affordably can be leveraged to catalyze other services (such as savings and insurance) over the payment channel.

internationally from countries such as Thailand, Malaysia, Singapore and the United Arab Emirates. These transfers were traditionally conducted through unregulated networks but are increasingly occurring through regulated banking channels. Included in this use case are payments to small businesses, by either individuals or other businesses.

Use Case #2: Bill payments services (P2B). There is an increasing need for electronic payments for services such as electricity and mobile phone usage. These are currently done in cash, with some banks and retailers offering these services in selected branches and outlets[104]. In addition, payments to financial services providers (i.e. loan repayment and insurance premiums) are currently conducted in cash at the financial services provider.

Use Case #3: Bulk payment disbursal (G2P; B2P). A significant portion of the population receives regular salary payments from bulk payers, particularly government payments and increasingly large private sector employers. Regular government payments to employees and pensioners provides an opportunity to harness an existing payment process to not only make payments electronically but also to incentivize investment in an electronic network for cash disbursal (ATMs and cash merchants), paving the way for deeper penetration of e-payment mechanisms, effectively subsidized by the government.

These use cases provide a context that allows the analysis to more easily identify how well suited the current landscape is to meet the payment needs of the retail market. From this base we can further organize the usage of payment services in Myanmar into four broad categories: Person to Person (P2P) payments, Person to Business (P2B), Business to Business (B2B) payments, and Government to Person (G2P) payments. The payment grid shown in **Figure 35** below shows how these categories relate to the spectrum of retail payment flows seen in most economies.

PAYER

PAYEE

	Government	Business	Person
Government			
Business		B2B	P2B
Person	G2P		P2P

Figure 35: Payment Grid-Categories of payments in Myanmar

Source: Author's own

Together, these carry the bulk of regular payment transactions in Myanmar. Within P2P payments we can further segment transactions into (i) domestic remittances particularly from urban migrants to rural families, and (ii) cross border remittances to or from the Burmese diaspora. P2B payments (person to business) include cases where a business is run on a unregulated basis by individuals operating on their own account as well as bill payments

[104] However, banks disclosed during supply side interviews that they generate limited revenue from bill payments. Most of the utilities are government-owned and have not been willing to pay higher fees for banks to process payments.

where many payers remit funds to a single payee (e.g. electricity bill). B2B payments often consist of higher value payments between regulated or better established businesses[105] in Myanmar. These payments are often made via bank transfer but may also cross borders, with the highest volume completed on an unregulated basis on behalf of small independent traders on either side of the border. The vast majority of G2P payments are made to civil servants, military personnel and pensioners.

The use cases and categories of payments in Myanmar provide a foundational context from which this analysis will be built. The following sections describe the types of providers offering payment services in Myanmar and the respective products found in the market that serve the use cases and categories noted previously. Embedded in the discussion of providers is an overview of the current infrastructure in Myanmar. This provides a point of reference for the description of the payment products found in Myanmar which are heavily reliant on the nature and state of the infrastructure and distribution points. The analysis then looks at the regulatory environment for payments, identifying its scope and focus. The conclusion of the analysis provides a brief overview of the critical gaps and associated opportunities for payment system development.

9.3. Providers in Myanmar

Only three categories of payments providers. There is little variety among the regulated payment service providers in Myanmar. Other than the government, there are only two categories of providers in Myanmar who provide retail payments services to clients. One of these is regulated, and the other is unregulated. Each of these is discussed here and depicted in **Figure 36** below.

Government the largest payments providers. The largest payment provider in the country is the government, with 960 000 adults reporting to receive their main source of income from government wages. Government payments are also made to pensioners, thought to total roughly 400 000 people. Government payments are largely distributed via the branch network of MEB, whose large, subsidized network constitutes about 29.5% of total branches in Myanmar. This enables extensive coverage of the country to serve those who qualify for government disbursements. Salary payments have the highest frequency (monthly) while pension payments are less frequent (quarterly or biannually). Government payments are primarily outgoing only and made almost entirely[106] in cash.

Commercial banks the only regulated payments provider. Commercial banks are the only regulated payment provider in the country, enabled by their geographic coverage of branches to allow for payment transfers for retail customers. The banking industry has organized itself into various networks and alliances to allow customers to transfer between banks of the same network, thus leveraging their respective infrastructure. In addition to these domestic partnerships, several international remittance agents (e.g. Western Union, Xpress Money, etc.) have partnered with banks in Myanmar to facilitate mainly international transfers. There are no international banks operating within Myanmar that provide payment services.

[105] We make this distinction in order to segment individuals running small enterprises with one or two employees and larger entities that employ more staff and require higher value working capital in order to manage their respective business practice.
[106] Some government employees are paid directly into bank accounts at MEB, however the precise number was not provided during interviews.

Hundi network a pervasive provider of payments. The only other active provider of payments in Myanmar are *hundis*, which are an unregulated network of citizens who offer unregulated payment services to clients for personal and business needs. *Hundi* networks are located throughout Myanmar as well as in certain countries to service the overseas diaspora[107]. All *hundis* have a primary business that is not payment services and only do payments as an alternative revenue stream that most often leverages the nature of the primary business (e.g. shipping). *Hundis* use a variety of regulated and unregulated mechanisms to provide payment services to clients, often acting as a "payment broker" where regulated mechanisms are unavailable[108] or unsuitable. Unregulated mechanisms use existing physical road infrastructure to conduct the transportation of funds in cash between locations. For example, *hundis* interviewed for this study noted that they would use shipping lanes between cities, where cash would be transferred alongside commercial goods (often durable items such as furniture or appliances). In these circumstances the owner of the shipping business would create additional revenue from money transfer services.

A second form of transfer among *hundi* networks is a balance of payments between two *hundis* located with the payer and payee, respectively. Here the payer's *hundi* will organize a disbursal of cash by the payee's *hundi* directly to the payee. After the transfer is made, the two *hundis* will settle between them, either in cash or for goods or services in kind, depending on the nature of the *hundis'* primary businesses. A relatively common characteristic of this balance of payment transfers is that the *hundis* in question would use bank branches to facilitate the transfer[109]. This adds a degree of convenience to the transfers but is ultimately limited to the geographic coverage of the bank branches. In this latter regard, *hundis* provide additional value to the customer by bringing the cash payment to a location more proximate to the customer than the bank branch. For example, interviews with *hundis* revealed that for payments to more remote locations, the payee's *hundi* will receive the cash payment from the bank branch and then physically take the funds to the payee. In some cases, the cash will be delivered directly to their home or another convenient location, such as the *hundi's* primary business location. This sort of service delivery is unmatched by any regulated provider in Myanmar and is only enabled by enough demand that a *hundi* can conduct transactions "in bulk" at the bank branch.

In late 2013 the first third-party mobile payments service was granted approval and launched using a strictly mobile money platform. Mobile Money Myanmar has mixed private and corporate ownership and is linked with Innwa Bank, Ltd. to provide mobile wallets (m-wallets or e-wallets) salary and pension disbursements, airtime top ups and cash-in / cash-out services. Myanmar Mobile Money is a small company, but is well linked and partially owned by a few companies and conglomerates that own a range of financial and non-financial businesses in Myanmar. As noted earlier, there is the intent of Telenor and Oreedoo to do the same.

[107] *Hundis* are known to operate in neighbouring countries such as Thailand, China, and Bangladesh, as well as farther afield in the United Arab Emirates, Philippines and Japan.
[108] For example when individual cannot make it to the bank during operating hours they would use a *hundi*.
[109] Although the specific location of *hundis* in Myanmar is unknown, it is likely that they share the same socio-geographic footprint of banks within any common payments consortium/network plus the wider footprint of the correspondent relationships of the *hundis* and could also possibly bridge groupings of banks.

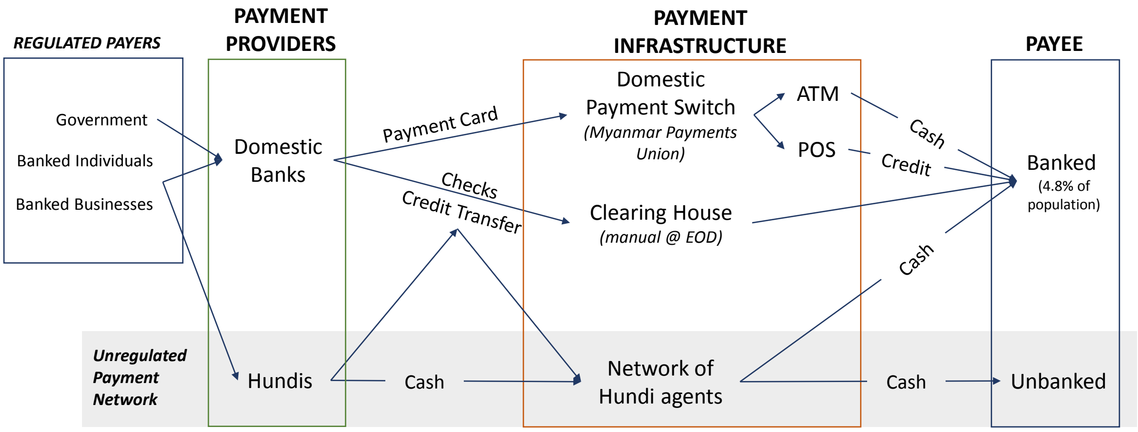


Figure 36: Overview of the payment landscape in Myanmar

Source: Author's own

Box 7: Role of MFIs in payment services

MFIs are enabled by regulation to facilitate remittances payments however this service is prohibited by CBM directive. MFIs are only licensed with permission to conduct a limited scope of the full activities referenced in the legal framework. Remittances are not one of the permitted activities. The rationale behind the restriction is unclear. However the microfinance industry in Myanmar is still nascent with limited branch infrastructure and little evidence of the systems in place to manage payment transfers in the manner of banks (on a regulated basis).

Reaching scale through regulated payment services

Payment network will require scale and a diversity of players. Payment services could potentially have the most impact on financial inclusion once they can reach a scale where a critical mass of customers catalyze the network effects necessary to drive volume. A common characteristic of markets that have achieved scale is a diversity of payment service providers, who together provide the required issuance and acceptance networks for payment instruments that allow services to be affordable and convenient. Markets such as Kenya, Brasil, South Africa, and Pakistan demonstrate this diversity of providers to various degrees. The current landscape of payment providers in Myanmar does not demonstrate the diversity found in these markets, as participation is limited to commercial banks and prohibited for MFI's.

In this section we will address other payment service business models that can improve the feasibility of reaching large scale penetration of regulated payment services in Myanmar. These models involve non-bank payment providers and the various roles they can play in enabling payment services to reach scale. Non-bank payment service providers are not permitted to offer retail payment services in Myanmar as there is no regulatory framework for such activity or service proposition. Under the *Central Bank of Myanmar Law* (2013), the CBM has the specific objective of development of efficient payment and settlement systems and the authority to issue licenses to payments systems providers. The law does not state the type of institutions that can be licensed, which allows the CBM the freedom to consider the introduction of non-bank providers to enable models of electronic payment services that would be new to Myanmar.

Payment Processors

The CBM is in the process of creating a legal framework for payment processors to facilitate inter-bank payments as well as retail electronic payments in Myanmar. At the moment, banks can only clear and settle inter-bank payments at end of day using a manual process that is time consuming and poses higher systemic risk, particularly without clearing rules and security agreements in place. Payment processors would alleviate some of the administrative burden by clearing retail payments via proprietary electronic payment processing platforms. These platforms will also enable banks to issue electronic payment instruments that can be used at ATMs, POS devices, and on the internet. International payment processors such as Visa and MasterCard are currently limited to only acquiring and are not allowed to issue payment instruments domestically, thus creating a market which the CBM intends to address with local institutions. The bulk of investment in the electronic retail payment system infrastructure (ATMs and POS) is geared towards serving the developing tourism industry. Tourism will likely subsidize *some* of the initial investment in payment acceptance and cash disbursal terminals in Myanmar, but in turn is limited in its ability[110] to reach the bulk of the population.

Licenses for payment processing have not been awarded to date, but may emerge by 2014. Currently, there are few providers who may benefit from this license. A notable possibility is Oway, a local business that currently facilitates international payments for tourists wishing to visit Myanmar and purchase services in advance via the internet. Oway works with local tourism operators to create payment applications that can enable efficient and convenient retail payment services for customer. Through this experience, Oway has been in consultation with the CBM regarding the issuance of regulations for the payment processors in Myanmar. These regulations would stipulate the necessary conditions for a non-bank provider to partner with other regulated institutions (i.e. banks) and allow them to issue electronic payment instruments directly to domestic customers.

The emergence of payment processors would improve the likelihood that existing electronic payment acceptance devices (such as ATMs or POS) benefit from a sufficient volume of issued instruments to improve their efficiency, and thus increase the likelihood of greater usage and penetration in Myanmar. Payment processors can also improve the efficiency of banks by lowering operating costs as banks shift to electronic platforms and seek to accept and issue payments to other financial institutions. As such, payment processors are an example of an institution that would form a part of the payment system “backbone” that enables proliferation of large scale payment services, particularly given the low penetration of international card associations who would apply international payments card standards more consistently across the market. Regardless, international standards should ideally be upheld in any card related system so that development in the domestic electronic payment card industry can easily adapt once international card associations begin to establish in the country.

[110] Few banks are currently issuing debit cards for cash withdrawal or electronic payments and as such most users of the early stage payment infrastructure will likely be tourists using cards issued internationally.

Non-bank payment service providers

The more generic category of payment service providers (PSP) covers the various customer facing aspects of the payment services. As noted previously, there is no legal framework for PSPs in Myanmar, although the CBM is currently in discussions for the development of a license to enable payments through the use of the mobile phone. It is likely that such a regulation would necessitate the creation of a regulated entity that could facilitate retail payments using stored value accounts either independently or on behalf of a financial institution such as a bank. Stored value accounts are those that hold customer funds under conservative prudential conditions (e.g. 100% reserve capital) and limits their investment options. These accounts are often an alternative to full deposit taking accounts and enable highly transactional payment services that focus on replicating regular cash payments (i.e. low value, high volume).

The significance of PSPs in retail payment service development can be identified through observation of international precedents where large scale payment services are common. Markets such as Kenya, Brasil, and Pakistan have allowed various forms of PSPs to operate functions which were previously restricted to banks. These include the issuance of electronic payment instruments, collection and disbursal of cash payments, and management of cash merchant networks. While these functions can be offered via a banking license, it is often prohibitively expensive for banks that do not have an explicit retail banking strategy coupled with a large geographic presence. As such PSPs offer an opportunity to fill this gap, either on behalf of banks or independently, depending on the scope of legal authorization.

PSPs also carry the capacity to serve more than one financial institution and enable payments across various platforms. These characteristics can enable improvements in the interconnection[111] of payments across providers, giving financial institutions more reach and customers more choice (CGAP, 2012). Both of these outcomes can contribute to improvements in the number of customers served in Myanmar.

[111] "Interconnection is…defined with reference to the PTA Telecommunication Rules of 2000 at (Sec 2(h)): 'the physical and logical connection of two operator's connectable systems thereby allowing customers of one system to connect with customers of the other system, or to access telecommunication services provided from the other system.' While interconnection is a term more commonly found in telecommunications than in financial services (where 'interoperability' is more commonly used as the financial equivalent), this definition clearly identifies the components necessary for interconnection as physical and logical connections between connectable systems. A system must therefore first have the ability to connect, then have the physical interfaces necessary to do, backed by the logical interfaces—including the interconnection agreements which define business rules—to lead to a state in which customers of one service can connect to customers of another service." (CGAP, 2012).

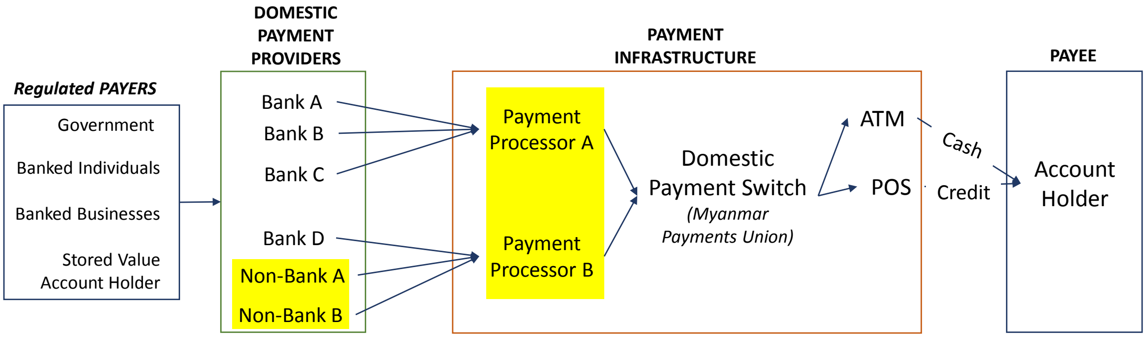


Figure 37: Role of Non-Bank PSP's and Payment Processors in the payment ecosystem.

Source: Author's own

Table 27 below revisits the Payment Grid discussed previously and summarises the providers active in Myanmar in relation to their corresponding use case:

PAYER

PAYEE

	Government	Business	Person
Business		Commercial banks serve the formal business community by providing interbank transfer services, particularly for high value payments. *Hundis* serve the both the formal and informal business community where they either do not have access to commercial bank services or need to leverage the *hundi* network. In many cases the respective *hundis* may themselves be formal businesses who provide an unregulated service to business counterparties.	Similar to the B2B category, commercial banks and *hundis* service the individual payment to businesses (P2B) market. The limited bill payment services available in Myanmar are understood to be largely run through commercial bank branches.
Person	The government as payment service provider is limited to salary and pension disbursements via the commercial bank branch network (mainly MEB)		For P2P payments *hundis* appear to be the main source of payment service for individuals in Myanmar. This is likely due to their accessibility and availability as compared to commercial banks. Commercial banks also service domestic remittances for "walk in" customers.

Table 27: Payment Grid- Providers of payments in Myanmar.

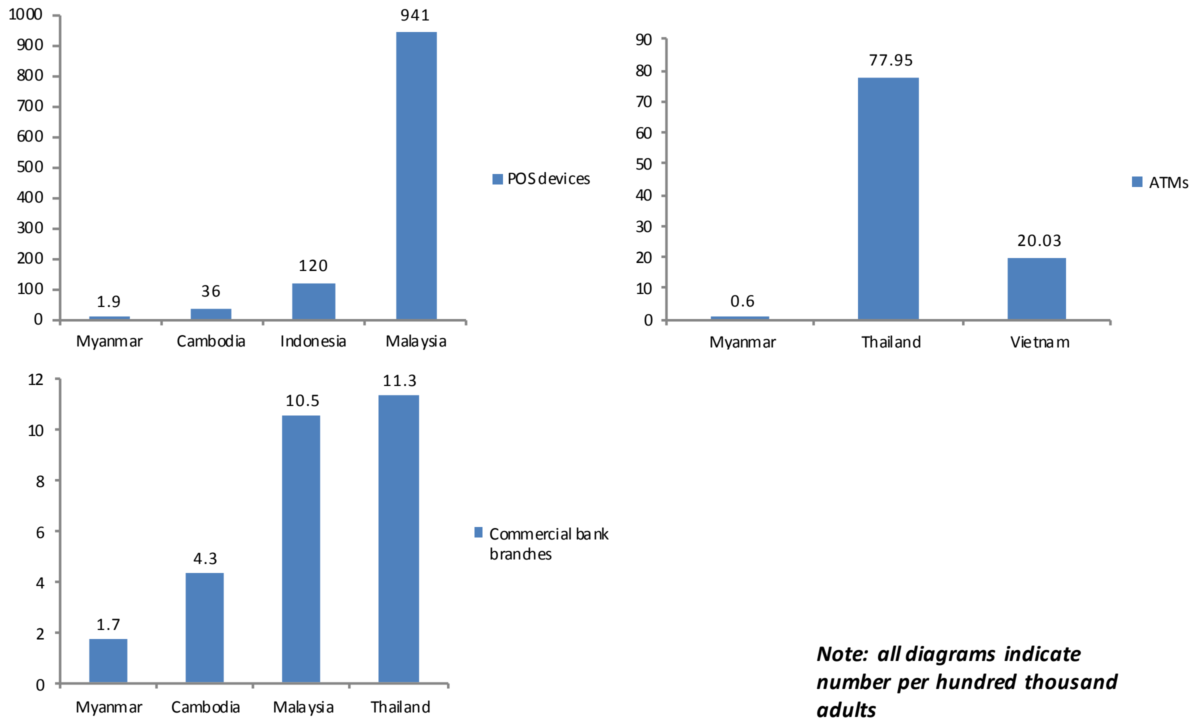
Source: Author's own

Infrastructure

There is currently no electronic interbank payment settlement infrastructure, although there are plans for the installation of a Real Time Gross Settlement System (RTGS) and Automated Clearing House (ACH) through the technical support of the Japanese development agency, (JICA). Currently, settlement occurs manually at end of day within the CBM offices in Yangon. There is no real time network connectivity between banks or the CBM to facilitate more regular settlement, whether it is retail or wholesale. Several banks are in the process of procuring core banking systems for the purposes of enabling international remittances (without which electronic remittances would not meet international standards). The instalment of core banking systems across the respective banks would create a more robust platform from which electronic clearance and settlement of retail and wholesale payments can be enabled. However, instalment of core banking systems is not simple to do and may therefore be some time before international remittances can benefit from it.

Retail touch points

The lack of physical retail payment infrastructure is a significant obstacle to the development of an accessible and convenient payment environment in Myanmar. Although there is likely to be rapid growth of retail touch points given the low base, high-level government interest and a historical precedent of infrastructure investment[112]. **Figure 38** below show the number of touch points per 100 000 people for ATM, POS, and bank branches.



Note: all diagrams indicate number per hundred thousand adults

Figure 38: Pentration of payment touchpoints in Myanmar

Source: Various

[112] Research interviews discovered that in the 1990's there was an initial increase of ATM penetration in Myanmar. However infrastructure challenges (power, communications) contributed to low usage and these terminals fell into disuse.

The implications of such low penetration of payment touch points are clear from the perspective of increasing the volume of electronic payments in Myanmar. In addition to this, there is also the consideration that the potential for electronic services to begin the displacement of cash is also greatly inhibited. A market's propensity to shift[113] from cash to electronic payments is commonly driven by a wide network of acceptance points for cash deposits (cash in), mirrored by a sufficiently large network of distribution points (cash out). The cash in/cash out dynamic has been well demonstrated in markets such as Kenya and Brazil, where large retail networks have enabled the reduction of cash usage by a wide network of locations that can convert cash into electronic form.

There is potential to broaden the available touch points beyond the current set depicted above, if mobile phone networks enable the use of other retail channels to act as service outlets for a limited set of financial services (e.g. cash in and cash out). Examples of such channels would post offices, retail grocers, pawn shops or even dedicated financial service agents. The role of mobile phone networks in establishing the infrastructure needed to expand payment touch points is discussed in the following section.

Significance of Mobile Phone Networks

Mobile phone penetration in Myanmar has skyrocketed in the past five years since the market has liberalized and allowed greater access to network services. This growth is only expected to continue in the coming years, especially in consideration of the recent award of licenses' to Norway's Telenor and Qatar's Ooredoo Telenor which have a particular history of integrating mobile payments into its operations as evidenced by its operations in Pakistan (Easypaisa, 2014).

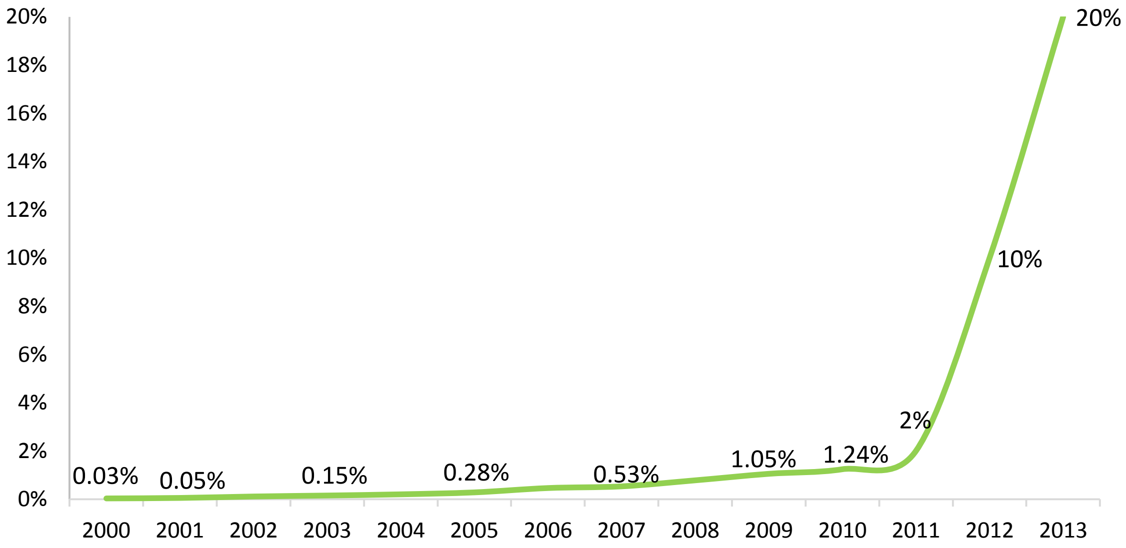


Figure 39: Mobile phone growth in Myanmar

Source: International Telecommunication Union, 2013

[113] Better Than Cash Alliance, Empowering people through electronic payments. [Online] Available at: http://betterthancash.org/ [Accessed December 2013].

The mobile phone offers two opportunities to address critical infrastructure gaps in Myanmar. Firstly, mobile networks operate on real time connectivity, for voice and data traffic. There is currently no comprehensive and reliable real time connectivity between financial institutions in Myanmar. This further exacerbates the obstacles facing the development of a RTGS and usage of core banking systems by commercial banks. Providing this connectivity alone will transform the way financial services are offered in Myanmar. Payment services in particular are likely to benefit significantly, particularly where electronic transactions are expected to be a viable alternative to cash. The immediacy of in-person cash transactions is an important characteristic that electronic payments must seek to replicate in order to become a viable alternative to cash.

The second opportunity is in the mobile device itself, which provides all the functions of a POS device without the need of a separate card. This enables customers to issue payments instructions themselves, check balances and receive confirmations (i.e. payment sent or received). This brings the payment terminal that traditionally has required a bank branch or merchant outlet into the hands of the customer, providing control, convenience and accessibility similar to that of cash. Thus it increases the likelihood that customers will adopt electronic payment services. An additional attribute is that the mobile phone is commonly purchased by the customer, thus reducing the infrastructure costs[114] normally taken on by financial institutions.

The mobile phone and its accompanying networks are not replacements of the existing infrastructure such as ATMs, POS and Bank Branches (with the former and latter still heavily reliant on cash, requiring cash management and distribution). Rather, mobile infrastructure provides an alternative means in which customers can engage in the payment system. Such a diversity of options (coupled with a diversity of providers) sets the stage for a payment system that can serve market demand in an efficient and cost effective manner, allowing customers and providers to choose the means that suits their respective needs.

Box 8: Myanmar Payment Union: Role and significance to NPS development

The banking sector has organized an industry association, the MPU with the encouragement of the CBM to facilitate the introduction of electronic retails payment infrastructure in Myanmar, in particular card technologies for use at ATM and POS networks. The MPU project was initiated by the CBM in 2011 for the main purpose of creating a domestic card acceptance network for domestic payments.

The MPU runs the domestic payments switch from the CBM offices in Yangon enabling all banks in Myanmar with ATM and POS to connect to a central processing location. The switching platform was procured with the help the Chinese as part of Myanmar's modernization efforts. All of the cards issued in Myanmar are MPU branded, with 200 000 in total. However, the system experiences heavy down time (up to 90% for POS) and struggles with capacity issues, particularly for merchants untrained in the use of POS devices.

The CBMs leadership in the MPU was critical from its inception, reflected by its chairmanship of the MPU Steering committee. In 2012 the CBM pulled out of its direct leadership role, leaving the member banks to run the organization. This transition signifies a more industry led development of the retail payment system, although the CBM still provides guidance in

[114] For example liquidity in the banking system is freed up as the "local" cash is circulated more effectively, while the daily float maintained at the respective financial institutions keeps track of transactional balances electronically.

its role as the payment system regulator.

A notable example of the CBM's involvement in the policies set by the MPU relate to transaction fees for ATMs and POS. With the CBM as chair, the MPU agreed that a single interchange fee will be charged for POS and ATM transaction (1% and 0.1% respectively). The purpose of this fixed fee is to ensure that the cost of electronic payments services is provided as a viable alternative to cash. There are too few transactions in Myanmar to judge the consequences of a fixed interchange fee[115]. It is also unknown to what degree these are passed on to the customer. Providers are however likely to generate much of their fee income from ATM and POS usage by tourists via Visa and MasterCard transactions, who pay additional transaction fees to the owners of the terminals. There are several challenges faced by the MPU and inhibiting effective growth in the card network. Most importantly is the limited communications network which is further handicapped by the relatively unreliable electricity grid. In addition the MPU does not have permanent staff; instead rotating secondees from the various member banks fulfil this role. This reduces the depth of expertise with the organization and impacts the quality of service. Due to international sanctions, it has also been difficult to get quality vendors to provide physical or online technical support to the MPU (for both hardware and software matters). And lastly, the decision making process can be inefficient as few member banks are active participants in the governance of the Union. As a result the MPU struggles to take timely action due to the committee structure and lack of permanent staff.

9.4. Products

The payment products offered by regulated financial institutions (i.e. banks) in Myanmar are limited to internal transfers, either between accounts or between branches of partner bank networks and some bill payments. Customers can walk in at any bank branch and send funds to any other branch within the respective network. This product allows Burmese citizens access to personal remittance payments as well as retail payments to (or from) businesses. It is important to note that remittances are a major revenue source for banks (between 10% and 20% of total income) due to the demand for regulated payments and ease of sending between bank branches.

Remittance services offered by *hundis* are arguably more convenient as they are more proximate to the customer, on both the sending and receiving side. For senders, a *hundi* can often be found in the local community, near residential and business areas. It is similar for receivers, who can then easily and conveniently locate the *hundi* to collect expected payments. In some cases *hundis* will bring funds directly to the receiver of the payment, thus completing a full door to door service.

Currently, electronic payment services offered to retail customers are limited to ATM withdrawals and POS payments. There are currently 200 000 debit cards issued to bank account holders for use only on domestic channels (i.e.: 250 ATMs and 722 POS devices). There are no credit cards or pre-paid cards issued by providers in Myanmar.

[115] A fixed low interchange fee, coupled with an industry lead MPU could possibly work against the implementation of card based payments infrastructure by commercial banks. It would be valuable to estimate the ATM and POS business case for a bank in that market compared to the central bank's workings underpinning the interchange rates, if that is at all possible. An artificially low rate in a developing market may not be sufficient to warrant the initial long term capital required.

Visa and MasterCard transactions can be honoured at some places of business and ATMs, mainly within Yangon. These cards must all be issued by foreign banks outside of Myanmar as none of the domestic banks are currently issuers of any international payment network cards. For this reason, the Visa and MasterCard network is largely only accessible to tourists and the Burmese diaspora with foreign accounts.

As noted in **Section 9.3**, a single mobile wallet solution was launched in early 2014 which is closely linked to Innwa Bank, Ltd. Mobile Money Myanmar is permitted to provide the full range of services. It was launched to assist with salary disbursement through a network of 50 agents under the new Mobile Banking Directive. The company is small, with a mixture of corporate and individual shareholders.

Foreign exchange services in Myanmar are "hamstrung" by international sanctions and the lack of appropriate systems within banks to administer international payments. International sanctions have made it increasingly difficult for banks to access payments from abroad due to Myanmar's inability to adhere to international standards for anti-money laundering. Aside from the due diligence and governance requirements, banks are also required to have an electronic core banking system in order to facilitate international transfers. Currently no bank in Myanmar has a core banking system (although several are in the process of acquiring systems). Due to these conditions, most international remittances are forced through unregulated cross border channels, most often in the form of cash exchanged in the unregulated market. Once banks have systems in place and sanctions are lifted, it is likely that Myanmar will experience a significant increase in cross border remittances through regulated banking channels. These are likely to be higher value payments at first until the extensive diaspora are offered products that can compete with unregulated channels offering lower value payment services.

Cost of common retail payment services in Myanmar

Table 28 below outlines the cost per transaction of payment services noted previously. The pricing for interbank transfers and *hundi* services may vary slightly by provider, although interviews with banks and *hundis* indicated that the prices set out in this table are within the average. Card transaction rates are fixed by the MPU.

Category	Service	Cost
Card	ATM withdrawal	Free[116]
	POS payment	1% of total value paid[117]
	Interchange fee	0.1% of total value withdrawn
Interbank transfer	Within bank partner network	0.15% of total value sent

[116] It is worth noting that free withdrawal of cash implies that the cost of cash handling is offset elsewhere in the value chain. Given the low cost of cash handling in Myanmar this is unlikely to be a significant offset. However if cash handling increases in the future it may put pressure on providers of the ATM network.

[117] This cost is often carried by the merchant. It is unknown to what degree this is passed on to the customer.

Category	Service	Cost
Hundis	Less than K 500 000 (USD 529) More than K 500 000 (USD 529)	1% of total value sent 0.5% of total value sent

Table 28: Payment Service Fees.

Source: Interviews with providers

An interesting characteristic of the financial services environment in Myanmar is the common pricing standards across nearly all providers of electronic payment services. This is a legacy of the centralized decision making process employed by the CBM across many of its financial services policies (including for example interest and lending margins). Fixed rates for card transactions, particularly interchange fees, are particularly interesting as these may have implications for the development of innovative business models in electronic banking. It is worth noting that that *hundis* are considerably more expensive than the alternatives; however they remain popular due to their availability and accessibility.

The rationale for the fixed rates was to keep fees low enough to compete with the cost of cash. In other words, the fees reflect an explicit strategy to keep electronic payment services affordable and encourage customer usage. While this aspect is encouraging from the view of financial inclusion, it is uncertain what impact this will have on providers should the market liberalize. In a more competitive market pricing differentiation is often one way for providers to distinguish themselves from one another to offer a more compelling service to customers. In addition, the investment in infrastructure for electronic payment acceptance (ATMs, POS, mobile money agents, etc.) will incur maintenance and operating costs that are traditionally covered in these fees (e.g. ATM withdrawal). The low margin transactions may be a disincentive for providers to commit to investment in distribution networks needed to drive scale.

Table 29 below revisits the Payment Grid discussed previously and summarise the products available in Myanmar in relation to their corresponding use case:

PAYER

PAYEE

	Government	Business	Person
Business		There is not a lot of variety of products available for businesses. Interbank transfers (account to account) are only available for the small proportion of the population with bank accounts. It is likely that *hundis* serve the greater need of B2B payments	Individuals with bank accounts have a slightly wider set of payment options, namely inter-bank transfers, card payments at POS, cash payments at bank branches and *hundis*. Those without bank accounts are limited to the unregulated network in order to make payments to formal

		via its unregulated network. This is particularly the case with international remittances for small and medium businesses.	businesses.
Person	The government as payment service provider is limited to salary and pension disbursements via nominated banks (such as MEB).		Similar to the B2B category, there is not a lot of variety of products available for P2P payments, particularly for those without banks accounts. Bank account holders can use interbank transfers to pay other account holders, but otherwise must revert to *hundis* to make unregulated payments.

Table 29: Payment Grid- Payment Products in Myanmar.

Source: Author's own

9.5. Regulatory constraints and enablers

Regulatory framework for payments is under development. The regulatory framework for payment systems in Myanmar is currently under development and comprehensive guidance has yet to be issued to the market. The CBM is authorized to oversee the efficiency of the payments system, including the clearing of payment transactions under the *Central Bank of Myanmar Law* (2013)[118]. The Payment Systems Department at the CBM is tasked with the execution of this role, with direct oversight of the payment system.

Bilateral guidelines for interbank settlement. The implications of the absence of a payment systems law is that only banks have access to the framework that outlines the rules for end of day interbank net settlement or other similar coordinating measures needed to ensure the national payment system operates efficiently. The CBM has issued guidelines for end of day net settlement bilaterally to all financial institutions. These guidelines are not publicly available and currently only relate to the analogue (paper based) processes that currently occur at end of day at the CBM offices in Yangon.

Rules for retail transfers remain in demand. Similarly publicly available rules on the conditions for retail transfers, issued by or on behalf of individual clients or businesses, have yet to be released to the market. Such rules would cover redress mechanisms in case of transaction failure, payment processing time, account information requirements for payer/payee, etc. It is unknown whether the CBM has issued guidelines to banks bilaterally to standardize retail transfers in Myanmar.

Electronic Transactions Law may not fully address retail payments. The CBM has issued the *Electronic Transactions Law*, 2004 which "apply to any kind of electronic record and electronic data message used in the context of commercial and non-commercial activities

[118] Chapter II (Establishment and Aim) Section 6(b).

including domestic and international dealings, transactions, arrangements, agreements, contracts and exchanges and storage of information"[119]. This law does not deal directly with payments but does set a foundation from which electronic payment transactions may operate. Most importantly, this law sets out the conditions around electronic signatures, contracts and agreements[120]. All of these matters are critical components of financial transactions that might leverage electronic technologies (such as personal computing devices or mobile phones), particularly in the process of account opening and authorisation of financial services[121]. Therefore the *Electronic Transactions Law* may need to provide guidance tailored to emerging models of retail payment transactions, particularly if there is a strategic interest to develop new distribution channels or stored value payment instruments (such as agents and e-wallets, respectively).

In 2013, CBM issued the *Directive on Mobile Banking*, which offers an initial way forward for a mobile money solution. However, it does not permit the type of mobile network operator-led mobile money solutions such as M-Pesa in Kenya. The initial guidelines were focused on enabling a bank to launch services or a "bank-linked solution" and require a high degree of involvement and responsibility by a bank or financial institution with support from a mobile network operator.

Regulatory constraints	**Use cases impacted by constraints**
NPS Strategy There is no centralised National Payment System (NPS) strategy with which to manage the complexity of coordinating developments across this variety of services and providers. In the place of a strategy there are several concurrent government sponsored initiatives intended to "modernize" the CBM's technical capacity and infrastructure. The creation of a more efficient payment system may rely heavily on the displacement of cash payments, which the country is heavily reliant on at the moment. A NPS strategy would provide the CBM an opportunity to identify priority activities which would sequence the development of infrastructure and creation of incentives for businesses and customers in an appropriate fashion.	*All use cases are impacted. For example, a national strategy can help leverage government payment distribution by creating an acceptance network for business and person payments.*
Mobile Payment Framework The CBM has expressed interest in mobile solutions and provided guidelines to permit a limited form of mobile financials services. This early advice necessitates a bank or a heavily involved bank partner. This includes requiring full know-your-customer procedures and subjecting the service to most banking laws. However, the initial guidance did	*P2B and P2B are particularly impacted as more individuals obtain mobile phones and communication*

[119] Chapter III (Application), Section 4(a), *Electronic Transactions Law*, 2004
[120] Chapter VIII (Electronic Record, Data Message and Electronic Signature), Section 19(a), *Electronic Transactions Law*, 2004
[121] This is not limited to payments, as insurance and credit services would also heavily rely on efficient means of contract and signature authorizations to acquire new customers at scale.

Regulatory constraints	Use cases impacted by constraints
permit the creation of electronic wallets (as distinct from individual bank accounts), the collective balance of which must be held on deposit in a regulated bank. It also enables non-banks to effectively provide the service if a partner bank is willing to assume a significant level of liability for the providers' operations, including responsibility for verifying customers' identity and have the ultimate liability for the provider' liabilities and those of their agents (i.e. in case of fraud or negligence). The CBM noted in discussions that these regulations were the first step and it was interested in enabling the non-banks to play a greater role. The Ministry of Communication and Telecommunication has indicated that mobile financial services are a high priority. More important, the CBM itself has publicly noted that ultimately regulations "will include both financial institutions and mobile network operators" and they see the need for a role for mobile solutions not only in payments, but also in deposit-taking, loan disbursements and loan recovery, although the particulars of this are unknown. At present there is also little communication infrastructure in place to support the use of electronic payments, nor is there a clear policy direction/objective that indicates channel or service priority.	*infrastructure improves.*

Regulatory constraints	**Use cases impacted by constraints**
MFIs cannot complement existing distribution network As noted previously, MFIs are legally permitted to provide remittance services, but this provision is not "activated" in the approvals and authorization process, thereby limiting MFIs from using their distribution network to compliment the bank branch remittance network. It may not be appropriate for MFIs to offer payment services themselves, as this would require operational capacity beyond the current resources of MFIs. However there may be opportunities for MFIs to act as agents of payment services providers (such as banks) and thus focus on payment acceptance and disbursal to being services closer to customers and reduce the reliance on unregulated channels and services.	*P2P and P2B, as MFIs have access to the low income segments and can serve as cash merchants for low value disbursals and an acceptance network for P and B payments.*
Unclear guidance on use of new distribution channels Operational requirements for non-branch based distribution (i.e. payment agents or cash merchants) are currently unclear as there are no published rules on ATM or POS usage. In regards to the use of payment agents there are no rules or guidance available publicly. The use of "mini-branches" by banks which offer reduced services to customers in more remote locations may be used as a proxy to measure the intention of the CBM to encourage outreach; however it is unclear how this may change with increasing penetration of mobile phones and entrance of new mobile operators into the market.	*All use cases are impacted. Each use case will benefit from a wider variety of payments outlets and providers of infrastructure can determine the best outlet for their respective business model.*

Table 30: Payments regulatory constraints

Source: Author's own

9.6. Gaps and opportunities

Payments system development in Myanmar is in its early stages but will likely proceed rapidly in the coming months and years. Here we have highlighted four critical priorities that need to be addressed in order to enable a national network of payment services that can support retail and wholesale payments at scale, ultimately leading to less dependence on cash:

10. The priority for payment system development in Myanmar should be its electronic infrastructure for real time settlement of interbank payments as well as distribution of retail payment networks. This includes RTGS and ACH systems (wholesale) and real time processing and switching platforms (retail).

11. To avoid ad-hoc development of the sector, a National Payment System Strategy and associated system standards should be considered. It is important that the CBM, as supervisor of the payment system, balances the development of service infrastructure with incentives for businesses and customers who would operate within the system. In this way, the CBM can best support critical retail payment use cases via improved efficiency, cost and convenience.
12. There is an opportunity to create a foundation for new technologies, such as mobile phones, to leverage existing card and planned RTGS platforms. Future public policy guidance can catalyse market development by acknowledging and preparing for a national retail payment platform that can operate in real time using instruments that allow customers to directly issue and manage payment instructions (e.g. via mobile phone or internet interfaces).
13. The MPU should be leveraged as an industry body with a mandate to engage in a consultative dialogue with the CBM regarding the business case for payment system development. In addition to adequate regulation the business drivers and incentives for delivery of retail payment services should be understood and developed in order to create sustainable growth in the payment market. Providers are only now investing in the necessary platforms to serve *existing* customers electronically. Therefore, public and private stakeholders should engage in a transparent consultative process to understand the cost and benefit of infrastructure developments and associated the business case for nationwide service delivery to a *new* customer base.

Each of the aforementioned priorities fall within the jurisdiction of CBM, as regulator of the payment system. The CBM is moving forward on several of these fronts, most notably in the development of an electronic infrastructure for interbank payments, support of the MPU and consideration of a framework for mobile phone enabled payment services. These are all promising endeavours that will likely have significant impact on the future of retail payments.

In light of these priorities, it is worth noting that due care should be taken to appropriately sequence and develop the various components of the payments services environment, in particular where specific issues will enable others. For example, what infrastructure is necessary for mobile phone based services to flourish? How much volume must pass through the RTGS or ACH before banks are efficiently running their core banking systems and thus have the capacity to manage high volume retail payments? Questions such as these take some consideration and dedicated resources on the part of the planning authority (public, private or combined) to ensure the development of the system is efficient, safe and effective. It is here that a National Payment System Strategy can help to determine the appropriate sequence of priorities, in turn providing more certainty to the market and allowing all stakeholders to more efficiently dedicate resources.

In conclusion, we have learned from global precedents that modern payment systems will evolve as the characteristics of the market change. For example, customer demand shifts or new technologies become available that disrupt traditional service channels. In addition to a clear market development strategy, a solution to the management of the evolution of the payments system is the use of regular market diagnostics to assess and measure developments. Dedicating resources to conduct regular diagnostics can provide an evidence base from which to engage with the industry, inform policy and keep pace with a dynamic payment services sector that can underpin wider access to financial services in Myanmar.

10. Market for Insurance

The following section aims to capture the market for insurance in totality and as it relates to the priority target groups as identified in **Section 4.2**. This includes providing an overview of current usage, description of the providers and describing the products that they offer.

This section also provides a few of the key challenges and opportunities the market for insurance faces in further meeting the needs of the target groups.

10.1. Insurance landscape and take-up

Low levels of regulated insurance penetration. Only 3% of adults in Myanmar (1.26 million) indicated that they have an insurance product from an insurance company. Regulated take-up was highest in urban areas with 7% of adults in metropolitan areas (353 000) reporting take-up of a regulated insurance product. Usage of regulated insurance is very low in rural areas with only 1.5% of adults (410 000) reporting the use regulated insurance.

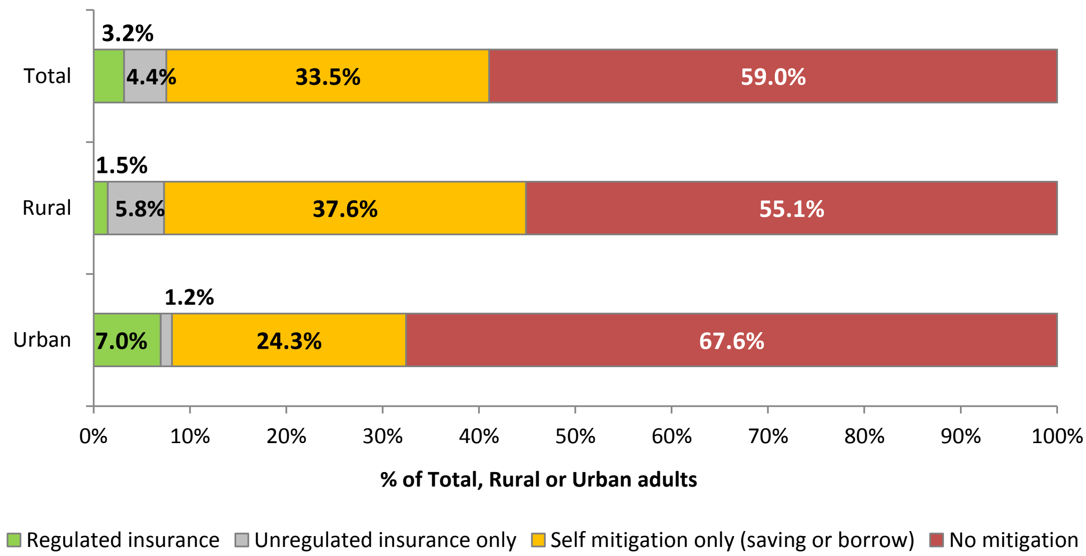


Figure 40: Usage of insurance by source of provision

Source: FinScope 2013

Unregulated risk cover exceeds that of regulated. Unregulated insurance (insurance not obtained from an insurance company) comprise of adults who borrow from or have savings with MFIs as well as adults who reported belonging to an unregulated risk mitigation group like a funeral aid association or social welfare association. Overall take-up of unregulated insurance was reported as higher than take-up of regulated insurance products. The total number of adults who reported to use regulated insurance products account for 3% of the adult population. The highest take-up of unregulated insurance (both unregulated only as well as those who have a regulated and unregulated product), both in absolute and relative terms, is in rural areas (1.7 million adults, or 6% of adults). Almost no adults in metropolitan and semi-urban areas have unregulated insurance (see **Figure 41** below).

High rates of reactionary mitigation to risk experienced. A large number of respondents reported to have used credit or savings to mitigate risk that has been realised. These respondents are classified as individuals who mitigate their own risk and can be seen as a proxy for insurance demand. As shown in **Figure 40**, above, there is a large degree of reactionary mitigation (self-mitigation after the risk has been experienced) in Myanmar, with 34% only using self-mitigating when experiencing an actual insurable risk (or 37% in total). Self-mitigation is highest in rural areas where 38% of adults only made use of self-mitigating options when faced with a risk (or 42% total self-mitigation) and lowest in metropolitan areas with only 12% reverting to self-mitigating options (or 14% total self-mitigation in metropolitan areas).

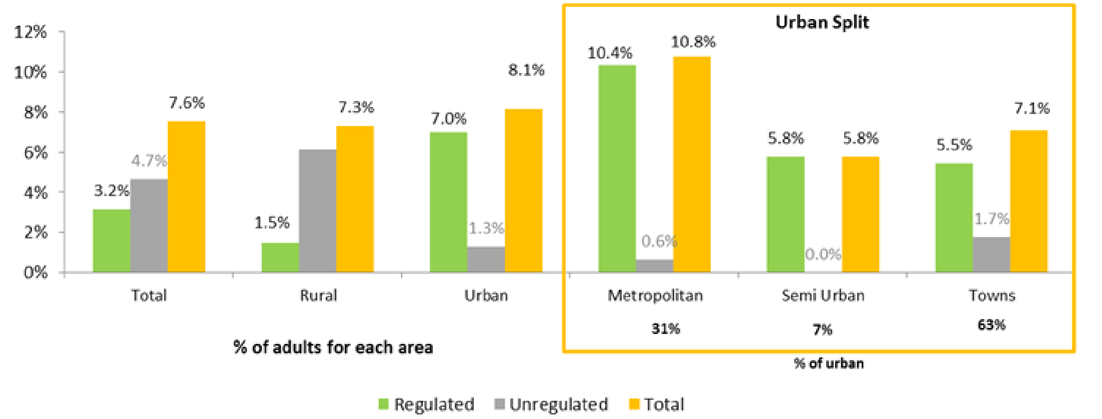


Figure 41: Take-up of regulated, unregulated and total insurance by urban/rural areas

Source: FinScope 2013

Large degree of vulnerability for those who experienced insurable risks. A large proportion of adults (across all target groups) who experienced insurable risks reported that they could do nothing[122] to mitigate these risks once they occurred. **Figure 42** below illustrates the six biggest insurable risks experienced along with the percentage of adults who experienced each risk reporting that they either used credit or savings in response in order to mitigate the risk, or that they could do nothing. Four of the six largest insurable risks experienced related to agriculture. Excluding illness, between 23% and 47% of adults who experienced the six most prominent risks reported that they could do nothing in response to mitigate the risk.

[122] Respondents could choose between using insurance, using savings, borrowing money, selling something, cutting down on expenses or not being able to do anything

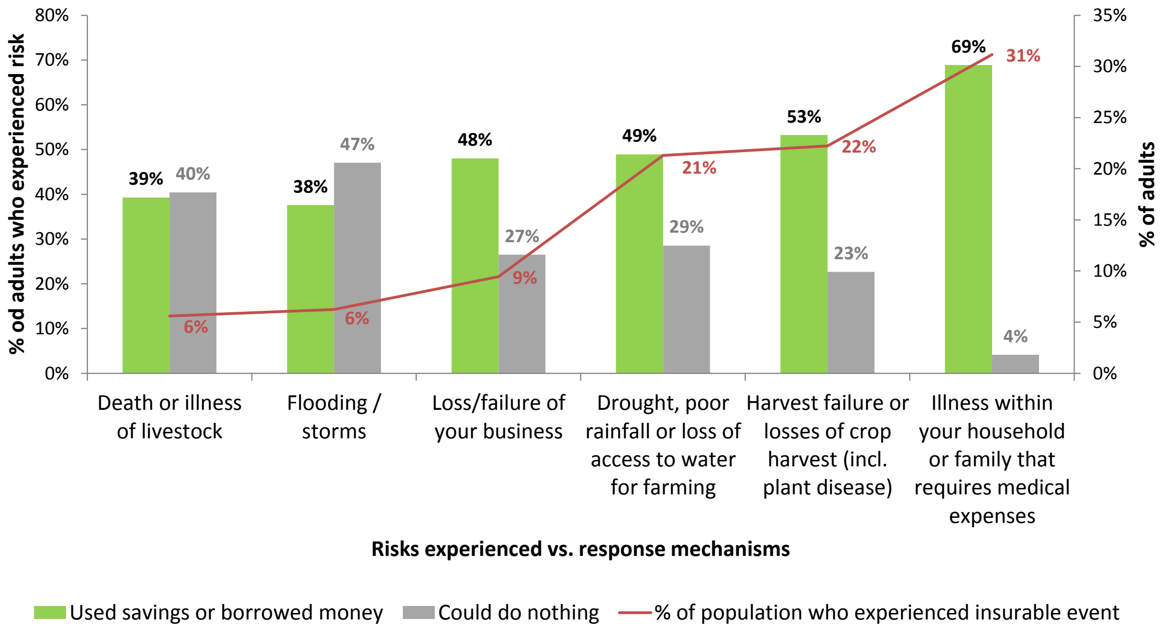


Figure 42: Largest insurable risks experienced versus risk mitigation response

Source: FinScope 2013

Significant variation of take-up between target groups. All target groups showed very low take-up of insurance products. There is however a significant variation between the take-up and sources of insurance between the target groups (as identified in **Section 4.2**). **Table 31**, below, provides take-up figures of each of the target groups. The main points relevant to the analysis are:

1) Informal consumer market and Farmers have the lowest take-up of regulated insurance products. Farmers (2% take-up) and the informal consumer market (2% take-up) indicated that they have obtained insurance from an insurance company.
2) Formal consumer market has the highest take-up of regulated insurance (13%) followed by Formal enterprises (11%).
3) Farmers and the Informal consumer market both indicated high reliance on savings and credit to respond to risk events. Five million adults or 42% of farmers rely on credit and savings to react to risk events. Of the Informal consumer market, 31% (2.7 million adults) indicated that they rely on credit and savings to respond to risk events.
4) Farmers and Informal enterprises had the highest take-up of insurance products from unregulated providers.

Target group	Economic group	Regulated	Unregulated only	Reactionary risk mitigation only	Excluded
Farmers 12.1m adults	Farmers	2.4%	6%	41.9%	49.7%
Formal enterprises 2.5m adults	Formal enterprises	11%	1.3%	21.3%	66.4%
Informal enterprises 4.7m adults	Informal enterprises	3.3%	4.6%	29.5%	62.6%
Formal consumer market 1.7m adults	Employees of formal private companies and Government employees	13.2%	3.7%	20.8%	62.3%
Informal consumer market 8.5m adults	Farm workers, Salaried private individuals, Piece and casual workers, Remittance dependents	1.5%	4.5%	31.3%	62.7%

Table 31. Take-up of insurance by target group

Source: FinScope 2013

10.2. Use cases

The most important use cases for insurance were identified during the qualitative demand-side research, quantitative segmentation exercise (see **Section 4.2**) and supply-side interviews. The FinScope survey revealed high risk exposure of respondents to insurable risks. Of the 15 insurable risks covered in the questionnaire, 58% of adults (almost 23 million adults) experienced at least one of these events. Qualitative research indicated that insurance as a concept is virtually unknown, except for a few government employees who had life insurance. However, unregulated risk mitigating groups, community structures or charities seems to be prevalent and assist community members with medical expenses, funeral expenses or burials.

There are a number of use cases that illustrate the demand for risk cover and could be explored as opportunities to extend cover. We summarise these briefly below:

Health insurance. The most prominent risk event reported by FinScope is illness within the household or family that requires medical attention (see **Figure 42** above). Of the individuals surveyed, 31% indicated that this risk has affected them in the past and 88% believe this to be a potential risk. This was supported by qualitative demand-side respondents who indicated health risks as a prominent concern. Of those who have experience this risk event the majority of individuals have relied on credit (48%) followed by the sale of assets or reduced expenditure (27%) or have relied on savings (22%).

Agricultural insurance. Weather risk is a prominent issue undermining the extension of agricultural credit and ranked as the second most prominent risk by adults in Myanmar. Of the 12 million farmers whose main income is from farming (Farmer target group), 48% indicated they have experience losses of crop or harvest failures and 43% indicated that they experienced drought, poor rainfall or loss of access to water. In addition, 8% of farmers indicated that they experienced flooding and storms and 10% death or illness of livestock. In the absence of insurance products, 40% of farmers who have experienced these risks relied on credit, 10% on savings and 22% will sell assets or reduce expenditure. In addition to the risk faced by farmers, agricultural finance companies face risk of default due to risk events. One of the last remaining rice-specialisation companies to offer loans noted that they have a large outstanding loan book due to floods in the previous year. As a result of the floods, one third of their borrowers lost their crops and was unable to repay their loans. The importance of risk cover was also echoed by other players in the agricultural value chain. A number of these value chain players have large client bases and can act as aggregators for agricultural and other insurance products.

Life, funeral insurance and disability insurance. Approximately 2.3 million adults (6% of adults) reported experiencing the death or debilitation of a family member. Savings and credit have to-date been the largest coping mechanism followed by the sale of assist or reducing expenditure. The unregulated products provided by MFIs and co-operatives reveal that there is a need for products that can manage this risk (both from clients and credit providers' perspective). The use of informal funeral societies further illustrates this.

Credit life insurance. Myanma Insurance does not offer credit life insurance. Apart from the evidence of MFIs and co-operatives developing their own cover, the expansion of credit by commercial banks and SFIs will also create a need for such cover.

10.3. Providers

There are currently three categories of insurance providers to be considered in Myanmar: Regulated insurers, regulated financial services providers who are unregulated for the provision of insurance and unregulated societies. Below are emerging trends and developments related to the provision of insurance in Myanmar.

Myanma Insurance had a monopoly for the past 50 years. As of May 2013, Myanmar only had one government-owned insurer, Myanma Insurance. It was the only insurer in Myanmar for over 50 years and has 39 regional, state or district offices, but customers can also use MEB branches (329) to make premium payments. Myanma Insurance has 996 staff members[123] and uses an additional agency force of 700 agents to distribute its products.

Twelve new domestic insurers licenced in 2013. In May 2013, five new licences have been issued for domestic insurers[124] with a further four licensed later in the year (Horn, 2013). Two of the five licenses granted in May were for life insurance only, the remainder of the

[123] They are allowed a maximum of 1 394 staff, but government are currently restricting them their staff budget and they therefore only have 996 staff members at the moment.
[124] May 2013, 3 life 2 composite

twelve are all for composite business (life and asset insurance). All of these insurers are affiliated to large domestic holding companies whose portfolios include other financial service providers in their grouping (mostly commercial banks) as well as a diverse set of other business (e.g. tourism, construction, oil, etc.). The new insurers will only be allowed to underwrite six insurance products to start with. These are life, fire, motor, cash in vault, cash in transit and fidelity insurance.

Insurance Company	Holding group	Status	Licence
First National	Asia Green Development Bank	Operational	Composite
IKBZ	Kanbawza Ban	Operational	Composite
Excellent Fortune			Not Finalised
Capital Life	Capital Diamond Star Group	Operational	Life
Grand Guardian Insurance Public	Shwe Taung Business Group	Operational	Composite
Global World	Asia World		Not Finalised
Young Insurance	Young Investment Group		Composite
Aung Thitsaar Oo.	Myawaddy Bank	Licensed	Composite
Pillar of Truth	Oil and Gas		Not Finalised
Citizen Business Insurance	Co-operative Bank	Operational	Life
Ayeyar Myanma Insurance	Max-Myanmar	Operational	Composite
Aung Myint Moe Min	The Myanmar Economic Corporation	Operational	Composite

Table 32: New private insurance licenses granted in 2013

Source: The Irrawaddy (2012) and Orixinsuarance (2013)

Very low Insurance penetration in Myanmar. Myanmar insurance premium data for 2013 indicates total premiums of K 35.5 billion (USD 37.5 million), which is 0.1% of Myanmar's GDP - estimated by the IMF at K 44.6 trillion/USD 41.1 billion for 2012/2013 (IMF, 2012). This is very low compared to the Asian emerging markets average of 2.7% and compared to regional neighbours like the Philippines, Vietnam and Indonesia who have insurance penetration (premiums as a percentage of GDP) of between 1.2% and 1.8% (See **Figure 43** below).

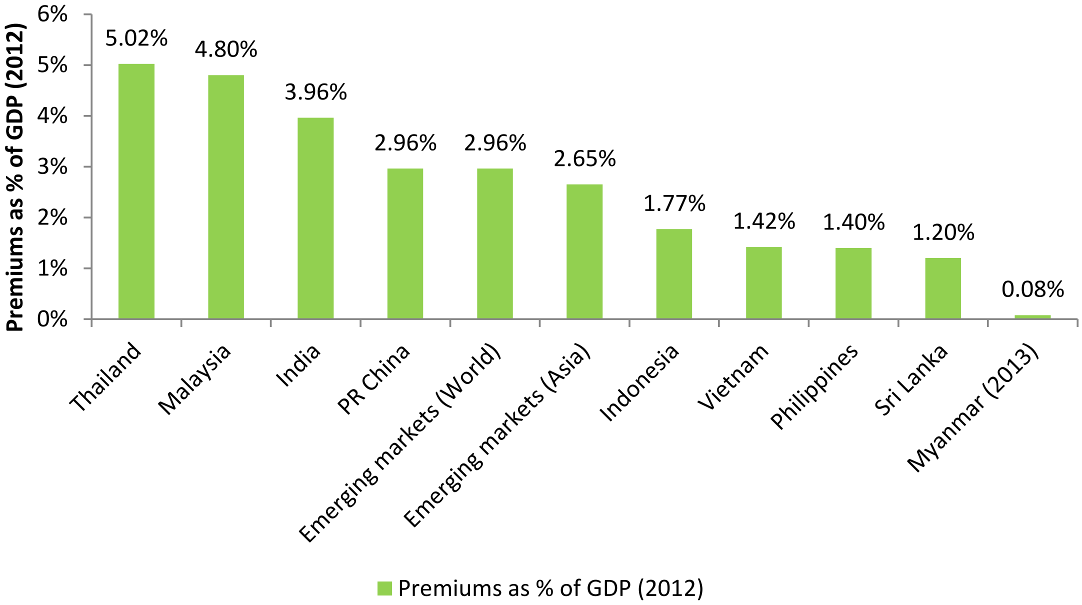


Figure 43: Insurance penetration comparison (Premiums as % of GDP)

Source: Sigma, No3/2013: World Insurance in 2012

Strong premium income growth driven by asset insurance. According to premium data received from Myanma Insurance for 1991, 1996, 2001 and 2005[125] insurance premiums have grown steadily between 1991 and 2005 at an average rate of 19% per year. Growth in insurance premiums averaged 20% from 2005 to 2010 (2010 premiums of K 14 billion/USD 14.1 million), thereafter growth accelerated at an average of 36% for the last three years (2011 to 2013). The bulk of the growth since 2005 has come from fire and third-party liability insurance.

[125] K 494 million, K 993 million, K 1 818.7 million and K 5 660.6 million

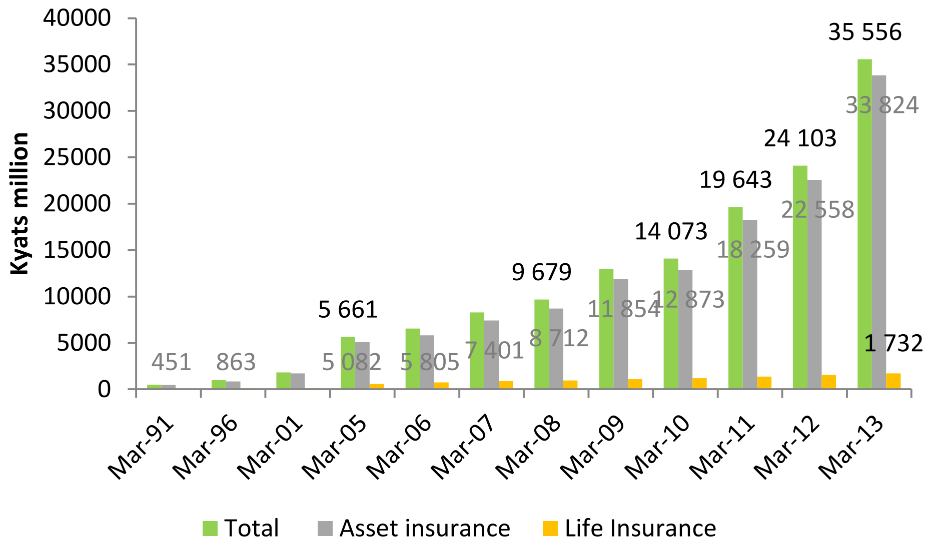


Figure 44: Myanma Insurance premium income

Source: Myanma Insurance data as reported by CSO

Insurance penetration (as % of GDP) declined for two decades before rebounding in 2011. Despite steady premium growth over the last two decades (1991 to 2011), the insurance sector remains very small and has not kept up with economic growth in Myanmar over this period. As a result, insurance penetration (insurance premiums as a percentage of GDP) declined from an already low 0.3% in 1990 to 0.05% in 2011. This trend was reversed from 2011 onwards (with an average premium growth of 37% per year) increasing insurance penetration to 0.08% of GDP in 2013[126] (IMF, 2012).

Myanma Insurance's business is dominated by small number of corporate asset insurance policies. Myanma Insurance offers 43 product lines. Fire insurance made up 56% of all premiums in the financial year ending March 2013. This represented a decreased contribution from 75% in 2011. Compulsory third party liability contributed 19% of premiums and marine, aviation and comprehensive insurance lines contributed a further 17%. There were 2.4 million third party liability policies in 2013 with the remainder of the other asset insurance lines contributing fewer than 75 000 policies (**Figure 45** below shows product line contribution to Myanma Insurance premiums).

[126] Based on IMF GDP estimate for 2012/2013 (IMF, 2012).

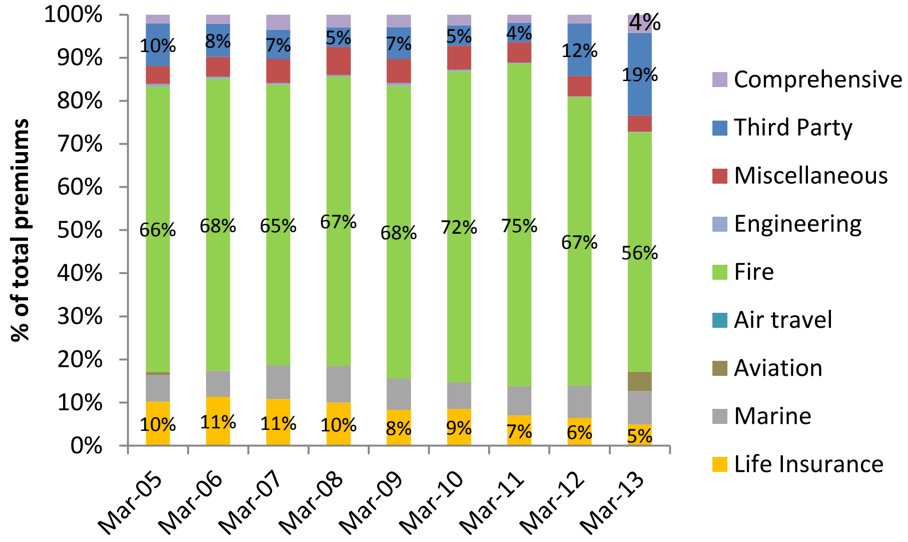


Figure 45: Contribution of product lines to total Myanma Insurance premiums

Source: Myanma Insurance data reported by CSO

Life insurance contribution to total premiums low. Life insurance made up 5% of premiums in 2013, down from 11% in 2007. The bulk of these policies are made up of compulsory endowment policies provided to government employees. Voluntary term life insurance contributes a small proportion of premiums.

Large number of personal accident travel insurance policies. Myanma Insurance reports that 99% of policies under the miscellaneous category[127] are travel insurance policies sold through bus and other travel companies. These policies are voluntary and only cover accidents for one trip. The biggest portion of the travel insurance premium comes from Travel Insurance for Highway Express Bus Lines. These policies are sold through some non-government organisations appointed as agencies and demonstrate the ability to leverage distribution partners to distribute large volumes of small premium policies.

Although profitable and growing, Myanma Insurance provides declining value to policy holders. Myanma Insurance has consistently reported profits over the last decade and is one the most profitable SFIs contributing about K 11.5 billion (USD 12.2 million) to the state budget in 2011. These surpluses have, however, come at the cost of value to policyholders. **Figure 46** below shows that the strong growth in premiums coincided with low and systematically reducing claims ratios. Only in one of the last ten years did the total claims ratio for Myanma Insurance exceed 20%[128]. Claims ratios for life insurance shows better performance but has decreased over the last ten years. The latest figures show a slight increase in claims ratios to just below 50% but the average for the last five years is 35%.

[127] Reported as 19.8 million policies
[128] It was 50% in 2008-09 driven by a 130% claims ratio for marine insurance.

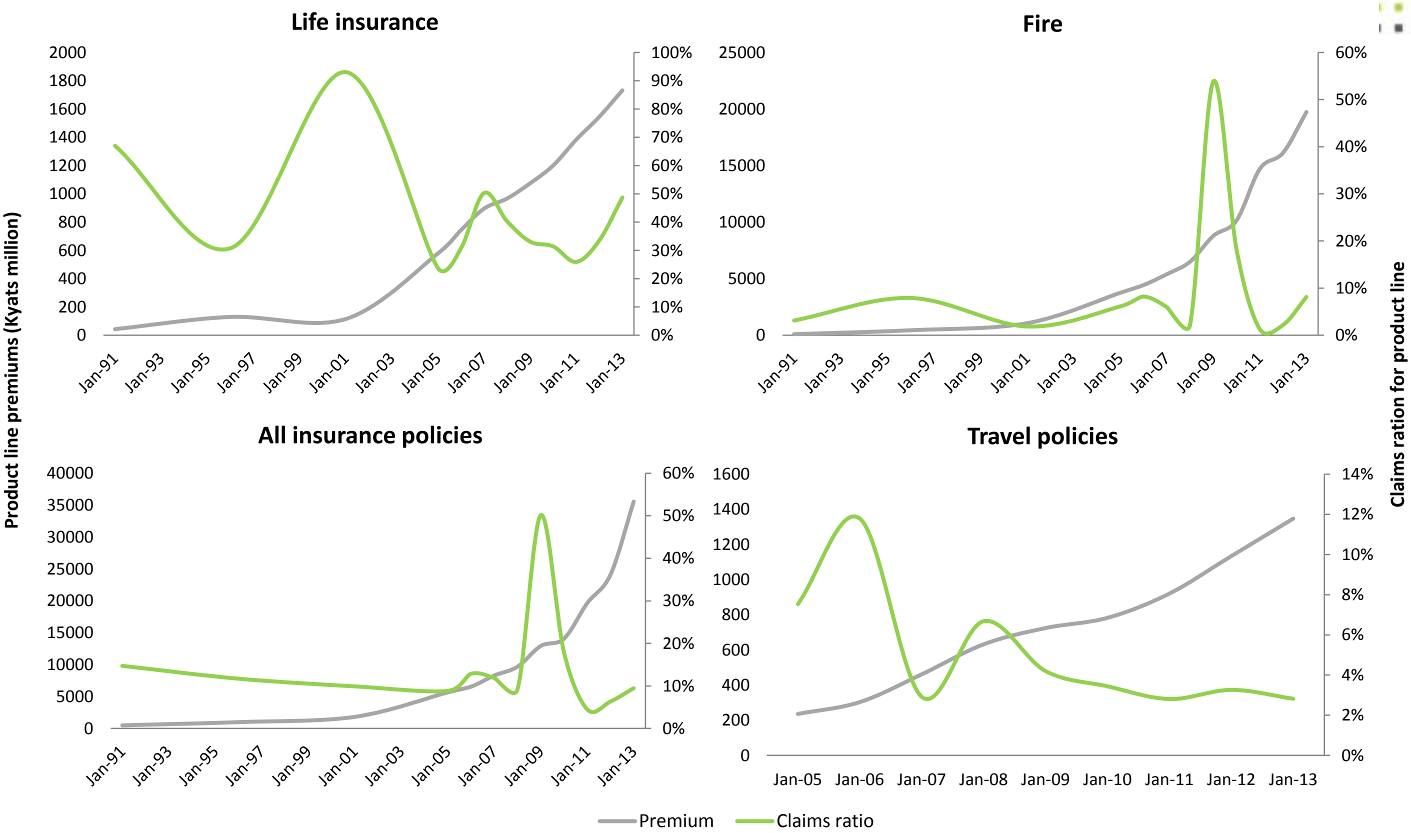


Figure 46. Premium and claims performance for selected product lines

Source: Myanma Insurance data reported by CSO (2013)

All investments held in government Treasury bills. All Myanma Insurance assets are held in government Treasury bills. This means that Myanma Insurance does not only contribute to the state budget through its profits but also provides loan financing to government operations.

INGO MFIs offer unregulated compulsory insurance cover. The use of unregulated "welfare" or "provident" funds to provide some type of risk cover seems to be widespread amongst INGO MFIs and the majority of the 690 000 MFI clients are covered by these funds. These funds cover a variety of risks including life, household structure and crop risks. PACT is the largest contributor and covers all of its credit clients (more than 450 000) with a compulsory policy that covers their outstanding debt, provides additional life benefits and also cover crop and household assets for fire, flood and storm damage (see **Section 10.5** for more details). This product was developed on a trial-and-error basis without actuarial support on design and pricing. PACT reported that this product recently managed to cover expenses, although it is not clear whether expenses include management costs or only claims paid. If it only includes claims paid it suggests PACT's products have a claims ratio of close to 100%. Based on loan disbursement data it is estimated that the annual contributions to the welfare fund could exceed K 1.5 billion (USD 1.6 million), which brings it close to the Myanma Insurance life premiums in 2013 of K 1.7 billion (USD 1.8 million).

Entity	Contributions (K million)	Policyholders	Claims ratio	Product covers
Myanma Insurance: Life policies	1 732	800 000	49%	Life (main member) and endowment
CCS Welfare fund	158	40 205	20%	Life (main member: Debt + K 100k), health (K30-K50k), disability (K 100k) and disaster cover for housing (K 100k)
PACT Welfare fund	1 524	>510 057	Could be as high as 100%	Life (main member: Debt + K 100k), crop (K 50k) (Fire, flood, storm), housing (K 50k) (fire, flood, storm)
World Vision welfare fund	19	18 946	20%	Life of main member (debt + K 70k), spouse (K 50k), child (K 30k)

Figure 47. Comparison of Myanma Insurance life business and "welfare" funds

Source: Myanma Insurance data, interviews.

Co-operative borrowers covered by voluntary scheme initiated by CCS. The Central Co-operative Society (CCS) initiated an insurance product in 2011[129] that is offered through member co-operatives. As of March 2013, the scheme reported to cover in excess of 40 000 lives and received premiums of K 158 million (USD 167 019) during that year. Claims ratios are reported to be between 20% and 30%. Details are provided in the **Section 10.5**, but the product covers life, health and asset risks. A basic level of cover is included in the loan with additional benefits offered on a voluntary basis.

Other co-operatives may have own cover copied from CCS scheme. Although information is not available for all co-operatives, the co-operatives interviewed during this project showed similarly structured risk funds derived from a product originally designed by the CCS. At least one co-operative reported to have established a smaller group of at least ten co-operatives to manage their own risk pool with a product copied from the CCS scheme. These schemes do not have the technical skills to price and manage the risk of such a product and still apply the product structure and pricing proposed by the CCS scheme even though the risk pool is much smaller. It is not clear what proportion of co-operative members is covered by non-CCS cover.

Widespread risk management through unregulated societies. Qualitative research indicated that regulated insurance as a concept is virtually unknown, except for a few government employees who had life insurance. However, unregulated risk mitigating groups, community structures or charities seem to be prevalent and assist community members with medical expenses, funeral expenses and other risk events. Such unregulated risk mitigation seems to be wide spread (like the Free Funeral Service Society).

[129] CCS Pink Book (1 December 2011) *CCS commenced the General Provident Fund*

10.4. Distribution

Myanma Insurance distributes its products through 700 agents. These agents receive an upfront sales commission of between 10% (on life policies; 20% for term life) and 18% (on marine policies) with no commissions paid on renewals. Agents are not employees of Myanma Insurance and typically sell insurance on a part-time basis. Myanma Insurance reports that a typical agent holds a basic graduate degree and goes through a two month training session before being allowed to sell insurance. They also receive refresher training (two weeks) every year. These agents can sell all Myanma Insurance products. Newly licensed insurers are required to use agents trained by Myanma Insurance (see discussion in **Section 10.7**) and the demand and competition for these agents is likely to increase substantially. Myanma Insurance reports that they can train up to 100 agents at a time, and up to a maximum of 730 agents per year.

Travel policies distributed through travel companies. Travel policies are distributed through a range of travel companies (non-government companies that are appointed as agencies), but the biggest proportion of policies sold come from Highway Express Bus Lines.

Limited experience with mass distribution of retail policies. Given that the bulk of life products are compulsory, there is limited experience with retail distribution of voluntary insurance at scale. The only exception is travel insurance policies, which may provide useful experience to consider other alternative distribution channels in future. Apart from travel companies, Myanma Insurance does not leverage any distribution partners. Myanma Insurance could leverage distribution channels such as SFIs, private banks or MFIs and other aggregators for distribution.

Premium payments collection done in cash or by cheque. Premiums of Myanma Insurance policies are made at Myanma Insurance offices or at MEB branches and are done in cash or by cheque. Premiums are mostly paid annually but government policyholders tend to pay monthly using cheques. Policyholders of voluntary policies have the option of paying quarterly or annually. There are no debit order payments and agents do not typically collect premiums. The lack of premium payment infrastructure may present problems for the development of smaller-premium policies to reach out to the wider population.

10.5. Products

10.5.1. Myanma Insurance

Usage of regulated insurance driven by compulsory products. Regulated use of insurance by individuals in Myanmar is very low and is driven by compulsory government employee life insurance as well as compulsory third party liability insurance. Based on data provided by Myanma Insurance, approximately 2% of adults have life and 6%[130] have third party insurance from Myanma Insurance. The bulk of these policies are made up of compulsory endowment policies for government employees. These are very small policies with low premiums and benefit levels. Voluntary term life insurance (one year term) contributes a small proportion of total policies. Owners of motor vehicles are required to have third party liability insurance with around 2.4 million policies currently.

[130] Assume that number of third party insurance policies represent unique policyholders.

Deposit insurance rolled out in last year. Myanma Insurance initiated deposit insurance in 2012. It is compulsory for all commercial banks and covers deposits of less than K 1 million. As discussed in **Section 8.6**, it is expected that only a small fraction of bank deposits will fall under this limit as estimated average deposits for private banks is K 120 million (USD 126 850). Premium started at 0.25% but has subsequently been reduced to 0.13%.

Limited regulated retail product offering. Myanma Insurance currently does not offer credit life, funeral, health or agricultural insurance. The five new private insurers will not be allowed offer any of these products either, although insurers indicated that they will be allowed to apply for additional product lines if their businesses prove to be successful. As an illustration of potential demand, the Myanmar Rice Federation approached Myanma Insurance for the underwriting of agricultural risks but Myanma Insurance felt it was not possible for them to respond currently. Myanma Insurance also does not offer any insurance products tailored to enterprises.

Myanma Insurance already offering microinsurance policies. It is interesting to note that Myanma Insurance is already offering a number of low-premium products. Even though largely restricted to government employees, life policies are reported to have very low premiums (estimate from CSO data suggests K 2 165 per annum- approximately USD 2.3). Travel insurance policies sold through bus agents are already said to reach a substantial number of low-income households. Myanma Insurance's snake bite insurance policies are another interesting attempt to reach low-income farmers although little take-up has been achieved to date. The available information does not allow analysis of the detailed performance of these products, but it demonstrates interest and some ability to manage large volume, low-income policies even within the current paper-based environment.

10.5.2. PACT

Unregulated insurance products, by regulated credit providers, cover a wider variety of risks
As noted above, a number of INGO MFIs and co-operatives are providing unregulated risk cover to a large number of their clients and members. These products cover the outstanding debt in the case of the death of the borrower, but also cover a number of other risks. Three examples are: PACT, World Vision and the CCS welfare fund.

PACT includes compulsory risk cover on all of its credit clients – 510 000 active clients reported in April 2013. The premium is set at 1% of the original loan value and this pricing was derived by trial and error without any actuarial input. It provides the following cover:

- **Life cover**: The outstanding debt is settled and it also pays an additional benefit of K 100 000 (USD 106) to the family. Cover is limited to the borrower only and there is no option available to cover other family members.
- **Crop failure**: This benefit covers loans to members for damages to their crops resulting from fire, floods and storms. The local credit committee has to assess the damage and makes the decision on whether to grant a write-off. The loan write-off amount is based on the value of the loss experienced, but by definition would not exceed the loan amount.
- **House reconstruction**: Damage to the borrower's house due to fire, floods or storms is covered for a lump-sum of K 50 000 (USD 53).

10.5.3. World Vision

World Vision reported 19 000 borrowers in March 2013, all with compulsory risk cover. The cover was also not designed with actuarial inputs, but the premium is charged at a K 1 000 (USD 1) flat charge on all loans (except for borrowers with educational loans only), which amounts to 0.43% of the average value of loans disbursed. The policy provides life cover for the borrower (outstanding debt plus K 70 000/USD 74), their spouse (K 50 000/USD 53) and child (K 30 000/USD 32). This cover is subject to a three month waiting period (exclusion period) from commencement of the loan, and the average loan term is only about seven months, so the borrower is effectively only covered for four months. Catastrophe cover is excluded from the insurance contract as World Vision's policy is to cancel the outstanding debt (up to a maximum of K 600 000/USD 634) in case of catastrophe. While this approach may work in principle, it may be less transparent than coverage through an insurance contract.

10.5.4. CCS

The CCS provident fund provides risk cover to members of selected co-operatives. The cover consists of two components:

Enhanced loan loss reserve: 2% of loan value is transferred to this reserve for all borrowers. This is not an insurance premium but the normal risk reserve to cover adverse portfolio experience. Unlike typical risk reserves, however, it is not only the ultimate reserve to cover defaults but explicitly writes off the outstanding loan in case of death of the borrower or natural disaster.

General provident fund: This is a voluntary component over and above the enhanced loan loss reserve. For an additional contribution of K 4 200 (USD 4) per annum (0.7% of reported typical disbursement of K 600 000 (USD 634) per member per annum), the member qualifies for an enhanced benefit. The general provident fund currently covers about 40 000 members[131]. The cover includes:

a) **Life** - Outstanding loan is settled plus an additional benefit of K 100 000 (USD 106) is paid on the death of the borrower.
b) **Health** - Main member is covered for between K 30 000 and K 100 000 (USD 32 and USD 106) on different health events (see below). Similar benefits are provided on family health events but is provided as an interest free loan and not an insurance benefit. Covered procedures/events include delivery (normal K 30 000, abortion K 50 000, caesarean K 50 000), other major operations (K 50 000/USD 53), fracture (K 30 000) amputee (K 50 000) and permanent disability (K 100 000).
c) **Natural disaster** - A benefit of K 100 000 is paid if a member becomes homeless due to a natural disaster.
d) **Education** - A K 45 000 (USD 48) education benefit is available to members as an interest-free loan.

[131] Please note, this figure is as reported by CCS. However, CCS documentation for October 2012 reports this figure as 263 324, indicating a substantial decrease in the number of members who subscribe to this fund.

10.5.5. Unregulated providers

Unregulated "products" are also available from community based self-help groups (see **Section 10.3**) and include funeral services, health services, and general assistance from donation groups to those in need. Details on unregulated provision could only be extracted from qualitative research conducted. It was found that most individuals indicated that they would rely on collective structures to assist others if unforeseen or adverse events occurred. The collective structures that emerged from the qualitative research were: ward-based funeral assistance groups, voluntary health assistance organisations and self-help medical assistance groups as well as need-based donation mobilization within communities (such as in the case of fire and natural disasters). Many of these structures are mobilized by monks and community leaders. In most cases, they rely on member contributions and donations and the benefits are not exclusive to members. The success of these collective structures can be attributed to the fact that community members are usually willing to donate money, as such actions result in merit which carries on to the next life in accordance with Buddhist beliefs. Some qualitative respondents mentioned examples such as: the Optical Charity Society, Free Funeral Society and Thuhka Charity Clinic. The latter two relied on donations while the first relied on member contributions which were made on a monthly basis. **Table 33** below describes some of the features of unregulated provision that emerged from the qualitative research.

Unregulated group/mechanism	Features of unregulated provision
Religious contributions/ donations for disaster assistance	Monks mobilize relief for victims of fire, natural disasters, etc., by encouraging people to donate in cash or kind. People willingly donate for such causes, as it brings merit in this life and carries forward into their next life.
Ward-based funeral assistance groups	This typically takes place in a ward, though more than one of these systems could function within a ward. Details of the systems differs, but in principle everybody who can afford to, pays a small sum (e.g. K 1000/USD 1 once a month) towards funeral assistance; upon death, these contributions are then used towards covering the funeral costs.
Voluntary health assistance organizations	Monks and community leaders have founded voluntary health assistance organizations in urban areas. Blood donations, doctors' consultation fees, and pharmaceutical expenses were some of the services provided by these associations/organizations.
Self-help health assistance	Within small societies such as people who are from the same profession (teachers, alumni), from the same birth place (township association) and same community (ward). They seem to function under the guidance of a monk in a specific area. Anybody can contribute, but benefits are not exclusive to contributors.

Table 33: Unregulated groups/mitigation mechanisms that emerged from qualitative research.

Source: MAP qualitative demand-side research

10.6. Attitudes and awareness of the target market towards insurance

The qualitative research revealed that regulated insurance was unknown to many respondents and was rarely used. It also revealed that those who were aware of insurance were mostly government employees such as military officials who had compulsory life cover, some small business owners and regulated finance users whom banks had required to obtain insurance in order to safeguard their collateral. Apart from these few who had insurance cover, there were a few respondents who were aware of insurance through having family members that worked for the government or through relatives who lived abroad and had insurance cover.

The qualitative analysis furthermore showed that knowledge of insurance did not automatically translate into demand. It appeared that those who had insurance cover did not always value it, and did not anticipate obtaining additional cover beyond what was compulsory. In the few cases where respondents reported interest in insurance, there was little knowledge on how to go about obtaining cover.

10.7. Regulatory constraints and enablers

New insurance legislation is currently in the process of being drafted. The research team did not have access to the draft legislation, so the analysis is based on what was conveyed during meetings with Myanma Insurance and new industry players. Based on these consultations, the following are the key identifiable elements of regulation that will impact on the development of the insurance market moving forward.

New insurance regulation dictating business model. In an unusual attempt to manage the risk of new inexperienced entrants, the proposed regulation will require new insurers to copy Myanma Insurance's model and policies in all aspects. Policies will be identical in design and price, and distribution needs to happen through agents trained by Myanma Insurance. Given the limited retail portfolio of Myanma Insurance, these constraints will undermine the ability of new insurers to innovate and will lock the market into the current portfolio and value proposition of Myanma Insurance.

New insurance regulation limits distribution to traditional agent model. Distribution is a key driver of the success or failure of microinsurance business models. In particular, distribution requires going beyond traditional agents and partnering with various institutions and groups that can provide access to sufficiently large numbers of clients to make it attractive and viable. Current indications are that the new regulation will, however, require insurers to follow the same agent-based distribution model used by Myanma Insurance. This includes high entry requirements for agents (requiring a university degree), which will increase the cost of distribution and make it difficult to find large numbers of suitable agents. Agents have to be trained by Myanma Insurance, which will further limit the potential pool of agents available to the industry (although Myanma Insurance has indicated that they could train up to 730 new agents a year). Agents are currently recruited and trained to sell all Myanma Insurance products. This requires agents to be able to deal with complex asset insurance products at the same time as selling more simple life products. Going forward, it may be appropriate to allow for agents that may only sell simpler life and low-premium policies for which the requirements and training can be adapted. It is also not clear whether the new regulation will accommodate using entities such as banks, MFIs and other aggregators as corporate agents. The current regulatory approach is likely to undermine innovation and will result in high-levels of competition for existing agents. Along with the general increase in demand for university graduates (as the result of all sectors growing), this is likely to fuel increasing staff costs.

Compulsory risk pooling. Another element proposed in the new regulation to manage the risk of inexperienced new entrants is that a limit will be placed on the risks that any individual insurer may underwrite. At this stage the indications are that the maximum risk exposure that an insurer will be allowed to carry will be K 500 million. Any risk beyond this level will be equally distributed amongst all the insurers. The details of the proposed risk-sharing mechanism were not available at the time of this study but, based on current indications, there are a number of potential distorting effects that may arise. It may mean that all insurers will be forced to absorb the risk of the faster growing insurers. The fastest growing insurers will, therefore, determine the level of risks adopted by the industry. It is also not clear whether the proposed risk sharing will be done within product segments. If not, an insurer focusing on one product line may be forced to take on risks of a different product line. Insurers may also be dis-incentivised to grow beyond the capped amount as they will not benefit from growth in the portfolio beyond the limited liability amount. Careful consideration of this mechanism is required given the substantial impact it will have on market development and the growth appetite of individual insurers.

High entry capital requirements. New licences require an unusually high minimum capital level; K 6 billion (USD 6.3 million) for life insurance, K 40 billion (USD 42.3 million) for general insurance and K 46 billion (USD 48.6 million) for composite insurers. This seems out of line with the nature of risks that some of the new insurers are likely to underwrite and will impede entry into the market. There is currently no provision for a lower tier of registration and capital for microinsurance providers. Combined with the potential restrictions on distribution, the proposed regulatory regime does not facilitate bringing the current unregulated insurance products into the regulated sector and this is not currently one of the supervisor's priorities.

New insurers limited to six product lines. Private insurers will only be allowed to offer six insurance products to start with. These are life, fire, motor, cash in vault, cash in transit and fidelity insurance. At the same time, there are demands for a wider set of products (see **Section 10.8** below). The capacity of insurers to underwrite more complicated products would need to be considered, particularly as the new regulation is proposing to prohibit the employment of foreign staff by insurers.

Compulsory 3rd party not included in product lines to be offered by new insurers. 3rd party insurance is not included in the product lines allowed for new insurers. Given its compulsory nature, it is typical for new insurers to build their initial operations and scale around this product. Based on the scale achieved, they can then continue to develop other product lines. Not making this available to new insurers may therefore impede the development of the overall market.

Investments restricted to Treasury bills. Currently all Myanma Insurance assets are invested in Treasury bills and the same requirement are proposed for new insurers. In the absence of a stock exchange, consideration may be given to how the substantial assets base that the sector will accumulate which could also be used to channel longer-term funding into the banking sector.

Regulation does not accommodate co-operatives. As noted above, co-operatives are already providing some kind of risk cover to the low-income market. Current regulation does not accommodate the formalisation of such programmes as co-operatives insurers are not allowed. It is also not clear that the current approach to intermediation will accommodate co-operatives as intermediaries.

Foreign entrants and partnerships not yet allowed. Foreign entrants are not yet allowed into the insurance market and partnerships with foreign insurers are not yet accommodated. Given the limited technical experience and capacity in the industry, the inability to bring in foreign expertise through partnerships may be detrimental to the development of the insurance sector.

10.8. Gaps and opportunities

Institutions opportunities

Retail insurance capacity limited. Regulated insurance take up has been driven almost exclusively by compulsory products. As result there is little demonstrated capacity to intermediate small premium policies on a voluntary basis. The main exception is the personal accident cover distributed through bus companies.

Market liberalization will drive rapid expansion of traditional insurance lines. The recent opening of the insurance market for new domestic entrants will drive expansion. This expansion however is not likely to focus on the low-income market (but some of the traditional market is likely to be low-income – e.g. government employees). Given the current monopolized nature and low take-up of insurance in Myanmar, there will be countless opportunities for newly licensed insurers to pursue, especially if current efforts to liberalise the market continue. The current restriction of insurance lines will further reinforce the focus of insurers on traditional lines of insurance.

Cost of insurance delivery likely to increase substantially. Cost of delivery is likely to increase substantially and will place further pressure on value. Distribution costs are likely to increase substantially if new insurers will compete for business. Overall staff cost also likely to increase as new insurers complete for existing skills and new skills from other growth sector.

Opportunity for additional players to underwrite insurance. There is a significant opportunity to underwrite insurance in the easier to reach, higher-income and urban segments. It is unlikely that insurers will extend products to less profitable target groups. In addition, high capital requirements will exclude or disincentive institutions looking to provide regulated microinsurance. The apparent successful provision of microinsurance by financial institutions conducting microfinance business (CCS, PACT, and other MFIs) demonstrates the role that these institutions can play in providing risk mitigation. These institutions currently cover a substantial number of clients and providing a formalisation path or increased operation certainty for these institutions will likely be the biggest short-term contribution to increased penetration in the low-income market.

Growth in the insurance sector will generate capital for investment. Further growth will require consideration of investment opportunities and mandates. If successful, government may not be able to absorb increased investments in Treasury-bills. At the same time, it may not want to divert all of the Treasury-bill investment into private sector intermediation. Investment options also need to take into consideration the risks and returns to ensure that insurers offer value to consumers.

Product opportunities

Health insurance. There is currently no regulated health insurance product available in Myanmar. More than 12 million adults (31%) indicated that they or a member in their family has experienced an illness that required unexpected medical expenses. These respondents heavily relied on savings, sale of assets and obtaining credit to cover the cost associated to illness. While health care provision needs are universal, products can be tailored to the specific circumstances and associated distribution challenges to reach the target groups. The provision of this product by insurers will require amendments to the product classes currently permitted under law. Regulated insurers will for, the foreseeable future, not target groups with irregular income or who are predominantly rural (Farmers, Informal Consumer market, Informal enterprises).

Agricultural/crop insurance. As of March 2013, no regulated agricultural insurance products were available to farmers[132]. Of the 12.1 million adults in the Farmers target group, more than 5 million indicated that they experience risk which they have mitigated through the sale of assets, savings, credit or reduced consumption. Agricultural production related risks were the most prominent risk category for Farmers. While Farmers are almost exclusively rural, existing financial services providers (MADB, PACT, Awba see **Section 7**) provide a large opportunity for a distribution channel.

Credit insurance. Credit life is usually one of the first products to be developed in insurance markets, and have a positive impact on the development of demand driven economic growth in a country (through increased consumer credit provision). The lack of credit insurance could be one of the factors accounting for a constrained commercial credit market in Myanmar.

AD&D mobile insurance. There is an opportunity for basic insurance linked to mobile phone subscribers. New models are being developed where a large percentage of mobile network operators' subscriber bases can enrol or are enrolled automatically in a group policy. These policies are usually limited to accidental death and disability. Because they can capture a large group diversified risk pool, these policies can provide a low-cost way to provide the experience of insurance to a large group of users. Some policies are also covering previously excluded pre-existing conditions, such as HIV/AIDS and vehicle accidents.

[132] Deputy Minister of Finance, Maung Maung Thein, indicated in January 2014 that Credit guarantee and Agricultural insurance will be added as a category of insurance during 2014.

11. Market findings by theme

The following section will outline six themes that emerged as part of the MAP Myanmar research and stakeholder engagement exercise. These themes serve to provide the market context to inform the opportunities and subsequent recommendations that have emerged from the MAP diagnostic.

11.1. Myanmar population is thinly-served by financial services

Majority of adults with access to regulated[133,134] financial services only make use of one product class. Although 30% of adults reported to use at least one financial service from a regulated financial service provider, only 6% make use of more than one regulated financial product class (a combination of credit, savings, insurance or payments). The remaining, 24% of adults (9.4 million) reported only using one financial product class from regulated financial services providers. **Figure 48 below** shows this breakdown of adults using financial services from regulated financial services providers and classifies adults that make use of more than one financial service as **broadly served** and those who only make use of one financial service from a regulated provider as **thinly served.** This highlights that most adults that are considered to be served by regulated financial service providers are only **thinly served** and are still candidates for financial inclusion.

[133] **Regulated** financial services providers are registered legal entities that are regulated for the provision of financial services. If a financial services provider is registered with a public authority and its activities are subject to regulation which permits it to provide financial services, whether a public authority supervises its provision of financial services from a prudential or market conduct perspective or not, it is considered a regulated financial services provider.

Regulated uptake by product class is defined as follows: Credit - Having a loan product or credit account with an SFI, commercial bank, formal (non-bank) financial institution, MFI, government scheme, co-operative or pawnshop. **Savings** - Saving with or having a savings account with an SFI, commercial bank, formal (non-bank) financial institution, MFI or co-operative. **Insurance** - Any formal insurance product (like motor vehicle insurance) with an insurance company or bank. **Payments** - Having sent or received remittances in the last 12 months via bank transfer (or paying into a bank account), ATM, the Post Office, Western Union, MoneyGram, internet/online banking or mobile phone or having one of the following accounts/products from a commercial bank: Debit Card/ATM card/MPU card, current/cheque account, foreign currency account, bank account outside the country, internet/online banking.

[134] **Unregulated** financial services providers are not registered with any public authority and are not subject to any institutional, prudential or market conduct supervision in their provision of financial services. Even though legislation or regulation may exist that govern their provision of financial services, unregulated providers do not comply with such regulation and are therefore not subject to any public supervision or control. Likewise, if an entity is registered with a public authority, but no regulation exists that govern their provision of financial services the entity will be an unregulated provider.

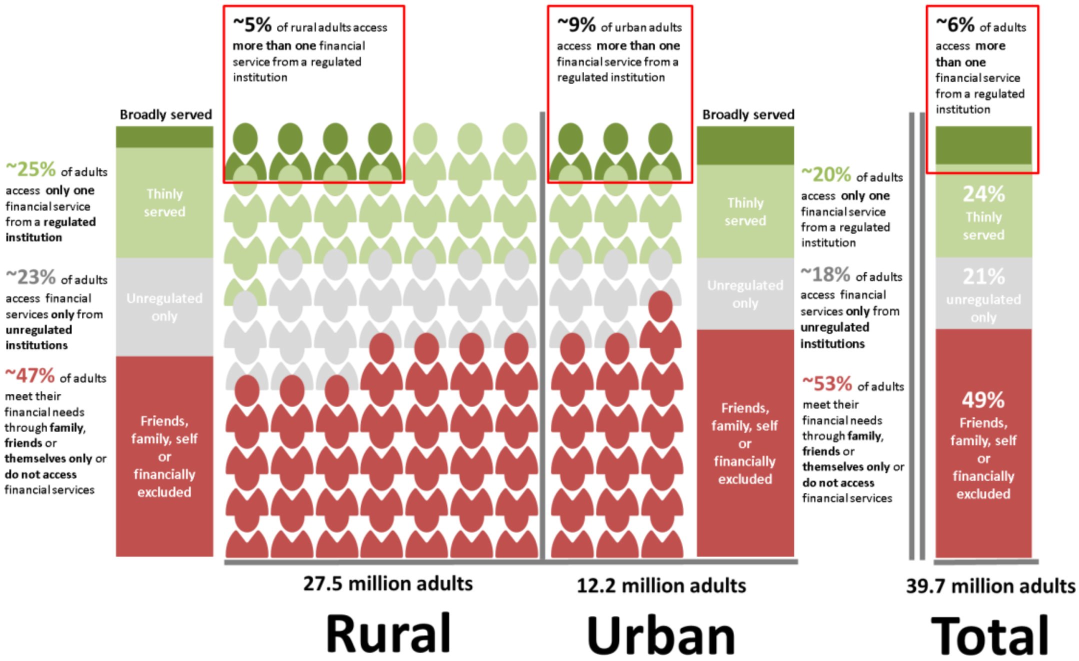


Figure 48: Nature of financial services usage

Source: FinScope 2013

The chart shows thinly served driven largely by regulated borrowing without an account and non-account based payments. Of the 24% of total adults identified as **thinly served** in **Figure 48,** 61% (or 5.8 million adults) only borrow from regulated financial services providers and 27% (2.5 million adults) use only payment services from regulated financial services providers. Adults who report only borrowing from regulated financial services providers are largely rural farmers who access agricultural credit only from MADB. Adults who report using only payments from a regulated service provider consists almost entirely of adults who indicated that they use a bank to send or receive remittances, but do not report having a bank account. These two services (adults only borrowing from regulated financial services providers and adults using only payments from regulated financial services providers) services make up 88% of the **thinly served** category.

Regulated financial services reach even the lowest-income categories. While take-up of regulated financial services correlates with income, regulated financial services reach into even the lowest-income categories. FinScope reported that 19% of adults earning less than USD 1 per day use at least one financial product or service from a regulated financial institution. This increases to 27% for those earning between USD 1 and USD 2 per day and to 31% for those earning between USD 3 and USD 4 per day.

State provision of credit drives higher take-up in rural areas. The majority of the adult population in Myanmar (69%) live in rural areas. **Figure 48** shows that despite the distribution challenges associated with rural provision in Myanmar, rural usage of financial services is significant with 53% of rural adults reporting to use either regulated and/or unregulated financial services, while 30% of rural adults reported using at least one financial service from a regulated financial provider. Financial access in rural areas is driven largely by access to credit which is significantly higher than access to credit in urban areas[135].

11.2. High levels of informality throughout economy

Large unregulated financial sector. The majority of economic activity is conducted outside of the formal sector in Myanmar. A global study examining 162 countries ranked Myanmar as having the 9th highest level of informal activity as a ratio of total economic activity (F Scheinder et. al., 2010). The financial sector is no exception, with a large proportion of services provided through entities not regulated for the provision of financial services. Of the 51% of adults who use either regulated or unregulated financial services, 64% (or 30% of adults) make use of unregulated financial services and 41% (or 21% of adults) make use of unregulated services only.

Pervasive use of cash. Nearly all transactions in Myanmar are conducted in cash, by customers and businesses alike and only a small portion are made via domestic inter-bank transfers. Furthermore, in the case of the latter, payments are most often deposited by the sender in cash and withdrawn by the receiver in cash, with neither having an account relationship with the bank. The development of electronic retail payments is undermined by inadequate infrastructure, which is characterised by an unreliable power grid, inconsistent communications networks and low penetration of electronic touch points (such as ATMs and POS).

Unregulated financial institutions constitute the largest source of borrowing. **Figure 49** shows that 9.2 million adults reported to have a loan from an unregulated financial services provider, with an estimated total outstanding debt as high as K 5.4 trillion (USD 5.7 billion). Of these adults, 5.9 million adults (64% have a loan with an unregulated provider) indicated that they currently have outstanding loans from a money lender. The total outstanding debt provided by unregulated money lenders is estimated to be as high as K 3.7 trillion (USD 3.9 billion). In size, this compares with the outstanding loan book of the commercial banking sector, which is estimated to have 60 000 credit clients. Money lenders are therefore providing a significant proportion of loans to the market.

[135] FinScope reports that 44% of rural adults have outstanding debt from either a regulated or unregulated financial services provider. This is significantly higher than urban areas where only 19% of adults currently have credit from regulated or unregulated institutions.

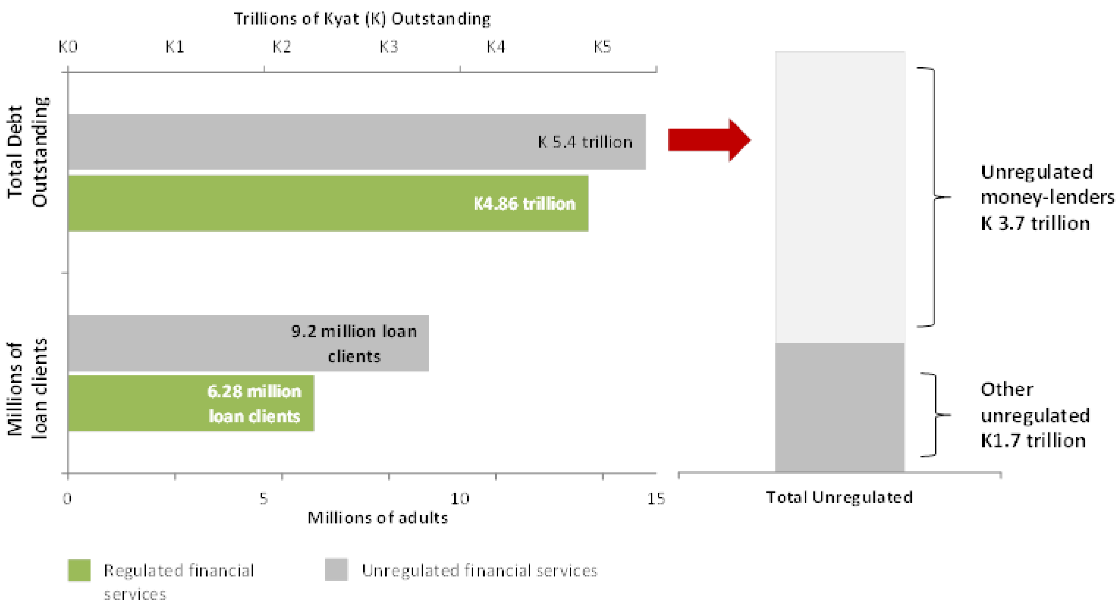


Figure 49: Unregulated credit activity by number of loans and outstanding loan stock

Source: FinScope 2013

Positive consumer perception of financial services offered by unregulated institutions. Focus Group Discussions (FGDs) respondents revealed positive perceptions about using financial services offered by unregulated financial services providers such as money lenders, (unregistered) pawnshops, savings groups and *hundis* because they felt that these were more convenient and that the requirements set by regulated financial institutions excluded low-income earners. Respondents indicated that although unregulated providers charged high interest rates for credit, they were the preferred choice because of their proximity, flexible operating hours, immediate relief and negotiable borrowing terms.

Pervasive and sophisticated unregulated financial sector. Based on a conservative estimate of an average of 15 outstanding loans per money lender, FinScope take-up data[136] would suggests that there are about 400 000 money lenders (constituting 1% of the adult population) operating in Myanmar[137]. This is nearly 100 moneylenders for every 100 000 adults, which represents the largest distribution density of any credit provider in Myanmar. Money-lenders include potential savers who opt to intermediate funds themselves by loaning out their excess capital to friends, family and other community members. Sometimes, money lenders make use of unregulated 'brokers' who charge high fees (e.g. 10% of the interest) to introduce them to prospective clients. In the market for unregulated payments, 'payment brokers' or *hundis* also exist where regulated providers are unavailable or unsuitable. *Hundi* networks are located throughout Myanmar and they provide payments services to augment and leverage their primary business (e.g. shipping). *Hundis* use a variety of regulated and unregulated mechanisms to provide domestic and cross-border payment services payment services to clients.

[136] Indicating 5.9 million adults with a loan from a money lender

[137] Even if a much higher estimate of 50 loans per money lender on average is used, the number of moneylenders in Myanmar would still be substantial at 117 000.

11.3. Capital constrained regulated retail financial sector

Capital constraints restrict the extension of regulated retail credit. The regulated retail credit market is restricted by the limited capital available for on-lending. Some MFIs reported bureaucratic hurdles in getting foreign donor capital into the country. Outside of the microfinance sector, foreign ownership in the financial sector is not yet allowed and with it, foreign direct investment and capital. Furthermore a number of constraints also limit the nature and availability of domestic capital. These constraints can be attributed to policy, regulatory and business model features (as discussed below) and the absence of a capital market in Myanmar[138]. As result, the regulated financial sector is currently completely dependent on short-term deposits as sources of capital. In addition, restrictions on the use of available capital, such as the loan to deposit ratio restriction for commercial banks[139], have further restricted the availability of funding for on-lending. At the time of this analysis, the funds available for on-lending was practically fully utilised triggering branch expansion strategies by commercial banks to raise more deposits.

Scarcity of capital dictates institutional focus and product offering. As a consequence of the scarcity of capital, institutions without a specific low-income client mandate will direct capital to more lucrative opportunities in the high-income and corporate markets (for instance see commercial banks below). At the same time those institutions that have a low-income mandate can only serve a small proportion of the potential market. From a consumer perspective, clients who are unable to access regulated credit are resorting to more expensive financial services from unregulated institutions. Given the short-term nature of deposits funding loan portfolios, no long-term credit products are offered.

Commercial banks are unlikely to direct capital towards the lower-income retail market soon despite being well positioned. Only commercial banks and MEB have proven able to attract voluntary deposits. Although commercial banks have the largest loan portfolio140, the bulk of this is being directed to corporate clients and to some degree the high-income retail market141. Given the high-income and corporate opportunities available, it is, however, unlikely that this capital will find its way to the low-income market in the near future. The recent introduction of hire purchase loans could potentially open a channel for commercial bank capital to flow to the lower-income retail market (e.g. through financing products of relevance to this market, e.g. scooters or farming machinery). However, take up of hire purchase has not proven to be significant so far. Outside of hire purchase loans, banks do not have the lending tools appropriate to lower-income consumers – particularly as unsecured lending is not allowed -and have no experience in this market. In theory (and, if regulation permits) banks may be able to provide wholesale funding to MFIs, but given current high-income and corporate opportunities, there is little incentive for banks to pursue this market.

Significance of directed capital to the lower-income retail market. Outside of pawnshops, the largest proportion of capital funding for regulated low-income credit are under policy direction (52% excl. pawnshops142) and consists of MEB providing wholesale funding to

[138] There is currently no private capital market, but the passing of the *Securities and Exchange Law* opens the way for the establishment of a stock exchange.
[139] The deposit-capital ratios for commercial banks have been abolished but loan to deposit ratios of 80% remain in place.
[140] Commercial banks provide almost 80% of regulated outstanding loans by loan volume.
[141] FinScope found the average monthly income of commercial bank credit clients to be almost 9 times as high as the average income in Myanmar, while the average loan was around 1000 times higher than most other categories of providers.
[142] Compared to current outstanding loans of MADB, all co-operatives, MFIs and Rice Specialisation Companies.

MADB[143], as well as the foreign funding raised by government that is channelled to agricultural co-operatives144. The largest component is flowing through MADB, making them the primary vehicle for directed lending. Another 25% of capital funding to the regulated low-income credit market is MFIs (if pawnshops are excluded), the largest part of which is directed donor capital.

Scope to increase policy directed retail capital reticulation. MEB currently lends out only 11% of its deposits with the remainder understood to be held in government treasury bonds. MIC is required to keep all its assets in government bonds and the same requirement is being applied to newly-registered private insurers. This represents a substantial amount of capital that is under the control of government, but not yet intermediated into the credit market. Policy consideration would have to be given to whether government is willing and able to reduce its reliance on this capital for budgetary funding in favour of growth in the credit market. In addition, the state has been able to raise additional capital directly from foreign sources. Most recently, the government raised a USD 600 million loan from China that is used to provide wholesale funding to extend the reach of co-operatives.

MFIs play a smaller but important role given scarcity of other sources of capital. Capital reticulation through MFIs only make up an estimated 11% of the retail credit market (25% if pawnshops are excluded) and are largely donor funded. Regulation restricts their ability to raise capital through deposits as deposits may only be taken from loan clients and to the value of the loan, while the current interest spread on deposits also render it unviable as a source of funding. MFIs have also reported challenges in obtaining regulatory permission to raise more foreign donor capital. This has proven to be a primary constraint inhibiting the extension of credit, as recent growth seems to be driven more by the availability and/or release of funding rather than explicit expansion strategies. If the barriers to raising more donor capital could be removed, MFIs could play a more significant role.

Challenges in mobilising capital from unregulated market. The size of the unregulated credit market highlights the magnitude of liquidity housed outside of regulated financial institutions. Unregulated money lenders are estimated to have in excess of 5.9 million clients with an outstanding loan volume as high as K 3.7 trillion (USD 3.9 billion). Unregulated provision represents surplus capital in the unregulated market which is being reticulated there because of higher returns. At present, MEB and commercial banks are the only regulated institutions that could potentially target the capital in the unregulated financial services market. MEB is unlikely to leverage this opportunity (given its lack of an MIS system and current specialisation as a wholesale capital provider), while commercial banks do not currently offer convenient products that are likely to attract this capital, although they are attracting more deposits when opening new branches.

Limited human capital for the financial sector to draw upon. McKinsey estimates that the financial services sector could contribute up to USD 11.1 billion to GDP by 2030 and generate 400 000 jobs (McKinsey & Company, 2013). The financial sector is heavily dependent on skilled labour, particularly the nascent insurance industry and it is doubtful whether Myanmar can produce enough skilled labour to meet this demand. FinScope revealed that only 7% of respondents reported having higher education. This is supported by McKinsey's

[143] Current outstanding loans for MADB (2013) was K 193 billion while K 543 billion was disbursed in loans to MADB in 2013 and, at the end of that financial year, it constituted just over half of MEB's loan portfolio.

[144] Current outstanding loans by agricultural co-operatives as at July 2013 was K 23.8 billion. China and the Government of Myanmar agreed to finance USD 600 million in the next 3 years for agriculture, to be disbursed through co-operatives.

study which found that only 5% of the country's workers had tertiary and higher education credentials in 2010, and only 15% had finished secondary education. This is extremely low compared with other developing countries in the region145 and has the potential to restrict growth of the financial sector.

11.4. Limited infrastructure constraining business model and product offering

Severe physical infrastructure inadequacies amplify distribution challenges. Inadequate infrastructure limits the reach of existing financial service offerings by creating barriers and increasing transaction cost for consumers and limiting the viable expansion of financial service operators. In 2010, Myanmar had the lowest road density in Southeast Asia with 41.3 km of road per 1000 m^2 and only 11.9% of the 27 000 km of road network was paved (UNESCAP, 2012). Furthermore, Myanmar has the lowest per capita electricity production in Southeast Asia with 104 kWh per capita. It is estimated that only 48% (UNDP IHLCA, 2010) of households have access to electricity, which suffers regular black-outs. There is a sharp rural urban divide with 89% of urban households having electricity compared with only 34% of rural households. According to FinScope, 3% of adults used the internet in the month prior to the survey (Sept 2013).

Financial services providers in the early stages of adopting electronic management systems. Financial services players are at different but early stages of modernising their Management Information Systems (MIS). Most institutions are still heavily reliant on onerous paper-based or other manual processing of product origination, payments, account management and reporting.

- **Commercial Banks.** As of May 2013, four of the private banks, driven by an interest in foreign exchange transactions, were in the process of adopting core banking systems and were transitioning to their use. Most banks branches were also "offline" except for a subset of branches in particularly active commercial (urban) areas that were connected through internal online platforms.
- **SFIs:** Despite serving the largest number of retail clients, none of the SFIs have electronic MIS systems and their branches are not connected. For example, MADB's operations are almost entirely paper based yet it has the largest loan client base in Myanmar. Similarly, MEB holds the largest number of voluntary deposits in Myanmar but does not operate on a core banking system.
- **MFIs:** INGO MFIs operate on a variety of MIS systems ranging from largely paper-based (e.g. GRET) and Excel-based systems (Myanmar Microfinance, Save the Children and Private Agencies Collaborating Together (PACT) who are looking to move to a more advanced MIS system) to more advanced MIS systems (World Vision installed the Kredits MIS system in late 2012). Some of the domestic MFIs have also obtained donor support to implement microfinance MIS systems (e.g. MicroBanker Win).
- **Insurers:** MIC is in the process of transitioning to an electronic MIS system but is currently still largely paper based. Conversion to the MIS system is done by product line. 3rd party insurance was the first line to be transitioned to the MIS system and fire and life insurance was planned for the next phase. The system was locally developed in a joint venture with the Ministry of Communications and Information Technology.

[145] Thirty percent of workers in Vietnam and Thailand have a secondary education; in Indonesia, the share is almost 50 percent, and in China and Malaysia, it is about 60 percent (McKinsey Global Institute, 2013).

Limited supporting financial sector infrastructure. Myanmar authorities are moving towards building supporting infrastructure. This is evidenced by the development of a national payments network and other planned initiatives.

- **Credit bureau:** Myanmar currently has no credit bureau, which means that there is no formal mechanism to establish indebtedness of credit applicants. Plans are however underway for the establishment of a credit bureau by the Central Bank of Myanmar (CBM) with the assistance of Credit Bureau Singapore (The Irrawaddy, 2014a).
- **Payments systems:** Payments infrastructure is still underdeveloped (current POS devices have a 90% down time) but it is slowly being redressed, through efforts by the Myanmar Payment Union (MPU) and the CBM. Recent developments include a national switch for ATMs that started operating in December 2012 (operated by MPU, and POS devices have been in operation since March 2013. All banks are required to join the switch. In the near future, a private payments processor will be appointed and a Real Time Gross Settlement (RTGS) system will also be operated by the CBM to replace the current manual payments clearing system. Moreover, Association of Southeast Asian Nations (ASEAN) aims to achieve financial integration by 2015 (ADB 2013) and this would also require Myanmar's integration into the ASEAN Payment and Settlement System.
- **Capital market:** There is currently no formalised capital market in Myanmar, and businesses rely solely on banks to raise capital (in the form of debt). The new Securities and Exchange Law that was passed in July 2013 allows for the establishment of the Yangon Stock Exchange, which is expected to be operational by the second half of 2015 (The Irrawaddy, 2014b).
- **Foreign exchange market:** Although Myanmar has a regulated foreign exchange market; it is still in the early stage of development. Fourteen private banks were licensed to become authorised dealers of the US dollar, Euro and Singapore dollar in October 2011 (Global Times, 2013). In April 2012, Myanmar converted to a managed float exchange regime after having had a dual exchange rate regime for decades and efforts are underway to further liberalise to a free floating exchange regime. Despite the developments, industry consultations revealed that accounting for the amount of foreign currency in the country at any time is still problematic.

Inadequate infrastructure hinders business models from achieving scale. The combined limitations on infrastructure and rudimentary MIS systems will take time to resolve and require substantial business model and process adjustments from the financial service providers. It is likely to continue to restrict the nature of business models and product offerings in the medium term146. These restrictions increases costs and inefficiencies and create absolute barriers for some models and products. As a result, it undermines the scale, variety and value of existing offerings. Given that it will take time to resolve these issues, there are still opportunities to further leverage the limited business models that have been successful under the current constraints. In the short-term, this will favour decentralised and group-based credit models but with the continued limitation that this model is only suitable to simple credit products for particular market segments. In the longer term, however,

[146] While MADB and PACT has been able to achieve scale despite these restrictions, this has been achieved on a subsidised basis and their product offerings have been restricted to group-based products where the risks are assessed through decentralised village credit committees. They are unable to viably offer more advanced credit products and particularly those that require individualised credit assessment and management. For the credit market in general, more advanced credit products can only evolve once the bank systems and credit bureau is in place. As result, the CBM has determined that banks will only be allowed to enter the unsecured lending market once the credit bureau is established. Real- or near-real-time transactions are virtually completely absent in the market. The absence of such payment infrastructure has undermined transaction flows and particularly the development of the insurance market, which rely on the collection of frequent low-value premiums.

business models utilising electronic networks and centralised processing will gain advantage as they allow for a more advanced and tailored product offering.

Mobile payments have the ability to bridge current infrastructure challenges. Following market liberalization, mobile phone penetration in Myanmar has rapidly expanded from 0.15% in 2003 to more than 23% of the adult population (approximately 15% of the total population) in 2013 (FinScope 2013). This growth is expected to continue in the coming years, especially in consideration of the recent award of licenses' to Norway's Telenor and Qatar's Ooredoo which have a particular history of integrating mobile payments into its operations as evidenced[147] by its operations in Pakistan. The two mobile network operators have committed to reaching 50% coverage by 2015 (teledensity) and 90% population and 80% geographic by 2019. Both have also committed to providing mobile financial services and are preparing to launch these services in late 2014 or early 2015.

The mobile phone offers multiple benefits that will address critical infrastructure gaps in Myanmar. These include:

- **Firstly, mobile networks enable real time connectivity, for voice and data traffic.** There is currently no comprehensive and reliable real time connectivity between financial institutions in Myanmar. This further exacerbates the obstacles facing the development of a RTGS system and usage of core banking systems by commercial banks. Providing this connectivity alone will transform the way financial services are offered in Myanmar. Payment services in particular are likely to benefit significantly, particularly where electronic transactions are expected to become a viable alternative to cash. The immediacy of in-person cash transactions is an important characteristic that electronic payments must seek to replicate in order to become a viable alternative to cash.
- **The second opportunity is in the mobile device itself, which provides all the functions of a POS device without the need of a separate card**. This enables customers to issue payments instructions themselves, check balances and receive confirmations (i.e. payment sent or received). This brings the payment terminal that traditionally has required a bank branch or merchant outlet into the hands of the customer, providing control, convenience and accessibility similar to that of cash. Thus it increases the likelihood that customers will adopt electronic payment services. An additional attribute is that the mobile phone is commonly purchased by the customer, thus reducing the infrastructure costs[148] normally taken on by financial institutions.

Mobile phones do not void the need to invest in traditional payments infrastructure. Mobile phones are not a complete replacement of the existing infrastructure such as ATMs, POS and bank branches and will, in fact, rely on much of this infrastructure for cash distribution and management. Rather, mobile infrastructure provides an alternative means in which customers can engage in the payment system. This allows for a more diverse set of business models that can service the target markets for financial inclusion.

[147] http://www.easypaisa.com.pk/index.php/en/about/about-easypaisa
[148] For example liquidity in the banking system is freed up as the "local" cash is circulated more effectively, while the daily float maintained at the respective financial institutions keeps track of transactional balances electronically.

11.5. Constrained product offerings undermines value to customers

Constrained product offerings do not meet consumer needs. The combined effect of market and regulatory constraints discussed above restrict the availability of products and their features. Consequently, consumers resort to using either unregulated products or regulated products that do not adequately match their financial needs.

Two types of mismatches between product and needs are of particular relevance for this discussion:

1. **Using the incorrect financial service type:** This occurs when a particular financial product category is used when in fact a different category may be more efficient to address the particular financial need. For example using credit to mitigate insurable risks where insurance may have offered a more efficient solution.
2. **Using the appropriate financial product category but incorrect product:** This occurs when the correct product category is used but the product features of the particular product are not suited to deal with the financial need the user is seeking to address. For example using short-term credit to finance long-term investments.

Examples of such mismatches in Myanmar include:

Credit and savings being used to mitigate risks. Few individuals in Myanmar have either a regulated or unregulated insurance product (3% regulated and 4% unregulated only). As result, for example, a substantial proportion of Farmers (42%) had to resort to using credit or savings to cope financially after having experienced an insurable risk for which they did not have a regulated or unregulated insurance product. The use of credit or savings to deal with these risks is more costly and less efficient than if, for example, an insurance product was to be offered to all MADB clients. In addition, it means that credit is directed to risk management instead of the productive purposes for which it was obtained. Using savings, in turn, reduces the assets accumulated by households and leaves them more vulnerable for future shocks.

In this case, the absence of insurance reflects the underdeveloped market as well as regulatory restrictions on the types of insurance products that may be provided. Currently Four of the six main insurable risks[149] reported to be experienced by the largest proportion of adults are agricultural related, while the most commonly reported risk is related to medical expenses. Between 38% and 69% of adults who experienced these 6 largest risks reported using savings or credit as response mechanisms (see **Figure 50** below). Yet MIC does not offer agriculture or health insurance and it is also not included in the product lines allowed by regulation for newly registered private insurers.

[149] Risks that normally would be considered insurable or for which insurance products exists in well-functioning insurance markets.

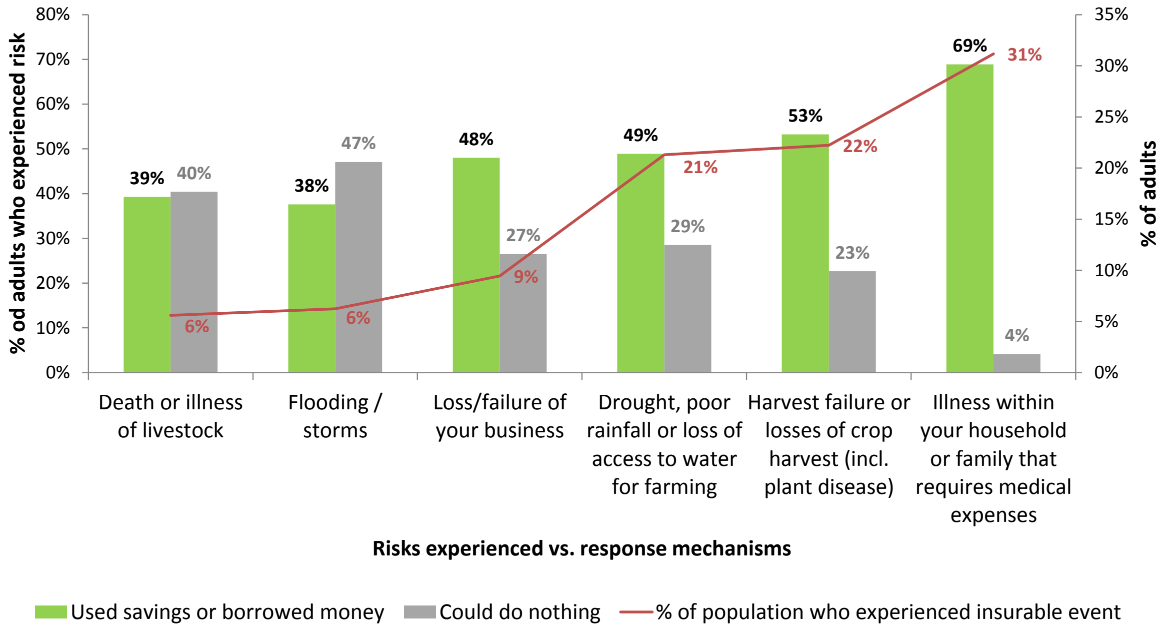


Figure 50: The most commonly reported insurable risks experienced versus risk mitigation responses

Source: FinScope 2013

Product and service features of regulated products do not match consumer needs. There are a number of issues with the product and service features of regulated financial products that do not adequately address the intended use. These include:

- **Timing of delivery and repayment of MADB loans:** Qualitative research revealed that MADB loans are often not dispersed in time to finance the necessary preparations for the planting season and loan repayment is due when the crop prices are at their lowest (immediately after the harvest). Consequently, farmers are often forced to source additional credit, mostly from unregulated money lenders, at a high cost as an interim financing measure. Until recently, these loans were also too small to address the financing needs of farmers, resulting in farmers having to finance the gap through unregulated money lenders. This has been partially addressed through the introduction of incremental increases in loan sizes over the last few years.
- **Low-income retail credit products not suited for asset financing or longer-term investment:** Current co-operative and MFI loan products are best suited to finance working capital for high-turnover trade businesses (typically small traders) that can manage high repayment frequencies (daily, weekly or bi-weekly). Loan values are very low, terms are short and group guarantee structures renders it unsuitable for more advanced and individualised businesses150. These loans are useful for high turnover traders as they enable these to grow to larger micro-enterprises but these will then require larger, longer-term and arguably individualised loans to grow further. These loans are not suited for investment in equipment or for businesses with slower turnover cycles.
- **Restricted payments functionality and infrastructure undermines value and utilisation of bank accounts:** Only 5% of adults have a bank account. Consultations with the banks

[150] However, there is limited graduation of co-operative and MFI loan clients, with some MFI loan clients (although very few) becoming eligible for individual loans. As the market develops it is anticipated that MFIs will introduce asset finance.

have revealed that a large proportion of account holders only use the account to receive their salary and withdraw the full amount in cash. Given the limited payments infrastructure, bank accounts are not yet a useful or viable transaction tool for consumers. While the banking infrastructure is expanding, physical proximity remains an issue, particularly for deposits. The transaction cost and effort incurred in accessing a bank branch to withdraw or deposit money renders it unviable as a useful tool for collecting small amounts of regular savings. FinScope data have shown that consumers are willing to travel longer distances to obtain loans (e.g. only 20% of MADB clients are within 30 minutes of a branch) but adults who have taken-up a deposit facility are found in much closer vicinity to bank branches (71% of bank clients are within 30 minutes); it's likely that proximity is a key terminate in take-up decision. This may, in part, explain why MADB is unable to raise voluntary deposits, but commercial banks are. The development of the mobile payments market will greatly enhance this but it will also require revisions to the banking products and model.

Unregulated products provide features required by key target group at a higher cost. As noted above, there are various market and regulatory constraints resulting in regulated products either not being available or with features not suited to the needs of consumers. In such cases, consumers resort to using unregulated products to meet their needs. These unregulated alternatives come at a higher cost, bear more risk and are less efficient. The following examples have been identified:

- **Agricultural credit features and requirements not meeting all needs in the agricultural market.** There are a number of features of agricultural credit products which exclude certain groups of farmers and/or limits the degree to which the product matches financing needs. As result, these farmers have to utilise high-cost unregulated credit to make up the gaps. These features include:

  - **Size of farm:** In most cases, regulated financial institutions provide partial finance based on farm size. MADB provides a set rate of finance per acre for farmers with land of up to 10 acres. Co-operatives covers up to a maximum of 5 acres for farmers with up to 10 acres of land and a maximum of 50% of acres for farmers with over 10 acres. PACT restricts its credit to farms of up to a maximum of 5 acres in size. A large proportion of farmers have farm that are 10 acres or larger[151], with a large proportion of them also being relatively low income[152]. Therefore, a large group of potential low-income retail credit clients are therefore excluded (or partially excluded) from accessing regulated credit for agricultural production.
  - **Size of loan:** MADB currently provide loans up to K 100 000 (USD 106) per acre. There are differences of opinion about whether this address (or even exceeds) the full financing requirement per acre with estimated financing requirement ranging from K120 000 (USD 127) to K 300 000 (USD 317) per acre to cover production costs. The financing requirement is highly dependent on the quality of seed used and the production method applied. If current loan amounts are insufficient to cover production costs, individuals would also be forced to supplement regulated credit with unregulated credit to meet their financing needs.

[151] There are 2.1 million adults (698 000 households) involved in farming who indicated that they have farms that are 10 acres or larger

[152] 46.5% of these adults indicated that they earn less than USD 5 per day

- Restrictions on crop: The bulk of MADB loans are earmarked for paddy production. As result, farmers who are not involved in paddy have much lower access to credit[153]. Only 12% of farmers farming only beans and pulses (but who are not also involved in paddy or cereals) have MADB loans.

- **Regulated loan sizes not catering to the needs of all MSMEs:** There is a substantial gap in the credit market between commercial banks and MFIs in terms of loan sizes. MSME credit through MFIs is has been limited by regulation to K 500 000 (USD 529)[154] while the average loan issued by commercial banks are in excess of K 70 million (USD 73 996) and mostly inaccessible to the lower-income and small business market[155]. This leaves a substantial gap between K 500 000 and K 70 million, which is only serviced by unregulated money lenders. FinScope data confirms this as the average loan size reported by those who have a loan from an unregulated money lender only is K 635 000 (USD 671). Hire purchase products recently introduced by the banks can potentially narrow this gap, but its impact is yet to be seen.

- **Uncollateralised individual loans accessed through unregulated sector:** A prominent feature of regulated credit products is that all loans are either dependent on collateral (commercial banks and pawn shops) or are group-based (MFIs, co-operatives and the MADB). Small and Medium Industrial Development Bank (SMIDB) receive discounted funding for loan provision to MSMEs from MEB, but indicated that the requirement of collateral was a major constrained in their extension of loans to MSMEs. INGO MFIs do provide a limited amount of individualised loans, but these are small in both value and number and do not make a significant contribution to the market. In reality, the only source for uncollateralised individual-based loans is unregulated money lenders.

[153] Only 12% of those who are not involved in paddy or cereals, but are involved in beans and pulses have MADB loans, while only 12.7% of those who are not involved in paddy or beans and pulses, but who are involved in cereals have MADB loans.
[154] Co-operatives only provide loans up to K 300 000 (USD 329). MFIs mostly provide loans of up to K 500 000 due to Government focus on implementing a cap at this level, but with some isolated cases of loans as high as K 1.7 million (USD 1 797).
[155] Although banks now have introduced a product that start as low as K 100 000 (USD 106), average bank loans is estimated around K 70m (USD 73 996) suggesting that the bulk of loans are at very high values.

11.6. Current regulatory environment not enabling expansion of rural provision and discouraging delivery to urban poor

Government has identified rural delivery as a key target market for FI. As noted in **Section 2.2**, the Myanmar Government recognises rural poverty as an area that needs addressing and has set a goal to reduce poverty to 16% by 2015. Financial services have been identified as an important tool for achieving this goal.

Rural markets challenging to serve on sustainable basis. Enabling the sustainable delivery of appropriate financial services to rural markets remains a challenge in the most conducive of environments. In Myanmar, the combination of severely limited infrastructure (see **Section 11.4**) and the underdeveloped nature of financial services models and products (particularly the absence of payments system); see **Section 11.1** and **Section 11.5**, makes rural delivery particularly challenging. Given the scarcity of capital (see **Section 11.3**) and resources and the abundance of urban, high-income opportunities, resources, unless mandated otherwise, will not be channelled to rural and low-income markets.

Rural take-up of financial services relatively high, but substantial needs remain unaddressed. As noted in **Section 11.1**, rural markets in Myanmar show a relatively high take-up of regulated financial services and, in particular, credit. At the same time, it is clear that much of the rural financial services need remains unaddressed or insufficiently addressed (see **Section 4.3**). Further expansion is, therefore, required.

Current rural models driven by mandated capital and subsidised operations. The current rural penetration is driven exclusively by subsidised state and donor models which are funded almost exclusively by mandated wholesale funding (i.e. MADB and PACT[156]). No purely commercial offering have achieved any significant scale and there is no evidence that any provider is poised to do so for the foreseeable future. No privately controlled capital has found its way into low-income or rural financial services.

Constraints introduced in regulation will deter even mandated and subsidised operations from challenging rural markets. Even for these mandated and subsidised models, rural delivery remains a challenge. Despite their mandate and subsidy, the current interest rate caps, loan size and capital regulations and the higher cost of rural provision are resulting in a withdrawal of certain NGO MFIs from more challenging low-income and particularly rural markets. This is particularly the case for smaller and newer entrants who have not yet achieved the level of scale and experience to be able to operate under these challenging conditions.

Policy stance discourages urban delivery. Although urban consumers on average have higher incomes, there are still significant numbers of low-income consumers located in urban areas (e.g. 48% of Informal enterprises). Furthermore, the productive opportunities given access to financial services is arguably higher in urban areas than in rural. There is therefore both a significant need for poverty alleviation as well as efficient opportunities to impact on poverty alleviation (through employment creation) in urban areas. However, the regulatory implementation emphasis on rural areas are discouraging MFIs from urban areas.

[156] Both government and donors have mandated the delivery of services to low-income and rural consumers.

12. Opportunities to increase access to financial services

MAP identified seven priority opportunities to extend financial access to the people of Myanmar.

12.1. Dramatically increase the supply and availability of electronic payments

Pervasive use of cash across all target markets. The vast majority of the people of Myanmar use nothing else than cash for payments. In most countries the majority of formal employees would use electronic payment instruments. However, in Myanmar, only 21% of Formal consumers use regulated payments, not all of which is electronic. For Farmers, electronic payments are almost non-existent as 92% of Farmers that report making payments, make payments using cash only. The main reason for this limited use of electronic payments is the absence of electronic payments infrastructure, especially in rural areas where there is virtually no points of access for electronic payment instruments. ATMs, POS devices and the like are available in urban areas only but even there the networks are still severely restricted. The largest current use of regulated payments is for remittances, for which 38% is made via bank transfers. However, even these transfers can be considered cash-based, as adults need to physically bring cash to the bank and little effort is made by banks to convert these into account clients. This represents a lost opportunity for banks to reduce cost of processing cash-based payments and sell adjacent products to remitters. Furthermore, almost all cross-border payments are made through unregulated *hundis*. This applies to retail as well as corporate clients. This presents an opportunity for commercial banks to add a major source of income if they are able to attract these clients.

Efficient electronic payments required to enable transactions and savings. The need for electronic payments is growing rapidly. The most immediate and pressing demand for retail electronic payments will flow from the need to buy pre-paid airtime electronically in the wake of the roll-out of mobile services. This will follow the pattern in other countries. However, much of the future development of regulated financial services depends on the introduction of accessible, low cost, electronic payments. Migrating savings from outside of regulated institutions to regulated institutions will not happen unless households can save and withdraw small amounts regularly, conveniently and cheaply. Given the current limited branch infrastructure outside urban areas, this will not happen without remote electronic access. Similarly, the extension of low-value credit and the collection of small insurance premiums become commercially viable on the back of low-cost electronic payments.

In order to expedite the development of the payments system and optimise its benefits for low-income consumers, the following options can be considered:

Fast-track introduction of electronic MIS systems for commercial banks, SFIs and other providers. The first hurdle to cross on the road to a ubiquitous electronic payments infrastructure is a systems one. Most banks, including state banks, do not have automated electronic core banking systems. Installing such systems, a current priority for all banks, is the first step. It is particularly important that MEB also install such systems since it currently is one of the largest payment providers in Myanmar.

Pursue the coordinated development of payments infrastructure under the guidance of a National Payment System Strategy. In tandem with the internal systems of financial service providers, it is necessary to install national electronic infrastructure for real time settlement of interbank payments as well as retail payment networks (see **Section 11.4**). Several components of the system are in the process of being developed under the guidance of the CBM. To mitigate the risk of ad hoc development and the emergence of proprietary payment networks that are not interlinked, it is necessary to develop a National Payment System Strategy to guide participants in the emerging Myanmar payment system (see **Section 11.4**).

Consider the space for non-bank third party payment providers. Commercial banks and the MEB are currently the only providers of retail electronic payments, with commercial banks having installed virtually all ATMs and POS devices. The extension of this network will be gradual and probably branch-linked. Should the space for non-bank third party payment providers be created, Myanmar could follow the lead of other developing countries that have leveraged the distribution networks of convenience stores and pawnshops. This will of course require real-time connectivity of these stores.

Mobile payments provide biggest opportunity for extension of retail electronic payments. The opportunity for a quantum leap in access to electronic payments lies in the emerging market for mobile payments. The adoption of the Directive on Mobile Banking in December 2013 opens the way for banks and financial institutions to deliver financial services through mobile banking. It is too early to predict the manner in which banks and mobile network operators will co-operate to deliver such services. However, the parameters set by the Directive would seem to create ample space for the emergence of a mobile payments network that can become the front end of the retail financial sector. Of particular importance will be the establishment of agent networks to convert cash into electronic money and vice versa. Cash-handling retail entities like the Post Office and grocery or convenience stores can play a role in this regard. The role of the MEB as the current cash manager of the country will also be important. This makes modernising the MEB's systems a top priority.

12.2. Provide low-cost savings vehicles for short term savings

Need for store of value as key driver to attract savings into regulated sector. Myanmar has a great need to draw whatever savings is available into the regulated sector to improve the level of financial intermediation. However, much of current savings is held outside of regulated financial sector in the form of cash or assets. For every one person that saves in a regulated institution, five persons save in an unregulated institution or at home. Unregulated moneylender loans is more than four times the value of the current estimated retail credit market and reflects savings that individuals opt to privately intermediate. More than 10% of adults noted that they save in gold. The largest savings need is for consumption smoothing, particularly to put money away for the rainy season when incomes generally decrease. This savings demand is simply to store value over time and to be able to access it quickly, conveniently and at low cost. Current savings products from regulated service providers offer poor functionality and convenience. Keeping it hidden at home has for many been the best option given the current limited financial infrastructure and low crime levels.

Leverage emerging retail payments network and agents to enable convenient store of value. There is an opportunity to provide low-cost savings vehicles to offer a safe and convenient store of value to consumers and draw some of these savings into the regulated sector. To do so successfully will depend entirely on the ability of providers to enable frequent low-cost deposits and withdrawals close to the client. In the absence of a branch in every village, it is difficult to conceive of this possibility other than through the roll-out of low-cost retail electronic payment networks and its subsequent agent networks. Since the Directive on Mobile Banking provides for the payment or interest on balances in mobile payments accounts, the regulator has already opened the door for mobile-based savings, a door that remains closed in most countries where mobile payments have taken off.

12.3. Extend the availability of account-based savings options

Pent-up demand for regulated savings. The need to formalise the current high levels of unregulated savings is critical for Myanmar's ability to grow its industrial base and formal economic sector. Although much of this will come from corporate deposits, retail deposits will also play a role. Recently commercial banks started to aggressively extend their branch networks, driven by the need to mobilise deposits to feed the demand for corporate credit. Without any other changes, this has resulted in a marked increase in deposits, mainly from middle and high income adults, proving that there is a substantial demand for bank-based savings amongst certain target groups. Yet, still less than 5% of adults currently have bank accounts. The recent success in deposit-raising suggests the following options to expand regulated savings:

Improve transaction functionality and proximity to entice savings into the regulated sector. Many bank account holders only use these as "post boxes", i.e. deposits are immediately withdrawn. This is not surprising given poor transaction functionality and lack of convenience currently offered by banks resulting in the still pervasive use of cash. The retention of such savings could be substantially improved through the enhanced payments infrastructure and functionality being developed.

Leverage urban opportunity for bank-based deposits. The pent-up demand for medium term savings is for both unplanned events, such as health emergencies, and anticipated needs such as education. Formal enterprises, 75% of which are urban-based, have the highest demand for such savings with half of them currently using unregulated savings or saving at home. The Informal enterprise target groups and Formal consumers have comparable needs. An opportunity thus exists in the urban space to extend bank-based savings. Subject to the necessary regulatory amendments, there is potential that some of this capital may flow as wholesale funding to MFIs.

Modernise and strengthen MEB to continue its role in deposit mobilisation. Currently, only banks and SFIs are permitted to mobilise voluntary savings. MFIs and co-operatives can only raise compulsory savings linked to loans. Of the SFIs, **MEB** is clearly trusted by consumers with voluntary deposits. MEB's deposits also come from higher-income clients. Its ability to extend its deposit-raising capacity will be determined by the modernisation of its internal systems and the extension of its branch and electronic footprint, particularly in rural areas where it has a head start.

Explore the use of village level savings associations to extend MADBs footprint and enable voluntary savings. FinScope finds that 72% of MADB (mostly credit) clients are more than 30 minutes away from their nearest branch. Conversely 71% of commercial bank (mostly savings) clients are within 30 minutes of their branch. To overcome the proximity challenge MADB, which is a particular deterrent to savings mobilisation, can consider revisiting the use of village level savings associations or equivalent structures. MADB used these in the 1990s, but limited information is available on their performance. Currently, several MFIs report to be using community or village based associations as a vehicle to extend their footprint. While savings mobilised in this manner is unlikely to provide a substantial funding source to MADB it could offer value to rural consumers.

Leverage mobile payments to extend banks interest beyond high-income savers. **Banks** seem to be poised to move the needle on deposits amongst higher- income groups. The removal of limits on the size of the deposit base coupled with new regulations allowing mini branches are driving banks' interest in mobilizing savings in new geographic areas through increased physical outreach. However, the floor on savings interest rates may limit banks' incentive for savings mobilization amongst small value savers as the cost of servicing the account and the interest payment combined may make it too expensive to serve these clients. The opportunity to dramatically improve efficiency and reduce cost through a mobile payments front end can change the equation and enable deposit mobilisation deeper into all target markets.

12.4. Improve quantity, terms and risk profile of agricultural input credit

Improving quantity, terms and availability of agricultural credit can impact on as many as 19 million adults. Farmers are the largest target market identified in Myanmar with 12.1 million adults. An additional 7 million adults indicated that they or a member of their household derive income from farming. The vast majority of Farmers rely on credit to finance inputs and thus production. There is extensive opportunity to improve the availability, service quality and terms upon which agricultural credit is extended which will not only improve household welfare, but also increase production. The 17% of Farmers who currently borrow from unregulated money lenders will benefit from access to regulated input credit.

To increase agricultural input credit at scale, a major priority for the Myanmar government, will require a concerted effort involving all the current providers. In order to expand the delivery of agricultural credit, the following options can be considered:

- **Extend MADB coverage and improve quality and features.** With its extensive rural footprint and proven community-based group loan methodology, **MADB** will remain the lead provider for some time to come. Although MADB, the largest provider of agricultural input credit, currently serves more than 2 million households, an estimated 3.4 million Farmers are not able to produce a certificate to prove their right of use of the land (a prerequisite for obtaining an MADB loan) and remain unserved. MADB finances up to a maximum of 10 acres and focuses their loans on paddy production, which excludes many Farmers. Farmers who do obtain loans indicate that the loans for some may still be too small to cover production expenses, are often disbursed late (due to administrative hurdles or difficulty in obtaining land title certificates) and have to be repaid immediately after harvest when commodity prices are lowest.
- **Extend wholesale funding to MADB through MEB.** To increase its loan portfolio, MADB will require more funding. This is unlikely to come from deposits and will probably

require increased wholesale funding from MEB which is trusted to hold deposits and can allocate these funds at the discretion of government.

- **Return to higher interest rates and shift MEB subsidy to modernising systems and improving service quality.** MADB has the space to gradually increase interest rates to the more market-based levels it charged five years ago. Given the short-term nature of loans, the debt servicing relief from lower interest rates are quite low. For example, increasing the interest from the current 8.5% to 12% on a 6 month loan that is to be repaid in a lump sum at the end of the loan period, increases the payment by only 2%[157]. The subsidy implicit in the reduced interest rate paid by MADB to MEB could then be directed to modernising its internal systems and improving service delivery, without which it will not be able to diversify its product portfolio beyond the short term, group loan mediated by decentralised credit committees. In addition, resources can be invested to increase the productive impact of its loans by improving its service levels and adjusting the terms of loans to better suit the agricultural cycle.
- **Diversification requires modernisation.** The MAP analysis suggests that MADB's systems work well despite some deficiencies in management and the absence of an electronic MIS system. Through a combination of leveraging village committees as decentralised credit committees and a simple product that is able to be delivered through group guarantees, MADB has been able to manage its risks to date and reports low rates of non-performing loans. This mechanism works well for the simple group-based seasonal loans that make up the bulk of their portfolio. The same mechanism may not work well for more advanced or individualised loan products. While MADB has done well on a particular portfolio of loans, and should continue to be leveraged for this purpose, any diversification outside of the parameters of its existing portfolio needs to be carefully considered as it is likely to require enhanced MIS and management to manage and monitor risks. It is not clear how or whether such a modernisation process will unfold for MADB or whether it will be successful in adapting to the changing demands and environment. As a result, there is space for others, including MFIs to play in this market and potentially offer more complex products. Some MFIs are extending their range of agricultural credit products (e.g. through agricultural leasing) but with limited reach to date.

Furthermore other input credit providers play an important, but more limited role. Recommendations to leverage these players for expanded financial inclusion include:

- **Better understanding of agricultural input credit required to consider their position in the regulated credit market. Agricultural companies** offer small value input credit to at least 1.5 million Farmers, but are vulnerable to crop risks which have also contributed to the demise of the rice specialisation companies. They will continue to provide unsecured supplier credit provided they are not exposed to catastrophic losses. Credit-linked crop insurance can play a major role to mitigate this risk (see **Section 12.6 below**). Agricultural input providers currently fall outside of the regulated credit market. Given the potential important role of these companies, it would be important to gain a better understanding of their products and performance and consider their position in the regulated space.
- **Improve information on agricultural co-operatives and consider their place in the regulated market.** Given the limited information available at the time of this research,

[157] Calculated on a principal of K 1 million (USD 1 057) at 8.5% and 12% interest per month over 6 months. Total repayment under 8.5% is K 1 043 260 (USD 1 103) and under 12% is K 1 061 520 (USD 1 122), a difference of less than 2%.

the role of **agricultural co-operatives** remains uncertain, but they can meet part of the need provided they have access to capital and their credit processes are not too cumbersome. Early indications are that the extension of input credit by agricultural co-operatives has grown rapidly and could play a substantial role. With the exception of agricultural input companies, all credit providers in this market rely on wholesale funding to extend credit and currently suffer capital constraints. Given the potential important role of these co-operatives, it would be important to gain a better understanding of their products and performance.

- **Take care to monitor rapid expansion of co-operatives. Section 11.3** reveals that the Export-Import Bank of China has agreed with the Government of Myanmar to finance USD 600 million over the next three years for agriculture production. This funding will be disbursed from the Ministry of Co-operatives to CCS and is set to expand agricultural co-operative credit by more than twenty times. Prior to this funding injection, the extension of credit through agricultural co-operatives has already increased from USD 1.7 million and 10 900 members in January 2013 to USD 27.9 million and 400 000 members as of July 2013. This is equivalent to 60% of the reported MFI client base (for which PACT represents the largest proportion). Given the substantial increase this represents to the co-operative sector, it will require careful monitoring to ensure that rapid expansion can be managed by the co-operatives and accompanied by appropriate supervision.
- **Beyond PACT, MFIs are likely to play limited but important role and could be expanded if regulatory hurdles are addressed. MFIs** may not play a major role in the provision of input credit in the near term. **PACT** is currently the only MFI with substantial rural reach and does among others provide agricultural loans. In the future, however, other organizations could have the potential to increase their reach. The cap on interest rates makes it difficult to undertake expensive rural distribution. PACT is the only provider that can significantly contribute to this opportunity under the current regulatory environment. An increase in the interest rate ceiling can open the opportunity for more providers. Given that MFIs have longer-term wholesale funding and are installing MIS systems, it is possible that they could in future evolve to fulfil the need for more advanced credit products along-side MADB's simpler credit products.
- **Monitor indebtedness and improve agricultural productivity with expanding credit.** The extension of input credit, however, should not be unlimited. There are signals that debt is a problem for at least some groups of Farmers. Farm yield will be a key determinant of whether current debt levels are problematic or not. At lower yield assumptions current debt levels appears problematic for a broad range of Farmers. At higher yield assumptions, the situation improves but remains concerning for Farmers on plots of less than 6 acres. Increasing credit to Farmers must go hand in hand with measures to improve agricultural productivity, manage macroeconomic conditions so that farm yields are not undermined, and land tenure policies that promote long-term investment.

12.5. Increase availability of unsecured credit

Limited collateral requires unsecured financing solutions. Financial institutions, excluding those operating under the Microfinance Law, can only lend against the provision of collateral. Most citizens and small enterprises cannot offer acceptable collateral, and must therefore turn to unregulated money lenders or the few providers who can legally offer unsecured credit. Particularly hard hit are the 4.7 million Informal enterprises that draw on family and friends and unregulated money lenders for three quarters of their credit needs and 7.5 million Informal consumers who make even more use of unregulated credit. However, the need for credit also exists for the higher-income Formal enterprises that currently have to fund their growth primarily from cash revenues. A similar need exists for the Formal consumers who form the kernel of Myanmar's emerging consumer class. They will certainly demand more consumer credit in future.

In order to expand the provision of credit to rural and more challenging SME markets, the following options need to be considered:

- **Reconsider interest rate and loan caps and remove stumbling blocks to raising capital in order to enable MFIs and co-operatives to move beyond urban and survivalist markets. MFIs**, including **financial co-operatives** registered as MFIs, are legally permitted to extend unsecured loans. They must ideally play a central role in meeting this need. To date they have extended in the order of 700 000 loans. Their ability to meet this opportunity is, however, constrained. Perhaps their biggest challenge is access to capital due to supervisory complications in sourcing both foreign and domestic capital. Regulatory practice currently requires MMSE to approve all increases in capital, for which approval is not always readily forthcoming. Deposit-taking MFIs are also limited in their ability to use deposits as funding for loans. The interest rate cap at 2.5% per month challenges the commercial sustainability of all but the largest, most established MFIs. It will continue to confine their activities to urban areas where there certainly is a huge need. The recent cap on loan size at K 500 000 runs the risk of further undermining outreach, poverty impact and sustainability. It is estimated that about 10% of current MFI clients will be excluded by the loan cap. It will also exclude MFIs from funding the larger enterprises which have a higher employment potential but are not yet able to access commercial bank loans. The combination of the interest rate cap and the loan cap is likely to keep the larger donor-funded MFIs reliant on subsidised funding and to delay the commercialisation of these providers. A relaxation of these regulatory and supervisory constraints will at least ensure that this category of providers optimise their contribution to extend access to regulated finance. In addition, a donor or private funded wholesale lending facility could support and strengthen promising implementer and give strategic direction to the sector.
- **Explore leveraging payroll credit.** The ability and appetite of **commercial banks** to make a substantial contribution to the extension of unsecured consumer credit at this point is limited, but should not be excluded. There are moves to relax the absolute restriction on unsecured loans, but this will only be implemented once a credit bureau able to provide reliable credit information on retail customers is established. In the interim there is an opportunity for payroll lending, which can be performed under a limited regulatory exemption. Some registered MFIs are interested in exploring this market, while banks targeting corporate customers will look to provide payroll services as part of the package. Once the infrastructure for electronic payments exist, it will be easy for banks to extend payroll loans to employees of their corporate clients. It is a low-cost methodology that functions well in the absence of collateral, provided the necessary consumer protection measures are in place. Since about 37% of Government employees receive additional income from an enterprise, this can also become an easy channel for credit for Informal enterprises.

12.6. Grow insurance product portfolio to meet risk mitigation needs of households

Reported risk experience reflects need for insurance. The people of Myanmar do not use insurance to mitigate their risks, largely because it is not available and they are not aware of its existence. The 3% that do have insurance have it only because it is compulsory for certain categories of government employees and vehicle owners. That means that the voluntary retail insurance market in Myanmar is effectively non-existent. It does, however, not mean that the people do not experience risks that they have to deal with. They certainly do, but they mitigate these through savings, credit, or community-based self-help groups, like funeral aid societies. Alternatively, they sell assets or simply do nothing. Most of these risk mitigation tools are more costly mechanisms than insurance, and results in reducing the welfare of households. There is thus a significant opportunity for the development of retail insurance. There are a number of options to develop the low-income insurance market:

- **Enable and develop health and funeral (life) insurance.** The priority needs expressed in FinScope are for health, funeral and agricultural (dealt with in **Section 12.7**) insurance. There is currently no regulated health insurance product available in Myanmar. More than 12 million adults indicated that they or a family member experienced an illness that required medical attention during the previous 12 months. They relied on savings, the sale of assets and credit to cover the treatment costs. Since the provision of health services are uneven, insurance products will have to be tailored to what is available. Insurance legislation does not currently permit insurers to offer health insurance. An amendment will thus be required to offer this product. It is likely that the Formal enterprise target market and Formal consumers will be pioneer users of this product. Funeral insurance is an anchor product for many emerging retail insurance markets. Such insurance is not constrained to funding the cost of the funeral but can provide financial assistance for the family to deal with other expenses, debts and the potential loss of income. The extensive use of informal funeral assistance mechanisms suggests that it is no different in Myanmar and that an opportunity exists to offer this product to all target markets, provided the distribution challenges can be solved.
- **Remove regulatory constraints on new entrants to enable innovation.** The monopoly of the **MIC** was lifted in 2013, opening the market for a number of new commercial insurance companies. However, for the time being these companies are required to follow MIC's business model and product offering, and to follow the same agent-based distribution model used by MIC. They will also be subject to compulsory risk pooling. These regulatory restraints will effectively prevent these companies from offering products able to meet most of the consumer needs. Regulatory change will be necessary to facilitate business model and product innovation. Even though the low-income market is unlikely to be an immediate priority market for the new insurers, removing the regulatory constraints may enable innovation and potential interesting partnerships between insurers and existing players in the low-income market such as SFIs and MFIs. Given the income profile of Myanmar, it is likely that many employees of corporate clients may fall within the low-income market. In the first instance, MIC can build on their current life insurance portfolio, which is made up of small-premium compulsory products to government employees. This demonstrates the reach of employee-based programmes and the fact that these are serving low-income employed workers taking up microinsurance-type products. MIC can build on this experience to enhance the benefits and value of these policies to government employees.

- **Enable and leverage existing and emerging aggregators.** Cost-effective distribution is a key challenge for insurers and particularly for low-premium insurance products. Current regulation restricts new insurers to the same agent-based distribution model followed by MIC and imposes a number of potential barriers for the development of lower-cost distribution models (e.g. the fact that agents are required to have a degree). Regulation should be adjusted to enable insurers to explore a variety of distribution channels and should not predetermine their business model. There are a number of interesting aggregators that may present interesting opportunities for the distribution of insurance. These include the new mobile network operators, MFIs, SFIs and agricultural input providers and value chain companies.
- **Create a pathway for the formalisation of unregulated insurance offered by MFIs and co-operatives.** There is a substantial and diverse insurance portfolio offered through MFIs and co-operatives on an unregulated basis. These products are tailored to the needs of their clients and cover life, disability, health and asset risks. Their combined portfolio cover at least 600 000 clients with premiums of similar magnitude to MIC's life portfolio. Providing a formalisation path for these institutions can, therefore, facilitate the rapid growth of a formal microinsurance market and ensure the protection of consumers currently covered under unregulated products.

12.7. Develop insurance products to provide security for credit extension and protection for consumers, particularly for agriculture

Credit-linked insurance to facilitate credit extension and protect borrowers. Insurance linked to credit most often leads to the extension of regulated insurance provision to low-income markets. The most prominent type of this cover is credit life, which insures the outstanding debt against the death of the borrower. In some cases the cover may be enhanced to cover other family members or add additional cover such as funeral insurance or disability cover. Given the particular risks faced within the agricultural industry, much attention has also been given to the ability of insurance to manage weather-related risks affecting agricultural production. In particular, the use of weather-index products has received much attention given the simplicity of the mechanism. Such credit insurance products are typically triggered by the lender to cover the risk of non-payment, rather than the borrower. Borrowers are typically also compelled to take some form of credit insurance to obtain a loan. While this provides a powerful and low-cost mechanism for the expansion of insurance in low-income market, careful monitoring is required to ensure that consumers are fairly treated and receive value. As such credit-linked insurance has facilitated the provision of loans to millions of people who may otherwise not have been able to access credit.

These two product categories are particularly relevant to Myanmar given the risks faced by the identified target groups and the following options should be explored:

- **Enable agricultural insurance and explore delivery though MIC.** The absence of credit-linked insurance has been felt particularly in the market for agricultural credit. All but one of the rice specialisation companies have failed, at least in part as a result of insurable weather-related losses which triggered numerous defaults amongst farmers. Of the 12 million Farmers, more than 5 million indicated that they experienced risk which they mitigated through the sale of assets, savings, credit or reduced consumption. This diverts the intended use of these financial mechanisms for productive purposes to risk mitigation. Agricultural production-related risks were the most prominent risk category for farmers. Whilst the introduction of crop and livestock insurance is complex and in most cases require subsidies, a narrower focus on the provision of insurance for agricultural input credit is more achievable.

MIC does not offer agricultural insurance and the new commercial insurers are not permitted to offer this cover either. Given the numerous other opportunities that the new commercial insurers will explore, this product will in all likelihood be offered by MIC only and most likely on a subsidised basis. It will, however, enable the government to achieve some of its priority objectives for rural poverty alleviation.

- **Enable credit life insurance with appropriate consumer protection.** Credit life insurance is not currently offered by MIC and is thus not available in Myanmar. It is also not one of the product lines that new insurers are allowed to offer. However, in the absence of such an offering, a number of MFIs and co-operatives have created reserves to fulfil the role of credit insurance (as discussed in **Section 12.6**). Credit life insurance is a much simpler product than crop or livestock insurance and is offered on a commercially sustainable basis in most countries. The new commercial insurers should be able to offer this product. As noted, the offering of credit life also presents a number of consumer protection risks, which should be dealt with proactively in regulation.

13. Bibliography

Asian Development Bank (ADB), 2012. Key Indicators for Asia and the Pacific. [Online] Available at: http://www.adb.org/publications/key-indicators-asia-and-pacific-2012 [Accessed 30/07 2013].

Asian Development Bank (ADB), 2013. The Road to ASEAN Financial Integration: A Combined Study on Assessing the Financial Landscape and Formulating Milestones for Monetary and Financial Integration in ASEAN. [Online] Available at: http://www.adb.org/sites/default/files/pub/2013/road-to-asean-financial-integration.pdf [Accessed 16 04 2014].

Asian Development Bank (ADB), 2014. Asian Development Outlook 2013 Update: Governance and public service delivery [Online] Available at: http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1300&context=intl [Accessed 20/12/2013].

Ash Centre for Democratic Governance and Innovation: Harvard Kennedy School (2010). Revitalizing Agriculture in Myanmar: Breaking Down Barriers, Building a Framework for Growth, Yangon: International Development Enterprises. pp. 1-64 [WWW] Available at: http://www.ash.harvard.edu/extension/ash/docs/burma.pdf [Accessed: 20/12/13].

Ash Centre for Democratic Governance and Innovation: Harvard Kennedy School (2011). Myanmar Agriculture in 2011: Old Problems and New Challenges. pp. 1-24. [Online] Available at: http://www.ash.harvard.edu/extension/ash/docs/myanmar1111.pdf [Accessed: 20/12/13].

Better than Cash Alliance, n.d. Empowering people through electronic payments. [Online] Available at: http://betterthancash.org/ [Accessed 20/12/ 2013].

Coordination of Action Research on AIDS and Mobility Cambodia (CARAM) 2010. Remittance: Impact on Migrant Workers Quality of Life: Burma. [Online] Available at: http://www.burmalibrary.org/docs11/CARAM-Remittances_Report-Burma_extract.pdf [Accessed 03/12/13].

Central Bank of Myanmar (CBM), 2012. Annual Report 2011-2012. Myanmar: pp. 1-55 [Online] Available at: https://www.cbm.gov.mm/sites/default/files/cbmannualreport20112012.pdf [Accessed:20/12/13].

Central Intelligence Agency (CIA) (n.d) The World Factbook: Urbanization. [Online] Available at: https://www.cia.gov/library/publications/the-world-factbook/fields/2212.html [Accessed 24/07/13].

Chantavanich, S (2012). Policy Review on Myanmar Economy: Myanmar Migrants to Thailand and Implications to Myanmar Development. Bangkok Research Centre: IDE-JETRO. Number 07, [Online] Available at: http://www.ide.go.jp/English/Publish/Download/Brc/PolicyReview/07.html [Accessed: 20/12/13].

Consultative Group to Assist the Poor (CGAP), 2012. Interoperability and the pathways towards inclusive retail payments in Pakistan. Pp 1-47[Online] Available at: http://www.cgap.org/sites/default/files/cgap-bfa-Interoperability-and-the-Pathways-Towards-Inclusive-Retail-Payments-in-Pakistan-Jun-2012.pdf [Accessed 20/12/2013].

Cho, K.M., Wilson, S., Wong, L.C., Win, N.W. & Sandar, T.M. 2013. A Strategic Agricultural Sector and Food Security Diagnostic for Myanmar. USAID.

DataMarket, 2014. Bank deposits to GDP (%). [Online] Available at: http://datamarket.com/data/set/28m2/bank-deposits-to%20gdp#!display=table&ds=28m2!2rr3=5.16.25.3.52.3f.2r [Accessed April 2014].

Deelen, L., and Vasuprasat, P (2010). Migrant workers' remittances at Thailand to Cambodia, Lao PDR and Myanmar: Synthesis report on survey findings in three countries and good practices. Bangkok: ILO.

Deloitte, 2013. Myanmar: The Next Asian Telecommunications Greenfield. [Online] Available at: http://www.deloitte.com/assets/Dcom-Guam/Local%20Assets/Documents/Technology,%20Media%20and%20Telecommunications/TMT%20Myanmar.pdf [Accessed 16/04/2014].

Duflos, E., Luchtenburg, P., Ren, L. & Chen, L.Y. 2013, Microfinance in Myanmar Sector Assessment, Washington, DC: International Finance Corporation, [Online] Available at: http://www.cgap.org/publications/microfinance-myanmar-sector-assessment [Accessed: 30/03/2013.

Easypaisa, 2014. Vision. [Online] Available at: http://www.easypaisa.com.pk/index.php/en/about/about-easypaisa [Accessed April 2014].

Eleven, 2014. Myanmar's Mobile Penetration Rate Expected to Reach 80% by 2015-16. [Online] Available at: http://elevenmyanmar.com/index.php?option=com_content&view=article&id=5017:myanmar-s-mobile-penetration-rate-expected-to-reach-80-percent-by-2015-16&catid=44&Itemid=384 [Accessed 16/04/2014].

Ferguson, J. 2013. Consultancy on Co-Operative Systems in Myanmar. [Online] Available at: http://lift-fund.org/Publications/Consultancy-on-Cooperative-Systems.pdf [Accessed: 16/04/2014]

Fujita, K. Agricultural Finance in Myanmar: Problems and suggestions for development. Unpublished JICA presentation. [Accessed: 12/09/2013].

Global Times, 2013. Myanmar seeks to liberalize foreign exchange market. [Online] Available at: http://www.globaltimes.cn/content/796805.shtml#.U0zPKvmSx1Z [Accessed: 16/01/2014].

Gold Rice Delta Co, LTD 2011. [Online] Available at: http://www.golddelta-ricemyanmar.com/Default.aspx [Accessed: 20/12/13].

Global Partnership for Financial Inclusion (GPFI) 2011. Global Standard-Setting Bodies and Financial Inclusion of the poor. Toward proportionate standards and guindance. Accessed 28 July 2013. Available at: http://www.gpfi.org/sites/default/files/documents/CGAP.pdf

Hall, A., 2012. Myanmar and Migration workers; Briefing and recommendations. Mahidol Migration Centre: Institute for population and social research. [Online] Available at: http://oppenheimer.mcgill.ca/IMG/pdf/Myanmar_and_Migrant_Workers_-_Briefing_and_Recommendations.pdf [Accessed: 16/01/2014].

Horn, M., 2013. Myanmar insurance update: market opening expected in "one to two years". [Online] Available at: http://www.clydeco.com/insight/updates/myanmar-insurance-update-market-opening-expected-in-one-to-two-years [Accessed: 16/03/2014].

Hpaw, N. E. Banking & Financial Reforms in Myanmar. US. Myanmar Trade and Investment Relations: The Path Forward Conference (25 February 2013) Central Bank of Myanmar.

Human Rights Document Unit, National Coalition Government of the Union of Burma. Burma Human Rights Handbook (2008). 15th Annual Ed. Chapter 21: The Situation of Migrant Workers [WWW] Available at: http://www.burmalibrary.org/docs08/HRDU_YB-2008/pdf/migrants.pdf [Accessed: 20/12/13].

International Fund for Agricultural Development (IFAD), 2013. Sending Money Home to Asia: Trends and opportunities in the world's largest remittance marketplace. [Online] Available at: http://www.ifad.org/remittances/events/2013/globalforum/resources/sendingmoneyasia.pdf [Accessed: 03/12/ 2013].

International Futures at the Pardee Centre (IFPC) (2013). Country Profile – Myanmar. [Online] Available at: http://www.ifs.du.edu/ifs/frm_CountryProfile.aspx?Country=MM [Accessed: 04/12/ 2013].

International Monetary Fund (IMF) (2012) Myanmar 2011 Article IV Consultation, Washington DC: Country Report, 12/104. [Online] Available at: http://www.imf.org/external/pubs/ft/scr/2012/cr12104.pdf [Accessed: 17/04/ 2014].

Japan International Cooperation Agency (JICA), 2013. Data Collection Survey on Education Sector in Myanmar. [Online] Available at: http://gwweb.jica.go.jp/km/FSubject0101.nsf/3b8a2d403517ae4549256f2d002e1dcc/8f4d9a8f612dab6349257b4f000ec71c/$FILE/%E6%9C%AC%E6%96%87%E3%83%BB%E6%B7%BB%E4%BB%98%E8%B3%87%E6%96%99%EF%BC%88%E8%8B%B1%E6%96%87%EF%BC%89.pdf [Accessed: 23/07/2013].

Kudo, T., Kumagai, S., Ishido, H, 2013. Agriculture Plus Plus: growth strategy for Myanmar agriculture. Institute of Development Economics Discussion Paper no. 421. Available at: http://www.ide.go.jp/English/Publish/Download/Dp/pdf/421.pdf [Accessed: 22/08/2013].

Kuppuswamy, C., 2013. Myanmar's Ethnic Divide and Conflicts, New Delhi: Institute of Peace and Conflict Studies

Mathtani, S. (2013) Myanmar's Telecom Revolution Bogs Down: Months After Winning Bids to Run Networks, Telenor and Ooredoo Await Rules, Licenses. The Wall Street Journal , 25th Oct, p. 1. [Online] Available at: http://online.wsj.com/news/articles/SB10001424052702303615304579156981214121584 [Accessed: 20/12/13].

McKinsey & Company, 2013. Myanmar's moment unique opportunities major challenges. [Online] Available at: https://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&uact=8&ved=0CDIQFjAB&url=http%3A%2F%2Fwww.mckinsey.com%2F~%2Fmedia%2FMcKinsey%2Fdotcom%2FInsights%2520and%2520pubs%2FMGI%2FResearch%2FProductivity%2520Competitiveness%2520and%2520Gr [Accessed: 10/04/2014].

Myanma Agricultural Deveolpment Bank (MADB) 2012. The Annual Report for the Financial Year 2011-12, Ministry of Agriculture and Irrigation.

Myanmar Business Network (MBN), 2013. Credit Information Bureau to be formed. [Online] Available at: http://www.myanmar-business.org/2013/05/credit-information-bureau-to-be-formed.html [Accessed 11/04/2014].

Myanmar Farmer Association (MFA), March 2013. Study of rice production of farmers and their benefits on rice production in Myanmar.

Myanmar Oriental Bank (MOB), 2012. Annual Report, 2012-2012.

Myanmar Survey Research (MSR), 2013. Myanmar Qualitative Research Summary Report, Yangon. (To be released) Section 6.3, pp. 61.

ORIX insurance, 2013. Insurance Market in Myanmar: The New Eldorado. [Online] Available at: http://orixinsurance.com/insurance-market-in-myanmar/ [Accessed January 2014].

Pyidaungsu Hluttaw Law No.16 / 2013.The 4th Waxing Day of Waso, 1375 M.E. Chapter II (Establishment and Aim) Section 6(b). [Online] Available at: http://www.cbm.gov.mm/sites/default/files/cbm_law_unofficial_translation_29-7-2013_1.pdf [Accessed: 01/2014].

President Office - The Republic of the Union of Myanmar, 2011. www.president-office.gov.mm/en. [Online] Available at: http://www.president-office.gov.mm/en/issues/rural-urban/id-1845 [Accessed: 08/08/2013].

Proximity (2012). Irrigation Products: Game Changers. [Online] Available at: http://proximitydesigns.org/products-services/irrigation-products [Accessed: 20/12/13].

Republic of the Union of Myanmar (2008). Constitution of the Republic of the Union of Myanmar. Chapter 2, Section 49, pp. 13-18. [Online] Available at: http://www.burmalibrary.org/docs5/Myanmar_Constitution-2008-en.pdf [Accessed: 13/03/13].

Sar, S.G.T. (2013) Old debts delay agriculture loans in delta. Myanmar Times, 29th July 2013 p. 1. [Online] Available at: http://www.mmtimes.com/index.php/national-news/7623-old-debts-delay-agriculture-loans-in-delta.html [Accessed: 20/12/13].

Schneider, F., Buehn, A. & Montenegro, C 2010. New Estimates for the Shadow Economies all over the World. International Economic Journal, vol. 24, no. 4, pp. 443-461. [Online] Available at: http://www.econ.jku.at/members/Schneider/files/publications/2011/IEJ_NewEstimates_ShadEc_World.pdf [Accessed: 04/2014]

Telenor Group, 2014 . Mobile Financial Services for Everyone. [Online] Available at: http://www.telenor.com/innovation/financial-services/ [Accessed:04/2014].

The Irrawaddy, 2012. Tycoons Rush as Burmese Insurance Privatized. [Online] Available at: http://www.irrawaddy.org/insurance/tycoons-rush-as-burmese-insurance-privatized.html [Accessed: 03/2014].

The Irrawaddy, 2014. Covering Bhuma and South East Asia. [Online] Available at: http://www.irrawaddy.org/archives/35833 [Accessed: 04/2014].

The Irrawaddy, 2014a. Credit Bureau Delayed by 'Second Thoughts' About Foreign Stake. [Online] Available at: http://www.irrawaddy.org/business/credit-bureau-delayed-second-thoughts-foreign-stake.html [Accessed: 17/04/2014].

The Irrawaddy, 2014b. The Irrawaddy Business Roundup (February 1, 2014). Available at http://www.irrawaddy.org/business/irrawaddy-business-roundup-february-1-2014.html [Accessed: 17/04/2014].

Thomas. D (2013). Telenor and Ooredoo win Myanmar telecoms licences. Financial Times: Available at: http://www.ft.com/cms/s/0/bd52d930-df36-11e2-a9f4-00144feab7de.html#ixzz2ZPf8KXvc [Accessed: 20/12/13]

Turnell, S (2003), Myanmar's Banking Crisis. ASEAN Economic Bulletin, vol. 20, no. 3, pp. 272-282, Available at: Http://web.ebscohost.com.ezproxy.uct.ac.za/ehost/pdfviewer/pdfviewer?vid=6&sid=8774cdb9-fe55-4017-b9a2-acc2b3daed4c%40sessionmgr115&hid=103 [Accessed: 10/12/13].

Turnell, S. (2009). Fiery Dragons: Banks, Moneylenders and Microfinance in Burma, Nordic Institute of Asian Studies, Monograph series, No. 114, pp. 320-338, NIAS Press, Denmark.

United Nations Development Programme (UNDP), 2012. UNDP Country Programme for Myanmar (2013-2015). Available at: http://www.mm.undp.org/content/dam/myanmar/docs/Documents/UNDP_MM_CPD_2013_2015.pdf [Accessed: 30/07/2013]

United Nations Development Programme Human Development Index (UNDP HDI), 2013. Available at: http://hdrstats.undp.org/images/explanations/MMR.pdf. [Accessed: 03/12/ 2013].

United Nations Development Programme Integrated Household Living Conditions Assessment (UNDP IHLCA) 2010, Poverty Profile. Available at: http://www.mm.undp.org/content/dam/myanmar/docs/FA1MMRPovertyProfile_Eng.pdf [Accessed: 17/04/2014].

United Nations Educational Scientific and Cultural Organization Institute for Statistics (UNESCO UIS) (2011). UIS Statistics in Brief: Education (all levels) profile - Myanmar, Paris: United Nations Educational, Scientific and Cultural Organization.

Van den Berg, (2013) Access to finance in Myanmar: Interim note on qualitative demand side research process. [Version 16/04/2013].

World Bank, 2009. Data: Point-of-sale terminals (per 100,000 adults) [Online] Wold Bank. Available at: http://data.worldbank.org/indicator/FB.POS.TOTL.P5 [Accessed: 20/12/13].

World Bank, 2011. Data: Commercial bank branches (per 100,000 adults) [Online] World Bank. Available at: http://data.worldbank.org/indicator/FB.CBK.BRCH.P5 [Accessed: 20/12/13].

World Bank, 2011. Data: Automated teller machines (ATMs) (per 100,000 adults) [Online] World Bank. Available at: http://data.worldbank.org/indicator/FB.ATM.TOTL.P5 [Accessed: 20/12/13].

World Bank, 2013. Myanmar Economic Monitor. [Online] Available at: http://www.worldbank.org/content/dam/Worldbank/document/EAP/Myanmar/Myanmar_Economic_Monitor_October_2013.pdf [Accessed 10/04/2014].

World Bank, 2014a. Financial Inclusion Data. [Online] Available at: http://datatopics.worldbank.org/financialinclusion/ [Accessed: 08/ 04/ 2014].

World Bank, 2014b. Myanmar Agricultural Development Bank: Initial Assessment and Restructuring Options. [Online] Available at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/04/09/000333037_20140409113021/Rendered/PDF/866300Revised0000MADB0Final0April08.pdf [Accessed 25/04/2014]

List of referenced laws

City of Mandalay Development Law (No. 8/2002)

Co -operative Society Law (No. 9/92)

Control of Money Laundering Law (No. 6/2002)

Directive on Mobile Banking (No. 4/2013)

Electronic Transactions Law (No. 5/2004)

Farmland Law (No. 2/2012)

Financial Institutions of Myanmar Law (No. 16/1990)

Foreign Investment Law (No. 21/2012)

Insurance Business Law (No. 6/1996)

Microfinance Law (No. 13/2011)

Microfinance Supervisory Committee Directive (No. 1/ 2014)

Microfinance Supervisory Committee Directive (No. 1/2011)

Microfinance Supervisory Committee Directive (No. 2/2011)

Money Lenders Act (1945)

Myanma Agricultural and Rural Development Bank Law (No. 17/1990)

Myanmar Central Bank Law (No. 16/2013)

Securities Exchange Certificate Transaction Law (No. 20/2013)

Telecommunication Law (No. 31/2013)

Union of Myanmar Foreign Investment Law November (No.21/2012)

Ward or Village Tract Administration Law 2012

14. Annex A: Credit products

14.1. Agricultural credit and providers

Category	Institution	Regional focus	Product	Methodology	Loan range/value	Average loan size (outstanding) (K 000)	Average plot size	Total loans (Kyats million)	Interest rate	Term	nr of borrowers
SFI	MADB[158]	53% of loans disbursed in Bago (22%), Yangon (12%) and Sagaing (11%) and Mandalay (8%) regions	Seasonal loans: Paddy rice	Group loan (5-10 farmers)	K100k per acre, up to 10 acres	K280 000 – 420 000	5-7 acres	K507 131	8.5% pa	Season	1.51m[159]
	MADB		Seasonal loans: Other crops	Group loan (5-10 farmers)	K20k per acre	n/a	n/a	K50 716	8.5% pa	Season	0.8m[160]
	MADB	93% of term loans were provided in Bago (31%), Shan (25%), Sagaing (13%), Magway (13%) and Nyapyitaw (10%)	Term loan: Short-term (Solar salt production, Sugarcane production, Tea, Coffee, Cetronella grass)	Individual loan, cash collateral	K200 000– 600 000 on salt, sugarcane and tea processing, K20 000 on coffee processing	Tea: K190k Sugarcane: K354k Salt: K575k	>10 acres		8.5% pa	3 years	30 470
	MADB		Term loan: Farming equipment	Individual loan, asset finance, cash collateral	n/a	K744k	>10 acres	87 (down from 4902 in previous year)	8.5% pa	3 years	117 (down from 3 379 in previous year)

[158] MADB Annual reports and JICA presentation (Fujita, 2013)
[159] Estimate using total monsoon clients (to avoid double-counting with other seasons) of 1.59m and applying ratio of paddy loans to total seasonal loans (95% of total loan value).
[160] Estimate using total monsoon clients (to avoid double-counting with other seasons) of 1.59m and applying ratio of non-paddy loans to total seasonal loans (5% of total loan value).

Category	Institution	Regional focus	Product	Methodology	Loan range/value	Average loan size (outstanding) (K 000)	Average plot size	Total loans (Kyats million)	Interest rate	Term	nr of borrowers
MFI[161]	PACT MFP	n/a for agricultural loans	Agricultural Loan, mostly paddy	Group Loans	250 000		< 5 acres		2.50% pm / 30% pa	5 months	71 618
	PGMF		Agricultural Loan	Group Loans	200 000			n/a	2.50% pm/ 30% pa	5 months	n/a
	Proximity[162]	95% of loans in Ayeyarwaddy	Standard Crop Loan	Individual via village organisations	n/a	K148k	n/a	K2430[163]	2.50% pm/ 30% pa	n/a	4 320
	Proximity		Premium Crop Loan	Individual via village organisations	n/a		n/a		2.50% pm/ 30% pa	n/a	8 640
	Proximity		Standard Crop Loan	Group Loans	n/a		n/a		2.50% / 30% pa pm	n/a	540
	STC	n/a for agricultural loans	Seasonal Loan	Individual loans, group guarantee	n/a	n/a	n/a	n/a	2.50% pm/ 30% pa	Season	3 746
	WV	n/a for agricultural loans	Agriculture	Small Group	n/a	K130k[164]	n/a	K484	2.50% pm/ 30% pa	9 months	2 084
RSC[165]	Gold Delta	Danubyu Township		Individual loans to	K125k per acre	Monsoon paddy:	4-9 acres	K2840	2% pm	Season	3 000

[161] MFI conference presentations (May 2013), meetings
[162] Proximity has 96% paddy farmers (MF Working group data)
[163] Estimate based on stated average disbursement of K180k per client and 13 500 clients (May MF conference presentation)
[164] Estimate based on estimate agricultural loan portfolio and stated number of agricultural loan clients.
[165] Meeting and email communication

Category	Institution	Regional focus	Product	Methodology	Loan range/value	Average loan size (outstanding) (K 000)	Average plot size	Total loans (Kyats million)	Interest rate	Term	nr of borrowers
		(Ayeyarwaddy)		outgrowers		K672k Summer : K207k					
RSC	Khittayar Hinthar	Pyay Township (Bago)	Production credit, consumption credit (small part of loans), mechanization services	Individual loans to outgrowers	n/a	n/a	6.7 acres[166]	K800	2% pm	Season	Max 3000
RSC	Ayeyarwady Greenland	n/a	n/a	Individual loans to outgrowers	n/a	n/a	n/a	K500	2% pm	Season	n/a
Input provider [167]	Awba	Focus on higher value crops. Avoids flood or drought prone areas in delta and dry zone.	Inputs (seed, fertilizer and agro chemicals) on credit	Individual loan, input finance	n/a	K50 000	5 to 10 acres	K75 000[168]	2.5-3% pm	Seasonal: 120 to 180 days (average 140 days)	1 500 000
Co-operatives [169]	Agricultural co-operatives		Seasonal loans (equipment	Group loans	Farmers < 5acres eligible for loan for all their	Per acreage loan differs	5 acres		2.5% pm	Seasonal	40 0157[170]

[166] Meeting notes: Max 3000 borrowers and max 20-23 000 acres
[167] Estimates provided by Awba.
[168] Estimate based on 1.5m clients with credit of K50 000 each.
[169] Email from CCS Nov 2013

Category	Institution	Regional focus	Product	Methodology	Loan range/value	Average loan size (outstanding) (K 000)	Average plot size	Total loans (Kyats million)	Interest rate	Term	nr of borrowers
			finance in few cases with collateral) Most common crops are paddy and beans & pulses		cultivations, Farmers 5-10 acres: eligible for loan for 5 acres of their cultivation, Farmers > 10 acres: eligible for loan for half of their acreage of cultivation and Per acreage loan differs (eg. 10000/- 20000/-& 50000/-)	(e.g. 10000/- 20000/-& 50000/-)					
	Total										**4 337 692**

Table 34. Overview of agricultural loans[171]

Source: MADB annual report, Fujita (2013), Microfinance Practitioner Overview, Presentation to May workshop

[170] Number of members for loan providing agricultural co-operatives, not number of borrowers.
[171] Unless otherwise noted, data is as at March 2013.

14.1.1. MADB

MADB reports having 2.26 million farmers as clients and loans of Kyat 568 billion during 2012/2013[172]*.* MADB primarily provides seasonal agricultural loans, consisting of monsoon loans[173] to 1.59 million farmers, winter loans to 0.66 million farmers and pre-monsoon loan to 0.01 million farmers[174]. It is not clear whether this translates into a total of 2.26 million farmers, because there may be some overlap between the data from the three seasonal loans provided. The total client pool could therefore be somewhere between 1.59 million (monsoon loans) and 2.26 million (total loans).Loans are repaid immediately after the harvest. MADB provides two categories of loans: seasonal and term loans.

Seasonal loans *makes up 98% of MADB loans disbursed* and are provided across three seasonal cycles: Pre-monsoon, monsoon and winter. In 2012/13 financial year 76% of seasonal loans were in the monsoon cycle (reduced from 89% in 2009/10 financial year). Paddy made up 91% of total seasonal loans (increasing from 81% in 2009/10 financial year). 22% of seasonal loans are provided in the Bago, Yangon 12% and Sagaing 11%, Mandalay 8% (collectively making up 53% of seasonal loans disbursed in total).

Seasonal loans are structured as group loans with 5-10 farmers in each group. Loans are approved at MADB branch and the Village tract committee is involved in the approval process. Farmers obtain and repays loan in person and in cash at MADB branch (high transaction cost). Both interest and capital is repaid at end of loan term (on harvest). MADB charges 8.5% per annum interest on their loans

Although it cannot be used as collateral, farmers are required to have the necessary documentation to verify the farmer's right over land leased from. A report by the Harvard Ash Centre estimated that 3.4m farmers did not have this documentation and would, therefore be excluded from MADB loans. Under the Farm Law that was passed by the parliament in 2013, farmers will be issued ownership certificates which could be used as collateral. It is likely that the issuing of these certificates will take several years to complete.

MADB provides loans to farmers on a maximum amount per acres basis, up to a maximum of 10 acres, and farmers tend to take the maximum loan amount[175]. This maximum amount per acre has increased continuously over the past 5 years (see **Table 35** below) from as low as K 8 000 per acre in 2009 (Harvard Ash Centre, 2011) to a current level of K 100 000 per acre for paddy and K 20 000 per acre for other crops[176] (with in between increases to K 20 000 in 2010/2011 (Harvard Ash Centre, 2011) and K 50 000 per acre "until very recently" (Cho et.al, 2013).

Difference of opinion on whether loan size covers production cost. There are differences of opinion about whether MADB products are meeting farmers financing demands. Some argue that per acre loan values for paddy now exceeds what is required and also what can reasonable be repaid by farmer (Fujita, 2013). However, several other sources suggest that production costs still exceed current loan levels. During consultation with MADB in May 2013, MADB indicated that they are applying for increased finance to increase the maximum

[172] Information received directly from MADB, Aug 2013
[173] Monsoon loans also make up "nearly 80%" of loans disbursed in terms of value (MADB, Aug, 2013)
[174] Information received directly from MADB (Aug, 2013).
[175] Information received directly from MADB (May, 2013)
[176] Information received directly from MADB (May, 2013)

loan amount per acre for paddy to K 150 000 per acre and K 70 000 for other crops, but that (paddy) farmers needed K200 000 to K300 000 per acre to cover production costs. Cho et.al (2013) finds that a loan of K50 000 per acre only cover "25-50% of the overall financing needs per acre", putting estimated production costs at K100 000 to K 200 000. Production costs were estimated by the Myanmar Farmers Association at between K 140 000 to K 177 000 per acre(MFA,2013). Statements by government note production costs that may go up to K 400 000 per acre for better quality rice. A careful evaluation of farmer credit needs and capacity will be essential to inform any further expansion by MADB.

	Paddy	Other
2005/2006	8 000	3000/4000
2006/2007	8 000	3000/4000
2007/2008	8 000	3000/4000
2008/2009	8 000	3000/4000
2009/2010	10 000	6 000
2010/2011	20 000	10 000
2011/2012	40 000	10 000
2012/2013	50 000/80 000	10 000
2013/2014	100 000	20 000
Rates suggested in meeting	150 000	70 000

Table 35: Increase in financing rate per acre

Source: MADB presentation, JICA presentation (Fujita, 2013)

MADB term loans *make up only 2% of total loans* disbursed (31k clients). 70% of this consist of loans for sugarcane production (a dramatic increase from 1-2% in between 2009 and 2012) and 23% for special projects loans. Average loan disbursed per client for sugarcane increased from K 80 000 to K 354 000 and from 2009-2013. 93% of term loans were provided in 5 regions: Bago (31%), Shan (25%), Sagaing (13%), Magway (13%) and Naypyitaw (10%).

Farm machinery loans have decreased from K1.5m disbursed per client in 2009/10 to K 744 000 in 2012/13. These loans made up 80% of term loans in 2009/10 but this reduced sharply to 1% in 2012/13. This was mainly the result of a change in government policy to limiting financing to the purchase of locally manufactured machinery (Fujita, 2013).

These are individual loans for asset-purchases where the asset is used to collateralise the loan in addition to the cash collateral requirement. Two guarantors are also required. Depending on the industry cash collateral of between 30% and 50% of loan value is required (Fujita, 2013).

These loans are available to farmers with plots in excess of 10 acres and loans are approved at the MADB head office. The loan term is 3 years and interest is charged at 35% per annum. Loan principle and interest is repaid at end of 3 years.

14.1.2. INGOs

PACT MFP provides an agricultural loan to 19% of its borrowers (71 600 borrowers). The loan size is K250 000 and interest is 2.5% per month with a term of 5 months. PACT's agricultural loans are therefore seasonal, and are mostly monsoon paddy loans, with some loans going to pulses and rice. They limit farm size to a maximum of 5 acres to retain focus on landless and marginalised farmers. Using take up figures as well as the loan size, estimated loans disbursed for agricultural loans is K 17.9 billion.

PGMF also offers a similar agricultural loan for up to K200 000 at 2.5% interest per month, but take up figures have not been obtained for this product.

Proximity provides a standard crop loan and a premium crop loan to 32% (4 320) and 64% (8 640) of its borrowers on an individual basis via village organisations. They also provide a standard crop loan on a group loan basis to 4% (540) of their borrowers. 96% of their borrowers are paddy farmers, and all farms are smaller than 30 acres, with a median farm size of 5 acres. While expanding in other parts of the country, they have a strong Delta area focus. Although they indicated about 13 500 loan clients[177] as at May 2013, loan data received for the 2012/2013 financial year indicates about 23 500 for that period, suggesting multiple loans per client per year.

In addition to providing crop loans, Proximity Designs also provide loans for financing their irrigation products. The structure and terms of these loans is unclear, but it seems like farmers may also take out “extra cash” with these loans “to be used in agriculture”. Data provided by Proximity indicate that about 16 000 of these loans were provided in the 2012/2013 financial year. Their irrigation products (pumps, drip and storage systems) cost between K 15 000 and K 40 000 and a “full set” cost about K 70 000 (Proximity, 2012).

World Vision has a limited agricultural portfolio consisting of 2084 seasonal loans provided on group basis. They reported that local authorities in some of the areas that they operate did not want them to go into agriculture.

Save the Children provides agricultural loans to 3 746 farmers in the form of seasonal group loans, mostly for paddy in the rainy season and for beans in summer. They report that they operate in the same areas as MADB but that they focus on smaller farmers of between 1 and 5 acres. They see this as the first phase exploration of the agricultural sector on which they have limited experience. Given their limited experience and the absence of a detailed loan assessment in the first phase, they are limiting loans to K 50 000 over four months, with bi-weekly interest payments and the principle due at the end (at harvest time).

As at March 2013 27% of their loans (by number of clients) were in this experimental area. Given earlier discussion on likely production cost, these loan sizes are likely to fall short of the value required by farmers. The loan term and repayment frequency also does not seem to match the agricultural production season.

14.1.3. Agricultural co-operatives

The 5 222 **agricultural co-operatives** that provide loans have 400 000 members. Only member farmers are eligible for loans and credit is used mostly for agricultural production, with the most common crop types being paddy and beans and pulses. However loans for farm implements are provided on a case to case basis, but require collateral.

[177] Microfinance workshop presentation, May 2013.

The loan size varies between K 10 000 to K 50 000 per acre (based on the size of the co-operative), with most farm sizes smaller than 10 acres and typically around 5 acres. Farmers with less than 5 acres are eligible for a loan covering their total acreage, while farmers with between 5 and 10 acres are eligible for a loan covering a maximum of 5 acres and farmers with more than 10 acres are eligible for a loan covering half their acreage. The repayment period depends on the period of production/ length of season.

14.1.4. Rice specialised companies

Rice specialised companies provide seasonal loans (monsoon and summer paddy) at 2% per month, based on the agreed sale of farmers' rice crop to the RSC at a pre-determined price. There are currently 4 RCS's (if MAPCO is included) still in operation of which Gold Delta is the biggest, with 3 000 to 6 000 farmers. Although farmer numbers are not available for all 4 RCS's, Kitayar Hinthar (second biggest RCS[178]) has a maximum of 3000 farmers, which would put overall number of farmers with RCS's at around 15 000 or less. However, MAPCO has a larger loan book for the 2013 Monsoon season, and might possibly therefore also have more farmers than Kitayar Hinthar. The combined loan book for the four RCS's for the 2013 Monsoon season was K 5.2 billion, with Gold Delta having the largest loan book (K 2.2 billion) followed by MAPCO (K 1.7 billion) , Kittayar Hinthar (Kats 0.8 billion) and Ayeyarwady Greenland (0.5 billion).

More product data is available for **Gold Delta** than for the other RCS and is included below:

Gold Delta Rice Specialization Company was established in April 2009 by the Eden Group Company and operates exclusively in Danubyu Township (Ayeyarwaddy). From 2009 to 2011 they have provided finance to between 4000 and 6800 farmers who conducted farming activities on a combined 35 000 to 60 000 acres (Gold Rice Delta, 2011.) Their average loan size for Monsoon Paddy have increased from K 149 000 per farmer in 2009 to K 440 000 in 2011 (or from K 18 000 to K 50 000 per acre) and have remained relatively stable for summer paddy at K 297 000 in 2009 vs. 292 000 in 2011 (although it dropped in terms of Kyat per acre from K 64 000 to K 31 000). Since 2011, the number of farmers receiving finance have decreased to about 3 000 and the total acres decreased from 60 000 in 2011 to around 20 000 in 2012 and will only be around 10 000 in 2013 (see **Table 36** below). However, the loan amount per acre increased from K 18 000 (2009) to 125 000 per acre) in 2012/2013 (or average loan per farmer of K 670 000), which is on par with current amounts provided by MADB. Gold Delta's average plot sizes vary between 4 and 9 acres.

Year	No Of Farmers	Provided Area (Acre)	Total Financing (Kyats)	Average Loan (Kyats)	Loan per acre (Kyats)
2009 Monsoon Paddy	4 297	35 929	644 123 200	149 901	17 928
2010 Summer Paddy	1 849	8 573	548 672 000	296 740	64 000
2010 Monsoon Paddy	6 490	45 822	337 338 753	51 978	7 362
2011 Summer Paddy	3 024	28 566	884 184 000	292 389	30 952
2011 Monsoon Paddy	6 865	60 416	3 013 770 600	439 005	49 884
2012/2013 Other	2 971	20 467	614 010 000	206 668	30 000
2012/2013 Monsoon Paddy	3 311	17 809	2 226 125 000	672 342	125 000

[178] Based on interviews with Kittayar Jinthar and Gold Delta

Year	No Of Farmers	Provided Area (Acre)	Total Financing (Kyats)	Average Loan (Kyats)	Loan per acre (Kyats)
2013/2014 Other	3 000	9 193		Downloaded from GD website[6] (Nov2013)	
2013/2014 Monsoon Paddy	2 127	2 500		Received from Gold Delta (Nov2013)	

Table 36: Finance provision by Gold Delta 2009 to 2013

Source: Gold Delta website and interview

14.1.5. Agricultural input providers

Awba provides input credit to an estimated 1.5m farmers. Average credit extended per farmer per year is about K 50 000 (USD 50) and total estimated loans disbursed per year is K 75 bn (USD 75 000 000). Typical inputs include seed, fertilizer and agro chemicals. They focus on higher value crops[179] and areas with less weather irregularities, but are currently also expanding provision to rice farmers. Farm size of their clients range between 5 and 10 acres, and inputs are provided to farmers who can prove that they own the land.

They charge between 2.5 and 3% interest per month and the term is typically about 140 days, but varies between 120 (vegetables) and 180 days (rice) depending on the type of crop.

14.2. Business loans and providers

Business or productive loans are provided by all commercial banks, SFIs (MEB and MICB), MFIs and financial co-operatives. Commercial banks are providing the largest loans (as high as K 200 million) at low interest rates of 13% p.a., although their hire purchase loans start at K100 000. However they only have about 60 000 credit clients (split between business and personal loans are not known). MFIs mostly operate in the K 50 000 to K 500 000 space in terms of business/productive loans, although some individuals graduate to loans as high as K 1.7 million. All MFIs provide loans at an interest rate of 2.5% per month. They provide at least 408 000 business/productive loans (of which PACT MFP provides 93%/374 000), but could provide as many as 487 000 depending on PGMF's loan portfolio. Non-agricultural financial co-operatives provide productive loans to between a third and two thirds of its 480 000 members who are mostly in urban areas. Loan sizes range between K 30 000 and K 300 000, with most loans not exceeding K 90 000. Its loans bear an interest rate of 2.5% per month with daily or weekly repayment and a term of between 60 and 75 days. **Table 37** below sets out the product details by provider groups for business/productive loans in Myanmar, after which the products is discussed in more detail for provider groups and certain individual providers.

14.2.1. Private Banks

Term loans. While the split of banks' credit portfolio between personal and business loans is not known, from interviews with banks it is known that a large proportion of bank loan

[6] Gold Rice Delta Co, LTD 2011. [Online] Available from: http://www.golddelta-ricemyanmar.com/Default.aspx [Accessed: 20/12/13]

[179] Major crops are Rice, Pulses and Beans, Onion, Potato, Tomato, Ornamentals, Sesame, Groundnut, Melons, Corn, Sugarcane and Vegetables

business is corporate or SMEs[180] and most banks (at least 14 [181]) provide a business term loan. Banks provide these loans on an individual basis to formally registered businesses, but require collateral (see **Box 10** below) as well as a guarantor in some cases. The size of the loan depends on the size and performance of the business. Interest is 13% per annum and at least one bank also charges a 1% service fee. The term is up to one year, but banks typically allow renewal before maturity on a yearly basis. Banks require loan applicants to hold an account with the bank and typical documentation for a loan application include proof of identification, proof of address (including in some cases a letter from the ward administrator confirming the address), a valid business licence/ company registration or export/ import licence, financial statements and tax receipts for the most recent three financial years as well as photos of the businesses operations in certain cases.

Box 9: Collateral accepted under Central Bank of Myanmar regulations

With regards to collateral, the following is accepted under the Central Bank of Myanmar regulations:

- Immovable properties,
- Government bonds and securities,
- Machineries,
- Fixed deposits or Savings deposits,
- Goods, and
- Gold.

With regards to property:

- If collateral is a building, it must be a fixed brick buildings (with 60-year land lease)

Overdrafts. Overdrafts are provided by at least 8 banks[182] for clients who have a current account. The term is mostly one year, but one can apply for extension of the term before expiry each year, so effective term could potentially be much longer. Interest is 13% per year and most banks also charge a service fee of 1%.

Other business loans. At least 5 banks[183] provide various types of other specialised/specific purpose business loans. These loans include working capital financing, warehouse financing, construction financing, factoring, corporate financing, import and export financing, letters of credit and pledge loans.

Hire purchase also applied for business. Hire purchase loans are relatively new and not all banks provide them (at least 5 banks do, as well as the Oriental Leasing Company – a subsidiary of Oriental Bank). Banks provide hire purchase loans for hospital and clinical equipment, heavy machinery and machineries for business use and generators in addition to

[180] 80% of Apex banks clients are MSE's
[181] Asia Green Development Bank, Asia Yangon Bank, Ayeeyarwaddy (AYA) Bank, Co-operative Bank, Innwa Bank, Kanbawza bank, Myanmar Citizens bank, Myana Livestock and Fisheries Development Bank, Myawaddy Bank, Sibintharyar Yay Bank, Small & medium Industrial Development Bank, Tun Foundation Bank, United Amara Bank, Yangon City Bank.
[182] Asia Green Development Bank, Ayeeyarwaddy (AYA) Bank, Co-operative Bank, First private bank, Kanbawza bank, Myanma Apex Bank, Myanmar Oriental Bank, Small & medium Industrial Development Bank.
[183] Asia Green Development Bank, Ayeeyarwaddy (AYA) Bank, Co-operative Bank, Myanmar Citizens bank, United Amara Bank.

hire purchase loans for personal consumer durables and property. Loans start at K 100 000. The term is between 1 and 3 years and interest is structured as a borrowing fee (5% to 11%) plus service fee (usually 1%), with a one year lease usually having a borrowing fee of 7% or higher. An initial down payment of 20 to 30% is normally required, with the remaining value of goods bought split evenly over the term of the loan. For a more detailed discussion on hire purchase agreements, please see **Section 14.3**.

14.2.2. SFIs

The SMIDB provide subsided credit to SME's at 8.5% (similar to MADB's subsidised loans to farmers), but only has 550 active loans. Previous government initiatives have focused on making funding available to an estimated 126 000 SMEs and 40 000 microenterprises through SMIDB, but so far success has been limited (due to collateral requirements imposed by SMIDB) meaning the bulk of trade or small business loans are provided through banks, MFI's and co-operatives at higher regulated rates, or at unregulated rates through the informal sector which are much higher.

MEB: Overdraft at 16%, Term loans and working capital loans. Currently provide short-term (<1 year) at 17%. Used to provide medium term (2-5 years) at 16.5%, an**d long-term (5-10 years) at 16%**

MICB Business loan: unmoveable asset as collateral, loan up to 50% of collateral value at 8%. Term not known.

Category	Institutions	Regional focus	Product	Methodology	Loan range/value	Average loan size (K 000)	Total loans (Kyats million)	Interest rate	Term	nr of borrowers
MFIs	ACLEDA	Yangon		Group and individual, but currently mostly group	First cycle max K100k, increase after that	n/a	n/a	2.5% pm/30% pa	2-3m	479
	Save the Children	Yangon (55%), Magway (18%) and Bago (15%)	General Loan	Group loans (bi weekly interest payments, principle at end of term)	K50k – K250k	K69k	K410	2.5% pm/30% pa	4m	10 127
	World Vision	Mandalay (46%), Yangon (25%) and Ayeyardwady (18%)	Commerce (2 weekly payments)	Group loans	K75 000 - K300 000	K168k outstanding /K290k disbursed	K2627[184]	2.5% pm/30% pa	mostly for 6 months (up to 12 months)	16 862
			Commerce	Individual loans (graduated from group to individual) Guarantor required	Individual loans of up to K1.75m	800 000		2.5% pm/30% pa		2

[184] Estimated using total loan volume and reported 89% of clients with business loans.

Category	Institutions	Regional focus	Product	Methodology	Loan range/value	Average loan size (K 000)	Total loans (Kyats million)	Interest rate	Term	nr of borrowers
	GRET	Tedim (30%), Thantlang (28%), Hakha (20%), Falam (19%)x	Group Loan	Group loans	80,000-120,000	106 000	K700m	2.5% pm/30% pa	Up to 1 year	6 000
			Micro Enterprise Loan	Individual	120,001-600,000	555 000	K300m	2.5% pm/30% pa	Up to 1 year	400
	PACT MF	Delta (37%), Dry (48%), Shan (14%)	Regular loans	Group loans	200 000	K138 outstanding K313 disbursed	K 72 205m	2.5% pm/30% pa	Up to 1 year	361 027
			Extra loans	Group loans	50 000		K116m	2.5% pm/30% pa	Up to 1 year	2 314
			Micro-enterprise loans	Individual	500 000		K5 631 m	2.5% pm/30% pa	Up to 1 year	11 262
	PGMF		Regular loans	Group loans	150 000	K58 outstanding K392k disbursed	n/a	2.5% pm/30% pa	Up to 1 year	n/a
			Extra loans	Group loans	30 000		n/a	2.5% pm/30% pa	Up to 1 year	n/a
			Micro-enterprise loans	seem to be individual?	300 000		n/a	2.5% pm/30% pa	Up to 1 year	n/a
Co-operatives	Financial services co-operatives	Mostly urban	Group loan (weekly payments)	Group loans (at least 10 members)	1st: K45k 2nd: K60k 3rd: K90k 4th: K120k	n/a	n/a	2.5%pm/30%pa	60 days	A third to two thirds of 480 000 members borrow at any one time
			Special loan (monthly payments)	Individual (graduate from group loans after 8 months of regular loan) 10%	Max: K300k			2.5%pm/30%pa	n/a	Few people take the special loan. Only 6% of one MFI co-operative's members

Category	Institutions	Regional focus	Product	Methodology	Loan range/value	Average loan size (K 000)	Total loans (Kyats million)	Interest rate	Term	nr of borrowers
				savings required						qualified, and most didn't take the special loan in any case.

Table 37: Business loans product table

Source: Bank website, marketing pamphlets

14.2.3. INGOs

PACT

PACT MFP's main loan product (regular loan) is provided for businesses/SMEs on a group basis. These regular loans are for amounts up to K 200 000 with a term of 1 year and interest rate of 2.5% per month. Successful borrowers can graduate to individual micro-enterprise loans of K 500 000 with the same term and interest rates. As at March 2013, 361 027 members had individual loans and 11 262 members (3% of their borrowers) micro-enterprise loans. Some clients have progressed to larger loans overtime and it is estimated that 10% of their clients have loans in excess of K500k (Interview, May 2013).

PGMF follows a similar product structure with slightly lower loan sizes. Regular loans of K150 000 are offered on a group basis and successful borrowers are able to graduate to individual micro-enterprise loans of K 300 000. Both of these have a term of up to one year and interest is charged at 2.5% interest per month. The breakdown of clients to loan categories is not available for PGMF but as at March 2013, it reported 74 194 active borrowers.

World Vision

World Vision provides a commerce loans ranging between K 75 000 and K 300 000 to 89% (16 800) of their members on a small group basis. Successful clients can migrate to individual commerce loans that could range up to K 1 750 000 with most currently ranging around K 800 000. World vision's average loan disbursed (on its total book) is K 230 000 but their commerce loan should be close to this amount due to the large proportion of its book being commerce loans. Interest is charged at 2.5% per month and while the term is up to one year, the typical term of the current loan book is reported to be six months. Payments were initially on weekly basis but they have recently moved to 2 weekly payments.

GRET

GRET provides group micro enterprise loans ranging between K 80 000 and K 120 000 to an estimated 6400 members. Successful clients are able to migrate to individual loans (requiring two guarantors) ranging from K 120 000 to K 600 000. An estimated 550 of their members currently have individual loans. Interest is charged at 2.5% per month and the term is up to one year.

Save the Children

Save the Children offers a general loan for productive purposes to individuals on a group guarantee basis. 73% of their clients (or 10 000 borrowers) have the general loan. 100% of their borrowers are female, and 55% are in Yangon. Their loans range between K 50 000 and K 250 000 and the general loan has a term of 6 months, with weekly repayments (including principle and interest).

14.2.4. Co-operatives

Another prominent credit product being offered and used by the low-income population is the micro or small business or trade loans offered by various categories of non-agricultural co-operatives, which are almost exclusively urban. They provide productive loans to a member base of about 480 000 if which between a third and two thirds can borrow at any time. Loans are mostly provided on a group basis but they also provide individual special loans. Interest is charged at 2.5% per month. Non-agricultural financial co-operatives have disbursed K 52 billion in loans for the year between April and July 2013. Average loan disbursed per member[185] for different categories of co-operatives varies between K 60 000 to over K 300 000, with some individual co-operatives having an average loan disbursed of K 600 000. Payments are structured on a daily or weekly basis, which would make it difficult for larger loans and for business with longer turnover cycles.

The official structure for co-operative loans (prescribed by CCS for MFI co-operatives) is as follows: The applicant must be able to generate a daily income to repay the loan and must not be a member of other financing organisations. The applicant must be part of a self-help group (SHG) of at least 10 members who must have the same type of business. Each member receives an individual loan with a group guarantee from the SHG. Each member can get the first loan amount of K 45 000 with a term of 60 days and interest rate of 2.5% per month. After each successful repayment cycle, a member can progress to a larger loan amount (2nd cycle K 60 000, third cycle K 90 000 and fourth cycle K 120 000). After completion of four cycles (8 months, final loan amount of K 120 000), a member can apply for a special loan of up to K 300 000[186]. The term and interest rate for all loans are the same, but the special loan is for an individual member and not guaranteed by the SHG. Very few people seem to take the special loan. One microfinance co-operative indicated that 50 of its 870 members qualified for the special loan, but that very few members actually take the special loan as they feel they cannot handle the daily repayment.

Non MFI co-operatives seem to adhere to the same CCS prescribed structure for its loan provision, however, from interviews with co-operatives we know that some co-operatives do deviate slightly from this structure. For instance, one co-operative have a group loan term of 75 days for loans that are K 90 000 or bigger, instead of 60 days as prescribed by CCS. Also, some co-operatives start with a first loan amount of K 30 000.

14.2.5. Money lenders

Unregulated money lenders start from 10% per month to as much as 40% per day (demand side qualitative research

14.3. Asset-based finance and providers

Hire purchase loans seem to be a relatively new product offered by private banks, although the Oriental Leasing company has been offering hire purchase loans since 1995. Not all banks are providing hire purchase loans, but at least 5 banks are (AGD, Co-op Bank, KBZ, SMIDB and UAB).

---

185 Please note this is the total loan disbursed amount divided by number of members, actual loans disbursed to only those members who received loans is not available.
186 Member has to have savings equal to 10% of special loan amount.

Hire purchase loans serve as a financing mechanism for assets, especially in the absence of long term/mortgage loan products. Some high value assets (e.g. apartments and condominiums) are allowed for hire purchase loans and terms extend beyond 12m. In some cases hire purchase products are advertised with 36m terms, but there are still no products with a term more than 36 months. However, refinancing is commonly noted as an option on hire purchase and term loans suggesting that loans can be rolled over for more than one year. Given the likely value of these high value assets, it will require multiple extensions to finance, effectively mimicking a long-term loan.

Hire purchase reflects increased interest in retail sector. However, hire purchase loans also reflect an increased interest by banks in the retail credit sector. The types of products offered on hire purchase include lower value assets such as motorcycles and bicycles, and even electronics and cell phones. This would suggest far smaller contract values than the average loan values reported by banks to date. Some banks have noted a minimum value of K100 000 (USD 1000), which makes this accessible for lower-income consumers.

Apart from a 20-30% down payment, there is no other collateral requirement. On hire purchase loans however, insurance is required in most cases and one bank (CB bank) may require a cash collateral amount in certain cases. No other restrictions like minimum income levels are noted in hire purchase loan product descriptions.

Hire purchase loans are distributed through agents, with banks working through the vendor of the specific product financed.

Details on hire purchase agreements offered by specific banks can be seen in **Box 10** below.

Box 10: Product details of hire purchase loans offered by banks

Hire purchase agreements are offered by at least 5 banks (AGD, Co-op Bank, KBZ, SMIDB, UAB) and are and can be obtained for the following specified goods:

- Electronics,
- cell phones and communication devices,
- gold and jewellery,
- furniture,
- automobiles and motorbikes,
- hospital and clinical equipment,
- heavy machinery,
- tractors and agricultural machinery,
- machineries for business use and generators, and
- Apartments, condominiums and individual houses.

Specifications range from a minimum product amount of K 100 000 (AGD) to 30% down payment to secure the agreement (KBZ).

AGD offers HP on products which is at least K 100 000. You need an ID card, family registration form, recommendation letter and insurance to apply. Clients can typically choose between a one year and two year repayment plan. Both carries an initial payment of 20% of the value of the purchased product and what seems to be a monthly interest rate of

8%[187] (1 year) or 10%[188] (2 years) on the remaining 80% of the value over 12 or 24 months. For the two year agreement you can choose to increase the initial payment to 30% in which case the "monthly interest" decreases to 9%[189].

AGD charges a penalty of 0.04% of the purchased value (4 Pyas for K100) for failure to pay on the due date and if the purchaser fails to make instalment payments for three consecutive times, the purchased product will be repossessed and he/ she will bear the loss of all the payments that have been made.

Co-operative bank offers a more flexible hire purchase agreement where the client can adjust their first instalment as well as the amount for the remaining equal instalments.

KBZ requires a 30% initial down payment after which a service charge of 1% and rental fees of 9% for the first year and 5% for the second year and third year applies (presumably monthly rates), translating into a 10% interest rate over the first year and a 6% interest rate over the second and third years.

It is unclear why the interest charged on hire purchase agreements seems to be much lower than the 13% charged on normal loan products by banks. The term of hire purchase products seems to extend longer than 1 year (or even two), as in the case of KBZ, but interest over longer hire purchase agreements increases for CB Bank while decreasing for KBZ.

The Oriental Leasing Company also offers hire purchase loans, but only for bicycles, motorcycles, farming equipment, cars etc. They have 5 400 clients and only offer a 1 year lease. Their average value for a hire purchase loan is K 100 000 (total loans outstanding of K 823 million) and they charge 21.6 % for motorcycles, and 30% on cars.

Provider details: Oriental Leasing Company

Oriental Leasing Company Limited (OLC) was founded in 1995 and is a subsidiary of Myanmar Oriental Bank (the bank owns 99% of the company's share capital) (MOB, 2012). They are the only leasing company in Myanmar, but CBM is issuing two new licences in 2013. They are funded by their own capital as well as borrowings from MOB Trust, on which they pay 10% interest.

14.4. Personal loans and providers

Personal loans are provided by banks, MFIs, co-operatives and pawn shops. All personal loans are either collateralised or provided to members who have graduated from a group loan based on good repayment behaviour. Education, emergency and health loans are also provided to MFI and co-operative members who already have a group loan. **Table 38** below shows the product features and information for personal loans. A discussion on product loans offered by category of provider follows.

---

187 7% borrowing fee and 1% service charge,

188 9% borrowing fee, 1% service charge

189 8% borrowing fee, 1% service

Category	Institutions	Product	Methodology	Loan range/value	Average loan size	Total loans (Kyats million)	Interest rate	Term	Nr of borrowers
MFIs	AEON	Salary-based loan	Individual, salary-based	K300k-K500k	No loans to date	No loans to date	2.5%pm/30% pa	n/a	0
	PACT MF	Small and Vulnerable Loan	Individual	50 000	n/a	n/a	2.5% pm	1 year	611
		Health care Loan	Individual	50 000	n/a	n/a	2% pm	6m	2144
		Education Loan	Individual	50 000	n/a	n/a	2% pm	6m	496
		Consumer Loan	Individual	n/a	n/a	n/a	n/a	n/a	4 775
	PGMF	Health care Loan	Individual	50 000	n/a	n/a	2% pm	n/a	n/a
		Education Loan	Individual	50 000	n/a	n/a	2% pm	n/a	n/a
	WV	Educational loan (works like credit facility, can take 50% up front, pay off in 4m and can then get second drawdown)	Individual	Primary 40k secondary 60k Tertiary 80k	K100k	n/a	n/a	8m	n/a
Co-operatives	Co-operatives	Emergency loan for social welfare or education loan	Individual, for existing group loan members	50 000	50 000	n/a	2.5%	2m	n/a
		Emergency healthcare loan. Healthcare support noted in **Section 10.5.4** provided as interest- free loans for events affecting family members rather than main member	Individual loans, unsecured	Amounts vary between K30 and K100k depending on event	n/a	n/a	No interest	2m	n/a
Pawn shops		Short-term loan pawned against gold or clothing	Individual, collateralised	K 500 to K 250 000			3% per month	3 months	Between 2 and 3 million

Table 38: Personal loan products

Source: Banks' website, market material

14.4.1. Private Banks

The survey of bank products found two banks that offer personal loans that are not explicitly targeted for business or asset purchases. CB Bank offers a gold financing term loan and an “Easi credit” loan, while Yangon City bank offers a “Personal Loan”. Details on product features for these products are not available. The limited number of personal loan products (other than hire purchase loans) confirms the limited focus that banks have placed on the retail credit market to date. As discussed in **Section 5**, one of the key reasons for this is the regulatory prohibition on unsecured lending by banks.

There are no credit cards. Cards only recently introduced anyway. None offer credit as may not do unsecured.

14.4.2. INGOs

PACT extends variety of personal loans to small number of existing clients. Both PACT MFP and PGMF provides a health loan and an educational loan for K 50 000 and interest of 2% per month. PACT MFP does so over a term of 6 months. These are the only products that PACT does not charge 2.5% a month on. Personal loans are only provided to about 2% of its members, consisting of 4 775 members with a consumer loan, 2 144 members with a health care loan, 611 members with a “small and vulnerable” loan (also for K 50 000) and 496 members with an educational loan. The loan amount for consumer loans is not available, but assuming it is also K 50 000 (smallest product loan amount that PACT MFP provides), total personal loans disbursed by PACT MFP would be around K 400 million (0.4% of total PACT MFP loan volume).

World Vision started a pilot program in 2013 whereby they provide educational loans which all embers can apply for. They have seen significant take up (spike in over all loans due to take up of educational loan) and average loan amount is for K 100 000. The loan works like a credit facility, where the client can take 50% of the value up front, pay it off over 4 months and then get second drawdown for another 4 months (8 months total term). They found that clients prefer an 8 months term to a 3 month or 6 month term for this type of loan.

AEON plans to provide retail credit in the form of salary-based loans (payroll lending). They initially plan to target staff of Japanese-owned factories with small scale finance of $200-$500 (K 200 000 to K 500 000). Eventually they want a loan offering of between K 50 000 and K 3 million in order to accommodate higher values for motor cycles and generators.

Co-operatives provide an emergency loan to existing members to a maximum of K 50 000 for social welfare, education and healthcare problems, on which the same interest is charged as for normal loans (2.5% per month). Emergency loans can be repaid on a monthly basis (as opposed to daily repayment for other loans), and has a term of 2 months. Co-operatives interviewed also noted that the main member healthcare benefits provided as part of the provident fund (See **Section 10.5.4** for details) are provided to family members as interest free loans. The provident fund seems to be widely applied across co-operatives. It is not clear whether the same loan facility is available across all for family members.

Pawn shops offer loans using gold and clothing as collateral. Clients may receive about 95% of the gold value as loan but may opt for smaller loan. Regulated pawn shops charge 3% per month interest and interest and capital is only repaid at the end of the loan period. If clients are unable to repay loan, the loan can be rolled over. In such cases the client pays only interest for the next 3 months after which the loan can be settled. Loans may be rolled over more than once and the pawn shop interviewed as part of this study noted that is not unusual for loans to be extended over one or two years. The same pawnshop estimated that about 30% of their clients request loans to be extended. Loan amounts are determined by the value of the gold or clothing pawned. For the pawn shop interviewed, typical loans against gold would range between K 700-800k and loans against clothing would be around K20k.

14.4.3. Unregulated providers

Uncollateralised individual loans high cost and only accessible through informal sector. A prominent feature of the formal industry products is that all loans are either dependent on collateral (commercial banks and pawn shops), group based (MFIs, co-operatives and the MADB), or a combination of being group based and membership based (co-operatives). The only source for uncollateralised individual based loans is the informal sector, but this implies a much higher cost. However, some MFIs are looking at progressing good performing members to individual based loans (but with guarantors), while one is planning to secure loans against payrolls.

Informal market better tailored to needs. The use of unregulated products seems to be widespread, with little evidence of cases of abuse. Qualitative research indicated that unregulated financial services providers are used because they are more flexible (terms can be negotiated, including flexible repayments), they are close to where people live, they can be accessed after hours, and they are less of a hassle to use (no paperwork).

Unregulated credit charged at a premium. Despite the fact that interest rates are much higher for unregulated credit than regulated credit (3% to 8% per month when borrowing from family[190] and as much as 10 to 20% per month for unregulated money lenders), people still seem to utilise the informal market to a large extend, possibly indicating that the formal credit market is very constrained and unable to meet demand.

[190] Qualitative demand side research

14.5. Overview of agricultural activities of all adults whose household are involved in farming

Dominance of paddy production. Almost all adults (94.1% or 18.6 million) who indicated that their households are involved in farming also indicated that they are involved in crop production (see **Figure 51** below). Paddy is overall the biggest crop produced, with 14.4 million adults (72.6% of all adults involved in farming) reporting that their households are involved with paddy production.

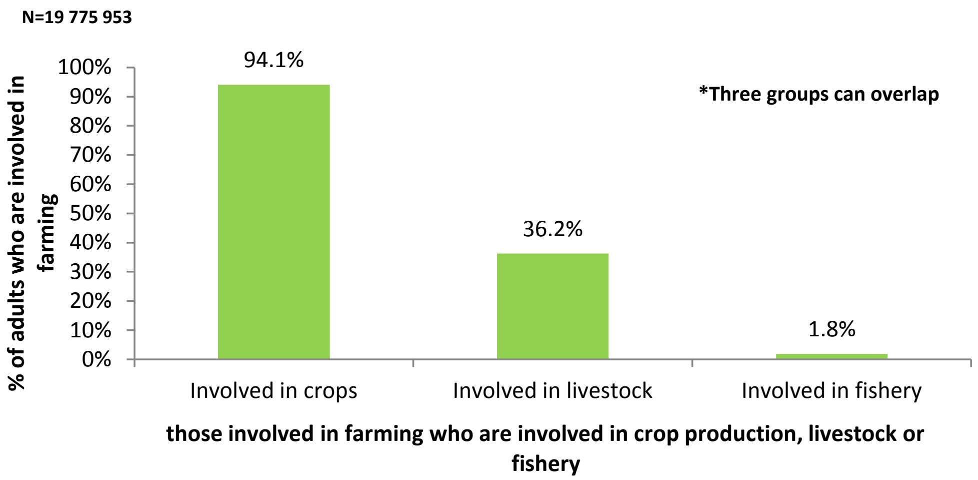


Figure 51: Involvement in crops, livestock and fishery

Source: FinScope 2013

Most adults involved in fewer than 2 crops. Of those adults who are involved in crop production (18.6 million), most are involved in two crops or less with only 20.8% of these adults involved in more than 2 crops and the average number of crops for adults involved in crop production being 1.88 (see Figure 52 below).

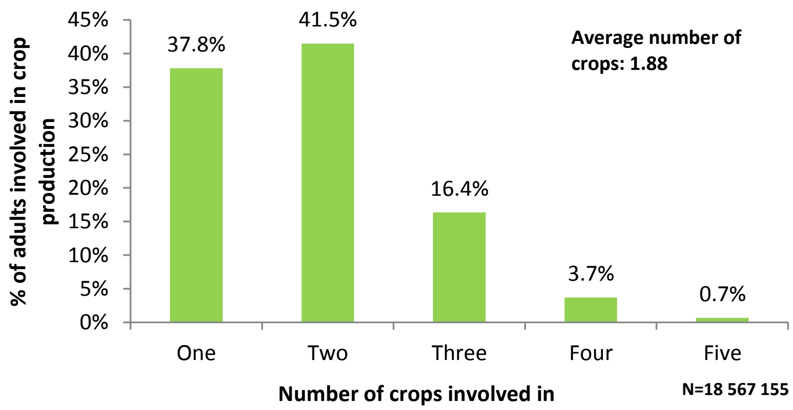


Figure 52: Number of crops involved in

Source: FinScope 2013

High concentration of crop types and large overlap between main 3 crops produced. . Of those involved in crop production, 93.3% of adults (or 87.8% of all adults involved in agriculture) are involved in at least one of three main crop types: Paddy (77.2% of adults in crop production), beans and pulses (40.3% of adults in crop production), and cereals (31.4% of adults in crop production). As can be seen from **Figure 53**, there is a large degree of overlap between those who are involved in the production of paddy and those who are involved in the production of cereals or beans and pulses. While 35.7% of crop farmers (6.6 million) are involved in paddy but not cereals or beans and pulses, 39.1% (7.7 million) are involved in paddy production and at least one of the other two main crops.

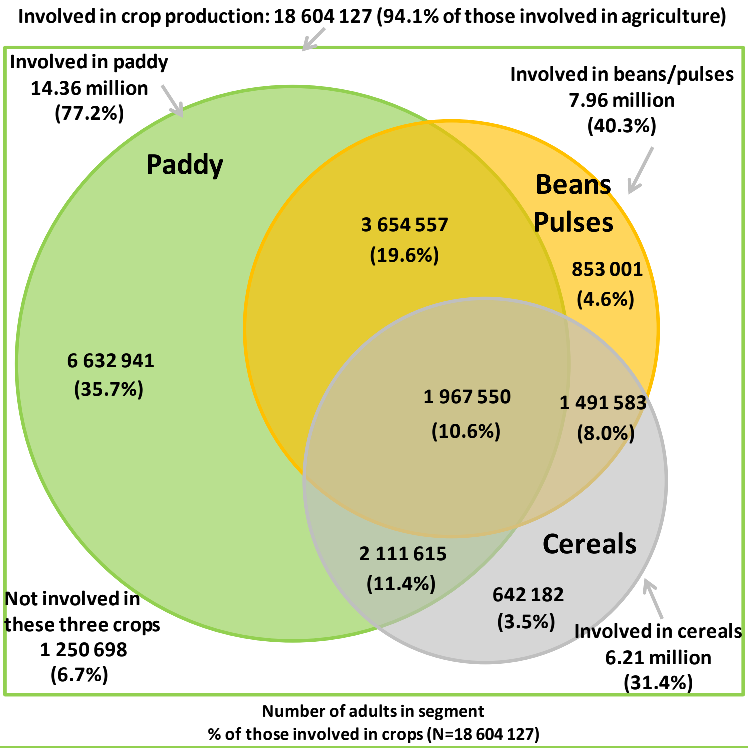


Figure 53: Overlaps between three main crops

Source: FinScope 2013

Significant proportion of farmers has farms larger than 5 acres. Of the 19.8 million adults whose households are involved in farming, 85% indicated that their households own land for cultivation, while 36% of farmers who own land (31% of farmers) indicated that their land is larger than 5 acres in size. This represents 6.1 million adults or 2.1 million households.

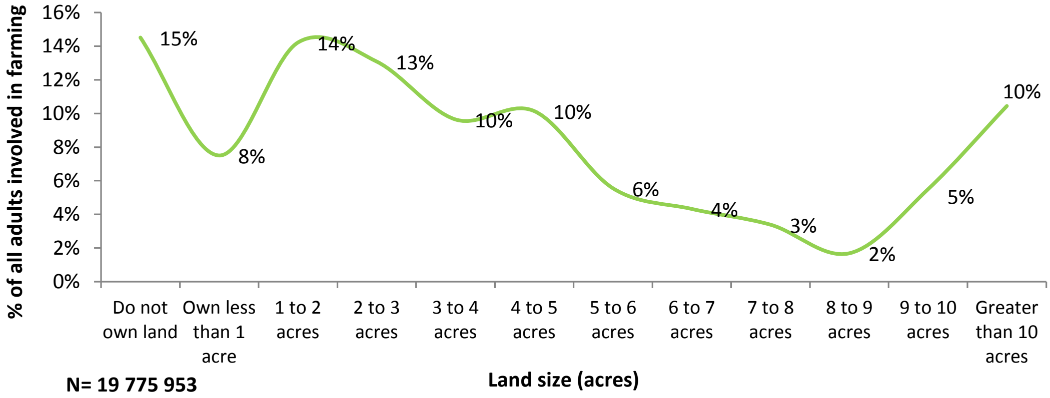


Figure 54: Land size over income distribution for adults who are involved in farming

Source: FinScope 2013

Significant proportion of lower income farmers has farms larger than 5 acres. Of the 19.8 million adults whose households are involved in farming, 12.8 million earn less than USD 5 per day (K 141 900 per month). Of these 12.8 million farmers who earn less than USD 5 per day, 27.6% (3.5 million adults) farm on land that is 5 acres or larger. 960 000 adults involved in farming and who earn less than USD 5 per day have farm sizes larger than 10 acres.

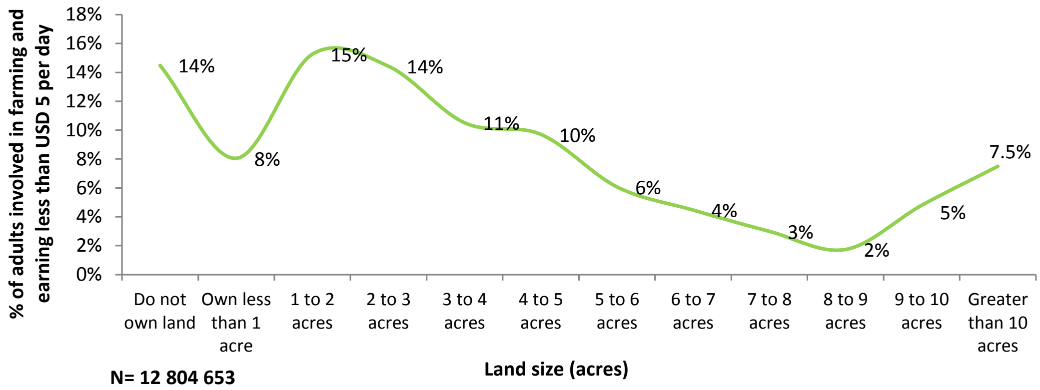


Figure 55: Distribution of land size for farmers earning less than USD 5 per day

15. Annex B: Meeting list

Table 39 contains the meeting list for the February Kick-off country visit:

Organization	Person met	Position
Central Co-operative Society (CCS) Ltd. Myanmar	Hoke Hlaing	Deputy General Manager
	Kyaw Thein	Chief Executive Officer
	Min Lwin	General Manager
Co-operative Bank LTD	Pe Myint	Managing Director
DFID	Anthea Kerr	Livelihoods Adviser
	Khin Maung Lwin	Programme Officer
Ministry of Finance and Revenue	Dr Lin Aung	Deputy Minister
	Nwe Nwe Win	Director, Budget Department
Myanma Insurance	Sein Min	General Manager
	Thant Zin	Manager
	Aye Min Thein	Managing Director
	Lwin Oo	Assistant General Manager- Marine & Aviation insurance Dept
Myanmar Survey Research	Suman Joseph	International Consultant
	Mi May Phyu Phyu Sin	Research Executive
	Hnin Nu Hlaing	Research Executive
	Maung Maung Than	Research Programme Director
Small Scale Industries Department (Ministry of Co-operatives)	U Mya Than	Deputy Director General
	Mr Kyaw Ngwe	Director General
UNDP	Thin Khaing	Programme Analyst (Local Governance)- Monitoring and Evaluation Unit
	Nyan Lin	Senior Statistician/ Economist
ACLEDA MFI Myanmar Co. LTD	Mr Kim Bunsocheat	Managing Director & CEO
	Mr So Kosal	Market Department Manager
GRET (Groupe de recherche et d'échanges technologiques)	Ye Thant Zin	Finance manager
	Dr Htet Kyu	Country Representative
Save the Children	Janis Sabetta	Microfinance Advisor
World Vision	Neal Youngquist	Microfinance General Manager
Myanmar Oriental Bank	U Mya Than	Chairman
	Than Win Winston Cheng	Director/ Senior General Manager- Head Office
	San Thein	GM/ Board Secretary
City Mart Holding Co, LTD	Soe Moe Thu	Director
Central Bank of Myanmar (CBM)	U Win Htein Min	Deputy Director- Financial Institutions Supervision Department

Organization	Person met	Position
	Ms Naw Eh Hpaw	Deputy Director General-Foreign Exchange Management Department
Ministry of Agriculture and Irrigation	Sein Hla Tun	Deputy General Manager-Myanma Agricultural and Development Bank
Market Expert	U Thein Myint	Consultant
Hypertrade consulting	Frederic Etienbled	CEO

Table 39: Meeting list for February country visit

Table 40 below contains the meeting list for the May 2013 country visit.

Company	Full Name	Job Title
ACLEDA MFI Myanmar Company LTD	Mr Kim Bunsocheat	Managing Director & CEO
	Kheang Sambath	Legal Dpt. Manager & Company Secretary
AEON Microfinance (Myanmar) Company LTD	Yo Mon Myo Myint	Myanmar Represenataive Office
	Yuro Kisaka	Managing Director
Ahlin Yaung Microfinance Co-operative	Daw Nu Nu	Chairperson
Asia Green Development Bank LTD	Thet Lwin Shwe	Chief Operating Officer
Asia Square Power Group Company LTD (Rice specialisation company)	Mr C.K. Lin (U Thi ha), L.C. Wang	Agriculture Technician
	Mi Mi Khin	Managing Director
	Win Naing Htwe	Director
	Ko Soe Moe Htet	Managing Director
Aung Thitsa Oo Insurance Company LTD	U Ba Tun	Managing Director
	Daw Mar Lar Nyunt	General Manager
	U Ba Tun	Managing Director
Bazar Savings and Credit Co-operative	U Aye Win	Chairman
	U Tin Win	
Canadian Co-operative Association	Jo- Anne Ferguson	Senior Director
Capital Diamond Star Group	Sylvester Er	General Manager
Card MRI	Juvy Gacutan	Myanmar Liaison Office Manager - Credit & savings specialist
Central Bank of Myanmar(CBM)	Ms. Nilar Win	Assitant Director
	Myat Thida Min	Assistant Director - Financial Institutions Supervision Dpt.
	U Thein Zaw	Deputy Director General - Financial Institutions Supervision Dpt.

Company	Full Name	Job Title
Central Co-operative Society (CCS)	U Kyaw Thein	Chief Executive Officer
Co-operative Bank LTD	Pe Myint	Managing Director
	zayar Aung	Deputy General Manager
Dagon Group of Companies	Win Aung	Chairman
Dawn light	Ye Myint Tun	Chairman
Gold Delta Company LTD (Rice Specialization)	Dr. Min aung	Agriculture Advisor
	Than Tun	General Manager
Grand Guardian	Htay Paing	Advisor
	Myo Naung	Managing Director
GRET (Groupe de recherche et d'échanges technologiques)	Murielle Morisson	
Institute of Strategic and International Studies	Dr Larry Chee-Yoong Wong	Programme Director - Technology, Innovation, environmentand Sustainability (TIES)
Kanbawza Bank (KBZ) Bank	U Than Lwin	Deputy Chairman
	U Than Cho	Senior Managing Director
	Khin Thida Maw	General Manager - Research Department
	Takuya Tsuji	Senior General Manager - International Relations Dpt
	Zaw Lin Htut	Senior General Manager
Khittayar Hinthar Rice Specialization Co Ltd	Aye Nyein Thet	Senior Accountant
Ko Win Myint Hundi	Ko Win Myint	Owner
KPMG	Myo Aung Lwin	Associate Director - KPMG Advisory (Myanmar) Ltd
	Ola Nicolai Borge	Executive Director - Tax & Legal Practice
	Anurag Chaturvedi	Director - Infrastructure Advisory
LIFT (Livelihoods & Food Security Trust Fund)	Ne Lynn Aung	Communications Assistant
	Steve Dowall	Lead Technical Officer
	Naw Moo Kho Paw	Communications Assistant
MAPCO (Myanmar Agribusiness Public Corporation)	Dr. Soe Tun	Executive Director
	Ye Min Aung	Managing Director
	Chit Khine	Chairman
MasterCard (telephonic interview)	Antonio Corro	Country manager- Thailand and Myanmar
	Georgette Tan	Group Head of Communications - Singapore

Company	Full Name	Job Title
Mingalar Myanmar	Zaw Oo	Director
Ministry of Agriculture and Irrigation - Department of Agricultural Planning	Hla Kyaw	Director General
Ministry of Communications and Information Technology	Moe Saung	Assistant General Manager - Works & Inspections Dpt
	Chit Wai	Deputy Director - Union Minister's Office
	H.E. U Thaung Tin	Deputy Minister
Ministry of Co-operatives	Major Myint Thein	Director
	U Thaung Naing	Deputy Director General- Co-operative Department
	U Aung Phyu	Director General- Co-operative Department
	Kyaw Ngwe	Director General- Small Scale Industry Department
Ministry of Finance & Revenue - Myanma Microfinance Supervisory Enterprise (MMSE)	Nyo Htay	Assistant General Manager
	U Win Aung	General Manager
	U Htein Linn	Managing Director
	Su Su Naing	
Ministry of Finance & Revenue - Myanmar Economic Bank	Myint OO	General Manager
	Sint Sint Aung	Deputy General Manager - Accounts Dpt.
	Win Naing OO	Deputy General Manager - Loans & Supervision Dpt.
	Thu Ra	Assistant General Manager - Research , Training & Public Relations
	Hla Myint Aung	General Manager
	Than Lwin OO	General Manager
Ministry of Finance & Revenue - Central Bank - Banking Regulation Department & AML Department	Daw Ngwe Ngwe Win	
Ministry of Industry - Central Department of Small and Medium Enterprises Development	Dr. Ei Shwe Sin Htun	Assistant Director
	Hnin Yu Yu Htwe	
Ministry of National Planning & Economic Development	San San Myint	Deputy Director - Directorate of Investment & Company Administration
	Aung Naing Oo	Director General

Company	Full Name	Job Title
Ministry of Post and Telecommunications	U Thura soe/ U San Lwin	
MTN Group Ltd - Myanmar Representative Office	Mang Khai	Country Representative
	Simphiwe Cele	General Manager - International Business Development Strategy, Mergers & Acquisitions
Myanma Apex Bank	Kyaw Soe Min	Deputy Managing Director
Myanma Awba Group	Thadoe Hein	managing Director
Myanma Insurance	Sein Min	General Manager
	Lwin Oo	Assistant General Manager - Marine & Aviation insurance Dept
	Capt Nyi Nyi aung	Asst. General Manager - Administration Dpt
Myanmar Banks Association	Khin Maung Yi	
Myanmar Business Executives	Htut Aung Kyi	Member
	Myin Maung Htun	President
Myanmar Citizens Bank Limited	Hla Win	Deputy General Manager - IT & card Department
	U Than Aung	General Manager
	U Myint Win	Managing Director
Myanmar Development Partners	Phyu Yamin Myat	Managing Director & Founder Member
Myanmar Farmer Association (MFA)	Dr. Soe Tun	President
Myanmar Finance Company LTD	Dr. Pyae Phyo lwin	Director
	Yin Yin Myint	Director
Myanmar Fisheries Federation	Win Kyaing	Secretary General
	U Han Tun	Executive Vice-President
Myanmar Information and Communication Technology Development Committee (MICTDC)	U Sein Win	CEO
Myanmar Interlink Services Co Ltd	Htut Aung Kyi (Bunny)	Managing Director
Myanmar Livestock & Fisheries Development Bank	Than Than Nu	Deputy General Manager
	Khin Ko Lay	Senior Executive Officer, (Retd: Director General - Fisheries Dept)
	U Aung Myint	Managing Director
Myanmar Organic Agriculture Group	U Hnin OO	Chairman
Myanmar Oriental Bank Limited	Nick Cheng	Public Relations Manager
	Kyi Kyi Than	Managing Director

Company	Full Name	Job Title
	Hla Thaung	Deputy Managing Director
Myanmar Payments Union - Central Bank of Myanmar	Zaw Lin Htut	Chief Executive Officer
Myanmar Rice Federation	Ye Min Aung	Secretary General
	Chit Khine	President
Myanmar Survey Research	Hnin Nu Hlaing	Research Executive
Myanmar Tea Entrepreneur Association	Kyaw Thiha	Vice Chairman
Myawaddy Bank Limited	U Maung Maung Aye	Principal
	Sai Nyein Aye	General Manager
	Daw Nwe Nwe Soe	Senior General Manager
	Daw Khin Aye Maw	Senior General Manager
	Tin Maung Win	General Manager
	Myat Sandar Kyaw	General Manager - IT
National International Commercial Enterprise Ltd.	Saw Ekari Htut	General Manager
	Kyaw Thiha	Managing Director
Oway Group Co. Ltd. (Bidding to be Online Payment Processor for MPU)	U Nay Aung	Founder & CEO
PACT	Fahmid Karim Bhuiya	Chief Operating Officer - Pact Global Microfinance Fund
	Jason S. Meikle	Deputy Director
Pan Thazin Microfinance Co-op	Daw Ni Ni Win	Chairman
Proximity	Maria Fulwiler	Economic Analyst
	May Thu khine	Business Development
Royal Mega Group	Brig. Gen. Thura Myint Thein	Chairman
Samall & Medium Industrial Development Bank (SMIDB)	Tin Maung Htay	Managing Director
	San Thein	Senior Adviser
Sein Tun Pawnshop	U Wunna Htut's son in law	Owner of pawnshop
SME Development Center	Swe Zin Soe	Deputy Assistant Director
Sumitomo Mitsui Banking Corporation (SMBC)	Nang htay htay	Assistant Representative
	Yoshiyuki Morii	Chief Representative
Taiyo Life Insurance Company	Takeshi Shimada	Chief Representative

Company	Full Name	Job Title
Treasure Bank of Myanmar Ltd	Kyaw lwin	Chairman- FB, Director - General, M.lf- Retd)
U Min Sein law Firm	U Min Sein	Advocate of the Supreme Court
UMFCCI and MIA	U Zaw Min Win	
UNDP	Heinz Willems	Microfinance Specialist
Union of Monetary Co-op Ltd	Khin Maung Ohn	Vice Chairman 1
	Myin Maung Htun	Chairman
	Ye Myint	Secretary
United Amara Bank LTD. (UAB)	Kyawt Kay Khaing	Deputy Chief Operating Officer
USDA Ward authority concerned	U Tin Win	Ward Authority, their ward is member of committee 1 from USDP
UVADES Consultin Ltd	Indrajith Wijesiriwardana	Principal Consultant/ Director
World Vision Myanmar Microfinance Program	Neal Youngquist	General Manager
Yi Yi Win	Yi Yi Win	Language Consultant
Yoma Bank	Thet Htet Nyan	Personal Assistant to CEO
	Zarchi Tin	Executive Director
	Hal G. Bosher	Chief Executive Officer

Table 40: Meeting list for country visit May 2013